

is required, besides the improvement of sixteen miles of river navigation. The proposed canal, starting from Georgian Bay, which is part of Lake Huron, would make its way direct to Lake Ontario, utilising Lake Simcoe. The St. Clair Flats and the Welland Canal are thus avoided, and distance saved at the very spot where it is most important to save it. We need not say that the St. Clair Flats between the outlet of Lake Huron, and the Niagara Falls, between Lakes Erie and Ontario, effectually interrupt through navigation, and that the artificial works by which these impediments are neutralised are insufficient to meet the constantly growing requirements of trade; whilst even if they were adequate there would still remain the objection of distance, which the proposed Ship Canal obviates as far as artificial means can obviate it.

There is, however, a further advantage incident to this work second in importance only to that of facilitating trade with Europe. It will open the back country of Canada to settlers. Between Lake Huron and Lake Superior nature has provided the means of communication; and the rising city of Superior is, in due time, destined to become another Chicago. In due time there will be a railroad between Superior and the Pacific; and thus the St. Lawrence will come day be connected with that ocean; so that the Liverpool and London trader may reach San Francisco by routes that half-a-dozen years ago would have been deemed not merely impracticable, but absurd to think of. Along the Canadian shores of Lake Superior there are mineral deposits of unrivalled richness. These will be opened to enterprise, and their products will supplement the grain trade and the packing trade of the West with freights along the Huron and Ontario canals. This is no fanciful sketch. It will all take place before the close of the last quarter of the present century. This canal is only one of its early developments.

The surveys and estimates of the Lake Huron and Ontario Canal have been made, and are now undergoing the critical examination of several of the first engineers of this country. The work will apparently involve a large capital, but not a large capital in relation to the anticipated results. It is put down at 40,000,000 dol., or £8,000,000 sterling. So much is thought of the project in Philadelphia that engagements have been entered into provisionally for a subscription of one-half the amount on condition that the other half is subscribed here. The way is said to be clear to a minimum return of 7 per cent.; but there are further benefits to arise from a land grant by the Ottawa Parliament of corresponding importance to the importance of the canal. When it is remembered how advantageous to the State of Illinois have been the land grants made to the Illinois Central Railway Company, and bearing in mind also the advantages to the railway itself, we cannot but anticipate that analogous grants to the Lake Huron and Ontario Ship Canal Company will be found equally advantageous to Canada and the company.

Enough has been said for the present to show that this project is not one of the common order. It is as important to England as to Canada. It is indeed one of those great works which, in a progressive age and with an active population, are powerful auxiliaries to the extension of commerce and the employment of industry. And it is capable of demonstration, that if it had been in operation at this time it would have imposed no small check on the existing high prices of bread.—*Money Market Review.*

THE BANKING QUESTION—A REVIEW.

(From a Correspondent of the Gazette.)

AN article in a city paper, supposed to be inspired by the Bank of Montreal, recently stated that circulars embodying the views of the "management" of that Bank, which may be conjectured to include the joint views of the Directors and General Manager, have been circulated among members of Parliament. Would it not be well to issue, in pamphlet form, or in that of an extra sheet for similar circulation, an analysis and criticism of those views?

In the editorial above referred to, the questions in dispute in regard to the Commercial Bank are sought to be consigned to the domain of private controversy, in which the public have little interest—on the ground that a Bank has a perfect right to decide whether or not another institution which may happen to be in difficulties is worthy of support? or whether it is the interest of the former to assist the latter? Had the Bank of Montreal taken this ground their action would have been manly and straightforward. Whatever difference of opinion might have been elicited as to their judgment in the premises, no reflection could have been sustained against their good faith. It is on this latter point, however, that we consider their conduct most assailable, and, as the Government Bankers, a fair subject for public discussion.

The Directors state "that they and their General Manager were actuated by the desire to avert that calamity (meaning the suspension of the Commercial Bank) in so far as was consistent with the safety of their own shareholders."

How far this expression of a desire to assist the Commercial Bank was borne out by the conduct of the Bank, may be inferred from what has been established to have been the course of events on the day of the meeting of the representatives of the Upper Canada Banks at the Bank of N. America on 21st October. Mr. King suggested and urged that the U. C. Banks should advance the Commercial Bank, on the security of the Detroit and Milwaukee bond, but which security he distinctly declined to advance one dollar upon. The \$300,000 advance which had been made from the Commercial Bank before Mr. King's return from Europe, and consequently without his sanction, was made upon the collateral security of choice business paper of the Commercial Bank. If any of this paper should eventually prove unsound

such a result would reflect only upon the judgment of the Bank Directors who made the selection, and not upon the Commercial Bank who offered a large lot of good paper to choose from.

