

CURRENCY AND BANKING.

THE last question propounded by the Select Committee of the Senate on the late financial crisis in Ontario, was as follows:

"What legislation would you suggest as calculated to prevent a recurrence of a similar crisis, and to give to the country sound systems of currency and banking, adapted to the requirements of its trade and commerce."

To this query, Mr. Fisher replies that it is his impression that a Government Bank of Issue seems to be open to the insuperable objection of being liable to become a political and dominant machine in the hands of the ruling party of the day; also that to compel all the Banks to use legal tenders on the principle of the recent Act, would subject the country to the grave difficulty of a lock-up of a large amount of capital. He suggests that, as there is no reason to suppose that the public are dissatisfied with the present Banking system, and believing that it meets the present requirements of the country, in furnishing it with an elastic currency better than any other system that can be devised, that the Banks still continue to issue their own notes, and a concession be made of circulation being the first charge against their assets in case of suspension. He also suggests improvement in the character of the Banks' Statements, provision for suitable Government action in case of weakness on the part of any Bank, and periodical inspection by proper officers appointed by Government.

Mr. Hague, in his reply, goes into the question at length, arguing in favour of the present system, with some additional safe guards. His reasons we think, will commend themselves to most people, and seem to us sound and cogent, both as to the necessity of continuing to Banks their present power of circulation, and the comparative safety and security to creditors of the existing Canadian system. We give his remarks in full that our readers may judge for themselves of their value:

"In answer to this question I may observe at the outset, that it is important to estimate accurately what the powers of legislation are in the matter. No legislation has hitherto been devised, and in my opinion it would be impossible to devise any, by which the failure of banking establishments would be entirely prevented. The experience of Scotland, England, and the United States, proves that under every system of banking which has been known, whether private or public, whether with guaranteed circulation, restricted circulation, free circulation, or no circulation at all, there may be such bad management, that failure is the inevitable consequence. It does not seem possible to prevent bad management by legislation, and it is certainly impossible by any legislation whatever to prevent bad management from producing its natural results. In speaking of bad management, I refer wholly to the management of a bank's funds in the way of discounts and loans, including the purchase of foreign bills. So far as I am aware there is no instance on record of a bank suspending or failing, except from bad management of this description, that is either in the way of locking up the funds of the bank in unconvertible securities, or in the way of loans or discounts to parties who became insolvent. I give it therefore as my opinion, with due reference to the wisdom of the Senate, that it is vain to expect that monetary disturbances resulting from the failure of banking institutions can be wholly prevented by legislation. While clearly perceiving, however, that the powers of legislation in this direction are limited, I am equally clear that measures may be devised, which, though they cannot wholly prevent reckless management, will exert a powerful restraining influence on those who might otherwise fall into it. (Remarks on this branch of the subject will be made further on.)

"In considering the subject of banking and currency in Canada, it is to be observed that the question cannot be considered simply in the light of an abstract proposition, and as if a system had to be inaugurated *de novo*. We have in existence a number of chartered institutions with whom are inextricably associated all the financial interests of the country; the commerce, both foreign and domestic, the agricultural, the manufacturing, the fisheries, the mining, the shipping, the railways of the Dominion, all stand in such intimate connection with our existing chartered banks, that no measure can be taken either to enlarge or restrict their functions, either to jeopardize or benefit their interests, but must tell through numerous channels upon every department of business, and act at once on the revenues of the government itself. These considerations, while they should not operate to prevent measures being taken for the improvement and reformation in the constitution and charters of our banking corporations, so as to give greater security to the public, should undoubtedly lead to caution, lest endeavouring to remedy evil in one direction, others of a graver and more dangerous character are not brought to pass. In such an important matter it seems the part of prudence to proceed cautiously, and guided by the light of experience, in the way of modification and improvement, rather than in that of revolution and fundamental change, seeking to remedy proved evils, and to guard against known dangers, rather than to give effect to untried theories; following the wise example of Great Britain in having a due regard to existing interests, considering well whether it is within the

power of legislation to accomplish what is proposed, weighing the peculiarities and circumstances of this, as distinguished from other countries, and those of each portion of it as distinguished from the rest.

