

Financial.

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

This seems to indicate that the run on the banks was principally confined to the ignorant and the poorer classes of the community. The discounts of the banks show a considerable increase in October, and an equal decrease in November. This last is the natural movement of the season, and cannot be attributed to measures of curtailment, which would not have had time to operate at so early a date. That the confidence of the monied and commercial class was never seriously impaired, is evident by the fact that no general withdrawal of deposits took place. The action of Government officials and the Bank of Montreal on a particular day gave rise to serious apprehensions. These, however, were allayed as soon as the announcement before referred to was made public. There is now every appearance that confidence is restored. I consider it probable that the effect of the late derangement will mainly be felt in the restriction of the time for which loans are granted, and in rigid attention to transactions being based on produce or other merchantable property. There is no reason, I believe, to apprehend that loans will not be obtainable for the purpose of moving the crops to market, or for the manufacture to a limited extent, of square timber and lumber. Had the crisis continued, as it would have done in all probability but for the judicious use of its power by the government, there would have been, beyond all doubt, an entire prostration of trade in every department, and withdrawal of credits for winter operations. In the report of the proceedings of a committee on banking and currency, published in 1859, there are recorded opinions of leading officers of the banks as to the proper reserve to be retained by a bank in proportion to its liabilities. Mr. Davidson, of the Bank of Montreal, placed it at one-fourth of the circulation and one-seventh of the deposits. Mr. Paton, of the Bank of British North America, at one-third of the circulation and one-sixth of the deposits. The banks for some years back have had far heavier reserves than was customary in former years, on several occasions the returns of the *Canada Gazette* have shown Western Banks as holders of nearly their whole capital in the shape of specie.

The following statement shows the reserve retained by the banks of Ontario, (not including the Commercial) for the year ending September, 1867. The item termed Available Assets includes specie and legal tender notes of other banks, and balance due from other banks payable on demand.

	Proportion of specie to notes in circulation.	Proportion of specie including legal tenders to total liabilities.	Proportion of available reserve to total liabilities.
October, 1866	45 per cent.	21 per cent.	26 per cent.
November	62 do	27 do	43 do
December	57 do	22 do	40 do
January, 1867	52 do	21 do	47 do
February	45 do	19 do	34 do
March	43 do	17 do	32 do
April	47 do	13 do	32 do
May	58 do	21 do	34 do
June	58 do	21 do	32 do
July	56 do	19 do	32 do
August	72 do	22 do	35 do
September	52 do	19 do	31 do

The reserve requisite to be kept in specie depends largely on the nature of a banker's business. A bank which has a large amount out on long credits, or such as are of a standing character, will find it prudent to maintain a much larger reserve than another bank which has a considerable amount of discounts in the shape of short loans. Many of the discounts of the Western banks in the fall of the year are almost equivalent to loans at call, as the property on which they are based is rapidly moved to market, and funds are remitted in payment at once. The great joint stock banks of London, as a rule, keep a smaller per centage of cash on hand than is shown in any of the months comprised in the above statement; and for this

reason, that many of their loans and securities are in such a shape that in case of difficulty they can be turned into cash at very short notice. The lowest reserve of specie in the above statement, in proportion to total liabilities, was 17 per cent.; and of available assets convertible into gold into one or two days, 31 per cent. Of the various "runs" that have been made on the banks in Canada, the largest number resulted in a drain of not more than three per cent. of their total liabilities. The heaviest run which has been experienced by any one bank, resulted, I believe, in a demand for not more than ten per cent. of its total liabilities. Neither of the banks which failed during the last two years were brought into suspension by a run. They both succumbed to the effects of a steady and long-continued drain of deposits, which resulted from a knowledge on the part of their creditors of losses which considerably impaired their capital.

I have already remarked that the effect of the late crisis will probably be felt in a restriction of the length of credits and a more rigid attention to the quality of paper discounted than heretofore. This will be a more valuable result than a mere increase in the amount of available assets which may take place, as experience has shown, at the same time that a bank is becoming intrinsically weaker by incautious loans or discounts. It is probable, however, that a larger amount of actual cash may be kept on hand in future, and smaller reserves in the shape of bank balances.

Some of them hold a certain amount of Provincial notes, which cannot be presented for redemption within fifteen days notice. The Bank of Toronto holds \$100,000 in this manner. The bank consented to this because it was represented that the financial interests of the Government would be promoted thereby. Another reason was that favorable arrangements were secured with the Bank of Montreal as to settlement of balances, employment of spare funds, &c., the old system of settlements having been broken up after the passing of the Provincial Currency Act.

The banks in the city of Montreal settle daily in gold or legal tenders. This bank settles daily in gold or legal tenders at its head office, and by drafts on Toronto or Montreal at its branches in Ontario. The rest of the Western banks settle daily, either by gold or legal tenders, or by draft on Montreal.

