

# JOURNAL

OF THE

## CANADIAN BANKERS' ASSOCIATION

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### NOTES AND COMMENT

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*The Baltimore Currency Plan.*—Throughout the summer conventions of the now quite numerous State bankers' associations have taken place, and on the tenth of October and ensuing days, the national body, the American Bankers' Association, held its twentieth annual meeting at Baltimore.

It has been noticeable that while many private individuals, politicians, publicists, economists, bankers, and others, have, during the last few years, offered plans for the solution of the grave banking and currency problem in the United States, the great national association of bankers has made no definite recommendation. Unfortunately, in the United States, the bankers, as a body, are not supposed to possess the influence with legislators to which their opportunities for forming an opinion on such a question undoubtedly entitle them, and it has been remarked by writers in that country that the good system of banking in Canada is partly the result of a happier condition in this respect. The government at Ottawa, as we know, is always willing to listen to the views of those who by their daily habit of business make a life-long study of finance.

It is, therefore, a pleasure to learn that a plan, presented on behalf of the Baltimore banks by Mr. Homer, President of the Second National Bank, of that city, has been approved by the Association, and that the following committee were appointed to present it to Congress: C. C. Homer, Baltimore; A. B. Hepburn, New York; Charles Parsons, St. Louis; Skipwith Wilmer, Baltimore; G. L. Christian, Richmond; J. C. Hendrix, New York; Horace White, New York; R. J. Lowry, Atlanta, and W. T. Baker, Chicago. It will be a serious misfortune and a sad commentary on the condition of politics if the recommendations of such a body are not given due consideration by Congress.

The plan takes the form of an outline of proposed amendments to the National Banking Act. While many of the previous proposals were not based upon the idea of retaining, in form at least, the national banking system, and some hold that no adequate reform in the currency is possible without a more radical change, the particular recommendations are in harmony with the views of the majority of the thoughtful writers on the subject.

Sec. 1.—The provision of the National Banking Act requiring the deposit of bonds to secure circulation notes, hereafter issued, shall be repealed.

Sec. 2.—Allow the banks to issue circulation notes to the amount of 50 per centum of their paid-up, unimpaired capital, subject to a tax of one-half of 1 per centum per annum upon the average amount of circulation outstanding for the year; and an additional circulation of 25 per centum of the paid-up, unimpaired capital, subject both to the tax of one-half of 1 per centum and to an additional heavy tax per annum upon the average amount of such circulation outstanding for the year; said additional 25 per centum to be known as "emergency circulation."

Sec. 3.—The tax of one-half of 1 per centum per annum upon the average amount of circulation outstanding shall be paid to the Treasurer of the United States as a means of revenue, out of which the expenses of the office of the Controller of the Currency, the printing of circulation notes, etc., shall be defrayed. The excess over one-half of 1 per centum of the tax imposed upon the "emergency circulation" shall be paid to the "guarantee fund" referred to in section 6.

Sec. 4.—The banks issuing circulation shall deposit and maintain with the Treasurer of the United States a "redemption fund" equal to 5 per centum of their average outstanding circulation as provided for under the existing law.

Sec. 5.—The redemption of the notes of all banks, solvent or insolvent, to be made as provided for by the existing law.

Sec. 6.—Create a "guarantee fund" through the deposit by each bank of 2 per centum upon the amount of circulation received the first year. Thereafter impose a tax of one-half of 1 per centum upon the average amount of outstanding

circulation, the same to be paid into this fund until it shall equal 5 per centum of the entire circulation outstanding, when the collection of such tax shall be suspended, to be resumed whenever the Controller of the Currency shall deem it necessary.

The notes of insolvent banks shall be redeemed by the Treasurer of the United States out of the guarantee fund, if it shall be sufficient, and if not sufficient, then out of any money in the Treasury, the same to be reimbursed to the Treasury out of the "guarantee fund" when replenished either from the assets of the failed banks or from the tax aforesaid.

National banking associations organized after this plan shall have gone into operation may receive circulation from the Controller of the Currency upon paying into the "guarantee fund" a sum bearing the ratio to the circulation applied for and allowed that the "guarantee fund" bears to the total circulation outstanding, and to be subject to the tax of one-half of one per cent. as called for by the Treasurer of the United States for the creation and maintenance of this fund.

No association or individual shall have any claim upon any part of the money in said "guarantee fund" except for the redemption of the circulating notes of any insolvent National banking association. Any surplus or residue of said "guarantee fund" which may be hereafter ascertained or determined by law shall inure to the benefit of the United States.

Sec. 7.—The Government shall have a prior lien upon the assets of each failed bank and upon the liability of shareholders, for the purpose of restoring the amount withdrawn from the "guarantee fund" for the redemption of its circulation, not to exceed, however, the amount of the failed bank's outstanding circulation after deducting the sum to its credit in the "redemption fund" (section 4), already in the hands of the Treasurer of the United States.

Sec. 8.—Circulation can be retired by a bank at any time upon depositing with the Treasurer of the United States lawful money in amount equal to the sum to be withdrawn, and immediately upon such deposit the tax indicated in sections 1, 2, 3 and 6 shall cease upon the circulation so retired.

Sec. 9.—In the event of the winding up of the business of a bank by reason of insolvency or otherwise, the Treasurer of the United States, with the concurrence of the Controller of the Currency, may, on application of the directors, or of the liquidator, receiver, assignee or other proper official, and upon being satisfied that proper arrangements have been made for the payment of the notes of the bank and any tax due thereon, pay over to such directors, liquidator, assignee, receiver or other proper official, the amount at the credit of the bank in the "redemption fund," indicated in Section 4.

In supporting this plan, Mr. A. B. Hepburn, president of the Third National Bank of New York, in the course of a long speech, made the following allusions to our own system :

Both the Bland and the Sherman law injected into circulation a fixed amount of money monthly, without regard to the wants of commerce. However great the demands of trade, they could not increase such amount one jot or tittle. And since the Government can only put out money in payment of debt or in

exchange for value, this criticism of absolute want of elasticity must apply to any Governmental currency. It can never be responsive to the varying wants of commerce. The proper money function of the Government is set forth in the Constitution. It is given the power to coin money and regulate the value thereof, a power withheld from the States, and there I believe its functions of creating money should end. I believe all paper money, under proper restrictions, should be issued by the banks. Thus and thus only, can an elastic currency be obtained. Our present bank note currency possesses all the good qualities except elasticity. No money secured by stocks or bonds can possess that quality. Now, in order to issue \$90,000 circulation, a bank must pay \$114,000 for bonds, and deposit a redemption fund of \$4,000. And, instead of increasing its means of helping its customers and the public by the transaction, it locks up \$19,500 and diminishes its power to help the public by that amount.

All propositions for bond security contemplate maintaining the value of such at least 10 per cent. in excess of the currency issued, and the power of the bank taking out such circulation to aid the public is by such percentage diminished. A currency to be elastic must be issued against credit. Banks must have power thus to create money. In no other way can currency be elastic. In no other way can it meet the wants of commerce. From the very nature of things, the Government cannot give such currency. The banks can only with prudence and safety be allowed to do so. There is no more money in the country in 1894 than there was in 1893. Now money clogs the vaults of our banks and begs investment at a lower rate per annum than the premiums offered one year ago for a single service, and which failed to lure it from hiding in safes and vaults. Any volume of currency may prove inadequate in a panic. Still, had the Canadian law obtained in this country in 1893, the National banks could, under its provisions, have added over \$500,000,000 to the currency of the country, and with such a law a currency famine would hardly have been possible.

An elastic currency is needed not alone in time of distrust, but in course of ordinary business. The harvesting of the cotton crop calls for an extraordinary amount of money in the cotton belt. Currency is brought from money centres to supply this need. Currency in that section is expanding. Under the system proposed by the Baltimore bankers the banks in the cotton regions could largely supply its local demand, and to such extent save the expense of expressing money from money centres. The cotton crop having been moved, the demand for money lessens, and by the inexorable law of supply and demand the currency flows back to the money centres.

The business of modern banking is done with other people's money, the want of one section of the country or of the depositor being supplied from the surplus of another, and this expansion and contraction are going on all the time in different sections of the country. The proposed law outlined by the bankers of Baltimore follows closely the Canadian law. The Canadian law embodies many good features from the National Bank Act and from the British and Scottish currency laws. It provides for the issuing of currency up to par of paid-in, unimpaired capital. The Baltimore plan allows only 50 per cent., and in an emergency a 75 per cent. guarantee fund contributed and maintained by the banks. The

Government assumes no responsibility beyond the application of this guarantee fund. There has been no loss to bill-holders, and the law has given satisfaction. Canada has been peculiarly free from panics for many years, and has had no currency famine. Thus the principles of the bill before us are approved by actual experience.

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We want legislation that will enable the banks to do, under proper restrictions and wholesome safeguards, what private firms and manufacturing corporations did do without restriction, except the possible liability to the 10 per cent. tax. The issuing of currency is a banking prerogative, and the interests of the public demand legislation that will enable the banks to afford such relief when necessary. This reasoning brings us to the conclusion that our currency should embody the following principles, which are the substance of the plan proposed by the bankers of Baltimore :

First—A currency to serve public and private needs must be National.

Second—A perfectly safe currency can be provided without stock or bonds as security.

Third—No currency can be elastic that is secured by bonds, since the cost of the bonds exceeds the amount of currency that can issue.

Fourth—The experience of the Dominion of Canada and the statistical history of the National banking system during a period of thirty-one years in this country, show conclusively that the first lien upon a failed bank's assets, including stockholders' liability, together with a moderate safety fund, affords ample protection to bill-holders.

One serious difficulty in the plan will occur to Canadian bankers. It is evidently intended that the Government shall guarantee, or practically guarantee, payment of the notes, and that they shall be engraved in a uniform manner, and shall be paid out across the counters indiscriminately as under the present national banking system. If this is finally decided on, the principle of actual daily redemption will not be present in the system, and in the opinion of many Canadian bankers it is quite as vital to the safety of the currency as the prior lien upon the assets and the guarantee fund. One American banker, Mr. W. C. Cornwell, President of the City Bank, Buffalo, saw this quite clearly, and we append an extract from a statement made by him :

The Baltimore plan, as I have said, is a step in the right direction. We will need to go further later. The essential principle of daily redemption of notes, that great anchor that holds the redundant currency down and makes elasticity a scientific mechanical result, must be added as soon as possible. When that comes and the Government confines itself to stamping values on precious metals only we will have prosperity from the base up, pyramidal and permanent.

Since the meeting of the Association at Baltimore, the Secretary of the Treasury has introduced a bill for a new bank currency, which in an amended form is now before Congress. It embodies certain essential features of the Baltimore plan, *i. e.* the issue of notes to the extent of 75 per cent. of the paid-up capital, redemption agencies, prior lien of note holders, interest on the notes of failed banks, and the establishment of a 5 per cent. circulation redemption fund, and it further provides for the repeal of all provisions of law requiring banks to keep a certain reserve on account of deposits, a change the importance of which will be clear to all Canadian bankers who are familiar with the discussions which took place at Ottawa in connection with the renewal of our own Bank Act. But it is a requirement of the bill that banks availing themselves of its provisions shall maintain a guarantee fund in legal tenders (including United States notes) to the extent of 30 per cent. of the amount of notes outstanding from time to time, which fund in the case of the National banks is to be deposited with the Federal Government, and by the State banks with the State authorities.

The Secretary faces quite clearly the necessity for a gradual retirement of U. S. legal tender notes, and proposes to deal with the State bank difficulty by removing the present prohibitive tax of 10 per cent. on the circulation of all banks working under the State banking laws which conform to the requirements outlined in his plan for the circulation of national banks.

“*The Canadian Banking System, 1817-1890.*”—We announced in our last number that we had been fortunate enough to secure for the JOURNAL Mr. R. M. Breckenridge's work on Canadian Banking, the first portion of which is published in this number. It has assumed more important dimensions than we had expected, and will extend through the remaining parts of Vol. II. and probably necessitate an extra issue, but we are sure that our readers will regard it as a most valuable contribution to the literature of Canadian economics. It is, we believe, the first attempt to record in a complete form the course of the development of joint-stock banking in Canada, and the author has covered the ground so thoroughly and with such painstaking

minuteness, that it is likely to remain the standard work on the subject, although there will still be plenty of room for studies of particular periods, which should indeed be stimulated by Mr. Breckenridge's work. It may be described as a history of the legislative development of banking in Canada, embracing such an account of banks and banking episodes as would serve to explain the lines upon which it grew, and the views upon banking and currency which actuated those by whom the legislation was framed. It will also include a chapter dealing with the present working of the system.

In the special preface prepared by the author for the copies delivered to the College Library, he thus explains the reasons which led him to undertake the present investigation :

“ If any were required, a reason—perhaps a sufficient reason—for the present investigation might be offered in the circumstance that an essay to present in a systematic and fairly thorough manner the facts with which I have attempted to deal, has never yet appeared in print. The growth and improvement of the banking system are parts of the commercial and legislative history of Canada even less cultivated than the broader field of its economic history. Yet the course of the development ought by no means to be devoid of interest; the results in some respects are unique; and where it is now carried on the Canadian system of banking is believed to be productive of the highest possible advantages.

A second reason could well be found in relation with the banking situation of the United States. Observers in all quarters have noticed the growing necessity for reform in the currency and banking system of this country, and have remarked the demonstration of the necessity in the frightful crisis precipitated by distrust in the value of the currency commonly used. They have noticed also, especially among those who are most deeply interested in the organization of credit, the growing conviction of this necessity—a conviction of which the last and most significant expressions are the resolutions adopted on the 11th October, 1894, by the American Bankers' Association, in convention assembled at Baltimore. It is possible, at least, that from some account of the Canadian banking system an American will obtain instructive contrasts, as well in history, as in present organization and methods of operation, to the system of banking and bank legislation which has obtained in the United States.

Of the few short summaries or historical sketches hitherto published, the greater number are unreliable, even in respect to

the facts which are included. The principal legal text on banking under Dominion legislation is not exempt from errors where the author has digressed to history, while certain others, who likewise affected the cursory style, have committed still more mistakes. Better types, or worse, of the current misstatements than are in the historical survey of Canadian banking prepared for the Statistical Year Book of Canada for 1893, could not be found. And this is a public document issued by the Department of Agriculture. But to indulge in polemic, or to correct such carelessness or untruth specifically, would be seriously to abbreviate the treatment of truths relating to the system. It has been necessary to restrict this essay, as far as possible, to exposition alone.

The principal sources of the narrative are in the public documents of the several British North American provinces and of the Dominion of Canada. The statutes passed from year to year ought to be named first, and then the legislative or parliamentary documents of Upper Canada, Lower Canada, Canada, New Brunswick, Nova Scotia, and the Dominion of Canada. Since the Confederation of the provinces in 1867, the collected debates of the Parliament of Canada—the Hansard's reports—have been of service. Prior to that time, debates were reported only in the newspapers of the day. It has been necessary to consult the files of various journals both for debates and for other questions arising at nearly every stage of the inquiry. Memoirs, biographies, and miscellaneous historical works have also been examined."

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PRIZE ESSAY COMPETITION 1894-5—EXTENSION OF ASSOCIATE YEAR.—At the meeting of the Executive Council held in Montreal on 23rd Nov., it was decided to extend the present Associate year to 1st July next, and to make Associate fees payable on 1st July in each year thenceforward, subject to approval at the next annual meeting of the association. This is done in order to make the Associate and JOURNAL year agree.

A committee consisting of Messrs. A. Macnider, Bank of Montreal, F. Wolferstan Thomas, Molsons Bank, and H. Stikeman, Bank of British North America, was appointed to select the subjects for the next prize essay competition. The following committee was also appointed to examine the essays: Messrs. John Gault, Merchants Bank of Canada, E. Stanger, Bank of British North America, J. S. Bousquet, La Banque du Peuple, and G. H. Balfour, Union Bank of Canada.





Yours sincerely  
Hewes

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## THE LATE JAMES STEVENSON

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We are called upon to chronicle at this time with deep regret the death of our highly esteemed Honorary President, James Stevenson, a gentleman long and prominently identified with the banking and commerce of the Dominion.

Mr. Stevenson died at his residence in Quebec on Tuesday, 11th inst., at the advanced age of nearly 82 years, having been born at Leith, Scotland, on 21st May, 1813. Until a few months ago he was apparently in the enjoyment of good health, with the full use of those extraordinary abilities and qualifications which had so long fitted him for the prominent position he occupied among the bankers of this country. He was then stricken with an illness so severe that it was thought to be doubtful if he could recover. Latterly, however, his condition improved so much as to encourage strong hopes on the part of his friends that he would be spared for a yet longer career of active usefulness. He himself felt confident of a complete recovery of health; in acknowledging the official notification of his election as Honorary President of our Association, he wrote under date 2nd November, 1894:

“I do not despair, although an octogenarian, of still doing some work, especially to continue my remarks on the currency in use in Canada, from and after the closing of the Army Bill office up to the establishment of the two first banks—the Bank of Montreal and the Quebec Bank.”

Mr. Stevenson was tendered the presidency of the Association in 1893, and although strongly urged to accept, and assured at the same time of ample and willing support and assistance in the discharge of the onerous duties of the office, his conscientious sense of justice led him to decline the position for which he urged that in his advanced age he was not altogether fitted. Afterwards, at the annual meeting of the Association in Halifax in July last, he was elected an Honorary President. This position had hitherto been filled only by public men, outside the ranks of

the active bankers, who had rendered eminent service to the cause of banking; and in departing from this custom in the selection of Mr. Stevenson, more than the usual compliment was intended.

That Mr. Stevenson was successful in his management of the Quebec Bank, extending over a period of upwards of 30 years, there is every proof, while the affection and esteem with which he was always regarded by those associated with him in business, particularly those subordinate to him in the bank's service, bear ample testimony to the admirable character of the man. One who was for many years in the service of the Quebec Bank under Mr. Stevenson's management writes of him:

"Mr. Stevenson always conducted his banking on the strictest rules, and was at great pains to instil into those under him the necessity of upholding the dignity of their calling or profession and the honor of the institution in which they were employed. His advice and counsel were always appreciated, and his criticism of men and books were lessons at all times, while those of us who have had the pleasure of more intimate acquaintance and have met him in his own home, will long remember him as a true friend, a genial host, an intelligent and wholesouled gentleman."

In an article which appeared in the *Monetary Times* the attractive personal qualities which were so distinguishing a feature of his character are thus referred to:

"There was something in the personality of Mr. Stevenson which attached men to him—especially young men, for whom he had a fondness. Not only was he entertaining as a result of culture and travel, but he showed at all times geniality of disposition and the faculty of making himself agreeable. In an official capacity, while firm in his business relations, he was no stern martinet to his staff. In fact one secret of the loyalty and affection for him shown by various gentlemen who served under him was his frankness and courtesy towards them."

A recent obituary notice in the *Quebec Chronicle*, written by one who was his intimate friend, forms an interesting record of a useful career, and a worthy tribute to his memory. We cannot do better than repeat a portion of that notice:

"His name is closely identified with the progress of the city (Quebec) during the last half of the present century, and through-

out banking circles in Canada no one was more highly esteemed, nor is there any one who had a higher record in his profession. When he assumed the management of the Quebec Bank, after the Bank of Montreal the oldest institution of the kind in Canada—for it was established by Royal charter in 1818—a strong hand was necessary. Mr. Stevenson was fully equal to the occasion. He was prudent, far-seeing and enterprising, and though many banks were passing through vicissitudes, he steered clear of the shoals, and steadily worked the fortunes of the institution to success, making it one of the most prosperous concerns in the Dominion.

Mr. Stevenson made an exhaustive study of all matters relating to money and to finance. The Literary and Historical Society of Quebec elected him Vice-President for two years, and President for three years. While holding these offices, he read the following valuable papers before that learned body. They have been published in the yearly Transactions of the Society, and are monuments to his industry in leisure hours :

‘Currency with reference to Card Money in Canada during the French Domination.’

‘The Currency of Canada after the Capitulation.’

‘Remarks at the Centenary Celebration of 1875.’

‘Opening Address of the Session.’

‘The Cause of and the Commencement of the War between Great Britain and America in 1812.’

‘The War in 1812, in connection with the Army Bill Act.’

To this collection, last year Mr. Stevenson added a paper, completing the series. These carefully prepared monographs have been highly prized by bankers and historians. It is a pity that he did not earlier yield to the importunities of his brother bankers, and write what we so much need, a financial history of Canada, since 1759, when the country passed under British rule. He had the requisite amount of ability to perform this task. His literary style was pure and scholarly. His industry never flagged, and he took a pride in his work. He made his bank prosperous, because he was ever alert to his responsibilities and the trust imposed in him.

In social life, Mr. Stevenson was ever the true friend and genial companion. \* \* \* \* \* Those who tested his friendship were never disappointed. He was a shrewd judge of character. He knew men well. If he took a dislike, events proved that he was right. He enjoyed his rubber of whist, and at the little dinners which he often gave to his friends, he was ever the kindly-hearted host, looking out always for the comfort and happiness of his guests. He was an artist as well as a lover of all the arts. He could paint a good picture in oils or in

water colors. He knew bronzes. He was a fine judge of engravings, and his collection includes many beautiful specimens of line engraving, when that art was at its perfection. He loved to tell a congenial friend, sitting at his hospitable board, of the last book that he had read and how it had impressed him. He was a judicious critic, and anything offensive that he encountered in his reading pained and distressed him. The friends he made he always retained, but he was not quick to make friends. His affection, when once given, could not be dislodged, for he was a genuine and leal-hearted man, faithful unto death, as one would have said a century and a half ago. He never tried to be popular. He did his duty with all his strength, and he made his bank a credit to the city, to the Province and to the Dominion.

He was a great lover of the links, and it is due to him and to his old friend, Mr. Farquharson Smith, erstwhile Manager of the Bank of British North America, here, that the present Golf Club, now so popular, was established. Twenty-one years ago, those gentlemen introduced the King's game in Quebec, and up to within a few months of his death Mr. Stevenson was an active player.

He was methodical in his habits. He was just in his dealings with his fellow-men. He had a gentle humor, and no one appealed to his heart and sympathy in vain. If a sacrifice had to be made, he assumed the sacrifice himself. When a man gave his word to James Stevenson, and he had confidence in that man, he firmly believed that the promise would be kept and fulfilled.

Death has intervened, and the successful banker, the artist and lover of art, the true and generous friend, the good citizen, has passed away, respected by all, mourned by those who loved him, and regretted by thousands who knew him only by name and the position he occupied in the community."

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# THE CANADIAN BANKING SYSTEM

1817 - - - 1890

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BY ROELIFF MORTON BRECKENRIDGE, PH D.

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*“Submitted in partial fulfilment of the requirements for the  
“Degree of Doctor of Philosophy in the University Faculty  
“of Political Science, Columbia College, New York.”*

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## CHAPTER I.—INTRODUCTION

THE economic character of banking transactions varies little, wherever they may be concluded. To perform the functions of discount, deposit and note issue, to exchange rights to demand money for money, money for rights to demand it, and rights to demand money for other rights to demand it—from one point of view, that is the whole of banking. Banking systems differ, not so much in the character of their economic services, as in the degree of perfection with which those services are performed, the methods of accomplishing them, the principles on which banks are organized, the powers conferred to banks by statute, and the obligations and restrictions imposed upon them—the manner and completeness, in short, of the fulfilment of banking functions. Where, as in the territory which forms the present Dominion of Canada, banking has been subject to special enactments, since the time, practically, of its first introduction, it is possible to find in the statutes, or to infer from them, a tolerably accurate idea of that complex of business methods, principles of organization and legislative regulations which make up a system of banking. The purpose, therefore, of this investigation will be to trace the course of Canadian banking legislation from the grant of the first bank charters to the Bank Act of 1890.

The purpose thus stated avoids the implication of an effort to give the banking history of Canada, while it by no means precludes whatever reference to the political, economic, or banking history of the country, may serve better to explain the measures

adopted by Legislatures. Government, post office or other savings banks, or the so-called land banking, will not be treated, for the inquiry is limited to what, in the English sense, are denoted by the simple expression "banks," and what, in Canada, have been joint-stock banks of issue, discount and deposit, incorporated or recognized by local legislative authority.

The Parliament which now has exclusive jurisdiction in matters incident to banking, incorporation of banks, and the issue of paper money, is of as recent origin as the Dominion of Canada itself. Thirty years ago, neither were more than the proposals of a group of energetic and far-seeing colonial publicists. The territory now included in the Dominion was cut up into six or more different jurisdictions, those important for our purpose being the Provinces of Canada, Nova Scotia and New Brunswick. Fifty-four years ago, the Union of what are now the Provinces of Ontario and Quebec, had not been accomplished, and these parts of British North America were separately governed as the Provinces of Upper Canada and Lower Canada. The first part of the study, accordingly, will be based, not on the uniform legislation of a great Dominion, but on the independent and somewhat diverse statutes of four distinct colonies. But for reasons which will be explained in due time, events in the two Canadas and in the late Province of Canada are facts more essential to a right understanding of what may be called the national era of Canadian banking legislation, than the course of affairs in the maritime provinces of Nova Scotia and New Brunswick. So while significant phenomena in the latter colonies should not be neglected, the earlier inquiry must be mainly directed to the development of banking legislation in the Canadian provinces. The study will therefore be rightly entitled what it is, as well in its first part, as in the last.

Canadian banking, both in the earlier periods of its growth and the present stages, has often been compared to Scotch banking. The analogy is better, no doubt, than that between Canadian banking and the few other systems, the statutory regulation of which, while establishing safeguards, has not hampered the prosecution of banking business in all its branches. It is peculiarly true of the Scotch banks that, untrammelled by re

strictions and unexploited by government, they acquired what are still their distinguishing characteristics, in the exercise of all the functions which, according to the Anglo-Saxon idea, belong to banking. The three great conditions of their development were freedom, competition, and the necessity promptly to perform banking contracts. The result was a system of banking whose principal features were the small number of banks, their large capitals, establishment and operation of branch banks, competitive issue of notes on the general credit of parent banks, payment of interest on deposits, and regular, frequent conduct of exchanges between the banks. It is true that both in the comparative freedom of its development, and in the characteristic features which it displays to-day, the Canadian system is very like the Scotch.

Still, the economic needs and opportunities which led to the introduction of banking, and the policy of government towards this form of economic activity have not, of course, been exactly the same in one country as in the other. It is not to be expected that the analogy, however close, should be complete. Scotch banking is a development which may be described, with a tolerable accuracy, as indigenous. In Canada the needs were native, but the banking system was borrowed, copied, transplanted, if you like, from countries where it was already established. Eight of the present Scotch banks were originally private partnerships. All but four of the thirty-eight Canadian banks were from the outset corporations created by Legislatures or by Parliament. By Sir Robert Peel's measures of 1845, the freedom to issue notes was abolished in Scotland, and thereby a monopoly, both of the issue and of other departments of banking, established for the banks then in existence.<sup>1</sup> Canada has preserved not only competition between the old banks, but also the possibility to found new ones, while the effective limitations upon uncovered note issue by those to whom the power is confirmed are not statutory, but economic. There is no requirement, as in Scotland, that gold shall be held in the banking reserves to an amount sufficient to cover circulation in excess of a certain fixed amount, and during the last forty years the total amount of

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<sup>1</sup> Evidence taken before the Select Committee of the House of Commons on Banks of Issue, London, 1875; replies to questions 954 and 955.



notes outstanding has never reached the limit to which the banks might legally issue. The regulation of the bank note currency of Scotland by the Act of 1845, was prompted largely by the purpose of securing in that the same fluctuations as would occur in a metallic circulation; the precautions adopted in Canada were designed merely to insure the immediate convertibility of bank notes at all times and places, and to make their ultimate payment certain. In their business one finds still other differences. The only variety of Canadian advance similar in form to the Scotch "cash credit" is the overdrawn account, which bankers are inclined to discourage, although in a different form, especially in their business with farmers, graziers and drovers, the Canadian banks lend freely for many of the purposes which the "cash credit" has served in Scotland. Further, the banking competition in Canada is more varied and intense. It prevents the adjustment of the minimum rate of discount and the maximum interest payable on deposits, to which Scotch banks regularly agree, and by which they stand.

But in that banking operation that so immediately interests the whole public—the issue of notes to circulate as money—what was originally substantial identity has been altered by legislation. The early freedom and simplicity of the Scotch note issue has been taken away. Because the Act of 1845,<sup>1</sup> as already indicated, requires them to hold gold in their banking reserves equal to the circulation in excess of their authorized issue, the Scotch banks can no longer meet the temporary but periodical demands for expansion in the bank note currency without cost or inconvenience to themselves. Twice each year must they incur the expense of importing quantities of gold, leaving the parcels in their vaults unopened and unused, and exporting them again when the circulation has fallen to the lower level. But the chief burden which is thus imposed upon the Scotch Banks lies in this, that when the circulation reaches a certain point, its further temporary expansion is only effected at the expense of depleting their loanable funds to a like extent. Such restrictions the Canadian banks have escaped. They are, to be sure, subject to statutory provisions

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<sup>1</sup> 8 and 9 Vic., cap 38, An Act to regulate the Issue of Bank Notes in Scotland.

as to the total issue of each bank, the redemption of notes at par in every part of the country, the maintenance of a common fund to guarantee the circulation, and the prior lien of the note holder upon an insolvent bank's estate. To supply, however, the recurrent need for added currency is to them a cause of no real cost, while to a much greater extent than in Scotland, it is a source of direct advantage. It is important to note that in both countries the public share this advantage; through elastic issues upon their general credit, banks are enabled to minimize fluctuations in the rate of discount, to reduce or waive charges that otherwise they would be obliged to make, and also to maintain branch offices at small points which otherwise would be inevitably deprived of banking facilities.

After all, however, what we particularly need to know in judging of a currency is comprised in the questions, "Is it ultimately secure? Is it immediately convertible? and, Is it elastic?" Whether it relates to the bank notes of Canada or of Scotland, each of these queries may be answered in the affirmative; that is to say, each country has a safe and inexpensive currency at all times adequate in volume and never inflated.

When we come to view the services which each country has derived from its banking system, the analogy reappears. In Canada, as in Scotland, the history of banking records singularly few frauds upon the currency, and, so far as their creditors were concerned, the losses inflicted by insolvent bankers have been remarkably slight. In order to reform the system, it never became necessary to maim it; in neither country has banking developed the abuses that,

" diseases desperate grown  
By desperate appliance are reliev'd,  
Or not at all."

Both Scotch and Canadian banks collect with astonishing efficiency the disposable capital of the communities in which they work, and utilize it in assistance of commercial, industrial and agricultural enterprise. Both enjoy the firm and judicious confidence of the people whom they serve. Both have successfully built upon the foundations of their capitals great structures of credit from which their clients get full benefit. Both groups conduct the multifarious exchanges of domestic and foreign

commerce and make them easy, quick and cheap. It may be said that these are the tasks of any banks. So, indeed, they are, but "in all economical and political things, questions of magnitude and intensity are of vital importance; the question very often is, not what color a thing is, but what shade of color."<sup>1</sup> The real advantages of either system appear only after it is seen how thoroughly has its community acquired the depositing habit; what support do bank customers get in times of crisis as well as in seasons of prosperity; how nearly is the rate of interest uniform throughout the country; and how low have charges for other banking services been reduced.

Turning now to consider the scientific discussion evoked by each system, one no longer sees resemblance, but contrast, and that of the most marked sort. Among the banks of the old world none have received higher praise for their practical services, or more thorough approval for the theoretical excellence of their banking system, than the banks of Scotland. Sir Walter Scott wrote in defence of the system. Courcelle-Seneuil admired it. Dr. Adolph Wagner has praised it. And in every treatise on banking theory it occupies an important place. But outside of a few published addresses, occasional pamphlets, fugitive magazine articles, and the newspaper discussion of measures proposed to Parliament, the Canadian banking system, in scientific works at least, has remained unnoticed, undescribed, unjudged. Abroad it has been easily dismissed as "colonial." At home it may well be that the very merits of the Canadian banks have been the cause of this neglect. To say that Canadians do not appreciate their banking system would be untrue; they have repeatedly refused to give it up. But only of defective institutions do men complain and agitate for reform; good ones they often accept as matters of course.

The purpose of this monograph, however, is to describe facts relating to the Canadian banking system, rather than to eulogize its merits. It is proposed in the next two chapters to examine the earlier legislation of the Canadian colonies and the forces at work in its development, and to make some study of the crisis of 1837 and the suspension of specie payments. In subse-

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<sup>1</sup> WALTER BAGEHOT, Evidence, *ut supra*, Reply to question 7,976.

quent chapters the reforms embodied in the bank charters passed prior to 1867 will be pointed out, and the efforts to introduce "free banking," as well as the reasons for their failure, will be detailed. In a fifth chapter the legislation of Nova Scotia and New Brunswick will receive the necessary attention. After 1867 the uniform and general Bank Acts of the Dominion will need extended notice. At the same time the various attempts to alter the character of the system will be described, together with the reasons for the policy which prevailed; the growth in the number and resources of the banks will be illustrated, and from the banking history such facts will be given as will explain, in part, the measures adopted by Parliament. At the close of the historical part it is proposed to examine with greater thoroughness than was previously possible, the characteristic features of the present Canadian banking system, and some of its practical workings.

Before beginning to trace the development of seventy-seven years, we may so far anticipate as to quote certain American comments upon the result.

"We know of no system that more closely conforms to the best and broadest economic ideals of banking; none better calculated to afford the largest possible public accommodation; none better adapted to insure a safe utilization of the surplus balances of the people; and none better qualified to supply the daily fluctuating wants of trade with a safe and convenient circulating medium."<sup>1</sup>

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<sup>1</sup> N. Y. *Daily Commercial Bulletin*, 18th January, 1890.

## CHAPTER II

### THE EARLY BANKS IN LOWER CANADA

#### § I.—THE FIRST BANKS

THE cause of the first considerable effort to establish a bank of issue, discount and deposit in the present Province of Quebec, was the scarcity and variety of specie in circulation; the scene, the city of Montreal; the time, 18th October, 1792. In the official *Gazette* of that date appeared the following circular:

"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 attending receipts and payments, have formed the resolution of establishing a Bank at Montreal, under the name of the 'Canada Banking Company.'

"The business proposed by the Company and usually done by similar establishments, is:

"To receive deposits in cash.

"To issue notes in exchange for such deposits.

"To discount bills and notes of hand.

"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 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.

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

The firms who issued the circular did not carry out their plans. A private bank, chiefly of deposit, was the only result of their endeavors.<sup>1</sup>

The unsatisfactory condition of the currency continued,

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<sup>1</sup> JAS. STEVENSON, "The Currency of Canada after the Capitulation," *Transactions of the Literary and Historical Society of Quebec*, 1876-7, p. 122.

aggravated somewhat by the export of gold to the United States. The rates in the colonial money of account, at which certain American, British, Portuguese, French and Spanish coins were legal tender, were altered in 1795, and the legal ratio of gold to silver somewhat bettered in order to keep the gold in the country. Some relief was afforded by the measure, but the commerce of the colony was growing. The enterprise of Scotch and English immigrants, as well as of refugees from the former colonies south of Canada, had assisted also in the considerable agricultural development. The new activities needed facilities for exchange, and the country, as yet, could ill afford the luxury of a metallic circulating medium. A second attempt to found a bank of issue occurred 6th March, 1807, at a meeting in the city of Quebec, assembled in response to a call in the *Quebec Gazette* of the 4th March. But no bank was established.

