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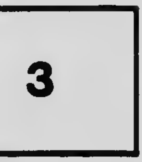

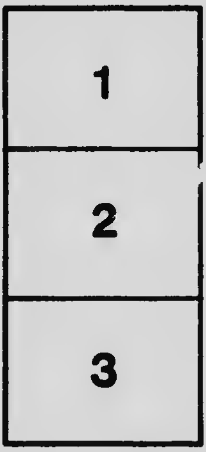

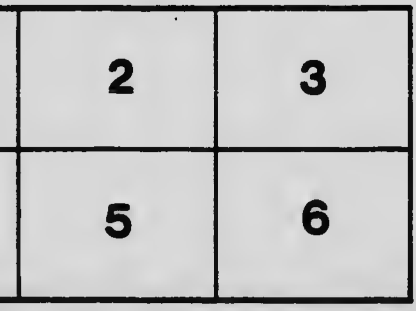

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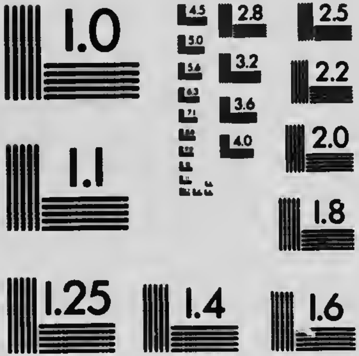

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Canadian Banking

BY DUNCAN M. STEWART
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MO Cap.

CANADIAN BANKING

A SERIES OF
LECTURES BY

DUNCAN M. STEWART
GENERAL MANAGER
THE SOVEREIGN BANK OF CANADA

MONTREAL, 1904

PREFACE.

The following Lectures were delivered in Montreal during the winter of 1903-04, and were published *verbatim* at the time by the "Star" and reported extensively by other prominent newspapers.

Many requests were received for copies, and these have since become so numerous that it has been found impossible to supply complete sets to all who have applied for them. This, and the fact that the Lectures would be more convenient for reference if printed as one paper, has led to their publication in pamphlet form at the present time. It has been thought well to also include an article on "The Development of Banking in Canada," written specially for the "Jubilee Edition" of the Toronto "Globe," published on the 2nd July, 1904.

The contents of this pamphlet are in no sense intended to represent a complete treatise on Canadian Banking. Their object is to interest the general public in a topic of importance by placing before them in a very simple way some of the salient features of our Banking System, and a few of the more important facts relating to the functions of Canadian Chartered Banks. It is hoped that they may also be of service to some of the younger officers who have chosen Banking as a profession.

D. M. S.

Montreal, November, 1904.

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FIRST LECTURE

HISTORICAL SKETCH.

WHEN I was invited by the Educational Committee of the Young Men's Christian Association to speak upon the subject of banking I gladly acceded to their request for three reasons: First, because I believe in the work which they are carrying on in an educational way, and am therefore glad to co-operate with them; secondly, because there is a conspicuous lack of knowledge on the part of the general public regarding banks and banking; and, thirdly, because the acceptance of this invitation may, and I hope will, afford me an opportunity of conveying a certain amount of information to the younger bank officers in Montreal, who may not have time or facility for acquainting themselves with the history and theory of banking. I feel this more particularly because the educational side of the Canadian Bankers' Association has been lost sight of completely during the past few years, and the essay competitions, which did much to promote a desire for the study of banking, have been discontinued.

When I promised to deliver an address on banking the intention was that it should be confined to one evening, but I found that it was beyond my power to condense the subject in such a way as to make it at all intelligible in the space of an hour or so. I have, therefore, arranged it in a series of four lectures, in which I shall endeavour to deal with the subject at sufficient length to make the more important features intelligible to the uninitiated, and, if possible, in such a way as to encourage young bank officers to take a greater interest in the higher branches of their profession. I propose to deal almost exclusively with the banking business as we have it in Canada, believing that this will be of more practical benefit to you than treating the subject generally.

In fairness to you I should explain that this is the first time I have ever given a public lecture, and I must therefore ask you to bear with the deficiencies that must naturally occur under such circumstances. I do not intend that any lecture will exceed one hour in length, and I can promise you that the first one will be the dryest of the series.

ANCIENT BANKING.

The business of loaning money, which is one of the principal sources of profit to a banker, has existed from the very earliest times. In the Book of Exodus the Israelites were warned against usury, which means an excessive rate of interest. Another source of profit is the issue of paper currency, but this is a development of more modern times. As a matter of fact, however, they had a paper currency in China, which has been traced as far back as B.C. 119, and they had a banking system in that country in the 10th century, much the same as exists there now.

The Bankers of Greece, Rome and Athens exercised much the same functions as bankers of the present day, except that they did not issue notes. They took deposits, paid interest for them, and these cities being large centres of commerce, they did a considerable trade in the changing of money brought there by merchants from all parts of the world.

The Bank of Venice is generally considered to be the earliest bank in Europe, and had its origin in A.D. 1156, although it did not become a bank in the sense which we understand the term for at least two hundred years afterwards. This institution continued to do business uutil the year 1797.

The origin of modern banking may, I think, be traced to the money lenders of Florence, who practised banking as early as the 10th century. Many of them appeared in England in the year 1199, when they were entrusted with the collection of money for the Pope, which shows that, like the bankers of our own country, they were very honest and trustworthy. Edward I obtained a loan from a Florentine banker in the year 1306, and about this time there were no less than 69 banking houses of Florence doing business in England. This famous town was practically the birth-place of modern banking, as it also was the birthplace of the great navigator, Amerigo Vespucci, after whom the continent we live on is named.

A very old bank was the Bank of St. George, which was established in Genoa in the year 1345, and continued its existence until the year 1800, when, like the Bank of Venice, it was destroyed by the French. This town of Genoa, as you are aware, was the birthplace of another famous navigator of importance to us, namely, Christopher Columbus, the discoverer of America.

So much for bauking in Italy, which country has played a most important part in the commercial, as well as the political, history of the world.

Another country that was at one time famous for its commercial importance is Holland; its chief city, Amsterdam, conducted a very large trade with the outside world. The Government and the merchants of Amsterdam established a bank (the Bank of Amsterdam) on 31st January, 1603. This institution was at first very ably managed, and coutinued its existence for 216 years, when on the 19th December, 1819, it went iuto liquidation by Royal decree.

The Banks of Venice and Amsterdam were originally storehouses for coin and bullion deposited by merchants, for which they gave in exchange credit on their books. They were paid a certain percentage for keeping the coin, and this constituted largely their profits. Such banks were a necessity, especially in the case of Amsterdam, because of the amount of clipped and debased coin floating in that city, brought there by merchants and travellers, but which, when deposited with the bank, was received at its exact value and a uniform currency or credit issued by the bank.

MODERN BANKING.

The three great modern banks of Europe are the Bank of England, the Bank of France, and the Imperial Bank of Germany.

Banking in Germany traced its origin to the Hamburg Giro Bank, which was founded in the year 1619, upon the model of the Bank of Amsterdam. This bank did not issue notes, the first bank of issue in that country being the Prussian Bank, which was founded in 1765, after the model of the Bank of England. I mention this bank because in the year 1875 it became the German Imperial Bank, which is controlled by the German Government, and has a capital of 150,000,000 marks ($36,000,000.

The first bank established in France was founded by a Scotchman named John Law, the son of an Edinburgh goldsmith: it was known as the Banque Generale, and came into existence on the 2nd May, 1716. On December 4th, 1718, Law got the name of the bank changed to "The Royal Bank," and the King having procured all the stock, became the sole proprietor. It failed in 1722. The present Bank of France was founded in 1796, but did not begin active operations until the year 1800. Napoleon Bonaparte edited with his own hand the preface to the constitution of this bank, and when its stock was issued he subscribed for 100 shares, the capital being 30,000,000 francs, divided into 30,000 shares of 1,000 francs each. The present capital of the Bank of France is $120,000,000 francs ($28,000,000.)

BANKING IN ENGLAND.

Banking in the modern sense of the word had no existence in England prior to 1640. Up to that time merchants had been in the habit of depositing their bullion and cash in the Mint in the Tower of London, under the guardianship of the Crown. In the year 1640, Charles I seized some of this money, but after remonstrance by the public he restored it, and obtained a loan for about one-third of the amount he wanted, on good security. This advance was re-paid, but the confidence of the merchants in the security of the Tower was gone, and they then determined to keep their gold in their own houses. These did not prove to be very safe places, however, as their clerks stole it. When the King helped himself to their money the merchants knew it, but their employes very often said nothing about it but simply loaned it out for their own benefit. A good deal of this cash found its way into the hands of the Goldsmiths, who re-loaned it at high rates of interest, taking merchants' notes as security. They found this business so profitable that they offered to pay 6 per cent. interest for money placed in their hands, repayable on demand. On the principle of the Amsterdam Bank they gave credits for the amount deposited, and these credits were transferable by written order, which was nothing more than what we call a cheque. This was practically the business of a deposit bank, as we understand the term to-day. The Goldsmiths prospered and became a very important factor in time of war, when they loaned large sums of money to the King. During a war with Holland in 1667, the large advances they had made to Charles II., led to a run on them, which resulted in a terrible panic. The King issued a proclamation declaring that the bankers would be paid out of the Exchequer, but five years later he issued another proclamation suspending Exchequer payments for one year, but promised interest at 6 per cent. This resulted in another run on the bankers, which entailed enormous losses, and even the interest on the loans made to the Government was not paid until 1701, some fourteen years later.

Mr. McLeod says in this connection:

"In 1700 an act was passed that after the 31st of December, "1701, hereditary excise should be charged with interest at 3 per "cent. on the principal until payment was made of one-half the "debt. Thus ended this monstrous injustice. It was calculated "that the bankers and their creditors lost £3,000,000. The principal "was never repaid, and forms the first item of our National Debt."

After this, you can readily see that it was almost impossible for any government to obtain much money from the "bankers," as the Goldsmiths were now generally termed, and the financial distress of the country served to turn attention towards a scheme for a public bank such as we have already noticed existed in the Italian States. At this juncture there arose a man named William Paterson, a Scotchman from Dumfriesshire, who devised a plan which resulted in the establishing on the 25th of April, 1694, of that greatest of all monetary institutions, "The Old Lady of Threadneedle Street," as it is familiarly called—The Bank of England.

The present capital of the Bank of England is £14,553,000 sterling ($72,500,000.)

