

THE OLD YEAR AND THE NEW!

WE are once more, in the midst of the festive season, and another link is about to be added to the chain of time. Eighteen hundred and sixty-five draws nigh its close. The political press of the province is beginning to discuss the important events of the year, and upon its commercial features we purpose to add a few remarks. During the year the trade of the world has had its ups and downs. But upon the whole, it has been prosperous. Great Britain may be considered as the world's trade barometer, and her thousands of workshops and millions of skilled labourers have seldom been busier. The United States vastly increased its purchases of British goods during the past season, so that many manufacturers could not supply their orders, and the prices of fabrics rose. But while her great manufacturing interests here prospered, she has suffered from a deficient harvest and from *rinderpest*, which has destroyed a large number of cattle. Balancing the evil and the good, there is every reason to believe that Great Britain has enjoyed a prosperous year, and judging by the great and increased demand for her manufactures throughout the world, she has not enjoyed prosperity alone.

Upon this continent trade has been brisk during 1865, although we fear that much of the prosperity in the United States has been hollow and deceptive. Looking merely at the surface, merchants, manufacturers, traders, in fact almost all classes—have been making money rapidly. Speculation has been rampant, and in many cases has been crowned with success. Money was never before so abundant. But notwithstanding all this, we fear the American people have not prospered much during the year. The excitement in their trade can be directly traced to the extraordinary inflation of their currency, and however animated a trade may be conducted on a false basis—"measuring values by a false standard"—it cannot be really healthy and prosperous. In Mexico matters have not improved much. The Emperor Maximilian has gained some successes, but so long as war continues, the trade of the Empire must remain in an unsettled state.

Probably no country in the world has received a larger share of the blessings of the closing year than Canada. Its opening months were dark and gloomy. As the summer came on the gloom thickened, until many commercial men became quite despondent. Our splendid harvest in July, coupled with large American purchases of domestic and foreign articles in Montreal and elsewhere—effected a complete revolution! The flow of our crops to market unlocked the capital of our banks, money commenced to circulate freely, and the wheels of commerce moved in harmony. Relying mainly upon Agriculture, our harvests are the principal cause of our prosperity or adversity, and there is little doubt that the crop of 1865 has been larger than any of its predecessors. The expansion of our Bank circulation during the fall months affords a good index to the extent of the season's harvest, and the expansion during August, September, and October this fall, has been unprecedented in our history. Since 1856, the average expansion of our Bank circulation in the months specified, has been \$2,433,353; but this year the official statement published in the *Gazette* shows it to be no less than \$6,115,000! This is a larger expansion than for the two or three previous years added together, and accounts for the happy change that has taken place in our prospects. Besides the farmer, and exporters, millers, produce-dealers, manufacturers, many of our retailers—and in fact the community generally—have made money, and have no reason to complain of the closing year.

But what of the New Year, now on the eve of being born? Will it be one of weal or of woe? So far as our growing crops and the present state of business are concerned, the prospect looks encouraging. But it is no use to conceal the fact that there are two dangers looming up before us, either of which must affect our interests. The first of these is the danger of a great commercial convulsion in the United States, and the second that our produce may be shut out from the American markets except upon payment of high duties. These are at present the only obstructions to our onward progress. If they cannot be prevented, probably confederation may open to us new markets, which may largely compensate for any disadvantages which may be occasioned. But it is no use borrowing trouble from the future—"sufficient into the day is the evil thereof." Rather let us hope that at the close of 1866, we may have as much cause to be thankful as at the present time.

THE LAWS OF CREDIT AS THEY AFFECT A BANKER.

IT is a banker's business, as everybody knows, to take care of other people's money. But the banker, though it is part of his stock in trade to have a strong room, and double barred iron safes, is not so simple as to keep the whole of his depositor's money there. His customers generally expect interest for what they lodge with him, and in order that he may pay it and make a profit, he must lend a portion of their money. He is subject, however, to be called on to pay a good deal of his depositors' money whenever they want it, and the rest at short notice, hence he cannot "lock up" the funds in permanent investments, such as mortgages, bonds, and such like, but must lend it in such a manner that it will be continually flowing back to him.

It is for this reason that the banker employs the funds at his command in discounting bills, or making loans for commercial purposes, it being of the very essence of such operations, if wisely carried on, to come to a speedy maturity. Since then, the banker, whether the law allows him or not, cannot invest on real security, except in certain cases where advances are made on merchandise, it is essential to the proper conduct of his business that he should have a sound and well balanced judgment as to the personal security offered him in the shape of notes, and bills. Upon the due exercise of this, in fact, his success or failure will rest. A banker never yet failed or became crippled because his expenses were too heavy, or because he could not get enough business, or because he allowed too much interest. To one cause and one cause alone all bank failures and disasters either in this or any other country can be traced,—and that cause is Bad Debts.

The most valuable faculty, therefore, which a banker can possess, is the faculty of judging as to personal credit. To illustrate the way in which a judgment may be formed and put into exercise, we will suppose that a banker, having means at his command, desires to enter on the business of discounting. Customers will not be long in presenting themselves, and he has to make his selection out of the transactions offered him.

