

The Canadian Banking System.—I.

THE Canadian Bankers' Association has rendered good service to the study of economic science in Canada by undertaking the publication in their *Journal* of Dr. Breckenridge's work on "The Canadian Banking System." That system is in many important respects *sui generis*. It has, of late years, attracted a great deal of attention in the United States, which has a banking system almost as different from that of Canada, so far as the issue of currency is concerned, as it could possibly be. The currency plan adopted by the American Bankers' Association at Baltimore last October embodies several features of the Canadian system, and some of them have been pressed on the attention of Congress by Secretary Carlisle of the United States Treasury. Dr. Breckenridge's treatise is therefore extremely opportune so far as his own country is concerned, and it will be heartily welcomed in Canada as the first systematic account of the genesis, evolution, and present working of our mechanism of exchange.

It is needless to say that the work is mainly historical, or that this fact is what gives it its greatest value to the student of economics. It is comparatively easy to become fairly well acquainted for practical purposes with the working of a system of currency at any selected stage of its development; it is extremely difficult to form any clear idea of the various steps in that development, not to speak of the conditions and circumstances which caused them to be taken. Various passages in the history of this system had been dealt with by others before Dr. Breckenridge began his labors—notably by the late James Stevenson, President of the Quebec Bank, and Honorary President of the Bankers' Association—but such monographs as have hitherto appeared are difficult of access and fragmentary in treatment. To them, as well as to many public documents, Dr. Breckenridge has been largely indebted for his facts, and he has had the good sense to encumber his pages with numerous and very precise references to his varied sources of information.

The size of the work under review precludes the possibility of republishing it in a single number of the *Journal*, but the editors announce their intention to continue it through the remaining quarterly numbers of this year, and to issue, if need be, an extra number in order to complete it. This notice is limited, therefore, to that portion of the treatise, which brings the history down to the union of Upper and Lower Canada under one Parliamentary jurisdiction, and does not touch in any way the banking history of Nova Scotia or New Brunswick.

Quite naturally the most interesting part of Dr. Breckenridge's work is that in which he deals with what the ordinary observer knows least about—the beginning of the system. Its early history, as is the case with most institutions, has the charm of novelty, and the added fascination which a struggle for existence always exercises on those who wish to see how difficulties were overcome and how success was at last achieved. The first attempt to establish a "bank of issue" in Lower Canada was made in Montreal in 1792—the year in which that Province was established under the Constitutional Act of 1791. No legislative charter was even asked, but the promoters of the scheme proposed to carry on the following kinds of banking business: (1) To receive deposits in cash; (2) to issue notes in exchange for such deposits; (3) to discount bills and notes of hand; and (4) to facilitate business by keeping cash accounts with those who chose to employ the medium of the bank in their receipts and payments. They proposed also to establish agencies at different points, including places in the then new and almost unsettled sister Province of Upper Canada. Though deposit banking was carried on during the next few years, no bank of issue, in spite of several attempts to establish one, came into existence prior to the outbreak of the War of 1812-15. "Army bills," bearing interest at six per cent., were issued by the Government as a war currency to the amount of nearly \$5,000,000. These were maintained at par, no doubt partly by the promise to pay interest, but partly also by making them receivable for public dues, and making them convertible into cash, or into Government bills of exchange, at a rate fixed by authority.

The rapid redemption of these "Army bills" after the close of the war caused great inconvenience by the contraction of a very useful circulating medium, and the demand

for currency became so urgent that a banking company, without legislative authority asked or granted, put in operation in Montreal, in August, 1817, the first British American bank of "discount, deposit, and issue." The name selected for the institution was the name by which it is still known, "The Bank of Montreal," which, after a continuous career of over seventy-seven years, is now one of the great monetary institutions of the world. In 1818 the "Quebec Bank" was organized at Quebec, also as a private association, and in the same year a second bank was established in Montreal under the name of "The Bank of Canada." All three were, in 1821-22, granted separate charters of incorporation by the Lower Canadian Legislature, the avowed object being "the advancement of agriculture and commerce and the promotion of the prosperity of the province." The charters were made to expire in 1831, and they empowered each bank: (1) To hold real estate to the value of \$4,000 yearly and no more; (2) to sue and be sued as a corporation; (3) to issue promissory notes intended to circulate as money and payable on demand in gold and silver coin current by the laws of the Province; (4) to receive deposits and to deal in bills of exchange, promissory notes, gold and silver coin and bullion, and in pledged stock; and (5) to hold mortgages on real property as security for debts to it contracted in the ordinary course of its dealings, but not to lend on, or purchase them. The amount of interest each bank might demand or receive was not to exceed six per cent., and the directors were made individually liable in case the aggregate debts of the bank exceeded thrice the paid up capital stock. All the provisions to secure note holders under our present banking law are absent from these charters—(1) the limitation of note issue to the paid-up capital of the bank, (2) the double liability of the shareholders, (3) the preferential position of the notes as a lien on all the assets, and (4) the guarantee fund maintained by the Government for the redemption of the notes of any bank that may have to suspend specie payments.

Quite early the Lower Canadian banks introduced the practice of establishing branches, though they did not hold themselves bound to redeem their own notes except at headquarters. They also accepted in part payment notes and other claims against other banks, and a system of weekly settlements was established by the practice of offsetting and the payment of balances in specie. The Bank of Canada incurred discredit as far back as 1820 by refusing to pay in dollars its notes and cheques, when presented by other banks, and offering for them half-crown pieces, which, on account of being much worn, were overvalued by the law of the Province. In retaliation the Bank of Montreal refused to accept cheques on the Bank of Canada, and afterwards extended its refusal to notes. The business of the latter bank began to decline, and by the time of the expiration of its charter in 1831, its business had been entirely discontinued.

It was not till the renewal of the bank charters in 1830 that the issue of notes by others than chartered banks was prohibited by statute. To issue a promissory note for any amount, payable to bearer on demand, is the common law privilege of any one who chooses to exercise it, but the Lower Canadian Legislature, in extending the charters of the Bank of Montreal and the Quebec Bank to 1837, forbade on penalty of forfeiture of the amount involved, that any note payable to bearer, or under the value of five dollars, should be offered or given in payment, except such notes as might be issued by banks incorporated by law in Lower Canada. In 1833 a new bank was incorporated by special charter, "The City Bank," with head quarters in Montreal, the charter to expire, like the others, in 1837. The political troubles of that and the following year threw the whole subject into confusion, and it was not till 1838 that the charters were renewed by the "Special Council" which took temporarily the place of the suspended Legislature. The renewed charters were to expire in 1842, by which date, as a matter of history, the new Legislature of the Province of Canada had been organized under the Union Act of 1840.

The first attempt to establish a bank of issue in Upper Canada was made in 1817, but it was not till 1819 that the charter of the "The Bank of Kingston" became law. A delay in procuring the necessary capital gave an opportunity to residents of Toronto and vicinity to obtain an Act of Parliament to incorporate "The Bank of Upper Canada," which began operations in 1822. The Government of Upper Canada was authorized to take 2,000 shares of stock, amount-