BANKING IN SCOTLAND

You will have observed that both the Bank of England and the Bank of France were founded by Scotchmen, but Scotland's own great bank—"The Bank of Scotland," which came into existence on the 17th July, 1695, was founded by an Englishman, named John Holland. This bank was not a State institution, but a purely private enterprise. It had the privilege of issuing notes to an unlimited extent, and had a monopoly of banking for 21 years. When, however, its first charter expired, the monopoly privilege was not renewed, and I cannot find that the bank ever even asked for it. This Bank is a flourishing Institution to-day and is the correspondent of some of our leading Canadian banks.

Scottish banking has a peculiar interest for us in Canada, as our own system is to a certain extent, based upon it, and in no country in the world was the industrial development so marvellous as in Scotland after the establishment of their banking system. We may say the same of our own country, whose industry and commercial progress are inextricably associated with and dependent upon our present excellent system of banking. Like the Scottish banks, our banks are owned by private individuals, and the less that Kings and governments have to do with them the better. You have heard the results of such interference.

BANKING IN THE UNITED STATES.

I do not propose to dwell at any length upon the banking history of the United States, but will simply mention one or two points of interest. The first permanently organized bank in the United States was the Bank of North America, which commenced business in Philadelphia on the 7th February, 1782, and is in existence to-day under its original title, although it is now a national bank. As, however, it operated under a State Charter as well as by Act of Congress, George Washington's famous Secretary of the Treasury, Alexander Hamilton (another Scotchman by the way) considered it not a proper bank to be the fiscal agent of the Federal Government, and he had the first Bank of the United States incorporated on the 25th February, 1791. Its charter was good for 20 years, but when it expired in 1811, a new party was in power, and it could not get a renewal from Congress. The bank building was purchased by and the bulk of its assets transferred to a prominent merchant of Philadelphia named Stephen Girard, who continued its business under the name of "The Girard Bank." It became a National Bank in 1865, since which time it has been known as "The Girard National Bank," and is to-day the Philadelphia correspondent of the institution which I have the honor to represent.

The second Bank of the United States was chartered in 1816, and commenced business on January 7th, 1817. Its Federal charter, however, was taken away in 1836, and it became a State Bank, and finallv went into liquidation in 1841.

Since the year 1836 the United States has had no great bank closely identified with it, as is the case in the leading countries of Europe.

Of the merits of the present American National Banking Law, which came into existence in 1863, I may have something to say at a later date. I will simply state here that in my opinion it would not suit us in this country, and that for our purposes it compares unfavorably with the Canadian system of banking.

CANADA.—FIRST PAPER CURRENCY.

Canada has the honor of being one of the first countries in modern times to adopt a paper currency.

Until the year 1685, the medium of exchange in New France was very often beaver skins or moose skins, and sometimes wheat. Coin (silver and copper) had been brought into the country, but left it again as the colonists paid for their importations of goods from Old France. In that year the usual Government shipment of silver for the Intendant failed to arrive, and he resorted to the expedient of card money (monnoye de carte) for the payment of his soldiers.

He simply cut up ordinary playing cards into four pieces, on which were written his promise to pay, and which bore the seal of France. These were always in hand-writing, as the people would not accept printed promises. You will observe that this was nearly ten years before the establishment of the Bank of England, and thirty years before the establishment of Law's first bank in France. This card money was forced on people and soldiers alike, but worked satisfactorily, because the Intendant undertook to redeem it in coin, and he kept his word so long as ships came from France with money from the Government. They ceased coming in 1709, and then trouble arose in the colony, because while the legitimate basis of the card money was gone, the necessity for it was greatly increased. The result was an over-issue, which ended in the year 1717 by the Government of France redeeming the currency at half its face value. In two years it was all redeemed, and then the country returned to the currency standard of Old France, and used coin money for about ten years, when they returned to card money at their own request. This second issue of paper currency was limited at first, and was redeemable in coin or by drafts on the French Exchequer. The expenditure of the colony was far in excess of its exports, and this as well as the extravagance and misrule of its Governors led to an over-issue of card money, which resulted ultimately in heavy loss to the country.

On September 8, 1760, France surrendered all Canada to England, and England insisted upon a settlement of these and other evidences of debt then existing in the colony, which amounted to a total of about 80,000,000 livres. This was a most troublesome operation, and although settled by France at the time, the French Government failed to meet its obligations later, with the above result.

Ever since the commencement of the British regime in Canada, the currency was in coin of England, France and Spain, mostly Mexican or Spanish. In 1791 Canada obtained constitutional government instead of by a Governor and Council of State, and the country was divided into Upper and Lower Canada. A law was passed by the Quebec Parliament in 1795, declaring that the new American dollar, which was now in use, should be counted like the Spanish and Mexican dollar at five shillings. In 1796 the Upper Canada Parliament passed a similar act.

Up to this time there were no banks of any kind in Canada, and no regular currency or banking system, while in the United States, as we have seen, they had established banks of issue as early as 1781. By this time Montreal had made progress as a commercial centre, and had outstripped the older city of Quebec. The merchants of Montreal—alive then as now to the best interests of their country—applied for a charter for the Canada Banking Co. in the year 1792 (October 18). They did not get it, however, and the scheme fell through. In 1807 Quebec tried it and also failed. In 1808 both cities applied to Parliament for a charter for the Canada Bank, which was to have an office in Montreal and Quebec, with 24 Directors, 12 at each place. They also failed to get a charter.

"ARMY BILLS."

War with the United States broke out on 29th June, 1812, and continued until peace was declared on the 24th December, 1814. During this time the Parliaments of Upper and Lower Canada met and passed a law prohibiting the export of specie from the country, and authorized an issue of paper currency known as "Army Bills." These bills, upon which interest was allowed, were a first lien on the assets of the country. By December 23rd, 1820, at which time the Army Bill Office was closed, the entire issue, which amounted to £1,300,000, was redeemed in full with interest. The experience of the country with this currency was very satisfactory, and the splendid laws passed for its governance, afford lasting tributes to the good judgment, honor and sound views on the currency question held by the important men of Canada at that time.

As already stated, the Army Bills were in existence from 1812 to 1820, and the people of Canada had experienced such beneficial results from this well regulated and elastic paper currency, that they could ill afford to go back to the miscellaneous coin currency now that the war and the necessity for Army Bills was over. They, therefore, decided to have a chartered bank, and this determination led to the establishment, in August, 1817, of the first Canadian joint stock bank, which was known then as the "Montreal Bank," a private association at the first, and which is so well known to us to-day as the "Bank of Montreal."

In Breckenridge's History of the Canadian Banking System, he says:

"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."

SECOND LECTURE.

The Canadian Bank Act.

WHEN I had the pleasure of addressing you a fortnight ago, I endeavored to sketch a rough outline of the history of banking in various parts of the world down to the establishment of the first joint stock bank of issue in Canada in the year 1817. Other banks were established shortly afterwards in New Brunswick, Nova Scotia, and Upper Canada, which also had the power to issue notes, but the safeguards and limitations of their currency differed in different provinces.

I do not purpose following the history of our banking system through its early stages, but will pass on directly to 1st July, 1867, the natal day of the present Dominion of Canada, when the confederation of the provinces became a fact under the British North America Act. By this Act the provinces relinquished their rights to deal with currency and banking to the Dominion Government, which set about providing one general and uniform law to govern all the chartered banks.

The First Bank Act,—1870.

A new Banking Act was passed in May, 1870, but up to the 3rd March, 1871, only one bank had renewed its charter under it. The charters of other banks were expiring at various times during the next few years, and the Government brought in a new act which fixed the date for the expiry of all bank charters at 1st July, 1881. This act was passed on 14th April, 1871, and was the first general law under which all Canadian banks operated, and may be regarded as practically the first Bank Act of the Dominion. Ever since that time the bank charters have been renewed by ten year periods, dating from the 1st July, 1871, and a revised bank act passed every decade. These revisions and attendant legislation have been accompanied by considerable discussion in Parliament and press which has led to the adoption of additional safeguards from time to time, culminating in the admirable system which we enjoy to-day. You can thus see that our present banking system has not been achieved by any haphazard legislation or financial accident, but is the result of a steady process of evolution aided by that intelligent criticism and sound common sense which has always characterized, as a body, alike the public men and the bankers of Canada.

I will now point out a few of the changes that have taken place since Confederation. By the Act of 1870, banks were deprived of the right to issue \$1 and \$2 notes, and the lowest denomination they could issue thereafter was fixed at $4, the Dominion Government assuming the function of issuing the smaller denominations.

THE SECOND BANK ACT.—1880.

The next revision of the Bank Act took place in 1880, and the public manifested great interest in it, and with good reason, for if they had not suffered severe financial losses, they certainly had been occasioned considerable anxiety through the bank failures of the previous few years.

In 1879, no less than six banks, five of which had their head offices in the city of Montreal, suspended payment, although three of them resumed business later. The worst of these failures was that of the Mechanics' Bank, which was notoriously mismanaged, and got itself into trouble very largely through lending money on its own and other bank stocks. This bank paid only 57½ cents on the dollar to its note-holders and depositors, who ranked equally as creditors under the Act of 1871.

The experiences of the Mechanics' Bank and other mismanaged institutions convinced both bankers and public of the necessity for placing the note circulation on a thoroughly sound basis, and for safeguarding the general interests of the country in other directions. At the suggestion of the banks themselves, the new Bank Act, which became law on the 7th May, 1880, provided that the note circulation should thereafter be a first lien against the entire assets of every chartered bank. Under this Act also banks were prohibited from lending money on their own stock, or the stock of any other bank. Both of these features have been maintained in every subsequent Act.

To further protect the public, this Act provided that every new bank should deposit $100,000 in gold with the Government before it commenced business.

The Bank Act of 1880 deprived the banks of the right to issue $4 bills; fixed the lowest denominations at $5 and required that all issues of bank notes should be in fives or multiples of five. This has been the law ever since.

THE THIRD BANK ACT.—1890.

Ten years later, on 14th May, 1890, a new Bank Act was passed. This is practically the Act that we are operating under today, and is the most important, as well as the best, ever passed in the history of Canada.

With the development of the country and the expansion of its trade and commerce, in which the banks would necessarily play an important part, it was felt that the safety of the note circulation should now be placed beyond peradventure, and that it should also pass freely from one end of the Dominion to the other at its face value.

Although every bank that failed since 1881,—when the entire assets first became security for the note circulation,—had paid noteholders in full, in order to make assurance doubly sure, it was decided to establish a fund for the protection of the notes and securities generally. This fund, which is known as the "Bank Circulation Redemption Fund," was created by a cash payment to the Dominion Government equivalent to 5 per cent. of the maximum amount of its circulation outstanding, and this ratio is always maintained. This fund can be drawn upon in case the assets of any bank are insufficient to pay its notes in full. It will be seen that under this Act all the banks become responsible for the payment of the notes of every individual bank.

