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THE EARLY HISTORY OF CANADIAN BANKING

III

FROM 1791 TO 1812

WITH the restoration of peace at the close of the Revolutionary War, the settlement of the Loyalists in Canada, and the revival of the north-west fur trade, agriculture and commerce resumed the quiet tenor of their way. The changes, however, which had taken place as the result of the struggle soon brought about an alteration in the country's economic and political centre of gravity. The new settlements in their formation made considerable demands upon the Government for supplies, and, in providing these, good local markets were afforded the earliest settlers. When the western districts began to produce a surplus it naturally found its outlet through Montreal, which was also the great distributing centre of imports from the west and north-west. Montreal thus became more than ever the emporium of Canadian trade.

In considering the economic future of Canada we must not

forget that however devoted the Loyalists were to British connection, yet in their economic methods, their social habits and their municipal politics, they were thoroughly American, and brought with them to Canada the prevailing American ideas in these matters.

This is not the place for an analysis of the character and capacity of the Loyalists, but it is essential to note that they were far from being of one uniform type. Few more miscellaneous collections of people have ever been found. Their education, character and motives ranged from the highest to the lowest types which the colonies afforded. Most of them had a very high ideal of the British Government's obligations towards themselves, and their settlement in their new homes was not effected without a great deal of grumbling and friction with Government officials.

The initial troubles of settlement safely over, they soon joined with the English element already in the country in renewing the agitation for the repeal of the unfortunate Quebec Act. In this they were soon successful, at least as far as Upper Canada was concerned, for the Constitutional Act of 1791 permitted the Upper Province to re-establish the English law as it was known in the colonies from which the Loyalists came.

The large sums of money which the Revolutionary War had brought to Canada were not of course in the hands of the Loyalists, most of whom came to the country with very limited means or none at all. When the direct Government support of the first few years was withdrawn, and the people were left to provide for themselves, they had neither a great deal of ready money, nor the means of procuring it. There were several military establishments in the western settlements, and others at the Indian trading posts, all of which required considerable supplies, so that there was for a time quite a flourishing local market for the surplus provisions of the more thrifty settlers. It was estimated that the British Government spent, in the early nineties, about £200,000 on the military and Indian establishments in Canada. It also supported the greater part of the civil administration, and supplied a number of pensions.

The Honorable Richard Cartwright, one of the most intelligent, shrewd, and far-sighted of the early settlers, in a letter,

in 1792, to Mr. Isaac Todd, his friend and business correspondent in Montreal, has this to say of the condition of the country at that time:—"To what is to be ascribed the present state of improvement and population of this country? Certainly not to its natural advantages, but to the liberality which Government has shown towards the Loyalists who first settled it; to the money spent by the numerous garrisons and public departments established amongst us; and the demand for our produce which so many unproductive consumers occasion on the spot. As long as the British Government shall think proper to hire people to come over to eat our flour, we shall do very well, and continue to make a figure, but when once we come to export our produce, the disadvantages of our remote inland situation will operate in their full force, and the very large portion of the price of our produce that must be absorbed by the expense of transporting it to a place of exportation, and the enhanced value that the same cause must add to every article of European manufacture, will give an effectual check to the improvement of the country beyond a certain extent."

Even at this time, though not to the same degree as afterwards, there was considerable difficulty felt from the want of a sufficient circulating medium, especially in the settlements to the west of Montreal.

In those days, and for a long time afterwards, the Canadians depended for their news from the outside world mainly upon the newspapers of the United States. They were thus incidentally well supplied with the news of the United States itself. The recently established Bank of the United States and its rapid success, was observed with close attention in that country, and was attracting very material interest in England. It was evidently the success of that institution which suggested to some associated London and Montreal merchants the feasibility of establishing a like institution, though on a private basis, in Canada. The late Mr. Stevenson, in his paper on "The Currency of Canada after the Capitulation," published in the Transactions of the Literary and Historical Society of Quebec, has drawn attention to this movement, and quotes from a notice of it which appeared in the *Quebec Gazette* of

1792. As he has made a few errors in connection with the matter, which have been somewhat exaggerated by those who have followed him, I shall give the extract in full :

“ The undersigned having experienced great inconvenience in Canada from the deficiency of specie, or some other medium to represent the increasing circulation of the country, as well as from the variety of the money now current ; and knowing the frequent loss and general difficulty and trouble attending receipts and payments, have formed the resolution of establishing a bank at Montreal, under the name of the Canada Banking Company.

“ The establishment of banks has found favor in the most intelligent commercial countries, and from the experience of ages, there does not now exist a doubt of their utility and of the consequent increase of the trade and industries of the countries, wherever they have been promoted and wisely conducted. The operations of the present establishment will be confined solely to the business usually done by the most respectable banking houses in other countries, and the parties interested are restricted by agreement from using any part of the funds appropriated to this concern for any other purpose whatever, and are jointly and severally responsible for the faithful performance of their engagements.

“ The business proposed by the Canada Banking Company and usually done by similar establishments is,

“ to receive deposits of cash,

“ to issue notes in exchange for such deposits,

“ to discount bills and notes of hand, and

“ to facilitate business by keeping cash accounts with those who choose to employ the medium of the bank in their receipts and payments.

“ It is proposed also to extend the operations of the bank to every part of the two provinces where an agent may be judged necessary, and it is presumed that the institution will be particularly beneficial to the commerce of, and intercourse with, the upper province.

“ The concerned hope the public will judge with candor of the motives for this establishment, and of the credit and respectability of the parties ; and they beg leave to add that

“ they are determined to conduct every part of the business
“ with the punctuality necessary to promote the credit and suc-
“ cess of the undertaking, and with due regard to the conveni-
“ ence and safety of the public.

(Signed) “ PHYN, ELLICE & INGLIS
“ TODD, MCGILL & Co.
“ FORSYTH, RICHARDSON & Co.

“ Dated in London, 17th March, 1792 ”

Mr. Stevenson gives the date of its appearance in the *Quebec Gazette* as 18th October, 1792, but it first appeared on August the 9th. The idea of the bank is commonly supposed to have been originated and worked up in Montreal, by Montreal merchants. But, as will appear from the document itself, wherever the idea originated it was formulated in London in March, 1792, and a London firm, Messrs. Phyn, Ellice & Inglis, took the lead in the matter. The other two firms are Montreal merchants, customers of the London firm, and enjoying a large share of the trade with the settlements in Upper Canada. We learn from a list of arrivals from London appearing in the *Quebec Gazette* some time after this, that Mr. John Forsyth had been in England; and there came over with him Mr. Geo. Phyn, jun., of London, and Mr. and Mrs. Ellice, of London. No doubt these gentlemen came over to assist in launching the bank in Canada. Possibly a member of the firm of Todd, McGill & Co. was also in London when the articles of agreement were drawn up, and the above announcement prepared. The bank was a purely private one, and no effort seems to have been made to secure a charter for it, as some have supposed. It was evidently intended to gradually cover the whole Canadian field by a system of branches, as in the case of the Bank of the United States.

Canada at that time was hardly ripe for such an institution. In the lower province there was no need for the issue of a paper currency sufficiently urgent to overcome the prejudices of the French-Canadians towards that kind of money. In the English settlements of the west, while there was a real need for a medium of exchange, yet it was almost entirely of a local nature, and those settlements were not sufficiently stable

and advanced in their trade to permit of discounting bills or establishing any general currency from a Montreal basis. What the western country stood in need of was capital rather than currency. In Lower Canada, where there was considerable capital, enterprise was lacking. The French who had money to deposit would not trust it out of their own possession, while the English had no idle money to deposit, those who possessed wealth having it all employed in business, under a system which combined the deposit and exchange functions of our present banks with the ordinary business of trade.

Under these conditions the proposed bank was found to be somewhat in advance of the times. The notice which I have quoted, after appearing in the *Gazette* at intervals for several months, disappeared, and no further mention of the bank succeeded it. Mr. Stevenson says, though not mentioning the source of his information, that the promoters succeeded in forming a private bank of deposit. Mr. Walker, in his account of Canadian Banking in Vol. III of "A History of Banking in all Nations," says: "As a matter of fact it did issue notes, specimens of which the writer has seen, but they doubtless had a very limited use."

Already the leading Montreal merchants having dealings with the western territory, practically conducted private banking operations along with their wholesale business. This phase became ever more extensive and highly developed between this period and the time of the war of 1812. The conditions of the colony were becoming more stable, and its surplus products stimulated a regular export trade, requiring the development of a mechanism of exchange much more complex than that which satisfied local needs.

Owing to the nature of the physical and geographical conditions of the first settlers in Upper Canada, the means of communication being very imperfect, the settlers had little or no choice as to the places in which they might purchase supplies or dispose of their products. Even though there had been an abundance of circulating medium, their trade would still have been essentially one of barter, an exchange of their surplus products with the nearest merchant for a limited range of goods.

Many functions were united in one person in those days.

All kinds of goods were supplied by one merchant ; all kinds of surplus products were purchased and exported by the same merchant. Where mills were erected the leading merchants commonly owned them. In many places in Upper Canada, during this period, a typical trading centre consisted of a flour mill, still, saw-mill, general store, tavern and blacksmith shop. In more important places a woollen mill or at least a carding machine was added. Very often all these were owned by one man. Typical representatives of such establishments were the Napanee Mills in the east, and the Albion Mills near Ancaster in the west.

Even in the earliest stages of the settlements the importer was also the exporter, and barter the natural system of trade. Supplies were required by the settlers throughout the year, while their products came in for sale mainly in the autumn, hence to equalize matters it was customary for the merchants, on the one hand, to give credit for supplies, to be paid for in products later on, or on the other hand, in the case of those who brought products in advance, to issue due-bills or *bons*, to be ultimately redeemed in goods, or partly in goods and partly in cash. These *bons* were usually made payable on demand, though not necessarily payable in cash. Together with ordinary promissory notes, which enjoyed a considerable local circulation, they supplemented the metallic money in the settlements, and, under the circumstances of the time, furnished a fairly effective medium of exchange. All things considered, we cannot but admit that in the early years of the upper province these local media of exchange were much more manageable, if not more secure, than any bank notes could have been.

The merchants, for their part, in obtaining their goods and disposing of their accumulated products, usually dealt with a few large importers at such places as Queenstown and Kingston. The merchants in these places also acted as bankers and bill brokers for the local merchants, receiving deposits, obtaining from their customers orders drawn upon various persons, and permitting their customers to draw orders upon them. These wholesale merchants sold as much as possible of the produce sent to them, to the Government agents for the supply of the military and Indian posts, exporting the remainder to

Montreal, and importing from Montreal the supplies with which they furnished the local merchants. As the imports were greater than the exports, the balance was met by bills of exchange on London from the commissariat officers, vouchers for pensions, and other miscellaneous bills coming from all parts of the province. The large importers in Montreal acted also as bankers for the wholesale men in the upper province, receiving deposits, making payments to order, and not infrequently advancing loans or credits to be met later on by produce, exchanges, or cash, though we find very little of the latter passing.

The data from which this outline sketch is drawn come from many sources, chief of which are the letter books of the Hon. Richard Cartwright. This gentleman was from 1785 to 1815 the leading wholesale merchant and forwarder of Upper Canada. He had constant relations with the chief Montreal and Quebec merchants on the one hand, and a great number of local merchants in all parts of Upper Canada, on the other. As a forwarder he acted for the North-west Fur Company and the other wholesale merchants in Western Canada. His business letter books are thus a perfect mine of information on all matters relating to trade and exchange during this period. I have also had access to many other business letters from the Bay of Quinte and the Niagara districts, throwing further light on the subject from the point of view of the local merchants. Lastly, the official reports from the Governors of the period, to be found in the Dominion archives, give us information from still another point of view.

As bearing particularly on the subject we have in hand, Governor Simcoe's report to the Lords of Trade on the condition of Upper Canada in 1794, is most interesting. In this report, as in many other ways, Simcoe exhibits at once his disinterested anxiety to promote the prosperity of the province, and his very imperfect acquaintance with the economic and social forces which were acting within his jurisdiction.

In that part of his report which refers to the conditions of exchange, he says that it should be a special object of the Government to supply the people of Upper Canada with sufficient cash, or other proper medium, to remove the difficulties which occur in bartering the products of the land for the manufactured

goods of Great Britain, in which the trade of the country wholly consists. The staple product of Upper Canada must be wheat, and it will be the basis of exchange, as is evident from the present commerce of the country. Much attention has been lately given to the question as to how the Government might purchase its necessary supplies directly from the people, in order to promote the general agriculture of the colony. He complains that the system which prevails of purchasing supplies in large quantities from the merchants who undertake the Government contracts, has limited the market for the people. What he means, as we gather from other parts of the report, is that the farmers do not get as much for their grain as the contractors do. His analysis of the difficulty may be given in his own words: "The grievances consist in the universal
"necessity of barter, having introduced among the merchants
"the custom of their issuing their own notes; and by the direct
"and indirect means by which these gentlemen obtain the sup-
"plying of the garrisons, they will receive no flour but in such
"quantities as they chose from their own customers and debt-
"ors, paying them for it in goods, to which they affix the price,
"or in their own notes, payable only on the 10th of October.

"Hence the flour merchant stipulated to the farmer the
"price which he should receive for his flour, and that which he
"should give for the goods which he was compelled to take in
"barter.

"The necessity of a paper currency, where there is not
"sufficient gold or silver, is most obvious, but the American
"colonies having misused such a medium of commerce, and
"converted what might have been a general benefit into public
"injury, by an Act of Parliament at present binding on the
"province of Upper Canada, no emission of this kind can be
"legally made."

Here we have a simple and direct statement of the exchange mechanism of the time, mingling with an inconsequent and mistaken theory as to the grievances which resulted from its operation. That there were certain grievances is true, but they were mainly due to quite other causes than the exchange system. Even had the people obtained gold and silver for their products, they would still have had to sell them in the nearest

market, and obtain from the same merchants their goods in exchange for their money. The merchants would thus have had practically the same advantage as under the system of barter. Under the conditions of the time whatever competition there was operated through the system of barter and *bons* quite as well as under a system of cash sales. The grievances arose mainly from the limited surplus products of the country, and the difficulties and cost of transportation. Under limited competition a monopoly of the export and import trade was also possible in the local centres, although this grievance was not so real as was commonly supposed. That it was not the exchange system, but these other difficulties which were really troubling Simcoe, is evident from the following extract from his report:—

“It appears, therefore, that to preclude the advantages derived from the purchase of flour for the King’s forces or garrisons becoming a monopoly of the merchants, who also are millers, land-owners, mortgagees and retailers; to obtain a circulating medium in money or its value, and to reduce the transport on the St. Lawrence, may be reckoned as three distinct and important objects in which the welfare of every individual of the province of Upper Canada is particularly concerned, on which its general prosperity depends, and with which, viewed in its political relations with Great Britain, are connected the welfare and strength of the Empire beyond all powers of calculation.”

The upshot of the whole matter is that Simcoe has a scheme to propose which will, he is sure, not only remove all existing difficulties, but bring indefinite prosperity to Canada and through it to the whole empire. The suggestion for this scheme, he tells the Lords of Trade, was obtained while he was stationed in Virginia during the Revolutionary War, where he observed that notes, issued on the receipt of tobacco, were employed as a circulating medium in the colony. This was, indeed, practically the same system, in a more developed colony, as that of which he complains in Upper Canada. However, starting from this suggestion, he has worked out quite an elaborate state scheme, which may best be given in his own words:—

“It is proposed that the province of Upper Canada

“ should be furnished with a certain sum of money for the purposes hereafter specified. That this sum should be replaced to Great Britain, if thought expedient, by the produce of the sale of part of the lands bordering Lake Erie; that the sum of money so to be raised should be vested in certain trustees. That these trustees should be members of the Executive, or Legislative Councils, and other of the principal inhabitants.

“ That under the superintendence of the trustees, regulations and rules should be formed for the improvement of the manufacture of flour, the staple commodity of His Majesty's province of Upper Canada.

“ That so soon as circumstances shall admit no other flour shall be purchased by the agent or commissaries but such as shall be manufactured agreeably to the above mentioned regulations and rules.

“ That in order to facilitate the exportation of flour a principal store-house shall be built at the rapids of the town of Montreal, and other receiving houses at the termination of the navigation of the several lakes and communications. That a principal flour inspector shall reside at Montreal with an adequate salary; that inferior inspectors shall be appointed at the other posts; that these inspectors be duly sworn, after proper examination, to admit or condemn any flour that may be offered to them. That the flour be transported across the lakes in the King's vessels, in preference to all merchandise, at a given price, the average of which must fall on the owner, in proportion to the distance of transport.

“ That for every flour barrel received at the store, a note be issued payable in gold or silver on demand at stated periods. That these notes be made a legal tender in all taxes. . . .

“ The result will be as formerly has been shown, of infinite importance to the colony, first in providing for the consumption of its staple, secondly in giving it a certain medium of exchange instead of the merchants' notes whose excess cannot be regulated, or regulate itself, whose modes of payment are not unconditional, diminishing at once the security of the public, and contributing to private extortion. And third, by the means of possessing back carriage, it will lessen the incon-

“venience of its remote situation from the ocean, and it is probable that the proposed company may find it their interest to augment their batteaux so as to lower the price of freight on the importations from Montreal to Kingston.”

He then proceeds to detail the unparalleled prosperity which will result alike for Canada, the West Indies, and Britain.

This remarkable anticipation of the recent Farmers' Alliance or Populist Sub-Treasury Scheme is quite evidently beyond serious criticism. Its whole character betrays the man of military training, but quite lacking the information and experience which are needed in civil administration. While the Lords of Trade might be imposed upon by other proposals relating to a country of which they had no direct knowledge, yet they were hardly the persons to be seduced by any “wild-eyed finance,” and Simcoe's elaborate scheme was quietly pigeon-holed. The more's the pity that the same fate had not befallen several of his other equally well meant schemes.

With the gradual settlement and progress of the colony the conditions of exchange which I have already sketched became more pronounced. The merchants more extensively performed all the essential functions of banking, except the regular issue of notes.

American paper money circulated to a certain extent in Canada during this period. That it did not become more general was evidently due to the fact that until 1810 there was no law in Canada to prevent the counterfeiting of foreign bank notes or other exchange documents. As a consequence of this Canada became the asylum and base of operations for the majority of American counterfeiters. This unwise policy was found, in the long run, to be more disastrous to Canada than to the United States, hence an Act was passed in Upper Canada in 1810 making the counterfeiting of foreign notes, etc., illegal. From that time American bank notes circulated more freely along the borders of Upper Canada at least. An attempt was made to pass a similar Act in Lower Canada the same year, but the bill did not get beyond its second reading.

In my last article I referred to the three-cornered system of exchange which had already grown up between Canada, England and the American colonies. When commercial relations

were resumed after the peace, and especially when great freedom of trade was secured by the Treaty of Commerce of 1795, the Canadian trade with the United States developed rapidly. The United States being a neutral nation during the French Revolutionary War, and the subsequent Napoleonic wars, it was possible for Canada to obtain many of its English supplies, and especially its East Indian goods, cheaper through the United States than directly from Britain. On the other hand the export of much American produce by way of the Champlain, western lakes and St. Lawrence routes, and the local consumption of considerable American produce in Canada, made a very large import trade from the United States. The regular exports of Canada to England in furs, American and Canadian products, and the support of extensive military garrisons and Indian pensioners at the expense of England, without a corresponding import of goods from England, led to a very considerable balance of exchange in favor of Canada. As between the United States and Canada the exchange was against Canada, and as between the United States and England, the exchange was against the United States. The payments for American produce coming into Canada being made in small amounts, were usually in cash, neither the local instruments of exchange nor the larger English bills being admissible in that trade. The general result was that, about the beginning of the century, Canada found its metallic currency rapidly draining off to the border States. As a consequence of this and of the superfluity of sterling bills, the sterling bills fell below par in Canada, sometimes going so low that £100 sterling were offered for £100 currency. At the same time sterling bills were at a premium in New York and Boston. This led eventually to the bringing in of large quantities of cash from these cities for the purchase of sterling bills in Canada; thus a general equilibrium was once more established. These operations are indicated in the Cartwright letters, and Mr. Hugh Gray, in his Letters from Canada in 1806-7-8, gives a very clear and full account of the process by which the balance was restored, allowance being made for the cost of transporting specie.

The intimate trade and exchange relations with the United States, the continued success of the Bank of the United States,

and the growing need for a more perfect circulating medium than that miscellaneous local currency of *bons* and promissory notes, which the more developed parts of the country were now outgrowing, led to a general movement among the merchants of Lower Canada for the establishment of a provincial bank in that province.

In the *Quebec Gazette* of March 5th, 1807, appears the following advertisement: "Notice—The attendance of the inhabitants of Quebec is requested at the Union Hotel on Friday next, the 6th inst., at one o'clock p.m., to consult on the proper measures to be taken for the establishment of a bank in this province. Quebec, 4th March, 1807." As a result of this and a similar movement in Montreal, a petition was drawn up and presented to the Legislature of Lower Canada, praying for the establishment of a bank in the cities of Quebec and Montreal. But owing to the fact that it was sent in just at the close of the session no notice was taken of it. The following year, on the 22nd of February, a petition was presented to the House of Assembly of Lower Canada, which is as follows:—"The commerce and agriculture of this province labor under many inconveniences and discouragements from the quantity of specie in circulation being greatly inadequate to its necessities and increasing population; from thence enterprise and industry languish, and the natural advantages arising from a fertile soil, large and navigable rivers, and most valuable and extensive fisheries, in the river, bays and Gulf of the Saint Lawrence, remain almost dormant and unimproved.