"Approaching this grave and important question in this spirit, it may be well to inquire at the beginning whether the system of banking and currency now in operation in Canada, has been proved in its main essentials not to be a sound and satisfactory one? I am aware that it may be said that a system cannot be called sound and satisfactory under which two large institutions have failed within two years. Allowing this argument its full weight in the determination of the question, we may estimate what that weight is on considering that these are the only two failures of any importance which have taken place for more than twenty years; that in one case every obligation is now being paid in full with a large surplus for the stockholders, while in the other there has never been a depreciation in the value of claims to the extent of more than 10s. in the £, while ultimately payment is certain beyond a doubt. It is essential, also, to remember that during this period Canada passed through two severe commercial revolutions: one principally oppressing the East and the other the West, and both producing effects which were protracted with most depressing effect through many subsequent years. It is all important to remember, when considering whether the system is responsible for these failures, that during the same period there were numerous failures of bankers and banking institutions in Scotland, England, and the United States, of a far more disastrous character than those in Canada, and this under every kind of banking system; and that both the Bank of England and the Bank of France during the same period, have been saved from suspending specie payments only by the direct interference of the Government. Such considerations and comparisons are essential to a fair estimate of the importance to be attached to these failures; and, in view of them, the question may be fairly considered whether failures at least equal in extent would not have taken place under any other system? Considering how severe and protracted the revolutions of 1847 and 1857 were, and how every interest of the East in one case, and the West in the other, was deranged for years, I ask whether the small extent of bank disaster, in the midst of such mercantile derangement, does not prove the system in its essential features to have been sound. And when the small amount of loss sustained by note-holders is placed against the important public interest that have been served by the bank circulation through a long course of years, I respectfully submit whether a case has been made out for the inauguration of a radical and fundamental change.

"The banking system of Canada is like that of Scotland and Ireland, and unlike that of England and the United States. It consists of a small number of institutions with a large capital in proportion to their liabilities and business, the country districts being served by means of branches. This system has generally had the preference with practical and experienced bankers over one of small Banks, each serving its own district or neighbourhood, and being in a state of isolation. The system of large banks with branches leads to the greatest possible economy of capital; a matter of paramount importance in a country like Canada. It gives to country districts the security of large institutions, and renders possible a far better style of management. Much as has been said of the failure of two banks during the last two years, I am convinced that the consequences have been of the most trifling character compared with what would have been the case in 1847 and 1857, had Canada been covered with banks of small capital. Such banks, in this country, could neither make their depositors secure, nor give accommodation to the public. They could not carry on their business without constant re-discounting; they would generally be in a state of uneasy dependence; they would not make adequate returns to their stockholders, and the ultimate result would be that bank failures would be as common as the failures of merchants. Such a condition of the banking interest is the most undesirable possible, even were the noteholders ultimately protected, for depositors would be constantly exposed to losses, men of business to interruption of their discounts, and commerce to unnecessary fluctuations, while banking charges would necessarily be higher. No one who is acquainted with the working of Canadian Banking for the last quarter of a century would wish to exchange it for a system like this. Such a system might give the banks with large capital a considerable power of control and surveillance over those small local institutions; but it does not follow that such control and surveillance would be a public benefit.

"Approaching now the important subject of a circulating currency, I must again take the liberty of calling attention to the position in which the country is placed. At present nearly all the banks of Canada circulate their own notes. The only important exception is that of the bank which receives the Government deposits, and transacts the Government business, including the agency for issuing and redeeming Provincial currency. This institution ceased to issue its own notes about eighteen months ago, and since then has been issuing only the notes of the Government. I have already pointed out that the position in which this institution stood with the Government, enabled this change to be carried out without disturbance to its general business. It would, however, be far different with the other banks which have a large circulation. On this circulation is founded a large amount of the banking business of the Province of Ontario, and to destroy it would necessitate so large a curtailment of business facilities, that a repetition of the revolution of 1856 would be inevitable. On this subject I may quote from that able and practical banker, Mr. Gilbert, and I do so the more readily, because every person of reflection, and especially every banker will at once perceive the justness of the observations made,

Giving evidence before a Committee of the House of Commons, he observes:

"I speak the opinions of the Joint-Stock Banks when I say that the abolition of the country circulation would cause very considerable distress; would limit the power of the country banks to grant the same accommodation to their customers; would compel many of their customers to sell their property thus lessening the value of real property; that country bankers would be compelled to increase their charges to their customers; and, in some cases, that those banking establishments would be altogether abolished, in consequence of not being able to supply sufficient profit for carrying them on; that, in some other cases, however, the country circulation would be substituted or superseded by a bill circulation, nevertheless considerable distress would exist throughout the country banks themselves, but their customers and the public in general, would be subject to very considerable loss and inconvenience.

