traction has been in their exchangeable value. There never was as much of what the world requires for food, clothing, and habitation as there is in the world at present. Granaries are full of wheat, mills are full of flour, warehouses are crammed to repletion with sugar and other necessaries and luxuries of life. There is a superabundance of cottons and woollens, a superabundance of timber and iron, a superabundance of fuel. Yet with this immense expaniion and increase in the things that we all want, there has been, during the year just past, a steady and continuous decline in the volume of the money transactions which are based upon them. The value of almost everything as expressed in *money* has seriously fallen. The steady and continuous contraction in the monetary value of railroads and other means of communication has resulted in one of the severest revulsions that the financial centre of this continent has ever known.

The various railroads, telegraph companies and steamboat lines of this con inent are just as useful, and for that reason, are of as much real value as ever they were. It is their value in a monetary sense that has shrunk so enormously; and this shrinkage has brought a most serious train of disasters along with it.

So far as Canada is concerned, the contraction that has been going on in the midst of expansion is reflected in the figures of our banking return. The note circulation of the banks, which largely means the amount of currency in the pockets and tills of the people, has declined from $33,500,000 to $31,900,000. The deposits, which represent the amount of money lent to the banks by the people, have fallen from $107,800,000 to $100,230,000. Similarly the loans and discounts of the banks, representing the volume of capital employed in carrying on trade, have fallen from $168,800,000 to $162,000,000. And the *net* available resources of the banks, have fallen from $39,100,000 to $35,600,000. Yet after all the condition of Canada compares well with that of either Great Britain or the United States. In spite of the reduction in the output of some manufacturing industries, the closing of mills in some cases, and the shortening of time in others, there has been no considerable distress among our manufacturing operatives. In this respect there is a striking contrast between the condition of things in Canada and Great Britain. The grievous cry of distress that is going up from great manufacturing centres there, is something with which we have been generally unfamiliar since the inauguration of free trade. It recalls the exciting days that preceded the Corn Law agitation, and it proves that no fiscal policy whatever is able, at all times and under all circumstances, to ensure work for the operative and profit for the manufacturer.

In Canada there have not been during the year any failures of importance amongst our manufacturers and manufacturing companies. Embarrassment and financial difficulty there have undoubtedly been, and these has not entirely passed away. But there has been confidence in the future of such enterprises on the part of financial institutions and of the capitalists whose means are invested in manufactures, and this confidence appears to be reasonably well founded. "Necessity" has again proved the "mother of invention." Our manufacturers have been compelled to cast about them and to diversify their products, and there are already signs that with the ability to produce a diversity of products, profitable markets of consumption will be found.

The number of mercantile failures during the year has been large. The figures have not reached the alarming proportions of 1878 and 1879. But they have been sufficiently heavy to inflict serious losses upon the mercantile community and upon the banks.

The increase of failures has brought again to the front the question which is apt to slumber in times of prosperity, viz: the pressing need for a measure to compel equitable dealing with the estates of insolvents. Many cases of flagrant injustice to creditors have transpired during the year; English creditors especially have good reason to complain bitterly in this respect. They have often been shamefully treated. The passing of a general bankruptcy measure with provisions for the discharge of insolvents seem to be an impossibility. Even if it were possible, it is almost certain that it would do more harm than good. To discharge a man by force of law, who at a particular time cannot, or will not, pay his debts, has been found in practice to be so demoralizing that the country has preferred the entire absence of an insolvency law as the lesser of two evils. But there is really no reason whatever why a law should not be passed to compel a debtor, who cannot pay his debts in full, to pay all his creditors alike.

The most striking event in Banking circles during the year was the heavy run on the Federal Bank with its consequences. The assistance rendered by other institutions saved the bank from an absolute collapse. But though it has survived, it has inflicted serious injury upon its stockholders, by the heavy losses that led to the run. Its business as at present is little more than salvage from a wreck, for in every department there has been enormous shrinkage. The management is wholly new,—a fact which inspires the confidence that is felt for the future. This Bank from the time of its inception to the time of its collapse, was managed on what are call "most enterprising" principles. It was bound to do the largest business in proportion to its capital of any Bank in the country. It constantly gave a higher rate for deposits than its neighbors. By this means it attracted an abnormally large amount. But at the same time the Bank made loans at a lower rate than its neighbors. To put its operations into mercantile phrase, it bought money dearer, and sold it cheaper than the rest of its competitors in the same line of business. When the gentleman who was the leading spirit of the Bank was sometimes reminded of this, and asked how he could make money when conducting his business so differently from other Banks, he was in the habit of remarking "that they were managed by old fogies, who did not understand their business." The end, however, justified once more the old-fashioned ways which have been the result of the experience, wisdom, and foresight of generations. A man can no more conduct a business safely, when setting these principles at defiance, than he can turn two and two into five. The end of this enterprising style of banking was this: A capital of three millions, with a rest of a million and a half more will require to be cut down to less than fifteen hundred thousand in order to reach a solid basis. In other words, the enterprise of the authorities of this bank under its old management has led to the loss of its whole capital.

When depositors heard of the impending troubles of the Federal Bank they were seriously frightened. They began to think that an additional rate of interest of one or two per cent. per annum was no compensation for the risk of their money in an unsafe place. Visions of what has befallen depositors in the Exchange Bank, Montreal, flitted before their eyes, and they were glad indeed to find safe depositories for their money in banks that were neither "enterprising" nor aggressive. Such banks had earned a good reputation for taking the best possible care of their customers' money, and could be depended upon to repay it when wanted. The discount customers of the bank, and the mercantile firms which depended on it for accommodation to carry on business, were fortunately enabled, as a rule, to open accounts at other banks. Had the break-down occurred at a time of monetary stringency, they could not easily have done this. Many of them in that case would have been ruined. They would thus have learned that it is not only depositors, but mercantile customers requiring discounts, that have good reason to look out for a safe bank to do business with.

The Exchange Bank, Montreal has been pursuing a slow and dragging course of liquidation during the whole of the year. This bank also paid higher rates for deposits than its neighbors. Its depositors are about to learn a lasting lesson of caution by suffering a severe loss. The bank has now redeemed the whole of its circulation, or thereabouts. This is so far good. But the unfortunate depositors, it is reported, will lose more than half their claims, thus proving that their bargain for a higher rate of interest was a very bad one. The account stands thus. Profit by higher rate, one to two per cent. yearly. Loss by the failure of the bank *fifty* to *sixty* per cent. of the whole. After the experience of the last year we should think depositors will be cautious. They may rest assured that they will consult their own safety by adopting the following rule: Never to deposit money in a bank that pays a higher rate of interest than its neighbors.

ABSTRACT OF BANK RETURNS.

31st December, 1883. [In thousands.

Description.	Banks in Quebec.	Banks in Ontario.	Banks in Maritime Prov's.	Total.
	$	$	$	$
Capital paid up ..	36,292	18,433	6,727	61,452
Circulation	16,854	12,572	4,163	33,589
Deposits	56,692	40,327	10,788	107,807
Loans & discounts..	86,810	63,411	18,670	168,891
Cash and foreign balances (Net)..	26,582	9,748	2,773	39,103