Another important feature of the Bank Act of 1890 was a provision for the redemption in gold or legal tenders of bank notes in the commercial centres of the Dominion. These include Montreal, Toronto, Winnipeg, Victoria, St. John, Halifax, and Charlottetown, and every bank is obliged to appoint an agent at these places to redeem its notes when presented. The direct result of this provision was that all bank notes immediately passed at par throughout the Dominion. You may remember that prior to that time a British Columbia bank note would only be taken at a discount in Eastern Canada, and a Maritime Province bank note would not pass at par in Ontario.

You will observe that through all these stages of legislation there appears to be a sort of striving after the ideal, a gradual tendency towards the strengthening of banks, and the protection as far as possible of the public. This tendency is further manifested in the Act of 1890, under which the amount of money which a new bank was obliged to deposit with the Government before it could commence business was increased from $100,000 to a quarter of a million dollars, and the amount of bona-fide subscriptions to the capital stock fixed at not less than $500,000. Perhaps I may be permitted to mention in passing that the Sovereign Bank of Canada, established in 1902, had the honor of being the first institution in the Dominion to comply with the provisions of this very wise and stringent Bank Act.

Under the Bank Act of 1890, the charters of the existing banks were continued until 1st July, 1901.

THE PRESENT BANK ACT,—1900.

The next decennial revision took place in 1900, when the present Bank Act came into force. There was, however, very little room to improve upon the Act of 1890, and the only important amendment thereto was the incorporation of the Canadian Bankers' Association. This association is intended to exercise a general supervision, in the public interest, over its members, which is certainly a very wise precaution, when you consider that all the banks are responsible for the note circulation of any one of their number, and all contribute to the Circulation Redemption Fund, which can be drawn upon to the full amount, if necessary, in order to redeem the notes of a suspended bank. Every bank incorporated under the present Act becomes by law a member of the Canadian Bankers' Association and has no choice in the matter.

ORGANIZATION OF A BANK.

The opinion exists in many places in the United States, and among a certain class of Canadians, that banking in this country is a huge monopoly. We shall see whether this is the case. Let us suppose that some of you here wish to start a bank. The first thing you do is to apply to the Parliament of Canada for an Act of Incorporation, just as is the case of any other joint stock company. You can get the form of incorporation in Schedule "B" of the Bank Act; it is very short and very simple and when filled up you proceed to have it passed by Parliament.

Sections 9 to 17 of the Act deal with the "Incorporation and Organization of Banks," and provide that your capital must not be less than $500,000, and that the number of provisional directors, whose names you fill up in the form of incorporation, must not be less than five, nor more than ten. You will never experience any difficulty in getting your Act introduced into the House of Commons and the Senate—any member of Parliament or Senator will do it for you—and as soon as it becomes law, you have a whole year in which to organize and get ready for business. If you should not commence operations within one year, however, your Act becomes null and void, and you will have to get an extension of the time or start all over again. You now open stock books in accordance with Section 12 of the Bank Act, and in these you record the subscriptions of such persons as desire to become shareholders. As soon as you receive $500,000 in bona-fide subscriptions and $250,000 in cash, you pay this quarter of a million dollars over to the Minister of Finance, and send him a certified list of your subscribers, showing the amount of their respective subscriptions. Your provisional directors then issue a notice calling a general meeting of the subscribers, to be held not less than four weeks from the day you pay the money in to the Minister of Finance and the Receiver-General.

At your meeting of subscribers, regular or permanent directors are elected who take the place of the provisional directors. These permanent directors cannot be more than ten in number, nor less than five, and a majority of them must be British subjects. You now send a certified copy of the minutes of this meeting, with the names of the directors elected thereat, to the Minister of Finance, and if, as we shall suppose, he is satisfied that your subscriptions are genuine, and that otherwise everything is in order, he sends you a certificate from the Treasury Board, returns your $250,000 (without interest, unfortunately),—less $5,000, which he retains as your initial contribution to the general Bank Circulation Redemption Fund,—and you are now ready to commence the business of a bank. This is all a very simple operation, and I do not see any monopoly about it. People who talk about banks as a "Monopoly," "Octopus" or some dreadful aggregation, are generally ignorant, and know nothing at all about them. Now, who owns a bank? It is the personal property of a number of private individuals, and the chartered banks doing business in Canada to-day are the personal property of no less than 24,000 people, many of them widows and orphans absolutely dependent for a living upon the moderate, but more or less sure, income derived from their shares in these institutions.

As directors are supposed to direct, the law compels them to hold what it considers a sufficient amount of stock in the bank to make it worth their while to give proper attention to the bank's affairs, the amount being graded according to the paid up capital. When the capital is a million dollars, the minimum number of paid up shares a director shall hold is thirty,—or $3,000, par value. Prior to 1890 there was no amount specified for the par value of bank shares, but since that date it has been fixed at $100 each.

The directors elect a president and vice-president from their own number and pass by-laws as to when board meetings shall be held, and make such rules and regulations governing the staff as they think proper. They choose a general manager, which is a very important step, and it is no disparagement to any good board of directors to say that they cannot hope to make a success of their institution unless the general manager is, among other things, a thoroughly trained and sound banker.

Sections 18 to 25 inclusive, deal with "Internal Regulations," such as the manner in which directors are elected, and vacancies on the board are filled.

For the protection of the shareholders as well as the public, every bank officer must give a bond or guarantee or other security to the satisfaction of the directors for the faithful performance of his duties. There is no choice about this; it is the law, and directors are responsible for seeing that every officer in their employ is properly bonded.

"DOUBLE LIABILITY."

Sections 26 to 44 deal with the capital stock, transmission of shares, increase of capital, etc.

The capital of a bank may be increased upon a by-law being passed by the shareholders at any annual meeting or at a special meeting called for the purpose. There are fifteen sections of the Bank Act relating to "Shares and Calls." These relate to the subscription, transfer and transmission of stock. The most important feature about bank shares, as far as the public are concerned, lies in what is technically known as the "Double Liability." This means that for every share of $100 the owner is responsible for another $100, in case the bank becomes insolvent and its assets are insufficient to meet its liabilities. If, therefore, the subscribed capital of a bank is $1,000,000, the security which creditors have is $2,000,000, and it is very important to persons who are dealing with banks that the shareholders should be good for this amount.

You will understand that it is not for double the amount paid up on a person's shares that he is responsible, but for double the amount *subscribed*, so that if a bank's subscribed capital was $2,000,000 and its paid up capital $1,000,000, the shareholders would be responsible for an additional $2,000,000. For fear that any shareholders might evade liability by transferring his stock to a weak holder or a man of straw, any transfer made within sixty days of a bank's suspension is not valid, unless the existing holder is good for his double liability. But, you say, how are the public going to find out whether the shareholders of a bank are good or not? Our good paternal Government provides for this by issuing a Blue Book, containing a list of the shareholders of all the banks, with the amount of stock each one has subscribed for, and the amount thereon which has been paid up.

These Blue Books are public property, and are meant to enable the investing or depositing public to ascertain what security they have in the shareholders of any bank in which they are interested. As a rule, the wider distribution a bank's stock has the safer it is, because, other things being equal, a man is more likely to be good for double the amount of a small number than double the amount of a large number of shares.

BANK INSPECTION.—CASH RESERVES.

Sections 45 and 46 relate to the annual inspection and statement of a bank. Under this Act the directors must submit a statement to the shareholders at the annual meeting, of the bank's position, in prescribed form.

The question of Government inspection has sometimes been mooted in this country. It would be a perfect farce, however, because, owing to the number of branches and the variety and multiplicity of its assets, no Government official could properly inspect a chartered bank. They have Government inspectors in the United States, and the system has proved a failure; frauds having been discovered by bank officials themselves which spread over a period in some cases of thirteen years, although each year the bank had been inspected by a Government bank examiner. This, mind you, with a bank doing all its business under one roof, and not with fifty or one hundred branches, such as we have in Canada.

There is another point also against Government inspection, namely, if a bank upon which the Government inspector reported favorably should fail, depositors and other creditors who have relied upon such report, would be justified in holding the Government responsible for any losses that might accrue to them.

Three sections of the Act, Nos. 47 to 49 inclusive, relate to dividends. A bank may pay dividends quarterly or half-yearly, but on no account are they to be paid out of capital; they must be paid out of profits. There must, however, be no division of profits by way of dividends, bonus or otherwise of a higher rate than 8% unless the bank has also a reserve fund equal to at least 30 per cent. of its paid up capital. This is an excellent provision against the fatal mistake made by many banks in the early days of using up their profits in paying large dividends and placing nothing to the reserve fund. It is neither in the interests of the shareholders themselves, nor of the public, for a bank to use all its surplus earnings in the payment of dividends. Its first duty should be to build up a reserve fund and strengthen the bank in every other possible way.

Section 50 of the Bank Act deals with reserves. This, you will, of course, understand is altogether different from the reserve fund. The latter is built up from the surplus profits of the bank, and goes a long way to protect the shareholders from the possible necessity of paying up their "double liability." Section 50, however, deals with cash reserves, which every prudent banker must hold. In the United States, national banks are required to keep a cash reserve of not less than 25 per cent. of their liabilities to the public, but in

Canada there is no such thing as a "fixed reserve." The only requirement is that 40 per cent. of whatever reserve a bank does keep must be in Dominion notes, i.e., "legal tenders." The folly of a fixed reserve has been proven over and over again in the United States by the inability of American banks when their cash reserves fell to a certain point to make any more loans, and provide for the absolutely legitimate commercial requirements of their country.

One of the best safeguards for a bank as well as for an individual is public opinion, and any shareholder, depositor, or customer of a bank can find out for himself the exact position of his own or any other bank in the matter of cash reserves.

A detailed statement of the position of every bank is sent to the Government as at the last day of each month, and this is published in the Canada Gazette. These statements have been improved upon from time to time during the past thirty years, until to-day they are about as complete as the most captious critic could desire. They contain all the information necessary to enable any intelligent person to ascertain the approximate strength or weakness of any bank.

NOTE CIRCULATION.

Sections 51 to 62 inclusive deal with the note issue of a bank.

I have already referred to the amount fixed for the denomination of these notes, and to their redemption. The total issue of notes by a chartered bank is limited to its paid up capital except in the case of one bank which has a British charter, and its limit is 75 per cent. of its paid up capital. The penalties for an over-issue of circulation are very heavy, and run on a graded scale as high as $100,000.

As a bank's circulation increases, it must increase its deposit with the Dominion Government in the Bank Circulation Redemption Fund so as to maintain 5 per cent. of its maximum issue, and must make the necessary additional deposit within fifteen days after the 1st July in each year. Interest at the rate of 3 per cent. per annum is allowed to every bank on the amount of its credit in the fund.

