

further alleged that the company had virtually no control over the expenditure of the Trunk Company, although interested to the extent of about one-sixth of the entire revenue, and had no voice in the election of the Board of that company. The directors believed that the prosperity of the Grand Trunk Company was alone to be worked out by a most careful supervision and economical expenditure of the large revenue of about £1,300,000 per annum. Alarmed at the enormous working and other charges appearing last September in the report for the half year ending June 30, 1867, the Chairman of the Buffalo Company addressed a letter to the Grand Trunk Company, calling attention to the decrease of £28,000 in the gross revenue, and an increase of £26,000 in the working expenses, and increase of £28,000 in extra renewals, of £7,000 loss by exchange, and £10,000 loss by fire, making the deduction in excess of the corresponding half of 1866 £99,000 leaving about 15 per cent. only as a profit on the working. In conclusion, the chairman of the Buffalo Railway Company in his letter recommended some effort to economize ordinary working expenses, to limit the expenditure for extra renewals, and to raise the local rates by 18 per cent., which would probably improve the revenue by £100,000. The directors deemed it most unreasonable that the Grand Trunk Company should have deducted during the partnership under six heads £79,207. The report concluded by stating that £5,000 was paid by the Grand Trunk Company on the 25th of October last, since which time the directors had been unable to obtain any further payments from them; and for those and other reasons mentioned they regretted exceedingly not being in a position to pay to the bondholders of the Buffalo Company the interest now so long overdue.

Financial.

THE LATE FINANCIAL CRISIS.—Answers of Mr. Hague, Cashier of the Toronto Bank—Continued.]

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 revulsions: 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 these 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 revulsions 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 amount of bank disaster, in the midst of such mercantile de-

range 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 interests 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 neighborhood, 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 rediscounting; 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 where the noteholder is 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 revulsion of 1857 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 practical 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 funds for carrying them on; that in some 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 their 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 require to be curtailed nearly one-third; a measure, or a 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 certain 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 principle object the securing, at all times, the instant redemption of the Bank of England note. Yet on three several occasions since the passage of that Act the intensity of panic was so great, that had it not been for the interference 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 the safety of 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 the 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 governmental 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.