The next year, in February, a petition of divers inhabitants of the cities of Quebec and Montreal, praying to be incorporated under the title of the "Canada Bank," was presented to the Provincial Legislature.<sup>1</sup> A special committee to whom the matter was referred, reported favorably with a bill. Many objections were offered, most of them ill taken from a more modern point of view, and the bill failed to pass.

From July, 1812, until the latter months of 1815, the Canadian colonists used a currency composed for the most part of promissory, legal tender "Army Bills" issued by the Government as a financial aid in the war with the United States. This currency, though slightly depreciated, had the merit of being uniform and expressed in the convenient denominations of the colonial currency. Bills for \$25 and over bore interest at 6 per cent. All notes were received for public dues and were convertible into Government bills of exchange on London at thirty days sight, at the rate of exchange as fixed by authority, or into cash, at the option of the commander of the forces. As the rate was fixed by commissioners whose duty was to make the fairest possible approximation to the market rate of exchange, the holders of the Army Bills had slight cause for com-

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<sup>1</sup> JAS. STEVENSON, *ut supra*, p. 132.

plaint. At the close of the war, the outstanding issues, amounting to £1,249,996 currency in March, 1815, were reduced through rapid redemption to less than £200,000 currency by May, 1816.<sup>1</sup> The office of issue was finally closed 24th December, 1820.<sup>2</sup>

The contraction of the Army Bill circulation caused inconvenience in Upper Canada, and the Lower Province, with its greater trade, suffered still more. Soon after the redemption was practically complete, the bank question was revived. But the participants in the next attempt to establish a bank published no detailed *exposé* of their motives. Nor did they seek the preliminary consent of the Legislature. They simply began their business. On the 23rd of June, 1817, a company of persons met at Montreal and signed articles of agreement by which an association was formed, with a joint and transferable stock, limited to £250,000<sup>3</sup>. Late in August, the new association opened an office as the Bank of Montreal. And this, the first bank of discount, deposit and issue to be established, either in Lower Canada, Upper Canada, Nova Scotia or New Brunswick, is to-day the greatest bank, not only in the Canadian Dominion, but in the whole of North America.

An Act incorporating the association was passed at the next session of the Legislature, but was reserved by the Governor for the signification of the Royal pleasure. The Royal assent was withheld and the Bank of Montreal continued as a private partnership.

The example set by Montreal was followed the next summer by citizens of Quebec. Articles of association of the Quebec Bank were signed 9th July, 1818. Directors were elected in

<sup>1</sup> Canadian currency, more often called Halifax currency, was an arbitrary money of account used in all the larger British North American Provinces until the decimalization of the currencies in the early fifties of the present century. The denominations were dollars, pounds, shillings and pence; the table 12d. = 1 shilling, 20s. = £1, 5s. = \$1, the dollar being originally the Spanish pillar dollar, coined before 1772 and containing 385 grains fine silver. This currency was established for the Province of Canada by an ordinance of 1765, which changed the monetary nomenclature from French to English, but adopted as money unit a shilling, equal in value to the old French *livre*, *vide* Stevenson *op. cit.* p. 124. The unit was often altered slightly, and, after the debasement of the American coinage in 1834, was reduced so that the dollar unit of the two systems would correspond. In 1841 the £ sterling was reckoned at 24s. 4d. currency; the dollar (U. S.) at 5s. 1d., but after 1850 at 5s.

<sup>2</sup> For complete details respecting this issue, including all the important documents, *vide* STEVENSON, "The Circulation of the Army Bills with some remarks upon the War of 1812," *Transactions, ut supra*, 1891-92, p. 30.

<sup>3</sup> *Journal, L. C.*, 1820-1821, p. 103.

September,<sup>1</sup> and this bank also started as a private partnership, its capital being limited to £75,000. The members of the association applied for incorporation in 1819, without success, however, for the bill failed even to come before the committee of the whole House.

A third bank was organized by another group of Montreal citizens on the 25th August, 1818, as the Bank of Canada, the capital limit of which was finally set at £200,000. This bank, too, applied for a charter, but failed to secure it.<sup>2</sup>

Finally, in the winter of 1820-21, the shareholders of each of the three banks thus established again petitioned the Legislature to be erected into bodies corporate and politic. They recited in effect that their capital stocks had been all subscribed, that the portion of which the payment was required by the articles of agreement had been paid in, that they had been engaged for some years in the business of banking, and that, without the benefit of incorporations, the beneficial purpose contemplated by the establishment of the banks would be imperfectly attained, and great inconveniences would be incurred in the conduct of their business.<sup>3</sup> They prayed, therefore, to be incorporated under regulations and provisions as nearly corresponding with the terms of their original association as might be, and under such other regulations and provisions as the Legislature might prescribe.

The prayers of the petitioners were granted. On the 17th March, 1821, three charters incorporating the several banks were presented by the Legislature for the Royal assent. Being reserved by the Governor, the charters did not become law for over a year. "An Act to incorporate certain persons therein named under the name of 'The President, Directors and Company of the Bank of Montreal'" (1 Geo. IV., cap. 25, L.C.) was proclaimed the 22nd July, 1822. Similar statutes respecting the Quebec Bank (1 Geo. IV., cap. 26, L.C.), and the Bank of Canada (1 Geo. IV., cap. 27, L.C.), were proclaimed on the 30th November of the same year.<sup>4</sup>

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<sup>1</sup> The Shareholder and Insurance Gazette, September 12th, 1890, "The Quebec Bank," by an anonymous writer, known, however, by me to have access to the records of the institution.

<sup>2</sup> Journal, L. C. 1820-21, p. 40.

<sup>3</sup> *Ibid*, pp. 40, 48, 103.

<sup>4</sup> Statutes of Lower Canada, Vol. XI., 1821-24, following p. 248.



## § 2.—THE FIRST CHARTERS

Save in regard to the amounts of their capital, the location of the banks and the conditions as to the residence of the directors, the provisions of the three charters were practically identical. The charter of the Bank of Montreal may be taken as the type. The preamble declared the "advancement of agriculture and commerce and the promotion of the prosperity of the province" to be the motives for the legislation. One hundred and forty-four persons, then the stockholders of the company, their successors and assigns, were created in this instance a body corporate and politic, with corporate powers continuing to the 1st June, 1831. Their capital stock was limited to £250,000 currency, the whole to be paid in by annual instalments of not more than 10 per cent. within nine years from the passing of the Act.

Thirteen directors, British subjects, residents of Montreal for at least three years, or sometime residents of Montreal for three years, and of the province for seven years, and holders of at least four shares each, were to be annually elected by such shareholders as were British subjects. Nine of the directors, including the President and Vice-President, were to be re-elected to the Board each year. The directors were forbidden to act as private bankers during their term of office, were to appoint the officers necessary for the bank, and to require of them bonds adequate to their trust. They were to receive no salary except by a vote of the shareholders in general meeting, to declare half-yearly dividends out of the profits of the bank, but never to encroach upon its capital, to keep a book for the registry of transfers of stock, to have the right to inspect the books, correspondence and funds of the corporation, and to present to the annual general meetings of the stockholders, exact and particular statements of the

Debts due to and by the bank,\*

Amount of bank notes in circulation,

Amount of probably bad or doubtful debts,

Surplus or profit, if any remaining, after deduction of losses and provision for dividends.

The directors, further, were to be liable for the excess in their

natural capacities (*i. e.* individually and jointly), as well to the stockholders as to the holders of bank notes, in case the debts of the corporation by bond, bill or note, or any contract whatsoever, should exceed treble the amount of the capital stock actually paid in, over and above a sum equal to such money as might be deposited with the bank for safe-keeping. But individual directors in opposition might exonerate themselves from this liability by publishing within eight days from the time of the illegal transaction, a statement thereof and their protest against it.

The stock of £250,000 was divided into 5,000 shares of £50 each. The shareholders were to vote at all meetings in the following proportions to stock owned :

for 1-2 shares the holder had 1 vote,	
“ each 2 “ from 3-10 shares, inclusive, 1 vote,	
“ “ 4 “ “ 11-30 “ “ 1 “	
“ “ 6 “ “ 31-60 “ “ 1 “	
“ “ 8 “ “ 61-100 “ “ 1 “	

The holders of 10 shares would thus have 5 votes, of 30, 10 ; of 60, 15 ; of 100, 20 votes. No shareholder was to have more than twenty votes. Proxies for absent shareholders were permitted. This voting scale, designed to reduce the influence of large shareholders in the directorate, was adopted in all the charters granted by Lower Canada. After the first election of directors a share was not to entitle the holder to vote unless held for three months prior to the meeting. Fifty shareholders, having not less than 150 shares, might call a special meeting of shareholders, at which a majority might suspend or remove directors guilty of malfeasance. Transfers of stock were not to be valid and effectual unless registered at the office of the bank, nor until the transferor should have discharged all debts by him then due to the bank which might exceed the remaining stock belonging to him. Fractional shares were not transferable. Shares were made personal property and liable to *bonâ fide* creditors for debt. They might be attached and sold under a writ of attachment and execution served upon the cashier of the bank. Failure to pay the instalments on the shares as they became due involved a penalty in favor of the bank of 5 per cent. on the amount of the delinquent's stock, as well as upon

his dividends due at the time, and those accruing before his payment of the instalment. But the shareholders were exempt from individual liability for the debts of the bank, even when these exceeded thrice the capital stock paid in plus the specie deposited for safe-keeping. The shareholders, therefore, were incorporated with limited liability, and enjoyed the extensive privilege of a liability limited, not to double the amount of their subscriptions, but merely to the amount of their subscribed shares.

The Corporation thus created was empowered :

to hold real estate to the value of £1,000 yearly and no more,

to sue and be sued in the name of the President, Directors and Company of the Bank of Montreal, to issue promissory notes intended to circulate as money and payable on demand in gold and silver coin current by the laws of the Province,

to receive deposits and to deal (a) in bills of exchange, (b) in discounting notes of hand and promissory notes and to receive the discount at the time of negotiating, (c) in gold and silver coin and bullion, and (d) in the sale of stock pledged for money lent and not redeemed,

to take and hold mortgages and *hypothèques* on real property for debts contracted to it in the ordinary course of its dealings, but on no account to lend on land, mortgage or *hypothèque*, nor to purchase them on any pretext except as here permitted.

Obligations, bonds and bills of the bank, whether obligatory or of credit, under its common seal, signed by the President or Vice-President, and countersigned by a Cashier, were assignable by endorsement of the person to whom they were made, any law, custom or usage to the contrary notwithstanding. And notes or bills, promising the payment of money to any person or persons, his, her or their order, issued by the order of the bank, and similarly signed, though not under seal, were to be binding and obligatory and assignable and negotiable, by blank or other endorsement, "in like manner," the charter reads, "as foreign bills of exchange now are." Bills payable to bearer were assign-

able by delivery only. These details, however, are but incidental to questions of banking; they belong rather to the law of commercial paper in which, at that time, the Legislature was obliged to establish some new precedents.

The other restrictions upon the bank were very few. The prohibition of loans upon land and mortgage has been cited; so too the limit upon the real estate which might be owned by the bank. It was forbidden to engage in business other than that specified in the grant of powers, *i.e.*, the ordinary banking transactions. It might not demand or receive more than the lawful interest of six per cent. per annum in any of its dealings. The bank's total debts were not to exceed treble the amount of the capital stock actually paid in, plus a sum equal to moneys deposited with it for safe keeping. It might not raise loans of money or increase its capital, and upon pain of the forfeiture of its charter the bank was forbidden to loan money to a foreign state. No penalty whatever was attached to the other prohibitions, save the individual liability of directors in case the aggregate debts of the bank exceeded thrice the paid up capital stock.

"For the better security of the public," the Government, or either branch of the Provincial Parliament, was empowered from time to time to require from the bank statements, under oath, of the capital stock, debts due to the bank, moneys deposited in it and notes in circulation. On the other hand, the Legislature provided, in the bank's behalf, extraordinary penalties,

(a) against forgery of the seal or bonds or bills of the bank, or knowingly passing forgeries, *viz.*, from six months' to six years' imprisonment at hard labor, or public whipping, or standing in the pillory, or one or more of the punishments at the discretion of the Court:

(b) against making or engraving plates or tools for counterfeiting the bills, notes or undertakings of the bank, or having in one's possession plates, paper, presses or tools, with the intention of so counterfeiting, *viz.*, death as a felon, without benefit of clergy.

The rights of the King and other bodies corporate and politic were saved by Sec. xvii. In Sec. xxi, the duration of the Act is limited to 1st June, 1831, and it is further provided "that if, before the expiration of that period, it shall, at any time, be

found expedient to establish a Provincial Bank in this Province, and that the same be so established by an Act of the Legislature, the corporation of the Bank of Montreal shall, from and after the expiration of seven years from the passing of such Act, be dissolved."

The Quebec Bank was incorporated with a capital stock limited to £75,000 currency, in 3,000 shares of £25 each, all to be paid up within nine years; the Bank of Canada, with a stock of £200,000, in 4,000 shares of £50 each. In other respects, the charters are substantially similar to that of the Bank of Montreal.

### § 3.—CHARACTERISTICS OF THE EARLY BANKING SYSTEM

From the preceding account it may be seen how simple, in many ways how lax, were the charters under which incorporated banks first operated in Lower Canada. The shareholders were liable only for the amount of their subscriptions to the stock. There was no limit to the note issue other than the provision restricting the aggregate of debts. There was no process whereby to establish the payment in specie of the capital stock. There was nothing to prohibit loans upon the security of the bank's stock, or to prevent the capital, once paid in, from being loaned out bodily to the directors. The publication of frequent and periodical statements of the condition of the banks was not required, nor, except in the case of loans to a foreign state, did the charters enforce by any penalty the prohibitions and restrictions that were laid down.

It must be remembered, however, that the several charters were based upon articles of agreement drawn up by the parties petitioning for incorporation; that Canadians in 1820 had had little cause for inquiring either into the theory of banking or the law which should govern banks. Any advantage in knowledge of this sort doubtless belonged to those who first entered the business. In drafting the articles so as best to further their profit, they naturally omitted many restrictions which, afterwards, and from a public standpoint, were found to be desirable. Either through ignorance or carelessness, the Legislature of 1820-21 failed to fill up the gaps. But to criticize their action at this

point will merely involve repetition. The whole subsequent history of Canadian banking legislation is a criticism upon these early charters, and a criticism derived, not *à priori*, but from experience.

In their constitution and variety of function, in the simplicity of the law regulating them, the first Canadian banks more closely resemble the chartered banks of Scotland than any similar institutions then in existence. The likeness is due to more than the reliance which Canada has usually placed upon British precedents in matters as yet untreated in her own law. It must be explained, in large part, by the number of Scotchmen interested in these early banks.<sup>1</sup> Having brought from their native land the knowledge of such institutions, they sought in the colonies to extend and to perpetuate for the farmer and merchant the benefits and stimulus of a system the worth of which Scotland's prosperity could abundantly prove.

That the early charters embodied many of the more essential principles of Canadian banking and Canadian banking law will be recognized as we trace the later growth. One such principle is the issue of notes against the general assets of the bank, or in different phrase, on the general credit of the Bank; another, the requirement of a large capital foundation, both to strengthen the credit of the bank by a heavy guarantee, and to provide sufficient funds for its operations. A third is the plan of granting each new bank a separate charter, a method by which some assurance may be had that the incorporated are worthy of their privileges. Again, a fourth is the principle of accountability to the Government, destined to find, under the Dominion laws, complete and frequent expression in the requirement of a monthly return to the Minister of Finance.

The banks themselves soon introduced some of the more fundamental features of Scotch banking. The Bank of Canada placed an agent at Kingston, in Upper Canada.<sup>2</sup> The Bank of Montreal established an office of discount and deposit at Quebec, and employed one agent at Kingston, and another, for the nego-

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<sup>1</sup> Among the one hundred and forty odd charter members of the Bank of Montreal there were at least ninety Scotch names. Of the eighty-nine incorporated as the Quebec Bank, no less than thirty were Scotch. Statutes *ut supra*.

<sup>2</sup> Journal, L. C., 1826, Appendix K.

tiation of sterling exchange, in the city of New York.<sup>1</sup> The several banks were accustomed to receive in payment the notes of their competitors and other demands upon them, exchange these against claims on themselves and exact the payment of balances in specie as often as once a week.<sup>2</sup> Thus was begun the practice of branch banking, one of the most useful features of the Canadian system to the public no less than to the banks, and the conduct of exchanges between the banks. By the latter Canadians have secured frequent and rigid tests of the solvency of the participants and an efficient limitation of the note issue to its natural volume.

#### § 4.—ENVIRONMENT OF THE BANKS

To depict the condition of the country in which the persistent enterprise of the British colonists had at last secured the new banking institutions, is a task for the economic historian rather than for these pages. He may describe in detail its commerce, and mark how far had proceeded its development in agriculture and manufactures. But whatever else may be told, it is certain, at least, that from 1820 to 1830, the Province of Lower Canada was not far advanced. In commercial activity and general economic development it was much inferior to the State of New York on its southwestern border; and the comparison with Ohio in the later years of the decade would have been distinctly unfavorable. It had suffered from commercial restrictions, from the simplicity, ignorance and fixed habits of the French *habitants*, from its severe climate and from the checks imposed by an absorbing political strife. The cause of the last was the race question, the deep seated enmity between the British immigrants and the descendants of the conquered French. That enmity was embittered by the ascendancy which unjust favoritism of the Royal Governors had helped to give the British in the government and the profession of law, and which "their own superior energy, skill and capital, secured to them in every branch of industry." Continuing, in his

<sup>1</sup> Journal, L. C., 1830, Appendix K.

<sup>2</sup> Journal, L. C., 1829, Appendix Hn., Resolve of the Board of the Bank of Montreal, 28th January, 1820.

report of 1839, Lord Durham remarked that "they (the English) have developed the resources of the country, they have constructed or improved its means of communication, they have created its foreign commerce. The entire wholesale and a large portion of the retail trade of the province, together with the most profitable and flourishing farms, are in the hands of a numerical minority of the population."<sup>1</sup>

The chief export trade of the city of Quebec was in timber, that of Montreal, in furs. Ginseng, potash and grain came next in importance. The imports consisted mainly of dry goods, hardware, spirits, sugar and such necessary commodities as the colonists were not in a position to produce for themselves. The total discounts of the banks, exclusive of the Bank of Canada, which did not report to the Legislature in 1830, were as follows :

Year	Quebec Bank*	Bank of Montreal <sup>2</sup>
1821		£ 699,969
1822		1,120,649
1823	£221,252	1,173,467
1824	319,948	1,705,163
1825	444,141	1,851,559
1826	456,538	1,354,024
1827	438,134	1,174,971
1828	430,094	1,377,483
1829	484,611	1,559,683
1830	526,870	

The colony was extremely dependent upon the mother country, and when crises or commercial disturbances occurred in England, Canada suffered sorely. A striking indication of this dependence is the fact that for two years after the disastrous English collapse of 1825 the Bank of Montreal was obliged to pass its dividends, owing to losses on merchants' exchange incurred in the panic year.<sup>4</sup>

#### § 5.—PRACTICE OF THE BANKS

In exchange the Bank of Montreal was the largest dealer, though the Bank of Canada joined in the business of buying and selling merchants' exchange and the commissariat bills of

<sup>1</sup> Report on the Affairs of British North America, from the EARL OF DURHAM, Her Majesty's High Commissioner, etc., Montreal, 1839, pp. 14 and 19.

<sup>2</sup> Journal, L. C., 1831, Appendix M.

<sup>3</sup> Journal, L. C., 1830, Appendix N.

<sup>4</sup> Journal, L. C., 1829, Appendix HH.



the Government, and of furnishing, when required, their own drafts upon London.<sup>1</sup> The former bank employed its New York agents for operations in the American market, frequently more favorable, in matters of sterling exchange, than that of Lower Canada. It also remitted bills direct to England against its own imports of specie, colonial imports of goods or adverse balances otherwise incurred.<sup>2</sup>

I have previously noticed the appearance in Canadian practice of the vital features of branch banking and a system of frequent exchanges and note redemptions conducted by the banks themselves. The plan of using New York as a market for sterling bills, a source for the supply of specie and a centre for the employment at call of portions of the bank's reserve funds, has been followed by the greater banks since its introduction. An idea of the extent, at least, of the business carried on by the three banks can best be conveyed by the following returns to the Legislature for 1824-1826, 1829-1831 :

<sup>1</sup> Journal, L. C., 1823-24, p. 284.

<sup>2</sup> For example the Bank of Montreal in its exchange business in

	1827	1828	1829
Bought of the Government.....	£47,000	£36,900	£145,000
" Private Bills.....	18,729	44,367	60,610
Drew of its own Bills.....	40,951	62,472	100,581
Sold of its own in the United States .....	16,000	42,200	58,800
" the Government Bills .....	32,100	17,500	111,000

The current rate of exchange on gold in those years ranged from 2 to 8 per cent. premium. Journal, L. C., 1830, Appendix N.

	CAPITAL STOCK PAID IN		DEBTS DUE TO THE BANK		DEPOSITS		NOTES IN CIRCULATION		CASH IN HAND	
	1824 <sup>1</sup>	1825 <sup>2</sup>	1824	1825	1824	1825	1824	1825	1824	1825
Quebec Bank, Jan. 13, Feb. 1, Feb. 6	£	£	£	£	£	£	£	£	£	£
Montreal Bank, Jan. 8, Feb. 6, Jan. 31	51377	53262	91770	104919	26965	45824	25565	28427	16043	23684
Bank of Canada, Jan. 7, Feb. 10, Feb. 1	187500	187500	309472	375518	96809	105518	92727	137580	102303	65109
	92825	92825	128121	104828	11652	295	39206	11447	20683	3807
Total.....	331702	333587	529363	585265	135426	151637	167498	177454	139029	92600

Quebec Bank, Dec. 2, Feb. 17, Feb. 9	1828 <sup>1</sup>	1830 <sup>2</sup>	1831 <sup>3</sup>	1828	1830	1831	1828	1830	1831	1828	1830	1831
Montreal Bank, Dec. 1, Feb. 18, Feb. 14	£	£	£	£	£	£	£	£	£	£	£	£
Bank of Canada, Dec. 3, Feb. 20.....	64645	67375	74712	133316	142039	160201	32568	51674	47134	44328	38713	47637
	209835	236862	250000	398092	460744	499000 <sup>7</sup>	94785	111643	139285	148039	178552	223558
	3812 <sup>4</sup>	3555 <sup>5</sup>	..	5861	5452	..	152	152	..	3505	3487	..

<sup>1</sup> Journal of the House of Assembly of the Province of Lower Canada, 1823-4, Appendix N.  
<sup>2</sup> *Ibid.*, 1825, Appendix N.  
<sup>3</sup> *Ibid.*, 1826, Appendix K.  
<sup>4</sup> *Ibid.*, 1828.  
<sup>5</sup> *Ibid.*, 1830, Appendix N.  
<sup>6</sup> *Ibid.*, 1831, Appendix M.  
<sup>7</sup> Also £29,044 due by "New York Agents."  
<sup>8</sup> Reported by Wm. PERRIE, acting for the President and Directors of the Bank of Canada. The statement of this Bank on Feb. 9, 1827, was:  
 Capital Stock.....£30,325  
 Debts due to Bank.....38,450  
 Deposits.....385  
 Circulation.....8,432  
 Cash.....2,843  
*Vide* Journal L. C., 1827, Sec. 3, Appendix E. It will be seen that this bank was already in liquidation.

Comparing these figures with the report of aggregate discounts on a preceding page, it will be seen that for the Quebec Bank the total discounts were from  $3\frac{1}{2}$  to  $4\frac{1}{4}$  times, for the Bank of Montreal from  $3\frac{3}{4}$  to  $5\frac{1}{2}$  times, the debts due to the banks respectively near January of each year. As the debts due undoubtedly included balances for which other banks were liable, the multiples just calculated should be increased somewhat, justly to represent the frequency with which the banks' loanable funds were turned over. After making this correction it must be concluded that, on the whole, the two banks which survived had little of their capital locked up in overdue loans, and were making their advances upon short-time paper. Contemporary evidence confirms the conclusion.<sup>1</sup>

That the directors should be familiar with mercantile credit, the members of the board were generally merchants, and naturally they were not precluded from the advantages of bank credits.<sup>2</sup> The statement in the note below shows that directly or indirectly the directors both of the Quebec and Montreal Banks were liable for over a third of the debts due to each respectively in the winter of 1830-31. In 1834 the proportion of directors' liabilities to total discounts was £47,426 to £119,051 for the Quebec Bank and £169,121 to £579,729 for the Bank of

<sup>1</sup> A petition to the Legislature of 1829, attacking the Bank of Montreal, complains of "its resolution not to discount any bill for, or make any advances to, persons not directly engaged in trade; a rule which, while it cuts the bank itself off from a lucrative and secure branch of trade, deprives the public of those advantages which in countries where the banking system is better understood, are considered as important to the agricultural, professional and general interest as to that of the mercantile part of the community, and displays the narrow, mistaken and selfish views of those who cannot drop the trades when they assume to be bank directors." *Journal, L.C.*, 1829, p. 354.

<sup>2</sup> On 5th February, 1831, the Quebec Bank reported discounts to Directors or money loaned or for which they are security as promissors .....

£23,002	
Total liabilities of Directors to the bank as Promissors .....	£20,150
As Endorsers .....	45,713
As Security for officers .....	1,270
Total .....	£67,133
Debts due to the bank 9th Feb., 1831 .....	£160,201

The Bank of Montreal reported for the 16th Nov., 1830:

	Discounts or Loans to Directors.	Discounts for others, the Directors being liable.	Discounts on Bills of Exchange.	Total.
As Individuals.....	£ 4,269	£ 241		£ 4,509
As Partners .....	116,204	53,663	£6,666	176,533
				£181,042
Total debts due to the bank Feb. 14th, 1831 .....				499,001

*Journal L. C.*, 1831, Appendix M.

Montreal.<sup>1</sup> The large share which went to satisfy the directors' demand for discounts is more easily justified when one remembers the comparative wealth of these persons and the importance of their firms among the commercial houses of the city. Further, the rules adopted by the Board to govern discounts were by no means careless or imprudent. Discounting days were held twice a week. Questions of discounting were decided by ballot. No advances for over £10,000 were allowed by the Bank of Montreal without the unanimous consent of the Board, and no discounts were granted without two responsible names on the paper nor for more than ninety days. Two votes in the negative, or one if there were but five members present, were sufficient to reject a note or a proffered bill of exchange.<sup>2</sup>

In other respects the returns are of use as showing the importance which deposits had already acquired for the Lower Canada banks, the modest limits within which the circulation was confined, and the large reserves or cash in hand, which the banks held against their demand liabilities. The proportions of cash to circulation and deposits were for the

	in 1824	1825	1826	1828	1830	1831
Quebec Bank.....	28 per cent.	25	29	19	25	17
Montreal Bank.....	54 " "	26	34	29	27	27

These ratios, though not averages, may be presumed to be fairly representative. Their height can be accounted for by the situation of the banks, remote from the bullion centres either of America or Europe, and the consequent necessity of a large specie store to provide against possible demands.

Beginning with 1825, there is to be noticed a rapid decline in the business of the Bank of Canada. The fall in its deposits from £11,000 in 1824 to £295 in 1825 seems to have decided the proprietors to wind up the bank. It nowhere appears that the bank defaulted in any of its obligations, but the management, undoubtedly, entertained rather faulty notions as to the privileges and duties of a bank. As early as 1820 they had incurred discredit by refusing to pay in dollars, and offering to cash the notes and cheques presented for payment by the other banks in

<sup>1</sup> Journal, L. C., 1834, Appendix S.

<sup>2</sup> Journal, L. C., 1829, Appendix Hh.

half crowns, small and much worn silver pieces, which, though current at an excessive rating by the law of the province, were not available for export. On the 28th January, 1820, the Bank of Montreal resolved not to accept cheques upon the sister bank in the future, and in April the directors passed a similar resolution respecting its notes.<sup>1</sup> It will be observed that the marked change in the account of the Bank of Canada came in the panic year. Then the capital stock which was £92,825 between 1824 and 1826, was reduced to £30,025 in 1827, and by 1830 to £3,555. In 1831 the liquidator reported to the House of Assembly that the bank's charter having expired, all business was discontinued.<sup>2</sup>

Erratic ideas upon the duties and powers of banks were not confined to the members of the Bank of Canada. The merchants of Montreal pray, in 1830, that if the Legislature renew the charter of the Montreal Bank, "care should be taken to protect the interest of the public by restricting the said bank from dealing in bills of exchange, and from issuing bills in small sums."<sup>3</sup> The first item of the complaint was of long standing, having been emphasized in 1823, by the charge that when the bank was buying foreign bills it ceased to discount. The chartered bank, of course, was both a powerful and an unwelcome competitor to the old private dealers in exchange. For the second point, the Legislative documents afford no other proof than that all the banks, as they continued to do until 1870, issued circulating notes for sums as low as one dollar or five shillings currency.

A branch had been established in Quebec by the Bank of Montreal with an allotment of £30,000 capital, and £60,000 notes payable in that city. In the early years of the decade the Quebec Bank displayed considerable dissatisfaction with this proceeding, animated, apparently, by the belief that incorporation was intended to establish at Quebec a local monopoly of banking for its own benefit. Some feeling against the branch still existed in 1829. In a petition of merchants and others attacking the mother bank on the general ground that it had not acted in the public interest, there are found among other

<sup>1</sup> *Ibid.*

<sup>2</sup> Journal, L. C., 1831, p. 18.

<sup>3</sup> Journal, L.C., 1830, page 123.

specific charges, the assertions that the Bank of Montreal had no right to establish a branch at Quebec, that it refused to redeem its own notes at that city when they were not stamped "payable at Quebec," and that the Quebec office bought up at a discount the notes issued from Montreal. This was the same document in which was criticised the practice of the bank to loan chiefly on paper arising from commercial transactions.

The charges were serious enough for investigation. But the committee who tried the case acquitted the Montreal Bank of the monstrous anomaly of trading in its own notes. They found in respect to the other charges, (a) that the office at Quebec had been highly advantageous to commercial and agricultural interests, particularly to those of the city and district of Quebec, having caused a desirable competition between the two monied institutions, and that the affairs of the bank had been conducted on fair and honorable principles; (b) the charter did not prohibit the establishment of agencies; (c) to redeem notes at the branches was not the practice of the Bank of England, the Bank of Scotland, or the Bank of the United States; (d) the Quebec office had not refused to redeem its own issues; (e) the bank had not traded in deteriorated coin, but had discountenanced the practice at considerable expense; (f) the bank had taken every prudent measure to stop the counterfeiting of its notes.

§ 6.—FURTHER LEGISLATION

The practical monopoly of issue was conferred upon the chartered banks by an Act of 1830. (10 & 11 Geo. IV., cap. 5, sec. ii.) On penalty of forfeiture of the amount involved, it forbade that any note payable to bearer or under the value of five dollars should be offered or given in payment, except such notes as might be issued by banks incorporated by law in Lower Canada.

In the same year, the charter of the Bank of Montreal was continued to the 1st June, 1837, and amended in some important respects. (10 & 11 Geo. IV., cap. 6.)<sup>1</sup> (a) It had been found expedient that more explicit statements should be required.

<sup>1</sup> Provincial Statutes of Lower Canada, 1830, p. 571.

A new form was adopted, the changes being such as to show among other items the state of the balance sheet of the banks reporting. (b) The total amount of notes in circulation for less than £1 5s. (\$5) currency, was limited to one-fifth of the capital stock paid in, and notes for less than 5s. were prohibited. The Legislature reserved the power to suppress or further to limit the circulation of notes under five dollars, and added the penalty of forfeiture of charter for the violation of either of the restrictions already imposed. (c) In order to preserve a competition in banking, it was provided that the charter should determine in ten months from the expiry of the charter of the Quebec Bank, unless that were likewise continued, or some other bank incorporated in Lower Canada.

The next year, however, the Quebec Bank secured a renewal of its charter to the 1st May, 1836 (and by a subsequent Act, to the 1st June, 1837), with amendments similar to those imposed upon the Bank of Montreal.<sup>1</sup> (1 Wm. IV., cap. 13.) It was permitted to add to its capital stock not more than £150,000, the whole to be called up within five years, in instalments of not less than 10 per cent. per annum.

On the 5th February, 1831, a petition of Montreal merchants praying for the incorporation of a new bank in their city, was presented to the House of Assembly. There was but one bank there, they recited, "whose capital is altogether inadequate to the circulation of the valuable articles of import and export which its geographic position naturally brings to it, and which has the effect of retarding the development of all the commercial and agricultural resources of which it is susceptible. Though as yet no improper influence may have resulted from a banking monopoly in Montreal, the most effectual preventive of such an evil is the admission of reasonable competition with its counteracting influence."<sup>2</sup> In compliance with their prayer the Legislature passed an Act to incorporate the president, directors and company of the City Bank. On the question raised by this single successful proposal, between 1821 and 1841, to establish a new bank in Lower Canada, twenty-one

<sup>1</sup> Provincial Statutes of Lower Canada, 1831, p. 102.

<sup>2</sup> Journal, L.C., 1831, p. 88.

French members of the Assembly were against the measure, and a mixed party of twenty-seven French and English for it.<sup>1</sup> The ballot is good confirmation of Lord Durham's remarks upon the French prejudice against banks.<sup>2</sup>

Before the charter of the City Bank reached the Imperial Government, reforms had been effected in the English law against forgery. After 1832 it was not a capital crime, and the charter from Lower Canada failed of the Royal assent because of its severe and inconsistent penalties against forgery. With a change in this regard the bill was re-enacted in 1833, to continue until the 1st June, 1837, and became law on the 3rd May. (3 Wm. IV., cap. 32.)

The only novel features in this charter were the provisions concerning the first organization of the bank. Those who petitioned for incorporation had not begun a banking business; indeed, in 1833 they had still to secure a capital in order to meet the requirements of the Act. The capital stock was limited to £200,000 in 8,000 shares of £25 each, all of which must have been subscribed and £40,000 paid in, and "held by and in the actual possession of the corporation in gold and silver coin current in this province," before any note or bill might be issued. To raise the capital, subscription books were to be opened after a public notice for four successive weeks. After the amount was subscribed, and a notice published for three weeks, a meeting of the subscribers for the election of directors to serve until the next Monday in June, might be called. Five per cent. of the subscription was to be paid down at the time of subscribing, the remainder in instalments not greater than ten per cent. and on thirty days' or more notice from the directors, the whole capital to be paid in within four years from the passing of the Act.

<sup>1</sup> *Ibid.*, p. 439.