In the event of the suspension of a bank, its notes bear interest at the rate of 6 per cent. from the day of suspension until such day as is fixed by the directors or liquidators for their payment. If no day is fixed within two months of the date of suspension, the Minister of Finance may make arrangements for the payment of the notes remaining unpaid, with interest, out of the Bank Circulation Redemption Fund, but on the day which is thus fixed for payment, interest shall cease.

UNREDEEMED NOTES.

In this connection, I would like to expose a fallacy which has existed in this country for many years. People imagine that banks make a large amount of money through the destruction or loss of their notes. The fact is, however, that whatever else a man loses, say, in the case of a fire in his house, the sinking of a ship, or other disaster, he always manages to save the money, and, from an actual calculation, it has been discovered that out of the total issue of small bank notes ordered to be called in by the Government in 1871 and 1881, there is only ½ of 1 per cent. now outstanding. In those days, too, the population was comparatively small, and the opportunities for depositing money in banks and other places of safety were few. To-day, when branches extend to the hamlets of the country, bank notes are practically redeemed daily, and probably not 1-10 per cent. of the total issue will remain unredeemed.

A heavy penalty is imposed for lithographing, engraving, or otherwise copying a bank note for advertising purposes.

Every bank note must have at least one signature written. The general custom is to have the president's signature engraved or lithographed, and the other signature written by hand. The Bank Act provides a heavy fine for any person issuing a bill or note intended to circulate as money, and any one defacing or injuring a bank note is liable to a fine of $20.

Under Section 62 of the Act, every bank employee is obliged to stamp or write in plain letters the words "counterfeit," "altered" or "worthless" upon every counterfeit or fraudulent note intended to circulate as money, presented to the bank. I have known people to consider this a hardship, because they have had the idea that they could have traced the counterfeiter or more probably have passed it off on some one else, but if you ever get a counterfeit note by accident or otherwise, and present it for payment, do not blame the bank official if he stamps it "worthless," as he is obliged to do so by law.

To continue the discussion of bank notes, we will pass on from Section 63 to Sections 89 to 96 inclusive, which relate to the insolvency of a bank. If a bank suspends payment of any of its liabilities in gold or Dominion notes for ninety days continuously, it becomes insolvent, and the directors must provide for the payment of its notes, calling upon the shareholders for the double liability, if necessary. Under the Act of 1900, the Canadian Bankers' Association takes charge of and supervises the affairs of an insolvent bank.

ESSENTIALS OF PAPER CURRENCY.

Before leaving the note circulation, I wish to say that one of the most important functions of any banking system is the establishment of a proper currency. Without going into an academic discussion of the subject I would say briefly that there are two essentials to any good paper currency, viz., *safety* and *elasticity*. Our banking system provides both. As an instance of the security afforded to the holders of Canadian bank notes, I may say that the total circulation of the banks on 31st October, 1903, was $70,480,611, against which there were total assets, including double liability, of $739,728,984, or about $10.50 for every dollar of circulation.

I may mention that since Confederation, 18 banks have disappeared, either by voluntary liquidation or suspension, and, with the exception of the Mechanics' Bank, the note-holders in every one of these banks were paid in full. Even La Banque Ville Marie, with whose comparatively recent history Montrealers are familiar, paid its circulation in full, although it had issued beyond the limit required by law. Nothing short of the bankruptcy of the entire Dominion, with its enormous resources, can ever imperil the currency of the Canadian chartered banks, as at present provided for. So much for the safety of the circulation.

The analogy in the term "elasticity" lies in the power of expansion and contraction. A piece of elastic expands or contracts according to the pressure exercised, and so it is with the bank note circulation of this country; it expands and contracts at regular periods every year, according to the pressure put upon it by the trade requirements of the country. As money is required to move the crops in the fall and early winter, it expands to the fullest extent required, and contracts gradually as the crops are harvested and the money is returned by depositors to the banks. This is an automatic movement that takes place with unfailing regularity, and results in the financing of the widely distributed and diversified industries of this great Dominion, with the very minimum of variation in the rate of interest. To do the same thing in the United States, where they have a fixed reserve, and where for every note issued a bank must put up an equal amount in gold or United States Government bonds, there is an almost unfailing financial disturbance, which is accentuated when there is an exceptional demand for money in the wheat, corn and cotton districts, resulting in a "dearth of currency" in the East. I have known occasions of this kind when the rate of interest would rise as high as 120 per cent. per annum and other points to which our rates have never gone, and never can go under the present system.

Business and Powers of a Bank.

Sections 64 to 84 inclusive relate to the "Business and Powers of a Bank." These I intend to deal with in my next address, but in passing I may say that there are certain things that a bank cannot do. For instance, it cannot lend money on its own stock or the stock of any other bank. Banks frequently get applications from men who own real estate for loans on mortgages. No chartered bank in Canada is allowed to lend money on the security of real estate or mortgages. They have, however, the power to take a mortgage as security for an existing debt. A bank cannot speculate or invest in real estate, except for its own requirements for bank premises. This is a very wise law, because the deposits of the public should not be invested in fixed assets such as real estate and mortgages which, while probably perfectly safe, you cannot always find a market for. The main thing for a bank to consider is its ability to obtain ready money for the depositors whenever they want it.

Sections 85 to 88 refer to statements and returns which Banks must send to the Government and the penalties for not doing so. I might mention that one return they are obliged to send to the Government is a statement of unclaimed balances, such as unpaid dividends, unpaid Bills of Exchange and deposit balances, in which no transactions have taken place for five years. The Government publishes particulars of these balances from time to time with a view to finding their owners.

Section 97 relates to fines and penalties. The offences of which a bank officer may be guilty are, giving fraudulent preference to a creditor or violating the Bank Act in any particular, or the making of any false return; and as most of the penalties impose imprisonment without the option of a fine, I can assure you that the law has done its duty in providing for bad bank officers. For fear any of you may be inclined to start a bank quietly on your own account I will quote sections 100 and 101 of the Bank Act in full, as I would not like any of you who have listened to these lectures get into trouble over an offence of this kind. They read as follows:—

"100.—Every person assuming or using the title of 'Bank,' "'Banking Company,' 'Banking House,' 'Banking Association' or "'Banking Institution' without being authorized so to do by this Act "or by some other Act in force in that behalf, is guilty of an offence "against this Act."

"101.—Every person committing an offence declared to be an "offence against this Act shall be liable to a fine not exceeding one "thousand dollars, or to imprisonment for a term not exceeding five "years, or to both, in the discretion of the Court before which the "conviction is had."

Section 103 compels every bank to cash the official cheques of the Dominion Government or any of its Departments free of charge, no matter whether they are drawn on that particular bank or not.

The last Section of the Bank Act is No. 104, and states the day on which the law goes into effect.

Other Forms of Banking.

In conclusion I may say that banking is not confined solely to the chartered banks, but is conducted by the Canadian Government, Loan Companies, Trust Corporations and by private individuals. The Government takes deposits in the Post Office and Government Savings Banks and issues notes of denominations below $5, and as you have heard compels banks to hold 40 per cent. of their cash reserves in Dominion notes.

Loan Companies conduct a banking business by taking deposits and advancing money on real estate, mortgages, stock exchange and other securities. As you have seen, banks are prohibited from lending money upon real estate and mortgages, and the wisdom of allowing corporations whose special business this is to accept deposits from the people is, I think, open to criticism. Finally, banking is carried on by a number of individuals known throughout the country as "Private Bankers." These gentlemen served a very useful purpose in the early stages of the country's development, more particularly in the rural districts. They loaned money to farmers, discounted their sale notes, accepted their deposits and administered to the local financial needs, before chartered banks opened branches in these districts. As a rule, they have been a thoroughly honest lot of men, but, owing to lack of financial training and necessarily limited scope for investment in assets of a readily realizable character, coupled with the competition of chartered banks, their history during the past few years has been somewhat unenviable.

Private bankers have absolutely no restrictions placed upon them by the Government, and have a perfect right to invest the money of their depositors in any way they choose, but it would seem that with the development of the branch banking system the day of the private banker is gradually drawing to a close. Of course there is a class of money lenders in all large cities doing a "note-shaving" business, which dignify themselves with the title of "Bankers," but further reference to these is not necessary to the purposes of this lecture.

The law governing our banks and currency are the product of the best brains and ingenuity of this enlightened country, but the most perfect Bank Acts will not prevent bad management, so that the public must always rely to a large extent upon the integrity, ability and experience of the men who manage the banks in which they are interested. This does not apply, however, to the holders of bank notes, who are absolutely safe, even from bad management. The only thing it seems to me that might be regulated is the power of taking deposits by other corporations than chartered banks, at least so long as the former have no legal restrictions placed upon their investments. You are all aware that it is the poor and ignorant people, and those who are least able to afford to lose money, who always suffer from private bank, loan company and other financial failures. They are attracted by high rates of interest, personal attachment, or other inducements, and it does seem to me that, as there are so many people in the Dominion who are unable to properly look after themselves when it comes to handling money, the Government should provide certain safe-guards, or, at all events, place restrictions such as surround the chartered banks, upon all persons or corporations who constitute themselves the custodians of the people's money.

THIRD LECTURE

Relation of Banking to Agriculture and Manufacturing.

THE subject for discussion this evening is "The Relation of Banking to the Agricultural, Manufacturing and Labor Interests of this Country," and I will endeavor to deal with them in as simple a manner as possible, and to show in connection therewith the widespread utility of our chartered banks. One of the commonest uses of a bank lies in its being made a place of safety for one's money. People bring their gold, silver and notes to a bank and leave them there, and they are not only kept in safety, but produce a revenue by way of interest as well. The latter could not be done if it were not for the fact that the banks are able to turn this money over many times by lending it to merchants and others engaged in trade and commerce, and by gathering up the surplus monies of one class of the community and lending it to another set of individuals, the banks serve a very useful and important purpose.

I do not know of any institutions that give so much to the public for nothing as our chartered banks. Just think of the beautiful cheques, made of specially prepared safety paper, so as to prevent their customers from being defrauded by alterations; the handsomely bound cheque-book covers which they supply, not to mention those cheques which serve at once as an invoice and a cheque, the bank to this extent doing the bookkeeping of the firm, and in every case seeing that the particular individual to whom the customer intended to pay a certain amount of money receives it. Although there may be ten John Smith's in a certain place, the bank is responsible that only the particular John Smith meant by the customer when he drew the cheque, receives the money. Then when you think of the pass-books, deposit slips, notes, drafts and bills of exchange forms, which we supply without charge, I begin to think that our chartered banks are great public benevolent institutions.

THE RELATION OF BANKING TO THE FARMER.

