

# The Monetary Times

## AND TRADE REVIEW,

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### BANKING REVIEW.

If our readers peruse, as we suppose they do, the extraordinary complication of figures which now, by the wisdom of Parliament, constitute the banking return of Canada, they will appreciate the fact, without much effort of attention, those figures are constantly growing larger and larger. That is, we should say, the greater part of these figures are thus growing.

There is one column, however, which remains now, and has remained for a long time back, almost stationary, viz., that which records the amount of actual solid money possessed by the banks. The gold and silver on hand now is very little more than it was in the dreariest days of our poverty and depression. But the amount of promises to pay of all descriptions has increased enormously. It is true that by Act of Parliament our banks are exempt from the obligation to pay either gold dollars or silver dollars when one of their pretty pictures is presented for payment. The promise to pay five dollars on demand is held by law to be fulfilled when the banker, in exchange for his own "promise to pay," tenders to the bearer the "promise to pay" of the Government. One piece of paper is convertible into another piece of paper; the latter having no more intrinsic value than the other. The pictures are not prettier, and the engraving is no better. There is, however, this difference, that the Government is bound to find real solid gold or silver dollars in exchange for its promises to pay, whenever payment of them is demanded. So a solid payment is reached at last. But so far as the banks are concerned, they are only bound to find Government promises to pay.

Now, we ask our patient readers, who have, we presume, waded through the long columns of these banking returns, to bear this fact continually in mind. With the one insignificant exception of the amount of gold and silver on hand, these complicated columns with their enormous rows of figures, are nothing but records of bits of paper containing promises to pay. They are not records of money, but records of credit given and taken.

Now real money is a very difficult thing to get. And the whole art and mystery of modern financing is to make the very smallest amount of it serve as a basis for credit operations. This is called, in financial language, the "economy of specie," and its working is a wonderful and occult science,

known only to the initiated. The fine art of this science is to know exactly how much of a superstructure a certain basis will bear without toppling over.

In physics, as we know, a certain weight of superstructure, and no more, may be piled upon a given foundation. It is the business of the engineer and the architect to study this matter and erect their buildings accordingly. Sometimes they miscalculate. They pile up their building too high, and erect story after story until the whole structure comes down with a crash. Sometimes they put very poor materials into the building, and this, in time, produces the same result.

Now as in physics so in finance. There is a certain amount of credit that may safely be built on a certain foundation of gold and silver. Credit, however, and a substitute for money that is created by credit, is the easiest possible thing to set on foot. It costs nothing but the price of a little engraving. And one of its peculiarities is, that it has a constant tendency to grow. Its growth, too, is the pleasantest thing possible. While credit operations are expanding, everybody in trade appears to be getting rich. This stimulates further credit, and so the edifice gets piled up higher and higher. But for more than half a century back, it has been noticeable that about once in every ten years there comes a sort of financial earthquake. Some edifices then tumble down altogether; they were top-heavy or so many rotten materials had been built in, that they could stand no longer. And the solidest and strongest of them get a good number of stones shaken out, so that a year or two of patient labor is required to put them in as strong a position as they were in before.

It is evident to the most cursory observer that Canada is piling up her edifice of credit operations at a very rapid rate. Our bank discounts are nothing but an expansion of credit. Discounts are credits passed. Their increase is an increase of indebtedness. The people of Canada, it is evident, are getting deeper into debt as every month rolls round, and time will show whether they are able to pay these debts or not. The edifice of credit is mounting higher and higher. The materials may possibly be all sound and solid. Possibly they are not. The probability is that many of them are solid enough. But judging by all past experience, a considerable amount of poor material must have been placed in the edifice during the last year or two and is being placed in it now.

These things are never apparent at first sight. A vast amount of rubbish may be incorporated in the assets of a bank without its being suspected by anybody. It is all a matter of good or bad judgment. But rottenness is revealed by time. The fine business that grew so rapidly, and that yielded such handsome returns, may by-and-by shew signs of being shaky; much to the astonishment of everybody. That apparently infallible indicator, the price of the stock, is proved to have been a false guide throughout. The stock of the City of Glasgow Bank was at a high premium almost up to the very hour of the bank's downfall. Its real value for years was about six hundred per cent. less than nothing. But who knew it? The Bank of Upper Canada made a profit of

twenty-five per cent. in one of its last years' of active business. Everybody was in high feather at the wonderful prosperity. Yet this was the year in which most of the bad business was done, and which in a few years brought it down to ruin. There is nothing in which appearances are so deceptive as banking. And there is nothing in which the force of reality so infallibly exerts itself when time has run its course.

Our readers must excuse us for thus carrying them back to first principles. The present is certainly a time for it. And in the light of these, we have to ask attention to the figures which now follow, the correctness of which may be verified by all who will take the trouble to do it.

We have said that the gold and silver of the banks form the only solid, tangible foundation for their operations. How stands the account of gold and silver,

In September, 1879	the banks had	\$6,298,000
" 1880	" " "	6,720,000
" 1881	" " "	5,196,000
" 1882	" " "	6,790,000

Nearly stationary. The foundation is very little different from its condition three years ago,

But how stands the edifice of credit? Take circulation first:

The banks were in debt for bills payable on demand as follows:

In September, 1879,	\$17,726,000
" 1880,	21,698,000
" 1881,	28,675,000
" 1882,	30,035,000

A tolerable piling up of debt in a short time. Take deposits next:

In September, 1879, the banks owed their depositors \$67,330,000; in 1880, \$79,598,000; in 1881, \$88,298,000; in 1882, \$105,808,000.

In addition to the above increase of indebtedness, the Banks owed their foreign agents \$1,811,000 in 1879, and \$2,527,000 in 1882.

The whole account then stands as follows: The banks have now exactly \$508,000 more gold and silver than they had three years ago.

But they owe \$51,500,000 more than they did three years ago! Is not the building getting top-heavy?

Take the other side of the account. We have looked at what the banks owe the public. Let us look at what the public owe the banks.

In Sept. 1879 the public of Canada owed the banks	\$115,000,000
In Sept. 1880	108,800,000
" 1881	133,800,000
" 1882	163,600,000

Here again is a tremendous expansion of credit. "Promises to pay" have been accumulating in the bill-cases of the banks until we should think they must be full. The quality of these promises is an infinitely varied matter. We hope the material is sound, as a rule. But an increase of nearly \$50,000,000 of promises to pay from such a small community as Canada in the space of three years, is suggestive rather of eagerness to do business than wise discrimination.

—The management of the Bank of Hamilton we notice, is making a call of ten per cent. on the subscribed capital payable on the 20th prox. This will to some extent relieve the difficulty it has experienced in keeping its circulation within the prescribed limits of the law, and at the same time increase its earning power.