<sup>2</sup> "The English population, an immigrant and enterprising population, looked on the North American provinces as a vast field for speculation and settlement, and in the common spirit of the Anglo-Saxon inhabitants of that continent, regarded it as the chief business of the Government to promote by all possible use of its legislative and administrative powers, the increase of population and the accumulation of property. They wished to form themselves into companies for the establishment of banks and the construction of railroads and canals, and to obtain the power necessary for the completion of such works with funds of their own. \* \* \* The applications for banks, railroads and canals were laid on one side until some general measure could be adopted with regard to such undertakings, but the general measure thus promised was never passed. In all these decisions of the Assembly, in its discussions and in the apparent motives of its conduct, the English population perceived traces of a desire to repress the influence and success of their race." Report, *ut supra*, p. 19.



The annual meeting of the shareholders was appointed for the first Monday in June. At these meetings were to be elected the eleven directors, five or more being annually re-elected. In other respects the charter of the City Bank presents no substantial difference to the amended charters of the other two banks.

The mention of two more measures will be necessary to complete the sketch of the banking legislation in the old Province of Lower Canada.

The charter of the Bank of Montreal expired on the 1st June, 1837. It was not renewed at the time because of the failure of Parliament to act in the case. The bank continued its business<sup>1</sup> without an incorporation until its old charter was re-enacted for four years by the Special Council, the 4th May, 1838. The Quebec Bank and the City Bank met the same difficulty by securing Royal Letters Patent,<sup>2</sup> by which their corporate existence was continued for one year after the termination of the first session of the Provincial Parliament that should be held after the 31st May, 1837.<sup>3</sup> The conditions of these charters were practically those under which the banks had acted since 1833. The years 1837, 1838 and 1839 were marked by great disturbances in the Lower Province and the suspension of the constitutional government established in 1792. In its place was a temporary government known as the "Special Council of the Province of Lower Canada."<sup>4</sup> This body extended the charter of the Quebec Bank until the 1st Nov., 1842, continuing also the Royal permission to add £150,000 to its capital stock.<sup>5</sup> This is the first of the measures referred to. The second is "an ordinance to regulate private banking and the circulation of the notes of private bankers," *i.e.*, notes not of any bank chartered, authorized or recognized by the Legislature of Lower Canada, or competent authority in any part of Her Majesty's dominions, or in the United States. The law

<sup>1</sup> Ordinances of the Special Council of Lower Canada, 1838, p. 50, 1 Vic., cap. xiv.

<sup>2</sup> 7 Wm. IV. assented to 31st May, 1837.

<sup>3</sup> The Revised Acts and Ordinances of Lower Canada, 1845, p. 320.

<sup>4</sup> Created by the Imperial Act of 1 Vic., passed 10th July, 1838.

<sup>5</sup> Acts and Ordinances, *ut supra*: "An ordinance to prolong the term of the Royal Charter incorporating the Quebec Bank, and to make further provision for the government and management of the said Bank." 2 Vic. (3), cap. xxiv.

forbade the unlicensed private issue of notes under £5 currency, on a penalty of three times the nominal value of the notes, or of £5 currency for each offence if the notes should be for less than 5 shillings. Licenses were to be granted under the authority of the ordinance for one year, and published in two newspapers in each of the cities of Montreal and Quebec. Licensed banks were obliged to transmit statements of their affairs to the Government or forfeit their licenses. Notes for less than \$5 were not to exceed one-fifth of the bank's capital. Severe penalties were also imposed for giving or receiving in payment such notes as were denounced by the Act.

From all internal evidence this ordinance was a temporary expedient for the suppression of the numerous irresponsible issues of promissory notes for circulation that are wont to appear in situations such as then existed in Canada. The only issues that could have come within the purview of the ordinance were of slight importance. None of the concerns thus subjected to regulation and supervision survived until 1841.

Both the ordinances described were products of a time of excitement, agitation, disorder and violence, succeeded by the rule of martial law. But the Rebellion of 1837, the second outbreak of insurrection in the following year, the mission of the Earl of Durham and the attempted solution of the race and political problem by the union of the Canadas, events which absorbed the attention of the colonists between 1837 and 1840, cannot receive more than mention here. The instability and prostration caused by party feuds, by civil war, military rule and constitutional change, involve for the commerce and banking of a country consequences which, though overshadowed by political events, are often costly and significant. But any such results experienced in Lower Canada, the effects of the financial crisis of 1837, and the suspension of specie payments induced by the commercial and political confusion, can best be discussed in connection with the similar difficulties encountered in the same years by the banks of the Upper Province.

Before taking up the early banking in Upper Canada, it is necessary to notice the appearance in Montreal of a bank which has ever since retained the unique characteristics of its constitution. The French banking firm of Viger, De Witt et Cie., other-

wise known as *La Banque du Peuple*, began its business in 1835. It was a co-partnership *in commendam* or *en commandite*, composed of some twelve principal partners or members and an indefinite number of *commanditaires* or partners *in commendam*. Of the principal partners was required a considerable contribution of capital in each case; in them exclusively was vested the management of the bank, and against them ran a joint and several liability for all the debts of the bank. The *commanditaires* had no voice in the management of the bank, were exempt from any liability beyond the amount of their subscribed stock, and were entitled to dividends on their contributions of paid-in capital at the same rate as the principal partners. Concerning this bank Lord Durham remarked: "The establishment of the Banque du Peuple by French capitalists, is an event which may be regarded as a satisfactory indication of an awakening commercial energy among the French, and it is, therefore, very much to be regretted that the success of the new enterprise was uniformly promoted by direct and illiberal appeals to the national feelings of the race."<sup>1</sup>

Statements of the chartered banks of Lower Canada are appended for 1831 and 1834, the last statement published before the Rebellion that I have been able to procure.

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<sup>1</sup> Report, p. 15.

CHARTERED BANKS OF LOWER CANADA; Miscellaneous Statements for 1831, 1834, 1835 and 1837.

	Quebec Bank 5th Feb. 1831 <i>a</i>	Bank of Montreal 1 Feb. 1831 <i>a</i>	Total 1831	Quebec Bank 17 Jan. 1834 <i>c</i>	Bank of Montreal 18 Jan. 1834 <i>c</i>	City Bank 15 Jan. 1834 <i>c</i>	Total Jan. 1834	Quebec Bank 5 Nov. 1835 <i>d</i>	Bank of Montreal 1 June 1837 <i>d</i>	City Bank 31 May 1837 <i>d</i>
<b>LIABILITIES</b>										
Capital stock paid-in .....	£ 74,212	£ 250,000	£ 324,212	£ 75,000	£ 250,000	£ 84,121	£ 409,121	£ 75,000	£ 250,000	£ 200,000
Notes in circulation .....	47,980	223,558	271,538	46,751	227,439	34,235	308,435	59,384	180,692	104,576
Net profits in hand .....	3,192	15,066	18,258	9,472	622	1,866	11,338	..	..	..
Unpaid dividends due .....	..	846	846	..	622	..	622	..	..	..
Cash deposited not bearing int. . .	37,931	109,353	147,284	44,930	184,882	12,937	242,749	..	234,776	24,594
Cash deposited bearing interest.	4,614	..	4,614	..	..	..	..	..	..	..
Balance due to London or foreign agents on exchange transact'ns.	..	29,008	29,008	..	6,617	..	6,617	..	..	..
Balance due to other banks .....	..	19,932	19,932	3,432	16,960	3,583	23,975	..	..	..
<b>Total liabilities.....</b>	<b>170,930</b>	<b>647,766</b>	<b>..</b>	<b>179,587</b>	<b>686,524</b>	<b>136,744</b>	<b>1,002,855</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>ASSETS</b>										
Gold and silver coin and bullion	13,319	98,513	111,832	21,011	73,870	15,244	110,125	12,844	68,811	15,934
Real estate and bank furniture..	1,000	11,291	12,291	2,566	7,500	..	10,066	..	..	..
Notes and cheques of other b'ks.	1,303	9,315	10,618	661	4,688	5,772	11,121	..	..	15,081
Balances due from other banks & foreign agents .....	4,424	29,644 <sup>b</sup>	74,068	3,437	17,002	27,342	47,781	..	..	..
Debts due to the bank—										
Bonds and obligations .....	24,788	19,035	44,823	32,859	3,835	..	36,694	..	..	..
Bills of exchange .....	..	1,145	1,145	..	13,374	1,213	14,587	..	..	..
Notes discounted .....	133,525	478,820	612,345	119,051	566,253	87,201	772,595	177,677	686,942	308,131
<b>Total assets .....</b>	<b>178,359</b>	<b>647,766</b>	<b>..</b>	<b>179,587</b>	<b>686,524</b>	<b>136,744</b>	<b>1,002,855</b>	<b>..</b>	<b>..</b>	<b>..</b>

<sup>a</sup> Journal, L.C., 1831, Appendix M.

<sup>b</sup> This was the amount due by New York agents upon exchange transactions.

<sup>c</sup> Journal, L.C., 1834, Appendix S.

<sup>d</sup> MARTIN, R. M., History, Statistics and Geography of Upper and Lower Canada, London, 1838, pp. 273, 278.

The footings do not exactly correspond to the exact sum of the items by reason of the omission of shillings and pence.

## CHAPTER III

### UPPER CANADA, 1817-1839

#### § 7.—ESTABLISHMENT OF THE BANK OF UPPER CANADA

THE question of incorporating a bank first came before the House of Assembly of Upper Canada in 1817, the same year, in fact, as the matter was broached to the Legislature of the Lower Province. On the 5th March, the "Memorial of the merchants and others of the town of Kingston" was presented. It showed that the "memorialists, having taken into consideration the great utility and advantage of banks to a commercial people, which has been evinced by the number which have been established in England, and the United States of America since the Revolutionary War, and feeling the benefit which the latter derive from the ready aid afforded them by their banks to carry on their establishments and improvements in their western territory, which, although of a more recent date, is in a more flourishing state than any part of this province, are of opinion that if found so beneficial in those countries they cannot fail of tending to the prosperity of this province. The want of such an establishment was severely felt before the late war, and there is hardly any doubt but that the same inconveniences will very shortly occur, whereas a well regulated bank would obviate all these difficulties by keeping up a circulating paper to meet every public demand." They prayed, therefore, for incorporation as the Bank of Upper Canada, with a capital of £100,000.<sup>1</sup>

The Act of incorporation passed by the Assembly and Legislative Council was reserved by the Lieutenant-Governor for the signification of the Royal pleasure. Assent was granted, but as notice of it arrived too late for promulgation within the period established by the charter for the bank to begin business,

<sup>1</sup> Journal of the House of Assembly of the Province of Upper Canada, 1817, p. 106, of the MS. copy in the Library of Parliament, Ottawa, Canada.

a re-enactment was necessary to make the charter available.<sup>1</sup> The inhabitants of Kingston again petitioned in June, 1819. On the 12th July, an "Act to incorporate sundry persons under the style and title of the President, Directors and Company of the Bank of Kingston" became law. (59 Geo. III., cap. 15, U.C.) This charter was forfeited by non-user till the 1st Jan., 1821. The reason of so extended a reference will presently appear.

In the meantime merchants and residents of the Home District (the site of the present city of Toronto) prayed for incorporation as the Upper Canada Banking Company. They supported their request by reference to the want of a circulating medium before the Army Bills were issued, and to the prospect of a like disadvantage soon becoming oppressive. The charter passed for their benefit was reserved for the Royal pleasure by Sir Peregrine Maitland, 12th July, 1819.<sup>2</sup> As before, the receipt of the Royal assent was much delayed, and on the 5th April, 1821, the House of Assembly adopted the following resolutions:

"1. RESOLVED, that it is the opinion of this House that the establishment of a Provincial bank, under proper restrictions, would be beneficial to the country, by remedying the great want of specie by securing to ourselves whatever advantages are to be derived from the issue of a paper currency, and by establishing a circulating medium of known security, instead of the paper of private banks, uncontrolled by any charter or legislative provision, and which from being rejected by the Public Receivers, does not answer effectually all the purposes of trade."

"2. RESOLVED, that it is the opinion of this House that a Bill should be brought in for establishing a Provincial bank by the incorporation of such persons as shall become stockholders under the provisions of the Act; the system to be as similar as circumstances will permit to that contained in the Bill formerly passed for establishing a bank at Kingston, except that to insure its going into operation, the amount of stock and deposit, and consequently of paper to be issued, should be reduced."<sup>3</sup>

But the Act to incorporate the Bank of Upper Canada became law by the proclamation of the Royal assent on the 21st April, 1821, and a new Act became unnecessary. (59 Geo. III., cap. 24, U.C.)<sup>4</sup>

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<sup>1</sup> Journal, U. C., *ut supra*, 1819, p. 19.

<sup>2</sup> *Ibid*, p. 419.

<sup>3</sup> Journal of the House of Assembly of the Province of Upper Canada, Kingston, U. C., 1821, p. 196.

<sup>4</sup> Revised Statutes of the Province of Upper Canada, Kingston, 1831, p. 262.

From the foregoing it can be seen with what force, greater even than in Lower Canada, the need of a reform in the currency prompted the establishment of the first bank in the Upper Province. In the moving cause of its origin this institution differed little from the old banks of Amsterdam, Hamburg and Italian cities, the effort to escape the evils of a varied and fluctuating circulating medium being of chief importance in each of these undertakings. In Upper Canada, there were also the need of an instrument of exchange less costly than specie, and a hope, by the introduction of credit organization in some form, to promote the prosperity and advantage of commerce and agriculture. This purpose, apparently so dear to provincial assemblies, was suggested as much by the example of the United States as of the mother country. Of the instances of American influence that we shall have to note this is by no means the last.

But in its constitution, and in the charter restrictions under which it was to act, the Bank of Upper Canada presents few remarkable variations from the Lower Canada banks incorporated in 1821. The first five sections of the Act are chiefly concerned with provision for the conduct of subscription to the bank's capital. The limit set in 1821 was £200,000, divided into shares of £12 10s., of which £50,000 were to be subscribed and £20,000 in specie to be paid in before the bank should begin business. On account of the scarcity of coin, the requirement of specie payment was reduced in 1822, to £10,000. (2 Geo. IV., cap. 7, U.C.) In 1823, the capital limit had been found greater than the circumstances and commerce of the province required. At the request of the bank, it was reduced to £100,000 and "the whole amount of the property, stock and estate," of the bank limited to £100,000. The latter is a curious provision whose only effects must have been to prevent the increase of capital and the accumulation of a reserve fund or rest out of profits.

The important differences, in effect, from the Lower Canada charter we have described, will be found in the following details :

(a) The bank was to be established at the seat of govern-

ment of the province, with express authority, however, to establish branches.

(b) Notes under five shillings were forbidden.

(c) Four of the fifteen directors were each year ineligible for re-election.

(d) Directors absent when the transaction was authorized could avoid the personal liability for the excess of debts of the bank over thrice the paid-in capital stock, plus deposits of money, by immediate notice to the stockholders in general meeting, instead of by published newspaper notice.

(e) The bank could lawfully hold only such real estate as was necessary for the convenient transaction of its business, but no limit was imposed on the annual value of such property. The provisions as to land mortgaged to the bank by way of additional security, etc., present no variations.

(f) On refusing payment of its bills in specie, the bank was obliged to cease banking operations, on pain of forfeiting its charter, until specie payment should be resumed.

(g) An annual return, properly sworn to, was to be made to the Provincial Legislature.

The charter was to remain in force until the 1st June, 1848.

The new bank began its business on the 1st July, 1822. The chronic scarcity of specie in the Province and the Government's power to subscribe for stock have lent color to the story of an unauthorized advance of coin from the military chest, without which the bank would have been unable to start.<sup>1</sup> But the evidence for this has not yet been advanced. The Government did subscribe for the 2,000 shares allotted to it by the charter. When the required capital was reduced in 1823, the Government, thus becoming the owner of a fourth of the entire stock, was authorized to appoint four of the fifteen directors "for the better security of the public interest."<sup>2</sup> Thus situate by law at the seat of Government, and with the Government entitled to share in its management as well as its profits, the Bank of Upper

<sup>1</sup> *Vide* HAGUE, G., "The Banking System of Canada," in *Canadian Economics*, Montreal, 1885, p. 226.

<sup>2</sup> 4 Geo. IV., cap. xi.



Canada became both in law and in fact a "Provincial Bank." A practical monopoly of note issue was conferred upon it in 1823 by an Act prohibiting banks not redeeming their notes in specie within the province from carrying on business there. (4 Geo. IV., cap. 13.)

§ 8.—THE "PRETENDED" BANK OF UPPER CANADA AT KINGSTON

It will be remembered that difficulty in securing the required capital caused the charter of the Bank of Kingston to be forfeited for non-user. Nevertheless some ten residents of Kingston clubbed together in 1819, formed an association in direct violation of the law, invited persons to subscribe to the stock, and opened an office in Kingston as the President, Directors and Company of the Bank of Upper Canada.<sup>1</sup> Their own subscriptions they paid chiefly in stock notes, but in one way and another a paid-up capital of about £12,000 was secured.<sup>2</sup> By 1823 the pretended bank had issued notes for £18,997 14s. 3d., and by means of these or of its stock, had become the debtor of a great portion of the inhabitants of the Province.

If rightly conducted, the enterprise might have been profitable, but the management had neither honor nor honesty. They soon attempted to loot the bank. Two directors alone borrowed a sum equal to the paid-in capital. Later, the President and a confederate on the Board of Directors opened a shaving shop for lending the bank's funds to individuals at double interest. This aroused the jealousy of the other directors, and Whitney, the President, was suspended in August, 1822. £8,000 of redeemed notes were lying with the Montreal agent of the bank. Whitney forthwith left for Montreal and arrived before the news of the trouble was come by post from Kingston. He asked the cashier of the Bank of Canada for the parcel of notes and received it, to return to the Kingston bank's cashier. Whitney used the notes for his own purposes. When the quarrel, the abstraction of over £1,000 from the parcel, and the refusal of Whitney to give up the remaining

<sup>1</sup> 4 Geo. IV., cap. xxiii., Preamble.

<sup>2</sup> Journal, U. C., 1825. Appendix B.

notes, became known in Kingston, a run upon the bank was started. Its small store of specie was soon exhausted. Ignorance only added to the popular alarm, and intensified the demands for payment. Note-kiting or reciprocity in indorsement had been practiced freely by the directors, and renewals granted without discretion. The locked up funds could not be realized upon. About the 23rd September, 1822, the bank failed.<sup>1</sup>

The condition of the debts and property on the 6th February, 1823, was as follows:

Stock paid-in:	
Directors .....	£3,240
Others .....	7,896
	<u>£11,136</u>
Notes unredeemed .....	18,176
Deposits .....	900
	<u>£30,212</u>
Less Directors' stock .....	3,240
	<u>£26,970</u>
Amount to be paid.....	<u>£26,970</u>
Debts due to the Bank by bond and note.....	£22,227
Book debts .....	1,000
Deficiency to be made up by the cashier.....	5,884
	<u>£29,111</u>
Total assets .....	<u>£29,111</u>

Instead of enabling the shareholders to enforce debts due to the bank and thus to wind up the concern, the Legislature, in 1823, vested the stock, debts, bonds and property of the bank in the hands of commissioners for the benefit of the creditors. (4 Geo. IV., cap. 22.) The commissioners reported claims existing against the bank the 3rd January, 1825, as £26,698, of which £11,136 were for stock. The assets amounted to £18,718. There was a possibility (not, however, realized) of recovering from the sureties for the bank officials the £5,884 considered as an abstraction from its funds.<sup>2</sup> In the opinion of the commissioners the whole capital would be sunk, and, even then, all

<sup>1</sup> Journal, Legislative Council, U.C., 1823, p. 113; also, Journal, U.C., 1823, pp. 187-201, of the type-written copies in the Legislative Library, Toronto; also, Statement of the affairs of the Bank of Upper Canada at Kingston, taken from authentic documents, Kingston, 1840, pp. 13, *et seq.*

<sup>2</sup> A statement of the affairs of the late pretended Bank of Upper Canada at Kingston, York, 1827, pp. 16, *et seq.*

claims would not be satisfied. Their forecast was correct. The Legislature tried to remedy the defects of the first Act by measures passed in 1824, 1828, 1829 and 1836. Liquidation dragged along, the commissioners made mistakes, by one of them losing a suit in which a claim for £10,000 was involved, and by the arbitration which debtors might demand under the law of 1829, many claims were reduced to less than a fifth of their original amount.<sup>1</sup> But in 1839 the legal debts due from the former bank had been reduced, by payment or scaling down, to less than £5,000, and, after an unimportant Act of 1841, the matter remained untouched by legislation (4 & 5 Vic., cap. 29, Can.).

This first bank failure in Canada, though comparatively small amounts were involved, caused widespread loss. Much grievous injury was inflicted by the extreme delay in liquidation. The better provision was made for the notes issued by the bank, £11,500 having been retired in various ways by 1825.<sup>2</sup> As the worst sufferers were the dupes whose money had been secured for stock and then manipulated by the directors, that extreme suspicion of banks of issue which frauds upon their paper currency made well nigh universal among Americans, was not excited in the minds of Canadians. Thus they were left free to consider more fairly the general question of banks and bank regulation, a fact not without its importance in the subsequent history.

#### § 9.—ECONOMIC AND POLITICAL ENVIRONMENT OF THE BANK

The economic conditions in which banking began in Upper Canada receive some notice in the petitions for incorporation. In prosperity and development, *e.g.*, the western territory of the United States is said to be further advanced than the Canadian Province, yet surely no one in 1818 could claim much in these respects for Indiana and Illinois, or Michigan and Ohio. Twenty years later, Lord Durham, reviewing the history of the Province, said with reference to the geographical character of

<sup>1</sup> *Ibid.*, p. 2.

<sup>2</sup> *Journal*, U.C., 1825, Appendix B.

the country: "Its inhabitants scattered along an extensive frontier with very imperfect means of communication and a limited and partial commerce, have apparently no community of interest or opinion." The Province had no great centre with which all the separate parts were connected, nor was there an habitual intercourse between the inhabitants of different sections. Deep seated impediments blocked the way of industrial progress. "A very considerable portion of the Province has neither roads, post offices, mills, schools or churches. The people may raise enough for their own subsistence," the Report continues, "and may even have a rude and comfortless plenty, but they can seldom acquire wealth."<sup>1</sup>

After the depression of 1825 and 1826 in England, the population was suddenly doubled by immigration. The value of all species of property rose and the resources of the province were rapidly, and for the old inhabitants profitably developed.<sup>2</sup> A series of canals, designed to render navigable the whole course of the St. Lawrence, was begun in 1825, the colony contributing lavishly by subsidies and expenditures on its own account. The Welland Canal was completed and the Cornwall Canal far advanced. But the utility of the works was diminished and almost annihilated by the failure of the Lower Province to assist by the construction of such part of the projected system as lay within its borders. Upper Canada incurred in the fifteen years following 1825 a debt of nearly a million pounds sterling. Such an expenditure, added to the other capital invested in the various undertakings, had a powerful effect on the market for labor and for goods. But the only ports of entry for Upper Canada were in the Lower Province. Navigation on the St. Lawrence opened several weeks later than goods could be obtained through the United States, if the use of New York as a port of entry had been allowed. Merchants, therefore, were obliged to submit to injurious delays in their business, or, by importing in the autumn, have their capital lying dead for six months. The mischief was aggravated by a monopoly of

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<sup>1</sup> Lord Durham's Report, p. 70.

<sup>2</sup> *Ibid.*, p. 59.

freight forwarding existing between the River St. Lawrence and the Rideau Canal.<sup>1</sup>

The imperial regulations with respect to trade were another impediment; goods that the colony most needed were heavily taxed, while the staples of the United States, the same as its own products, were duty free. The more settled districts had the stronger representation in the assembly, and it is said that members, in disposing of the funds voted for roads and like improvements, were chiefly intent by this means to strengthen their influence with their constituents. The waste lands of the Province had been cut up and close settlement obstructed by the reservation, due to Mr. Pitt, of an eighth of every grant "for the support of a Protestant clergy."<sup>2</sup> Many of the best tracts, lying on the natural lines of settlement, were refused by the authorities to intending purchasers and given over to a land jobbing company which held them waste while speculating for a rise.<sup>3</sup> Politics in the Province were violent and bitter, the struggle of a Reform party against the Conservatives. At the centre and head of the Conservatives was the "Family Compact," a Junto armed with official patronage and influence, strengthened by the control of the Crown Lands, and intrenched in Church, Bar, Bench and Government.<sup>4</sup> Furthermore, the revenues of the Province were deficient, scarcely meeting the interest on the public debt. Work upon the canals eventually lagged for want of the funds, and the means of internal improvement became available only by a system of special assessments.<sup>5</sup>

In the political struggle, the Bank of Upper Canada cast its lot with the Government and the Family Compact. It had the custody of the moneys of the provincial treasury; it was the depository of the Welland Canal Company. It was accused of distributing its patronage according to the partisan activity, rather than the business ability of candidates for position, and

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<sup>1</sup> *Ibid*, p. 71.

<sup>2</sup> GOLDWIN SMITH, "Canada and the Canadian Question," p. 112.

<sup>3</sup> Journal, U. C., 1835, Appendix, Vol. I., First Report of the Select Committee on Trade and Commerce.

<sup>4</sup> Lord Durham's Report, p. 56.

<sup>5</sup> *Ibid*, p. 58.

of discriminating, when it granted credit, in favor of the dominant party.<sup>1</sup> There is reason to believe that, though preferred by a partisan committee, these charges contained a large measure of truth.<sup>2</sup> The shareholders of the bank were, to a great extent, members of the compact. The bank thus had some influence upon legislation. In 1830 and 1831, the Legislative Council rejected a bill proposing to incorporate a competitor to the bank. And again, in 1833, it rejected two charters passed by the Assembly.<sup>3</sup>

§ 10.—A PERIOD OF EXPANSION, 1830-37

Some indications of a change in the Upper Canada conditions have been given in the remarks designed to supply an idea, necessarily inadequate, of the economic situation in which the bank first carried on its business. In 1830 and 1831 the prosperity of the province was appreciably enhanced.<sup>4</sup> Towards this, without doubt, the immigration of 1826 and 1827 had contributed, as well as the expenditures on public works and the stimulus to trade and industry which they afforded. But the rise of land values, the more active operations in real estate, the unwonted readiness to engage in other transactions, and the intense demand for capital to assist the extension of trade and agriculture, point to the conclusion that the change in Canada was, to no slight extent, a part of the upward movement then affecting the whole North American Continent.

One effect of the new prosperity was the creation of more banking capital. The process was furthered by borrowers for the increased facility in obtaining loans at the legal rate of interest, by investors, for the large dividends derived from bank shares. The paid-in capital of the Bank of Upper Canada, reported at the modest sum of £10,640 in 1823, had risen to

<sup>1</sup> Journal, U. C., 1835, Vol. I., p. 82, Seventh Report of the Committee on Grievances, Appendix xi.

<sup>2</sup> A select committee on the subject of banking, quite as partisan, but on the other side, declared, however, in 1834, that "there was never the slightest foundation for the insinuation that the Bank of Upper Canada was a dangerous engine in the hands of the Government, against either the Bank or the Government. Journal, U. C., 1833-34, Appendix, p. 166. But *cf.* LORD DURHAM's Report, p. 56.

<sup>3</sup> Journal, U. C., 1835, *ut supra*, p. 2.

<sup>4</sup> Journal, U. C., 1833-34, Appendix, p. 162, Testimony of BENJ. THORNE.

£54,037 in 1826 and £100,000 in 1830. At various dates the bank reported to the Legislature as follows :

	15th Dec. <sup>1</sup> 1826	2nd Feb. <sup>2</sup> 1828	3rd March <sup>3</sup> 1829	2nd Feb. <sup>4</sup> 1830	1st Jan. <sup>5</sup> 1831
Funds and property.. } Capital stock paid in Debts due to the bank .. . . . . Debts due by the bank .. . . . . Bank notes in cir- culation .. . . . . Specie in vault ....	£ 38,391 54,039 107,598 19,484 87,339 19,066	£ 36,765 72,067 171,869 32,376 122,858 21,177	£ 47,271 72,410 180,854 35,102 140,488 23,190	£ 20,412 6,571 77,462 38,303 156,296 33,134	£ 15,618 6,715 100,000 260,557 33,621 187,039 42,664

It had paid regular dividends at 8 per cent. per annum, amounting at the close of 1831 to £41,669, and two bonuses of 6 per cent. In all it had distributed some £51,000 to its shareholders.<sup>6</sup> In the session of 1831-32 the Legislature authorized the addition of £100,000 to its capital in shares of £12 10s. each, and by the same Act forbade the bank to loan on its own stock on pain of forfeiting its charter. (2 Wm. IV, cap. 10.) An Act incorporating the Commercial Bank of the Midland District, rejected by the Legislative Council the two preceding years, was passed in the same session. The principal office of the Commercial Bank was to be at Kingston, its capital stock £100,000. Returns were henceforth required of both the banks in somewhat greater detail, and in the form of balance sheets; save in this important respect the new and amended charter presented no essential differences to the old one.

When books were opened to receive subscriptions to the new and additional capital thus authorized, the public displayed the utmost eagerness to obtain shares. The demand is the less surprising when one recalls the high profits paid by the Bank of Upper Canada without the assistance of a rest or reserve fund. The books for subscription to its 8,000 shares of additional stock

<sup>1</sup> Journal, U. C., 1826-7, p. 13.

<sup>2</sup> " " " 1828, p. 61.

<sup>3</sup> " " " 1829, p. 67.

<sup>4</sup> " " " 1830, p.—

<sup>5</sup> " " " 1831, p. 31.

<sup>6</sup> Journal of the Legislative Assembly of the Province of Canada, 1841, Appendix O.

were closed after a single day at York, the head office, and as soon as the mail could reach the other offices. No person was permitted, in the first instance, to subscribe for more than eighty shares. Yet in so short a time subscriptions were received for 25,679 shares, or £320,987 10s.<sup>1</sup> In 1832 it was able to pay out of the premium on the new stock, a bonus of 18 per cent. to the holders of the original shares, and still earn its regular dividend of 8 per cent.<sup>2</sup> So far as the anxiety of the public to secure stock was concerned, the experience of the Commercial Bank was precisely the same.

§ II.—IMPERIAL REGULATION OF COLONIAL BANK CHARTERS

In August, 1833, after both banks had been operating under the Acts of 1832 for over a year, rumors of a Royal disallowance of the Acts became current. The banks then had, in all, fifteen or sixteen offices and agencies, had discounted paper to the amount of £450,000, and issued some £300,000 of notes. A temporary panic was the result of the rumor, for debtors of the banks greatly feared the withdrawal of their credits. In some places mass-meetings protested against a disallowance, and petitions to the King were drawn up. In several instances small runs were started. The banks ceased discounting for a time, but soon began again. Thus, in the language of the day, they restored mercantile confidence, and saved many from bankruptcy.<sup>3</sup>

The Committee of the Privy Council for Trade had adopted in 1830 a series of regulations applying to colonial bank charters and devised for the protection of the public interests. They were, it was said, "precautions rendered more necessary by an experience of the prejudicial effects which have, in former periods, resulted from the extension of the banking system in the neighboring States without the restrictions they impose."<sup>4</sup> The regulations were transmitted by the British Colonial Office

<sup>1</sup> Journal, U.C., 1833-1834, Appendix, pp. 162 *et seq.*, Report of the Select Committee on the Subject of Banking.

<sup>2</sup> Journal, Canada, 1841, Appendix O.

<sup>3</sup> Journal, U.C., 1833-34, *ut supra*, Evidence of MR. CARTWRIGHT.

<sup>4</sup> Journal, U. C., 1833-34, p. 153.



in Downing street, with instructions for their observance in all Acts for the extension of the capital of existing banks or the creation of new banks in Upper Canada. The Acts of 1832 did not embody the provisions. The Committee for Trade, in a letter of the 9th May, 1833, objected to this omission; their recommendations were sanctioned by the threat to advise the exercise of the Royal prerogative to disallow the bills, in case they were not properly amended. The news of this action was the cause of the temporary panic, the protests and petitions in Upper Canada.

An explanatory letter from the secretary to the Lords Commissioners of the Treasury, dated 30th October, 1833, announces the partial relaxation of some of the provisions in behalf of the Bank of Upper Canada, but insists that the regulations specified should be added to the respective charters. For the Commercial Bank these were, briefly :

1st, the charter of the bank to be forfeited by a suspension of specie payments for more than sixty days, consecutively or during the year ;

2nd, the notes for circulation to be dated at the place of issue and to be payable upon demand, in specie, at the place of date and issue, as well as at the principal office of the bank, it being, however, expressly understood that it is not intended that any branch shall be called upon to pay the notes, either of the principal bank or other branches ;

3rd, one-half the capital stock to be paid in forthwith, and the moiety at the discretion of the bank ;

4th, the Directors as drawers, acceptors or indorsers, not to have more than one-third of the total discounts of the bank.

5th, the bank not to hold its own stock or to advance money on the credit of its stock ;

6th, half yearly statements of the average assets and liabilities to be prepared from weekly balance sheets kept at the bank, and these, together with a statement of the rate and amount of the dividend and of the amount of reserved profits, to be furnished to the Government and published; further returns to be furnished if called for, and if required, to be verified upon oath ;

7th, the shareholders to be respectively liable for the engagements of the company, to the extent of twice the amount of their subscribed shares; that is, to the amount of their subscribed stock, and to an equal amount in addition ;

8th, the bank not to loan or make advances on lands or other property not readily available to meet its engagements ; but to confine its transactions to what are understood to be the legitimate operations of banking, viz., advances upon commercial paper or government securities, and general dealings in money, bills of exchange and bullion.

The second, fourth, sixth and eighth provisions were to be applied to the Bank of Upper Canada ; the third and seventh to the new shareholders only.<sup>1</sup>

This correspondence was referred, in January, to a select committee of the House of Assembly. Bankers and merchants were called on to give evidence and criticise the regulations. On the 17th February, 1834, the committee reported that both the banks enjoyed the perfect confidence of the public, and had confined themselves strictly and honorably to the limits of their charters. The committee agreed that banks with large capital were preferable in point of security, and believed that in a future distribution of bank capital it would be better to increase that of existing institutions than to create new ones. They criticised the regulations with vehemence, particularly the first two, and the sixth ; on the seventh they failed to come to a decision, but the eighth was provided for in existing charters. The third, fourth and fifth regulations were already observed in the practice of the banks. Generally, much discontent was exhibited at the Imperial interference. In the meantime, however, the President of the Commercial Bank, to avert, he said, " the ruin and distress " which immediate dissolution of the bank would cause the shareholders, agreed to accept the imposition of the double liability. The committee accordingly reported a bill applying this and the third, fourth and fifth provisions to the Commercial Bank only. They also proposed an address to the King, emphatically lauding the chartered banks, deploring the exercise of the Royal veto, and praying that the

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<sup>1</sup> Journal, U. C., 1833-34, p. 63. Letter from the HON. J. K. STEWART to R. W. HAY, ESQ.

introduction of the new provisions into the charters should not be insisted on. The address was passed the 3rd March, 1834, by a vote of thirty-one to one. Action on the bill reported was postponed. In view of the sentiments expressed by the colonists in numerous petitions, of the excellent practice of the two banks, and of the long time that the Acts of 1832 had been in force, the Treasury forebore to advise their disallowance.<sup>1</sup>

The next bank charter passed in Upper Canada embodied the second, fifth, seventh and eighth of the regulations suggested by the Committee for Trade. Thus, for the first time in the Canadas, the public security was guarded by subjecting the shareholders of an incorporated bank to the double liability. But for penalties for the suspension of payments during any lengthened period, for restriction in the amount of discount to the directors, for periodical publication of accounts, for the payment of more than £10,000 of its capital, and subscription to more than £40,000, no provision was made. This was the Act passed in 1835, incorporating the Gore Bank, situate at Hamilton, and having a nominal capital of £100,000, to which the Royal assent was promulgated the 27th October, 1835. (6 Wm. IV., cap. 34.) To secure its independent management, incorporated companies were made incapable of holding stock in the Gore Bank, except such as should be conveyed to them in satisfaction of debts previously contracted. And upon such stock they were not entitled to vote. Otherwise the charter was like the laws governing the existing banks.