We will first take up the relation of banking to the agriculturist, as after all the farmer is the backbone of this country at present. The farmer raises cattle, sheep, hogs, poultry, butter, cheese and grain, all of these products being a source of great wealth to the Canadian people. A large part of the products is exported and I have selected cheese for the purpose of illustrating the part that the banks play in the export business of the country as with very slight variations all of the other products referred to go through the same process. With the exception of grain, the products of the farm can be raised almost all the year round, but in the case of grain there is practically but one harvest. Although the Provinces of Ontario and Quebec raise some of the finest grain crops in the world, we will turn our attention for the present to the Canadian North-West, which produces the great bulk of the grain exported to Europe. This crop is garnered within a month or five weeks all over Manitoba and the North-West Territories, and every hand is pressed into service during the harvest. You are all familiar with the autumn excursions of the Canadian Pacific Railway, when large crowds of men leave the east to assist the farmer of the North-West in cutting and saving the grain. At this time the farmer requires money to pay his hands; the grain merchant requires money to pay the farmer for his wheat, and as these payments have to be made in cash, they take the form of bank notes, which as I endeavored to explain in the last lecture, leads to an expansion in the note circulation. This is what is known as the "Crop Movement," and whenever an undesirable borrower wishes to obtain money from us here in Montreal, we say we have no money to spare and put the blame on the "Crop Movement."

The wheat is soon placed in elevators, and loans are made by banks upon the security of elevator receipts; in due course it is shipped to Montreal and thence to Europe, the banking modus operandi being precisely the same as in the exporting of cheese, which I will now explain.

CHEESE—FROM FACTORY TO SEAPORT.

The farmer sends his milk to the cheese factory, where it is weighed; he receives credit (not money) at once for so many pounds in weight, and in due course it is manufactured into cheese. In some near by town there is a "Cheese Board," or Exchange, where representatives from the different factories meet the "buyers" or agents of the great export houses of Montreal. This meeting takes place once or twice a week, and the goods are sold as a rule to the highest bidder. The cheese sold on these "Boards" is paid for immediately, and the money is deposited in a chartered bank by the president or treasurer of each factory, and is usually not distributed until the fall season is over, say, in December. During all this time the farmer has received no money for his cheese, and as it frequently happens that he requires cash for the business of his farm, the branch bank in his neighborhood furnishes him with the money, knowing that it will receive payment at the close of the cheese season, when the factory accounts have been closed and the proceeds distributed.

Now let us follow the buyer. His plan is usually to draw a draft on his house in Montreal to which he attaches railway [illegible] of lading for the cheese which he has bought and shipped [illegible] local bank cashes this draft and thereby places him in f[illegible] pay the members of the cheese board. You now see that the ownership of the cheese is vested in the bank, as it has cashed the buyer's draft and holds the documents.

The drafts and the goods arrive in Montreal in due course. The latter are placed in the exporter's own warehouse, or in some independent warehouse, and as the great bulk of the cheese business of this country is done on credit. our good and wise Bank Act gives us power to lend money on the security of assignments of goods or on warehouse receipts. Let us suppose that the goods have been placed in an independent cold storage warehouse until the exporter has orders from his customer in England to ship them. The bank takes a note from the exporter for the amount of the draft of his buyer, and instead of the bills of lading already referred to, it now holds a warehouse receipt, and procures an undertaking from the warehouse-man not to deliver the relative goods except on the order of the bank.

EXPORT BUSINESS—STERLING EXCHANGE.

Later on the exporter comes to the bank and says: "I have sold this cheese in England, and am going to pay you with a draft on the firm to whom I have sold the goods." He then gives the bank a draft on the people on the other side, and to this draft are attached ocean bills of lading and a certificate of insurance, the latter being taken out to cover any loss by fire or marine disaster, this set of documents now replacing the warehouse receipts as the goods have been taken out of the warehouse and placed on board ship. This new draft is drawn in pounds, shillings and pence, and with the proceeds the merchant's note has been paid, and the transaction is ended so far as the business on this side is concerned. The draft will be drawn on Liverpool, Bristol, or London, and is now called a "Bill of Exchange" or "Documentary Bill," and may be drawn at any term from three days' sight to ninety days' sight. This draft is converted into dollars and cents, the rate c exchange varying from time to time, but the "par," or exact valent of the sovereign or pound sterling, is $4.86\frac{2}{3}$; the exion in Canadian parlance being "9½." This term "9½" is a stant puzzle to young bank officers, very few of whom are able to either understand it or figure quickly on it without a "conversion table." I can quite sympathize with them, as after a good many years of experience in the Sterling and Foreign Exchange business, I can never make a rapid mental calculation myself on the Canadian par of Exchange, and always have to go back to the New York method, based on the more sensible term of $4.8656 to the pound.

The Canadian term arose as follows:

In 1789 the United States Congress fixed the value of the English crown or five shilling piece at $1.11, or $4.44 to the pound sterling. In 1834 the amount of gold in the American dollar was reduced to such an extent that the English Sovereign (first coined in 1817) became worth relatively $4.866564, or nearly 9½ per cent. premium on the old par. Subsequent increase in the fineness of the sovereign, increased the value to $4.86⅔ ($4.8666), or a premium of exactly "9½ per cent." on the old par of exchange, $4.44. In arriving at the equivalent in English money we have to convert our own par of exchange, 9½, into the American par $4.86⅔, when one operation only would be necessary if we quoted on the American basis.

Now, to return to our shipment of cheese, which by this time has arrived at its destination in England; the relative bill of exchange and documents have been sent to the Canadian bank's English correspondent, who receives payment, and transmits the money to London, where it is placed to the credit of the bank on this side.

Please keep the fact before you that the money for the cheese is now in London, which is the great financial centre and clearing house of the world, and with all due respect to the opinions of our New York friends, is likely to remain so for a long time to come.

So much for the export business.

IMPORT BUSINESS.—LETTERS OF CREDIT.—"BALANCE OF TRADE."

Let us now see the relation of Canadian banking to the import business of the country. While Canada produces all the necessaries of life, there are certain articles which we consume that she does not produce, and these we have to import from foreign countries.

For the purposes of illustration we will take one well known commodity, "Tea." I wonder how many of our lady friends stop, to consider when enjoying their pleasant cup of five o'clock tea that they could only do so through the agency of a bank. You get your tea from the retail grocer, who purchases it from the wholesale house, who, in turn, either imports it direct or buys it through a tea merchant, whose special business this is. The tea merchant, whom we will call Jones, comes to the bank and says that he wishes to import so many chests of tea from Japan, and as it is rather a long way to send over gold, and as there would be great danger of losing the money on the way, he would prefer to arrange payment in some safer and more convenient way. The bank arranges it for him in a very simple manner by means of a letter of credit. This is merely a letter addressed to the bank's London correspondents, authorizing them to cash the drafts of Mr. Jones's agent in Japan, through whom the Japanese merchants sell the tea, and stating that the Canadian bank will undertake that such drafts are paid. The bank makes out these letters of credit in triplicate, sending one to its London correspondent, and giving two others to the merchant to be sent to his agent in Japan. In this connection I may mention that all international documents are drawn in duplicate. The bills of exchange and bills of lading referred to in the case of cheese as well as the letters of credit we are now discussing, are drawn in duplicate, the idea being that the documents should go forward by two different routes, so that if the ship bearing one set goes down or is delayed, the other set reaches its destination, and which ever comes to ha[illegible]st, is dealt with.

Jones's agent pays cash to the Japanese merchant for his tea by cashing his drafts under the Letter of Credit through some bank in Japan. This draft is forwarded by the Japanese bank to London, where it is charged to the account of the Canadian bank. Advice of the draft comes direct to Montreal, together with the Bills of Lading for the tea, which is shipped here and consigned to the bank. Upon arrival the railway company notifies the bank, who in turn notifies the tea merchant, and the tea is put into a warehouse. Jones informs the bank that he has sold this tea to a wholesale grocer, and the bank gives an order on the warehouse for the delivery of so many chests of tea, and receives the wholesale grocer's cheque or note for the value. This cheque or note the bank collects, and thus saves the tea merchant from any further trouble. Precisely the same process takes place in the case of your silk handkerchiefs, children's toys, and the hundreds of other things imported from foreign countries.

You will have observed that the payment for this shipment of tea has been made through London, where we left the proceeds of the cheese already referred to. The money received from the cheese exporter and the money paid for the tea imported have been taken account of in London, and results in a difference in favor of, or against, this country according to the value of goods exported or imported. This difference, if you will follow it out in the case of the multiplicity of exports and imports of a country, results in nothing more or less than that bug-a-boo of financial and other theorists the "Balance of Trade."

THE BANK AND THE MANUFACTURER.

We will now deal with the manufacturing industries of the country, and to take another well-known article which we are obliged to be familiar with, we will discuss the manufacturing of clothing. The clothing manufacturer requires amongst other things woollen, linen and worsted goods. These we have not yet acquired the art of manufacturing in this country to as high a grade as in Great Britain, and for the best class of goods we have to go there.

Let us, for the further purpose of illustration, imagine that the clothing manufacturer, whom we will call Smith, is commencing business, and has a certain amount of capital and a good name. He comes to his bank and says that he intends to visit Huddersfield, Bradford or Manchester to buy goods, and that he will have to go to Ireland, for his linens, as the finest linens in the world are manufactured near Belfast. He says he is not known on the other side and presuming that he stands well with his banker, the latter will write to his London correspondents, giving them a good account of this Montreal manufacturer, and arranging for him to use the bank's name as reference. Our friend goes to England, and gives orders for so many yards of cloth, and the manufacturers, who in the meantime will have satisfied themselves through London that they can grant him a certain amount of credit, arrange to ship the goods. These goods will arrive in the piece, say about the 1st of November, and in accordance with arrangements made in England, will be paid for a couple of months later. This gives the manufacturer a chance to make up the goods, during which time his travellers have been going over the country, taking orders for clothing in Toronto, Hamilton and other places, but most likely the retail dealers will not want to pay for these goods just as soon as they arrive, and indeed may not want them shipped before 1st February, or 1st March.

"BETWEEN SEASONS."