The rate for exchange in the Montreal market during last October varied from 6 to 8 per cent. premium for private, and from 8 to 9 for bank. In the early part of October there was considerable stringency in the money market of Montreal, and bills on London were pressed on the market at rates considerably below those current in New York. Exchange during the crisis was almost impossible to sell at any price, but afterwards the market recovered firmness. During the early part of October the banks in Montreal charged on some transactions from 10 to 14 per cent. The scarcity rather increased as the month progressed, and 14 per cent. became a usual rate in that city. I have already observed that during the disturbance money could scarcely be had at any price.

The effect of the Act of last session, directly, has been little felt, for the reason apparently that no bank but the Bank of Montreal, which was a large creditor of the government, came under its provisions. Had the Bank of Montreal not been creditor of the Government, the consequence must have been a large curtailment of its commercial discounts for the purpose of obtaining means to reduce its circulation.

Being a creditor of the Government, the bank was enabled to obtain circulating notes of the Province to replace its own as fast as they were required; an operation which was further facilitated by its being constituted the agent of the Government for the management of its circulation. Previous to the passing of the Act, the Bank of Montreal had curtailed its discounts very largely in the West; but the curtailment appears to have been for reasons unconnected with the Act, as the total of its advances was unaffected. Indirectly the passing of the Act led to a suspension of the relation which had subsisted between the Bank of Montreal and the rest of the banks of the country. These relations led to the greatest economy of funds,

and were not less for the advantage of the banks than for the public convenience. It resulted also in the locking up of a considerable amount of unproductive funds by the banks. When the position of a bank has become impaired, such a lock-up, unless its effects were counteracted, might be productive of disastrous consequences. In this case the interests of the people would suffer to a serious extent. I believe, also, that if separate returns were required of the amount of Provincial notes and gold held by each bank, it would be found that there is a considerably less average of gold in the Province than there was before the passing of the Act. Judging from the returns in the *Canada Gazette*, I do not think the Provincial notes have displaced to any extent the issues of the banks which still retain their circulation.

No legislation has hitherto been devised, and in my opinion it would be impossible to devise any, by which the failure of banking establishments could be entirely prevented. The experience of Scotland, England and the United States proves that under every system of banking which has been known, whether private or public, whether with guaranteed circulation, restricted circulation, free circulation, or no circulation at all, there may be such bad management, that failure is the inevitable consequence. It does not seem possible to prevent bad management by legislation, and it is certainly impossible by any legislation whatever to prevent bad management of a bank's funds in the way of discounts and loans, including the purchase of foreign bills. So far as I am aware, there is no instance on record of a bank suspending or failing, except from bad management of this description, that is either in the way of locking up the funds of the bank in inconvertible securities, or in the way of loans or discounts to parties who become insolvent. I give it, therefore, as my opinion, with due deference to the wisdom of the Senate, that it is vain to expect that monetary disturbances resulting from the failure of banking institutions can be wholly prevented by legislation. While clearly perceiving, however, that the powers of legislation in this direction are limited, I am equally clear that measures may be devised, which, though they cannot wholly prevent reckless management, will exert a powerful restraining influence on those who might otherwise fall into it.

In considering the subject of banking and currency in Canada, it is to be observed that the question cannot be considered simply in the light of an abstract proposition, and as if a system had to be inaugurated *de novo*. We have in existence a number of chartered institutions with whom are inextricably associated all the financial interests of the country: the commerce, both foreign and domestic, the agricultural, the manufactures, the fisheries, the mining, the shipping, the railways of the Dominion, all stand in such intimate connection with our existing chartered banks, that no measure can be taken either to enlarge or restrict their functions, either to jeopardize or benefit their interests, but must fall through numerous channels upon every department of business, and act at once on the revenues of the government itself. These considerations, while they should not operate to prevent measures being taken for the improvement and reformation in the constitution and charters of our banking corporations, so as to give a greater security to the public, should undoubtedly lead to caution, lest in endeavoring to remedy evils in one direction others of a graver and more serious character are not brought to pass.

(To be continued.)

PROGRESS OF CANADA.—During the last nine years the imports into Canada increased upwards of 81 per cent.; Nova Scotia, 72; and New Brunswick, 38; while the exports increased as follows: Canada, 94 per cent.; Nova Scotia, 20; and New Brunswick, 25.

The export of agricultural productions from the Province of Canada rose from \$4,237,000, in 1859, to \$16,765,000 in 1867. The exports of manufactures rose from \$26,000 to \$269,000.

The average annual increase of population in the Dominion has been 3½ per cent. In ten years, discounts increased 68 per cent., and deposits in banks 350 per cent.