The Commercial Bank had found more capital necessary. During the same session it secured the power to double its stock, *i. e.*, to raise it from £100,000 to £200,000. The fourth and fifth of the Treasury regulations were applied to the Commercial by this Act; the eighth provision already existed in the original charter. But no precautions were taken to provide for the subscription and payment of the additional capital, the publication of accounts, the personal liability of shareholders, or the forfeiture of charter upon suspension of specie

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<sup>1</sup> Journal, U.C., 1835, p. 63, Letter of the 23rd May, 1834, from E. G. STANLEY.

redemption for more than sixty days. (6 Wm. IV., cap. 33.) The omission of the regulations mentioned was repugnant to the principles laid down in England with respect to the establishment of banking corporations. Had he been governed by considerations of commercial policy alone, said Lord Glenelg, he could not have advised the confirmation of these Acts in the form in which they passed. But aware of the importance attached to their confirmation in the Province, and unwilling at that time to advise the disallowance of Acts which had received the colonial sanction, he decided not to enforce those principles, in the present instance, against the judgment of the Provincial Legislature.<sup>1</sup> Although the improvement of the Acts was recommended to the next session, the banks first established in Upper Canada were not subjected to all the Treasury regulations until five years later, when, in 1841, the new suggestions of the Imperial authorities were adopted, practically in full.

#### § 12.—THE GROWTH AND CURE OF THE BANKING MANIA

The demand for accommodation was not to be satisfied, apparently, even by these additions to the banking capital of the Province. Another phase of the speculative movement and general expansion was inaugurated by a group from the Reform party. The faction in control of the Government, and all-powerful, likewise, in the chartered banks, favored limiting their number and requiring legislative sanction for each incorporation or addition to capital. Not so the Reformers. In 1831 and 1831-32 they had proposed to the Assembly general banking laws, in 1833-34 a bill "to make general the privilege of banking," in 1835 another "to establish an uniform system of banking," in 1836 a third "for the better regulation of banks and for protecting the interests of the public."<sup>2</sup> They displayed generally the desire to open the business to all who should wish to enter it.

The legal obstacles to such a freedom were not particularly

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<sup>1</sup> Journal, U.C., 1836, p. 264, Despatch of 11th Sept., 1835.

<sup>2</sup> *Vide* Journal, U.C., for the years mentioned.

difficult even as the law stood. British statutes of 15 and 17 Geo. III. prohibiting certain small notes and inland bills of exchange, were declared of no force in Upper Canada by an Act of 1821 (2 Geo. IV., cap. 12), and though the lack of corporate powers to sue was inconvenient, a joint stock association could carry on its business and even issue notes without much danger of legal penalties. A private bank started by two partners in 1834 was, in fact, taken over by the group of Reformers and organized under a deed of settlement as the Farmers' Joint Banking Company. They began business in September, 1835, with a paid-in capital which never rose above £50,000. But as the President and Solicitor were both elected from the dominant party, the disappointed Reformers left the bank, and in December, 1835, started a similar company called the Bank of the People.<sup>1</sup> Twelve months after this bank opened its doors with a paid-in capital of about £13,000, the Niagara Suspension Bridge Bank was established by a party of Americans. Though it kept agencies in Chippewa, and in Lockport, New York, its capital was even less. Meanwhile, Capt. Geo. Truscott, R.N., and one J. C. Green, an ex-commissariat officer, the former proprietors of the Farmers' Bank, started a weak-kneed concern under the name of the Agricultural Bank.

But it was not long before an Act of 1837 (7 Wm. IV., cap. 13), laid down the principle, ever thereafter to obtain in Canada, that it is "inconsistent with a due regard to the protection of commerce and the welfare and security of the people, that any person or number of persons, some of whom may be of doubtful solvency, should be allowed, without legislative authority, to issue their promissory notes for circulation as money." A summary stop was put to the increase of such banks by making unauthorized note issue a misdemeanor after the 1st July, and contracts concerning the notes null and void. Exceptions were granted in favor of the four private banks just mentioned and the Bank of British North America. Other banks were enabled by 7 and 8 Wm. IV., cap. i., to collect their debts, enforce the payment of stock subscriptions, and close up

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<sup>1</sup> "Reminiscences of his Public Life," by SIR FRANCIS HINCKS, p. 11, and *Journal*, U.C., 1837-38, Appendix, p. 223, also *Journal*, U.C., 1837, 2nd Session, Appendix.

their affairs through commissioners appointed under provincial authority.

The mention of certain attempts to alter the legislation dealing with them conveys no idea of the craze for banks and the excitement on banking questions which spread through the Province at this time. A better indication is the fact that between 1831 and 1840 no less than twenty-five public bills on the subject, which eventually failed of passing, were brought before the Assembly, and received more or less consideration. Naturally an agitation carried so far, carried on largely in the interests of borrowers, and carried on in a time of unusual activity, over-trading<sup>1</sup> and land speculation,<sup>2</sup> was not entirely for measures recommended by prudence or sound policy. In 1833 the House of Assembly passed a bill to enable the Receiver-General to issue bank notes chargeable on the public. A select committee in 1835 reported in favor of establishing a provincial bank on the basis of loans guaranteed by the Province, the profits to pay the interest on the public debt.<sup>3</sup>

Such "simple fiscal arrangements" found no favor with the Colonial Office in London. In a despatch dated the 31st August, 1836, Lord Glenelg, His Majesty's Principal Secretary of State for the Colonies, radically altered the manner in which the Acts passed by the Legislature of Upper Canada with respect to banking and currency, acquired statutory force. For ten years, at least, the Lieutenant-Governor, unless there were peculiar reasons for reserving it, had granted the Royal assent to such measures at the close of the session in which they were passed. Thus they became law immediately. If the measures were unsatisfactory to the Colonial Office, the remedy was to advise the Royal disallowance, after, perhaps, numerous and important engagements had been entered into under the Acts. But now the Lieutenant-Governor was instructed not to permit *any* Act, ordinance or regulation touching

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<sup>1</sup> Journal, U.C., 1837-38, Report of the Select Committee upon the Subject of Banking, Appendix, p. 212.

<sup>2</sup> Journal of the Legislative Council of the Province of Canada, 1837, Appendix A., Evidence of MR. CARTWRIGHT.

<sup>3</sup> Journal, U.C., 1835, Appendix iii.

the circulation of promissory notes or the local legal tender, to come into operation in the colony, without having first received the Royal sanction conveyed to him by the Secretary of State.<sup>1</sup> The Assembly, at this, passed resolutions; with the Legislative Council, they adopted a joint address to the King. In this they affirmed that bills for establishing banks were purely local, and though acknowledging the constitutional right of His Majesty to act his pleasure upon any bill, strongly deprecated the exercise of that right upon matters of a local nature.<sup>2</sup>

The Ministers of the Crown, however, had observed the progress of commercial speculations, particularly in North America. They saw only too much reason to anticipate the rapid approach of a period in which the multiplication of ill-secured representatives of coined money would involve the British American colonies in most serious financial difficulties. Their single resource to avert the danger was the Royal power of disallowance, but the exertion of this was always reluctant; when large capitals had been embarked, and many contracts made, it was extremely difficult. The reservation of the laws for the imperial sanction before they came into effect was, therefore, the only practicable plan. But the instructions were not the outcome of occasional motives only, or of a policy merely temporary. They were prompted by the permanent purpose not to allow the creation of corporate bodies, permitted to issue a paper currency, "without all the necessary limitations upon its extent and legal character."<sup>3</sup>

Events proved that Lord Glenelg's instructions were well advised. During the session of 1836-37 the banking mania seems thoroughly to have infected both the Legislature and the whole Province.<sup>4</sup> Bills were passed to increase the aggregate capital of the chartered banks in this province of 400,000 people, from £500,000 to £4,500,000, and to confer a power of issuing notes to the extent of £13,500,000.<sup>5</sup> Nine new banks were a

<sup>1</sup> Journal, U.C., 1837, p. 321.

<sup>2</sup> Journal, U.C., 20th January, 1837, pp. 321, 322.

<sup>3</sup> Journal, U.C., 1839, p. 40 u, Despatch of the 28th December, 1839.

<sup>4</sup> Cf. *The Patriot* newspaper, Toronto, issue of 8th November, 1836.

<sup>5</sup> Journal, U.C., 1837-38, p. 208.

part of the scheme, another feature of which was to make the Province a large shareholder in the Bank of Upper Canada. The effect of the latter would have been to render the bank one of the chief departments of the local administration. According to instructions, the Lieutenant-Governor reserved the bills, and sent them on to England. There they met the scathing criticism they deserved. The Imperial authorities, nevertheless, were willing neither to disallow the whole series nor to pick out the unobjectionable measures worthy of passing. Decision was suspended for the time being. None of the Acts were allowed to take effect, but all were referred back to the colonial legislature for more sober consideration. Before Parliament again met in regular session, events in Canada somewhat calmed the banking excitement. Not a single one of the reserved bills was re-enacted. In December, 1837, a second series of rules, drawn up by the Committee for Trade, and recommended by great experience and much careful reflection, were forwarded by Lord Glenelg, with the advice that they should be adopted by the Local Legislature for its own guidance, and as terms to be insisted upon in all charters for the incorporation of banking companies. The instructions so disliked by the colonists, the occasional motives for them having disappeared, were withdrawn at the same time.<sup>1</sup>

Only the insistence of the imperial authorities secured to Upper Canadians the additional safeguards in the bank Acts of 1835. In 1836 and 1837, only the firm restraint and cool judgment of these officials saved Upper Canadians from the consequences of their banking frenzy. The instructions of August prevented the establishment of banks with a nominal capital of over four millions sterling, on the eve of the most disastrous crisis which North America had ever experienced. They mitigated in great degree, though they could not avert, the calamities which were soon to befall the provincials in consequence of their own mistakes, and suspension of specie payments in the United States. Where supervision by the Colonial Office over

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<sup>1</sup> Journal, U.C., 1839, p. 40 v.



colonial legislation, and Treasury regulation of colonial bank charters again appear in our narrative, there will be found additional proof of their beneficial influence upon the Canadian banking system.

§ 13.—PRACTICE OF THE BANKS

The details in which the business carried on by the Upper Canada banks in the thirties, differs from that of the Ontario banks of to-day, were due partly to conditions, partly to principle. Slow communications, *e.g.*, caused exchanges between the banks to be less frequent; they were effected weekly instead of daily. But settlements were made in drafts on Montreal or New York, or in specie, practically as they are to-day.<sup>1</sup> The small amount of good collateral security, bonds and stocks in the Province, caused more loans to be made upon personal security, *i.e.*, notes with one or more endorsements, and fewer loans secured by documents. In the scarcity of marketable personalty, the banks suffered great temptation to loan upon real estate security, in forms more or less disguised. Events proved that not all of them resisted. The Commercial Bank introduced a system of cash credits, in imitation of the Scotch practice. Where a bank's customers have little other wealth than land, this is a pretty close approach to loaning upon the security of land. It is doubtful, too, whether proper conditions for extending cash credits existed in Canada. Certainly there was no analogy between the constant market for Scotch real estate and the occasional opportunity to sell Canadian lands. And yet the price under the auctioneer's hammer is the only test of the immediately available value of land.

Up to 1832, the Bank of Upper Canada, having no local competitors to present its notes for redemption, was able to keep out a larger circulation. And with the help of this it could discount for ninety days with leave to retire by payments of one-

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<sup>1</sup> Journal, U.C., 1837, 2nd Session, Appendix, Report of the Select Committee to which was referred the Subject of the Monetary System of the Province.

fifth every three months, the term of credit being fifteen months. The extent of its operations in those palmy days has been indicated by the returns already given.

In 1836 the three chartered banks reported :—<sup>1</sup>

	Bank of Upper Canada, 16th Nov., 1836	Commercial Bank, 7th Nov., 1836	Gore Bank, 28th Nov., 1836
<b>LIABILITIES</b> (shillings and pence omitted).			
Capital stock paid in . . . . .	£200,000	£186,450	£61,005
Notes in circulation, \$5 and upwards . . . . .	180,826	119,873	1,617
Notes in circulation under \$5 . . . . .	45,828	55,250	27,913
Balances due to other banks . . . . .	4,362	10,834	
Balance due to agencies (in transitu) . . . . .	788		
Cash deposited, including all sums not in the foregoing heads and not bearing interest . . . . .	154,604	29,165	6,241
Cash deposited, bearing interest . . . . .	3,016	4,201	1,053
	<u>£589,426</u>	<u>£405,774</u>	<u>£96,212</u>
<b>RESOURCES</b> of the bank.			
Gold, silver and other coined metals in the vaults of the bank . . . . .	£63,796	£46,935	£20,832
Real estate and bank furniture . . . . .	8,880	3,729	847
Bills of other banks . . . . .	18,045	5,318	2,642
Balances due from other banks and foreign agencies in London and New York on Exchange transactions . . . . .	84,728	18,082	3,385
Amount of all debts due, including notes, bills of exchange, and all stock and funded debts of every description, except in the balances due from other banks . . . . .	413,976	331,709	68,504
Total resources . . . . .	<u>£589,426</u>	<u>£405,774</u>	<u>£96,212</u>
<b>MISCELLANEOUS.</b>			
Amount of reserved profits after declaring the last dividend . . . . .	£11,073	£1,912	
Overdue debts . . . . .	56,355	11,582	£1,324

<sup>1</sup> Journal, U.C., 1837, pp. 73, 89, 128.

In 1837 the principal items for the chartered as well as private banks were on the 15th June:<sup>1</sup>

	Capital stock Paid-up	Notes in Circula- tion	Specie	Deposits	Loans and Discounts
Bank of Upper Canada .....	£200,000	£168,906	£37,850	£158,548	£444,958
Commercial Bank .....	196,597	116,092	23,102	37,644	344,088
Gore Bank .....	80,381	34,246	17,932	8,379	105,993
Total chartered banks ..	£476,978	£319,244	£78,884	£204,571	£895,039
Farmers' Bank .....	£38,221	£23,800	£5,660	.....	£50,316
Bank of the People .....	12,375	12,633	2,890	£7,330	23,896
Agricultural Bank .....	39,727	18,612	3,544	3,500	51,181
Niagara S. B. Bank .....	7,700	16,103	2,363	1,598	18,235
Total private banks ....	£98,023	£71,148	£14,457	£12,328	£143,718
Grand total .....	£575,001	£390,392	£93,341	£216,899	£1,039,757

The value of competition in banking was well illustrated when the Commercial Bank entered the Upper Canada field. It was active in presenting the notes of the competing bank for redemption. With its circulation thus forced in, the Bank of Upper Canada found it necessary to limit the term of credits to nine months, *i.e.*, to allow renewals of 90 day discounts on the payment of not less than one-third of the original grant. The result was good, for the term during which merchants were responsible as indorsers was lessened; they were able more accurately to provide for their liabilities; and persons of moderate means borrowed less than before, and not more than could be paid in the shorter time.<sup>2</sup> The further advantage of securing frequent tests of the convertibility of bank notes, by actual redemption, need only be mentioned.

Chartered as well as private banks established no branches in the sense that their notes were payable at any other place than their principal establishments.<sup>3</sup> The plan of redeeming bank notes at but one place, and that the bank's head office,

<sup>1</sup> *Ibid.*

<sup>2</sup> Journal, U.C., 1833-34, Appendix, pp. 169, *et seq.*

<sup>3</sup> Except the Niagara Suspension Bridge Bank, which issued some notes payable at Lockport, N. Y.

permits an economy of specie, a strong central reserve, a stability and security in the bank's own procedure that would be impossible, with the same rate of profit, were it necessary to meet demands for redemption at all the offices of the bank. Of what were technically termed offices of discount and deposit, but really branch banks in all save the function of issue, the Upper Canada Bank had four in 1837, the Commercial three, the Gore none. Of agencies, chiefly employed for payments, collections and the purchase of exchange,<sup>1</sup> they had one,<sup>2</sup> eleven and none respectively.<sup>3</sup>

A liberal foreign correspondence had been established and funds deposited in London, New York City and Montreal, against which the banks drew exchange, usually with a material profit.<sup>4</sup> The balance of trade with Lower Canada and the United States was adverse in both cases.<sup>5</sup> To meet this difficulty and to acquire funds in New York at the least cost, certain of the banks discounted, to some extent, American bills payable in that city.<sup>6</sup> A balance there was always desirable, for sterling exchange could sometimes be bought at three to four per cent. under the Canada rate.<sup>7</sup> The banks also discounted large amounts of merchants' and shippers' bills drawn against consignments of wheat, flour, pork and other produce. The means for extending to lumbermen and produce buyers the five or six months credit needed during the winter and early spring, and waiting for repayment out of the proceeds of sales in foreign markets, were much desired, but the banking capital was

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<sup>1</sup> More specifically, an agent's business was to discount bills on Lower Canada, New York, or any part of the Province, to receive bills of individuals for collection, to receive deposits and to forward and advise on notes offered to him for discount by persons in his district, to pay the proceeds when discounted, to receive payments when due, and generally to do anything required by the bank. He had balances on hand and drew upon the principal bank. It was his duty to use its notes in his disbursements, and on all payments he received one-quarter of one per cent. commission. The offices had boards appointed from the local shareholders and exercised their own discretion, subject of course to instruction, in discounting. Upper Canada King's Bench Reports, 6 Wm. IV. to 2 Vic., p. 541.

<sup>2</sup> It is probable that the number of agencies established by the Bank of Upper Canada is misstated in the document cited in note 3; and that it had at least as many as the Commercial Bank. An advertisement in the Kingston *Patriot*, 17th July, 1832, mentions four agencies.

<sup>3</sup> Journal, U.C., 1837-38, Appendix, pp. 221, 225 and 229.

<sup>4</sup> Journal, U.C., 1833-34, Appendix, pp. 162, *et seq.*

<sup>5</sup> Journal Legislative Council, U.C., 1837, Appendix A, p. 41.

<sup>6</sup> Journal, U.C., 1837, Appendix, *ut supra*, p. 18.

<sup>7</sup> *Ibid.*, p. 37.

quite inadequate to such support.<sup>1</sup> It was, perhaps, quite as well that even leading trades should supply their own capital.

The note circulation bore a much higher ratio to capital during the first decade of the Bank of Upper Canada's experience than ever afterwards. The proportion fell from 250 per cent. in 1826 to 187 per cent. in 1831. After the competition of the newer banks became effective it fell still more, and in 1834 to 1836 seldom rose more than 20 per cent. above the paid-in capital. The total circulation of the chartered banks was on the

1st January, 1834.....	£267,209
" " 1835.....	333,715
" " 1836.....	332,178
" " 1837.....	404,823

On the latter date, the four private banks had £85,451 outstanding, making the total circulation of the province £490,274. This excludes the notes of Lower Canada banks, which had some currency in spite of the law against them. (4 Geo. IV., cap. 13). It includes, on the other hand, the considerable circulation of small notes in the United States, especially in the western counties of New York and those bordering on the River St. Lawrence.<sup>2</sup> The banks were afterwards to find their American circulation a source more of trouble than of profit. Already some of the bankers in the Western States found it cheaper, by using the private banks as brokers, to get gold on the notes of Canadian chartered banks than to bring specie from the seaboard.<sup>3</sup> For purposes of redemption and shipment, recourse was had to the specie markets of Montreal and New York. The silver circulation was composed, for the most part, of coins struck in the mint at Philadelphia. These facts led one of the ablest witnesses before the Committee of 1837 to call the province "a limb of the monetary system" of the United States.<sup>4</sup> Five

<sup>1</sup> Journal, U.C., 1833-34, Appendix, p. 170, Testimony of THOS. G. RIDOUT.

<sup>2</sup> Report of the New York Bank Commissioners, 1835.

<sup>3</sup> Journal, U.C., 1833-34, *ut supra*.

<sup>4</sup> Journal, U.C., 1837, Report of the Select Committee to which was referred the Subject of the Monetary System of the Province, Appendix, p. 34, Evidence of BENJ. THORNE.

hundred and fifty thousand pounds currency, \$2,200,000, were imported by the banks between 1830 and 1836.<sup>1, 2</sup>

The directorates enjoyed no such large proportion of the discounts as those in the Lower Provinces. In 1834 the accommodation extended to the directors had never exceeded one-sixth of the total discounts. The directors of the Bank of Upper Canada had never had more than the twentieth part, either as promissors or indorsers.

In their general business of loaning, the banks doubtless supplied a market wider, in some respects, than they do to-day. Other forms of credit institutions were not yet developed. So, in 1835, the cashier of the Bank of Upper Canada said, "In my opinion, every farmer or person in trade or in reputable circumstances, who can give unexceptionable personal security, has a right to secure from the public banks reasonable accommodation in proportion to his means, without being considered to ask for favors."<sup>3</sup> The period was one in which politicians, lawyers, estate owners and adventurers were able to secure generous grants from the loanable funds of the banks. The banks did not, as now, observe the principle that credit should be based either on an exchange of commodities or an increase of commodities. The effort to adapt the Scotch cash credits to Canadian conditions has been mentioned. Yet the essential characteristics of Scotch banking were not generally appreciated in the Upper Province, nor its traditions followed. The banks were not, as now, predominantly commercial and industrial banks. Indeed, when the Bank of Montreal proposed, in 1839, to extend its operations to the Upper Province, the plan was welcomed by informed observers as promising essential benefits, "for in a short time it would instruct our directors in the system of commercial banking, which very few of them understood."<sup>4</sup>

Were many more charges laid against them, it would be

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<sup>1</sup> Journal, Canada, 1841, Appendix O.

<sup>2</sup> The Bank of Upper Canada imported £465,000 of the sum mentioned. Nine-tenths of this, they estimated, was issued to the private banks, the greater part of which was sold at a small advance in the United States. Journal, U.C., 1837, Appendix, p. 37.

<sup>3</sup> Journal, U.C., 1835, Appendix iii., Evidence of THOS. G. RIBOURT.

<sup>4</sup> Journal, U.C., 1839, Appendix, Vol. II., part ii., Third Report of the Select Committee on Banking, p. 771, Evidence of FRANCIS HINCKS.

necessary still to acknowledge that the banks were of great, of incalculable service to the colony. In a young, thinly settled, scarcely exploited, but advancing country, there ought not, perhaps, to be enforced the maxims and limits of banking applicable to a wealthier community with a credit organization developed on many sides. Elsewhere, certainly, the rigid rules have not been enforced, through periods of which every reader can provide examples. The contrast with contemporary American banks and American practice, even in the State of New York, is, in respect at least to stability and the public security, entirely in favor of the Upper Canadian institutions. For over forty years not a single bank chartered by Upper Canada failed. During that time, they earned good dividends for their shareholders, and, by increasing their capital and establishments, kept pace with the growing needs of the Province. The period marked by wreck and ruin in the States on the south, they survived with numbers intact and solvency unimpaired.

§ 14.—THE SUSPENSION OF SPECIE PAYMENTS AND THE CRISIS OF 1837

The suspension of specie payments by the American banks on the 11th and 12th May, 1837, and the following days, necessarily affected the banks in Lower Canada. The more active and pressing demand for specie in the markets of the United States immediately caused a heavy drain of specie upon their vaults. Sterling exchange was risen to a figure where anything but the export of specie would have been ruinous to the remitter. The reserves could not be augmented by imports in time to meet the extraordinary proportion of demand claims that were presented for payment. It was necessary to do something to save what gold they still had, and to prevent the contraction of circulation and discounts which, though essential to the maintenance of specie payments, would have been disastrous in the involved condition of the commercial community. The Lower Canada banks suspended on the 18th May, 1837.<sup>1</sup>

For Upper Canada this seemed like an added blow. Its people had not yet awakened to the situation. They were still

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<sup>1</sup> *Journal, Can.*, 1859, Report and Proceedings of the Committee on Banking and Currency, Appendix, number 67.

scheming to secure more banking capital. They generally misinterpreted the causes of the movement of the precious metals toward the United States and London. The convertibility of Upper Canada bank paper, said an official report, was vested on the good faith of the Governments of the United States, Lower Canada and Upper Canada in preserving the equal value of their common currency.<sup>1</sup> This was their euphemism for the fact that New York and Montreal were the specie marts for Upper Canada, and that the price was then higher than the Provincials cared to pay. They failed also to realize the necessity for a general contraction, once the crisis had come. The leader of the Reformers, however, Wm. Lyon Mackenzie, was guilty of instigating a run on the Bank of Upper Canada. But the bank paid the notes in silver and kept friends at the counter who, at night, trundled the specie back in a wheelbarrow.<sup>2</sup>

By the 15th June the effect of the specie drain had been considerable, as the statement of circulation and specie will show.<sup>3</sup>

Circulation	Chartered Banks	Private Banks	Total
1st January, 1837.....	£404,823	£85,451	£490,274
15th May, 1837 .....	423,401	85,495	508,896
15th June, 1837 .....	319,244	71,148	390,392
Difference between May and June..	£104,157	£14,347	£118,504
Specie.			
15th May, 1837 .....	£107,334	£13,455	£120,789
15th June, 1837.....	78,884	14,457	93,341
Difference between May and June..	£28,450	£1,002	£27,448

But the Bank of Upper Canada had imported specie for £40,000 between the two dates. The total loss of specie,

<sup>1</sup> Journal, U.C., 1837, 2nd session, Appendix, Report of the Select Committee on the Monetary System.

<sup>2</sup> CHARLES LINDSEY, "The Life and Times of Wm. Lyon Mackenzie," Toronto, 1862, p. 34.

<sup>3</sup> *Vide* note 1.



therefore, was £67,448 instead of £27,448, and yet on the 20th June the banks were still maintaining payments, and their notes were at par with specie. To do this, they had been obliged to call in their discounts and suffer a contraction of 25 per cent. in the note circulation. So far as the granting of credit was concerned, banking operations had practically ceased.

The withdrawal of the credit accommodation usually extended to merchants was not the sole cause, or the deepest, of the commercial embarrassment. The wet harvest of 1835 and the reduced value of wheat in that year had lessened materially the wealth in the hands of the farming community. They comprised at least two-thirds of the population. They had suffered from the short crops of 1836, and had fixed rather rash proportions of their capital in land and improvements. Other debtors, having invested sums obtained from bank discounts in long speculations, now found it impossible to retire their paper.<sup>1</sup> The shipments of wheat, flour, pork and other produce to Lower Canada were less in the spring of 1837 than in former years. The practice being to draw against such shipments to pay for the purchases of the preceding year, the merchants had less wherewith to meet accrued claims against them. The balance of trade was thus still more heavily against Upper Canada, and in favor of the Lower Province and the United States. The consequences were, increased tendency to export specie and intensified demand for discount accommodation from the banks.<sup>2</sup> The house of Thos. Wilson & Co., London, bankers, and financial agents for the province, stopped payment the 2nd June. Bills of exchange drawn upon them went to protest, and about £83,000 stg., the balance of provincial moneys still in their hands, appeared to be in jeopardy.<sup>3</sup>

The Legislature of Upper Canada met in extraordinary session the 19th June. Its business was with the financial and commercial difficulties that distressed the province. The Lieutenant-Governor, Sir Francis Bond Head, opened the session by an eloquent speech, in which, quite naturally, he

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<sup>1</sup> Journal, U.C., 1837-38, Appendix, p. 212.

<sup>2</sup> Journal, U.C., 1837, Appendix, *ut supra*.

<sup>3</sup> Journal, U.C., 1837-38, Appendix, p. 122. But the sum was afterwards recovered with interest.

discussed the drain of specie suffered by the banks, and their, as yet, undoubted solvency. Sir Francis himself opposed a suspension of specie payments while the coffers of the banks were still full of coin, first, as impolitic, imperilling the confidence of the British public, whose wealth the colony needed, and, secondly, as dishonorable, involving breach of faith with the public creditors. He put the alternatives squarely, fraud or honor, suspension with full or with empty specie chests; and then urged the Legislature, "like Britons, to be true and just in all their dealings." He spoke in vain. The Assembly passed a bill authorizing the banks forthwith to suspend specie payments. As amended in important details by the Legislative Council, passed on the 10th and approved on the 11th July, the measure applied only to the chartered banks and the four excepted private banks. Provided the authority to suspend was first obtained from the Governor-in-Council, the banks were relieved from the legal incapacity to carry on banking operations when not redeeming notes in specie. The Lieutenant-Governor might impose conditions supplementary to the Act, and call for returns. Actions brought against banks, unless to liquidate claims or otherwise to further justice, were suspended during the term of the suspension of payments. Courts before which actions should be brought might stay proceedings on the application of the defendants and hearing of the parties. Suspension was to be optional, not compulsory upon the banks. The expiry of the law was fixed for the end of the then next session of Parliament. During this period no suspended bank was to issue notes in excess of paid in capital stock, or to dispose of its specie otherwise than in paying fractional parts of a dollar, or in redeeming dollar notes. (7 & 8 Wm. IV., cap 2.)

It was said at the time this measure was being debated, "the commercial interests of the country require immediate accommodation of the banks, and that cannot be afforded without suspension or by giving the community a substitute for specie."<sup>1</sup> In other words, it was feared to precipitate the mercantile bankruptcy which refusal of the usual support of bank

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<sup>1</sup> Journal, U.C., 1837, Appendix, p. 26, evidence of Mr. PROUDFOOT.

loans was likely to cause. To maintain redemption the banks would be obliged to contract both discounts and circulation. To maintain payment also involved for them the losses due to the cost of getting specie. And aided by a certain fogginess of provincial ideas upon monetary questions, the combination of bank and borrowing interests carried the bill through. The sequel shows how few of the anticipated results were gained.

The Commercial Bank of the Midland District was the only chartered bank soon to avail itself of the Act. Its suspension was authorized the 29th September, 1837.<sup>1</sup> The Lieutenant-Governor imposed, with his permission, the condition that notes of a suspended bank should not be used in Government transactions. By this means the large military outlay, soon to occur, was prevented from being an instrument for the inflation of an inconvertible currency. The Agricultural Bank practically suspended, and in November, 1837, failed utterly. Its partners decamped. Green was arrested in Buffalo. Truscott sailed for Europe "to negotiate the American securities of the bank." The precious pair left behind them about £20,000 of notes utterly unprovided for, and claims of depositors for over £18,000, against which but £7,000 of commercial paper could be found.<sup>2</sup> The Farmers' Bank suspended for only two months at the close of 1837; the Bank of the People not at all in that year.

The Bank of Upper Canada much desired to suspend, and the cashier, Thos. G. Ridout, rather pressed their wishes upon the Lieutenant-Governor. Wearied and impatient, Sir Francis summarily closed the discussion by exclaiming, "Sir, the principle of monarchy is honor! The Bank of Upper Canada is the Government bank. To maintain its honor the bank must redeem in specie!" And until the 5th March, 1838, it continued so to redeem, in spite of the reduction of circulation from £212,000 in May to £80,000 in December.<sup>3</sup> The Gore Bank stood with the Government institution.

<sup>1</sup> *Upper Canada Gazette*, Vol. XII., No. 21.

<sup>2</sup> *Journal*, U.C., 1837-38, Appendix, pp. 212 *et seq.*

<sup>3</sup> For the figures the reader is referred to *Journal*, U.C., 1839, Appendix, Vol. II., part ii., pp. 607 *et seq.* For the incident related the authority is unquestionable, but I am not at liberty to cite it.

The situation in Lower Canada was complicated by the appearance of armed insurrection on the 17th November. The trouble was not wholly unexpected. Before the close of navigation the banks at Montreal had transferred their specie to Quebec, and, like the Quebec Bank, deposited it for safe keeping in the citadel. Activities not connected with the hostilities were pretty much suspended while the latter endured. But the last party of rebels surrendered the 15th December, and on the 26th February, 1838, though the military were still on the alert, a public thanksgiving for the restoration of order was held.<sup>1</sup> The large expenditures of specie made by the British commissariat were of material assistance at this crisis, and made the resumption of specie payments on the 23rd June, 1838, comparatively easy for the Lower Canada banks.<sup>2</sup>

On the 4th December, 1837, the first movements of a similar rebellion, partly sympathetic and partly independent, occurred near Toronto (formerly York), the capital of the Upper Province. In this case, however, the insurgents were chiefly Reformers of Anglo-Saxon blood, instead of disaffected French. Within ten days the main force of rebels at Toronto, and the other party near London, had submitted to the Government or fled the country. Peace was again broken by the so-called American invasion, beginning the 13th, the capture of Navy Island in the Niagara River, and the bombardment of Chippewa, a town on the Canadian shore. Then the steamer "Caroline" was destroyed by the Canadian militia, and the invaders defied the authorities on either side of the line.<sup>3</sup> To quell the present and prevent future disturbance it was now necessary to quarter a considerable force of troops in the Upper Province. The Commissary-General was unable, however, to meet the large outlay of money which this required. By December, the Bank of Upper Canada had accumulated £140,000 in specie. It advanced £50,000 to the Government in dollars, and offered to furnish the money for military disbursements in all parts of the province where posts were established.

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<sup>1</sup> ROBERT CHRISTIE, *History of Lower Canada*, Vol. IV., pp. 448 *et seq.*

<sup>2</sup> *Journal, Can.*, 1859, Appendix, No. 67, p. 17, *Evidence of the Bank of Montreal.*

<sup>3</sup> *Journal, U.C.*, 1837-38, p. 35, Despatch of F. B. HEAD, Lieutenant-Governor, to H. S. Fox, British Minister at Washington.

In the first quarter of 1838, it did advance some £219,000 on treasury bills on London. The bank's circulation rose to £154,000, its specie fell to £60,000. The suspended banks took advantage of the large issues, collected the notes for redemption, and refused their own in exchange. The disturbed state of the American frontier made the import of specie from New York impracticable. To supply the whole country with specie was something that the Commissary-General and bank combined could scarcely undertake. On the 5th March, 1838, the Bank of Upper Canada applied for authority to suspend. The permission was granted immediately.<sup>1</sup> The suspension of the Gore Bank was authorized on the 10th of March.

On the 6th March, also, was approved an Act (1 Vic., cap. 22, U.C.) extending the limit of note issues during the suspension to twice the paid-in capital of the suspended banks. The clause which forbade the banks to dispose of their specie was repealed.