In the meantime the obligations of the manufacturer mature in Great Britain and he calls at the bank, tells them how much he owes on the other side, and the bank cables to its London correspondents to pay the amount to Huddersfield, Bradford and Belfast merchants for account of Mr. Smith, Clothing Manufacturer, of Montreal. This disposes of the Old Country creditors, but under the terms of sale Smith is not yet able to draw upon his customers, from whom he has so far received no money. In the meantime his business must go on; he has to pay wages and running expenses and provided his capital and credit are satisfactory, the bank advances him the money necessary for this purpose. The period between payment on importations and drawings on customers is known amongst merchants as the "between seasons" and I might say in passing that this "between seasons," like the "crop movement," is responsible for a good many things that happen between bankers and would-be borrowers. In due course the goods are shipped to his customers, and he now brings to the bank a batch of drafts drawn on retail merchants all over the Dominion. These drafts are discounted, and with the proceeds the loan made to pay for the goods in England and for wages, etc., is taken up. The loan was what is commonly known as "single name paper," but the drafts when accepted by his customers, are called "two name paper," that is to say, not only is the borrower responsible to the bank, but also the acceptor of the draft. The bank sends these drafts to its branches and correspondents all over the country, collects the money and thus relieves the merchant of much incident trouble and responsibility.

You will see that the bank has advanced the money necessary to pay the wages of the laborer and artisan, and in turn has been prepared to receive the deposits of these good people representing whatever sum, little or much, they may have been able to save over and above their living expenses.

ESTABLISHING A GOOD NAME.

You will see that the relation between the exporter, the importer and the bank is very close, and how important it is that in a young country like ours the merchants and others engaged in various lines of trade, should maintain good credit. Gentlemen, good credit is worth more than extensive capital and a good name is better than gold.

To young men who are establishing careers for themselves and now learning trades and businesses with the hope of some day being at the head of concerns of their own, I would say that your future success will depend very largely upon your credit and good name. This you cannot build up if you are addicted to extravagance, the excessive use of liquor, or other bad habits. With me, and I think with most bankers, a man's character for honesty and integrity is first considered, and afterwards his business ability, capital, etc., and I believe that the majority of our banks are always ready to assist deserving men in the community who have established a reputation along these lines. Of course, a bank is not a charitable institution, and cannot be expected to supply capital for undeveloped industries or take undue risks by becoming partners in a business, and you will see how very important it is that a banker exercises care in making loans, when you consider that the money is not his own, but that of his depositors and shareholders. There is a responsibility on the part of the banker, however, to familiarize himself with the various lines of trade and commerce, and a good banker is always able to render some assistance to his customers. It frequently happens that a bank has several customers drawing drafts on the same retail merchant in some distant place, and the knowledge it acquires through a number of branches enables it to acquire an immense amount of information as to the manner in which country merchants and others meet their obligations. By means of this knowledge, bankers can and often do, save customers from considerable losses by advising them where to curtail or decline to make sales.

GENERAL UTILITY OF A BANK.

Amongst other things that a bank can do for its customers is the issuing of travellers' letters of credit. For instance, if you wish to travel in Europe, we give you a letter of credit, such as I hold in my hand, under which you can receive money at any town in the civilized world. You simply deposit the amount of money you intend to use with me here, and I give you a letter addressed to my London agent, and the bankers mentioned in the letter of indication, which accompanies it. The amounts drawn are entered on the credit by the bank who pays them, the last one being careful to see that the total sum drawn does not exceed the amount of the credit.

If you have a friend who suddenly finds himself in need of funds in some other part of the country, all you have to do is to call upon the bank here and give it the amount of money you wish to transfer to your friend by telegraph, and in the course of half an hour or so the money is paid over to him, and moreover the bank takes particular care to see that it is your friend and your friend only that receives the money.

I may say that while we have only thirty-three chartered banks in Canada, they cover the country with nearly 1,100 branches.

These banks have a total paid up capital of nearly $80,000,000, the smallest capital of any one of them being $180,000, and this is in the case of a bank in the Maritime Provinces which was established many years ago, and has no branches.

As you are aware, under the Bank Act of 1890, no bank can now be started in Canada on less than $250,000 of actual paid up capital.

A person said to me the other day:

"These lectures of yours are all very fine, but what I would like to know is how to keep my balance on the right side." Now, gentlemen, I have a panacea for all such woes as this, but I see so many brother bankers here, and competition is so keen I hardly like to make it known in public; and under these circumstances I am sure you will pardon me if I decline to do so, but if any of you care to see me privately after this lecture, I will be happy to let you into the secret.

Speaking seriously, however, I believe that every one should keep a bank account, no matter how small. It encourages thrift and habits of business, and if you get into the way of coming to a bank even with a savings account, you will find that they are not such formidable institutions as some people suppose, and by familiarizing yourself with their methods, you may be paving the way for establishing a good credit and business experience with them later on.

The people of Canada are thrifty and industrious, and at the present time they have entrusted to the Savings Departments of the chartered banks nearly three hundred millions of dollars.

FOURTH LECTURE

Clearing Houses.

Interior Economy of a Bank.

A CLEARING House may be described in a simple way as a place where the representatives of chartered banks meet to exchange cheques on and notes of one another.

In the course of its business a bank receives a large number of cheques on and notes of other banks and in order to obtain payment of them it is necessary to present such cheques and notes to the banks on which they are drawn.

Before the Clearing House system was established a bank used to send its messenger to every bank in the city whose cheques and notes it had received. He took a receipt in a pass book for the respective parcels and called around later in the day to receive gold or legal tenders in payment. While this messenger was making his rounds the messengers of all the other banks were calling at his bank for the same purpose and thus a great deal of time and labour was consumed. By the estabilshment of the Clearing House, this was all done away with.

The first Clearing House in Canada was established in 1887 at Halifax and the second in Montreal in the year 1889. Under this system, instead of a number of banks sending their messengers with parcels of notes and cheques to the offices of one another, they send them all to one place, namely, the Clearing House. This is a room situated at some convenient place in the banking district. In this city it is located in the handsome new building of the Bank of Montreal. The rule with us is that the bank messengers must report at the Clearing House with their parcels promptly at 10 a.m. on ordinary business days and at 9.30 a.m. on Saturdays.

Each messenger is accompanied by a clerk from his bank and upon arrival at the Clearing House these officers go to certain desks assigned to their respective institutions, deliver their parcels to the representatives of the other banks, and receive in exchange the parcel of notes and cheques on their own bank. The manager of the Clearing House keeps a memorandum of the total amount delivered and received by each bank. When the total amount delivered by any one bank exceeds the total amount it has received from all the others, the difference is entered on a "slip," which, when signed by the Clearing House manager, entitles the holder to payment in gold or legal tenders on presentation to the banker of the Clearing House.

When, on the other hand, the amount of the parcels received by a bank exceeds the amount of those it has delivered to the Clearing House, that bank must pay the difference in gold or legal tenders to the banker of the Clearing House before 12.30 p.m. the same day.

HOW PAYMENTS ARE MADE.

Settlements are made in legal tender notes, a special issue of which has been made by the Dominion Government for this purpose. These "large legals" are in denominations of $500, $1000 and $5000, and are negotiable only between chartered banks. They bear special numbers and would be readily traceable should a thief or highway robber obtain possession of them. They are, therefore, not only a source of protection to the banks, but a decided convenience, as the amounts paid through the Clearing House daily are very large, and would involve considerable labor and loss of time if they had to be made in the ordinary one, two and four-dollar Government notes.

The total amounts of the money parcels delivered at the Clearing House are what the newspapers refer to us as the "Clearings." Inasmuch as the commonest method of making payments between merchants is by the medium of bank cheques, these clearing house returns are very valuable as an index to the volume of a country's trade and commerce. The total clearings for the Dominion of Canada for the year just ended (31st December 1903), amounted to $2,646,974,767. This is a very respectable figure, but does not represent our entire trade, as Clearing Houses are established only at Montreal, Toronto, Quebec, Halifax, St. John, Ottawa, Hamilton, London, Winnipeg, Victoria and Vancouver. The clearings of the Montreal Clearing House for the same period amounted to $1,113,978,000, or nearly one-half of the total clearings of the Dominion.

You will be interested to know that the bank clearings at 104 cities on this continent amounted in 1903 to 154 billions of dollars, and that Montreal ranks tenth, being next in total of clearings to the city of Cincinnati, Ohio. New York city, of course, ranks first, and I have no doubt with the steady increase in the business of Canada, our own commercial metropolis will ere long take a position considerably nearer the first place than the tenth place. In Toronto and Montreal a salaried official is employed as manager of the Clearing House, but in most, if not all, of the other Canadian cities an officer is selected from each bank in turn to take this duty for, say, a month at a time. A different bank is also chosen to act as clearing bank, but in Toronto and Montreal, by mutual arrangement, the Bank of Montreal acts as the permanent banker of the Clearing House. The rent, salaries, and other expenses of the Clearing House are met by an equal assessment on the banks which are members of it. Where there are only three or four banks, it is not worth while having a Clearing House, but for five or more, it is a decided convenience.

NEW YORK "BANK STATEMENT."

While on this subject I am tempted to refer briefly to the New York "Bank Statement." This document is prominently mentioned every week in the financial columns of Canadian and

American newspapers, and is looked forward to with more or less anxiety by persons interested in the stock market. It is practically a rough balance-sheet of the banks which are members of the New York Clearing House Association, commonly known as the "Associated Banks," and is made up after the Clearing House balances are struck every Saturday morning. This statement shows the average deposits, loans, specie, legal tenders, circulation, cash reserves, and surplus reserves, of these banks for the week. It is the last mentioned item that the speculative public are usually most interested in. The New York banks are obliged to keep a cash reserve of 25 per cent., which means that when they get down to that limit they can lend no more money, no matter what the consequences may be to the mercantile or speculative community. This is one of the disadvantages of a fixed reserve to which I alluded in a previous lecture. If the "Associated Banks" hold a considerable amount of cash in excess of the "legal reserve," it is presumed that they will have plenty of money to lend. In other words, the ability of the New York banks to lend money is guaged by the excess of their cash reserves over the legal requirements, and as this surplus is usually invested in call loans on stock exchange securities, speculators not infrequently make their market prognostications accordingly. If there is a "good" bank statement, i.e., a decrease, as compared with the previous week in loans, with an increase in deposits and reserves, it is argued that money will be "easy," and consequently available for purchase of stocks, and, accordingly, that the market should go up. Assumptions of a different kind are forthcoming when a "bad" bank statement is issued.

In my humble opinion, however, this Bank Statement is a farce as a financial barometer in New York, for the simple reason that the trust companies in that city have enormous deposits, and are as large lenders of call money as the Associated Banks, if not larger, and the great majority of these concerns make no returns to the New York Clearing House. Any statement, therefore, that omits the figures of the trust companies cannot represent, even approximately, the real position of the money market, so that deductions based upon this weekly document are not to be relied upon. In spite of these facts this "Bank Statement" is taken quite seriously, even here in staid, conservative old Montreal, and if you go down-town on any Saturday about 12 o'clock you can get "tips" on the following Monday morning's stock market, based upon the fluctuations shown by the statement, which comes over the "ticker" about that hour.