"The petitioners therefore beg leave to represent to the House that in the present situation of the province, nothing could have so great and immediate tendency to advance the commerce, agriculture, wealth and prosperity of the province, as the establishment of a bank. Time and experience have incontestably proved the utility and security of banks. They have been a safe and convenient substitute for gold and silver, and have increased the industry and wealth of every country in which they have been established.

"The petitioners therefore most humbly pray that they may be incorporated into a body politic, by the name of the Bank of Canada, to be established in the cities of Quebec

“ and Montreal, with all the privileges and immunities usually
“ granted to such corporations; and subject to such limitations
“ and restrictions as the House in its wisdom may think best.”

The petition of the previous year was also presented once more. Both petitions were referred to a committee of the House to examine and report upon them. On the 4th of March the committee reported as follows :

“ To prove the allegations of the petitions, a member in-
“ formed the committee that the balance of trade between this
“ province and the United States by inland navigation, being
“ greatly against us, a constant drain of specie from this coun-
“ try was thereby occasioned, which can be replaced only by im-
“ portations thereof from Great Britain, or by sending down
“ sterling bills to the States, and bringing back their proceeds
“ in gold and silver coin. That the former has not yet been
“ resorted to, excepting by Government, and is not likely to be
“ attempted by individuals, and the latter (bringing money
“ from the States) is attended with considerable loss, expense,
“ and great risk.

“ That specie is very sensibly decreasing in this province,
“ and some safe substitute would be greatly desirable and tend
“ to facilitate the trade of the province, particularly the export
“ trade, which is often cramped by the heavy loss on bills of ex-
“ change, consequent upon the disproportion between the
“ amount of them for sale, and the circulating coin. He there-
“ fore was of opinion that the institution of a bank would have
“ a tendency to remove, at least in part, the inconvenience at
“ present felt from the scarcity of the circulating medium, and
“ be otherwise beneficial to the province. That such institu-
“ tions had been useful in other countries, and though there
“ might be difficulties here to encounter, in a matter so new to
“ the bulk of the inhabitants, yet that he thought it would
“ finally surmount these difficulties, and at all events merited
“ fair trial.”

Here we find further corroboration of the facts of exchange already described. But while the need for currency was undoubted, the arguments used in favor of the bank are not altogether sound. Obviously the issue of a redeemable paper money by a bank would not check the export of cash from the

country if its trade continued to require it. The notes would simply be exchanged at the bank for cash, and the cash exported. Neither would the issue of bank notes improve the sale of bills of exchange in Canada, since they would not alter the advantages from purchasing goods from the United States rather than directly from Britain. The bank notes could only improve the internal exchange mechanism of the country, they could not alter the character of the foreign exchanges.

The report was received and a bill brought in, which got as far as being ordered to be printed before going to the Committee of the whole House on its second reading. This is the bill from which I gave extracts in my first article, to show that it was copied from the charter of the Bank of the United States.

The growing need for a regular currency was felt by the more advanced settlements in Upper Canada, quite as much as by the English element and more enterprising French merchants of Lower Canada. Hence, notwithstanding the failure of the attempt in Lower Canada, the question of a provincial bank began to be agitated in the upper province. In 1810 the proposal to establish a bank in Upper Canada took definite shape at Kingston, the most important commercial centre of the province. The subject had been canvassed in a private way for some time, when the establishment of the first newspaper in Kingston, in September, 1810, gave an opportunity for public discussion of the matter. The first communication on the subject appears in the issue of 4th December, 1810, and indicates the chief points, for and against the proposed bank, which had emerged in the discussion. On the 1st of December there had been a public meeting "to take into consideration the expediency of establishing a bank in the town of Kingston, and of applying to the Legislature for an Act of incorporation." This meeting was in favor of the project. The writer of the first article in the *Kingston Gazette* was in favor of the bank. He admits that the bank would have to encounter some difficulties. Some of the objections raised against the proposal were: That it would lead to a counterfeiting of the notes ("bills" as they were called in those days); it would be impossible to give the notes sufficient credit to ensure their circulation; the Montreal merchants would be opposed to the bank and would refuse to

receive the notes; a bank had already been attempted in Montreal and was found impracticable. In answer to these objections the writer points to the benefits which have resulted from the establishment of banks in Europe, and especially in the United States. He goes into the United States bank question at some length, pointing out in particular that the first banks in the United States were very successful, but their success developed competition, resulting in a war of the banks with one another, and the consequent destruction of some. If, however, a regular chartered bank could be obtained in this province, being the only one in the two provinces, it would have none of these evils to contend with. The recent Act against counterfeiting, which has broken up the nest of counterfeiters of American notes in Canada, will protect the bank from that danger.

In the following number of the *Gazette* appeared two letters on the subject, the one in opposition to the bank and the other in support of it. The writer of the first is evidently not very well versed in banking, but his attitude is interesting. He thinks a bank would be disastrous to the district. First of all where is the capital to come from? The town, he says, would be puzzled to raise £1,000 in specie. But even could they obtain £20,000 to £30,000, how could the capital be profitably employed? The discount business would be very small, and even if people did come to the bank for loans, what sort of business could they invest in that would leave them any profit, after paying the bank fifteen to eighteen per cent. interest? These figures he gets by calculating the sixty and thirty day rates of discount for a whole year. His real difficulty, however, is reached when he sees in it the possibility of freeing the farmers and others from the necessity of bringing in their products to barter them at the stores of the Kingston merchants. He believes that if the people are possessed of money it will simply increase the number of peddlers, or itinerant merchants, in this province, "and God knows they already sufficiently abound." As these peddlers come chiefly from New York or Albany, they will simply gather in the paper money, convert it into specie at the bank, and take it to the United States to get new supplies of goods, and repeat the operation.

The second letter, which is in favor of the bank, claims that sufficient capital has already been promised to ensure its stability. After giving some interesting information as to the nature and working of banks, he refers to the meeting to be held that evening, "to prepare and sign a petition to the Legislature for an Act of incorporation, to draw up articles of co-partnership, which in case the charter should be refused will prevent the defeat of the scheme; to agree on the form of a circular letter inviting the inhabitants of the province to support the institution, and finally to take such other steps as may be necessary to carry it into effect with the least possible delay."

The meeting referred to is thus advertised: "Bank of Upper Canada. The subscribers to the stock of the above bank, together with such other of the inhabitants as are in favor of its establishment, are requested to attend a meeting, on business of importance, at Walker's Hotel, this evening, at seven o'clock, December 11th."

Letters and discussions about the bank continued to appear almost every week until February, 1811. From these we learn that even the opponents of the bank admit that those who are promoting it are sound business men. We learn also that the shares of the proposed bank were to be fifty dollars each, that there was great scarcity of specie in the province, and that the notes of neighboring banks in New York State were circulating in Canada.

The petition of the Kingston merchants was no doubt presented to the Legislature of Upper Canada, but while that body was in session the United States Congress destroyed the Bank of the United States, and the rapid development of friction between the United States and England introduced an element of uncertainty into all Canadian trade and exchange, putting an end, for the present, to such a new venture as that of banking. The beginning of the war of 1812-15 brought to a close another epoch in the history of Canadian trade, introducing a new set of conditions, and during its progress deeply affecting, by the employment of the Army bills, the future character of Canadian exchange.

ADAM SHORTT

THE ECONOMIC CONDITION OF NEWFOUNDLAND AT THE CLOSE OF 1896

IN the issue for January, 1896, of this JOURNAL, I laid before its readers an analysis of the economic condition of Newfoundland, at that date. After a brief sketch of the financial and industrial position of the colony from 1876 till 1884, when the first line of railway was opened for traffic, I described the effects of the great fire of July 8th, 1892, which laid more than half the capital in ashes, and then proceeded to deal with the far more disastrous financial crisis of December 10th, 1894, when the only two banks in the island closed their doors, entailing widespread ruin, and leaving the country without a currency and seemingly on the brink of bankruptcy. The condition of affairs was certainly most alarming—ruined shareholders bemoaning their losses—note-holders looking in despair at their worthless paper which had no purchasing power, and depositors stunned at the discovery that their funds had disappeared. Stores and shops were deserted, for the people had no money to purchase goods. Employers were compelled to close their workshops and factories, having no means of paying wages, and no customers for the products of their industry. Long-established mercantile firms were falling day after day. The long winter had set in, and destitution threatened to overwhelm large masses of the working people. A run on the Savings Bank commenced and continued to increase in volume. Men's hearts were failing them, for all confidence was gone. The revenue was declining at an alarming rate, as importations had almost ceased; and national bankruptcy seemed looming in the distance. Social and commercial chaos had arrived. On investigation the condition of the banks was found to be hopeless.

I endeavored to point out the causes which led to these disasters, namely, the false and unsound principles on which

the business of the country had been conducted for years, and the dangerous and vicious system of banking which had rendered such unsafe modes of business possible and had bolstered it up for a time. The banks furnished undue facilities for obtaining credit, in some cases to an enormous extent, and this led to an inflation of trade. "Instead of using the funds entrusted to their care in the legitimate business of banking, so as by safe investments to secure a profit to the shareholders, the directors advanced very large sums to themselves and others without any reasonable security." The whole capital of the banks was thus swallowed up. No inspection was made by any government authority, and the annual reports of both banks seemed to indicate that all was sound and prosperous. In such a condition of affairs a slight matter would precipitate a crisis, which speedily arrived.

But I tried to show that though this unsound banking system was mainly responsible for the commercial crash, yet that underlying it, and at the very root of the evil, was the credit or truck system on which for generations the fisheries—the staple industry of the country—had been conducted. The ruinous and demoralizing character of this system was dwelt on at some length.

A year passed after this crisis, and at the close of 1895 what was the economic condition of the colony? The change was marvellous. The old colony that had been thrown on its beam-ends by the financial tempest had righted itself and was sailing onward prosperously. Business had revived; the wheels of commerce were revolving vigorously; money was plentiful; the various industries were in full activity; three Canadian banks, of the first class, had replaced the defunct local banks, and the whole tone of trade and industry was improved. The city was rebuilt on an improved plan and the ravages of the fire largely obliterated. The floating debt of the colony had been provided for by an advantageous loan, and the Savings Bank had been rendered safe in any emergency by a loan of a million dollars. The run on it had ceased. The revenue had been restored to a healthy condition and showed a surplus. A judicious system of retrenchment had been adopted by which the amount of \$564,000 per annum was saved, without any

serious injury to the public services. Credit and confidence were restored. The people had gallantly faced their difficulties and to a large extent conquered them. The contrast between the December of 1894 and that of 1895 was astounding; and once more the marvellous recuperative energies of the country were strikingly displayed.

In reviewing the situation at the close of 1895, I ventured to express hopeful and favorable views regarding the future of Newfoundland, founded on the facts above referred to, and on the nature and extent of its natural resources, and the enterprise and energies of its people. I purpose in this paper to review its condition at the close of 1896, and to inquire whether my anticipations have been realized, and what are its prospects in the future. Has the remarkable recovery from the unprecedented financial collapse proved temporary, or permanent and progressive?

The revenue of the colony is derived almost entirely from duties on imports, so that it furnishes a reliable test of the trade and general prosperity of the country. Imports show what is the purchasing power of the people, which in its turn depends on the success of their industrial and commercial undertakings; and the revenue furnishes a measure by which that success may be determined. The fiscal year which formerly ended on December 31st in each year, was, for sufficient reasons, changed and made to terminate June 30th. The revenue for the year ending June 30th, 1895-96, amounted to \$1,564,303. The revenue for the year 1894-95 was \$1,345,645; so that the increase was \$218,658. The total expenditure for the year ending June 30th, 1896 (interest on the public debt included), was \$1,357,810, leaving a surplus for the year of \$206,493. This remarkable result exceeded the expectations of the most sanguine. It proved that the "crash" was by no means an unmixed evil. The changes which it necessitated in conducting the business of the country—the curtailment of the credit system, the improved banking methods introduced by the Canadian banks—had told favorably, and placed business on a sounder basis than before. There can be no doubt too that the vigorous way in which the Government grappled with the extensive system of smuggling from St. Pierre, which had gone

on unchecked for many years, had considerably restricted the demoralizing practice and helped to swell the revenue. The curtailment in the issue of supplies for the fisheries had thrown the fishermen more on their own resources, with the result that they worked harder and were more careful in the cure of their fish, thus securing better returns from their labors.

The estimated revenue for the year ending June 30th, 1897, is \$1,587,221, being \$22,918 in excess of the revenue for 1895-96. There are strong reasons for believing that this estimate will be realized, if not exceeded. The revenue of the first quarter of the current fiscal year, ending September 30th, 1896, amounted to \$415,342. For the corresponding quarter of 1895 the revenue was \$264,308, so that the increase was no less than \$151,034. The average quarterly revenue for the year 1895-96 was \$391,075. The first quarter of the current fiscal year's revenue exceeds this amount by \$24,000; so that the revenue continues to mount upwards. As the fisheries during 1896 were on the whole very satisfactory, there is good ground for expecting that this increase of revenue will continue, and a surplus considerably beyond that estimated may be realized. For the months of October and November, 1896, the revenue amounted to \$297,223, being \$20,811 in excess of the corresponding two months of 1895. The revenue for the six months ending December 30th, 1896, was \$850,000. The foregoing figures prove that the revenue is steadily increasing, and this implies an augmentation of imports for 1896.

The estimated expenditure for the year ending June 30th, 1897, is \$1,583,025, the expected surplus being \$4,196.

No more important step was ever taken by any government in this colony than the retrenchment policy, adopted in 1895-96. The tendency to lavish expenditure had gone on increasing under all governments, the yearly deficits being constantly met by new loans. When the "crash" of 1894 arrived, a halt was called and financial affairs had to be looked in the face. It was at once apparent that retrenchment was necessary, so as to make income and expenditure balance each other, and, if possible, secure a surplus at the end of the year. The loan of two and a half millions of dollars so successfully negotiated by the Hon. Robert Bond, Colonial Secretary, wiped

out the floating debt. The pruning knife was then applied without remorse. Official salaries were cut down and reductions effected in the various public services. The following statement shows the saving effected by the retrenchment policy of 1895-96 and the services in which such saving was made:—

Education	\$ 29,000
Fishery Bureau	14,000
Judicial Department and Police	37,000
Lighthouses and public institutions.....	72,000
Miscellaneous	40,000
Relief of poor	92,000
Roads (regular grant)	125,000
Special grants to districts	36,000
Salaries (not included in any department mentioned above).....	19,000
Steam subsidies	100,000
Total	\$564,000

The amount of public debt on the 30th of September, 1896, was \$13,879,715. The interest on the same (including the recent loan and its sinking fund) was \$550,000. Thus the saving effected by retrenchment more than covered the entire interest on the public debt. It has not been shown that any of the services were rendered less efficient in consequence of this retrenchment. In fact, if the single instance of the steam subsidy for carrying mails be taken, in which there was a reduction of \$100,000, the colony is better served now in the carriage of its mails than before such reduction was made. The cost of governing 200,000 people was extravagantly high, and the retrenchment has but brought it down to more reasonable dimensions. The policy has been strictly carried out in all good faith, and nothing has been allowed to interfere with it.

That the surplus revenue of \$206,492, at the close of the fiscal year ending June 30th, 1896, was *bona fide*, is proved by the fact that this amount has been placed at interest, viz., the interest derived from credit balances on current account. In addition the unexpended balance of the late loan, amounting to \$360,000, has also been placed at interest; so that the sum of \$566,492, bearing interest at 3 per cent., is now at the credit of the government, and is available by them should any emergency arise. This will help to stabilitate the credit of the colony abroad.

As already stated, the public debt on September 30th, 1896, was \$13,879,715, the interest amounting to about \$550,000. At the close of 1896 the public debt was probably \$14,659,715. The increase is of course owing to railway extension. The line now under construction will be completed to Port-au-Basque by August, 1897, as only 30 miles remain. The facts already stated show that the colony is perfectly able to shoulder this debt, and that no difficulty whatever will be experienced in meeting the interest as it becomes due. On completion of the railway there will be no need of increasing the public debt.

On the day of the crash, December 10th, 1894, the Savings Bank had on deposit \$2,855,279. In the wild and unreasonable panic which followed, a severe run on the Savings Bank commenced. Depositors had no reasonable ground for doubting its solvency, for the whole funds of the colony are pledged to make good any deficits that might occur, so that they were absolutely safe. But when a financial tempest is raging it is useless to appeal to reason. The Savings Bank, however, held its ground successfully, paid all demands and never closed its doors. A timely loan of a million dollars, obtained for it by the Hon. R. Bond, at $3\frac{1}{2}$ per cent., completely stabilitated the institution, and the run speedily subsided. Confidence was restored, and the deposits withdrawn have been gradually finding their way back to the bank. On the 30th September, 1896, the deposits in the Savings Bank amounted to \$1,291,686, and are steadily increasing. It must be remembered that the Bank of Montreal, the Bank of Nova Scotia and the Merchants Bank of Halifax, all of which have branches here, allow 3 per cent. on deposits, as does the Savings Bank, and doubtless many who withdrew their deposits from the Savings Bank, during the panic, placed them in one or other of these banks, and are now content to let them remain. The increase of deposits in the Savings Bank in 1896, amounted to \$51,839.

During the year 1895-96 the government imported \$100,000 in silver to meet the requirements of the trade, on which transaction they realized a profit of \$48,862. There was much adverse criticism at the time, and all sorts of evil were predicted. The banks of course did not relish such

importation, regarding this as one of their own functions. But no harm has followed; nearly the whole amount has gone into circulation, and there is no glut of silver, while the government have realized a legitimate profit.

Finding a surplus revenue of \$206,000 at the close of the year 1895-96, and reckoning on a continuance of the increased revenue for the year 1896-97, the government decided on increasing the grants, for *the current year*, to some of the public institutions, and services which were pressingly in need of such increase. This would not in any way affect the retrenchment policy, as the increase in the revenue more than covered such additional grants, and there was no necessity for securing a large surplus at the close of the current fiscal year. The increased grants for 1896-97 stood as follows:

Education.....	\$29,000
Circuit Courts.....	2,500
Constabulary	6,400
Lunatic Asylum	3,500
Quide Vidi Hospital.....	4,000
Repairs Public Buildings	7,000
Roads.....	70,000
Fishery Bureau	9,600
Customs.....	5,400
Revenue protection.....	4,000
Court Houses and Gaols expenses.....	1,500
Total	\$142,900

This very moderate increase was found absolutely necessary, especially in the case of education, which should be sustained in the highest state of efficiency. The Education grant has been restored to its original amount.

The grant for making and repairing roads and bridges was also indispensable, as were those for repairing public buildings and providing for the Fishery Department.

Perhaps one of the best proofs that the trade of the country has recovered from the shock caused by the "crash" of 1894, and that it is now in a healthy condition, is furnished by the fact that the large firms who effected a compromise with their creditors, have all either paid off the whole dividends or are in a fair way of doing so. In no instance has there been any defalcation in the payment of the promised dividends; and all

these firms are now carrying on an extensive trade. Without a restoration of confidence and sound activity in trade this would have been impossible.

The improved banking system introduced by the Canadian banks has aided greatly in placing commercial and industrial affairs on a more satisfactory basis. These banks have steadily discountenanced all unsafe speculations or doubtful enterprises; but they have given ample accommodation to the legitimate trade of the country and done much to re-establish credit. It is understood that their own business during 1896 has been of a very satisfactory character.

As a further proof of the healthy condition of business already reached, we may point to the spirit of enterprise that is abroad in connection with the introduction of new industries. Now that the extension of railways has shown the great capabilities of the island, an impulse has been given to various native industries which are likely to furnish a large amount of employment and increase the prosperity of the colony. Foremost among these may be mentioned the pulp industry. It would be difficult to find a country better adapted for this industry, or furnishing in greater abundance the materials for its prosecution. Water power to any extent can be readily obtained. An enterprising firm has taken the matter up in earnest, and secured large tracts of suitable timber lands, which are now under survey by an expert. It is also stated that Messrs. R. G. Reid & Sons, railway contractors, who own over two million acres, are likely to embark next year in the pulp industry. It is needless to enlarge on the importance of such an enterprise to the country. The proximity of the island to European markets would be greatly in its favor; and the facilities for shipping the pulp would be all that could be desired.

It has lately been clearly established that on the west coast, near Cow Head, there is a large district in which petroleum has been found at various points. A company has been formed; and during last summer borings have been made, and a large flow of petroleum of a superior quality has rewarded the spirited enterprise of the shareholders. It is highly probable that the petroleum industry will be prosecuted here on a large scale. The shares of the company have risen con-

siderably in value, and a second company has entered the field. A large area of the petroleum district belongs to R. G. Reid, Esq., being included in the land concessions granted to him in connection with the construction of the new line of railway.

Another local industry has lately taken a new departure, which is likely to have profitable results. Hitherto the manufacture of cod-liver oil had been carried on upon the antiquated plan which prevailed a hundred years ago. The consequence was that the Norwegians outstripped the Newfoundlanders and obtained and held the markets of the world. Norwegian cod-liver oil brought double the price at which the Newfoundland product sold. The process by which the Norwegian article was manufactured was kept a profound secret and was most carefully guarded. A few years ago, Mr. Adolph Nielsen, a Norwegian, became superintendent of Newfoundland fisheries. He speedily made known the Norwegian improved method, which has now been largely adopted. It is known as the freezing process. The result has been already that the Newfoundland oil is able to compete successfully with the Norwegian. Its merits are more and more widely recognized, and its price has doubled. The probability is it will take the lead in European and American markets; for naturally the oil of the Newfoundland cod is richer than any other in all medicinal properties. Foreign vendors have given it the highest testimonials. To Newfoundland the introduction of the new process by Mr. Nielsen is worth many thousands of dollars yearly. He has also initiated new and improved methods of curing codfish and herring, and taught the way of artificially propagating lobsters and cod by the million, so as to re-stock exhausted waters. Rules and regulations for the conservation and improvement of all the fisheries have been formulated, and have been given the force of law, after a careful study of the nature and life-habits of the fish, by the heads of the Department of Fisheries. By all these means the fisheries are steadily improving, and their products enhanced in value. A brighter future awaits these industries.