"Those banks in Canada whose circulation is much larger than the amount they have invested in Government Securities, cannot redeem that circulation without calling in loans and discounts from the customers to a sufficiently large extent to enable them to do so. From my knowledge of the business of the Province of Ontario, I should estimate that the facilities afforded to its merchants and men of business would be curtailed nearly one-third; a measure, or series of measures, which could not be undertaken without producing the result above referred to, and leaving every interest in the country prostrate. Considering, therefore, what must be the certain consequences of the abolition of bank circulation, it is well to reflect what benefits are proposed to be sought at the risk of such certain dangers. If it is stated that the principal benefits sought are convertibility, and ultimate security, it should be remembered that all experience shows that it is impossible to prevent bank notes being sometimes inconvertible. The bank act of Sir Robert Peel, in 1844 had for its principal object the securing, at all times, the instant redemption of the Bank of England note. Yet on three several occasions since the passing of that act, intensity of panic was so great, that had it not been for the interposition of the executive, the bank note must have become inconvertible within twenty-four hours. It is well known that in May of last year, the Joint Stock Banks of London had it in their power to make the bank note inconvertible by withdrawing their deposits, and that they threatened to do so if the operation of Sir Robert Peel's act was not suspended. In two cases the bank notes of Canada have been inconvertible within twenty or thirty years, and this when the mercantile system of the country, its credit, capital and trade were beyond all comparison, weaker and more full of unsoundness than those of the mother country. Yet so stable has been our banking system, that we have had a far smaller average of banking disasters, and losses by bank notes. To attempt to secure absolute inconvertibility will result, in my opinion, in entire failure, while it is certain that in making the attempt losses and disasters will be brought about, compared with which the losses by the banks which have failed are not to be mentioned. In endeavouring to provide for the ultimate security of the note circulation, the Legislature proposes to itself an object which it is undoubtedly in its power to accomplish. The Legislature of the United Kingdom provides for safety of the creditors of banks of issue, by rendering every stockholder liable for the full amount of his property. In Canada the same object has been sought, by providing that stockholders shall be liable for the debts of the corporation to an amount equal to double their shares. This provision in my opinion, together with others to be found in the Bank Charters, and some, which may be incorporated therein, will make every provision for the security of note holders and depositors which can be required. It is essential, however, that a mode be devised of making the double liability operative. Under such an arrangement, the ultimate security of note holders will be as great, as is likely to be attained, even under a system of Government issues, or issues based on Government securities. For under the former, there is nothing to prevent the Government, in a time of pressure, from relieving itself by suspending specie payments. The note in this case will immediately decline in value, precisely as the Notes of our suspended institutions have done. Under the latter, the fluctuations in the value of Government securities, especially in times of political disturbance, may render that security most imperfect.

"I consider, then, that our present system, with certain improvements to be named hereafter, is capable of fulfilling every reasonable demand, both of convertibility and security. It is free from certain objections which lie against other systems of circulation, and its continuance would save the country from a protracted financial revolution. It produces the greatest economy of capital; it enables the largest amount of facilities to be given to trade and commerce; and it provides, naturally and easily for those expansions and contractions which periodically occur in agricultural communities. It is sound in principle, being based on redemption in gold on demand; and the certainty that excessive issues must immediately return, is an efficient check on irregularity. A Government issue of circulating notes, even if it could be substituted for our bank circulation without disturbance, is open to grave financial and political objections. Of the former the gravest, in my judgment, is that in a period of pressure the Government could, at pleasure, suspend payment of its notes in specie. A bank cannot suspend payment of its notes in specie without ruin. Its very existence, therefore, is bound up in maintaining specie payments inviolate; but no such pressure would weigh upon the Government, whose operations under suspension of specie payments would go on undisturbed. The political objections to such a system are perhaps graver still. With regard to a system by which the bank circulations are based on Government securities, I may observe that it is in