To those unacquainted with the business, it is surprising what a variety of considerations immediately present themselves. He first looks at the customer desiring the discount, and asks himself—

Is he an honourable man, whose word can be taken without question?

Has he capital sufficient for the business he is carrying on?

Is he master of the business? Does he understand it in all its phases and modifications? Is he doing well? (an all-important question.) Has he always done well, and succeeded in what he undertook, or is he what is called an *unlucky man*?

Has he ever failed? If so, how was it? why was it? when was it? and what was the result?

On the answers to these questions—and an almost infinite variety of answers may be given—will depend the treatment a customer will receive, whether his paper is rigidly scrutinised or passed without question, whether the banker will insist on having a second name of undoubted strength, or pass it though only of average credit, or will take it, though such second name be only weak.

Customers sometimes wonder at the treatment they receive from a banker, and ascribe it to bad temper, or prejudice, or even to want of funds, when, if they knew the true reason, they would cease to grumble. A banker sometimes knows his customer better than the customer knows himself.

In addition to the above enquiries, a banker will often ask himself, in the case of a loan, whether the borrower wants the money for the purposes of his own business, or to carry on some outside speculation.

He will especially (in this country) satisfy himself that the advance is not wanted for the purpose of buying, or improving, or making a partial payment on Real Estate.

Even if the advance is required for the purpose of erecting buildings in which a branch of manufacture is to be carried on, and there is a prospect of lucrative business from that source—say that it is a woollen factory, a grist and saw mill, or a foundry and machine shop, a banker will be extremely chary of letting his funds go for such a purpose, even though the security be, to all appearance, good. Experience has shown that a large portion of the losses made by

bankers, both here and in Europe, has arisen from loans to parties who required advances for the purpose of erecting buildings or making improvements on property.

The banker's next business is with the other name on the bills of his customers. These are of two kinds. The first are the names of customers to whom goods have been sold, or forwarded on consignment.

In the former case the banker, warned by experience, has to consider whether the bill is *bona fide*, that is, really represents goods sold, delivered, and to be paid for according to contract, or whether it is given by a customer of the house who is under such obligations that he cannot refuse to put his name on such bills as are presented to him, even though they amount to more than his whole debt. There has been, and is now, a mischievous system of business in certain quarters, by which a wholesale house supplies the whole of the goods that a retailer may want; the retailer, in fact, in a large majority of cases, being no more than an agent for pushing off goods. The wholesale merchant, if he wants them, can obtain any amount of bills from such customers, but the banker who understands his business, soon sniffs the air of unsoundness which pervades this class of names, and values them no more than the bills of clerks or shopmen.

If the bills are those of *bona fide* customers, a banker will make the same enquiries about them that he does about the principal. He will also see that he does not get too much for the strength and character of the name. A bill may be perfectly safe for \$500 that would be very doubtful and risky for \$2000. And he will generally look with more favour on an account in which the risk is spread over a large number of names than where the accounts are large and the names are few. The homely proverb about putting too many eggs into one basket applies to banking as well as to many other things, and bankers, as well as Insurance Companies, learn by experience the importance of dividing their risks.

In the case of goods forwarded on consignment, the amounts are often large in proportion to the responsibility of the parties to whom they are sent. A vast deal of our export trade is done through commission houses, whose capital is very limited for the amount and value of the goods they handle. A banker, in the case of drafts on such parties, has several things to consider, for example, whether the draft is against a specific consignment, or is on general account, and, if the last, whether it is certain to be accepted, and if the consignee is good for the amount; whether he can so far rely on his customer who presents it, as to take it without the production of the bill of lading; whether, if the bill of lading is produced, the goods shall be shipped direct to the consignee, or to the order of the bank, and lastly, how much he shall allow to be drawn. Nice questions of credit arise in every transaction of this kind, and the banker has to avoid on the one hand, such a loose and easy mode of managing this department of his business as would expose him to heavy losses, and on the other, such a harsh and exciting style as would drive his customers to other establishments. Nothing but sound judgment and ripe experience can enable him to steer clear of these difficulties.

The second class of bills with which a banker has to deal are those of customers who desire advances for the purpose of purchasing produce, manufacturing timber, and such like, and who offer the names of other parties as security.

A new class of considerations here present themselves, which we will treat of in our next issue. We will notice at the same time, some remarks on the subject made by the judges of the Court of Queen's Bench in Upper Canada in giving judgment on an appeal made by the Bank of Montreal for a new trial in a usury case.

—The ribbon trade at Lyons, France, has received the liveliest impulse from America since the close of the war. Many heavy orders have been lately received. The operatives again have plenty of work, and at better wages than ever before, for the price of ribbons has risen almost one-third.

—A curious and unlooked for development is said to have taken place at Delaware, C. W., while sinking the "Pioneer" oil well, on the property of the Delaware and Ontario Petroleum Company, in that a vein of tin ore has been met with at a depth of 203 feet in the rock. The vein has a thickness of eight inches, but its breadth is, of course, at present unknown.