One other projected industry, and probably the most important, remains to be mentioned. The prospectus of a whaling company has lately been issued, capital \$100,000. Round the

shores of the island are immense numbers of whales, varying in size from 50 to 100 feet. These are not the Greenland or "Right Whale," but finbacks, sulphur-bottoms or blue whale, and pot-heads. Their oil is worth £17 per tun and the bone sells at £30 per ton. In Norway a large amount of capital is invested in this industry, and excellent returns are obtained. Mr. Nielsen, Superintendent of Fisheries, who suggested the project, declares that the waters around this island are much superior to the Norwegian waters. Some of the leading business men of St. John's have embarked in the enterprise. Small steamers, having guns in their bows for throwing harpoons and bombs, are to be used. The Norwegian method is to be adopted.

Other minor industries might be mentioned which are likely to be developed. The island contains enormous areas of bog which hitherto have been of no economic value. But Mr. Sahlstrom, a Swedish chemist of good repute, has been experimenting during the summer and proposes to manufacture a cheap and valuable fuel from the peat, also charcoal bricks, which are free from sulphur and valuable for smelting purposes. He extracts from the bog tar equal to the finest Stockholm tar; and to crown all, he produces "peat fibre" from bog, out of which a rough cloth can be manufactured, thus transforming the useless bogs into gold. All this has been already done in several European countries.

The wild berries which cover immense areas yield materials for the manufacture of the most delicious preserves. Steps are being taken to carry on this industry on an extensive scale and to export the products to other countries. All these facts go to prove that the spirit of enterprise is at work here as a result of the wonderful recuperation which has followed the recent calamities through which the people have passed. A country that can show such elasticity in its industries and trade, and such courage and spirit among its people in meeting difficulties, must have a future before it. The introduction and extension of the railway has shown the great possibilities of the island and given an impulse to many industrial enterprises.

Mining has made satisfactory progress during 1896. The splendid iron mine on Belle Isle, Conception Bay, is now

worked by the New Glasgow Steel and Iron Co., who have shipped large quantities of ore during the year with very satisfactory results. They hold a lease of the property; but it is reported that a second company are about to open another mine in a different section of Belle Isle. The quantity of ore on this island is practically inexhaustible. Tilt Cove copper mine is still worked vigorously and gives employment to 400 to 500 men. The iron pyrites mine on Pilley's Island shows good results, and a large quantity of this ore was shipped to the United States during the season. A mine of chromic iron at Port-au-Port, on the west coast, is worked by an American company. It is reported the results are of a highly satisfactory character. Asbestos mining in the same quarter is prosecuted with encouraging prospects. A mining expert from Scotland has been prospecting during the summer in the north of the island, on behalf of a wealthy syndicate, and spent a portion of his time on the coast of Labrador. The results have not yet been made public.

All this, combined with the late discoveries of coal-areas (to be spoken of later on), increases public confidence in the mineral resources of the island. This, however, is not all. A few weeks ago people were startled by the announcement of the discovery of gold-bearing quartz reefs near Cape Broyle, some forty miles south of St. John's. The discovery was made by an experienced gold prospector, whose attention had been drawn to this quarter. A shaft was sunk on a quartz reef to the depth of a few feet. Two barrels of the quartz, selected at random from the heap at the mouth of the shaft, were shipped by a mercantile firm to one of the most eminent assaying firms in London—Messrs. Johnson, Matthews & Co. Their analysis showed nearly three ounces of gold to a ton of quartz, and over one ounce of silver—value \$60. No sooner was this made known than a gold fever set in, and in a short time fifty square miles around the original reef were covered with licenses to search for gold. The whole district is seamed with quartz veins, and highly mineralized. Specimens of what seems to be gold-bearing quartz have been brought in from several of these veins. A syndicate in Newcastle-on-Tyne, England, sent out a mining expert to examine and report. The character of his report

is not yet known. He was, however, favorably impressed with what he saw, and pronounced the district well worthy of a careful exploration. He found the bed-rock itself—which is the rock of the country—showing in some places a yield of gold to the extent of 8 dwts. 12 grains per ton. Of course it would be altogether premature to build on this discovery until more extensive tests have been applied. The whole matter might end in disappointment, and the gold might not be found in paying quantities. I am, however, in a position to guarantee the *bona fide* character of the transactions I have narrated, and that no trickery or deception has been practised. That quartz containing three ounces to the ton has been found in Newfoundland is an important fact, and indicates that gold may be looked for with confidence among its rough rocks. Many years ago, Mr. Murray, a distinguished geologist, who was for twenty years at the head of the Geological Survey here, predicted that gold would be found. He founded his opinion on the close similarity of the formations here to those of Nova Scotia, in which the auriferous quartz is found. The formations at Cape Broyle are Lower Silurian, and Huronian or Cambrian. The region around Cape Broyle deserves a thoroughly careful examination. It is quite possible that a most valuable gold-field may be developed here, which would add immensely to the interests of the country. The expenditure of a small sum would suffice to test the value of the discovery. Reports of gold having been found in other localities have been current—the most extensive and promising at Ming's Bight, White Bay.

Another proof of the mineral resources of the island is furnished by the recent working of a chrome iron mine at Bluff Head, Port-au-Port, on the western coast. The deposit of chrome iron here is very large. J. P. Howley, Esq., F.G.S.—head of the Geological Survey—estimates that there are 40,000 tons in sight, and indications of extensive deposits in the immediate neighborhood. Three hundred tons were shipped in 1896, and at present 1,000 tons are mined and awaiting shipment. It is leased by an American company who are pushing operations vigorously. The average value of the ore in England is £7 10s., stg. The ore is found in blocks, also in veins 13 feet wide.

The petroleum industry on the west coast gives good promise of success. A few days ago news was received to the effect that the Canadian and Newfoundland Petroleum Co. had struck oil at the depth of 1,000 feet, the boring having been prosecuted since August last. The locality is near St. Paul's Inlet, north of Cow Head, on the western coast. Another company struck oil some time ago on an adjacent claim. The quality of the oil is reported to be excellent and the quantity satisfactory.

The very important announcement has been made that the government has purchased the line of railway running from St. John's to Harbour Grace, $83\frac{1}{2}$ miles in length. The owners of this line were English bondholders who held a mortgage on the property. The company that built the line originally became bankrupt, and it was in the hands of a receiver who managed its affairs with an eye to the interests of the bondholders, which often greatly conflicted with those of the colony. Since the construction of the new line of 500 miles to Port-au-Basque, by Mr. R. G. Reid, the managers of the old line were playing the game of obstruction and seriously interfering with the development of the new. They applied to the Supreme Court for an injunction to prevent the working of the newly discovered coal areas near Grand Lake, through which the new line runs, on the ground that they had land claims here in connection with their charter, and the injunction was granted till the case could be submitted to the Privy Council in England, and thus the areas were locked up. A contract for an electric street railway in St. John's had been made, and the railway company applied for and obtained an injunction to restrain its construction on the ground that it would be an invasion of their chartered rights. They had violated their contract, which was for the construction of 340 miles of railway, and broke down after the construction of 83 miles. An action was taken against them by the government for breach of contract, and the suit has been for years dragging its slow length along before the Privy Council, with much profit to the lawyers, but at a heavy loss to the colony. All the while they were drawing an annual subsidy of \$45,000 from the colonial treasury, and held many thousand acres of land

locked up. By the purchase, which takes effect on the 1st January, 1897, all their land rights are surrendered, also the subsidy; the expensive law suits are ended and the embargoes on the coal areas and the city railway removed. The price paid for all the right, title and interest of the said company was £325,000 sterling, in bonds at 3 per cent. interest. On all hands it is allowed to be a splendid bargain for the colony. All our lines of railway will now be consolidated; and it is understood that Mr. R. G. Reid will contract with the government for the operation of the whole. Fifty miles of the old line, from St. John's to Whitbourne, had to be passed over to reach the eastern terminus of the new line, which gave this company the key of the position, and enabled them to hamper and obstruct the northern and western line. All that is ended; and Mr. Reid will now have a free hand in working the new line.

The construction of the line to Port-au-Basque has made admirable progress during the year, over a hundred miles having been built. Only thirty miles remain, and these will be completed by July of next year. The workmanship is allowed on all hands to be of the first order. There is no better narrow-gauge line in any country. Mr. Reid has fulfilled his contract to the letter, and in the most honorable manner. He is now in Scotland arranging for the construction of a first-class steamer to ply between Port-au-Basque, the western terminus, and Sydney, in Cape Breton. The steamer is to be a sixteen-knotter, and will be fitted up with all modern improvements and comforts. It will make the run in six hours. This begins a new era for the island. Practically it will terminate its insularity. We shall have a tri-weekly mail—possibly a daily—from the outside world. Tourists, travellers, sportsmen, may be expected to come in large numbers. The colonization of the good lands of the interior will begin. The line will bring us nearer to Canada, and hasten the union with the Dominion. In such competent hands as those of Mr. Reid the development of the resources of the island will be judiciously pushed forward.

From careful inquiries among some of our leading business men, I feel justified in saying that the whole trade and commerce of the colony has been this year of a very satisfactory character. The curtailment of credit has been marked, and as

a consequence business has been more steady and continuous, and more equally spread over the whole year. When large supplies were given out as formerly, there was a rush and a pressure at the beginning of the season, and again at the close; now it is more equally diffused throughout the months of the year, to the advantage of all parties. The fisheries, taken as a whole, are somewhat above an average. During January and February of 1897 some difficulty was experienced in obtaining satisfactory sales of codfish in the Spanish and Mediterranean markets, prices having fallen considerably. This was caused in part by a glut of imperfectly cured Labrador fish, and partly by the large importation into these countries of the bounty-fed fish-products of France. This condition of affairs is likely to be but temporary. The Brazilian markets continue good, and in the long run there is reason to hope that satisfactory prices will be obtained for the whole catch of 1896. The cash trade in St. John's is growing fast. This is a healthy sign, a result of curtailed credit, and will help to develop thrift and economy.

On the whole the colony is making satisfactory progress under the new order of things; and may look forward without any apprehension, and with much hope, to the new year on which it has entered.

M. HARVEY

St. John's, N.F., March, 1897

THE MONETARY QUESTION AND KINDRED TOPICS*

PART I

THE PROGRESS OF THE CENTURY

IN its rapid strides onward progress has developed science and arts, improved agriculture and industry, enlarged trade and commerce.

The great French poet, Victor Hugo, admirably defined "Progress" when he called it the "Stride of God."

And the eminent American divine, Henry Ward Beecher, beautifully described the 19th century when he said: "There are ages, like the great Sahara, with nothing growing in them for hundreds of years; and there are ages that bud and blossom. This is one of those ages."

The wonderful scientific inventions and discoveries of the century are immense factors in the material revolution which has taken place in the economic world; they have simplified the process of agriculture, lessened the hardship of labor and increased the productive power of energy and industry. Even the old soil has become more prolific under scientific treatment.

These elements of wealth and welfare are forming a powerful lever, which is the realization of a scientific triumph that is gradually increasing the prosperity of nations, embettering the condition of man, raising the standard of life, and stimulating labor and capital into greater activity, whilst bringing about closer intercourse between men and nations.

All these show that the creative genius of man must have resultant effects beyond human calculation.

And now that distances have disappeared, that nations are

*Read at the annual meeting of the Canadian Bankers' Association, held at Ottawa in September, 1896.

within an electric flash of each other, that the steel rail encircles the globe, that commerce and industry enfold the universe and bring to bear the weight of their influence in the scale of empires, a new order of things has been created; and an impetuous current is bearing genius and energy towards new fields, opening out new horizons and a world of possibilities to mankind.

Hence if progress is indeed "the Stride of God," and if this is one of the ages that "bud and blossom," both are certainly assuming that form which leads to the expectation that the cost of home comforts and the means to acquire them may be brought to an equitable level in accordance with the wants of mankind and the spirit of the times.

THE MEDIA OF EXCHANGE, MONEY AND CREDIT

Whilst the events just described followed their course, the ever-growing business affairs of the world have also undergone rapid changes, and developed new methods. The mechanism of exchange and that of finance had to be brought into such close relationship as to render them the necessary auxiliaries of one another—an operation which opened out a wide field of study in monetary matters, and made of banking and currency one of the leading branches in economic science.

But though monetary science has developed, there is some indefiniteness in its practice—something incomplete in its wheel-work which retards the establishment of a possible efficient system of international and domestic currency.

* * *

The more commerce develops, the more it becomes evident that the measure of value—"money"—should not be one in name only, but that it should, *de facto*, be a common denominator, an absolute unit of value. It should be constructed on such a scientific basis of stability and usefulness as to ensure absolute confidence. Otherwise transactions between men or nations might be frequently disturbed and a depreciated currency would reduce all business to pure speculation.

My definition of money is that it is an idea, a principle.

This may appear paradoxical, but it is not. It is not money in its character of a unit—a conventional sign—covered by the political authority of a nation—that fluctuates, but the metals of which it is composed.

* * *

The medium of exchange does not consist in one idea alone. There is another idea, another principle just as important, and that is "credit"—which I need not describe otherwise than, as eminent economists say, that it is capital, that it multiplies specie, and places property in the hands of those who will make it valuable. It is one of the most powerful factors in the commercial and financial operations of the world.

It is certainly the chief underlying factor in periods of activity and prosperity, as well as in periods of inflation or depression.

Credit is in fact an elastic capital, which may be rendered productive of good or evil, according as it is employed. Abuse of credit disturbs the stability of prices and produces those periods of depression with which every country is visited, and which are the reflex of a wave of stagnation that may be looked for as regularly, every decade, as the precession of the equinoxes.

* * *

I have defined money and credit as ideas and principles with forms and methods of their own—but to set their machinery in order, and to keep it in constant motion, an agent or medium is required. And the medium of the media is the bank. Hence banks are nothing else than an admixture of money and credit, a huge combination of both—the largest medium of exchange—the agency of men and nations.

* * *

Paper money, although one of the forms of credit, should be considered as one of the media of exchange. It has assumed such enormous proportions that it forms no mean ratio of the entire currency of the world—the estimate of which is 4,086 billion dollars in gold, 4,071 billions in silver, and 2,564 billions in paper.

And hence this is now called the paper age.

Occasions of paper money depreciation are exceptional. General upheaval in political government, revolution, war, and defective currency laws, are the principal causes leading to depreciation. During the French Revolution "assignats" were issued as a means of borrowing money. Notwithstanding the fact that these became depreciated with the second issue, other issues followed, and the total reached the fabulous sum of thirty-six billion francs. In order to counteract the heavy declines, which followed as a natural consequence, legislators enacted penal laws against exchanges of coin and paper, unless at par. A maximum price on commodities and other iniquitous laws were enforced. But these were of no avail, for when France commenced to redeem this currency it was not worth the 200th part of its nominal value. The American Republic underwent a similar experience. During the Civil War specie payments were suspended and only resumed in 1878, gold had disappeared from circulation, and the famous greenback rag-baby was issued to cover the national debt, which the war had so greatly increased. Commencing at a premium of 2 per cent. in 1862, the price of gold had risen to 258 in 1864. and did not reach par until fourteen years later, at which time the outstanding amount was 347 million dollars.

THE MERITS OF THE STANDARDS GOLD AND SILVER

One of the most momentous, and perplexing problems of the age is undoubtedly the establishment of a proper financial mechanism of exchange between nations. Monetary systems are not alike, and endeavors are made to modify existing disparities so as to ultimately bring about general uniformity on the basis of a unit of value.

The first difficulty in the way is to find a material having a durable and readily ascertainable value of its own, and possessing other qualities indispensable to the functions of an unvarying measure of value. In the earlier times many fruitless attempts were made to establish a convenient medium acceptable to all, and, after having employed as such various articles

of commodity which were as often discarded as tried, it had to be admitted that gold was the nearest to the perfect thing, so, without universal enactment, but more through a binding custom brought on by the natural laws of fitness, gold has been adopted by man as the conventional representative of the unit of value.

The theory of economists is that there is no such thing as absolute value, and that gold, though a measure of value, is nevertheless subject to certain fluctuations which determine corresponding variations in the price of commodities. A concordant theory is that, to be an invariable standard, gold must always be produced by the same amount and cost of labor, and in such graduated quantities as shall constantly bear the same proportion to the demand for it; that if gold maintains the same value in relation to itself, notwithstanding the diminished value of other articles, its proportionate value is practically increasing.

My belief is that if we investigate the motion of the so-called fluctuations of gold, we would find them restricted to demand and supply.

We have had but rare occasions of gold discoveries so large as to cause a depreciation. On the contrary, the more is found the more it seems to become appreciated, and almost concurrently with increasing supplies the prices of commodities have decreased. So everything fluctuates in relation to every other thing, and the motion is a circulating one, for money, as a rule, flows back to money centres, where it resumes its level. Hence, if there are differences in the value of money, it is between its instruments and not because of money itself.

It is, therefore, as to their relative value as precious metals that the standards are discussed.

* * *

The innate superiority of gold is never questioned; the objection is in its sensitiveness to the laws of demand and supply. Its native value lies in its usefulness for industrial and artistic purposes, in which it is estimated that from 60 to 70 per cent. of the world's production is employed to excellent effect. It outlasts everything else; it is of a com-

pass twenty-seven times smaller than silver, and therefore more commodious; it is in constant demand as merchandise; and, because it is also desired as money, its marketable value is steadier than that of any other commodity. But the value of silver cannot be belittled; it is, to all intents and purposes, the best available auxiliary to gold as subsidiary money.

In the times of the Romans gold was about ten times as valuable as silver, and silver ten times as valuable as copper.

From the beginning of the sixteenth century to the middle of our own, the quantity produced exceeded that of gold more than thirty-two times, and the fall in value 39 per cent. In the sixteenth century the ratio was 1 to $11\frac{1}{2}$; in the seventeenth 1 to $12\frac{1}{2}$; in the eighteenth 1 to $15\frac{1}{8}$; and in the early days of this century it was 1 to 15.65.

The English shilling was originally the twentieth part of a pound weight of silver; it is now the sixty-second part.

The loss of purchasing power in silver during the past decade has been remarkable. In 1873 it sold at \$1.21 an ounce. In 1876 the price had fallen to 94 cents or a ratio of 1 to 20. It advanced to \$1.02 in 1883, and receded to 88 cents ten years later (1892) and fell further to 55 cents in 1895. It is now worth about 69 cents, or 1 to 29.96.

Here we have a practical and pointed illustration that the value of silver is regulated on gold, and that, while gold remains steady (whatever its form or stamp), and carries with it its worth in weight, in all countries, silver, on the contrary, is constantly disturbed.

And it is proven by experience that every important change in the natural disparity of power between gold and silver, causes the disappearance of the dearer metal until equilibrium is restored. Should the bullion price of either metal be above the nominal value of the coin, that metal is sure to be exported or employed to more profitable purposes.

* * *

Scarcity of money produces lower prices, and abundance produces higher prices in labor, commodities and property. But we must distinguish between money and a specific kind of money.

Scarcity of money occurs in specie countries when coins have disappeared, and that is real scarcity. But where there is an elastic system of currency, money need not be scarce unless for causes which render scarcity artificial. Artificial scarcity is when those in want of money have nothing to give in exchange. Scarcity of gold or silver is artificial scarcity of money where the latter has other substitutes. Gold is generally exported when trade balances are adverse, and returns only when trade balances are reversed, unless, indeed, credit, or extension of time, or substitution of a form of debt, is resorted to—such as issues of public bonds or other securities which are a means of replenishing public coffers. Money is also displaced at different seasons for the moving of crops and other purposes.

And it is thus that circulating operations are performed and maintained, and within their cycle evolve the agio of gold and the variations of price.

As the production of silver doubled during the past decade and its value declined to about half of the legal ratio, it will be necessary to find another ratio and general re-coinage on a new basis must be resorted to. And the loss thus occasioned must be borne by each nation according to their present issues—a far more dignified proceeding than experimenting on a currency of fictitious value and of a nature to create unparalleled disturbance throughout the world.

PRODUCTION AND THE VALUE OF COMMODITIES

The immediate determining cause of fluctuations in the price of commodities is demand and supply, and we all know that production varies in quality and quantity, according to conditions of soil and climate, labor and machinery.

But as labor is the chief factor of production, it follows that the cost of labor determines, to a great extent, the price of commodities; hence, where prices of labor and commodities are at variance, that of commodities must return to its natural level, or production becomes impossible because unprofitable, and therefore must cease.

And again men's aptitudes are not alike, neither are their opportunities, therefore they cannot produce alike. The same

rule applies to nations. Some men have the faculty to acquire, some to conserve, others have neither quality. Some more fortunate become comfortable, and therefore comparatively rich; some become very wealthy, whilst others are born and fated to be poor.

" Some men were born for great things,
Some were born for small;
Some—it is not recorded
Why they were born at all."

These considerations, apart from the general ones already mentioned, should, I think, lead us to the conclusion that the causes of fluctuation in the price of commodities are really not entirely dependent on the greater or lesser supply of either gold or silver.

* * *

I have just referred to labor and production, and it is well, before I change to other considerations, that I should indicate the price of labor, and the variations in the price of certain leading staple products.

Unskilled labor throughout the world ranges all the way up from 10 and 20 cents a day to \$1.50 and \$1.60, and skilled labor from 20 and 40 cents to \$2 and \$5. In other words, the price of ordinary labor is from eight to sixteen times as much in gold countries as in silver countries, and skilled labor is worth from ten to twenty-five times as much.