Owing to the opposition of the Bank of Upper Canada, none of the banks in that Province joined in the general resumption by the banks of the United States and Lower Canada in June, 1838.<sup>2, 3</sup> The Lower Canada chartered banks did not long continue a specie redemption. A second insurrection in the following November obliged them again to suspend, the suspension being authorized and facilitated by an ordinance of the Special Council passed the 5th November.<sup>4</sup> Circulation during the suspension was limited to the paid-in capital stock, and the banks were obliged to retain the specie held by them, and not to sell it except to the Government. The ordinance applied also to the Bank of British North America and La Banque du Peuple. During the authorized suspension bank notes became a legal tender in stay of proceedings at law.

On the 17th July, 1838, the new Lieutenant-Governor of

<sup>1</sup> Journal, U.C., 1839, Appendix, Vol. II., part 2, pp. 607 *et seq.*, Correspondence on the subject of the suspension of specie payments; also *Upper Canada Gazette*, Vol. XII., No. 45.

<sup>2</sup> *Ibid.*, Letter of the Bank of Montreal.

<sup>3</sup> *Vide* Ordinances of the Special Council, L.C., 1838, p. 142, for the law respecting suspension and resumption.

<sup>4</sup> Ordinances of the Administrator of the Government and Special Council, L.C., 1838, p. 10, 2 Vic., cap. i.

Upper Canada, Sir George Arthur, intimated to the banks of the province the peculiar interest taken by H. M. Government in the state of the currency in all parts of the empire, and urged upon them the propriety of again paying in specie. Exchange was low, the country quiet, and much specie had been imported for the use of the Government. The times were propitious, and he tried to arrange an early and simultaneous resumption by all the banks.<sup>1</sup> The Gore Bank was willing to enter into communication with the other banks, with a sincere wish to give effect to the plan. The Commercial Bank was prepared to resume as soon as the other institutions named a day for the purpose, so that a simultaneous resumption should occur.<sup>2</sup> The Bank of Upper Canada replied in a long letter, dwelling on the public inconvenience and distress which it feared would attend a resumption. The bank tried to throw the responsibility of the postponement upon the Commercial Bank, and then counselled waiting until the heavy crop of wheat had been harvested and brought to market. But when that time arrived, there was increased hostility on the American frontier. Specie could not be imported safely, and Sir George forbore to urge resumption. In May, 1839, the Bank of Upper Canada again opposed resumption with the Lower Canada banks. The renewal of the stay law was secured to the 1st November, 1839. (2 Vic., cap. 13, U.C.) Then the bank practically refused to resume until the statutory authority for suspension had expired. The Lieutenant-Governor could exercise no coercion under the law, and the advantage of the Government deposits enjoyed by the Bank of Upper Canada compelled the other banks to follow in its wake.<sup>3</sup>

Aided once more by the expenditures for military purposes, and with no practical injury or check to trade, the banks of Lower Canada resumed specie payments on the 1st June, 1839; those of the Upper Province, the law having expired, on the 1st November of the same year.

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<sup>1</sup> *Ibid.*, p. 609, Circular of Sir George Arthur.

<sup>2</sup> *Ibid.*, p. 614.

<sup>3</sup> *Ibid.*, p. 619.

## § 15.—EFFECTS OF THE CRISIS AND SUSPENSION

According to instructions from Downing Street,<sup>1</sup> the Upper Canada Act continuing the stay law had forbidden the payment of dividends during the suspension. But as this endured for only six months, the regular distribution of profits was little interfered with. The affairs of the banks in both provinces were conducted with great caution and prudence. Partly for this reason, partly because of the depression in Canadian export trades which followed the crisis of 1837 in Great Britain and the United States, the bank profits during the suspension were not excessive. Following are the rates of the dividends declared by four of the banks between 1832 and 1840.<sup>2</sup>

	1832	1833	1834	1835	1836	1837	1838	1839	1840
	per cent.								
Bank of Montreal . . . .	7 & 5	8 & 6	8 & 6	8 & 6	8 & 4	8	6 & 16	7	6
Quebec Bank . . . . .	6	6	....	....	....	4½	8	6	7
Bank of Upper Canada	8 & 18	8	8	8 & 4	8	8	8	8	8
Commercial Bank . . . .	....	4	8	8	8	7	7 & 6	4	8

The Bank of Montreal therefore distributed 54 per cent. on its capital in the four years preceding suspension, and 43 per cent. in the four years including it (1837-1840). But the latter figure should be diminished by the 16 per cent. premium on new stock paid to the old shareholders in 1838. The Bank of Upper Canada divided 36 per cent. in the earlier, 32 per cent. in the later period; the Commercial, 28 per cent. and 32 per cent. From the last, however, must be deducted 6 per cent. premium paid for new stock to the original proprietors, and some amount to represent the cost of starting the bank in 1832 and 1833. The Quebec Bank, through exceptional causes, passed its dividends in 1834-1836, and is not properly included in the exhibit. The capital of the Bank of Montreal, £250,000 in 1837, was increased to £483,689 in 1840; that of the Commercial Bank from £100,000 in 1835, to nearly £200,000 in 1838. It has been said that, as a rule, suspensions of specie payments are highly profitable to banks of issue. And yet our corrected comparison between a period of specie payments and one chiefly of suspension, affords no proof of the principle in point

<sup>1</sup> Journal, U.C., 1839, Appendix, p. 609.

<sup>2</sup> Journal, Can., 1859, Appendix No. 67.

either of aggregate profits of the banks, or the ratio of their earnings to capital. One cause of the exception was doubtless the cautious management of the banks ; other and more explicit reasons appear to have been the restraints imposed upon the banks by law, by circumstances, and by their own mutual competition.

The legal restraints, such as prohibition of the use of inconvertible notes in Government transactions and the limitation of issues, are already familiar. The second group must be discussed in connection with the benefits derived by the public from the suspension. Properly to estimate these will be difficult, for they are mixed with evils, misfortunes and loss brought by reaction from the fever of speculation.

The political situation in Lower Canada had destroyed confidence in the security of property, depreciated its value and arrested the improvement and settlement of the country. Landed property had declined to an alarming extent. In the first year succeeding the crisis the timber trade had suffered little, but the province, instead of exporting, was obliged to import grain. The number of immigrants arriving at Quebec, no less than 52,000 in 1832, fell to 5,000 in 1838. This loss also checked the advance of the province.<sup>1</sup> Upper Canada had experienced similar insecurity and depreciation. By August, 1838, goods, chattels, lands or houses would not bring at forced sale a third of the former prices, confidence was sadly lacking in trade, thousands of settlers were leaving the province. The inconvertibility of property left debtors without the means of meeting the engagements, and liabilities comparatively trifling were often found sufficient to ruin those who had justly thought themselves opulent. The ordinary influx of immigration and British capital had been suspended, and work on public improvements stopped.<sup>2</sup>

In the opinion of one bank "the suspension enabled the Canadian banks to afford requisite facilities to customers and the public. This could not have been done had specie payment

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<sup>1</sup> LORD DURHAM'S Report, p. 21.

<sup>2</sup> Journal, U.C., 1839, Appendix, Vol. II., part 2, p. 544.



been compulsory."<sup>1</sup> But all the banks were burdened by many debts overdue, the result of the liberal discounts that preceded the crisis being locked up, in part, in long speculations by the borrowers.<sup>2</sup> The Bank of Montreal wrote that "to a considerable extent banking facilities, by a forced system of renewals, were confined to the class chiefly indebted to the banks at the time of suspension."<sup>3</sup> Similar testimony was given by the other banks. And when the law was about to expire the cashier of the Bank of the People (afterwards, as Sir Francis Hincks, Finance Minister of the Dominion,) acknowledged before a committee of the Assembly that the suspension had not enabled the banks to extend their accommodation.<sup>4</sup>

In one case, at least, the contrary result occurred. The Bank of Upper Canada had the Government deposits, was the medium of the Government's disbursements, was under large advances to the Province, and dealt largely in Government exchange on London. It acted, therefore, rather as an organ of financial administration than as an institution for the assistance of agriculture and commerce. In 1837, its profits on sterling exchange exceeded the whole, in 1838 the half, of its declared dividends. The board of directors stopped discounting at the offices, and compelled all dealing to be done directly with the head office. Their refusals of discount accommodation caused merchants and others accustomed to depend upon it not only great inconvenience, but also serious injury.<sup>5</sup> From the weight of evidence we are obliged to conclude that the Canadian public did not derive additional benefits in the way of discounts from the suspension of specie payments. The reports of amounts discounted each month before, after and during the suspension, show that in both provinces the average of amounts

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<sup>1</sup> Journal, Can., 1859, Appendix, No. 67, Replies to Question 17.

<sup>2</sup> Journal, U.C., 1837-38, Appendix, pp. 212 *et seq.*

<sup>3</sup> Journal, Can., 1859, *ut supra.*

<sup>4</sup> Journal, U.C., 1839, Vol. II., part 2, page 770. *Cf.* also p. 763, Evidence of Mr. PROUDFOOT, President of the Bank of Upper Canada.

<sup>5</sup> *Ibid.*, pp. 619 *et seq.*, Letter from the Bank of Montreal.

discounted each month were considerably less during the suspension, than either before or after it.<sup>1</sup>

<sup>1</sup> The following tables compiled from the Committee Reports of 1837, 1837-38, 1841 and 1859, comprise the available statistics on this point:—

TOTAL DISCOUNTS	Bank of Upper Canada	Commercial Bank	Gore Bank	Farmers' Bank	Bank of the People	Niagara S. B. Bank	Bank of Montreal	Bank of America
15th June, 1837.....	£444,958	£344,088	£105,993	£50,316	£23,896	£18,235	..	..
On date of suspension, 18th May, 1837.....	..	..	..	..	..	..	..	..
January, 1838.....	218,036	328,056	89,168	60,874	18,538	16,064	£682,042	..
On date of suspension, 5th March, 1838.....	212,864	..	48,632	..	..	..	..	..
On date of resumption, 23rd June, 1838.....	..	..	..	..	..	..	640,334	..
On date of suspension, 1st Nov., 1838.....	..	..	..	..	..	..	738,750	£310,248
On date of resumption, 1st June, 1839.....	..	..	..	..	..	..	653,833	274,583
On date of resumption, 1st Nov., 1839.....	186,382	398,691	63,004	..	..	..	..	..

AVERAGE AMOUNT DISCOUNTED MONTHLY	Bank of Montreal	Quebec Bank	City Bank	Bank of Upper Canada	Commercial Bank	Gore Bank
Jan., 1836, to May, 1837 <sup>a</sup>	£237,752	£55,644	£102,316	£370,894	£77,094	£23,510
June, 1837, to May, 1838 <sup>b</sup>	223,810	45,134	80,718	252,786	65,846 <sup>c</sup>	22,644
June, 1838, to Oct. 1838 <sup>b</sup>	254,554	48,294	78,087	230,488	93,086	24,896
Nov., 1838, to May, 1839 <sup>a</sup>	218,729	37,609	82,988	315,087	99,351	29,840
June, 1839, to Dec., 1839 <sup>b</sup>	251,983	42,795	92,325	..	..	..

<sup>a</sup> A time of specie payments.

<sup>b</sup> During suspension of specie payments.

<sup>c</sup> Bank of U.C. only gives average of aggregate discounts current each month; others merely the average of monthly discounts.

It will be remembered that the Commercial Bank and Gore Bank were calling up their stock in this period, and so do not show in their return the unmixed effects of the suspension. The Montreal Bank, also, was calling up added stock. Its figures, therefore, furnish specially strong confirmation of the conclusion in the text, for even with its means thus increased its discounts were less.

The fact is, the banks were compelled by circumstances to redeem their liabilities in foreign exchange. For a short time the Bank of Upper Canada refused to give anything for its notes. But after causing great inconvenience it gave up the experiment.<sup>1</sup> Complete suspension would have been ruinous. This the banks appreciated. Redemption in exchange was still redemption, and the need to maintain it, as well as its maintenance, checked excessive issue of notes, and compelled the usual care to loan, not only safely, but so that new credits should be speedily available and well in hand. But in redeeming by exchange there was an opportunity to exploit the public in charges for premium that the banks sometimes improved.<sup>2</sup> In this respect the effects of the suspension were, instead of benefits, only added expense to the public, while the banks were able to recoup themselves for some of the losses incurred in the crisis.

The highest rate, in suspended bank paper, for sterling exchange, was reached in Montreal, in July, 1837, viz., 122½. Toward the end of the month it reached 123 in Toronto, par being 109.59.<sup>3</sup> At the same dates the Bank of Upper Canada was selling bills on London for 115 to 116 in specie. This depreciation of inconvertible bank notes continued through 1837, the rate averaging 6½ to 7½ per cent., but in August touching 10 per cent.<sup>4</sup>

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<sup>1</sup> Journal, U.C., 1839, Vol. II., part 2, p. 770.

<sup>2</sup> *Ibid.*

<sup>3</sup> Journal, U.C., 1837-38, Appendix 3rd, Report of the Select Committee on Finance, p. 96.

<sup>4</sup> The accompanying table of rates of premium on sterling exchange will illustrate the degrees of depreciation. Up to March, 1838, the quotations of the Bank of Upper Canada furnish the specie prices. Then from June to October, inclusive, 1838, and from June to December, inclusive, 1839, the Bank of Montreal provides the specie rate of sterling exchange

The depreciation fell in January, 1838, to 2 per cent., or less. But goods and produce could usually be bought on equal terms with either the notes of a specie paying or a non-specie paying bank.<sup>1</sup> In August the banks in Upper Canada were redeeming

upon London. The depreciation is approximately expressed by the difference between the higher and the specie rate, the selling rate in one Province being always compared with the selling rate in the other, or the buying rate with the buying rate:

	Bank of Montreal.		Bank of Upper Canada.		Depreciation
	Buying Premium	Selling Premium	Buying Premium	Selling Premium	
	%	%	%	%	%
1837 - Jan .....	11	11 1/2	9 1/2	12 1/2	..
Feb .....	11	12 1/2	10	12 1/2	..
Mar .....	12	12 1/2	10	12 1/2	..
Apr .. ..	12	13 1/2	10	12 1/2	..
May .....	13 1/4	..	11	12 1/2	2 1/4
June .....	16	..	13	..	3
July .....	22	20-22 1/2	13	14	6-8 1/2
Aug .....	20	22 1/2	12	16	6 1/2-8
Sept .....	21	21-18	12	15	3-6
Oct .....	13	18-15 1/2	10	12 1/2	3-5 1/2
Nov .....	15	16-17	8	12 1/2	3 1/2-4 1/2
Dec .....	12	18	8	12 1/2	5 1/2
1838 - Jan .....	10	15-12 1/2	8	12 1/2	0-2 1/2
Feb .....	8 1/2	9 1/2-11	8	11 1/2	0-1/2
Mar .....	7 1/2	8 1/2-9	7 1/2	11 1/2	..
Apr .....	6 1/2	8-7	7 1/2	12 1/2	..
May .....	8 1/2	7 1/2-8 1/2	8	12 1/2	..
June .....	10	8 1/2-12	10	12 1/2	1/2-4
July .....	11 1/4	11-12	10	13 1/2	1 1/2-2 1/2
Aug .....	11 1/4	10 1/2-11 1/2	10 1/2	12 1/2	1-2
Sept .....	10 1/2	10 1/2-11 1/2	11	12 1/2	1-2
Oct .....	10 1/2	10 1/2-11 1/2	11	12 1/2	1-2
Nov .....	9 3/4	11 1/2-12	11	13 1/2	..
Dec .....	10 1/2	12-12 1/2	11	14	..
1839 - Jan .....	9 1/2	12	11	13 1/2	..
Feb .....	10	11-12	11	13	..
Mar .....	9 3/4	10 3/4-11 1/2	11	12 1/2	..
Apr .....	9 1/2	10 1/2-11	10	12 1/2	..
May .....	9	10	10	12 1/2	..
June .....	8 3/4	10	10	12 1/2	2 1/2
July .....	9	10	10	12 1/2	2 1/2
Aug .....	9	10 1/2	10	12 1/2	2 1/2
Sept .....	8 1/2	10 1/2	10	12 1/2	2 1/2
Oct .....	9 1/2	12	10 1/2	12 1/2	2
Nov .....	8	10	10 1/2	11	..
Dec .....	8	10-11	10 1/2	12 1/2	..

<sup>1</sup> Journal, U.C., 1837-38, Appendix, p. 96, 3rd Report of the Select Committee on Finance.

their notes in any amount by bills of exchange on London and New York, and within 1 per cent. of the rate at Montreal (then on a specie basis).<sup>1</sup> The Commercial Bank afterwards made a practice of redeeming for its customers only. A curious but profitable business was carried on in Lower Canada on the basis of the 2 per cent. discount on the inconvertible Upper Canada notes circulating in the province. The Bank of the People was somewhat weakened after the defeat of the insurgent section of the Reform party. Some time in 1838 it was sold to the Bank of Montreal, who, though empowered by the Province in 1837 to collect debts due them, notwithstanding the expiry of their charter, were legally incapable of establishing an office of their own in Upper Canada. They worked under the name of the Bank of the People, and besides the usual profits, acquired added gain by the easy process of buying up the People's notes, really their own, at the discount in Lower Canada, and remitting them to the Upper Province for re-issue.

The restraint imposed by the mutual competition of the banks was exercised through the weekly exchanges carried on between them. Now a regular redemption effectively prevents inflation of a bank note currency, and imposes upon the participating banks, if they are to continue in existence, the necessity of prudence in their conduct. The experience of New England with the Suffolk banking system has proved this and proved it for all time. The power to refuse at the counter the notes of a suspended bank was a power of coercion. The banks of Upper Canada employed it to enforce the settlement of the weekly balances in exchange. In Lower Canada, also, the specie payment of balances could not be exacted, and notes could not be received because they were not redeemable. But redemption was obtained notwithstanding. The debtor banks were forced to hand over in settlement some of their best discounted paper. And these notes were redeemed in due time, by the makers, leading export merchants, by sterling bills drawn against shipments of grain, potash, ginseng and timber.

The good effects of their careful policy, and the restraints imposed by law, by circumstances and by their mutual compe-

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<sup>1</sup> Note 1., p. 136, Letter of the Bank of Upper Canada, p. 611.

tition, were evident in the strength and stability of the banks, as well in the depression that followed the crisis as in the revival of commerce and agriculture that finally came. The four factors have served now to explain the moderate dividends paid during the suspension, because in 1837, 1838 and 1839 they served to prevent an immoderate expansion. With this in their favor, the banks found the resumption comparatively easy, the country, innocuous.

§ 16.—INCIDENTAL DETAILS

The Government of Upper Canada was in far worse straits during the suspension than the banks. It was reduced to the negotiation of its debentures through the local banks, who remitted the securities to various English houses, and drew sterling exchange against them. The proceeding provoked the protests of the Barings, across whose counters the interest was payable, and who objected, as they wrote, to "having our names inscribed on stock, the issue of which had not our previous knowledge and consent."<sup>1</sup> Various proposals to issue inconvertible notes for circulation on the credit of the Government were defeated in 1837 and 1838. In reply to Sir George Arthur's letter of the 20th November, 1838, Lord Glenelg advised him that it was impossible to grant him provisional authority to give the Royal assent to an enactment permitting the issue of such notes, even though the proceeds were intended for public works or local improvements.<sup>2</sup> The second financial measure of 1839, however, was an Act authorizing the issue of Treasury notes for £1 each to the amount of £250,000 stg. Concerning this Act Lord John Russell wrote to the Governor-General, "Her Majesty cannot be advised to confirm it. The issue of such an amount of small, inconvertible currency, as a resource for sustaining the public credit, is not to be justified even by the present exigency of affairs. \* \* \* \* \*"

"It is of great importance that the scheme devised to meet the pressure of the passing day should not be such as to preclude the early return to a more salutary course of financial operations."<sup>3</sup>

<sup>1</sup> Journal, U.C., 1839, Appendix, Vol. II., part 2, p. 547.

<sup>2</sup> *Ibid.*, p. 553. Letter of the 31st January, 1839.

<sup>3</sup> Journal, Can., 1841, p. 395.

It had been necessary, some time previously, to authorize the Receiver-General to secure a loan on the Government's stock in the Bank of Upper Canada. (1 Vic., cap. 1, U.C., Assented to 6th March, 1838.) In 1840 the Act was repealed and the Receiver-General authorized to sell the stock, with the sanction of the Governor-in-Council. Since 1822, the Province received in dividends and bonuses £38,315 on its subscription to 2,000 shares of the par value of £25,000.<sup>1</sup> It received in 1840, £25,250 for its stock.<sup>2</sup> The authority of the Lieutenant-Governor annually to nominate four of the fifteen directors was repealed, and the Bank of Upper Canada lost, in law, its official connection with the Government.

This was one of the measures preparatory to the Union of the Canadas, the constitutional change which, since the restoration of peace, had been undertaken as the plan most likely "to relieve the financial embarrassments of Upper Canada, to enable her to complete her public works, to enable her to develop her agricultural capabilities, to restore constitutional government to Lower Canada, to establish a firm, impartial and vigorous government for both, and to unite the people, within that one common feeling of attachment, to British institutions and British connection."<sup>3</sup> On the fifth of February, 1841, the disappearance of the Upper and Lower Provinces, the birth of a new Province of Canada, the creation of a common Legislature and the completion of the political revolution known as "Responsible Government" were proclaimed by the Governor-General to take effect upon the tenth. In the next chapter we shall discuss the course of banking and banking legislation in the new Province down to 1850.

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<sup>1</sup> Journal, Can., 1841, Appendix O.

<sup>2</sup> *Ibid*, Appendix B.

<sup>3</sup> Journal, U.C., 1839-40., p. 17, Message of His Excellency the Governor-General, dated the 7th December, 1839.

## CHAPTER IV

### PROVINCE OF CANADA, 1841-1850

#### § 17.—THE BANK OF ISSUE PROPOSED BY LORD SYDENHAM

AMONG the questions which came before the first Parliament of the Province of Canada were provision for the general revenue and for the completion and extension of the public works. The Governor-General, Lord Sydenham (Charles Poulett Thompson), was a friend of Mr. Samuel Jones Loyd (Lord Overstone), and had shared his peculiar theories upon currencies and their regulation.<sup>1</sup> The eminence and influence of the author, and the connection of the effort with the movement which, in England, culminated in Peel's Bank Act of 1844, demand that the financial and monetary expedient devised at this juncture by Lord Sydenham, should receive explanation in some detail.

With the professed objects of obtaining (a) a paper currency perfectly secure of convertibility into the value it represented, and free from injurious fluctuations; (b) the whole profit of the issue for the benefit of the state (some £30,000 to £35,000 yearly, and capable of increasing to double or treble the amount); (c) not less than £750,000 to be placed at the disposal of the state for the public works; he suggested to the Select Committee on Banking and Currency a series of resolutions.<sup>2</sup> In them was outlined the scheme by which the objects were to be attained, viz. :—

(a) the establishment of a Provincial Bank of Issue under three commissioners, who should be vested with the sole power of issuing notes payable on demand;

(b) for sums of \$1 and upwards to an aggregate issue of

<sup>1</sup> "Reminiscences of his Public Life," by SIR FRANCIS HINCKS, K.C.M.G., Montreal, 1884, p. 69.

<sup>2</sup> "Memoir of the Life of the Right Honorable Charles, Lord Sydenham, with a narrative of his administration in Canada," edited by G. POULETTE LEROPE, London, 1844, p. 314.



£1,000,000 currency, and in excess of that amount only to redeem notes or to purchase bullion or coin ;

(c) one-fourth of the issue to be against bullion or coin, and three-fourths against Government securities purchased by the bank or paid into it, the interest on securities to be used for management, and the balance remaining after meeting expenses to be paid into the public account ;

(d) no bank to issue notes after the 1st March, 1843 ;

(e)  $2\frac{1}{2}$  per cent. on their circulation to be paid yearly to banks with charters expiring after the 1st March, 1843, for the term of their charters ; should such term be less than five years after the 1st March, 1843, then for ten years ;

(f) charters expiring before the 1st March, 1843, to be continued with the power of issue to that date, but after that date without the power of issue ;

(g) the Bank of Issue not to discount, receive deposits or deal in exchange.

In a message of the 20th August, 1841, Lord Sydenham proposed to the Legislative Assembly the assumption by the Province of the issue of notes payable on demand. The acquisition "of a capital representing a revenue of not less than £35,000," is here advanced, as the most considerable result of the plan.<sup>1</sup> But in private letters, the noble Lord had described his purpose as "the establishment of a perfectly sound paper currency by means of a State Bank of Issue, the principle, in short, for which I contended in the Cabinet, in the first instance, in 1833, and which Sam. Loyd has since so ably supported in a pamphlet."<sup>2</sup> This acknowledgment forms conclusive evidence that the resolutions of 1841 were neither more nor less than a plan to establish in Canada the methods of note regulation advocated by the British "Currency School."

It is no part of our purpose to discuss here the *cause célèbre* of "Currency Theory" *versus* "Banking Principle." But it must be said that so far as the experience of either Upper or Lower Canada taught anything, it was that their bank note currency was satisfactory, worked well, and was safe. The

<sup>1</sup> Journal, Can., 1841, p. 398.

<sup>2</sup> HINCKS, *ut supra*, p. 69.

freedom from fluctuations would have attracted Canadians of that day as little as it would those of the present. What they wanted, what in fact they had, was a bank note currency that would fluctuate in correspondence with the number and amount of transactions wherein it was used. Compared to this, the rigidity and inelasticity of a Government issue were distinctly objectionable. The promised security was merely a promise. Government currencies had hitherto been proposed in the Canadas only when the Government was in financial straits. For the currency to be secure, the issuer, either of the notes or of the security, must be solvent. The banks had come out of the crisis well enough. None had defaulted on their notes. Never had a chartered bank failed in the Canadas. Never, except in a time of war and commercial disaster, had their notes fallen below par with specie. For Upper Canada, at least, it was acknowledged that by completely stopping discounts for a time, the banks need not have suspended then.

Notwithstanding, the Committee, the chairman of which, Mr. Francis Hincks, was a warm advocate of the Governor-General's views, reported to the Assembly in favor of the resolutions. The measure there met opposition. It involved private and class interests. It attacked the chartered banks, who were strong in the assembly. They fought it because the loss of the issue privilege would lessen their profits, force them to reduce the number of their branches, and diminish the loanable credit at their command. It would cause distress more or less serious to their customers, the commercial classes, through the curtailment of discount accommodation thus rendered necessary. Further, it was feared that a provincial bank would materially increase the power of the executive. The effect of political feeling was joined with the efforts of the bank interest. Conservatives, French Canadians and some recalcitrant Reformers,<sup>1</sup> united in Committee of the Whole House to pass the resolution of the 31st August, "that it is inexpedient to take into further consideration during the present session the establishment of a Provincial Bank of Issue, or the issue, in any way, of a paper currency on the faith of the Province."<sup>2</sup>

<sup>1</sup> HINCKS, *ut supra*, p. 70.

<sup>2</sup> Journal, Can., 1841, p. 464.

As a fiscal measure, partly in lieu of the defeated expedient, the Legislature that session decided to impose upon the bank notes issued and circulating in the Province a duty or rate of 1 per cent. per annum. (4 & 5 Vic., cap. 29.) The tax was levied on the average of circulation as shown by statements of the notes outstanding at the end of each month, and furnished to the Receiver-General on the 15th May and the 15th November of each year. Those making wilful, false statements, were liable to the penalty for perjury, while refusal or neglect to furnish statements incurred a fine of £1,000.<sup>1</sup>

§ 18 — THE LEGISLATION OF 1841 AND 1843

In their final report (27th August, 1841), the Select Committee on Banking and Currency expressed themselves in favor of adopting some uniform system of banking in the Province. They recommended, therefore, that the prayer of the petitions from the chartered banks of the Province, for an extension of their capitals, should be complied with under certain restrictions, most of which had been recommended in a despatch from H.M. Principal Secretary of State for the Colonies.<sup>2</sup> This despatch was the circular of the 4th May, 1840, issued over the signature of Lord John Russell, with the expectation that provision for the observance of the regulations it contained, should be made in all colonial bank charters. Among British North American documents, the Assembly Journal of New Brunswick is the only one to contain the original circular.<sup>3</sup> The report which the Canadian Committee based upon it is worthy of full description here as the first group of principles adopted by the Province as the norm for its banking legislation. In connection with the circular of the 30th May, 1846, the regulations of 1840 furnish the key to nearly the whole development of banking law in British North America, from the date of their publication to the

<sup>1</sup> The revenue derived from the rate was in 1841-42, £9,560; 1842-43, £7,572; 1843-44, £10,484; 1844-45, £13,020; 1845-46, £15,899; 1846-47, £16,060; 1847-48, £12,473. Return to an Address of the Honorable Legislative Assembly, dated the 29th January, 1849. Journal, Can., 1849, Appendix. In most cases the duty was equivalent to a net income tax of 7 to 8 per cent.

<sup>2</sup> Journal, Can., 1841, Appendix O.

<sup>3</sup> Journal of the House of Assembly of the Province of New Brunswick, 1841, p. 41

period of confederation. Following are the restrictions recommended by the committee :

1st. The amount of capital of the company to be fixed ; and the whole of such fixed amount to be subscribed for within a limited period, not greater than 18 months from the date of the charter or the Act of Incorporation.

2nd. The bank not to commence business until the whole of the capital is subscribed, and a moiety at least of the subscription paid up.

3rd. The amount of the capital to be paid up within a given time from the date of the charter or Act of Incorporation, such period unless under particular circumstances to be not more than two years.

4th. The debts and engagements of the company on promissory notes or otherwise, not to exceed at any time thrice the amount of the paid-up capital, with the addition of the amount of such deposits as may be made with the company's establishment by individuals in specie or Government paper.

5th. All promissory notes of the company, whether issued from the principal establishment or from the branch banks, to bear date at the place of issue, and to be payable on demand in specie at the place of date.

6th. Suspension of specie payments on demand at any of the company's establishments, for a given number of days (not in any case exceeding 60) within any one year, either consecutively or at intervals, to forfeit the charter.

7th. The company shall not hold shares in its own stock, nor make advances on its own shares.

8th. The company shall not advance money on security of lands, or houses, or ships, or on pledge of merchandise, nor hold lands or houses, except for the transaction of its business ; nor own ships or be engaged in trade, except as dealers in bullion or bills of exchange ; but shall confine its transactions to discounting commercial paper and negotiable securities, and other legitimate banking business.

9th. The dividends of the shareholders are to be made out of profits only, and not out of the capital of the company

10th. The company to make and publish periodical statements of its assets and liabilities (half-yearly or yearly), showing under heads specified in the annexed form, the average of the amount of its notes in circulation, and other liabilities at the termination of each week or month, during the period to which the statement refers, and the average amount of specie or other assets that were available to meet the same. Copies of these statements are to be submitted to the Provincial Government, and the company shall be prepared, if called upon, to verify such statements, by the production, as confidential documents, of the weekly or monthly balance sheets from which the same are compiled. And also to be prepared upon requisition from the Lords Commissioners of Her Majesty's Treasury, to furnish in like manner such further information respecting the state or proceedings of its banking establishments as their Lordships may see fit to call for.

11th. No by-law of the company shall be repugnant to the conditions of the charter or Act of Incorporation or the statutes of the Province.

12th. \* \* \* \* \* The provisions of charters or Acts of Incorporation should be confined as far as practicable to the special powers and privileges to be conferred on the company, and the conditions to be observed by the company, and to such general regulations relating to the nomination and power of the directors, the institution of by-laws, or other proceedings of the company as may be necessary, with a view to public convenience and security.

13th. No company shall be allowed to issue promissory notes on demand for an amount greater than its paid up capital.

Form of Return.

Return of the average amount of the Liabilities and Assets of the Bank of \_\_\_\_\_ during the period from \_\_\_\_\_ to \_\_\_\_\_

Promissory notes in circulation not bearing interest..	£ _____
Bills of exchange in circulation " " " " ..	_____
Bills and notes in circulation bearing interest .....	_____
Balances due to other banks .....	_____
Cash deposits not bearing interest.....	_____
" " bearing interest.....	_____
Total average liabilities .....	£ _____
Coin and bullion .....	£ _____
Landed and other property of the corporation .....	_____
Government securities.....	_____
Promissory notes or bills of other banks .....	_____
Balances due from other banks .....	_____
Notes and bills discounted or other debts due to the corporation not included under the foregoing heads ....	_____
Total average assets.....	_____

The second general law enacted in the Province with respect to banks was an Act to authorize the banks previously chartered by Acts of either of the late provinces to carry on their business throughout the new province. (4 and 5 Vic., cap. 99.) The condition was that notes of Upper Canada banks issued in Lower Canada should bear date at the place of issue, and be payable there as well as at the principal establishment of the corporation.

✓ The three Lower Canada banks petitioned in 1841 for the renewal of their charters, and permission to increase their capital stocks. Other petitioners sought incorporation for a proposed Bank of the Niagara District. The Acts passed in answer to the several prayers embodied all the provisions and restrictions laid down in the committee's report, continued the charters and extended the corporate powers of each bank to the whole province. The definition of the powers was strict, though not, perhaps, too severe when the conditions and tempta-

tions in which the banks worked are considered.<sup>1</sup> It was enacted that no bank officer should act as proxy, that the bank should not hold the stock of other banks, except when taken for *bonâ fide* debts contracted in the usual course of business, and that no notes under five shillings should be issued. It was further enacted that notes under £1 should not exceed one-fifth of the paid-up capital, and that the total circulation, on pain of charter forfeiture and the joint and several liability of the directors, both to the public and the shareholders, should not exceed the capital stock paid-in.<sup>2</sup> Branch banks were permitted and subjected to the restrictions as to note issue.<sup>3</sup> A considerable holding of paid-up stock was continued as a qualification for the directorate. Charters were to expire at the end of the first session of Parliament after the 1st June or 1st December, 1862. The renewed charters, it will be observed, continued in force all the provisions for the public security previously adopted in either Lower Canada or Upper Canada. Among these were the prohibition of loans to a foreign state, and of voting by alien shareholders, the cessation of business by way of discount or otherwise during a suspension of specie payments, the enforcement of subscriptions to capital stock by requiring an immediate payment of 10 per cent., the penalties in the bank's favor for default upon calls, and the bank's prior lien upon stockholders' debts. For the Lower Canada banks the most important, and probably the most

<sup>1</sup> The clause was in effect: "And be it enacted that the said corporation hereby constituted shall not either directly or indirectly hold any lands or tenements (save and except such as by the first section of this Act, they are specially authorized to acquire and hold,) or any ships or other vessels, or any share or shares of the capital stock of the corporation or of any bank in this Province; nor shall the said corporation, either directly or indirectly, lend money or make advances upon the security, mortgage, or hypothecation of any lands or tenements, or of any ships or other vessels, nor upon the security or pledge of any share or shares of the said corporation, or of any goods, wares or merchandise; nor shall the said corporation, either directly or indirectly, raise loans of money or deal in the buying, selling or bartering of goods, wares or merchandise, or engage or be engaged in any trade whatever except as dealers in gold and silver bullion, bills of exchange, discounting promissory notes and negotiable securities, and in such trade generally as appertains to the business of banking. Provided always, that the said corporation may take and hold *hypothèques* and mortgages on real estates and property in this province, by way of additional security, for debts contracted to the corporation in the course of their dealings."