INTERIOR ECONOMY OF A BANK.

The next subject of this lecture is the interior economy of a bank, and necessarily the references to it must be very brief.

In Canada the chartered banks are administered, first of all, by a board of directors elected by the shareholders. These gentlemen are usually chosen because of their success in the commercial and financial world, and their knowledge and experience in business affairs. They meet at regular periods to discuss the affairs of the bank, but naturally cannot devote a great deal of their time to it otherwise, and in order that they may keep as closely in touch with it as possible, they elect a president and vice-president for this purpose. These officials visit the bank almost daily, and are usually thoroughly conversant with its business.

The next and most important official of all is the General Manager. In him is vested the authority for making appointments to and promotions on the staff of the bank. He is also responsible for its general administration, the investment of its funds, and the building up of its business. In the larger institutions an assistant general manager and other high officials are employed, who share the work and responsibility between them. The business of the branches of a chartered bank in all its ramifications is audited and scrutinized closely at least once a year by an official who bears the title of Inspector or Superintendent of Branches. This is a most important position and cannot be satisfactorily filled without a thorough knowledge of bank routine and a general business training.

The official in charge of a branch bank is known as the Manager, and upon him devolves the responsibility of administering his own office with satisfaction and profit to the institution. In a large city office the bank manager must be familiar with every phase of commercial business, as he is called upon not only to make loans on very diversified classes of security, but to pass judgment on transactions of an international character and often operative in various parts of the world. Next in rank to the Manager comes the Accountant, (if there is not an Assistant Manager), who is responsible for the routine work of the branch, and the supervision of the clerks. After him come Paying and Receiving Tellers, Discount Clerks, Exchange, Collection and other clerks of various grades down to the messenger.

BANKING HOURS.

Banking hours in Canada are usually from 10 o'clock a.m. to 3 p.m. on business days, except Saturdays, when the hours are from 10 to 12 or 1 o'clock. People who imagine that our working hours are confined to such pleasant limits are very much mistaken. A bank officer's duties commence according to his position, long before 10 o'clock in the morning, and last anywhere from two to six hours after 3 o'clock. Taking a city office for illustration, the first thing to be attended to in the morning is the mail, which is very considerable if the bank has a number of branches and transacts much business. The mail will frequently contain bills for collection received from other banks in Canada, the United States, Great Britain, and other parts of the world. Cheques will be mailed for the credit of out-of-town customers, instructions written regarding the treatment of items received from other banks, and a whole host of matters too numerous to mention. While the mail is being prepared for distribution to the various departments which are to attend to it, the tellers are busy making up the exchanges for the clearing house. To these will be added cheques for large amounts received in the morning's mail. In a well regulated office, all this work will be done before 10 o'clock, and the clerks at the counter will then be free to devote their attention to those customers of the bank who appear in person.

In a branch conducting a general banking business the customers will include all sorts and conditions of men—and women—from the small savings-bank depositor to the millionaire merchant or billionaire corporation, and the amount of business passed inward and outward over a bank's counters in a city like Montreal for instance, would astonish the average layman. In the interest of the officers of the bank it is necessary to put a limit to the time in which the public may trausact busiuess with the institution, and as already stated, this is usually 3 p.m. Of course obliging bankers will not decline to do business with a man who comes in after 3 o'clock, but customers who habitually present themselves at the last minute, or a little after it, are not likely to establish a good reputation at the bank for promptitude and sagacity iu the transaction of their business outside of the bank.

During the day the bank will have received a large number of cheques, drafts, and other items, many of which will be payable not only at various parts of the Dominion, but in the United States, Europe and elsewhere. In a well-managed institution the demand and short date out-of-town items will be despatched by the evening mail, and all the cash transactions balanced the same day. The recording of such items involves a considerable amount of book-keeping, besides the correspondence and other work which may take anywhere from two to four hours to complete, according to the volume of business. You will, therefore, see how necessary it is that transactions with the public cease at a certain hour.

THE GENERAL MANAGER.

In a general way something of this kind has been going on at every branch of the bank, and at the close of business a short summary of the day's operations is despatched to the Head Office. This statement shows the General Manager how the bank stands from day to day, and enables him to decide whether to invest any surplus funds or to call in money, according to the requirements of the institution.

While all the business already alluded to is going on as part of the daily routine, the General Manager has been occupied with the consideration of various matters referred to in the mail received from his branches and correspondents. These may involve such matters as appointments to the staff, increases of salary, the granting of credits for borrowers, the opening of branches, or the financing of a great municipal, industrial or railway corporation.

You will see even from this rough and very imperfect sketch, that the successful administration of a chartered bank requires talent and skill, and I can assure you that, in a new bank, at all events, it involves an extraordinary amount of hard work as well. However, when once going, a properly managed bank is like a beautiful machine, every particle of which is in good working order. In an institution of this kind, no one is indispensable, as a system of training will be constantly going on whereby every officer is being fitted for the position next above him, and to a bright young man there will be afforded abundant opportunities for not only learning the higher duties, but for observing and acquiring a knowledge of the trend of trade and commerce. And this leads me to our last subject.

BANKING AS A PROFESSION.

Those of you who have been good enough to follow these lectures will doubtless have observed that banking is a very interesting business; its existence depends upon trade and commerce, and this not only througbout the length and breadth of our own land, but in every country in the world which trades with the Dominion. In almost every department of business to-day a man must be a specialist to be really successful, which means that his whole time and attention have to be given to one particular line of trade. This induces a propensity to narrowness, and may deprive one of an opportunity to penetrate the regions of knowledge outside of his own sphere. But banking takes one into the realms of business in every conceivable form, and gives one an insight into the affairs of the world which it is not possible to attain when one is confined to the study and exploitation of any one particular line of trade. For this reason it seems to me that it offers a field for knowledge and cultivation not excelled by any other commercial occupation, and to this extent it is extremely desirable. As a means of making money, however, it cannot be compared to other businesses, and to the young man whose sole ambition is to get rich, especially if he must needs do so in a hurry, I would say, "do not take up the profession of banking." Riches, however do not constitute happiness, although money unquestionably aids materially in its acquirement.

This brings me to the vital question of salaries. I think I can safely say that bank clerks in Canada are as well paid as clerks in any other line of business which demands the same knowledge and technical ability. It is probably true that they commence at a smaller salary, but they have to be taught the business, and the risks involved to the institution by the mistakes of young and inexperienced officers, are too great to permit the payment of handsome initial salaries. A man, however, upon attaining to the rank of manager or any of the higher head office positions in a bank, may earn a very comfortable living, besides being provided for when his working days are over. Most banks have pension funds for the support of faithful servants when overtaken by old age and incapacitated for active service. To attain success in banking, it is necessary to make up your mind that you must work hard. A young man applied to me for a position some time ago, and on asking his reason for choosing banking as a prospective profession, he said he "liked the hours." A further question showed that he only wanted to work during the comfortable limits of 10 a.m. to 3 p.m., with probably an hour for luncheon thrown in. He did not get the position. No one can stand hard work and long hours without a good stock of sound health, and this is not attainable by careless living. The strenuous life which a young man who wants to be successful in these modern times, is obliged to lead, demands a good physique, as well as a strong mind, and you cannot have either very long if you are given to excesses of any kind.

There should be no such thing as influence or "pull" in a bank, the really deserving officers being the only ones who should succeed. I am aware that an impression prevails that this is not the general rule, but in the course of my observations I have very rarely come across an officer who received an important appointment when he did not deserve it.

ELEMENTS OF SUCCESS.

Ambition, self-confidence and application to duty are three essentials to success in banking, but this is not the occasion to pursue that part of our subject. It is necessary, however, to refer, even though very briefly, to some of the points that make for success or failure in the life of a bank officer, and let me begin with the junior clerk. After he enters the bank there is a strong tendency to get what is commonly called a "big head," which is not altogether unnatural when you understand the circumstances that contribute to his early experience. For instance, a young clerk, of 16 or 17 years, receives instructions to go to the office of Smith, Jones & Co., wholesale merchants, and say something like this:—"We must have that draft back at once;" or "We cannot hold those goods any longer." These are simple messages in themselves, but they may be very significant when delivered in the name of a great bank. I remember well with what pride my chest (not my head) was swollen on one occasion when I was instructed to tell a prominent man that the bank wanted a certain document signed at once and that I was to bring it back completed. My salary at the time was $100 a year; I delivered the message, the magnate complied with my request, and while I was in his office I suddenly felt that I was the Bank—the institution was personified in me. Now, it is just at this point that young clerks go astray; they sometimes become insolent through false pride, knowing that they represent a large and powerful institution, and where the office boy from any other house would be promptly kicked out the door, their messages are politely attended to. The youth who allows his thoughts to dwell on this phase of his occupation makes a very serious mistake. Young clerks and indeed bank officers generally, should remember that they are really the servants of the public. We could not get along very well without them, for they constitute the people who do business with us, and therefore one of the very best assets a bank officer can have is a courteous and gentlemanly manner. This is something which every junior and senior clerk in a bank should cultivate. Clerks should learn to write a neat legible hand and pay attention to English composition with a view to acquiring the art of letter writing.

THE EDUCATED BANKER.

The man who habitually goes to business in the morning with the intention of rushing through his work in order to get out early in the afternoon, makes a mistake. One should try to realize that there are other duties outside of his own particular post, and a cheerful desire to assist in the work of the office generally will bring its reward. You will find if you try this that there will be plenty of w[illegible] for you, and you will get an insight into the higher positions th[illegible] you could not possibly acquire if you confine yourself to your own immediate duties and make them pan out during working hours.

Some people are opposed to the study of banking and financial literature on the ground that only practical knowledge counts in this line of business. While it is quite true that any amount of theory alone will never make a successful practical banker, it must be remembered that theory is only the written experience of others, and the man who has acquired such experience, whether from book or personal observation is, to my mind, better equipped than the man who lacks it. Unfortunately, there is not very much written on banking which is suitable to junior bank officers, most of the literature pre-supposing familiarity with the subject, and commencing, therefore, at a higher plane than the average young clerk can reach. The following are the names of a few books which will be found useful to such students, and I think they can be had in the libraries of the city: The Bank Act, 1890 (Rev. 1900); The Bills ol Exchange Act, 1890 (Rev. 1900); Journal of the Canadian Bankers Association; Principles and Practice of Banking, Gilbart: Elements of Banking, MacLeod; The Country Banker, Rae; Money and the Mechanism of Exchange, Jevons; Byles on Bills, Byles; Bills, Notes and Cheques, MacLaren; Bills of Exchange and Promissory Notes, (Act of 1890), Smyth.