* * *

If we examine the Chicago Board of Trade returns of the past thirty-two years, we shall find that wheat has varied from 80 cents a bushel in 1863 to \$2.85 in 1867. From the latter date it fluttered downward to $73\frac{1}{4}$ cents in 1870. Advancing to \$1.76 $\frac{1}{2}$ in 1876, it receded further down to 69 $\frac{1}{2}$ cents in 1884. In 1888 it rose as high as \$2, but it came down again, and in its erratic course fell to 48 $\frac{3}{4}$ cents in January, 1895. The highest price last year was 85 $\frac{3}{8}$ cents. Of late years the production of wheat, which stands in respect of other cereals in a similar relation as gold to silver, has enormously increased in

the United States, India, Russia, Argentina and Canada. It is calculated that in some of these countries the increase in wheat crop doubles the average increase of population.

Now corn has followed a somewhat similar erratic course to wheat. Since 1863 the highest figure was \$1.40 in November, 1864, and the lowest was 25 cents in 1895.

Oats were 90 cents in 1867, and gradually declined to 16 $\frac{1}{2}$ cents in December last.

Mess pork was worth \$43 in 1864, it fell to \$6.02 $\frac{1}{2}$ in 1878, the lowest in thirty-two years. In May, 1895, the price had increased to \$12.87 $\frac{1}{2}$, after which it receded and fell to \$7.50 in December last.

Lard had reached \$30 in September, 1865, but with a series of erratic movements it fell to \$5.15 in December last.

Other commodities have followed a similar downward course, but labor fairly maintained its price. If prices are, at this moment, probably lower on an average than ever before, it is mainly and principally due to the changed conditions of labor, production, commerce, transit, finance, and to the methods of modern business generally—elements which are making the world smaller and more productive. So again I must say that prices of commodities are really not so dependent on or regulated by the supply of either gold or silver.

PART II

THE BATTLE OF THE STANDARDS IN THE UNITED STATES

In no country is the monetary question discussed with more interest, with more vigor and greater acrimony, than in the neighboring Republic, where, unfortunately, it is taking the form and proportions of a gigantic political strife which may lead to the most serious consequences.*

The currency reform has become the leading plank in the political platform of both contending parties on the occasion of the coming presidential election, and because of it each party

*It will be borne in mind that this paper was prepared before the Presidential election had taken place.

is now as a house divided against itself. There are two parties within each party. In one party there is a section in favor of the gold standard, while the other section advocates the double standard. The Republicans have, as a body, adopted gold monometallism, but the minority are against it. And conversely the Democratic party, as a body, are making gold and silver an exceedingly live issue in their campaign, whilst the minority are gold monometallists.

The country wherein is found the leading adherents of free silver coinage is that covering all the States west of Missouri River, those west of the Mississippi, and several States commercially interested in those just described, and which are called the "Silver States," and, in so far as they are concerned, the result of the battle of the standards is one involving a serious loss or great prosperity. This evolution in the policy of both parties creates a new sectional issue between the people of the East and between those of the South and West, and may operate a radical change in the political division line now located between North and South. Now the East is apparently apportioned to the Republicans and contains elements of no mean strength and wealth. The West contains many heterogeneous, ignorant, destructive and lawless people in the midst of respectable and well-to-do farmers, and an otherwise wealthy and prosperous class of citizens.

In this is to be found the real seriousness of the situation. These elements can no longer live together without breeding serious agitation and developing the existing though undefined separatist sentiment which is brooding between the North and South, the East and West—a sentiment which may at any moment develop into ominous consistence and materialize in the disintegration of the great American Republic.

* * *

Now, the ambition of the Silverites means that silver, which is constantly fluctuating and depreciating and is not now worth more than 69 cents an ounce or 53 cents to the gold dollar, should be unlimitably coined to all corners of the world at the existing legal ratio of 16 to 1, that is to say, at \$1.29 an ounce or \$1.00 to the gold dollar. And this ambition arises at a time

when the silver States can produce silver in greater abundance and cheaper than ever—and at a progressive period of the age, when nearly every nation has a paper money of its own and other instruments of exchange far more commodious and convenient than silver.

Evidently the object of the silver States is no disinterested one. It is derived from pecuniary calculations intended to create a compulsory sale of a metal of which they hold and can produce such enormous quantities.

However, the silver heresy is spreading in an alarming manner, though no logical reason why it should be so can be pointed out. But it is sincerely to be hoped that Silverites require more than their inflammable rhetoric to induce the people of the United States to resort to an unlimited and free coinage.

* * *

It is unfortunate that a question of such paramount importance, one involving principles and theories belonging exclusively to economic science, should be removed from its legitimate domain and carried into the arena of politics, to be discussed by demagogues on public hustings, before a mass of people who have no accurate knowledge of political science nor of the conditions of society, and who are in woful ignorance of monetary history, and therefore cannot grapple with such intricate scientific problems; and finally to be subjected to a solution by that which is equivalent to a popular vote, an election of a President of the United States.

We all, more or less, have seen and heard of the effects of oratorical skill and ingeniousness on popular audiences, and know that erroneous and sophistic arguments may carry masses and persuade them into very wrong directions, if not to their own perdition. This is a question of scientific economy, not of politics. Misconceptions are sure to arise when the scientific bearing is not thoroughly understood, for to the uninitiated there is no question that leads to so many mischievous fallacies. We have an illustration of this in the mere fact that men can be found so rabid as to exclaim :

“Coining money is an act of sovereignty, and we, the people, are the kings and rulers in this democratic land, and should be able to decide intelligently on the subject.”

And again: "I am anxious to see this silver question in the hands of the sovereign people, or as Lincoln called us, 'the common people.' It must be taken and decided by us at the ballot box, and by our personal influence."

* * *

Were it not that Americans do not themselves believe in the possibility of such a national calamity as free silver coinage ever befalling them, their banks and their Treasury would, ere this, have been depleted of gold. Nevertheless, there is no doubt that under the impulse of fear by some, and prospects of speculation by others, hoarding of gold has already commenced. The controversy has already produced a species of panic sufficient to induce the removal by its owners of a great deal of their money to Canada.

THE UNITED STATES BANKING SYSTEM

The position of the banks of the United States and the banking system are reasonably made subjects for consideration at the present juncture, and it is within the scope of this essay that a short sketch of American banking and of the working of the "Treasury" should be given.

Though there are excellent features in the banking system of the United States, it, nevertheless, remains a compound of fragments taken inconsiderately from the older countries, instead of a scientific combination of good elements brought together as a result of well defined theories, sound principles and practical experience. Frequent legislative interference and conflicting laws have complicated matters and handicapped both banking and currency. Federal restrictions have curtailed currency, besides creating a constant conflict between National and State banks, and because of this banks frequently change their status from federal to State charters, and vice versa.

The functions of the government are, amongst others, to coin money and regulate the value of it, a power withheld from States, who may, however, incorporate banks, but subject to what nearly amounts to prohibition as regards paper issues, a

ten per cent. tax—a tax which is now being contested on constitutional grounds, although the present banking system was organized in 1863.

It would appear that the aim of legislators has been to protect the paper issues regardless of consequences to depositors and shareholders, and the question arises whether these laws are not too stringent and over-burdensome.

The Treasury department issues circulation to National banks to the extent of 75 per cent. of their paid capital. Against this circulation banks are required to deposit government bonds on which 90 per cent. of circulation is issued (on a par value of the bonds), leaving 10 per cent. and the premium unavailable for banking purposes. The Treasury also holds a "Redemption Fund," contributed to by banks, which now amounts to about \$20,000,000, a feature recently introduced into our system.

There are times when the premium on government bonds thus deposited becomes so high as to render circulation unprofitable, and as a consequence banks curtail their own circulation. This shows that no paper currency can have the requisite elasticity when it is covered by bonds, as under the American system. American banking is characteristically described by an American economist, who says that "a National bank obtains deposits to some extent because of the character its federal charter gives it, while most of the smaller State and private banks have only the character of the men who organize them."

At the annual meeting of the Tennessee Bankers' Association, recently held, a prominent banker of that State referred to our banking system, and advocating its adoption, said that "a bank circulation such as that of the Scotch and Canadian banks has the true requirements of a bank note issue—it is safe, sound and elastic." This, he adds, is the ideal condition, and he enquires how Americans are to approach it from their present position. Evidently the American banking system should be modified so as to permit of its extension by means of branches; a flexible and convertible circulation limited to the unimpaired paid capital; secured by a first lien on assets, double liability of shareholders, joint responsibility between banks, with government backing of the whole circulation.

• This would help to regulate the silver nuisance and would

remove the government notes. If the commerce of the United States is in sound condition, the assets of banks in good shape and government in good odour of credit, as they are presumed to be, such a bank note issue should be safe and secure beyond the possibility of doubt.

THE AMERICAN GOVERNMENT CIRCULATION

Instead of the present large and obnoxious silver circulation a paper currency constructed on the basis indicated could safely be extended, although the United States are not far from a per capita supply of money equal to that of any other nation of the world. Its capitation is nearly on a par with Belgium, Australia and Holland, who are only surpassed by France. And the Americans distance such countries as Great Britain, Germany, Austria, Russia, Japan, India and China.

Another proof that they are in need of a more flexible currency, rather than of an enlarged one, is that the country and in fact other leading nations have an abundance of money awaiting investment.

In July last United States' money in circulation consisted of:—

Gold coins.....	\$456,000,000
Silver certificates.....	331,000,000
Greenbacks.....	226,000,000
National Bank notes.....	216,000,000
Treasury notes.....	95,000,000
Subsidiary silver.....	60,000,000
Silver dollars.....	52,000,000
Gold certificates.....	42,000,000
Currency certificates.....	32,000,000
Total.....	<u>\$1,510,000,000</u>

Apart from this the Treasury amounts to 795 millions, less 664 millions in certificates, treasury notes and bullion, leaving a balance of 131 millions, or a grand total of 1,641 millions cash.

Now this is quite a large variety of forms of money for a progressive country like that of our republican friends.

I have described the national bank note system, and presume I need not enlarge on the familiar history of the greenback issues beyond saying that many expedients were resorted to in

order to inspire confidence, but without effect, though, as Mr. Sherman said, they had been carefully limited in amount, and invested with every quality to improve their value and condition. They illustrate the theory that a national issue, unless with substantial backing, is the most dangerous element in currency.

The Treasury Department is defined by an American economist as "a bank, the counterpart of which exists nowhere in the world to-day; a bank with unlimited credit, which it cannot use; vast resources not available; issues out of all proportion to reserves; cellars full of hundreds of millions of useless silver; no power to operate; with none of the privileges of the ordinary bank or individual; paralyzed completely on the side of executive action; its doors wide open to the outpour of gold, furnishing itself the legal instrument of suction to be used over and over again to exhaust the precious stores, but on the other hand cut off completely from power to replenish except through one small antiquated aperture—the 5 p.c. bond."

It is only a few weeks past that in order to protect the Treasury, leading national banks and foreign private bankers had to come to the rescue and agreed to furnish up to \$75,000,000 in 60-day bills of exchange and other documents, at a price below the cost of gold exports, thus checking the outflow of that metal. This attempt at artificial protection is a serious comment on the system, but the action of bankers averted the panic into which the country had been about to pass.

I must acknowledge that the enormous extent of its trade and commerce, the immenseness of its resources, warrants the handling of a large circulation, but I find that the supply is not incommensurate with requirements when it is compared with that of other countries. And I readily believe that were the system reorganized on the basis indicated—and which is not a new suggestion—there would be sufficient money to respond to the legitimate needs of the people.

A fair supply of circulation indicates wholesome activity, a large one is dangerous, and has disturbing and distressing effects worse than scarcity.

Money unemployed is unproductive. When employed it is profitable because it stimulates production which otherwise would be restrained and create loss. It utilizes labor which produces wealth and commodities.

PART III

GOLD OR SILVER

It is not the value of gold as a standard which the world discusses, but the opportuneness of using either gold or silver as a single standard, or of using both concurrently.

There is an underlying principle that must prevail whatever happens, which shall ever make of gold the real basis of a unity of system, because it is already either a legal or a conventional standard of value in every part of the world, and because its steadiness is such that all things must adjust themselves by its value. It is of course undeniable that no currency system could be complete unless with a limited supply of silver as minor coin.

* * *

Bi-metallism may be well enough as it was in the United States, previous to 1873, when silver mines were still undeveloped; but since that time, the world's silver production has so increased as to disturb all calculation.

Now with silver reduced to 50 per cent. of its recent value, bi-metallism means a delusive money—a disguise for sound currency—and, as silverites would have it, the nullification of 47 per cent. of all American national and private debts which were not stipulated payable in gold coin; and that, for the exclusive benefit, not of the nation, not of the state,—but of the owner of the mine.

The national government is the sovereign authority in coinage, but the moment it undertakes to coin all silver offered, it divests itself, absolutely, of a royal and invaluable privilege which it foolishly delegates to mine owners, who thus become the real coiners of the realm. And the proposition of the silverites is, virtually, that the country should, at its own expense, coin silver, to all comers, at a given ratio of 16 oz. of silver to one of gold, when it should be, at least, 30 oz.; the significance of which would be the enrichment of owners of every productive silver mine in the world, at the expense of the United States of America.

Silver adherents contend that other countries would necessarily follow in its footsteps, should the Republic adopt free coinage.

Yet it is known that the consensus of European opinion is favorable to gold with silver as an auxiliary, coined to its full marketable value, on a parity with gold, and, in quantities restricted to local requirements on the basis of population.

* * *

The theory of bi-metallists reminds one of the fur trade with Americans Indians, when Wampum was the currency, and which could be got for a measure of fire-water. Traders bought furs with the Wampum, and the Indians rejoiced in the accumulation of currency; but their awakening was distressing, when negotiations were over, and they realized that the traders had all the furs and they all the Wampum.

Should bi-metallism carry the day in the United States, foreigners would gather all the American gold and Uncle Sam would have to content himself with his own defective offspring, and might have to shoulder the silver Wampum of other nations as well.

* * *

No government can maintain together, at an equality of value, any two standards, one of which is worth half of the other, without causing depreciation in prices of other things, and thus creating disturbance and confusion.

Utopists believe this can be done, in a country where the actual supply of money is $8\frac{1}{2}$ times over the per capita ratio of the largest silver nations having ten times its population, and holding three times as much in silver, of which twice as much per capita lies dormant in its Treasury.

I think that a sound practical question could be asked of silverites, and that is:—Why is silver stored in permanence in the treasury, and paper certificates issued if silver coin is so necessary to circulation?"

* * *

The theoretical worth of an ounce of silver is \$1.29, and the real worth 69 cents, thus making the present silver dollar actu-

ally worth only 53 cents. So when Americans circulate one silver dollar, really worth only 53 cents, together with a gold dollar of full value, it follows that gold will either be exported at 100 cents in the dollar, in payment of foreign purchases, or exchanged for silver to foreign and home purchasers at the rate of one dollar for about two of silver, otherwise it will be hoarded or go to the melting pot to serve more profitable purposes.

We can readily imagine what handsome fortunes would be in store for mine owners should bi-metallism become the currency. . . .

And what immense profits to a country honeycombed with silver mines, as Mexico and the United States, if they were permitted to pay their national indebtedness in silver bought at the current rate and coined under such a degraded coinage as that proposed.

* * *

The Mexican dollar contains 420 grains or 55 cents worth in pure silver, and freely passes at 50 cents in the United States.

The American dollar contains only $412\frac{1}{2}$ grains and is worth 53 cents, yet it circulates through the length and breadth of the land—amongst Democrats as well as Republicans—as a good and sound dollar ! !

But then it must be noticed that it bears a device appropriate to the times—"In God we trust."

I presume our American friends do not consider this an emblematical expression, and that they do not trust in God alone to indemnify the loser of the 47 cents.

We are told of a recent transaction in Mexican bonds which were bought at 48 cents on the Mexican silver dollar, and were paid for in American silver dollars. Now it so happens that, although the Mexican dollar is a better coin and circulates at about 50 or 52 cents, the inferior one circulates at full value—the Mexican bond therefore actually realized only 26 cents of its nominal dollar value.

* * *

The dogma of free silver coinage has but few adherents in Europe and bi-metallism is losing ground.

We have seen Russia and Austria discarding silver for

gold, and, were it not that the bulk of her trade is with China and India, semi-bi-metallist Japan would ere this have been converted to the gold standard.

If we were to measure the wealth of this silver group—which contains more than one-half of the population of the globe, or about 700 million people—by their actual money supply, I should say they were the poorest nations upon earth, for its per capita ratio is only \$2.85, whilst in the United States it is $8\frac{1}{4}$ times as much, or \$23.59—and labor is as many times higher.

And if Japan has closer connection with commercial nations and resultingly finds her trade improving and the price of commodities rapidly coming to the level of more advanced nations, it is because she now employs as much gold as either silver or paper.

The fact is, Japan has more gold than China and India together, who have fifteen times more population.

* * *

The contention of bi-metallists is summarized in the sophism that gold means the enrichment of the money-lending people at home and of the capitalist abroad, the prostration of industry and impoverishment of the people. But it falls to the ground when we compare labor prices, trade operations and the amount of money of all kinds held in gold countries, with silver countries like India and China.

* * *

Public securities issued by gold countries invariably command better prices. And if Americans obtained money on their securities, under advantageous conditions, it is simply because their monetary system is on a gold basis.

A significant fact in connection with the apprehended adoption of free silver is that foreign investors are disposing of their American securities, and those at home, who lend on real estate, stipulate that their money shall be returned in gold.

One of the great arguments of silverites is that gold is a British policy, and its adoption has brought other nations into financial servitude to London, that Great Britain has a hold

on the American system, and that until the nation shall wrench away Great Britain's grasp upon it, the country must suffer all kinds of miseries. . . .

But Americans forget that if either Great Britain or France have honorably acquired rights to property in the Republic, it is solely because the latter sought relief in foreign capital and found it on the strength and faith of a tacit national contract that the same good money would be honorably and loyally reimbursed—an honorable contract which no honorable people should attempt to subvert or voluntarily destroy. It is estimated that the United States pay to Great Britain, France and other countries no less than from \$300,000,000 to \$400,000,000 per annum in interest on loans and investments in commercial and industrial enterprises.

But silverites seem to care nothing for consequences, so emboldened are they in their endeavors to succeed. They avowedly appeal to some of the least creditable feelings of the poorer classes, and, proclaiming grand patriotic sentiments, they inconsistently demand the free and unlimited coinage of both gold and silver at the existing ratio of 1 to 16, without awaiting the aid of other nations; they demand that the almighty American silver dollar shall be a legal tender, and that the government be given the option of redeeming its obligations in either gold or silver—which is a proclamation of repudiation in its most insidious and disloyal form.

* * *

From the organization of the currency system in 1792, when the ratio was 15 to 1, the country was on a bi-metallic basis until 1873, when the gold standard was adopted. From 1792 to 1832 the coinage of silver had only averaged \$150,000 a year, and from 1832 to 1859 the coinage was nearly 1½ million dollars, all of which however was exported when in the later years silver came to be worth 3 to 5 per cent. more than the dollar. In 1859-60 as much was coined as in the previous 50 years, and this also disappeared in exports.

After the civil war mining operations were resumed and the silver production of the United States increased considerably. In 1876 it was 39 million dollars, in 1886 it had reached

51 millions, and it was 60 millions in 1894. The world's production was 51 millions in 1866; it amounted to 88 millions in 1876, and in 1886 it was up to 121 millions. This was nearly doubled in 1895, when the unprecedented sum of 217 millions was reached, thus more than quadrupling the production of 1866. The world's gold production of 1866 was 121 million dollars, that of 1876 was 104, and that of 1886 was 106 millions, whilst that of last year was 207 millions.

* * *

According to silver adherents the law of 1873 was the cause of all the financial and commercial evils which have since befallen the American nation. This law, which was discussed in Congress and Senate for three years before its adoption, enacted the contraction of greenbacks and the demonetisation of the silver dollar, which was then worth \$1.03, and silver men pronounce it a huge blunder and say that both Congress and the people, at the time, entirely failed to see the inconsistency of the reasoning of those who favored it—which was, that the government could get the gold to make a dollar more than 3 per cent. cheaper than they could get silver to make a silver dollar.

* * *

Then came the law of 1878, requiring a monthly minimum silver coinage of two million dollars with a maximum of four millions. But to the disgust of silverites who wanted the government to settle its obligations in silver, the administration wisely limited coinage to the minimum. Such an example to the world, silverites boldly exclaim, would have been so wholesome and so commanding that the world would have followed it; and, they add, the existing inequality between the value of the two metals, as well as the injurious depression in prices, would have been corrected.

* * *

And we are told how commodities have increased after the gold discoveries of Australia and California, until a crisis produced a reaction. But it is not said, as it should be, that the reaction was the result of over-production, over-trade, over-credit

and speculation—elements which generally follow the entry into the greater marts of every important addition to the supply of specie.

And now it is asserted that the demonetisation of 1873 reduced the price of commodities and produced a scarcity of gold which enriched the wealthy, and therefore that the parity between money and production is lost. It is a curious fact to notice that in 1873 the gold production in the United States was 36 million dollars, and that since that date, that is to say, during the past 23 years, the same average was maintained, though the world's production more than doubled during the same period.

In endeavoring to thus attach the responsibility of lower prices on legislation, silverites allege that the depreciation is local rather than universal; they instance the price of Indian wheat, which they say did not fluctuate of late years. I had no time to look up statistics as to this, but I believe that India produced as much as ever, but exported less for want of a market, and that notwithstanding the fact of freights, by ship and rail, being lower. Home consumption was no greater than usual, and therefore the wheat of India, like that of the Mississippi valley and like that of our own North-west, evidently had its erratic turns, and is not now worth proportionately more than American grain. And it should be remarked that the production of Russia and Argentina has more than doubled the past few years.