<sup>2</sup> The Bank of the Niagara District was permitted to issue notes for less than £1 to  $\frac{1}{4}$  of paid-in capital, 4 and 5 Vic., Cap. 96, § xiii.

<sup>3</sup> The notes of the Quebec Bank were to be payable at the place of date and issue as well as at the head office of the bank. In 1849 this provision was amended to conform to that in the other bank charters. After 1842, the greater number of what had been, technically, offices of discount and deposit, were changed into branches, *i.e.*, banks in every sense of the term. The head offices ceased to be the sole places of date and issue, but notes otherwise issued were payable only at the branch where they were dated and not at the principal office.

objectionable innovation, was the imposition of the double liability upon their shareholders, a restriction which they had escaped at the time it was required of the younger banks of the Western Province in 1833-34.

The Royal assent to the four laws was not proclaimed until the 27th April, 1842. In October assent was granted to Acts extending, on similar conditions, the charters of the Bank of Upper Canada and Commercial Bank of the Midland District, permitting additions to their capitals and subjecting their shareholders, like those of other banks, to the double liability. The increased banking capital thus authorized was for the—

City Bank, - 4 & 5 Vic., cap., 97.....	£100,000
Quebec " - " " " 94.....	150,000 <sup>1</sup>
Bank of Montreal " " " 98.....	250,000
Bank of N. D. " " " 96.....	100,000
Commercial Bank, 6 " " 26.....	300,000
Bank of U. Canada, 6 " " 27.....	300,000
Total .....	£1,200,000
Total existing capital, 1st July, 1841, say	£1,985,000

In 1842, certainly, there was no monopoly of banking investments. Whoever wished might buy. Nor was there other monopoly. The freedom with which charters were afterwards granted shows that the business was opened to more promoters than could provide the capital wherewith legally to qualify to enter it.

The Lower Canada banks and the Bank of the Niagara District had been granted but two years within which to secure the new capital authorized. The other Upper Canada banks got five years, and in 1846 the term was extended to 1850. (9 Vic., caps. 86 & 87.) In 1846 these two, together with the Bank of the Niagara District, were authorized to set aside £150,000 each and £50,000 of stock respectively, to be known as "English stock," the dividends to be made payable in London and books to be opened in that city for the transfer of shares. (7 Vic., cap. 62.) This is a second indication of the reviving prosperity of the Province and the demand for loanable

<sup>1</sup> Already authorized by Royal Charter.

capital of which one of the first signs is the increase of stock authorized in 1841 and 1842.

§ 19.—BANK RETURNS FOR 1841; THE BANK OF BRITISH NORTH AMERICA AND LA BANQUE DU PEUPLE

Altogether there were ten banks that reported to the committee of 1841. One of these, the Bank of the People, in Toronto, had already been sold to the Bank of Montreal, and reported only the amount of its stock. Two others, the Farmers' Joint Stock Banking Company and La Banque du Peuple, were private banks acting under a deed of settlement and articles of co-partnership, respectively. A fourth, the Bank of British North America, was a company formed in 1836, with a nominal capital of £1,000,000 stg., by British capitalists interested in the prosperity and commerce of the North American colonies.<sup>1</sup> £690,000 of the capital were at first paid up and employed from 1836 to 1840 in a banking business extending to both the Canadas, New Brunswick, Nova Scotia and Newfoundland.<sup>2</sup> An Act of the Imperial Parliament authorized the bank to sue and be sued in the name of an officer in England, and similar Acts were obtained from the provincial Legislatures in 1837 and 1838.<sup>3</sup> The Nova Scotia Act recites that the company had introduced the system of cash credits and of allowing interest on deposits, usually known as the Scotch system of banking. To obviate the difficulty of acting under many different statutes, the directors applied for a Royal Charter in 1840. They obtained it, one condition being that the capital of a million pounds should be fully paid up, and another, that no notes under the value of £1 currency should be issued. The liability of the stockholders was limited to the amount of their subscriptions.

The condition of the banks on days near the 1st July, 1841, was as follows:—<sup>4</sup>

<sup>1</sup> *Vide* R. M. MARTIN, *History, Statistics and Geography of Upper and Lower Canada*, London, 1838. On p. 277, the author claims for himself and a Wm. MEDLEY, Esq., the credit of first proposing and of interesting others in the establishment of the British Bank.

<sup>2</sup> *Journal of the House of Commons of the Dominion of Canada, 1869, Appendix I, p. 67.*

<sup>3</sup> 7 Wm. IV., cap. xxxiv., U.C.; 8 Wm. IV., cap. xvi., N.B.; 1 Vic., cap. xxiv., N.S.; 1 Vic., cap. xxv., L.C.

<sup>4</sup> *Journal, Can., 1841, Appendix O, statement F.*



July 1, 1841 :

Banks	Capital	Circulation	TotalSpecie	Deposits	Discounts
	£	£	£	£	£
Bank of B. N. America..	690,360	50,564	45,828	184,899	575,752
Montreal Bank.....	500,000	227,048	125,175	234,686	936,553
Peoples', Toronto.....	50,000	....	....	....	....
City Bank .....	200,000	108,572	20,378	50,700	340,391
Banque du Peuple.....	115,759	58,211	8,170	25,360	183,378
Com. Bk of Midland Dist.	200,000	205,429	82,890	98,671	461,615
Bank of Upper Canada..	200,000	142,849	55,125	144,093	466,927
Farmers' Bank.....	45,122	14,350	7,867	3,079	54,281
Gore Bank.....	100,000	77,177	26,385	14,481	165,236
Quebec Bank.....	75,000	37,787	15,069	55,219	145,362
Total currency .....	2,325,450	921,991	386,891	811,191	3,269,499

Viger, De Witt et Cie., the French partnership *in commendam*, were incorporated in 1843 as "*La Banque du Peuple*." The principal office was to be as formerly in Montreal, and the authorized capital £200,000, the full payment of which was required within two years from the passing of the Act. (7 Vic., cap. 66.) The character of the partnership and the division of powers, profits and liabilities between the two classes of partners have been sufficiently described near the close of chapter II. This peculiar constitution, in its origin a mediæval device to evade the prohibition of usury, was continued by the charter, and the stockholders have obstinately clung to it ever since. The qualification of the principal partners or "members" was the ownership of not less than forty shares each, of a total value of £500. New members might be admitted and old ones withdraw, proper notice being given of the change, but the total number of members was never to be less than seven nor more than fifteen. The corporation as thus constituted was subjected to the same restrictions as to note issue, total liabilities, suspension of redemption in specie, etc., and granted the same powers, as the joint-stock banks.

§ 20.—CORRESPONDENCE WITH RESPECT TO THE DOLLAR NOTE CIRCULATION

The circular of Lord John Russell contained certain regulations respecting the issue of bank notes under £1 currency,

which had been embodied neither in the Committee Report of 1841, nor in charters passed in that year. But as those Acts had been fully considered by the local Legislature and the Governor-General, as a disallowance might have caused embarrassment in Canada at the time, and as the power of regulating the note issue in the future was reserved by the charters to the Legislature, the Queen was advised to confirm them.<sup>1</sup> Her Majesty's Government, the Governor-General was informed, attached great importance "to the early reduction of that small paper circulation to which the Acts in question give encouragement," and it was hoped "that the Canadian Legislature will at an early period revise this part of the system of banking in the province, and secure to the people of Canada the benefit of a metallic circulation, which is incompatible with the circulation of paper of this description."<sup>2</sup>

A charter was passed in 1846 the effect of which would have been to extend the small note circulation. The Imperial authorities felt that the Canadian Government had had in four years ample time for considering the tendencies of their system of banking, that the reasons of temporary expediency entertained in 1842 for waiving their objections to five shilling bank notes did not equally apply to the new measure, and that the existence of rights of issue formed no reason for the concession of similar rights to new establishments. Privileges of issue by banks in the United Kingdom before the Acts of 1844 and 1845, had been withheld from banks formed after a certain date. They believed that a dollar note circulation was unsound and dangerous. The same reasons which prompted the abolition of £1 notes in England, called, in their opinion, for the restriction and ultimate discontinuance of the dollar notes in Canada.<sup>3</sup> Earl Grey, however, was unwilling that the bill should be abruptly disallowed. Accordingly he referred it back to Lord Elgin and the executive council of the province, with the promise that if they thought a change inexpedient the Royal assent would not

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<sup>1</sup> Journal, Can., 1843, p. 49, Despatch, No. 103.

<sup>2</sup> *Ibid.*

<sup>3</sup> Journal, Can., 1847, Appendix W, Despatch respecting the Bill of last session incorporating La Banque des Marchands.

be withheld. The Canadians favored the retention of their dollar notes and assent to the bill was promulgated in Jan., 1848.

This was the last noteworthy endeavor of the Lords Commissioners of H. M. Treasury, acting through the Colonial Office, to substitute "a currency founded on a sound and metallic basis" for the dollar notes issued by the Canadian banks. Those notes, though objectionable from a theoretical standpoint, were not the cause of practical inconvenience or loss. The dangers of an excessive issue were averted by the limitation of notes under £1 to one-fifth the paid-in capital stock of the issuing bank, and the active system of redemption between the banks. And when, in 1870, the banks finally gave up the small note issue, Canadians did not dispense with paper of such denominations—they simply transferred the issue to the Government.

§ 21.—IMPERIAL REGULATIONS OF 1846

The despatch quoted in § 20 called attention to other deviations from the last regulations respecting colonial banks. These provisions, somewhat different from those of 1840, were communicated in 1846, together with the following self-explanatory letter:—<sup>1</sup>

*Circular, 30th May, 1846, with Revised Regulations to be observed in incorporating banking companies in the Colonies.*

MY LORD,—On the 4th of May, 1840, Lord J. Russell transmitted to you a copy of certain regulations, the observance of which, in all charters or Legislative enactments relating to the incorporation of banking companies in the Colonies, Her Majesty's Government then considered of much importance. The correspondence which has since taken place on subjects of this nature, and the arrangements adopted by Parliament in regard to Banks of Issue in the United Kingdom, appear to Her Majesty's Government to have rendered necessary some modification of those regulations, with a view to bring them into exact correspondence with the principles on these subjects, established in this country. \* \* \* \*

These regulations are forwarded to you, not, of course, as inflexible rules to be in all cases insisted on, but as embodying the general principles to be observed in the preparation of Colonial Acts for the incorporation of banking companies, and Her Majesty's Government consider a compliance

<sup>1</sup> Journal, Can., 1847, Appendix W.

with all the more material conditions and restrictions of much importance to the security of the communities in which such banks may be established, and more especially to the poorer classes of such communities. I must, therefore, impress upon you the necessity of using all your legitimate influence to procure their introduction into any Bills which may be brought into the Legislature of the Colony under your Government, for the incorporation of banking companies; and with this view it might be well that you should communicate with the promoters of any such Bills, in which these considerations may be omitted, and point out to them that the instructions which you had received from Her Majesty's Government would place you under considerable difficulty in assenting to any such Bill, should it pass the Legislature in its actual form. I can hardly doubt that such a communication, aided by an explanation of the grounds on which Her Majesty's Government have proceeded in drawing up these regulations, would have the desired effect; but if not, and you should nevertheless feel it your duty to assent to the Act, it would be necessary in transmitting the Act for the signification of Her Majesty's pleasure, that you should accompany it by a full report of the grounds on which you have proceeded.

I have, etc.,

W. E. GLADSTONE.

Lieutenant-General,

THE EARL OF CATHCART, K.C.B., etc, etc., etc.

Following Mr. Gladstone's letter are twenty regulations. The essential variations from the report of 1841, and the existing legislations, are:

(a) When shares are transferred between the period of the grant of the charter and the actual commencing of business by the bank, the responsibility of the original holder to continue for six months, at least, after the date of the transfer, § 8.

(b) The total debts of the company not to exceed thrice the paid in stock, "over and above the amount of deposits or banking accounts with the company's establishments," § 13. (The expression in the report is "deposits of specie and Government paper.") The utility of this provision particularly after circulation was limited to paid-in capital.

(c) No promissory note to be issued for less than £1 Halifax currency, and none for fractional parts of such pound, § 14.

(d) Breach of the special conditions upon which the company is empowered to open banking establishments, or to issue and circulate promissory notes, to forfeit those privileges, which

shall cease and determine upon such forfeiture as if the period for which they had been granted had expired, § 18.

(e) The charter or Act of Incorporation may provide for additions to the capital of the company, within specified limits with the sanction of the Lords Commissioners of the Treasury, such additions to be subject to all conditions and regulations applying to the original capital, § 20.

The retention in Canada of notes under £1, and the waiver of their objections by the Lords of the Treasury, have been noticed in § 20. The Legislature did not venture to permit increase of capital stocks without its express authority for each instance. But the provision of regulation number 8 was embodied in subsequent charters as a necessary safeguard against subscriptions in bad faith or decoy subscriptions to the stock of new banks. So, too, penalties of charter forfeiture were imposed for breach of the various conditions on which corporate powers and privileges were granted, just as that penalty had been attached to the condition that no suspension of specie payment should exceed sixty days, consecutively, or during the year.<sup>1</sup>

The document just described concludes, for the present, the account of the relations of the Lords of the Treasury to the legislative development of the Canadian banking system. It has been shown that three of the most important groups of restrictions were not imposed upon Canadian banks until after the Treasury regulations of 1833, 1840 and 1846, respectively, had been transmitted to North America. It has appeared that certain new precautions substantially similar to those recommended were taken with regard both to existing banks and new establishments soon after the Treasury circulars were received, *via* Downing Street. In the sketch of the banking systems of Nova Scotia and New Brunswick, it will appear that, about

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<sup>1</sup> Cf. 10 and 11 Vic., cap. 112, an Act to incorporate the District Bank of Quebec.

18 Vic., cap. 202, an Act to incorporate the St. Francis Bank.

18 Vic., cap. 202, an Act to incorporate the Molsons' Bank.

19 Vic., cap. 76, an Act to amend and consolidate the several Acts incorporating and relating to the Bank of Montreal.

19 and 20 Vic., cap. 120, an Act, etc., (similarly for the Commercial Bank).

19 and 20 Vic., cap. 121, an Act, etc., (similarly for the Bank of Upper Canada).

the same time, like restrictions were adopted by those colonies for the government of their incorporated banks. The correspondence of 1833-1834 with Upper Canada, the protest of the colonists that banking is a local matter, the subjection of the Gore Bank to the double liability and other provisions, the supervision of legislation in the years immediately before and after the crisis, finally the action in 1841 of the Select Committee upon Banking, are pertinent incidents, but they form only links in the chain. It must be remembered that before the Banking Acts of 1841 and 1842 came into effect they were submitted to British inspection, and that the regulations of 1846 were, in due time, enacted as Canadian law. From evidence so varied, forcible and clear as the facts presented, two conclusions are not to be avoided. One is, that through the Lords of the Treasury the ripe experience of Britain in matters of banking was used for the direct advantage of the colonists; the other, that in 1850 the more important safeguards in British American bank charters were primarily due, not to the wisdom of local legislatures, but to the judicious intervention of the Imperial Government.

§ 22.—1847 - 1850

Canada had shared, to a considerable degree, the commercial recovery from the trying losses of 1837-1839. Indications of this were apparent as early as 1841, when the banks secured provision for the increase of their capitals. The business of 1843 was described as sound and legitimate, with few and unimportant failures.<sup>1</sup> The improvement in 1844 was still more active, and the banks were able profitably to employ the large amounts of capital which had been at low interest the year preceding.<sup>2</sup> The growth proceeded, and in 1846 a considerable extension of commerce and agriculture to new districts was a feature of the situation. In February the bank note circulation, only £953,916 four years before, touched £1,681,248, nearly the

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<sup>1</sup> *Bankers' Magazine*, Vol. 1, London, 1844, p. 325.

<sup>2</sup> *Ibid.*, Vol. 3, Report of the Meeting of the Bank of British North America.

highest amount reached during the period 1841 to 1848.<sup>1</sup> But the money pressure in England was felt, and though the state of trade seemed satisfactory, shrewd onlookers of Canadian events had some apprehension for the near future.<sup>2</sup> The importations of 1847 were excessive. The consternation caused by the English railway crash spread to Canada. Numerous commercial failures occurred involving large liabilities. Lower Canada, or Canada East, as it was now called, suffered the most, partly because the previous expansion had there been more pronounced. Extreme depression followed in 1848. The effects of the free trade policy of Lord John Russell and his party were first felt in their full force. Canada had lost the partial monopoly in timber and other natural products established in its benefit by the old protective system. The exports of pease fell 25 per cent., of wheat 60 per cent., flour 40 per cent., oats over 75 per cent., barley nearly 80 per cent., and pork 45 per cent. The stop put to British railway extension especially affected the timber trade. A large stock of timber was wintered at Quebec; in every article but white pine, the exports of 1848 fell from those of 1847 by percentages ranging from 14 for deals, 25 for elm, 33 for ash, to 50 per cent. for oak timber.<sup>3</sup> The imports of 1848 fell to £2,958,798, £837,049 less than in 1847.

Such an economic shock reacted, of course, upon the banks. Their circulation, which stood in March, 1847, at £1,684,413, had diminished by £321,000 on the 31st December, and fell to £1,114,208 in June, 1848. They could have accepted this contraction alone, without complaint. It was, however, accompanied by losses of other kinds. In 1848 and 1849 the Bank of British North America was obliged to set aside £43,100 for bad debts, reduce its dividend to 5 per cent., and take £6,000 from its rest.<sup>4</sup> The City Bank wrote off a rest of £27,875, the Gore

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<sup>1</sup> *Journal, Canada*, 1849, Appendix, Return to an Address of the Legislative Assembly, dated 29th January, 1849.

<sup>2</sup> *Bankers' Magazine*, Vol. 6, p. 106.

<sup>3</sup> *Journal, Can.*, 1849, Appendix Z, Montreal Brokers' Circular, 25th March, 1849.

<sup>4</sup> *Bankers' Magazine*, Vol. 10, p. 443.

Bank lost the whole of its rest.<sup>1</sup> In 1849 the capital of the Gore Bank was reduced from £100,000 to £80,000, on account of the losses it had suffered (12 Vic., cap. 149); and that of the City Bank from £500,000 of authorized stock to £375,000, the paid in stock from £294,000 to £221,000, the value of each share from £25 to £18 10s. (12 Vic., cap. 145). The Quebec Bank paid dividends of only 3, 2, and 4 per cent. in 1848 to 1850. The dividend of the Bank of Upper Canada was reduced from 7 per cent. to 4 and 4½ in the years succeeding the crisis, and more than £6,000 was deducted from its rest. The Bank of Montreal suffered more after the fashion of the Lower Canada banks, reducing its rest by £60,000, and its dividend from 7½ per cent. in 1846, to 6 per cent. in 1849.

But not a single chartered bank failed, specie payments were maintained throughout, and the losses suffered were borne by the shareholders alone.

In 1848 the Legislature had passed Acts permitting various additions to the capitals of the Montreal, Quebec and City Banks, and in 1849 to that of the Gore Bank. Additions amounting, in all, to £750,000, were authorized, and in the latter year the time for paying up these as well as the additions previously permitted to the Bank of Upper Canada, and the Commercial Bank, were extended to April, 1852.<sup>2</sup>

A general Act of 1850, concerning the chartered banks, declared their right and power to take, hold and dispose of mortgages and *hypothèques* upon personal, as well as real property, by way of additional security for debts, contracted to them in the course of their business. They were authorized to purchase lands or real estate offered for sale under execution at the suit of the bank purchasing, or exposed for sale under a power of sale given to the bank. The banks might finally acquire and hold an absolute title, either by release of the equity of re-

<sup>1</sup> Journal, Can., 1859, Appendix, No. 67.

<sup>2</sup> 10 and 11 Vic., cap. 115, Provincial Statutes of Canada.  
 10 and 11 Vic., cap. 114, " " "  
 10 and 11 Vic., cap. 116, " " "  
 12 Vic., cap. 149, " " "  
 12 Vic., cap. 170, " " "  
 12 Vic., cap. 184, " " "  
 12 Vic., cap. 185, " " "



demption or foreclosure in the Court of Chancery. (13 and 14 Vic., cap. 22.) This legislation is to be explained not as an extension of the loaning powers of the banks, but as protection to them against loss upon overdue debts. It is best understood in connection with the agitation for increased banking facilities, and greater assistance to the less important communities, the discussion of which is reserved for the next chapter.

## THE GROWTH OF CORPORATIONS

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### THE BENEFICIAL RESULTS TO SOCIETY WHICH WILL PROBABLY ACCRUE FROM IT, AND ITS EFFECT ON CREDIT AND BANKING

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The business of banking and the cognate subject of currency have occupied a large share of the world's attention since the dawn of the commercial era. Joint-stock banks seem now to be such a necessary part of our economic machinery that it almost gives one a shock to be reminded that they are hardly more than 200 years old.

But, young as they really are, they represent one of the first attempts of mankind at collective or co-operative effort for trading or money-making purposes.

Adam Smith, writing 120 years ago, said that "the only trades which it seems possible for a joint-stock company to carry on successfully without an exclusive privilege, are those of which all the operations are capable of being reduced to what is called a routine, or to such a uniformity of method as admits of little or no variation. Of this kind is first the banking trade, secondly, the trade of insurance from fire and from sea risks (life insurance being then unknown, as well as gas companies, railroads, telegraphs, etc.), thirdly, canals, and fourthly water works."

He says further on, "the joint-stock companies which are established for the public-spirited purpose of promoting some particular manufacture, over and above managing their own affairs ill, to the diminution of the general stock (or capital) of the society, can in other respects scarce ever fail to do more harm than good."

This was written by the wisest man of his time, only 120 years ago, and to-day the most conspicuous economic fact in the world is that what we may call individualism in trade and industry of all kinds is rapidly dying out, while its place is being taken by those very joint-stock companies which Smith deemed so inefficient, and to the growth of which there seems to be hardly any limit.

The advantages of collective effort on a large scale are now so obvious that the ultimate result cannot fail to be the complete substitution of the joint-stock company for private effort in all the processes for the production and distribution of all the necessaries and luxuries of life. In other words, there will soon be no field for individualism in our material affairs. The commissariat department of society, if I may use such a phrase, must be organized collectively, while individualism will find its true field in the higher spheres of thought, in invention, discovery, art, literature and conduct.

This development is a perfectly logical and natural one, little as it has been foreseen. It has been brought about by the constant pressure of competition demanding ever greater efficiency and economy of method. It is now seen that the old ideas as to the supposed superiority of, and necessity for personal proprietorship, and the owner's supervision and management in most undertakings, if not entirely wrong from the beginning, have certainly grown to wear a very different aspect under modern conditions. The mere necessity for *continuity alone*, apart from all other advantages, seems to be driving all successful private business into the shape of incorporated companies; and, once in that shape, there is no return from it.

It cannot be doubted that in this great natural and spontaneous development of the collective or co-operative idea in the material affairs of life, there is very great promise for mankind. In this way only does there seem to be any real promise of the successful organization of labor—so passionately desired by Carlyle, and which he termed “the problem of the whole future, for all who will in future pretend to govern men—the “universal vital problem of the world.”

Hitherto the movement has not been looked upon as fraught with great potential blessing to the world. Very much the reverse rather. It has passed into a proverb that “corporations have no souls,” and the almost unparalleled state of things in the United States at the present time would seem to give little promise of salvation by means of corporations. We know also that the most strenuous efforts are being made in the neighbouring country by some of the most public-spirited of the people to put down the so-called Trusts, which they regard as

little better than vampires but which in themselves simply represent the latest development of the collective idea.

It must certainly be admitted, however, that before these Trusts and other great corporations can be made to yield the benefits to the world which they are capable of doing, much will have to be done by legislation in the way of regulating them. At present, for the most part, they seem to be controlled by men of the buccaneer type, who merely run them for plunder, or swamp them with watered stock in the very act of creating them. There is no more urgent work required of our legislators to-day than the enactment of proper restrictions and regulations for all joint-stock companies.

But to indicate something of the possible benefits which may be derived from them, let us consider that it has only been since the development of joint-stock companies, and by means of them, that the idea of pensioning employees has come into existence. It has, however, grown quite spontaneously, and, although hardly yet out of its infancy, there is already scarcely a bank in England of any consequence which has not organized or is thinking of organizing a pension fund for its officers. It is impossible to over-estimate the significance of this fact. The banks are only leading the van in the movement. As they were themselves the first fruits of the collective or joint-stock principle, so they are the first to illustrate the full scope and development of that principle; and the pension idea is a natural outgrowth from it. And I believe it is destined, either with or without the assistance of legislation, to become a necessary adjunct or essential part of the constitution of every corporate organization in the future.

When this is fully realized it will hasten materially the rapid transference of business now going on from the control of private firms to that of large joint-stock companies, and also hasten the further movement of the merging of the smaller corporations in larger and ever larger ones until the maximum of economy in management, or, what the economists call the minimum cost of production, can be reached. It is all a matter of economy, which is synonymous with progress.

I look forward to the time, which cannot really be very far distant, when the boy, on leaving school or college, will be

drafted into the service of one or other of the great industrial corporations of the country, which he will never leave during the period of his working life, nor until his services have earned for him a sufficient pension to enable him to spend his declining years in rest and comfort. Such an outlook for the worker himself, or, in the event of his premature death, some provision for dependent relatives, would for ever banish the fear of want from his horizon; and who could measure the boon to the world of such an achievement!

Many of us may not, at the first blush, regard the prospect of continuous service for life in one institution as a very desirable one; but a little reflection on the unhappy condition of the world at present, with its continual strife between capital and labor, its problems of the unemployed and the submerged residuum—its universal scramble for existence, with the dreary outlook to the mass of the workers in the face of sickness or the approach of old age, should induce us to welcome any change which promises so much as this, and merely demands in return that every man shall do steady honest work from the beginning till the end of his career. But whether we like it or not, this is the direction in which things are shaping, and for which, if we are wise, we should prepare ourselves.

It may be interesting to us as bankers to try and forecast some of the probable results of this development, in so far as they will affect the business of banking.

Banking has been built up, or rather has grown up naturally out of two conditions, namely, industrial individualism and the credit system.

We see that individualism is being rapidly replaced by what we have called collectivism in the shape of corporations; and when these are properly organized they will have little to do with credit. Given a legitimate business, well organized, and even to-day there is nothing easier than to raise the necessary capital to run it. Why then should it be necessary to borrow at all? Probably the greatest difficulty in all business to-day is the loss and expense entailed by credit, with the many evils that follow in its wake—incompetent and dishonest traders, failures and frauds; and the purgatory of bankruptcy proceedings and the law courts.

We hear every day in business circles of the universal abuse of credit. We are all aware of it, but we are all interested in pushing business on credit, and consequently are largely responsible for this abuse. But this state of things cannot continue. The expense of credit to the community is becoming too great, and that will eventually kill it.

We thus see that there is not the element of permanence in the two principal factors or conditions which have gone to build up the business of banking, as now carried on. The shoe is already pinching us. We have continually increasing difficulty in finding the right kind of borrowers. In the best of times we have had to find our clientage in the border country which lies between poverty and wealth. We have had to find borrowers with brains and character, minus money, and we have supplied them with the money with which to command labor and do the world's work; but our task is never done, and is always increasing in difficulty, for the more successful we are in our selection of borrowers, the more successful they are in making money, and so making themselves independent of us, and as fast as they become rich and cease to borrow, we are driven back into the wilderness in search of new and hungry aspirants to position and wealth, who will borrow our money, and use it in a probably vain competition with their successful predecessors who are now using their own. I see no element of permanence in this state of things. Between the diminishing return to capital on the one hand, and the increasing difficulty and risk of employing it on the other, we stand a fair chance of being ground between the upper and the nether millstones.

There will never again be the profit in banking that there has been; and it is becoming very evident that for all the really legitimate business there is to be done in this country, we have about three times as many banks as are required. To some people this may not seem a very great evil, but I should like to call attention to one very striking result of it, which may not have attracted the attention of bankers generally. We pride ourselves on the high state of perfection of our banking system, and I think justly so, when we compare it with that of other countries; but bankers are at best only middlemen, and you may easily have too many of them. The point I wish to call

your attention to is this, that with about an equal number of traders in proportion to the population, the number of failures in proportion to the total number of traders is more than double in this country what it is in the United States. That is a very striking fact, which I attribute largely to the great completeness and efficiency of our banking organization. It extends credit everywhere; creates a vast army of impecunious traders, who intensify competition till the margin of profit nearly reaches the vanishing point. Then the weakest fail, and an indulgent community shoulders their losses, and graciously puts them back into a position to begin their bad work over again. This is not a caricature, but a simple statement of fact.

Wise bankruptcy legislation might do something towards abating this evil, but we are not likely to get such a thing when we are not ourselves of one mind about it. But in any case the remedy would take shape in restriction of credit, and reduction in the number of traders, and therefore of bank customers. It seems to me, therefore, that we have reached the stage when by some means or other it would be wise to think of bringing about a reduction in the number of our banks.

We are living in an age of rapid transitions, and we shall have to try and accommodate ourselves to them, even if the ultimate prospect be of being wiped out altogether.

There is a great waste in having a great number of comparatively small competing institutions doing the work which could be done much more effectively and economically by one or two; and while this is true of all industries, it is pre-eminently true of banking. It is perhaps less difficult to manage large than small banks, and it should be proportionately much more economical.

The margin between the deposit and loaning rates is growing smaller every day; profits on exchange and all commissions are becoming so infinitesimal that it would almost require the aid of a microscope to see them; but the absolute expense of management cannot be reduced at all. It can be reduced relatively by a continual increase of business, but the condition of the country does not permit of this, so it seems to me that if we desire to escape from the wasting competition which threatens to prove fatal to the banks and the public alike, we

are shut up to a policy of amalgamation. We can see that the smaller institutions, excepting where they have had the advantage of long priority and exceptionally good management, resulting in great accumulations of profits, work at a disadvantage, both to the shareholders and to their staff—more especially the latter; and it will come to be recognized in time that the workers are even more to be considered than the shareholders.

Seventy-five years ago there were thirty banks in Scotland—now there are only eleven, and who can doubt but that the needs of that country are much better served now than they were then? While it must also be evident that these eleven institutions, or the greater number of them, are likely to be very much stronger, and better able to take care of their employes than their predecessors were. This latter point cannot be too much emphasized. It is quite as much in the interest of the bank employes as in that of the general public that there should be only large and strong banks; consequently every bank officer who realizes the drift of things will further any movement which has for its object the lessening of the number of banks in the country—by amalgamation or otherwise.

Progress lies in this direction, not only for banking corporations, but for those of every other industry. We are beginning to see the weakness and waste of numerous small organizations, and the folly of competition run mad. Indeed, competition, while it has been of much service to the world, is becoming less and less useful, where not absolutely hurtful, and now begins to give evidence that it is approaching the period of its old age. It was chiefly necessary in order to make up for the lack of proper organization. When the latter is achieved we may regard the rapid disappearance of competition with comparative equanimity.

THOMAS FYSHE.



## SOME POPULAR FALLACIES CONCERNING BANKS

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It may be taken for granted that, in the minds of the majority of those not engaged in any one business or profession, there are misconceptions as to its exact nature, purpose or function. Among others, the science, profession or business of banking seems to be peculiarly subject to misconceptions, both as to the principles which should govern it and the practice which should be deduced from those principles.

This special readiness to misconceive banking arises from the first fallacy to be noticed, viz.: That, while most businesses require long education and clever management in order to furnish a due proportion of profit, no very special training is required to manage a bank, and that any so-called common-sense business man could undertake to run a bank successfully. There is no doubt that any man could undertake without difficulty that part of a bank's business which consists of lending out its surplus funds, but it would likely require the best efforts of the most thoroughly trained of professional bankers to get most of it back again.

We have had in Canada some examples of the results of banking in the hands of insufficiently trained men, and the failures of so many banks in the United States last year, more especially in the smaller places, arose not so much from faults of the banking system of the country, as it is theoretically expressed, as from the amateur nature of the banking as practically carried out.

Allied to this is another fallacy which is frequently met with in country places, viz.: The idea which many people have that they know what is for the interests of the bank, probably better than the local manager, and certainly better than the executive at the head office. The estimates of the value of a banking account and of the profit to be made out of it are frequently ludicrously exaggerated. These over-estimates assume many forms in the concrete, and many such will no doubt have been brought before the notice of all of you. There is the account of

the firm which draws out money for wages once a fortnight, the notes being at once expended in the town itself and probably nearly all coming back to the bank for redemption within three or four days—this account is supposed to yield large profits to the bank from circulation. Then there is the business man who pays in considerable mixed cash every day or so, his payments being counterbalanced by daily withdrawals by cheque or domiciled acceptances, so that the daily balance is small, or varied by spasmodic overdrafts—this account is supposed, by some unexplained process, to be a valuable one, and more curiously still, the more bank stationery such a man uses, and the more cheques he draws, the more profitable he is apt to think his account must be.

Another popular misconception of the function of a bank is that it is clearly its duty to make loans to every one in business regardless of circumstances. It is frequently the case that a man having a small factory of any sort, which is mortgaged up to the hilt, and with some fixed machinery and plant, bought on long time, and either subject to the mortgage or to a lien in favor of the vendor, expects a bank to furnish him permanently with all the working capital for a business far more extensive than his means could possibly warrant. Or there is a jobber or retailer who thinks he is justified in putting a large portion of his small capital into mortgaged real estate, relying altogether on his banker to furnish all the means for carrying on all his business operations. In other words, many people expect a bank to become their special partner in business, furnishing all the working capital, but taking a very limited proportion of the profits.

We are unfortunately but too familiar with the remarkable difference between the statements furnished by such men when they are asking for an advance, and those they exhibit sooner or later to a meeting of their creditors.

But not only do people consider it to be the duty of a bank to make loans to them, but they are frequently apt to think they are doing a bank a favor by borrowing from it, and to assume a lordly air of distributing largesse when their request for a loan is made, followed by expressions of contempt and pity for the bank

manager who can be guilty of the folly of letting such a chance go by. In this class are the people with little or no means who make experimental shipments or consignments of goods abroad, and are very much hurt because their drafts for full value are not purchased with the avidity which they expect.

Another man whom we all know is the one who signs a guarantee or endorses a note for a friend and then dismisses all idea of liability from his mind, saying, when called on, that it is the business of the friend, who will "attend to it." Akin to this is the belief that a note signed for accommodation is of the same class and just as good as if the names were given for a plain transfer of goods. Indeed, there have been instances in this country where a whole business community endorsed one another's notes, and where not only they, but even the banks concerned, deceived themselves into the belief that the ultimate result would be better than if the notes were single-name. The universal liquidation which followed in due course was a sufficient demonstration of the fallacy of such a belief.