Amongst other qualifications a successful bank officer should possess are promptitude in coming to a decision and common sense. The exercise of plain, ordinary common sense is the most desirable of all qualifications for a successful banker.

Now, gentlemen,—this brings me to a close of this series of lectures, and I wish to thank you most sincerely for the unusually kind attention which I have received from the large audiences that have gathered here on every occasion when I have had the honour to address you. I had no idea when I undertook this that so many men of Montreal were interested in the subject of Banking, and the responsibility of addressing you has weighed upon me heavily. I feel that the lectures have been far from perfect, but I have done the best I could in the somewhat limited time at my disp[illegible]l, and if they have in any way aroused an interest in the chartered banks and helped to enlighten the public regarding their methods and relations to the country generally, I shall be amply rewarded.

THE DEVELOPMENT OF BANKING IN CANADA

AN ARTICLE PUBLISHED IN THE JUBILEE EDITION OF "THE GLOBE," TORONTO, JULY 2nd, 1904.

JUST two months after the appearance of the first issue of The Globe the famous Bank Act of 1844 was introduced by Sir Robert Peel in the British House of Commons. By this Act the note-issuing department of the Bank of England became separated from the "banking" department, and other changes were instituted throughout the United Kingdom, chiefly with a view of rendering the paper currency of the country absolutely secure. The passing of this act and the universal discussion it evoked before enactment were not without effect in the British colonies. The experience of the Scottish people with paper money had been much more satisfactory than that of their English neighbors, and the restrictions imposed upon the Scotch banks by Sir Robert Peel's Act were not considered necessary or desirable. The Canadian chartered banks had been founded upon the Scotch system, and enjoyed a certain amount of freedom, which aided materially in the development of this country, so that the discussion of Sir Robert Peel's proposals naturally created more than ordinary interest in Canada. Some felt that the existing restrictions on Canadian banks were not sufficiently stringent, and others held a directly opposite view. This difference of opinion grew with the population, and the less conservative element in the course of time predominating, a widespread demand arose some years after for so-called "free banking," as they had it in the United States. This popular clamor for increased banking facilities led to the establishment of several new banks in the early fifties, some of which still exist, and are amongst the most prosperous institutions of the Dominion to-day. It is not our purpose to follow the legislation or the history of banking iu Canada, but rather to trace to some extent its material development, but even this cannot be treated with anything like adequate detail in the compass of this necessarily limited article.

Sixty years ago there were sixteen chartered banks doing business in the territory which we know to-day as the Dominion of Canada, and their total deposits amounted to about $5,000,000. The total circulation was less than $6,000,000. These figures seem small, but they are proportionate to the trade and commerce of the country, the total imports and exports of which for the year 1844 aggregated only thirty-three and a half million dollars. With the increase of population and the development of the country, banking facilities grew also, an this has been one of the most noteworthy characteristics of Canadian banking down to the present day. There are no institutions in the Dominion which have kept pace with the exigencies of development more faithfully than the chartered banks.

Until the British North America Act became law on 1st July, 1867, the Provinces of Canada made their own banking laws, independently of one another, but the Act of Confederation stipulated that thereafter this prerogative should be surrendered to the Dominion Government. The wisdom of this course has been apparent in more ways than one. It has resulted in uniformity of procedure in the establishment of banks and in the publication of their returns, and has made for the safety of these institutions ever since. Banking legislation under the Dominion Government has been singularly free from political exploitation, both of the great parties having wisely recognized its superiority to local politics or prejudices.

In 1867 there were seven banks in the Province of Ontario, twelve in Quebec, four in New Brunswick, five in Nova Scotia, and four in Prince Edward Island. Total, 32. These had 120 branches and "agencies," and their position was approximately as follows:—

July 31st, 1867

Paid-up Capital	$32,962,396
Circulation	10,778,606
Deposits	32,896,006
Discounts and Cash Credits	56,250,000

It should be stated that these figures, while approximately correct, are not strictly accurate, for the reason that some of the banks in Nova Scotia, New Brunswick and Prince Edward Island did not report to the Dominion Government until 1875, when we have the first complete and correct list of bank reports.

The ten and three-quarter million dollars of bank circulation outstanding in July, 1867, included notes of one and two dollars. The privilege of issuing these small denominations was taken from the banks by the Act of 1870, when the lowest denomination for bank notes was fixed at $4, the Dominion Government assuming the function of issuing $1 and $2 notes. By this same Act the charters of the existing banks were continued, but as they expired at various periods an Act was passed on the 14th April, 1871, whereby they were all made to expire at the same date, namely, 1st July, 1881. This and every subsequent bank act has called for the revision of bank charters once in every decade. Before the next revision, in 1881, there had been several bank failures, but except in the case of the Mechanics' Bank, which closed its doors in 1879, the note-holders in every instance were paid 100 cents on the dollar. In the case of the Mechanics' Bank they received 57½ cents, and would have been paid in full had they not ranked equally with depositors. The depositing public are free to select the institution they wish to place their money with, but not so with the general public, who are obliged to accept bank notes from day to day in the ordinary course of business. For this reason it was felt that note-holders should have some special protection, and in order that there might be no recurrence of their experience with the Mechanics' Bank, the Act of 1880 made the note circulation of every bank a prior lien against its entire assets. Under this Act also the banks were deprived of the right to issue $4 bills, the lowest denomination issuable by these institutions being then fixed at $5, and this has been the law ever since.

The last revision of the Bank Act took place in 1900, but it was practically a re-enactment of the Act of 1890, which was, without question, the most important legislation of its kind that has ever been enacted in this country. The total bank circulation had grown from $10,778,606 in 1867 to $35,000,000 in 1890, and to further safeguard the holders of these notes against any possibility of loss a "Bank Circulation Redemption Fund" was created by the payment to the Dominion Government by every chartered bank of an amount equal to five per cent. of its outstanding circulation. In this way all the chartered banks are practically made responsible for the note circulation of any one of them. There have been three failures since this Act became law, but it has never been necessary to draw upon the redemption fund, even in the case of one of the failed institutions which had issued notes beyond its legal limit. The invariable experience has been that the assets of each bank are ample for the protection of its circulation. The total outstanding circulation of the chartered banks on 31st March, 1904, was $59,760,119, against which the assets securing the same, including shareholders' "double liability," amounted to $755,124,642, or $12.77 of assets for every $1 of circulation.

The evidence of financial growth and prosperity in Canada is strikingly shown in the following table. For the sake of a more ready comparison the figures for 1841, which were in pounds sterling, have been converted roughly at $5 to the pound:—

	1841.	1867.	1904.
Number of banks......	15	32	33
Number of branches....	(a) 25	120	1,092
Capital paid up	$13,900,000	$32,962,000	$ 78,727,000
Notes in circulation	5,855,000	10,778,000	59,760,000
Total deposits.	4,694,000	32,896,000	(b) 454,143,000
Total discounts	19,923,000	56,250,000	(c) 505,540,000

(a) Estimated. (b) Including Government deposits and "deposits elsewhere than in Canada." (c) Including loans to Provincial Governments and loans "elsewhere than in Canada."

There are eleven clearing houses in Canada, and the total bank clearings for the year ended 31st December, 1903, amounted to $2,700,000,000.

In addition to the business done by the chartered banks, there are loan and mortgage companies, building societies, trust companies and private individual which also conduct a banking business. These concerns are not prohibited by law from investing their depositors' money in fixed assets, which is a special feature of the Bank Act, no chartered bank being allowed to lend money directly or indirectly on the security of land or mortgages. The importance of the business conducted by these institutions and private bankers may be understood from the fact that they have public money in the shape of deposits and outstanding debentures payable in Canada amounting to not less than $40,000,000.

Such corporations and individuals unquestionably serve a useful purpose where they issue debentures and make permanent loans on the security of land, mortgages and other fixed assets, but it is a distinct menace to the country that concerns making this class of investments should be allowed to receive deposits payable on demand or on short notice. This is fully borne out by the unfortunate experiences of Canadian depositors with loan companies and private bankers during the past few years, but so far as we are aware no steps have been taken by Dominion or Provincial Governments to safeguard the public in this respect.

In addition to the chartered banks, loan companies and private bankers, which are all open to receive deposits, we have the Post Office and Government savings banks, whose deposits on March 31st, 1904, amounted to $61,021,727, while the deposits of two other savings institutions, with special charters in the Province of Quebec on the same day amounted to $22,926,426. Leaving out deposits made by the Dominion and Provincial Governments with the chartered banks, and "deposits elsewhere than in Canada," and omitting "debentures payable elsewhere than in Canada" from the published statements of the loan companies, we can arrive approximately at the total amount invested in or entrusted to purely monetary institutions by the people of this country, as follows:—

Deposits in chartered banks	$404,397,946
Deposits in Government and Post Office savings banks	61,021,727
Deposits in loan companies, private bankers, etc.	*40,000,000
Deposits in other savings banks	22,926,426
Total	$528,346,099

*Partly estimated, as private bankers make no returns to the Government.

The last census showed that the population of Canada was 5,371,315, in 1901. At the present time there is scarcely any doubt that it has reached five and a half millions, on which basis the savings of the people amount to the splendid average of $96 per head. In the last mentioned table we have only included the public deposits made strictly in Canada, and while these assume a very respectable total, they do not represent the entire banking capital of the Dominion, which may be summed up as follows:—

Total assets of chartered banks....................	$675,843,963
Total deposits of loan companies and private bankers (say)..	165,000,000
Deposits in Government and Post Office savings banks	61,021,727
Total assets of special savings banks..............	25,640,730
	$927,506,420

These figures, which for the most part comprise assets of a very tangible nature, afford abundant evidence of prosperity and of the thrifty character of the Canadian people, but, striking as they are, they do not represent anything like the total wealth of the country. Canadians are large investors in railway, navigation and electric traction companies, as well as in life and fire insurance companies, but of these and the many industrial corporations and other concerns which flourish throughout the Dominion we have taken no note whatever. Under the free and democratic government which Canada enjoys and the lofty spirit which has always dominated its legislature in dealing with questions of national finance and general policy, this country has been singularly free from financial crises. We have no "free silver" problem, and owing to the excellence of our banking system we have no periodical dearth of paper currency, and consequently no exorbitant rates of interest. So far as good laws and the certainty of proper protection and freedom from internal disruption are concerned, there is no country in the world that affords a safer field for legitimate investment. With her unlimited and as yet undeveloped wheat areas, agricultural, mineral and timber resources, magnificent water-powers, railway and canal transportation facilities, we believe that the writer of a retrospect covering the period sixty years hence will have an incomparably finer record to produce than it has been our privilege to deal with in the foregoing imperfect review of the past sixty years.