* * *

Let us not imagine that the general decline in prices of recent years has no cause of a wider range.

Who can doubt that throughout the world every product of human energy, of nature and art, has fallen in value in response to forcible causes originating in the marvellous development in science and arts—the wonders of which not even the most imaginative of men could have ventured to predict?

And underlying these, money, credit and banking have operated wonderful changes.

Another cause of the decline is to be found in the reaction which set in in civilized countries after the opening of new avenues of production and of commerce, and which was brought

on by the building and equipment of 420,000 miles of railway, and the construction of miles upon miles of canal work—wherein hundreds of thousands of men were employed, the great majority of whom have since sought life in agricultural and other pursuits, thus increasing production and consumption.

* * *

If we take all these things into consideration, it is impossible to conclude that abundance or scarcity of silver could alone cause an increase or a decrease in the general value of commodities.

If we were to measure prices by the present value of silver they should be 100 per cent. higher than 20 years ago, when silver was 100 per cent. more than to-day.

* * *

Unrestricted coinage in countries where silver mines are so abundant as in the United States and Mexico, would be like opening mills to the free manufacturing of flour, regardless of the needs of consumption. In my opinion it were better that an army be held on guard over a silver mine than to drain its treasures in such quantities as to vulgarize the use of silver. Instead of free coinage I should prefer a graduating royalty on all silver products.

* * *

Great stress is laid on the condition of the agricultural class because products are cheaper than 20 years ago, and because a farmer must repay in good money the good money he may have borrowed when silver was worth more than to-day. And with conscious bias, fault with the currency is found when it should be laid at the door of the borrower. If the borrowed money has not produced adequate returns, and graduated upwards as silver declined, the farmer must look homewards for a cause, and I am sure that in 99 cases out of 100 it is attributable to inability, mismanagement, misfortune, or perhaps to the worthlessness of the farm. So it would be inconsistent and unfair to regard such an isolated case as a criterion.

If products are cheaper, so are other goods, and there is compensation.

Money in gold countries is cheap and plentiful. In most of the continental cities the open market rate is close to 2 per cent., while in London it is below 1 per cent. Russia alone quotes $6\frac{1}{2}$ per cent.; but Russia is a convert to gold only of recent date.

Germany changed in 1873 from silver to gold; and Berlin quotes its rates of interest at $2\frac{1}{4}$ per cent.

* * *

An eminent statesman says that "the greatest crime short of absolute political enslavement that could be committed against the workingman in this country would be to confiscate his labor for the benefit of the employer by destroying the value of the money in which his wages are paid. This irreparable wrong can never be perpetrated under our system of government unless the laboring man himself assists in forging his own chains."

The wage earner and the man of fixed income are restricted in their mode of living to the money they receive, but as prices recede their dollar rises in value and purchases more. But the question as regards the wage earner is where to get the dollar?

There is, as a rule, fair employment for the willing and deserving, and if we look over the statistics of wages we find that save in silver countries, the average rate has improved and that working hours are shorter. The relative purchasing power of one day's labor was 1.29 in 1873, twenty years later it was 1.81. If people are paid in silver dollars, worth only 53 cents, are they not literally defrauded of 47 cents to every dollar? Is it likely that commodities could shrink 47 per cent. more to re-establish the requisite equilibrium? Certainly not.

Hence may we not ask with a feeling of alarm:—What is to become of the great majority of the people if salaries, wages, income and benefits are reduced 47 per cent.? What of the poor man's economies and of the millions under deposit in banks and other institutions, should the mine owner become king of the land?

* * *

How Americans can hope to develop their trade at home and their commerce abroad with unsound banking, a depreciated currency and an impolitic fiscal system, it is difficult to surmise.

The bulk of their commerce is with gold countries, and foreign goods must be paid in foreign money. So if two metals, one inferior to the other, became current in the United States, foreigners will choose the best for themselves, paying their own purchases in the coin of lesser value.

* * *

If I were guided in my judgment of the probable result of bi-metallism as proposed in the United States by the sophistic arguments and fallacies propounded by the advocates of free silver, I should certainly imagine that the country would soon become a real Eldorado. But if on the contrary I am guided by economic teachings and their influence, I should say that Americans would seriously assail their commercial and national credit, injure or destroy their commerce, and complications would threaten with novel dangers the stability and existence of their best institutions. And therefore the Republic would be opening its doors to all kinds of disorders, the least of which might not be socialism and lawlessness.

I should also say that the maintenance of a gold standard is maintenance of individual and public credit; that the greatest good of the greatest number cannot be promoted or safely guarded without it, unless silver be restricted to specific minor duties both in domestic and international affairs.

Hence I must conclude that the proposition discussed is one of the most insidious and bold attempts to disgrace a nation, to defraud individuals, to injure trade, to destroy commerce, to paralyze industry and to impoverish the farmer, the working class, the man of income or of salary, all of which constitute the great majority in the United States (for the benefit and advancement of a few silver monopolists)—that has ever been devised or dreamt of by human mind; a scheme which surpasses the conceptions of those who degraded coinage under royalty in olden times.

* * *

If the United States were to adopt a system which would make of both metals a standard measure on a parity of value and of an unlimited issue, the greatest calamities and a series of

irreparable losses would be apprehended. Free coinage of silver as proposed, would be the first milestone on a road leading to a series of unprecedented commercial and financial disasters.

Hence in conclusion I should say that the facts which statistics prove and which financial history records are of a nature to confirm the theory of political economists who believe in a gold standard, and confirm that of nations where practical experience has proved its advantages. So it now remains to be seen whether this theory, which is regarded as one of the truisms of economic science, shall prevail, or whether the cupidity of the silver men shall outweigh the general interests of the American nation.

* * *

Canada's interest in American affairs is not superficial. It lies deep because of our commerce with the Republic, which forms over one-third of our entire foreign commerce. And because of it an expression of opinion on this grave question should not be considered as misplaced. So in concluding this essay I would suggest that this is an opportune occasion for an institution like the Canadian Bankers' Association to place on record its opinion as to the scientific and economic merits of gold or silver as a standard singly, or of both concurrently.

And I submit that I am not wrongly gauging the opinion of the Canadian members of our profession in believing that they concur in the axiomatic principle that national and individual prosperity are maintained where, throughout civilization, are maintained the principles of mono-metallism on a gold basis.

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OVER-INSURANCE AND UNDER-CONSUMPTION

IN the last twenty years there has been an enormous development of insurance. The number of policies in force has increased threefold, and the average amount of insurance carried has increased. The subject is brought before our notice every day; and the virtues and necessity of insuring have been so often preached to our unwilling ears by pertinacious agents, that few have been able to resist the gloomy invitations. In spite of the fact that we have enough ado to carry the burdens we have already assumed, we seem to be increasing them. Many are insured too heavily, and burden the present for the sake of the future. If, personally, we have been strong enough to resist the blandishments of the agents, we know men whose lives are hampered by the heavy premiums they have to pay. They have to deny themselves and their families many of the comforts and luxuries of life they could otherwise procure. They struggle along for ten or twenty years, subject to all the worries of a debtor with a debt he cannot shake off. If they are wise, they scrape and pinch and save, but meet their obligations: if they are foolish, they raise money on notes, and thus add to their already grievous burden. After a few years of pinching and struggling many come to the conclusion that the game is not worth the candle; so, rather than continue the effort, they sacrifice the whole, or a part, of their past efforts. The large number who suffer their policies to lapse altogether is proof enough of the grievousness of the burden.

We are all in sympathy with the canvasser's appeal on behalf of the young and tender wife and the helpless babes, who may, without warning and without resource, be deprived of their mainstay and support. Every right-minded man is open to such an appeal, and is prepared to make some provision to meet the contingency. He knows that the recurring wants of every-day life are so exacting that he must save by force or

craft, or not at all; and the wily insurance agent persuades him that insurance is just a compulsory saving. The policy is written and the saving begins. If there was a margin, it is swallowed up; if he has been foolishly living up to his income, he must retrench: in either case he soon feels the pinch, but consoles himself by reflecting on the wisdom of the action. Yet it is possible that he may be sacrificing the present comfort of his wife and family to provide against a necessity which may never arise. He himself may prolong his days till wife and children alike are beyond the reach of poverty arising from the death of the breadwinner; and the receipt of a lump sum at his decease can never make up for the early privations. When a man seeks in insurance merely an endowment for old age it becomes a question whether it is wise to pinch now to luxuriate in idleness at sixty—whether in short it would not be wiser to snatch the good of life while it offers, and let the future take its own chances.

The economists of the first three quarters of the century, and the preachers of their "dismal" gospel, are at last beginning to have a belated influence on the actions of the crowd. "Industry," said John Stuart Mill, "is limited by capital," and unless capital increases, industry cannot develop. It is therefore the duty, the economic as well as the moral duty, of every man to save; for capital can only be increased by saving. On the other hand, Dr. Smiles and his fellows have been ready with numberless instances of the rewards of abstinence; and after many years men have begun to hearken to them. Saving is no longer a virtue to be preached. It would be paradoxical to say that it has become a vice to be condemned, but some writers have come perilously near the paradox. From the side of morals, the virtue of saving has been flouted by Herbert Spencer. After showing how the truth is perverted into the strange doctrine that "the same gratification becomes more valuable as it becomes more distant," he goes on to show how this perversion governs the actions of those especially "who are distinguished as prudent and well regulated in their conduct."

"Hurrying over his breakfast that he may catch the train, "snatching a sandwich in the middle of the day, and eating a

“ late dinner when he is so worn out that he is incapacitated for evening recreation, the man of business pursues a life in which not only the satisfaction of bodily desires, but also those of higher tastes and feelings are, as far as may be, disregarded that distant ends may be achieved; and yet if you ask what are these distant ends you find (in the cases where there are no parental responsibilities) that they are included under the conception of more comfortable living in time to come. So ingrained is this belief that it is wrong to seek immediate enjoyments, and right to seek remote ones only, that you may hear from a busy man who has been on a pleasure excursion, a kind of apology for his conduct. . . . Nevertheless, if you sound him with respect to his future, you find that his ambition is by-and-bye to retire and devote himself to the relaxations which he is now somewhat ashamed of taking.”*

The economic counterpart to this ethical argument we may find in Mr. Robertson's little book, with the daring title, “The Fallacy of Saving,” in which an endeavor is made to show that saving is not an economic advantage to the individual. Herbert Spencer and Mr. Robertson write mainly from the point of view of the individual; but, when the fallacy, which might have been overlooked while few were subject to it, is prevalent throughout a whole community, its practical effects become of economic and social importance. Saving means curtailment of expenditure; and production is governed by consumption. If a man must save he curtails his expenditure on the comforts and luxuries of life. Few men are so completely under the power of the fallacy that they will stint themselves of what are called the necessaries of life. They will not eat less food; but they will live in meaner houses and wear poorer clothes, and wear them longer, and generally be content with the elements of physical life. In other words, they curtail the more social side of expenditure, and buy only those objects which cost little labor, comparatively. Labor may not be the cause of value, but the value of the great mass of commodities corresponds with the amount of labor embodied in them. Thus, in order to save, they consume

* Spencer: *Data of Ethics*, p. 112.

commodities which are cheap and give less employment to labor. If a large number of men are like-minded the industrial results may be serious. Because consumption is limited to a few articles, industry will not be able to extend beyond the limits of the production of those articles. Into these channels the whole stream of new capital will be diverted, with the result of over-production and industrial depression. One of the younger economists, Mr. Hobson,* endeavors to trace the whole prolonged industrial depression since 1873 to under-consumption. While it is difficult to accept his conclusions in their entirety, it is certain that one of the great practical questions of the day is the striking of a better balance between the present and the future. We need for the sake of industry to spend more rather than to save more; for, if we save, we curtail the area of production within which our savings must be invested. Saving implies increased consumption in the future, but the world already has as much as it wants of the commodities which will be produced if we save. A general increase of expenditure and less saving would remedy many of the evils of industrial depression.

The bearing of this is that in Canada we are saving too much, and hampering both our present and our future by the process. Saving by means of bank deposits is only one, and the least objectionable, method. Bank deposits can always be withdrawn without loss; but saving in the form of insurance means locking up capital for a number of years. Canada should be one of the last to fall victim to this policy. She is still a borrowing nation; and, while we borrow with one hand, we take money out of circulation with the other. What is the use of paying interest to foreigners when we might as well invest our own money, and invest it in the best of all possible ways for the future of the country, by spending it. If it be said that the money which is thus saved is not hoarded, but invested by the insurance companies in a better and safer way than the individual can invest it, the answer is that a large part of the money is not so invested, and that it would be much better for the future of the country if it were spent over the counter. The

*Hobson's *Evolution of Modern Capitalism*, chap. viii.

effect on industry has been analogous to the effects of a sudden conversion of floating into fixed capital.

Of the total amount saved and invested in insurance we have no complete estimate. We have no means of discovering how much is annually paid in the shape of the levies made by benefit clubs; but the amount must be immense. To the regular insurance companies there has been paid in the form of premiums during the eleven years, 1884-1894, nearly eighty-one millions of dollars in the following proportions:

English companies.....	\$10,469,419
American companies.....	29,606,983
Canadian companies.....	40,366,311
Total	<u>\$80,442,713</u>

If Canada had paid this sum out of her abundance it would be a matter of small importance; but this seven millions of dollars per annum is not a realized surplus. There is unfortunately no trustworthy estimate either of the wealth or of the income of Canada; but we have one means of calculating how fast her wealth is growing. The increase in the total amount of property insured against fire is accepted by statisticians as a fairly adequate measure of the rate of the increase of the wealth of the country. Between 1884 and 1894 the total amount at risk in Canada increased from \$605,507,789 in 1884 to \$836,067,202 in 1894, or an increase of about 38 per cent. The wealth of Canada in this period may be taken, therefore, to have increased about 40 per cent. In the same period the amount of life insurance in force in Canada has increased from \$135,453,726 to \$308,161,436, or an increase of about 125 per cent. We are thus not saving a surplus, but eating into the fund from which our ordinary life expenditures are met. Taking a longer period, and a different method of comparison, we find that insurance has enormously increased during the last two decades. The average amount of insurance carried per head and per family of the population in the three census years is as follows:

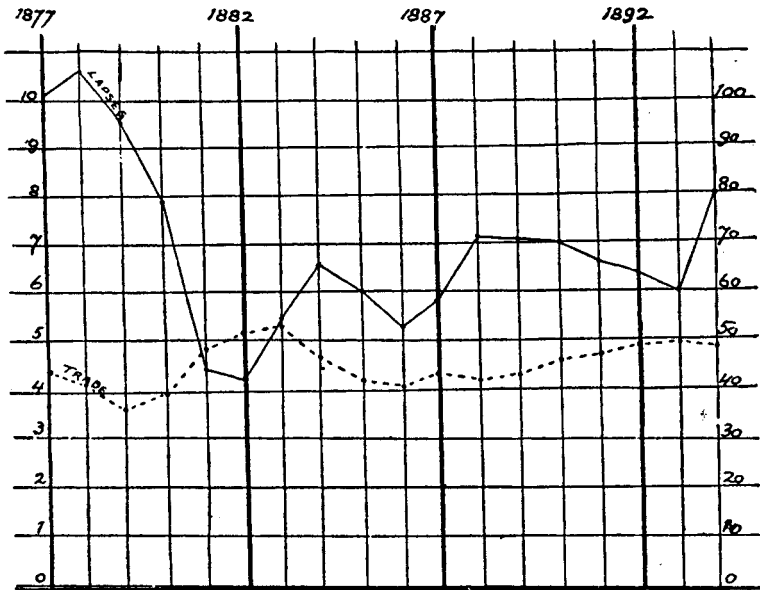
	Amount per head	Amount per family
1871	\$13 12	\$ 73 60
1881	23 88	127 18
1891	54 10	283 70

We are not only investing beyond our means in this way, but we are also testing our endurance to the breaking. The burden so lightly assumed at the instigation of the agent is soon found too heavy, and a large part of the savings is lost totally to the individual, largely also to the community, for it has been expended in keeping up the large class of non-productive agents. Each year a large number of "risks" allow their policies to lapse rather than continue the strain of making the annual payments. How many surrender their policies and receive a surrender value for them is not stated; but, in addition to this number, whatever it is, there are hundreds of cases where, after a year or two, the past savings are actually abandoned. The fact that the lapses are more numerous when times are bad shows that, even in good times, the strain is felt, and that there lacks but the last straw. The following table shows the percentage of lapses to the total number of policies in force in each year, from 1884-1894; the accompanying diagram compares the percentage of lapses with the total amount of trade per head in each year, showing how, as trade falls off, the lapses increase:

Year	% of Lapses	Year	% of Lapses
1884.....	6.6	1890.....	7.0
1885.....	6.0	1891.....	6.0
1886.....	5.4	1892.....	6.4
1887.....	5.9	1893.....	6.1
1888.....	7.2	1894.....	8.0
1889.....	7.1		

In the diagram the register of the percentage of lapses is on the left margin, and the register of the amount of trade (exports and imports) per head, in dollars, is on the right margin. The diagram shows clearly the inverse relation between prosperity thus judged and the percentage of policy-holders abandoning the results of their past sacrifices. In the exceptionally bad year of 1878 the percentage reached the enormous figure of 10.7; and in the subsequent years it varies closely, though inversely, with the amount of trade. When the trade

curve is high, the curve of lapses falls down almost to meet it; when trade is bad, the divergence between the two is very marked.



It is true that insurance is not a permanent investment. It is not like capital locked up in useless machinery and buildings, which can never come back, but is of the nature of a loan, which must be paid back in full, sooner or later. If we pay out large sums, it may be urged, we must be receiving back large amounts. In the beginning we may be locking up more than is released, but, after a few years, the insurance companies must pay out for death claims and matured endowments almost as much as they take in. This is a question of fact; and we are certainly receiving back into circulation large sums every year. Of the eighty million dollars we have invested in the eleven years, 1884-'94, we have received back into circulation more than thirty-six millions, or nearly half. These thirty-six millions have not all been reinvested, but have been spent in buying goods, and have thus encouraged industry. Moreover, nearly one-fourth of the eighty millions has never really been withdrawn at all. The

expenses of the companies in securing "risks," and in collecting premiums, are all met immediately, and not after a period of years. Nineteen millions of dollars have been paid out by insurance companies in Canada in these eleven years, in agents' commissions, in office expenses, in management and advertising; and we cannot say that this amount has been withdrawn to the detriment of industry. Even although the great army of agents does not benefit the country so much as an army of artisans and farmers, yet the money they earn they spend, and society is not much the poorer. Moreover, the money paid in premiums is not hoarded but is again invested by the companies, who with their greater knowledge are able to invest to greater purpose than any individual is. The money is lent out again, and performs its work of circulating commodities and stimulating industry. It is surely better, therefore, it may be said, that twenty-five millions, in this period, should have been used for productive purposes instead of being squandered on useless or worse than useless luxuries.

Setting aside altogether the question whether industry would not have been more stimulated by the expenditure of this money at first hand, we must make enquiries whether the money is so invested. Some part of it is, no doubt, lent back to the policy-holders on the security of their policies, and part of it is invested in means and instruments which facilitate and encourage production; but the larger part of it is not. By law, the insurance companies are compelled to deposit securities with the Receiver-General for the protection of the policy-holders. In 1894, the Receiver-General had in his keeping securities worth more than 22 million dollars; and more than four millions more were held by Canadian trustees. Of this amount twenty millions is held on behalf of life insurance policy holders. When we examine the kinds of securities deposited, we find that not more than 10% of these securities are shares in productive enterprises. The remainder consists of government and municipal bonds and stock, which can hardly be classed as directly productive agencies. Considerably more than two-thirds of the net savings of the community in the form of insurance is therefore locked up. The saving hampers the community where we need to be freest; and we have not even the consolation of knowing that our savings

are developing the industry of the country. It is a serious question when the citizens of a young community are so timorous of its future that they hand over their savings to insurance companies to invest in securities which ought to be left to the more timid foreign investor. The savings of a young country ought, if they are made at all, to be invested in industrial undertakings for which foreign capital is not so easily obtainable.

Nor is this the worst. Canada, lying midway between two great nations, is the meeting place of their competition. English and American companies have their agents in her towns and cities; and, in the eleven years which our investigation covers, have written just fifty per cent. of the policies taken out by Canadians. The savings of Canadians, instead of being kept and invested at home, have been carried out and invested abroad; with how much security ask any of the policyholders in an American company, who, last fall, were threatened with payment in depreciated silver. Naturally a large part of the amount paid in premiums is repaid within the year. English and American companies pay claims when they are required just as Canadian companies do; and they leave a large part of the balance in the country to pay the expenses of management, the commissions of agents and the costs of advertising. Even, however, when every deduction has been made, the anomalous result remains that Canada, a nation which borrows money for the development of her resources, has not trust enough in her own future to invest all her own money at home. The balance sheet of Canadian business with foreign insurance companies is as follows:

1884-1894	
Paid to English companies in the form of premiums	\$10,469,419
Less expenses at 15%	1,570,411
	<hr/> \$ 8,899,008
Paid to U.S.A. companies in the form of premiums	\$29,606,983
Less expenses at 33%	9,868,994
	<hr/> \$19,737,989
Total sent out less expenses	\$28,636,997
Total paid back for death claims, matured endowments, etc., surrendered policies	17,178,526
	<hr/> \$11,458,471
Balance sent out in the period 1884-1884.	<u>\$11,458,471</u>

The percentage of expenses is in both cases the highest average return for the whole business of the companies. The English companies probably spend a little more, and the American companies a great deal less in Canada than the amount set down.