To leave the special question of the Commercial Bank stoppage, and consider the more general subject of bank circulation, one point in the editorial referred to calls for refutation.

It is there asserted that the Bank of Montreal—far from desiring "to occupy a position which appears to be of an invidious kind"—"is willing and desirous to put the currency of the country on the footing of what has been called free banking," which would imply that all issues of money in the shape of current notes should be prohibited. The writer then proceeds to the statement that such a prohibition would only place our banks upon the same footing as the English banks, of which many make dividends two or three times as large as the Canadian banks. The point of this paragraph is attempted to be established through a fallacy which the writer hopes may not be detected by the majority of its readers. Under the term "English Banks" are embraced two classes of banks well known to those initiated to be essentially different in the character of their business and in their sources of profit. It is true that the London banks and those established within a certain distance of the Metropolis have been deprived of their power of circulation to favour the Bank of England, but a large proportion of the country banks in England, and all the banks in Scotland, retain and fully avail themselves of their right to circulate their own bills.

The banks whose profits are two or three times as large as the Canadian banks, are to be found among the London banks, whose deposits are at times as much as twenty times the amount of their paid up capital.

To attempt to establish a parallelism in the system of banking between the great depot of the capital of the world and a struggling, and comparatively poor colony, which has been brought to its present degree of improvement by credit, and must depend upon the same agency for a continuance of its prosperity, argues either gross ignorance of the subject under discussion or a deliberate intention to mislead the public.

The Bank of Montreal Directors state that they were, "and are still of opinion, that any contribution by the several Banks should have been on the basis of liability to the public, and not on the basis of capital; and that had such a principle been acquiesced in they would have been ready to have considered favourably an application that their Bank should extend its first advance, to supplement its full proportion of aid."

Now, accepting for the moment the soundness of the principle enunciated in the above paragraph, observe the result which would have followed its practical application.

The Bank of Montreal had already loaned \$300,000 on what it considered good security—a loan which its financial position would probably have induced it to extend to any private borrower who could have supplied equally satisfactory security.

The amount required to be advanced by the Bank of Montreal under the arrangement, which would have proportioned the amount of advance to the capital of the respective Banks, was \$360,000, and although the other Banks properly demanded that the Bank of Montreal should contribute this amount upon security similar to that which was offered to them, they finally were willing to agree that the Bank of Montreal should retain their privileged security for the \$300,000 already advanced, on condition of their advancing only the additional \$60,000 required to make up their quota; but this modest and conciliatory proposition was rejected by Mr. King. On the other hand, had the proposition for an advance on the principle enunciated by the Bank of Montreal Directors in their "minute"—viz. on the basis of liability to the public—been acceded to, it would have resulted in the Bank of Montreal removing their loan of \$300,000, or a portion of it, for a period to have been agreed upon, they retaining the same or equally good security—for, under this agreement, the amount of their advance would not have exceeded, but would in all probability have been considerably less, than \$300,000.

So much for the practical result which would have followed the adoption by the other Banks of the principle enunciated by the Bank of Montreal. We do not, however, in toto from the soundness of this principle.

The proposition that the interest of the Bank of Montreal in the sustaining of the Commercial Bank, as compared with that of the Banks of Ontario, is proportioned to the respective liabilities to the public of these Banks and itself, rather than to the respective amounts of capital embarked by each in the business of banking, we believe to be wholly unsound, and, if expressed honestly, to be evidence of an entirely inadequate appreciation of the intimate relations which, in any general commercial crisis, the interests of Montreal will be found to sustain to those of the Province of Ontario.

Much has been said on the subject of the so-called inflation of the Ontario Banks. On what, however, have they extended their discounts? On wheat and grain; and the extension of their circulation has been in the main to move the crops, which, in the shape of grain, has been largely hypothecated to them, as security for the advances which have enabled them to issue their notes. Suppose, now, as an extreme case, that Mr. King's policy a few weeks ago had led to the simultaneous suspension of specie payments by the Banks of Ontario, who would have suffered most—they or the Bank of Montreal? Within sixty days the whole of the Ontario Banks would have been in a position—by realizing on their produce—to have paid their whole circulation in gold on demand. What would have been the position of the Bank of Montreal? During sixty days a very large proportion of their receipts would have been in the notes and checks of Ontario Banks which they would have had to receive, or by refusing them, throw a large

portion of the merchants of Montreal into bankruptcy. The latter course might possibly have affected to some extent the value of the six or seven millions of Montreal paper they hold as part of their assets.