A fallacy which obtains chiefly among a class which does not make direct use of banks, is that they are for the rich only, and that the money in them is that of the well-to-do and therefore fair game for spoliative taxation. To a large extent, so far as deposit receipts are concerned, and to a still larger extent as regards savings bank deposits, the very converse is the fact, that the money deposited is that of those who have but little to spare. The well-to-do, as a rule, employ their surplus funds in other ways, and the balances are those of people who have not enough to put into bonds, stocks or mortgages.

The subject is one that has its humorous side and instances more or less amusing occur every now and then.

A correspondent in the June number of the *JOURNAL* of this Association gave an instance of a mistaken idea of the purpose of a branch bank which could probably be paralleled by most of us with a few years country experience, except that in the case related the fallacious belief was presented in a more compact and crystallized form than usual.

You are all aware of the Irish crowd who publicly burned as many of an obnoxious bank's notes as they could accumulate, under the impression that they were doing the bank a serious injury.

There is the travelling man, frequent and aggressive, who comes in to cash a £10 circular note, and considers that this transaction gives him a title to a large amount of the manager's time on that and other days in imparting information on every subject connected with the country.

During my residence in California, at a meeting of labor agitators, one of their leaders, who had announced his intention of scarifying the banks, made out that they were all bankrupt because they had not the full amount of their deposits in actual cash on hand.

An instance, hardly perhaps to be classed as humorous, came under notice recently, where a man, who had at one time been overpaid a considerable sum by a paying teller, said, when the direction of the overpayment was discovered some time afterwards and he was asked why he had kept silent about it, that he thought that a bank which could afford to put up such a handsome building could afford to lose the sum of money in question.

I will not, however, weary you by going very closely into the subject, or by multiplying instances. Many of the fallacies concerning banks and banking are harmless and it is not worth being over sensitive about them or combating them at length.

In the case of some of the errors, it has been my own experience that they have not the same hold in England or the United States as they have in Canada. This leads to the only practical suggestion I venture to make—that it is worth while considering whether or not mistaken ideas on the part of the public as to the relationship between a bank and its customer may not sometimes be the result of excessive zeal for the extension of business on the part of local bank managers. Advertising in various forms is no doubt a good and legitimate thing, but the introduction of bargain day styles into banking can hardly impress the public with an idea of the value of the wares offered.

E. STANGER.

## NOTES ON THE CLEARING-HOUSE CERTIFICATE

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The Clearing-house Certificate is an American invention, and as to some of our Associates the nature of it may not be clearly understood, I will devote a little time, with your permission to the subject. I see at least one of our Associates here to-day\* who with myself was in the toils of Wall Street in 1873, when the hard-pressed bankers of New York first resorted to this ingenious method of giving one another assistance. Since then it has been made use of at three different periods. In effect it is a method, and under the circumstances a very creditable one, of obtaining re-discounts.

In England, France, or any country where there is a great State bank, or in any country where there are one or more banks which from their great size overshadow the other banks, the ordinary banks in time of pressure are able to re-discount commercial paper, or borrow on securities from these larger institutions. The greatest banks in France, other than the Bank of France, do not hesitate to borrow at times from that institution, and likewise in Great Britain with the Bank of England. As the result of experience, and enabled as they are by their special privileges, these great State banks keep reserves quite different both in extent and character from ordinary banks, and little as they may at times like the task, recognize as one of their chief duties to the State, the necessity of rendering such assistance in addition to taking care of their ordinary liabilities. In consequence of the errors arising from the policy of Andrew Jackson and his associates, the United States has no great State bank and no mercantile banks of national importance. The National Bank Act tries to cover one of the defects arising from this by the establishment of reserve cities, and the requirement that the legal reserves of banks in these cities shall be equal to a higher percentage of liabilities than in smaller

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\*This paper was read at the annual meeting of the Association at Halifax.

cities. While there are several reserve cities, the banks situated elsewhere, as a rule, keep accounts either in New York or Chicago, and few banks can do business without an account in New York, to which city alone we will direct our attention. Let us then regard the aggregated New York banks as in some measure performing the functions of a great State bank such as the Bank of England or the Bank of France. They have no special powers of issue, and no credit arrangements with other countries or moneys due them by other countries, the foreign exchange business being mainly in the hands of private firms and foreigners. They have, taken as a whole, to depend on their reserve of currency or gold, and their loans on securities. But the mere calling of loans on securities, and causing them to be shifted from a bank requiring money to a bank having some to lend, affords little assistance, and in extreme emergencies little relief comes from this source until liquidation is enforced and outside capital is induced to buy. The legal reserve is supposed not to be used, and as the bank statements are published weekly, the public can see when the margin over this legal reserve has been narrowed down to what the law indicates to be the danger point. When the weaker banks fail to maintain this arbitrary reserve, panic easily ensues, because the fact that some banks are feeling the strain is thus advertised. It is not necessary here to discuss the question of fixed or legal reserves. The views of the majority of Canadian bankers on this point are very well understood. But as far as I remember, every panic in New York since the introduction of the National Banking System could have been averted by the use of only a moderate part of the reserve held. If some one doubts whether there would have been such a reserve in existence but for the legal requirement, I may answer that the evidence goes to show that the banks of the United States would probably hold larger cash reserves, as a whole, under a voluntary than under an arbitrary system.

Banks in New York may be roughly divided into two classes. 1. Banks serving mainly or entirely the mercantile community. 2. Banks mainly or entirely acting as bankers for other banks, for the so-called country banks. Of course many

banks do both classes of business to such an extent as to make the classification very imperfect, but it will serve to illustrate a few points. In any time of financial strain mercantile customers will doubtless require unusual assistance, and some of the smaller New York banks, serving only the mercantile community, may obtain re-discounts or loans from the larger banks in the same manner as in other countries. Or country banks, having over-loaned, may require similar assistance from their New York correspondents, while at the same time other country banks, for the same reason, are lessening materially their cash balances in New York. When this condition has lasted for some time and many individual banks have broken into their legal reserve, some other form of help is necessary, not alone for the country banks and the smaller New York banks, but for the larger banks. Many of them could perhaps continue to take care of their direct obligations comfortably, but could not continue to support their customers, and failure to do this might mean general ruin. If they had the power of issue, and the national credit possessed by great State banks, they could in this form lend their credit to others. If they could use the reserve without breaking the law and thus creating panic, they could meet almost any situation which could arise. But on the one hand they cannot issue obligations based upon their credit and on the other they cannot use their own money to pay their own debts without breaking the law.

In such an extreme emergency, then, the banks resort to the issue of Clearing-house certificates. I cannot better set forth the nature of these certificates, their use, and the careful manner in which their issue is guarded, than by quoting in full the resolution of the New York Clearing-house Association, at its meeting on the 15th June, 1893, when the now somewhat famous Loan Committee was appointed :

“ Resolved, That a committee of five be appointed, with the President, to receive from banks, members of the Association, bills receivable, and other securities to be approved by said committee, who shall be authorized to issue therefor to such depositing banks loan certificates bearing interest at the rate of 6 per cent. per annum, and such loan certificates shall not be in excess of 75 per cent. of the market value of the securities or bills re-

ceivable so deposited, and such certificates shall be received and paid in settlements of balances at the Clearing-house, and all the rules and regulations heretofore adopted in the issue of loan certificates shall be in force in the present issue."

The Loan Committee under the Chairmanship of Mr. Tappen, whose name in this connection will be familiar to readers of our JOURNAL, began work at once, approving that day the text of the certificate. I have appended a copy of one of the certificates of 1890,<sup>1</sup> which were similar to those of 1893, in order that it may be recorded in our JOURNAL. The very brief report of November 2nd, 1893, which concluded their labours, contains so much information that I will ask you to listen to it rather than to any quotations from it made by me :

"The first issue of certificates under the above resolution, \$2,550,000, was made on June 17th. The first cancellation of certificates, to the amount of \$100,000, took place on the 6th day of July. The committee have met daily up to the present time, and have held 105 meetings. The aggregate amount of certificates issued was \$41,490,000. The greatest amount outstanding was \$38,280,000 on August 29th, and continued at that amount until September 6th. The amount of collateral received by the committee in a round sum was \$56,000,000, 72 per cent., or \$40,000,000 being in bills receivable; 28 per cent., or \$16,000,000, being in stock and bonds. The total number of pieces deposited with and examined by the committee, was 11,029; 4,049 pieces were also examined as substitutions. It has been frequently stated, and feared by some, that the amount of certificates issued

<sup>1</sup>No. \$5,000  
 Loan Committee of the New York Clearing-house Association,  
 New York ..... 1890

THIS CERTIFIES, that the .....  
 has deposited with this Committee securities in accordance with the proceedings of a meeting of the Association, held November 11th, 1890, upon which this certificate is issued. This Certificate will be received in payment of balance at the Clearing-house for the sum of FIVE THOUSAND DOLLARS. from any member of the Clearing-house Association.

On the surrender of this Certificate by the depositing bank above named, the Committee will endorse the amount as a payment on the obligation of said bank, held by them, and surrender a proportionate share of the collateral securities held therefor. } Committee.  
 \$5,000.



during the present crisis was in excess of the amount issued, in proportion to the deposits held by the banks, during any previous panic. On examination of the figures, however, we find that this has not been the case, as in 1873 the deposits were \$152,640,000, and loan certificates \$22,410,000, being 14.7 per cent.; in 1884 on deposits of \$296,575,300, certificates were issued to the amount of \$21,885,000, being 7.3 per cent.; in 1890, on deposits of \$376,746,500, \$15,205,000 certificates were issued, being 4 per cent.; in 1893, \$374,010,100 deposits, certificates \$38,280,000, being 10.2 per cent. The greatest amount of certificates, in proportion to deposits, was issued in 1873. Had the same proportion of loan certificates been issued in 1893 as was issued in 1873, the amount would have reached the sum of \$55,000,000. The percentages of loan certificates used in the payment of balances have been as follows: In June 9 per cent., in July 78 per cent., in August 95 per cent., in September 30 per cent., in October nil, being a total of certificates used in the payment of balance, \$299,273,000. The amount of interest paid on certificates has been \$535,511.33. The expenses of the committee for stationery, clerk hire, etc., have been \$562.27. All of this work has been accomplished without loss to the association.

"The committee take this occasion to express their thanks for the courtesy shown by the Chase National Bank and the First National Bank, in allowing the committee to use the vaults in their banks to deposit the securities held by the committee, there being no suitable accommodations connected with the Clearing-house for this purpose.

"Full and complete statistics of the transactions had with each bank by the loan committee will be filed with this report."

These gentlemen were too modest to sound their own praises, but we need not withhold our measure of admiration for the courage of both the borrowers and the members of the Loan Committee, who on the 30th of June, when call money was quoted at about 75 per cent. per annum, but was simply not to be obtained, arranged for the issue of about \$8,500,000 of certificates, and saved the situation from absolute collapse. It was understood at the time that about \$6,000,000 of this was taken by five of the strongest banks, practically to enable them to continue loaning. It has been noticeable that when some banks have required assistance, the public discussion of which would be injurious to their credit, stronger banks have been wise enough to lend their countenance and avoid the discussion of the weaker brother by taking out Clearing-house certificates at the same time. We are all selfish, but there is a wise and a narrow way even in selfishness.

The total of the issues of Clearing-house certificates in the three cities which have issued them in a large degree, and the various times of their issue, are as follows :

	1873	1884	1890	1893
New York . . . . .	\$26,565,000	\$24,915,000	\$15,205,000	\$38,280,000
Philadelphia . . . .	6,785,000		8,870,000	10,965,000
Boston . . . . .			5,065 000	11,445,000
Totals . . . . .	\$33,350,000	\$24,915,000	\$29,140,000	\$60,690,000

These issues have been, not unnaturally, referred to by some writers as a species of currency. I have tried to show that that at least is not the natural definition. They are simply a method of obtaining re-discounts and shifting from day to day the burden of the lender upon the bank most able to carry it. From this view the expedient is creditable. If it were a new kind of currency, whatever might be its excuse, it would hardly be a creditable expedient.

B. E. WALKER

## BANKERS' ASSOCIATION EXAMINATIONS— A SUGGESTION

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The Canadian Bankers' Association having now been in existence over two years may be said to be fairly "on its feet," and the time is, I think, an opportune one for suggesting any plan to increase its usefulness or extend its membership. I should like to submit, for the consideration of the Council, the idea of inaugurating a system of examinations on banking and kindred subjects, with certificates to be awarded to the successful candidates.

There are many on the staffs of our banks who are systematic students of banking and banking law, and who are endeavoring by that means to fit themselves for the higher positions in the service they may be called upon to occupy. Such students will, no doubt, profit by these studies and their time will not be thrown away. But all know how hard it is, even for those who are used to courses of study, to keep up steady reading unless there is some object in view. Such an object is useful to all, but to many it is imperative. The certificate suggested would supply this want.

It is hardly necessary in these days, when the importance of the knowledge of sound theoretical principles, as well as practical experience, is universally acknowledged, to advance arguments to prove that the study necessary to pass the examinations will be useful to a clerk in his future career. There are few, if any, who would really question that the business intelligence of a clerk would be increased by studying for the examinations. Then, as soon as the system was fully under way, there would undoubtedly be substantial advances to be gained by obtaining a certificate. In England many of the leading banks offer a bonus (in most cases £15) to members of their staffs who pass the examinations of the Institute of Bankers. This proves conclusively that those in authority there are of the opinion that an officer's services become more valuable as a result of the course

of study through which he has passed. It would show, if nothing else, that the clerk had cultivated habits of industry and perseverance.

Here in Canada, where many of the banks have a large number of small branches, it is necessary for the younger members of the staff to have some knowledge of the theory as well as the practice of banking. In country branches, the accountant, often a comparatively young man, is generally called upon, when the manager is absent, to take charge of the branch. Who will deny that at such a time a thorough grounding in the theory of banking, and especially in banking law, will be of incalculable benefit to him? The knowledge obtained during his study for the examinations can then be turned to his advantage.

But taking its usefulness for granted, let us consider a few points that would have to be decided before such a system of examinations could be put into operation in Canada.

I. Should there be two examinations—a preliminary and final, or one only, corresponding with the final of the English Institute? I am in favor of two, and for the following among other reasons. The study for the preliminary examination would naturally be commenced by a young man during the first years of his banking career. He would then be fresh from school, with the habit of study still strong upon him, and could easily devote a portion of his time to getting up the works laid down for the examination. After passing the preliminary he could take up the more advanced studies for the final without any difficulty. On the other hand, if there were only one examination, which necessarily would be of an advanced character, the probability is that a clerk just entering a bank would put off the preparation for it until the disinclination to settle down to a definite line of study was too strong to be resisted, and the task would never be undertaken at all.

II. What subjects should be chosen, and what books should be recommended to be studied?

Besides banking and banking law, there are other subjects which are so connected with the profession of banking that a knowledge of them is indispensable to those who wish to make a success of a banking career. A thorough grounding in arithmetic and book-keeping is a *sine qua non* for a bank clerk.

Then mercantile law, political economy, algebra and geometry, all these might be added without making the list too long. We have here also the rules of the London Institute of Bankers to guide us, and we might with advantage follow on the lines they have laid down. It seems to me that their rule is a good one in this respect also, viz., that the final shall be on the same subjects as the preliminary, but of a more advanced character.

III. Where, and under whose supervision shall the examinations be held?

As far as the cities are concerned there would be no difficulty about this. They could be held in the rooms of the Association or in one of the banks, under the supervision of the secretary or a member of the council of the Association. In the smaller places, where there are only two or three banks, the examination papers could be sent to one of the managers. But I apprehend that the clerks in small branches would get leave without any trouble to attend an examination being held at the nearest town.

As a practical scheme for these examinations I would suggest the following, which is on the same lines as the rules regulating the examinations of the London Institute of Bankers :

1. The examinations to consist of a preliminary and a final, the latter to be held after the lapse of not less than one year from the former.

2. The subjects to consist of :

- (a) Arithmetic and algebra
- (b) Book-keeping
- (c) Banking law
- (d) Commercial law
- (e) Political economy
- (f) Practical banking

Both examinations to be on the above subjects, but the final to be of a more advanced character than the preliminary.

3. The examinations to be held in the month of June in each year. Candidates to be required to give notice to the secre-

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NOTE.—Bad handwriting to be visited with loss of marks, and the general style and intelligence of the answers to be taken into account. Special marks may be given to a candidate writing a good plain banking hand.

tary of the Association not later than the first of May, of their intention to present themselves for examination.

4. Candidates who fail to pass in one or more subjects, either in the preliminary or final examinations, to be required to pass at a later date in those subjects only in which they have failed, but they may proceed to the final examination in those subjects in which the preliminary has been passed.

5. A certain percentage of marks to be required to enable a candidate to pass; and the names of successful candidates to be published in the Bankers' Association JOURNAL.

6. Subject to the approval by Council of the report of the examiners, a memorandum, signed by the secretary of the Association, to be given to those who pass the preliminary examination, but the certificate of the Canadian Bankers' Association, signed by the president and secretary, not to be issued until the final examination has been passed

7. The examinations to be held by means of printed papers on the various subjects laid down, and as far as practicable in various places simultaneously, as may be needed to meet the convenience of candidates.

8. The examinations in the cities to be conducted in the office of the Association or section of the Association, if there is an office, or if not, as may be arranged, and to be under the supervision of the secretary of the Association or a member of the Executive Council; and in the country, under the supervision of the manager of one of the banks who is an associate.

9. The printed papers to be forwarded to the country examiner in a sealed packet and opened in the presence of the candidates at the time of the examination, and answers thereto to be transmitted to the secretary by the next post.

10. An entrance fee of one dollar to be required from every candidate on each occasion of sending in his name for examination, such fee to cover all the subjects taken up at the examination. No candidate to be admitted to any examination unless he has previously paid this fee to the secretary, and if, after he pays the fee, a candidate withdraws his name, or fails to present himself for examination, the fee shall not be returned to him. An official receipt for the fee, stating thereon the candidate's name and address in full, signed by the secre-

tary, to be given to each candidate, and the presentation of this receipt to the examiner at the time of the examination to be invariably required.

11. No information whatever to be given respecting the marks obtained or the names of the unsuccessful candidates.

The above outline of this scheme is no doubt susceptible of improvement, but I believe that if the plan were adopted it would greatly benefit many who have already made, or will in future make banking their profession in life, by encouraging them to acquire knowledge which would prove both valuable and useful.

FREDERIC HAGUE

## STERLING QUOTATIONS

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One of the first lessons in exchange that a junior clerk in a bank is given, is that "9½" is the par quotation of sterling exchange. This is invariably perplexing to him, although it will soon be understood in a general way; it is, however, generally a long time before a clerk thoroughly understands why these, to him arbitrary figures, represent the fact that one pound of English money is worth 4.86⅔ of Canadian dollars, and it will probably be years before he thoroughly masters the proportions which the various shadings of rates on this the Canadian system of quotations bear to the variations quoted in New York, and even then, though old in the service, he like many others will probably require the "equivalent quotations" convenient to his hand, that he may more readily understand the daily quotations from New York.

The basis and cause of the mystical Canadian system of quoting Sterling Exchange might be briefly stated for the purpose of convenience. Sixty years ago a pound sterling was equal to \$4.44⅔ of American money. In 1834 the standard of American coinage was reduced, which increased the par to \$4.84⅔, or 9 per cent. advance on the old par. A subsequent increase in the fineness of the sovereign advanced the figures to \$4.86⅔ or "9½" per cent. advance, where they now stand.

In 1873 the Congress of the United States passed an Act declaring void all contracts made after the close of that year, based on the old systems of computing sterling exchange, and also declaring the legal par to be at the rate of \$4.86<sup>66</sup>/<sub>100</sub> per pound sterling. By this Act the United States followed the custom of the principal European nations which "give" a certain value for the British pound "fixed," thus leaving for Canada the sole use of the old system of quotations during the past twenty years.

The time has surely come for Canada to drop all connection with its present inefficient system, and, following the example



of "our big neighbor to the south," to adopt the method of quoting sterling funds in use by France, Germany, Austria, Spain, Italy, etc., of quoting the pound fixed, *i.e.*, a par of \$4.86 $\frac{2}{3}$ , or possibly even better, \$4.86 $\frac{65}{100}$ .

There are other reasons why this should be done beyond those of mere sentiment. The fact of the Canadian and United States coinage being of equal value, encourages the change, the former being on a gold basis, and it being the evident intention of the United States Congress that their coinage shall be kept at its present value. The rates of sterling exchange in Canada are and probably always will be governed by the rates in New York. This will be seen to be but natural after comparing the population and business of this country and the United States. These rates are wired several times a day from New York to the Canadian financial centres, and necessarily always on the American basis, thus compelling either a ready knowledge on our part of the comparative relations of the two systems, or the conversion into our own figures, both of which should be unnecessary.

The convenience also would not be entirely ours. I can readily imagine that an intelligent reader in the United States, England, France or elsewhere, would pause in perplexity upon coming to the announcement in one of our daily papers that "cables on London sold at 10 $\frac{1}{4}$ ," nor would an explanation be easily obtainable.

The new system also lends itself more readily to close rates, thus an increase of  $\frac{1}{8}$  in the New York system is represented by an increase of  $\frac{1}{32}$  in the Canadian rate. Another reason that might be considered is the ease with which calculations from currency into sterling, or the reverse, may be made with the former system, while with the latter a set of "Exchange Tables" at hand is an absolute necessity.

Are not these reasons, and others that might be mentioned, for instance the matter of simplicity, all of which are probably well known and practically admitted, sufficient to induce the Bankers' Association to make a move in the matter? An Act of the Dominion Government similar to that passed by the United States Congress in 1873, might possibly be required, but our Government has already recognized the Bankers' Association as a representa-

tive body, and would not, I think, turn a deaf ear to a request for such a change as has been mentioned, if backed by its influence, and especially a change that would so simplify our international exchanges. The desired change could probably be more readily accomplished by united action on the part of the 33 banks which are members of the Canadian Bankers' Association. If these, individually and as an association, gave public notice that they proposed making such an innovation, the remaining banks, the brokers, etc., would quickly fall in line with them, and the old system would speedily become a thing of the past, "a consummation devoutly to be wished."

R. J. GOULD

[NOTE.—We have pleasure in publishing the foregoing article, which touches upon a very interesting point in our system of computing sterling exchanges. We think, however, that the matter of the origin of our present quotations is of sufficient interest to have warranted a fuller statement than has been given herein, and we invite any of our readers who have access to authorities, to offer a full statement of the changes in the relative values of sterling money and the money in use on this continent during the last one hundred years or so. Meantime we might note here certain points of interest: An Act of the U.S. Congress of 1789 fixed the value of the English 5s. piece at \$1.11, equal to \$4.44 per pound sterling; the Act of 1792 fixed the respective standards for the gold and silver coinage in the U.S.; the Act of 1793 made English gold coins legal tender at the rate of 27 grains to the dollar, which made the pound sterling in gold worth \$4.56½ as compared with \$4.44 for the pound in silver; and the Act of 1834 reduced the amount of gold in the American dollar to such an extent that the English sovereign became relatively worth \$4.866564, a decrease of about 6½ per cent. in the former gold value of the dollar, or nearly 9½ per cent. in the former value of the dollar as measured in English silver.

We also invite criticisms on the final proposal made by our contributor. Is it not open to question whether the adoption of a quotation, which would make very fine shading in the rate possible, would not further curtail our already meagre profits on sterling exchange?—ED. COM.]

## CORRESPONDENCE

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ABUSES IN CONNECTION WITH BANK COLLECTIONS IN  
CANADA AT REMOTE POINTS

*To The Editing Committee:*

DEAR SIRS,—Referring to an article under the above heading which appeared in the last number of the JOURNAL, while I think Mr. Arnaud deserves the thanks of all concerned for his timely remarks, yet I venture to say his suggestion as to a remedy is not a possible solution of the difficulty.

I gather from his remarks that he would have the banks combine and make a hard and fast rule, refusing to accept from customers drafts on parties residing outside banking towns. The city banker, after the adoption of this regulation, would then have to return to his wholesale customer perhaps one quarter of the bills presented for collection, discount, etc. Of course he would explain the new rule, and plausibly suggest the advisability of getting all these troublesome outside bills accepted by process of direct communication with remote debtors. Perhaps the wholesale man would be the gainer in the end by accepting the situation, but the chances are that he would protest most vigorously against the bank selecting (so to speak) only that part of his business which promised the least trouble. Bank boards, made up, as they are for the most part, of wholesale merchants, would hardly be induced in these days of keen competition to make such a rule, even to save the country bank agent trouble. (Ontario and Quebec associates may read bank manager.) Then, many first-class firms, manufacturing, lumbering and fishing, have their head quarters at a distance from banking towns, and would fairly complain at being thus in a measure cut off from communication with their fellows.

To sum up, I take it, the country banker must make up his mind to make the best of the existing state of affairs. In the first place, it must not be forgotten that the collecting bank gets, or ought to get, 25 cents min. for outside collections

instead of 13 cents on ordinary bills, which about covers the additional postage. Moreover it seems to me a little extra care on the part of the bank agent would go far to mend the difficulty. Too often, I fear, the junior is left to treat with out-of-town traders in *re* collections, when perhaps a personal interview, or a polite instructive letter from the agent himself to a careless customer, urging the necessity of the prompt return of all drafts, would bear fruit in due season.

Of course the man who never, or hardly ever, returns his drafts, is I fancy found everywhere. These gentry are soon located, however, and when found irredeemable, the proper course, to my mind, is to return to the remitting bank (without any attempt to collect) any drafts on this sort of a drawee, with the remark, "would recommend drawer to *try* and obtain note." This will surely save trouble to both the remitting and collecting bank, and be to the advantage of the drawer as well—a sort of hint being conveyed as to the character of the debtor.

Permit me, while on this subject, to say a word against the use, except in rare cases, of the power of attorney now used by some of our banks. I have yet to hear any reasonable defence of this mode of getting out-of-town drafts accepted. Surely if there is any doubt of the collecting bank's liability in the matter, in case of failure to recover bills mailed for acceptance, it is better to get the remitting bank's instructions to mail direct in all cases. (A special file of these letters might be kept.) This authority I think will be seldom refused—indeed I notice "mail direct" instructions now quite often accompany collections. The power of attorney is often misunderstood by the ignorant, and in not a few cases is taken as a positive affront by the respectable outside trader, the bank, he assumes, being afraid to trust the bill in his possession. Hence the document often finds its way to the waste basket, when the draft itself would have received consideration.

As you invite associates to send communications, I close without the usual apology for using up your valuable space.

F. McDougall

Sackville, N.B., Nov. 29, 1894

## ACKNOWLEDGMENT OF LETTERS

*To the Editing Committee :*

DEAR SIRs,—I would like to suggest a plan of acknowledging letters which if universally adopted among Canadian banks would save postage. It is, that the bank wanting an acknowledgment should enclose a post card with the address printed on it. It could be in the form of a receipt for the enclosure, which could be filed for the benefit of the Inspector, covering all date items (letters containing sight and demand items need no acknowledgment except for credit of account). As it is now, we sometimes acknowledge letters unnecessarily and *vice versa*. The plan I suggest would require to be adopted as a rule by all Canadian banks to operate properly.

Yours truly,

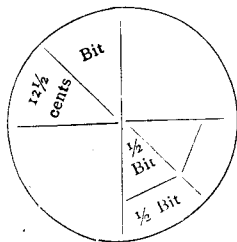
MANAGER

Gananoque, 26th Sep., 1894

## MISCELLANEA

*Bits and their Origin.*—The word “Bits” as applied to money, originated many years ago in the times of the early conquest and settlement of the West India Islands. It was the name originally given to small pieces of coin, which were the only pieces of coin in circulation, upwards of sixty or seventy years ago, throughout the West India Islands, English, French and Spanish, and also in most of the Spanish settlements on the mainland. The name still exists in those places and also in California, but is applied to the smaller coins which have been minted for the supply of circulation, though pieces of the original *bit* money may still be found in the West India Islands and the Spanish settlements and in California. Owing to the scarcity of coins of small denominations, for use in the places above named, the old Spanish dollar was cut up into various sizes, and circulated for value in proportion to size. The *bit* currency was made in the following manner, the divisions or sections being made from the centre, except in the case of the eighth section, which was cut in two near the centre so as to make each *bit* of equal value. The dollar cut in two made halves or fifty cents; the halves were again cut in two for twenty-five cents, giving the piece a shape with two straight edges and a curving one; this was cut in two to make the *bit*  $12\frac{1}{2}$  cents, which had the shape of a sharp cone with a curving base. For still greater convenience of change the *bits* were further cut in two and called “half bits,” making the pieces of irregular shape, one triangular the other four sided.

Example:



These pieces of money circulated freely among the English, French and Spanish Islands, and the trade and intercourse between those islands and the Spanish and French settlements of Florida and Louisiana, before those States became portions of the United States, introduced the coins and the word "bits" into those States. By way of Florida and Louisiana the coins and the word extended among the French and Spanish settlers and traders into Texas, New Mexico and California, and was in common use in the latter country when the United States took possession. When the small coins of the United States came into use in California, the common language of the country applied the name "bits" to the new coins to indicate to the common understanding of the original settlers, the value the new coins bore in comparison with the ruder and older currency. I have seen several specimens of the original *bit* money.—O. R. ROWLEY  
London, Ont.

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*An Early Kentucky View of Banks.*—From a curious old publication of 1833, with the significant title, *The Curse of Paper Money and Banking*, by Wm. Gouge, the following paragraphs relating to the legislative history of American banking are culled. They constitute a resolution submitted to the Kentucky Legislature by a Mr. Bledsoe, on 4th January, 1819:

"1. *Resolved*, by the General Assembly of the Commonwealth of Kentucky, that the establishment of a moneyed monopoly is hostile to republican liberty.

"2. *Resolved*, That banks are such a monopoly, and do not depend for their profits upon the correct employment of the products of industry.

"3. *Resolved*, That as the products of the labor of a nation are the only genuine sources of National wealth, any corporation or institution which tends to substitute speculation instead of the proper and valuable fruits of this labor, must be pernicious, and ought to be abolished.

"4. *Resolved*, That any corporation not promotive of, or essential to, public good, ought not to exist.

"5. *Resolved*, That all Banks wherein individuals are interested, are moneyed monopolies, tending to make profit to those who do not labor, out of the means of those who do: not tending

to increase the means of industry, but to profit of those means unjustly: tending to tax the many for the benefit of the few: tending to create a privileged order, unuseful and pernicious to society: tending to destroy liberty, and create a power unfriendly to human happiness: tending inevitably to an unfeeling moneyed aristocracy, more to be deprecated than monarchy itself: tending to the destruction of the best hopes of man here and hereafter.

“6. *Resolved*, that it becomes the duty of the General Government, and of every individual State composing it (gradually, if necessary, but ultimately and certainly,) to abolish all banks and moneyed monopolies, and if a paper medium is necessary, to substitute the impartial and disinterested medium of the credit of the nation or of the States.”

Having rescued these unique and euphonious sentiments from oblivion in the Kentuckian archives, the author ventures to add the remark: “We know not whether these resolutions carried.”

*Money*.—“I believe that money is gradually becoming extinct like the Dodo or ‘Dodo.’ It is vanishing off the face of the earth. Soon we shall have people writing to the papers to say that money has been seen at Richmond, or the man who always announces the premature advent of the Cuckoo to his neighborhood will communicate the fact that one spring day he heard two capitalists singing in a wood near Esher. One hears now that money is tight—a most vulgar condition to be in by the way; one will hear in the future that money is not.”

—*The Green Carnation*



## NOTES ON RECENT PUBLICATIONS

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*A Handy Book on the Law of Banker and Customer*, by James Walter Smith, B.A., Oxon, LL.D. London: Effingham, Wilson & Co., 1894

THIS book, by the advent of the twenty-second thousand, may be said to have earned the title of a "Standard." Of the law governing the dealings between banks and their customers the author says in the preface, "I have tried to give a plain statement, so far as it can be done, in a popular form and in a limited space." A preliminary chapter on the relation of banker and customer is an excellent resumé of the law on this point. The larger portion of the book, however, is devoted to a discussion of the legal points which arise out of the relationship of banker and customer but which are applicable in all other similar relations in connection with the rights and duties of parties to bills of exchange and promissory notes, and of the law respecting principal and surety, etc. Other portions of the work deal with deposit receipts, letters of credit and circular notes, partnership and other joint accounts, some other sorts of customers, the banker's lien, and forgery, alteration and loss of negotiable instruments.

The whole subject is rendered less dry for the student than it usually is in such publications, by reason of the author's method of treating it. The book aims at giving the reader an appreciation of the general principles of the law, and undoubtedly possesses value for the country banker.

## QUESTIONS ON POINTS OF PRACTICAL INTEREST

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

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

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

QUESTION 1.—(a) A bank in Canada issues a demand draft on their agents in England, sending advice in due course. The purchaser forwards the draft to payee, but after doing so requests the bank to telegraph to the agents to stop payment of the draft. Would the agents be justified in refusing payment? If so, on what grounds?

(b) Can a bank under any circumstances stop payment of its own draft on its agents or another branch?

ANSWER.—Taking up the second enquiry first—a bank may stop payment of its own draft on its agents or another branch so long as the drawees have not come under acceptance or otherwise obliged themselves to pay the same. Before acceptance a drawee has no responsibilities whatever to the payee or subsequent holders, and would be bound to obey the instructions of the drawer if he had not already come under some obligation in the matter.

Question (a) is practically answered by the above, and the fact that the question refers to a demand draft on the bank makes the case all the clearer. Whether drawn on a bank in England or a bank in Canada, the provisions of the Bills of Exchange Act respecting countermand of payment would apply, see sec. 74 (a), (sub-sec. 1 of sec. 75 in the English Act). The agents would not only be justified in refusing payment on instructions, but if they disobeyed they would be unable to charge the draft to the drawer's account. In either case the holder could sue the bank as drawer, precisely as any party to any dishonored bill might be sued.



make any alteration in the law on this point. The provision respecting the duty of the holder of a bill to give notice of dishonor within a reasonable time is an essential one. If there were not some limitation of that kind the risks of drawers and endorsers would be indefinitely increased. They have a right to know within a reasonable time whether or not the party drawn on has become responsible for the bill. Under Sec. 42 of the Bills of Exchange Act, it is possible for a bill to lie three or four days in the collecting agent's hands without notice, which is surely long enough. Thus, it might be received on Monday afternoon, presented on Tuesday; if not then definitely refused acceptance, the bank may wait until Thursday before treating it as dishonored, and apparently it may be handed to the notary on that day and the notices mailed on Friday.

A remedy for the difficulty of which our correspondent complains would be for banks to make a reasonable charge for the collection duties which they undertake; but there is no reason why they should seek to discharge them in a less thorough manner than reason and law now require.

QUESTION 5.—What is the best way to deal with parties who are negligent about business matters and never accept drafts in required time—who never attend to their notes when due until told on day of maturity, and frequently refuse drafts upon the most paltry pretences?

ANSWER.—Indulgent treatment and reasonable remonstrances never appear to effect any improvement in the business habits of such persons, and the only way to deal with them is to enforce the rules. This may, and probably will, cause trouble, but it is the right thing to do, and if fair warning is given and any show of temper or discourtesy is avoided on the part of the bank, it will also prove the *best* thing to do.