To take more than a million dollars every year and send them abroad while we borrow money to conduct our business and to develop the country is a serious matter ; but to withdraw that amount, and twice as much again, from circulation, to check to that extent the only real stimulus to industry, is much more serious. The effect of this increased saving is to confine our expenditure as a whole to the necessities of life and the cheaper grades of goods, for the production of which less labor comparatively is required. There will be no steady and strong demand for the higher classes of goods, and the attempt to manufacture these within our own borders will, almost surely, not be successful. What we do require of higher grade goods will be imported from abroad, and our manufacturers, sure only of a wide demand for cheaper goods, will be compelled to confine themselves to that class of production.

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TRANSMISSION OF BANK STOCK IN THE PROVINCE OF QUEBEC

IN the province of Quebec, should anyone die intestate, his heirs may take possession of the estate, and administer it, without any process of law whatever or authority from any Court or Judge.

Should bank stock form part of the assets of the estate, the only legal proof the bank can require in order to be satisfied as to the owners of the stock, is the sworn declaration of the heirs claiming it, under Section 39 of the Bank Act. It is true that the bank may require corroborative evidence of any fact alleged in the declaration, but still the onus of deciding in whose name the stock of the deceased is to be placed is thrown on the bank.

There is no process of law known in the province of Quebec that corresponds to the issue of letters of administration of an estate, and no legal procedure provided for it, or officer of the Court charged with such a function.

The Civil Code of the province of Quebec says:—"The lawful heirs when they inherit are seized *by the law alone (i.e.,* by the mere fact that they are heirs, not by an authorization or judgment of a court) of the property rights and actions of the deceased, subject to the obligation of discharging all the liabilities of the succession; but the surviving consort and the Crown require to be judicially put in possession."

The latter only inherit if there are no relatives within twelve degrees, so that very distant relatives could claim the estate before the surviving consort or the Crown.

The only obligation on the part of the heirs is to pay off the debts of the estate. They may dispose of the property before paying off a single debt.

It is the same if there is a will and executors appointed in it. The executors need no authority from a Court to administer the estate, and the provisions of the Civil Code as to their

duties and obligations are very meagre indeed. When bank stock forms part of the assets the obligation is thrown on the bank of seeing that the executors have power to transfer.

There is no obligation on the part of the heirs to give security for the payment of the debts of the estate, nor to make an inventory of the property unless the estate is accepted "under benefit of inventory," that is, when they can accept or refuse the estate after they see what, if anything, it is worth.

Another piece of legislation which seriously affects banks by hampering and delaying the transmission of stock is the obligation, under the Successions Duties Act, of seeing that the tax is paid before allowing the transfer.

It is enacted that "All transmissions, owing to death, of the property in, usufruct or enjoyment of, movable and immovable property in the province, shall be liable to the following taxes, calculated upon the value of the property transmitted, after deducting debts and charges existing at the time of death."

Also that "No transfer of the properties of any estate or succession shall be valid, nor shall any title vest in any person if the taxes payable under this section have not been paid" (55-6 Vic. c. 17, and amendments). It will be seen from the above stringent provision of the law that if the taxes are not paid the transfer, of stock for example, would not be valid. The bank allowing the transfer would run the risk of having, perhaps, to replace the stock at some future time. No matter how many transfers may have taken place, the stock legally remains as part of the estate of a deceased shareholder until the taxes are paid—for the Act says that all such transfers are null and void. The injustice here is in making the bank responsible, as the Act practically does.

A short time ago a friendly test case was instituted in Montreal with the idea of finding out whether a bank was justified in allowing a transfer of stock standing in the name of a deceased shareholder before the succession duties were paid. In this case the executors of the late Sir John Abbott took an action against the Bank of Montreal to compel the transfer of stock before the succession duties had been paid. The bank refused to allow the transfer, alleging that under the act such transfer would be null and void. The judgment, both of the

Superior Court and Court of Appeals, was in favor of the bank, and was to the effect that the bank was justified in refusing to allow the transfer until the tax was paid. In other words, a bank, for its own protection, is obliged to see that the tax is paid before allowing a transfer, for if it does allow the transfer, it would be null and void.

There is a delay of three months or longer within which to transmit to the Collector of Provincial Revenue the necessary affidavits, statements, etc., on which to calculate the amount of tax to be paid, and it is sometimes, when the estate is a large one, nearly a year before the duties are finally discharged. As bank stock is often the most convertible part of the assets of an estate, executors often wish to sell it at once to pay off the debts, etc.

In any case it is unreasonable to compel the banks to see that their shareholders comply with the law, and a clause to this effect should be added to the act: "Nothing in the above shall be held to compel incorporated companies to see that the duties are paid before allowing a transfer of their stock."

F. HAGUE

QUESTIONS ON POINTS OF PRACTICAL INTEREST

THE Editing Committee are prepared to reply through this column to enquiries of Associates or subscribers from time to time on matters of law or banking practice, under the advice of Counsel where the law is not clearly established.

In order to make this service of additional value, the Committee will reply direct by letter where an opinion is desired promptly, in which case stamp should be enclosed.

The questions received since the last issue of the JOURNAL are appended, together with the answers of the Committee :

Accounts in the Names of Minors

QUESTION 52.—(1) What is the Ontario law relating to money deposited by minors ?

(2) Which would you advise—the opening of a savings bank account in the name of a minor, or in the name of a parent or guardian in trust for the minor ?

ANSWER.—(1) There is no general law in Ontario respecting money deposited by minors, but under the terms of sec. 84 of the Bank Act, banks may receive deposits from minors, and repay them to the minors at any time. (See the section referred to, and note the limitation where a minor could not, except for the section, make deposits.)

(2) Notwithstanding the authority given by the Act, we would think it prudent to take a deposit in the name of a parent or guardian in trust for a minor, rather than directly in the name of the minor. This, however, would apply only in cases where the minor is quite young.

Refusal to Pay Money to Depositor under Influence of Liquor

QUESTION 53.—Can a depositor under the influence of liquor legally draw his money out of his savings bank account ?

Has such a depositor any ground for action against the bank for refusing to give the money ?

ANSWER.—This is a very difficult question to answer. If a depositor were so much under the influence of liquor as to be quite incapable of understanding what he was doing, the bank would probably not be discharged by his signature to a receipt for money paid to him in that condition. If, however, he was but slightly under the influence, and quite sensible of what he was doing, the bank could not refuse.

Whether the depositor would have a ground of action against the bank for refusing to give the money would depend entirely on the above points. If the bank was justified in refusing because of his unfitness to transact business, he would have no claim. If, however, they made the mistake of refusing when, notwithstanding his being under the influence of liquor, he was quite capable of transacting business, the bank would probably be liable for damages.

Deposit Receipts—Negotiability

QUESTION 54.—Are deposit receipts transferable by endorsement?

ANSWER.—The usual form of deposit receipt is, we think, a receipt for money and an undertaking to "account" for it, and not an unqualified promise to pay it. A document reading: "Received of _____ £——to account for on demand" has been held not to be a promissory note; and other cases where the agreement was to "account" for money have been decided in the same way. We think therefore that a deposit receipt in the customary terms would not be transferable by endorsement in the same way as a note would be transferable.

Irregular Endorsements

QUESTION 55.—A certified cheque on a bank in California, payable to Stephen Jones and Mrs. Wm. Smith, and endorsed S. Jones and Sarah Smith, is paid by a Canadian bank. It goes forward endorsed by the bank in the regular way, and when presented by the Bank of B. to the drawee bank (the Bank of C.), is refused because endorsement is claimed to be irregular.

The cheque is protested by the Bank of B. The Canadian manager cannot have foreseen that it would be protested, as, according to our custom, if refused it would have been returned for guarantee of endorsement.

The drawer of the cheque (the customer of the Bank of C.) made all the trouble, by putting "Mrs. Wm." instead of "Mrs. Sarah." Who should pay the costs in this case?

Do you not think it would be advisable to request Canadian bankers to use the Christian name of married women when selling drafts, etc. ?

ANSWER.—The practice of Canadian banks, or the natural expectation of the Canadian banker in the particular case referred to, do not seem to us to have any bearing on the question involved, nor does the mistake of the drawer of the cheque, in putting "Mrs. Wm. Smith," instead of "Mrs. Sarah Smith," seem to us to affect the question.

The parties receiving the cheque could have prevented any trouble by returning it and requesting that a cheque in the proper names be issued, or by procuring Mrs. Smith's signature in the form required by the cheque, and we believe customary in such cases, *i.e.*,

"Mrs. William Smith
Sarah Smith."

The question then simply is, was the cheque properly protested by the collecting agent, and if so, who should bear the costs incurred ?

We are of the opinion that the bank was justified in protesting the cheque, and that the costs are chargeable against the parties for whom the Canadian bank cashed it. On the return of the cheque protested for non-payment the bank would be entitled to collect from them the amount of the cheque and all charges.

The practice of making cheques or drafts payable to married women in the form used in the above case is open to serious objection, and should, we think, be discouraged.

Marked Cheques—Manager's Initials not Equivalent to an Acceptance

QUESTION 56.—Is the presence of the manager's initials on a cheque a sufficient guarantee of its being marked good or accepted ?

ANSWER.—If the question has reference to the common practice of the manager putting his initials on the margin of the cheque as authority to the ledger-keeper to mark it, we would not regard that as constituting an acceptance on the part of the bank.

Promissory Note containing Pledge of Security, etc.

QUESTION 57.—Would an instrument drawn in the form following be judged a valid promissory note in Canada, or would the pledge of collateral security included in the note bring it

under decision rendered in *Kirkwood v. Smith et al.* cited in your January number? Also please state, if it is not a negotiable promissory note, whether a note drawn in this form would be perfectly binding as a contract between the bank and the promissors :

after date I promise to pay to the order of _____ at
 the _____ Bank, _____, for value received,
 with interest at the rate of _____ per cent. per annum.
 Having deposited with the _____ Bank, as collateral security for the
 payment of this note and any other indebtedness due, or to become due,
 from _____ to said Bank or its assigns, I
 hereby authorize the sale of said security at public or private sale or other-
 wise, and with or without notice, on the non-performance of this promise
 [and said bank may become the purchaser thereof], and it is hereby agreed
 that if said security, in the opinion of said Bank or of any of its officers,
 shall depreciate in value, said _____ Bank or any of its officers or
 assigns, may elect, without notice, that this obligation is due and payable on
 demand.

[It is further agreed that said Bank shall have the right to hold and apply, at any time, its own indebtedness or liability to the maker hereof, as security for the payment of any liability due, or to become due, from the maker hereof.]

ANSWER.—We think the form of note which you send would be held not a promissory note, under the decision in *Kirkwood v. Smith*. It is, however, a contract which would be binding between the bank and the parties.

The points in it which, in our opinion, bring it within the judgment referred to, are the inclusion of the provision that the bank may become the purchasers of the property, and of the agreement as to set off, etc. Both of these are clearly additions to what sec. 82 of the Act permits.

The provision as to the note becoming payable on demand under certain conditions, is also probably an addition not admissible in a promissory note, although this point may be open to question. There is no objection to including in a note any means for determining its date of maturity which complies with the Act, but we doubt whether the action of the payee, which is to be based on an opinion as to the depreciation in the value of the security, would be within the limits of what the law permits.

We might add that if the contract as to security were made separate from the promissory note—for instance, if the promise to pay were followed by the party's signature, and the contract which you have in your present form printed below the note and signed separately, so that you had two complete documents on the one page—you would probably accomplish all that you desire, and at the same time have a note which would be a negotiable instrument.

Assignments of Book Debts

QUESTION 58.—Would an assignment of book accounts which may be created during the year, be an effectual security, or is it necessary that the accounts should first be actually in existence and specifically assigned?

ANSWER.—If the assignment is properly drawn so as to cover future accounts, it will pass them as they arise. It would perhaps be well that the assignment should state the names of the prospective debtors.

Notice of Dishonor

QUESTION 59.—Is it necessary, if a draft be drawn by A on B to the order of bank C, that notice of dishonor be given to the drawer to render him liable?

ANSWER.—Such a notice is necessary; see sec. 48 Bills of Exchange Act. Please note that protest is not necessary, except in the Province of Quebec, or for foreign bills. What the Act requires is notice of dishonor, which might be given either by a notary or by the holder or anyone on his behalf.

Cheque on an American Bank "payable in New York Exchange"

QUESTION 60.—The A Co. and the B Co., the first having head-quarters in Canada, the latter in the United States, are really one and the same corporation, with the same shareholders, officers and directors, acting on each side of the boundary line under different charters. The A Co. keep an account with us.

On 30 Jan., '97, the A Co. deposited with us a cheque for \$2,500 drawn on an American bank in G — by the B Co., which cheque was made "payable in New York exchange." We mailed this on same day to our agents in G —, but as there was no mail out until Monday, 1st February, it did not reach them until 3rd. The cheque was presented and a New York draft of the American bank given in payment. The draft was immediately forwarded to New York, but before payment could be obtained the American bank suspended. The draft was then returned to our agents, forwarded by them to us, and charged by us to the A Co.'s account. The company's manager objected to this course, claiming that the American bank had paid the cheque, and that therefore the Co. were no longer liable to us. What are our rights?

ANSWER.—We find it difficult to answer this question definitely, since the item to which the enquiry relates, which is drawn in, and payable in the United States, is by its terms

made payable in New York exchange. We do not know what the precise effect of this condition is, but we should take it to mean that the document is not, properly speaking, a cheque at all, as it is not an order for the payment of money, but an order for the delivery to the party named of a draft on New York. Under our law the item would therefore probably not come within the Bills of Exchange Act. If it were payable "with exchange on New York," that would imply payment in money with a certain allowance for the difference in the exchange between the point where it is payable and New York, and such a cheque is specially brought within the Bills of Exchange Act by sec. 9 (*d.*)

Assuming that what we have said as to the nature of the document is correct, we should suppose that you have no remedy against anybody except the failed bank.

It seems to us quite clear that recovery cannot be had from the customer. You gave him value for an order on an American bank, which order the latter bank literally complied with; that is, they delivered to your agent a draft on New York, which the latter accepted, apparently without any reservation, in satisfaction of the order or cheque.

The only party against whom you could have any claim whatever would seem to be your agents at G —, and from the information furnished in the question we think that you would have no claim on them, for the course of your business with them, as suggested in the enquiry, indicates that they were authorized —by implication if not expressly—to take payment of such items in drafts of the drawee bank on their New York bankers. If so, they performed their duty as agents fully, and are under no responsibility. If, however, in accepting the draft of the American bank, which was dishonored, they did something that you did not authorize them to do, they might be responsible. The terms in which the cheque is made payable would, however, seem to us to be against this.

The question is not affected in any way by the fact that the drawers of the cheque and the customers from whom you received it, are corporations owned by identically the same shareholders. This does not make them any the less distinct corporate bodies in the eyes of the law.

Your rights against the failed bank and the drawer of the cheque would be governed by the laws of the State in which the failed bank was domiciled and they might give you a better claim than would exist here. On that point we cannot advise.

Acceptances Payable at a Bank

QUESTION 61.—Can a bank legally charge at maturity to the account of a depositor having funds, an acceptance, drawn on him and accepted and made payable at the bank, without a cheque or special authorization to do so ?

Could the depositor hold the bank responsible for any costs or damages arising from the bank omitting or refusing to charge the acceptance to his account without a cheque or authorization, and is the draft accepted, as aforesaid, his order on the bank the same as his cheque ?

ANSWER.—(1) In Ontario and other provinces which are under the same law, a bank may charge such an acceptance to the customer's account. In Quebec it has been usually held that, without special authority, a bank is not entitled to charge such an acceptance to the customer ; but if it is a holder of the same at maturity, as its own property, the right of compensation or set off entitles it to charge it against the customer's funds. We are not aware that the right of a bank to charge at maturity a note of which it is not the holder, has ever been settled in any case that has come up in the province of Quebec, but we should think it possible that it would form a sufficient answer to any customer contesting the charging of a note to his account, that the bank had on the day of its maturity paid value for it, and thereby become a holder with right of set off or compensation. In practice, however, it would not be wise to take this risk.

(2) Whether or not a bank could be held responsible for damages for refusing to pay a customer's acceptance would depend on the contract between the bank and the customer, which might either be express, or implied from a practice with regard to the customer's account of paying such acceptances. If such a contract existed, the bank would be liable, but not otherwise.

Cheque Torn Across and Pasted Together

QUESTION 62.—Would a bank be justified in refusing payment of a cheque which had been torn across and pasted together ?

ANSWER.—Yes. Unless perfectly satisfied as to its *bona fides* because of the channel through which it comes, it should only pay the cheque after confirmation by the drawer. The openings for fraud which any other policy would afford are too obvious to need discussion.

Keys and Combinations Lodged with Another Bank

QUESTION 63.—The manager and accountant of a bank hand to another bank in the same city a sealed package represented to contain duplicate keys and combinations of all the locks in the office, with the request that they be held in safe-keeping, and delivered only on the joint order of officials acting as manager and accountant respectively, who may be in charge at any time. In case of the absence or incapacity of manager or accountant or both, would the custodian be justified in delivering the package to other officials who might for the purpose claim to be acting? If so, would not either of the applicants be greatly assisted in obtaining fraudulent possession of keys or combinations?

ANSWER—We think that the bank holding the package would only be justified in delivering the same strictly within the terms of the conditions on which it was lodged—that is “on the joint order of the officers acting as manager and accountant who may be in charge at any time.” As to who should be considered to be acting in these capacities is a question of fact depending altogether on the circumstances of the particular case, and it would be impossible to express an opinion without knowing all the circumstances. If the officials claiming a package are, as a matter of fact, acting as manager and accountant, and in charge at the time, they are entitled to the parcel; if not, they are not entitled to it.

Changes of Bank Officials

QUESTION 64.—Is it customary with Canadian banks, in case of a change of manager or accountant of an office, for the retiring manager or other constituted authority to inform the other banks in the same city?

ANSWER.—Notice of a change of the manager or accountant of a branch is not usually given by Canadian banks, except to their own branches, agents and correspondents.

Acceptance of Bills Drawn “on Demand”

QUESTION 65.—(1) Is a bank justified in marking an acceptance drawn “on demand” and accepted payable at the bank and dated a certain day—if same is presented two or three days after the date of its acceptance?

(2) Is a demand draft of the nature of a cheque after it is accepted, or does it become past due if not presented where it is payable, on the day the acceptance is dated?

ANSWER.—(1) We think a bank is justified in paying on behalf of a customer a demand bill which he has accepted payable at the bank, if presented two or three days after the date of his acceptance.

(2) We do not think a demand draft is of the nature of a cheque after its acceptance. Sec. 45 of the Bills of Exchange Act indicates that if not presented within "a reasonable time" it must be regarded as an overdue bill. We do not think that this would necessarily involve that the bank should refuse to pay it if presented after a reasonable time had elapsed, but it would be more prudent to ask instructions from its customer before doing so.

The same question might arise in the case of an overdue acceptance not payable on demand. The fact that it is overdue does not lessen the liability of the acceptor to pay, and we should suppose that the bank to which it was presented would be entitled to pay and charge the item to his account, but it would be the more prudent course to refer such bills to the acceptor first, as he might have some defence or offset available against an overdue bill.

LEGAL DECISIONS AFFECTING BANKERS

NOTES

THE decision of the Supreme Court of Canada in *Niagara Fruit Growers' Stock Co. v. Walker* is not only of importance in connection with questions of suretyship such as that which was the cause of this litigation, but contains some references by the judges to the general rights of sureties and creditors, which make it of interest to bankers.

While it has been held that the creditor may nullify his security if he should mislead the proposed surety in order to induce him to enter into the contract, the Court in this case quotes with approval the remarks of the Lord Chancellor of England declaring that the creditor is not under obligation to inform the surety of any matters in connection with the credit of the debtor, or with the particular transaction, which would render the surety's position a hazardous one; also the remarks of Lord Campbell in a previous case respecting the burden which would be laid upon bankers under any other rule.

In view of the recent decisions as to the borrowing powers given by law to corporations, we have thought it well to publish a brief report of the case *La Banque du Peuple v. Town of Iberville*. It has but an indirect bearing on those cases in which banks are most interested—that is, obligations incurred by officers of companies who under the Joint Stock Companies' Acts of the Dominion or the provinces, can only borrow money with the assent of their shareholders, given in a particular manner, but the decision nevertheless has an important bearing on transactions which are of frequent occurrence.

At page 211 of vol. III of the JOURNAL we reported the judgment of the Queen's Bench Division in *Molsons Bank v. Cooper*. This judgment was subsequently reversed by the Court of Appeal, but has now been restored by the Supreme Court, and the legal principle affirmed, that while a creditor holding security cannot be forced to realize a portion of it and apply the same on his debt, yet when part of it is turned into money in his hands he is bound to appropriate this money, first to the payment of interest, if any, and then towards the liquidation of so much of the principal debt as may be due. The Court, however, distinguishes the rights of a creditor holding secondary or subordinate security, which is to be resorted to after the primary securities are exhausted.

In the present instance the security being in the form of collateral notes falling due from time to time, the creditors could not do otherwise than accept payment of them, and indeed were declared by the Court bound to use due diligence in enforcing their payment.