As to the "confidential caution" which the Directors state was properly conveyed by the General Manager to the various agents, but unfortunately misunderstood by "one or two," the sooner they meet the damaging assertions of the inaccuracy of their statement already made in the public papers, the more readily will confidence be re-established in the honesty of their "minute."

In attempting to account for and justify the harsh conduct of the Bank in Ontario in 1864-5, the Directors reflect upon what they are pleased to term the "old system" of banking under which a large portion of the business of the country was carried on by accommodation paper, and state that the violent curtailment of loans during these years was the result of the process of eliminating this class of paper. Now, in the first place, we charge that this system, which as a rule is undesirable although in certain cases unavoidable and perfectly legitimate, was more generally adopted by the Bank of Montreal in Ontario than by any other bank, and, we believe, more recklessly carried out in practice. Of course the Bank made large losses, but they did so as the result of a mode of management which would have exhibited similar results if practiced in Montreal. What, for example, could have been expected but ruinous loss from lending to a man of no means and no knowledge of the business he was embarking in over \$100,000 to build a distillery, and when this amount was hopelessly sunk, then turning round and running the establishment themselves? We mention this as but one of many transactions which in virtue of their magnitude have been impossible of concealment from the general public. The very numerous dismissals of managers and agents of the Bank of Montreal in Upper Canada, that followed the events to which we refer, may be accepted, at least, as an indication of proof of our statement.

The system of making advances on accommodation paper unrepresented by produce or lumber, is, we have reason to believe, almost entirely abandoned by the Ontario Banks, and in the more recently established banks has never been admitted in practice to any considerable extent.

The sneer at the business of the Western Banks as compared with that of Montreal implied in the tone of this portion of the Directors' "minute," has received an opportune commentary in the disclosures which the recent suspension of a large establishment here, has given to the public, of the extent to which merchants of high standing, not excluding Bank Directors in Montreal, have lent their names as accommodation endorsers, aggregating a sum of indebtedness rarely reached by the most inflated concern in Upper Canada.

Equally disingenuous is the attempt to attribute the failure of the Commercial Bank and the Bank of Upper Canada to the system of accommodation paper. We supposed it was tolerably well known that the Commercial had nearly half of their capital loaned to a railway corporation.

The embarrassment of the Bank of Upper Canada also, as is well known, resulted mainly through political influence. It was political influence unduly exercised that forced the Bank of Upper Canada to assume the liabilities of the Zimmerman Bank, thereby entailing enormous losses and lock up of capital.

It was the private influence improperly exerted, of political partisans which induced their loans to certain millers and steamboat men which resulted in sweeping losses.

On another point we discover the same special pleading, and desire to avoid the odium of arbitrary measures. The contraction in 1864 and '65 is excused as being the inevitable result of the process of eliminating the objectionable accommodation paper, and not, as we charge, as the result of a premeditated determination to withdraw all the capital possible from Upper Canada and make practical at a later period, the adoption of the legal tender scheme by the Bank of Montreal.

In support of this view we can appeal to any town in Upper Canada at which the Bank of Montreal had an agency, whether the best paper, and that based upon the most legitimate business, was not thrown out as well as the accommodation paper; or, some of the choicest paper which can be obtained in Canada; paper as good ultimately as a Bank of Montreal Note. Had the other Upper Canada Banks pursued the same course at the same time, universal ruin would have resulted.

To turn now to the system of banking recommended by Mr. King in his memorandum. We have no theoretical objection to Banks issuing currency on the basis of the American National Banks, namely, secured by Government Bonds bearing interest, nor would the substitution of such a circulation for that of the present Upper Canada Banks, affect the latter materially in respect of profit, for they would draw their interest on the Bonds. It is the public who would suffer by the unavoidable withdrawal from the ordinary channels of business of six or seven millions of dollars.

The Government returns for 31st October show a circulation of over five millions by the Banks, having the head offices in Ontario (without reckoning the Commercial Bank), and that proportion of the circulation of the Bank of British North America and the Quebec Bank, which is undoubtedly obtained in Ontario, say 1½ millions more, would make six and a half millions as the present bank note circulation in Ontario. Whatever course may be adopted with the Banks to be established hereafter, we believe the withdrawal of these six and a half millions of dollars which would inevitably result from the forcing upon the present Ontario Banks of any scheme whatever of Government circulation, would be ruinous to the interests of the Province of Ontario, as well as ultimately to those of the city of Montreal. To assume that any Bank can ever be in a position to pay all its circulation and de-