## Legal Decisions Affecting Bankers

### EDITORIAL NOTES

*Fraudulent Alteration of a Bill of Exchange.*—In the case of *Scholfield vs. Londesborough, et al*, tried before an English Court in May last, a judgment which seems to conflict with previous decisions on this point was recently rendered. The plaintiff was the holder in good faith, and for value, of a bill which had been accepted by Lord Londesborough for £500, but before coming into the hands of the plaintiff had been altered to £3,500. In the bill as drawn a space was left before the words "five hundred pounds," which permitted the insertion of the words "three thousand," and the figures in the margin also left space for the addition of the figure "3." More than this, the bill was drawn on a form stamped sufficiently for a bill of £4,000. This statement of the facts would seem to the ordinary reader to be evidence of such negligence on the part of the acceptor as would render him liable for the bill in its altered form. It is admittedly the law that "negligence" in such matters would involve this liability. The Court in the judgment under review, in discussing the cases on record, stated the law as follows :

It appears clear from these cases that a person who signs a negotiable instrument with the intention that it shall be delivered to a series of holders, does incur a duty to those who take the bill, note or cheque, not to be guilty of negligence with reference to the form of the instrument. If he signs it in blank he is responsible for any amount the stamps will cover ; if he signs it negligently in such a shape as to render alteration a likely result, he is responsible on the altered instrument.

The Court proceeds, however, to render judgment, declaring that the defendant was not guilty of negligence in accepting the bill for £500 on paper bearing a stamp large enough to cover a bill for £4,000 ; that there was nothing to draw his attention to the amount of the stamp ; and that he was not guilty of any breach of duty in failing to closely criticise it. It also held that although the bill was drawn in such a shape as to make the alterations possible, this was not sufficient to impose liability on

the acceptor. "The unaltered bill was complete in form, and upon inspection would not, in my judgment, have excited suspicion in the mind of a reasonably prudent man. The defendant, therefore, is not in my opinion liable to pay the altered bill."

The Court further decided under section 64 (1) of the Bills of Exchange Act (our sec. 63 (1)), that the acceptor was liable for the original £500.

As will be seen, the decision of the Court is entirely based on the question of fact as to whether the acceptor was guilty of negligence or not. The reports indicate clearly that ample space was left for writing in the fraudulent words without giving the bill an appearance in any way out of the common. We think, therefore, that the judge's view that the acceptance of such a bill was a proceeding which "a reasonably prudent man" would take, is scarcely a sound one. The case will no doubt be appealed. Meantime, however, the judgment will be noted by bankers with great interest.

*Assignment of Shares in a Joint-stock Company.*—The case of *Morton vs. Cowan, et al*, reported below, covers a point of great importance to bankers, insomuch as it affirms the validity of an assignment of stock in an incorporated company by a separate instrument outside of the books of the company itself, and not completed by entry in the latter, and this notwithstanding the requirement of the Act under which the company is incorporated that no transfer shall be valid, except as showing the rights of the parties thereto towards each other, until an entry of the same has been made in the books of the company. This provision is usually found in the public or private Acts governing all corporations. The judgment of the Court does not, of course, affect the right of the corporation itself to prevent a transfer of the stock because of any obligation of the shareholders to the company, if they have that right under their charter or by-laws.

The certificate issued by the company, shares of whose stock was the subject matter of the suit, is worded as follows:

*This certifies, that ——— is the proprietor of — fully paid-up shares in the Capital Stock of the above named company, transferable on the books of the company on the surrender of this certificate.*

*Fictitious or Non-existing Payee.*—The statement of the facts in the Australian case of *The City Bank vs. Rowan*, reported below, is taken from a contribution by A. R. Butterworth to the *English Law Quarterly Review* of January last. The decision of the Australian judges is not binding on our Courts, but it indicates the trend of judicial opinion since the judgment in the *Vagliano* case, and the case is otherwise of sufficient interest to report in our columns.

*Union Bank vs. O'Gara.*—We reported the judgment of the Supreme Court in this case in some detail in Vol. I., p. 290. The Union Bank were successful in all the lower Courts in maintaining a claim against O'Gara, as endorser, notwithstanding the claims set up by him to be released because of certain transactions which the Bank entered into respecting securities without his consent. We also noted that the Bank had obtained leave to appeal to the Privy Council. We now learn that instead of carrying the case to that tribunal, the parties have compromised the matter, Mr. O'Gara paying a considerable proportion of the amount for which suit was taken. As we pointed out in our comments on the case, no new question of law was involved; the only difficulty in the matter lay in the interpretation of the facts.

*Principal and Surety.*—The judgment of the Court of Queen's Bench in the recent case of *Molson's Bank vs. Heilig*, deals with the rights of an endorser on one part of an indebtedness to a bank, to share in security taken by the bank, without his knowledge, for the whole of the debt. The point admittedly presents great difficulties, but we think the judgment is likely to be varied or reversed on appeal. In this case the Court held that the endorser was entitled to share pro rata in the proceeds of certain securities which had been realized, which share was to be applied in reduction of that particular part of the debt on which he was liable as endorser, but it also added that he was entitled to credit for a pro rata share of the value of the securities still in the hands of the bank. This latter seems a direct interference with the obligation of an endorser as ordinarily understood. We do not consider it necessary to publish the details

of this case, but the judgment in appeal will no doubt be an interesting addition to the decisions affecting the law of principal and surety.

*Post-dated Cheque.*—In the case of the *Royal Bank of Scotland vs. Tottenham*, which was decided before the Court of Appeals for England, and of which we made a brief note in our last issue, the full report now to hand indicates that the chief defence relied on was under the English Stamp Act, and the case is therefore of less importance to Canadian bankers. It was the not unusual occurrence of the negotiation of a cheque before the day of its date, and the Court declared that under the Bills of Exchange Act, the holders had the same right as they would have possessed had they negotiated any other bill of exchange before the date of its maturity. The judgment reaffirms the law as to the position of a bank which has given a customer credit for any item of this kind. This point is stated by Lord Esher as follows: "When the bank received the cheque from Mrs. Monson, they did so on an undertaking to give her credit to the amount of the cheque on her general account. This they did, and giving such credit is sufficient consideration as between a bank and a customer. Consequently the bank were holders for value."

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IN THE QUEEN'S BENCH DIVISION, H.C.J. ONTARIO

Morton vs. Cowan et al.

*Assignment of Shares in a Company not Entered in the Books of the Company*

A *bona fide* assignment or pledge for value of shares in the capital stock of a company incorporated under R.S.O. ch. 157, is valid between the assignor and the assignee, notwithstanding that no entry of the assignment or transfer is made in the books of the company; and, as only the debtor's interest in property seized can be sold under execution, the rights of a *bona fide* assignee cannot be cut out by the seizure and sale of the shares, under execution against the assignor, after the assignment.

*Semble*, that nothing passes by such a sale under execution; for the words "goods and chattels" in sec. 16 of the Execution Act, R.S.O. ch. 64, do not include shares in an incorporated company so as to authorize the sale of the equity of redemption in such shares.

This was an action brought by Robert Morton against John Cowan and the Ontario Malleable Iron Company (Limited).



The statement of claim alleged that on and after the 4th November, 1893, the plaintiff was possessed absolutely and as owner of seven shares of the capital stock of the defendant company, and on that day he caused notice of his acquisition of the shares to be given to the defendants; that on the 11th November, 1893, the defendant Cowan, who was the president of the defendant company, well knowing that the shares were the property of the plaintiff, caused them to be seized in execution under a writ of *fi. fa.* issued in an action in the High Court of Justice for Ontario, wherein the defendant Cowan was the plaintiff, and one Henry F. White was the defendant, and under the direction of the defendant Cowan the shares were on the 24th November, 1893, sold under the writ to himself, and transferred to him by the defendant company upon their books; that the shares were each of the par value of \$100, and of the actual value of \$125; and that by reason of the premises the plaintiff had been unlawfully deprived of his property and endamaged in \$875; for which sum he claimed judgment.

The defendant Cowan by his statement of defence alleged that the shares in question belonged to Henry F. White, against whom he had recovered judgment and issued execution, and that the sheriff sold them for \$350 to one Jones, who subsequently transferred them to him, Cowan; that the sale to Jones and the transfer to the defendant were duly entered in the books of the company; that no transfer of the shares by White had been entered in the books of the company; that no notice of any claim by the plaintiff to any shares in the company was ever given to the defendant Cowan or to the company until after the sale by the sheriff, and no transfer of any shares to the plaintiff had ever been entered in the company's books. The defendant submitted that it was the duty of the plaintiff, if he had acquired any shares, to have the transfer entered in the company's books, and that under sec. 52 of R.S.O. ch. 157, any alleged transfer had no effect except as set out in the section; and he also alleged that the stock had not the value ascribed to it by the plaintiff.

The defendant company by their statement of defence alleged that they were a joint-stock company incorporated under R.S.O. ch. 157, and set up substantially the same facts as were

contained in the statement of their co-defendant, with the addition that they had no notice of any claim to any of their shares by the plaintiff, nor had any application been made to them to make entry in their books of any transfer to him; and they submitted that the statement of claim showed no right of action against them and claimed the same benefit as if they had demurred.

The action was tried before Boyd, C., at the Sandwich Spring Sittings, on the 14th March, 1894.

Evidence was given of an assignment of the shares in question by Henry F. White to the plaintiff, before the date of the seizure, in consideration of advances made by the plaintiff to White. The assignment was by indorsement of the stock certificate; and a power of attorney was given by White to J. W. Hanna to transfer the shares to the plaintiff. No transfer was ever entered on the books of the company, and there was a dispute on the evidence as to whether Hanna had notified the officers of the company of the assignment. The facts as to the seizure and sale of the stock were as set up in the statements of defence. The learned Chancellor delivered judgment as follows:

The stock of incorporated companies is declared to be and is personal property, and by the statute is saleable under execution "in like manner as other personal property." R.S.O. ch. 64, sec. 9. Now the rule as to sales by the act of the law is that the measure of what is sold is the extent of the debtor's interest in the property sold, and not the exact specific property itself—whether it be real or personal. That was the principle adopted by James, V.C., in *De Wolf v. Pitcairn*, 17 W.R. 914 (1869), and explicitly laid down by the Privy Council in *Wickham v. New Brunswick R.W. Co.*, L.R. 1 P.C. 64 (1865). I see nothing in the statute under which this company was incorporated to derogate from that broad rule of justice. What was relied on was the provision found in R.S.O. ch. 157, sec. 52, which was said to be specially framed to meet such a case as this and render the execution operative as to the share itself, notwithstanding intervening equities and rights as between the shareholder and a *bona fide* assignee or pledgee. But I do not so read the section, which indeed is but a reproduction of the same language found in an earlier Dominion statute: 32 and 33 Vict. ch. 12, sec. 25 (now R.S.C. ch. 118, sec. 25).

R.S.O. ch. 157, sec. 52.—No transfer of stock, unless made by sale under

execution, or under the order or judgment of some competent Court in that behalf, shall be valid for any purpose whatever, save only as exhibiting the rights of the parties thereto towards each other, and as rendering the transferee liable, *ad interim*, jointly and severally with the transferor, to the company and its creditors, until entry thereof has been duly made in the books of the company.

This very section admits, recognizes, or declares that a transfer may be valid as exhibiting the rights of the parties thereto towards each other, and that concedes all that has to be ascertained in this case.

Whatever the company might do in such a case in the way of disposing of stock against defaulting holders, the provision is not pointed at dealings between the holder and others, pending which an execution comes in. The sale, which is the act of the law, is not permitted to have a tortious effect so as to cut out the rights of a *bona fide* assignee or pledgee, which is the present case. Therefore, I think, irrespective of the question of notice to the company, that there was a valid dealing with these shares as between the plaintiff and the judgment debtor, which has not been extinguished or affected by the sale of the shares under execution.

The plaintiff is, in my opinion, entitled to judgment with costs. I hold this with more willingness both because the shares were paid in full, and therefore property over which the owner had practically unfettered right of disposition, and also because the purchase was made in the interests of one of the officers of the company.

A motion to set aside or vary the judgment was argued before Armour, C.J., and Falconbridge and Street, J.J., and the judgment of the Court was delivered by the Chief Justice as follows :

I am of the opinion that the judgment of the learned Chancellor was right and should be affirmed for the reasons given by him . . . . .

It was contended, however, that the equity of redemption of White in the shares in question passed by the sheriff's sale to Jones, and was transferred by him to the defendant Cowan, and that we ought to make a decree in favor of the defendant Cowan for redemption.

No case for redemption is made by the pleadings, and I do not think that we ought to make such a decree upon the record as constituted and upon the evidence before us, but leave the defendant Cowan to seek such remedy, if he has it, by a suit for that purpose.

I do not think, however, that the law authorizes the sale of an equity of redemption in the shares of an incorporated com-

pany, and, therefore, nothing passed by the sheriff's sale to Jones.

Shares in incorporated companies were first made saleable under execution in this Province by 2 Will. IV. ch. 6, which provided "that the stock held by any person in any bank, or in any corporation or company in this Province having a joint transferable stock, shall be liable to be taken and sold in execution, in the same manner as other personal property of the debtor."

Afterwards the Act 12 Vict. ch. 23 was passed, which provided "that all shares and dividends of stockholders in incorporated companies shall be held, considered, and adjudged to be personal property, and shall be liable as such to *bona fide* creditors for debts, and may be attached, seized, and sold under writs of execution issued out of any of Her Majesty's Courts in this Province, in like manner as other personal property may be sold under execution."

It was not until after this that the Chattel Mortgage Act, 20 Vict. ch. 3, was passed, which provided (sec. 11) that "on any writ, precept, or warrant of execution against goods and chattels, it shall be lawful for the sheriff or other officer to whom such writ, warrant, or precept may be directed, to seize and sell the interest or equity of redemption in any goods or chattels of the party or parties against whom such writ may issue; and such sale shall be held to convey whatever interest the mortgagor had in such goods and chattels at the time of such seizure."

This provision appears in R.S.O. ch. 64 as sec. 16; and the provisions of 12 Vict. ch. 23 appear in R.S.O. ch. 64 as secs. 8 to 15, inclusive.

I do not think that the words "goods and chattels" in sec. 16 include shares in incorporated companies so as to authorize the sale of the equity of redemption in such shares, for special provisions are made in secs. 8 to 15, inclusive, for the sale of such shares, and these provisions exclude the notion that an equity of redemption in them is made saleable. Provision is made for the sale of such shares, but no provision is made for the sale of an equity of redemption in them.

The purchaser of the shares shall thereafter be the holder, and shall have the same rights and be under the same obligations as if he had duly purchased the shares from the proprietor thereof; and the proper officer of the company shall enter such sale as a transfer in the manner by law provided: sec. 13. But no provision whatever is made for the seizing or selling of an equity of redemption in the shares, nor for the transfer thereof by the sheriff, nor by any officer of the company, nor declaring what shall be the rights and obligations of the purchaser.

In my opinion the motion must be dismissed with costs.

## SUPREME COURT OF NEW SOUTH WALES

## City Bank vs. Rowan

*A Bill Payable to a Fictitious or Non-existing Person is Payable to Bearer.*

Action on a dishonored note for £574, dated 22nd Dec., 1891, made by defendants, payable to J. Shackell & Co., or order, four months after date, and purporting to be endorsed by J. Shackell & Co. to Jones & Co., and by the latter to the plaintiffs.

The circumstances were these: In Dec., 1891, a man named Wm. Shackell called on the defendants at their warehouse in Sydney, and represented that he had 150 bales of wool packs for sale on account of Jas. Shackell & Co., of Melbourne, and negotiations for their sale took place. In the course of the negotiations Wm. Shackell introduced to the defendants a man whom he represented to be a Mr. Jones, carrying on business as Jones & Co., who he alleged was the agent in Sydney of James Shackell & Co. The price being agreed on, a sale note was signed "Wm. Shackell, for James Shackell & Co." The following day a document purporting to be a store warrant for the bales of wool packs was handed over to the defendant, who thereupon handed a promissory note, the subject of the action, to Jones, who gave a receipt for the promissory note, which he signed "J. Shackell & Co., per Jones & Co." The defendants discovered the fraud of the two men, Wm. Shackell and Jones, who had no wool and no authority to act for Jas. Shackell & Co. or any other firm. Shackell was afterwards convicted of conspiracy, but Jones absconded. Meanwhile they had between them forged on the note one endorsement purporting to be that of J. Shackell & Co., without recourse, and another endorsement purporting to be that of Jones & Co., who discounted the note with the plaintiff bank at the current rate, the bank relying on the defendants' signature, and discounting a *bona fide* note in the ordinary course. The defendants, on becoming aware of the fraud, and that the promissory note was under discount with the plaintiff bank, gave notice to the bank in February, 1892, that they repudiated the contract of sale and any liability in respect of the note on the ground that it had been negotiated by means of a forged endorsement. The note was duly presented for payment

at maturity, but payment was refused. At the time of the negotiations there was no person or firm in Melbourne of the name of J. Shackell & Co, or Jas. Shackell & Co., but at a time some years previous to the making of the note there had been a certain James Shackell carrying on business in Melbourne under the style of James Shackell & Co. The Mr. James Shackell was still living in Melbourne at the time of the making of the note, but had ceased to carry on business. The plaintiffs were not aware of these facts. The defendants when they made the note were not aware of the fact that J. Shackell & Co. had ceased to exist, but believed they were in fact dealing with that firm, and in that belief inserted the name of J. Shackell & Co. as payees of the note.

Under these circumstances the Court held that the payee was a fictitious or non-existing person, and that the note should be treated as payable to bearer, and on this ground ordered a verdict to be entered for the plaintiff bank.

IN THE COURT OF APPEAL, ONTARIO

Donogh vs. Gillespie

Bankers are subject to the principles of law governing ordinary agents, and, therefore, bankers to whom as agents a bill of exchange is forwarded for collection can receive payment in money only, and cannot bind the principals by setting off the amount of the bill of exchange against a balance due by them to the acceptor.

Judgment of the County Court of York affirmed.

This was an appeal by the defendants from the judgment of the County Court of York.

The plaintiffs, who were lumber merchants carrying on business at Toronto, on the 29th of June, 1892, sold to the defendants, who carried on business at the village of Alvinston, certain lumber, the price of which was \$299.18, and on the 2nd of July, 1892, drew upon them for the price, the draft being as follows:—

\$299.18

Toronto, July 2nd, 1892

Three months after date, pay to the order of the Canadian Bank of Commerce, two hundred and ninety-nine  $\frac{18}{100}$  dollars, at Alvinston. Value received.

To M. Gillespie & Co.

Donogh & Oliver

Alvinston

This draft the plaintiffs, in the ordinary course of business, discounted with the Canadian Bank of Commerce, Toronto,

who were their bankers, on the 8th July, 1892, and were credited in their account with the proceeds, seventy-four cents being deducted for collection charges in addition to the discount.

On the 12th of July, 1892, the Canadian Bank of Commerce, having first endorsed the draft "for collection on account of the Canadian Bank of Commerce, Toronto," forwarded it to Conn & Co., private bankers, at Alvinston, "for favor of collection and returns." The draft was presented to the defendants for acceptance, and was accepted by them, on the 16th of July, 1892, "payable at Conn & Co.'s banking office, at Alvinston."

The business of Conn & Co. was carried on by J. Conn, under that firm name, and that firm had been the defendants' bankers for several years, the account being credited in the ordinary way with discounts and deposits, and cheques and drafts being charged up against it without special instructions. On the 28th of September, 1892, the defendants discounted with Conn & Co. a note of one Givens, for \$246, having at the time at their credit \$181.36. The proceeds of the Givens' note were credited to the defendants in Conn & Co.'s ledger, on the 28th, but the entry was not carried into the pass-book, and the credit balance on the 30th of September was there struck at \$181.36. Without taking the Givens' note into consideration, there was not enough at the defendants' credit on the 5th of October to pay the plaintiffs' draft. After that date, however, deposits were made, and without taking the Givens' note into consideration, there was, on the 11th of October, more than enough at the defendants' credit to pay the plaintiffs' draft. On that day, without any special instructions from the defendants, Conn & Co. charged the draft to the defendants' account, marking it "paid," and sent to the Canadian Bank of Commerce, Toronto, their own cheque on the Merchants' Bank, St. Thomas, for the amount of the draft, less thirty-seven cents collection charges. This cheque was received by the Canadian Bank of Commerce on the 14th, and was put through the clearing-house on that day and was protested for non-payment in St. Thomas. The Canadian Bank of Commerce paid to the Merchants' Bank the amount of the cheque and protest fees, and notified the plaintiffs, who paid the amount to the Canadian Bank of Commerce.

Conn left Alvinston on the 11th of October, and on the 12th,

made, at Sarnia, an assignment for the benefit of his creditors, and on the 13th absconded. The banking business was carried on as usual on the 12th and 13th, and it was shown that not until the doors of the bank were closed on the 14th, had the defendants any idea that he was in pecuniary difficulties. Conn's assignee gave the draft to the defendants with other vouchers.

On the 8th of March, 1893, the plaintiffs brought this action, claiming both on the original consideration and on the draft, and the defendants pleaded payment and alleged that the plaintiffs were not holders of the draft.

The action was tried on the 14th of December, 1893, before His Honour Judge Morgan, who gave judgment in favor of the plaintiffs, and the defendants' appeal from this judgment was argued before Hagarty, C.J.O., Burton, Osler, and Maclellan, J.J.A., on the 30th of May, 1894, who gave judgment as follows, dismissing the appeal with costs:

*Hagarty, C.J.O.*:—In my view this appeal fails on the short ground that what took place between Conn & Co. and the defendants, was not a payment of the draft as against the plaintiffs or the Canadian Bank of Commerce. Conn & Co.'s duty was to obtain payment in money, and their adjustment of their own account with the defendants was not within the scope of their agency so as to bind their principals.

*Burton, J.A.*:—The case must be looked at in the same way as if the Canadian Bank of Commerce were suing, and the fallacy is in treating this debit as payment of money. Conn & Co., it may be, were debtors to the defendants, but that would not justify them in setting off that debt. Their authority as agents was limited to receiving payment in cash and nothing else.

*Osler, J.A.*:—It is clear that sufficient funds were not specifically paid to Conn & Co. by the defendants for the purpose of meeting the draft. The Givens' note, even assuming that it can be taken into consideration, was not discounted with that view, and the other deposits that were afterwards made were paid in generally and without appropriation, so that the case comes down to a mere setting off of contra-accounts, and this Conn & Co. could not do.

*Maclellan, J.A.*:—Conn & Co., though bankers, were governed by the ordinary rules applicable to agents, and could receive payment in cash only and not by set-off or mere matter of book-keeping; and no money having been received by them, the draft was improperly given up to the defendants, who are still liable upon it.



## STATEMENT OF BANKS acting under Dominion Government charter for the month ending 30th September, 1894, with comparisons :

	LIABILITIES		
	Sept., 1894	Aug., 1894	Sept., 1893
Capital authorized.....	\$ 75,458,685	\$ 75,458,685	\$ 75,458,685
Capital paid up .....	62,198,670	62,189,585	62,074,078
Reserve Fund.....	<u>27,260,835</u>	<u>27,166,850</u>	<u>26,131,999</u>
Notes in circulation .....	\$ 33,355,156	\$ 30,270,366	\$ 35,128,926
Dominion and Provincial Government deposits .....	5,615,846	5,928,143	5,247,732
Public deposits on demand....	66,584,661	66,389,701	61,245,992
Public deposits after notice....	111,084,063	109,998,432	104,004,598
Bank loans or deposits from other banks secured .....	69,603	64,283	64,000
Bank loans or deposits from other banks unsecured .....	2,654,975	2,587,234	2,621,736
Due other banks in Canada in daily exchanges .....	136,400	184,251	120,767
Due other banks in foreign countries .....	116,267	96,806	221,989
Due other banks in Great Britain	4,268,502	5,163,386	5,312,794
Other liabilities .....	176,700	259,792	222,623
Total liabilities .....	<u>\$224,062,249</u>	<u>\$220,942,480</u>	<u>\$214,191,254</u>
	ASSETS		
Specie .....	\$ 7,884,650	\$ 7,968,955	\$ 7,316,292
Dominion notes .....	15,682,340	15,836,019	12,898,359
Deposits to secure note circulation .....	1,823,151	1,823,153	1,818,448
Notes and cheques of other banks .....	6,469,658	6,053,369	6,939,379
Loans to other banks secured..	215,072	53,664	38,385
Deposits made with other banks	3,807,355	3,310,476	3,422,803
Due from other banks in foreign countries .....	21,440,033	19,904,605	13,451,882
Due from other banks in Great Britain.....	3,909,120	3,539,880	4,243,676
Dominion Government debentures or stock.....	3,110,349	3,133,480	3,188,572
Public municipal and railway securities .....	18,794,991	18,919,546	15,562,719
Call loans on bonds and stocks	16,207,333	15,282,727	14,960,190

*Bank Statement for Sept. with Comparisons* 245

	Sept., 1894	Aug., 1894	Sept., 1893
Loans to Dominion and Provincial Governments.....\$	439,357	\$ 402,969	\$ 1,335,120
Current loans and discounts...	199,773,925	199,908,340	204,654,480
Due from other banks in Canada			
in daily exchanges.....	139,416	185,299	129,472
Overdue debts....	3,325,559	3,121,927	2,952,723
Real estate .....	944,935	934,671	909,841
Mortgages on real estate sold..	615,258	618,759	652,111
Bank premises .....	5,471,667	5,444,965	4,977,733
Other assets .....	1,636,627	1,642,628	1,465,672
	<hr/>	<hr/>	<hr/>
Total assets.....	<u>\$311,691,002</u>	<u>\$308,085,634</u>	<u>\$300,918,049</u>

Average amount of specie held during the month .....	\$7,878,818	\$7,832,980	\$7,369,449
Average Dominion notes held during the month.....	15,648,386	15,500,434	12,953,910
Loans to directors or their firms	8,065,752	7,973,633	7,762,892
Greatest amount of notes in circulation during month .....	33,788,375	31,088,196	36,112,480

STATEMENT OF BANKS acting under Dominion Government charter for the month ending 31st Oct., 1894, with comparisons:

LIABILITIES

	Oct., 1894	Sept., 1894	Oct., 1893
Capital authorized.....\$	75,468,685	\$ 75,458,685	\$ 75,458,685
Capital paid up .....	62,207,685	62,198,670	62,081,994
Reserve Fund.....	<u>27,261,749</u>	<u>27,260,835</u>	<u>26,435,348</u>
	<hr/>	<hr/>	<hr/>
Notes in circulation .....	\$ 34,516,651	\$ 33,355,156	\$ 36,906,941
Dominion and Provincial Government deposits .....	4,664,442	5,615,846	4,893,652
Public deposits on demand....	67,950,583	66,584,661	62,524,569
Public deposits after notice....	111,885,357	111,084,063	103,557,733
Bank loans or deposits from other banks secured .....	62,645	69,603	48,000
Bank loans or deposits from other banks unsecured .....	2,825,031	2,654,975	2,801,931
Due other banks in Canada in daily exchanges .....	167,984	136,400	159,169

	Oct., 1894.	Sept., 1894.	Oct., 1893
Due other banks in foreign countries .....	\$ 118,887	\$116,267	\$179,695
Due other banks in Great Britain	4,502,018	4,268,502	4,966,698
Other liabilities .....	218,628	176,700	228,185
<b>Total liabilities .....</b>	<b>\$226,912,318</b>	<b>\$224,062,249</b>	<b>\$216,267,661</b>
<b>ASSETS</b>			
Specie .....	\$ 7,845,946	\$ 7,884,650	\$ 7,279,292
Dominion notes .....	15,672,011	15,682,340	13,309,643
Deposits to secure note circulation .....	1,821,271	1,823,151	1,818,571
Notes and cheques of other banks .....	7,285,166	6,469,658	7,231,951
Loans to other banks secured..	66,661	215,072	20,385
Deposits made with other banks	4,112,540	3,807,355	3,584,380
Due from other banks in foreign countries .....	22,604,212	21,440,033	14,839,370
Due from other banks in Great Britain .....	4,216,625	3,909,120	3,918,869
Dominion Government debentures or stock .....	3,110,349	3,110,349	3,188,572
Public municipal and railway securities .....	18,240,485	18,794,991	15,446,103
Call loans on bonds and stocks	16,955,122	16,207,333	14,681,644
Loans to Dominion and Provincial Governments .....	562,166	439,357	1,584,010
Current loans and discounts ..	198,888,480	199,773,925	204,854,797
Due from other banks in Canada in daily exchanges .....	180,819	139,416	133,139
Overdue debts.....	3,363,376	3,325,559	2,960,035
Real estate .....	940,941	944,935	888,010
Mortgages on real estate sold ..	621,350	615,258	654,259
Bank premises.....	5,478,259	5,471,667	4,999,851
Other assets.....	1,796,240	1,636,627	1,864,794
<b>Total assets .....</b>	<b>\$313,762,224</b>	<b>\$311,691,002</b>	<b>\$303,357,881</b>
<b>Average amount of specie held during the month .....</b>	<b>\$ 7,850,330</b>	<b>\$ 7,878,818</b>	<b>\$ 7,274,012</b>
<b>Average Dominion notes held during the month .....</b>	<b>15,508,194</b>	<b>15,648,386</b>	<b>12,960,948</b>
<b>Loans to directors or their firms</b>	<b>8,045,951</b>	<b>8,065,752</b>	<b>7,784,934</b>
<b>Greatest amount of notes in circulation during month .....</b>	<b>35,546,324</b>	<b>33,788,375</b>	<b>37,762,590</b>

*Bank Statement for November with Comparisons* 247

STATEMENT OF BANKS acting under Dominion Government charter for the month ending 30th Nov., 1894, with comparisons :

LIABILITIES

	Nov., 1894	Oct., 1891	Nov., 1893
Capital authorized.....	\$ 73,458,685	\$75,468,685	\$75,458,685
Capital paid up .....	61,669,355	62,207,685	62,090,355
Reserve Fund.....	<u>27,287,526</u>	<u>27,261,749</u>	<u>26,213,861</u>
Notes in circulation .....	\$ 33,076,868	\$ 34,516,651	\$ 35,120,561
Dominion and Provincial Government deposits.....	5,134,883	4 664 442	5,762,992
Public deposits on demand....	69,364,659	67,950,583	62,926,785
Public deposits after notice ....	113,842,322	111,885,357	104,414,955
Bank loans or deposits from other banks secured.....	27,820	62,645	.. ..
Bank loans or deposits from other banks unsecured.....	2,947,418	2,825,031	2,947,491
Due other banks in Canada in daily exchanges .....	158,087	167,984	268,156
Due other banks in foreign countries .....	156,752	118,887	131 778
Due other banks in Great Britain	3,089,477	4,502,018	4,419,033
Other liabilities .....	<u>799,520</u>	<u>218,628</u>	<u>779,634</u>
Total liabilities .....	\$228,597,876	\$226,912,318	\$216,771 481

ASSETS

Specie .....	\$ 7,958,432	\$ 7,845,946	7,589,418
Dominion notes .....	14,790,407	15,672,011	13,041,516
Deposits to secure note circulation.....	1,810,736	1,821,271	1,818,571
Notes and cheques of other banks .....	7,343,825	7,285,166	7 047,402
Loans to other banks secured ..	27,820	66,661	5,000
Deposits made with other banks.	3,789,942	4,112,540	3,673,219
Due from other banks in foreign countries .....	25,274,625	22,604,212	16,242,571
Due from other banks in Great Britain .....	4,401,819	4,216,625	4,827,660
Dominion Government debentures or stock ....	3,124,844	3,110,349	3,191,383
Public municipal and railway securities .....	18,508,488	18,240,485	16,439,315
Call loans on bonds and stocks..	17,722,565	16,955,122	14,465,113

	Nov., 1894	Oct., 1894	Nov., 1893
Loans to Dominion and Provincial Governments.....	\$ 1,296,720	\$ 562,166	\$ 1,730,685
Current loans and discounts ..	195,823,973	198,888,480	201,996,246
Due from other banks in Canada in daily exchanges.....	146,324	180,819	118,925
Overdue debts .....	3,457,178	3,363,376	3,099,648
Real estate .....	893,260	940,941	826,043
Mortgages on real estate sold..	603,895	621,350	649,844
Bank premises .....	5,459,813	5,478,259	5,123,699
Other assets .....	1,741,257	1,796,240	1,569,404
Total assets.....	<u>\$314,176,123</u>	<u>\$313,762,224</u>	<u>\$303,455,870</u>
Average amount of specie held during the month ..	7,748,339	7,850,330	7,298,948
Average Dominion notes held during the month .....	15,164,916	15,508,194	12,839,384
Loans to directors or their firms	7,978,669	8,045,951	7,729,950
Greatest amount of notes in circulation during month .....	35,640,491	35,546,324	37,834,627

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

	MONTREAL		*TORONTO		HALIFAX		HAMILTON		WINNIPEG
	1892-3	1893-4	1892-3	1893-4	1892-3	1893-4	1892-3	1893-4	1894
December ..	\$ 53,334,498	\$ 45,168,976	\$ 32,157,099	\$ 25,398,315	\$ 5,289,252	\$ 4,884,773	\$ 3,716,428	\$ 3,147,810	\$
January .....	50,498,973	42,796,705	30,226,941	27,267,606	5,041,466	4,931,374	3,292,386	3,087,576	4,318,316
February ..	46,149,389	35,478,026	23,704,495	19,209,967	4,202,569	3,981,482	2,830,935	2,671,799	3,132,537
March .....	50,791,417	45,715,370	26,282,197	22,893,878	4,759,004	4,744,920	3,124,681	2,739,064	3,510,411
April .....	42,274,827	40,942,256	26,974,686	21,473,195	4,906,327	4,467,920	3,122,325	3,078,330	2,958,886
May .....	49,629,342	45,585,937	25,747,669	24,173,820	5,334,245	4,871,141	3,510,787	2,977,806	3,455,639
June .....	47,244,749	44,794,941	25,823,084	21,965,613	5,105,122	4,471,084	3,204,246	2,753,625	3,329,427
July .....	49,391,208	45,223,709	27,043,625	23,763,087	5,510,016	5,492,685	3,274,564	2,682,632	3,570,221
August .....	47,414,660	44,383,794	22,311,198	21,770,292	5,414,015	5,407,770	2,847,937	2,546,135	3,695,874
September ..	45,767,089	46,855,219	24,505,010	20,678,767	4,993,552	5,062,367	3,091,370	2,686,878	3,975,466
October .....	47,266,474	55,730,826	25,264,432	25,750,866	5,489,398	5,452,393	3,227,927	3,155,742	6,786,730
November ..	47,291,960	51,838,202	25,997,046	25,214,277	5,158,297	5,021,030	3,150,008	3,093,424	6,607,498
	576,964,586	544,363,961	316,937,473	278,968,683	60,464,290	58,788,939	38,393,594	34,620,821	45,340,975

\*NOTE.—These totals do not include the Bank of Toronto.