The principle involved in *Sims v. Trollope* [Court of Appeal, England] may be of very great importance. We could not pretend to say how far the decision would affect securities taken on this side, but it suggests the necessity for extreme care in complying with every requirement in the matter of the forms called for in securities taken under statutory authority. Banks all over Canada take security under sec. 74 of the Bank Act, and in most of the provinces chattel mortgages on personal property as well, in connection with all of which the statutes call for compliance with certain forms. The Interpretation Acts of the Dominion and of Ontario relax in some degree the rigour of the law, and in the special statutes there is usually some leeway provided by the use of such words as "or to the like effect," but this would not authorize a variation in substance; an addition or omission which would alter the substance of the form would be equally fatal.

We find that the question of the rights of a holder of a bill to the benefit of security given by the principal debtor to an accommodation endorser or surety, which was adjudicated in the English case of *Sheffield Banking Co. v. Clayton*, and upon which an interesting discussion took place at the last annual meeting of the Canadian Bankers' Association, was touched on in *Smith v. Fralick*, which came before the Canadian courts in 1856, in such a manner as to foreshadow a judgment in agreement with that delivered in the *Sheffield Banking Co.'s* case, should the precise point ever have come up for decision here.

Although in *Smith v. Fralick* the court was not called on and did not definitely pronounce upon the abstract question of a creditor's right to the benefit of security in the hands of a surety for the debt due to that particular creditor, the form in which that judgment is framed and the citations it covers, indicate much more clearly than do the deliverances of the court in *Sheffield Banking Co. v. Clayton*, the reasons for the law established in the latter case, and which appeared to many bankers inequitable.

The original bill in the cause stated that Fralick had become liable on several bills and notes which he had endorsed for the accommodation of the defendants, the Lingham, and being requested to continue his endorsements it was agreed between them that certain property should be conveyed by the Lingham to Fralick upon trust for securing any sum not exceeding £10,000, in which the Lingham should be at any time indebted to Fralick by reason of his endorsements, or by any other means whatever. The plaintiff, Smith, became the holder of two bills made by the Lingham and endorsed by Fralick. The Lingham made default in payment, and the plaintiff sought to have the trusts of the conveyance by the Lingham to Fralick carried into execution for his benefit, and to have a sufficient sum raised by sale of the trust estate to reimburse him, or to have it declared that he was entitled to a lien upon the trust estate.

The bill was subsequently amended by making one Browne a party. Browne had recovered judgment against Fralick and the Lingham in respect of a note of the latter on which he had been an accommodation endorser with Fralick, and in satisfac-

tion of this judgment Fralick had conveyed a portion of the trust property to Browne. It was sought to have this conveyance set aside as fraudulent, and to have Browne ordered to reconvey.

It will be noted that in this case decision was asked merely upon the somewhat extravagant claim of the plaintiff to have the debt to him paid out of the trust estate, without any regard to Fralick's rights thereto, and to have the estate applied in payment of a single bill holder to the exclusion of all the rest. In discussing the cases which had been cited in support of the plaintiff's cause, however, the court clearly questioned whether there was any authority to support the proposition that the creditor is entitled to the benefit of security given by the principal debtor to the surety, as will be seen by the following extracts from the judgments :

THE CHANCELLOR.— . . . On the argument, the case was rested principally upon the dictum of Sir Wm. Grant, in *Wright v. Morley*, "that as the creditor is entitled to the benefit of all the securities the principal debtor has given to his surety, the surety has just as good an equity to the benefit of all the securities the principal gives to the creditor."

. . . Before adverting to the authorities which stand opposed to the doctrine attempted to be deduced from *Wright v. Morley*, I may observe that nothing that fell from Sir Wm. Grant in that case can be considered as an authority in favor of the plaintiff here ; for when the precise question arose shortly afterwards in *Hassall v. Smithers*, there was an obvious hesitation to apply the doctrine to a case circumstanced like the present. The argument against the equity of the bill-holder in that case was, that if the fund could be considered subject to a trust in the hands of the intestate (the surety), great inconvenience and difficulty would arise. It was asked, suppose the bills on account of which the fund was remitted to be dispersed in fifty hands, and due at different times, for whom would the trust be, which could only arise upon relieving the surety from his acceptances to the extent of the fund.

. . . It has been doubted whether Lord Eldon's decision in *Ex parte Waring* does not go too far in favor of the bill-holder ; but so far as it determined that the bill-holder had not any direct equity against the surety, but only an indirect equity growing out of the bankruptcy or insolvency of the principal and surety, the case has never been questioned, so far as I have been able to discover. . . . When the case of *Powles v. Hargreaves* came before the Court of Appeal, Lord Cranworth, in

delivering judgment, said: "The question (in *Ex parte Waring*) seems to have been argued very fully and at great length, and Lord Eldon held that there was such a right; not he said, 'in the nature of a direct demand,' by virtue of any distinct and independent equity existing in the bill-holders to claim a lien on that which had been deposited by the principal debtor with the surety; if that were so, they would have had a right at all times upon the bills so deposited, and to have said nobody shall deal with these bills except as we choose to permit, a *proposition utterly untenable.*"

But it is unnecessary to decide the abstract question.

SPRAGGE, V. C. :—I agree that it is quite impossible that the plaintiff can succeed upon the present frame of his suit. Whether he has any equity against the defendants at all is, I think, very questionable.

Where a creditor, a bill-holder or other creditor, has been allowed to avail himself of securities held by a surety, it has only been where the estate, both of the surety and the debtor, were to be administered in bankruptcy, or in the Court of Equity, and where, in adjusting the equities between those estates, it becomes necessary that the creditor should have the benefit of securities held by the surety.

My impression is that there is no branch of equity that would give a creditor a right to the securities held by a surety for his protection against the liability incurred by him for the debtor. It is not well perhaps to say more, as the plaintiff may be advised to amend his bill, and bring the point formally before the court for its decision.

COURT OF APPEAL, ENGLAND

Sims v. Trollope & Sons*

Where in the attestation clause of a bill of sale the name and address of the attesting witness are given, but no description, the bill is void under the Bills of Sale Act, as not made in accordance with the form in the schedule of the Act, even though the attesting witness may have had no occupation or calling when he attested the execution of the bill.

Appeal by the plaintiff from the judgment of Grantham, J., at the trial of an interpleader issue without a jury. The plaintiff was the holder of a bill of sale and the defendants were execution creditors of the grantor of the bill. In the attestation

**Law Journal Reports.*

clause of the bill the name and address of the attesting witness were correctly filled in, but his description was omitted. The question raised by the issue was whether by reason of this omission, the bill of sale being one made or given by way of security for the payment of money by the grantor, was or was not void under sec. 9 of the Bills of Sale Act, 1878, amendment 1882,† as not being made in accordance with the form in the schedule of the Act. There was evidence that the attesting witness had no provision or occupation at the time when he attested the execution of the bill, and that he was maintained by his father.

LORD ESHER, M. R.:—I am very loth to come to the conclusion to which I am bound to come, that a perfectly *bona fide* transaction like this must be held to be void, but the objection raised in this case must prevail. In the first place the form is given in the schedule to the Bills of Sale Act, and then in sec. 9 it is enacted that “a bill of sale made or given by way of security for the payment of money by the grantor thereof, shall be void unless made in accordance with the form in the schedule to this Act annexed.” I will not venture to say what I might have held in this case were it not for the decision of the Court of Appeal in *Parsons v. Brand* and *Coulson v. Dickson*, which shows how strictly the words “made in accordance with the form in the schedule” are to be construed, for I am bound by the decision of this Court in that case. The bill of sale here must therefore be examined subject to the interpretation put upon sec. 9 by that case. The form provides that besides the name and address of the attesting witness, the description must be given. In the earlier Act of 1854 the words were “description of occupation,” but “description” alone has been substituted for them in the Act of 1882, and the canon of construction is that in such a case, unless anything points clearly to the contrary, the omission of the words “of occupation” was intentional. It follows that it would be impossible now to hold that “description” is synonymous with “description of occupation.” “Des-

†This section reads:—“A bill of sale made or given by way of security for the payment of money by the grantor thereof shall be void unless made in accordance with the form in the schedule to this Act annexed.” At the end of the attestation clause to the “form of bill of sale” in the schedule are the words: “[Add witness' name, address and description.]”

cription" has a wider meaning; it does not mean occupation and nothing else. It includes occupation, because if a man has an occupation and is described as having that occupation, it is usually a sufficient description of him. But if, as in this case, the description is omitted because the witness has no occupation, I do not see how the decision of Bacon, V.C., in *Young, Ex-parte, Symonds in re*, can be relied on. In that case it was "description of occupation" required by the earlier Act, which was omitted. The later Act says "description" simply. If that word meant occupation and nothing else, and the witness had no occupation, I should agree with Bacon, V.C., that the Act does not require the description to be given of something which does not exist. But, as I say, "description" cannot have that meaning; it includes something else—I do not think we are called on to say exactly what—but it may well include what is known as a man's "addition" in the legal sense. Can it then be said that the witness in this case had no addition? Everyone has an addition. He had, and he omitted to give it. But besides this there are the cases of *Parsons v. Brand* and *Coulson v. Dickson*, which decide that the omission of the witness' description makes the bill void. We are therefore bound by the decision of this Court upon the point, and this appeal must be dismissed.

Lopes and Rigby, L.JJ., concurred.

SUPREME COURT OF CANADA

Cooper & Smith and John C. Smith (Defendants) Appellants,
and the Molsons Bank (Plaintiffs) Respondents*

If a merchant obtains from a bank a line of credit on terms of depositing his customers' notes as collateral security, the bank is not obliged, so long as the paper so deposited remains uncollected, to give any credit in respect of it, but when any portion of the collaterals is paid it operates at once as payment of the merchant's debt and must be credited to him.

Under the Judicature Act, estoppel by *res judicata* cannot be relied on as a defence to an action unless specially pleaded.

The facts of the case are fully stated in the following judgment delivered by Sir Hy. Strong, C.J.:

The appellants, Cooper & Smith, in June, 1891, carried on business in partnership at Toronto. The respondents are

**Supreme Court Reports.*

a bank having a branch or agency office at the same place. The appellants having applied to the respondents for a line of credit, the respondents' manager, Mr. Pison, on the 13th June, 1891, wrote and addressed to the appellants a letter in the terms following :

I am pleased to inform you that our board have granted you a line of credit to \$150,000 to be secured by collections deposited, rate 6 per cent., one quarter commission on all checks and collections outside of this city, as agreed upon with your Mr. Mason.

Yours truly,
C. A. PISON,
Manager

The meaning of the above is not that the advance shall be fully covered by collections, but as near as you can.

In the interval between the date of this letter and the 24th of August, 1893, when the appellants stopped payment, the respondents made large cash advances to the appellants. These advances were made in the way of discount by the respondents of the appellants' promissory notes. The appellants, in conformity with the terms of the letter of the respondents' manager of the 13th of June, 1891, handed to the respondents from time to time large numbers of their customers' notes, as collateral security for the advances so made. A list of these collateral notes was kept in a book to which the appellants' book-keeper affixed the following memorandum : " The notes enumerated in this book are deposited with the Molsons Bank as collateral security for advances made by the bank in discounts and overdrafts."

The collateral notes so deposited, as they matured, were from time to time withdrawn by the appellants for collection, other similar notes, all being paper received by the appellants from their customers, being substituted for those so withdrawn.

In August, 1893, the appellants stopped payment. At the time of their failure the respondents held ten promissory notes of the appellants', maturing at various dates between the 4th of September and the 14th December, 1893, for the aggregate amount of \$145,000. All of these notes had been discounted by the respondents, and the appellants had received the proceeds. The appellants were also indebted to the respondents in the sum of \$1,907, being the balance of their overdrawn account.

The respondents, at the date of the appellants' failure, held as collateral securities, under the agreement of June, 1891, customers' notes which the appellants had deposited with them to the amount of about \$105,000. Of course no withdrawal of these collateral notes was permitted by the respondents after the suspension. From that date these notes were collected by the respondents directly, and the question involved in this

appeal is, what application the respondents were bound to make of the moneys so received. As the principal notes fell due the bank sued the appellants upon them and recovered judgments, and before the end of September, 1893, they had recovered five several judgments upon five of the appellants' notes, for sums aggregating \$83,000. In the first of these actions, in which judgment was recovered on the 14th of September, 1893, the respondents sued upon a note for \$30,000, due on the 4th of that month, and in that action gave the appellants credit for \$6,921.32, the amount which had up to that time been collected on the collateral notes. In the subsequent actions, however, the bank did not credit the moneys which they had in the meantime collected on the collaterals, and they issued executions for the full amount of all their judgments. The proceeds of the collaterals the bank retained as a reserve fund, carrying it to the credit of the appellants in what they called a "suspense account."

Under the respondents' executions, and the executions of other creditors of the appellants, the sheriff seized a large quantity of goods and chattels the property of the appellants, and having sold the same held the proceeds for distribution under the Creditors' Relief Act, the amount realized not being sufficient to pay off all the execution creditors in full.

On the 4th of October, 1893, the appellants made, not a general but a specific assignment for the benefit of their creditors of certain book debts and other credits and property not comprising such as had been seized by the sheriff.

On the 27th November, 1893, the respondents commenced an action against the appellants upon another promissory note (the sixth) which had fallen due on the 22nd of September, 1893, for \$5,000, and also for \$1,907, the amount of the over-drawn account.

In the beginning of November, 1893, the appellants raised the contention that they were entitled to have credit, upon the executions in the sheriff's hands, for money up to that time collected by the bank on the collateral notes, amounting, as it was alleged, to about \$17,000, and an application was made, to compel the respondents to give such credit, to the master in chambers, who refused the application, which refusal having been upheld on appeal to Mr. Justice MacMahon, in chambers, the appellants further appealed to the Divisional Court of Queen's Bench. Upon this last mentioned appeal the Divisional Court, on the 29th December, 1893, made an order discharging the order of the master and that of Mr. Justice MacMahon confirming it, and directing an issue to be tried upon the question:

Whether before or since the recovery of the judgments above mentioned,

the said bank have received any payments which ought to be applied in satisfaction, in whole or in part, of such judgments or any of them, and if so when such payments (if any) ought to be so applied, and to what extent.

This issue, together with one which had been previously directed by an order of Judge McDougall, the County Court Judge, to the same effect, was tried before Mr. Justice Rose, on the 13th April, 1894, who, having reserved the case for consideration, subsequently, and on the 20th April, found that the respondents had not received any payment which they were bound to apply as contended, and subsequently an order was made, dated the 23rd of May, 1894, declaring that the respondents, up to the 20th April, 1894, had not received any payments which, either at the time of the receipt thereof ought to have been, or at the date of the said order ought to be, applied in satisfaction in whole or in part of the judgments or any of them.

The present action was commenced on the 2nd of June, 1894. It was brought to recover the last four of the ten notes aggregating \$50,000, which all fell due in December, 1893, and the defence set up was payment or satisfaction in whole or in part by the moneys received by the respondents on the collateral notes. The appellants also, by way of counter claim, prayed for an account of what the bank had collected on the collateral notes and for a declaration that the appellants were entitled to credit on the notes discounted for all sums received by the respondents on the collateral notes, and were entitled to thereafter receive credit on the appellants' notes sued upon, for all moneys the respondents might thereafter collect on the collateral notes or any of them.

The respondents joined issue on the statement of defence and did not reply specially either to the defence or counter claim. At the trial of the action on the 18th of April, 1895, it was admitted that the bank had up to that date received upon the collaterals over and above the sum of \$6,921.32, which was credited in the action on the first note, the sum of \$82,135, none of which had as yet been applied in any way to reduce the debt due by the appellants. Mr. Justice Rose, who tried the action (without a jury), gave judgment for the respondents for the full amount of the notes sued upon, holding that the respondents were not obliged to credit the money in their hands against the notes in question, but were entitled to retain the fund so realized as a reserved fund, carrying the amount to the credit of a "suspense account," thus following his previous decision on the trial of the issue, which the learned judge considered *res judicata* of the question involved. The appellants appealed from that judgment to the Divisional Court, which court set aside the judgment and dismissed the action, for the reasons stated in a judgment delivered by Mr. Justice Street, in

which it was held that the respondents were bound to apply the money in reduction of the appellants' debt to the respondents, and that no such application having been previously made it ought to be applied *pro tanto* in payment of the notes sued upon.

I have taken the foregoing statement of the facts, which are in no way disputed, from the judgments of Mr. Justice Maclellan and Mr. Justice Street.

The respondents then appealed to the Court of Appeal, and that court allowed the appeal and restored the judgment of Rose, J. The present appeal is from this order.

From this judgment of the Court of Appeal Mr. Justice Maclellan dissented.

The learned Chief Justice and Mr. Justice Burton held that the bank were not bound to apply the money received from the collateral notes, but were entitled to hold that money as a reserve fund carried to the credit of a suspense account.

Mr. Justice Osler proceeded entirely upon the ground of estoppel, holding that the judgment on the trial of the issues operated as *res judicata* of the question involved in the present action.

Mr. Justice Maclellan was of opinion that the respondents had a right to hold the money which they had received from the collateral notes in suspense until all the notes became due, but that as soon as the notes which were sued on in this action (which were the last in point of date to become due) had matured, the bank ought to have applied the funds in their hands to the reduction of the aggregate debt.

The object of the bank in not applying the money received by them was in order that they might prove for their whole debt unreduced by any payments, and so obtain a larger dividend of the money levied under the execution, and remaining in the sheriff's hands to be applied on the executions *pro rata* under the Creditors' Relief Act.

Although the bank credited the amount they had collected from the collaterals to an account in its books, called a suspense account, it does not appear that they set apart the fund or separated it in any way from their other moneys with which they carried on their business as bankers. The presumption therefore is that they have been and are making profit of this money belonging to the appellants, for which they render no account to the appellants and give them no credit by way of interest or otherwise, whilst at the same time they are seeking to charge the appellants with interest on the judgments which they have recovered.

As regards the point of estoppel, I am of opinion that it constitutes no answer to the counter claim of the appellants.

. . . I entirely agree with the proposition that a creditor holding a collateral security (by which term I understand a security co-ordinate with the obligation for the principal debt, and co-ordinate with any other security held for that debt, and not as implying a secondary or subordinate security only to be resorted to after prior securities have been exhausted) cannot be compelled by his debtor to release his security by turning it into money to be applied in reduction of the debt, but is at liberty to sue for and recover the full amount of his debt whilst continuing to hold his security unrealized. This was always the law in the case of mortgagees, and was acted on in the administration of assets until altered by statute.

The creditor had the right to reserve any security which had not been liquidated or realized, in order that he might exercise his own judgment as to the most advantageous time and manner of realizing it.

The remedy of the debtor, if he objected to such reservation, was to pay the debt in full and thus redeem the security. The principle upon which courts of equity acted was that the mortgagee or secured creditor was entitled to make the most of his securities.

. . . In *Kellock's Case* the question arose in a winding-up proceeding, and it was there held by the Lords Justices that the creditor was not bound to follow the bankruptcy rule, but was entitled to the benefit of that which prevailed in the Court of Chancery in administration suits. This rule, which entitles a secured creditor to choose his own time for turning his security into money, has, however, no application to the case of a creditor who has actually realized his security. In such case the money coming into the creditor's hands must be treated as payment in full, or *pro tanto*, as the case may be, for the reason that the rule that the creditor is not bound to realize his security, but may retain the same in order that he may sell to the best advantage, then ceases to exist.

Another rule, which at first sight would seem to furnish an argument for the respondents here, was that the creditor is not bound to accept a partial payment; it is his right to say to the debtor, I will not be paid in dribbles; pay me in full and redeem my security, or leave me to do the best I can with it.

To apply these principles to the present case, I quite agree that so long and so far as the collateral notes remained unpaid in the respondents' hands there was no obligation to give any credit in respect of them, and the bank was entitled to sue for and recover judgments for the full amount of the direct notes constituting the principal debt due to them by the appellants. So soon, however, as money came into their hands by the payment of the collaterals, which they were bound to use due

diligence in enforcing payment of, they were in the position of a creditor who had agreed to receive and who had received a partial payment, and were bound to appropriate those moneys in the payment, in the first place of interest and then to the reduction *pro tanto* of so much of the principal debt as had fallen due.

In the first instance the bank did this by giving credit in the first action which it brought for the sum then in hand received from collaterals. The device of carrying moneys so received to the credit of a suspense account seems to have been an after-thought resorted to for the purpose of obtaining a larger dividend out of the fund in the hands of the sheriff.

That the receipt by a creditor of the proceeds of a collateral security is to be treated as a payment is shown by the case of *Peacock v. Pursell*.

. . . This case shows clearly that if a creditor accepts from his debtor a negotiable security, the amount of which is afterwards paid to the creditor by a party to the bill, that operates at once as a payment of the principal debt.

It may be said, however, that whilst that may be so where the amount realized from the collateral security is sufficient to satisfy the whole debt, yet where it is not equivalent in amount to the principal debt the creditor is not bound to treat it as a partial payment since he is not obliged to accept payment in driblets. Had I not been successful in finding an authority directly in point, I should however, nevertheless, have considered that a creditor who takes a collateral for less than the amount of his debt impliedly agrees that the money realized from such security shall be treated as a partial payment.

. . . The case of *Thompson v. Hudson* is a case directly in point in the appellants' favour.

The defendant in that case, in order to secure two several debts to the North-Eastern Railway Company, had made two separate mortgages to trustees for the railway company. By the rule prevailing in courts of equity which has obtained the denomination of the consolidation of securities, the mortgagees, having their two mortgages in hand, were entitled to treat the two debts as consolidated into one single liability, and for that consolidated debt to hold both the mortgaged estates as security for the aggregate debt, as was contended by the defendants' counsel and conceded by counsel for the plaintiff in the case of *Thompson v. Hudson*.

The mortgagees there having sold, under their power of sale, one estate for a price less than the whole amount of the debt, sought to do precisely what the respondents seek to do here, viz.: to hold the money so produced by the sale of part of the security as a reserve or suspense fund, and to go on charg-

ing interest on the whole debt, treating the money accruing from the sale as money which they were not bound to deduct from their debt.

The chief clerk took the account on this footing, but on appeal to the Master of the Rolls the contrary was determined, and that for reasons entirely applicable to the present case. Sir Roundell Palmer and Sir R. Baggally, arguing for the mortgagees, insisted that "the principle is that a mortgagee is not bound to receive payment of his debt by driblets." The observations of the Master of the Rolls have a direct bearing upon the contention of the bank in the case before us, viz., that it is entitled to hold the money it has derived from the collaterals as a reserve fund put in a suspense account, whilst the money itself, as we are entitled to presume, is mixed with the general funds of the bank and used in carrying on its banking business, a presumption which the device of book-keeping resorted to does not remove.

Lord Romilly, M. R., says :

The railway company had then in hand upwards of £20,000, after all interest and costs had been paid, which was the property of Hudson. What were they to do with it? They might pay it over to him; they were not bound to do so; but I think it impossible that they can contend that they are entitled to keep this money, to make interest upon it for ten years, and still to charge interest on the whole amount due to them on the larger sum It is a case of this description: A mortgagee in possession with a power of sale sells a large portion of the estate, say over half, and receives purchase money sufficient to pay all interest and costs and half the principal due. Can the mortgagee say, I will charge interest in future on the whole debt and only allow the mortgagor the rents received for the unsold moiety and nothing in respect of interest on the money received and employed by the mortgagee? I think not. I am of opinion therefore that the third exception must be allowed and that the proper mode of adjusting the account in such a case is to wipe off so much of the principal as the surplus of the purchase money, after payment of interest and costs, will discharge, and then go on with the account as against a mortgagee in possession with an altered and diminished debt. See what injustice a different rule would inflict. . . . It is true, as said by counsel for the railway company, that a mortgagee is not obliged to accept payment of part of the debt, and that the whole must be paid if any, but then why do they retain £20,000 belonging to Mr. Hudson? If they merely kept down the interest and paid the balance over to Mr. Hudson I should assent, but not when they actually keep in their hands and make interest on the sums received at a rate if employed in the conduct of the railway, as I assume it to have been, at least as great as they are able to charge Mr. Hudson on this account.

The order made by the Master of the Rolls was that the purchase money received by the mortgagees should be deducted from the capital secured by the mortgage.

This case in all essential principles appears to me to be an authority for the appellants in the present case, and to show conclusively that if the bank purposes (as of course it does) to retain the moneys coming into their hands as the proceeds of

the collateral notes, they were bound to apply those moneys in reduction of their debt, as well to such parts of it as are in judgment as to such not recovered, by first crediting these receipts on the interest and deducting the balance from the principal of the debt due to them by the appellants. The proposal to retain the money in a reserve fund until it is to the advantage of the bank to apply it—(that is for an indefinite time, for none of the learned judges in the Court of Appeal suggest any determinate time at which the appropriation ought to be made) is totally inadmissible consistently with what is laid down as law in *Thompson v. Hudson*.

As to the case decided by the Privy Council of the *Commercial Bank of Australia v. Official Assignee of Wilson*, it has in my opinion no application whatever to the present appeal; the bank in that case were not bound to apply the funds which the guarantors had placed in their hands under an express agreement that it should not be applied in payment of the debt of the principal debtor.

The appeal must be allowed, the order of the Court of Appeal and also that of the Divisional Court discharged, and a judgment based upon the counter claim entered, declaring that the appellants are entitled to have all moneys received by them as the proceeds of promissory notes lodged by them with the respondents as collateral security under the agreement of the 13th of June, 1891, in the pleadings mentioned, duly applied and credited to them in account, the said moneys so received being first applied in payment of interest and the balance in reduction of principal. The judgment must further direct that an account be taken upon the principle above indicated, and that the judgments recovered and executions issued by the respondents do stand as security only for the balance found to be due to the respondents on taking the account directed.

The respondents must pay the costs of this action in this court and in all the courts below, up to the present time, such costs to be deducted from the amount found due to the respondents.

Further directions and subsequent costs must be reserved.

TASCHEREAU, J.:—I am of opinion that the appeal should be allowed with costs. I adopt the reasoning of Street and MacLennan, JJ., in the courts below.

Sedgewick, King and Girouard, JJ., concurred in the opinion of the Chief Justice.

SUPREME COURT OF CANADA

Niagara District Fruit Growers' Stock Co. v. Walker*

Principal and Surety

The judgment of the Court of Appeal in this case, reported on p. 222 of the current volume of the JOURNAL, has been reversed by the Supreme Court. The facts briefly were as follows:

An agent was engaged by the plaintiffs from year to year for four years to sell fruit on their behalf on commission, one of the terms of the engagement being that he was to sell only for cash and that all moneys should be paid in from day to day to their credit in a named bank. The agent got into arrears with his remittances, which he attributed to slow collections, and a large balance was due by him to the plaintiffs at the end of each of the first three years, and the plaintiffs, at the end of each year, took his note for the amount due, payable in the next year. In each year he gave a new bond to the plaintiffs with the same sureties, to secure the faithful performance of his duties and the prompt payment of moneys received. The notes for the arrears were retired each year before the new bond was executed. The defendants, the sureties, entered into the contract of suretyship without making any enquiries from the plaintiffs. After the fourth season the Company discovered that the agent had lected moneys of which he had made no returns, and brought action to recover the same from the sureties.

The Court held that each year there was an employment of the agent distinct from and independent of those of preceding years; that the position of the sureties upon reappointment was the same as if other persons had signed the bond of the preceding year; and that the Company was under no obligation, on taking a new bond, to inform the sureties that the agent had not punctually performed his undertakings in respect of previous employment, nor did the non-disclosure imply a representation to the sureties when they signed a new bond that they had been punctually performed.

In the course of the judgment the important question as to

**Supreme Court Reports.*

whether a creditor is bound to disclose to a proposed surety the defaults of the debtor, is thus discussed :

It is now a well-established proposition of law that one who takes from a surety a guarantee or other security for the fidelity of an agent in his employment, is not, as in the case of a contract of marine insurance, under any obligation to disclose all facts material to be considered by the proposed surety. The case of *North British Insurance Co. v. Lloyd*, which has never been doubted, is a sufficient authority on this head. In *Davies v. London and Provincial Insurance Co.*, Mr. Justice Fry says :

It has been argued here that the contract between the surety and the creditor is one of those contracts which I have spoken of as being *uberrimæ fidei*, and it has been held that such a contract can only be upheld in the case of there being the fullest disclosure by the intending creditor. I do not think that that proposition is sound in law. I think that, on the contrary, that contract is one in which there is no universal obligation to make disclosure, and therefore I shall not determine this case on that view. But I do think that the contract of suretyship is, as expressed by Lord Westbury in *Williams v. Bayley*, one which "should be based upon the free and voluntary agency of the individual who enters into it."

. . . I now proceed to call attention to some decisions in which it appears to have been considered, even as a matter of law, that there was no obligation on the intended creditor to disclose to the proposed surety defaults of the debtor, under circumstances like the present, in the course of previous and distinct employment, or even previously incurred and continuing liabilities under the same contract.

Wythes v. Labouchere was a case before Lord Chelmsford. After expressing approval of the decision of the Court of Exchequer in *North British Insurance Co. v. Lloyd*, the Lord Chancellor proceeds to say :

The creditor is under no obligation to inform the intended surety of matters affecting the credit of the debtor, or of any circumstances unconnected with the transaction in which he is about to engage, which will render the position more hazardous.

In *Hamilton v. Watson*, Lord Campbell had previously laid down the rule to be that the creditor was not bound to exercise his judgment as to what it was material for the surety to know, and to that extent to make disclosure of everything to the proposed surety, saying :

If such was the rule it would be indispensably necessary to the bankers to whom the security is to be given to state how the account has been kept ; whether the debtor was in the habit of overdrawing ; whether he was punctual in his dealings ; whether he performed his promises in an honorable manner ; for all these things were extremely material for the surety to know.

~ It is, however, not to be assumed that the case is alto-

gether governed by legal considerations. In *Lee v. Jones*, Blackburn, J., says :

I think that it must in every case depend upon the nature of the transaction, whether the fact not disclosed is such that it is impliedly represented not to exist, and that must generally be a question of fact proper for a jury.

SUPERIOR COURT, QUEBEC

La Banque du Peuple v. Town of Iberville*

Municipal corporations—Borrowing powers

The principal facts in this case were as follows :

On the 11th August, 1892, the council of the town of Iberville passed a by-law for a loan of \$50,000, \$40,000 to consolidate the existing debt and \$10,000 to pay for the construction of drains, which by-law was submitted to a vote of the duly qualified ratepayers and carried. Before the passage of this by-law, however, the construction of drains had been commenced and certain notes given in connection therewith, under authority of resolutions passed by the council ; and after the passage of the by-law further notes were made, also under authority of resolutions of the council, to provide funds for carrying on the work, pending the negotiation of the loan. A number of these notes were negotiated by the Banque du Peuple in the ordinary course of business, and the municipality came under other obligations to the bank for advances made for current expenditures in anticipation of the collection of taxes.

On 28th December, 1893, the council passed a resolution authorizing the proper officers of the municipality to make a promissory note at four months for \$14,688.31, to consolidate the indebtedness to the Banque du Peuple, and a note for this amount was accordingly delivered to the bank. The note was not paid at maturity, and failing to obtain payment after repeated promises of payment had been made, the bank brought this action.

The claim of the bank was resisted on the grounds (1) that

*Reported for the JOURNAL

when the note of earliest date of those held by the bank was given the debt of the municipality amounted to \$47,500, and that as the town could not legally borrow in excess of \$50,000, if the bank was entitled to recover any part of the debt, which the defendants denied, it could only be to the extent of the margin of \$2,500; and (2) that the original notes representing the bank's claim were not legally authorized, the defendant not being able, according to its charter, to bind itself by notes similar to those in this cause except by an order voted by the ratepayers.

The plaintiffs rejoined that the loans in question were but temporary ones, made in waiting partly for the receipt of taxes and other revenues, and partly for the negotiation of the loan of \$50,000; that they were duly authorized by resolutions passed by the council, and to such extent as they required authorization by the ratepayers such authorization was provided by the by-law for the loan of \$50,000; that as to the contention that the said advances were in excess of the borrowing powers of the municipality, that the acting officers of the town had always declared and still declared that up to the date of the note upon which the present action was taken—including the amount of said note—the town's debt did not amount to the sum of \$50,000; that these officers were the only persons authorized and from whom the plaintiff could obtain the necessary information as to the financial condition of the town; and that even if their statements were erroneous they were binding on the defendant, who must bear the consequences of the error of its officials.

The case was argued before Charland, J., in the Superior Court, District of Iberville, on 30th January, 1895, and judgment given in favor of the plaintiffs in the following terms:

Adjudicating on the merits of the case:

Considering that under . . . the laws, the corporation defendant has the right to give and sign promissory notes for any object for which it was incorporated, and that said defendant had such rights at the date of each and every one of the notes mentioned in the present case:

Considering that the note of \$14,698.31 claimed by plaintiff, has been given by defendant for good and valid consideration, to wit: for sums received by defendant, and which

have been applied to ameliorations and expenses judged necessary by the ratepayers and the Council :

Considering that said note upon which the present action is based was signed by Chevalier, then mayor of the said town, and countersigned by the secretary-treasurer of said town, as is required by law in such case, and that the delivery of such note was accompanied by all the formalities required in order that said note may have, in the hands of plaintiff, all the effects of a regular promissory note :

Considering that at the time and before the delivery of said note and sums forwarded, defendant has declared to plaintiff verbally and by statements duly certified by its secretary-treasurer that said defendant was still in the limits of its powers to transact with plaintiff, and that its debt did not then exceed the amount for which said defendant is allowed to be in debt :

Considering that at the date of the delivery of said note and loans, defendant stated that its transactions were *intra vires*, and that in fact said transactions were *intra vires*, according to the statements and documents furnished by defendant to plaintiff, through its agents duly authorized, and that plaintiff had no other efficient means to obtain reliable information as to the financial state of the town, and to ascertain whether or not said defendant was in the limits of its powers to transact :

Considering that the doctrine frequently cited is that when a corporation places a person in a charge which implies a responsibility and thus induces a third party to rely on the integrity of such person, especially in matters concerning the charge occupied by such person, said corporation is responsible for representations, negligence or fraud of such person in trust, by which same a third party acting *bona fide* would suffer any damage or loss :

Considering that, in this case, the defendant's financial position, giving the latter right to transact and that to plaintiff's knowledge, said position is exposed by defendant, or by its authorized and responsible agents ;—that had there been error, negligence or fraud, defendant could not take advantage of same at the expense of plaintiff, which the former would have deceived :

Considering that in this case there was execution of deed ; that defendant has profited by the money obtained by the present note ; that the materials, works, ameliorations made mentioned in the defendant's plea have been made and paid with money received from plaintiff at the knowledge of defendant, and the ratepayers, who have never made any objection :

Considering that the aim of law is the triumph of justice and the protection of honesty in transactions made by municipal corporations as well as by a particular individual, and that

to allow the defendant, under the circumstances, to repudiate its engagements with plaintiff in taking possession of said sum of \$14,688.31 and profiting by the advantages derived from same, would be the assent to a most serious injustice :

Considering, moreover, that it is not sufficiently proved that, at the time of the transaction which is the cause of the present action, defendant was acting outside of the limits of its powers and attributions :

Considering that plaintiff has proved the principal allegations of its declaration and answers, and has justified the position it has taken in its contestation, and that the opposition to judgment is unfounded :

Doth dismiss the said opposition or plea in conformity with the dispositions of the judgment rendered *ex parte* in this case by this Court, on the twelfth day of June last. Doth condemn defendant to pay to plaintiff the said sum of \$14,688.31, with interest since the first day of May last and costs.

UNREVISED TRADE RETURNS, CANADA

(ooo omitted)

IMPORTS			
<i>Six months ending December—</i>			
	1895-6	1896-7	
Free	\$21,136	\$21,634	
Dutiable.....	32,535	31,990	
	<u>\$53,671</u>	<u>\$53,624</u>	
Bullion and Coin.....	3,426	4,478	\$58,102
	<u>\$57,097</u>		
<i>Month of January—</i>			
Free	\$ 2,690	\$ 2,637	
Dutiable.....	6,563	4,801	
	<u>\$ 9,253</u>	<u>\$ 7,438</u>	
Bullion and Coin.....	492	28	\$ 7,466
	<u>\$9,745</u>		
	<u>\$66,842</u>		<u>\$65,568</u>

EXPORTS			
<i>Six months ending December—</i>			
Products of the mine.....	\$3,763	\$5,146	
" Fisheries.....	7,009	7,066	
" Forest.....	16,965	18,623	
Animals and their produce.....	26,442	25,231	
Agricultural produce.....	8,827	8,960	
Manufactures.....	4,762	4,783	
Miscellaneous.....	115	100	
	<u>\$67,885</u>	<u>\$69,911</u>	
Bullion and Coin.....	344	3,212	\$73,123
	<u>\$68,229</u>		
<i>Month of January—</i>			
Products of the mine.....	\$ 590	\$1,145	
" Fisheries.....	850	406	
" Forest.....	727	588	
Animals and their produce.....	1,571	2,478	
Agricultural produce.....	766	939	
Manufactures.....	697	532	
Miscellaneous.....	7	8	
	<u>\$5,210</u>	<u>\$ 6,098</u>	
Bullion and Coin.....	2,664	50	\$6,148
	<u>\$7,874</u>		
	<u>\$76,103</u>		<u>\$79,271</u>

SUMMARY (in dollars)

Total imports for seven months, other than bullion and coin	\$62,925,935	\$61,062,000
Total exports for seven months other than bullion and coin	73,096,015	76,009,000
Excess of exports.....	\$10,170,080	\$14,947,000
Net imports of bullion and coin	910,193	1,244,000

STATEMENT OF BANKS acting under Dominion Government charter for the months of December, 1896,
January and February, 1897, and comparison with February, 1896:

LIABILITIES

	31st Dec., 1896	31st Jan., 1897	28th Feb., 1897	29th Feb., 1896
Capital authorized	\$ 72,958,685	\$ 72,958,684	\$ 73,458,685	\$ 73,458,685
Capital paid up	61,731,354	61,756,813	61,831,392	62,196,496
Reserve Fund	26,070,799	26,728,799	26,728,799	26,458,799
Notes in circulation	\$ 33,095,784	\$ 30,208,157	\$ 30,409,197	\$ 29,819,536
Dominion and Provincial Government deposits	5,468,528	6,137,452	6,081,085	6,417,385
Public deposits on demand	70,329,211	67,023,611	65,095,602	60,419,199
Public deposits after notice	126,101,012	126,428,551	126,937,852	121,446,870
Bank loans or deposits from other banks secured	140,000	130,000	117,654	9,050
Bank loans or deposits from other banks unsecured	2,644,940	3,259,607	2,587,137	2,539,592
Due other banks in Canada in daily exchanges	93,962	83,466	77,003	90,997
Due other banks in foreign countries	341,530	375,754	355,138	177,187
Due other banks in Great Britain	2,834,450	2,786,421	2,489,107	4,265,396
Other liabilities	579,349	623,077	438,251	672,942
Total liabilities	\$241,828,840	\$237,059,124	\$234,588,105	\$225,858,247

BANK STATEMENT WITH COMPARISON

ASSETS

Specie.....	\$ 8,593,212	\$ 8,530,355	\$ 8,246,676	\$ 7,990,370
Dominion notes.....	15,225,788	15,538,691	15,768,201	12,752,147
Deposits to secure note circulation.....	1,846,218	1,846,218	1,846,218	1,814,624
Notes and cheques of other banks.....	9,016,940	6,084,120	5,473,393	5,883,170
Loans to other banks secured.....	150,000	218,957	195,483	4,050
Deposits made with other banks.....	3,393,846	3,837,139	3,120,378	3,312,812
Due from other banks in Canada in daily exchanges.....	180,307	117,385	119,679	149,695
Due from other banks in foreign countries.....	16,743,355	16,304,262	16,608,157	18,662,882
Due from other banks in Great Britain.....	9,585,038	9,623,745	9,146,840	4,710,922
Dominion Government debentures or stock.....	2,796,828	2,793,908	2,794,416	2,991,549
Public municipal and railway securities.....	22,498,436	22,850,819	23,043,562	20,218,743
Call loans on bonds and stocks.....	14,030,962	13,911,564	13,764,862	14,083,576
Current loans and discounts.....	210,522,074	208,433,812	208,732,374	207,484,616
Loans to Dominion and Provincial Governments.....	872,395	188,631	386,023	382,073
Overdue debts.....	3,988,746	3,947,434	3,697,930	4,073,863
Real estate.....	2,071,594	2,078,996	2,022,991	1,447,906
Mortgages on real estate sold.....	452,650	472,250	472,413	567,634
Bank premises.....	5,646,569	5,651,203	5,646,185	5,661,382
Other assets.....	2,107,092	2,282,968	2,217,616	2,167,606
Total assets.....	<u>\$329,692,255</u>	<u>\$324,801,753</u>	<u>\$323,303,595</u>	<u>\$314,273,808</u>
Loans to directors or their firms.....	\$ 7,960,665	\$ 7,815,286	\$ 7,912,382	\$ 7,888,462
Average amount of specie held during the month.....	8,285,936	8,541,645	8,457,155	8,028,175
Average Dominion notes held during the month.....	14,997,244	15,377,432	15,730,996	12,920,153
Greatest amount of notes in circulation during month.....	35,429,816	32,916,222	30,974,636	30,474,786

MONTHLY TOTALS OF BANK CLEARINGS at the cities of Montreal, Toronto, Halifax, Hamilton
Winnipeg and St. John

(000 omitted)

	MONTREAL		*TORONTO		HALIFAX		HAMILTON		WINNIPEG		ST. JOHN
	1895-6	1896-7	1895-6	1896-7	1895-6	1896-7	1895-6	1896-7	1895-6	1896-7	1896-7
March ...	\$ 42,464	\$ 36,643	\$ 22,332	\$ 26,087	\$ 4,174	\$ 4,337	\$ 2,462	\$ 2,516	\$ 2,929	\$ 4,286	\$
April	41,905	37,589	21,960	26,111	4,413	4,790	2,610	2,729	3,093	4,032	
May	51,969	44,324	25,698	27,796	4,964	5,064	2,704	2,733	4,156	4,246	2,413
June	52,353	43,129	26,772	28,384	5,090	4,550	2,913	2,775	3,865	4,094	2,418
July	51,902	44,796	26,838	30,394	5,739	5,467	2,972	2,847	1,038	4,961	2,879
August ..	49,314	41,574	23,235	25,128	6,264	5,556	2,726	2,367	3,937	4,646	2,602
September	45,251	44,763	22,543	24,870	4,694	5,036	2,706	2,829	4,008	4,630	2,283
October ..	53,298	48,999	28,437	29,242	5,613	5,387	3,402	3,131	7,911	7,585	2,292
November	54,397	50,215	28,633	29,129	5,444	5,063	3,363	2,856	8,503	8,895	2,362
December	54,138	51,033	33,728	33,146	5,462	5,547	3,224	3,951	6,041	7,736	2,566
January ..	46,663	43,577	33,095	31,117	5,795	5,135	3,227	2,863	4,977	5,009	2,200
February.	38,123	38,480	28,544	24,592	4,709	4,208	2,686	2,591	4,052	3,851	2,016
	581,777	525,122	321,815	335,996	62,271	60,160	34,995	33,288	58,110	63,971	24,031

*NOTE.—These totals prior to November, 1895, do not include the Bank of Toronto.