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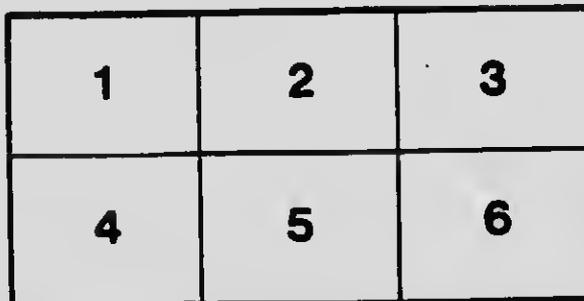
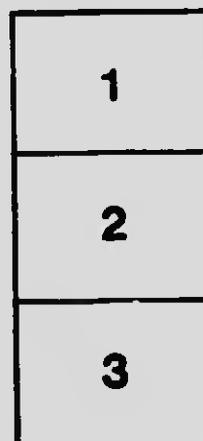
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THE
HISTORY OF CANADIAN CURRENCY, BANKING
AND EXCHANGE

THE CRISIS AND RESUMPTION

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QUEEN'S UNIVERSITY,
KINGSTON

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THE HISTORY OF CANADIAN CURRENCY, BANKING AND EXCHANGE

VIII. CRISIS AND RESUMPTION*

WHEN the suspension of the banks of the eastern States and Lower Canada took place, it was the conviction of the leading merchants and bankers of Upper Canada that suspension should take place there also. But the Lieut.-Governor Sir F. B. Head, would not hear of it. His attitude on the subject was apparently determined, in large measure, by his intense hatred of everything American, and his consequent aversion to following that example. Quite ignoring all the exceptional conditions of the situation, he maintained that the promises of the banks should be kept in the letter, even though the commercial heavens should fall.

When the commercial and banking crisis loomed up, McKenzie saw his opportunity, and determined that no effort of his should be spared to discredit the banks in the eyes of the public, or to add to their difficulties in meeting their obligations. He had predicted the utter collapse of the banks and his reputation as a prophet was at stake. While the banks were curtailing their discounts and otherwise shortening sail before the storm should burst, McKenzie, through his paper *The Constitution*,

*Chief sources :

- Journals of the Assembly, Upper Canada.
- Statutes of Upper Canada.
- Journals of the Special Council, Lower Canada.
- Ordinances of the Governor General and Special Council, Lower Canada.
- British Blue Books relating to Canada, 1837-39.
- A Narrative. By Sir Francis B. Head, Bart., Lond., 1839.
- Thoughts on the Banking System of Upper Canada and on the Present Crisis, Toronto, 1837.
- A History of Banking in the United States. By Wm. Graham Sumner, New York, 1896.
- The Constitution*, Toronto, 1837.
- The Brockville Recorder*, 1838-39.
- The Montreal Gazette*, 1837.
- The Quebec Gazette*, 1838.

abused them for sucking the blood of the merchants during prosperous times and then deserting them when distress prevailed. When the storm broke and the Lower Canadian banks suspended, McKenzie waved his hands frantically in scare headlines, and shouted in the largest type he could command, "Didn't I tell you so!" "Rush to the banks and get your notes cashed. Save what little you can of your deposits, before the doors are closed and your hard savings are lost for ever."

For result there was a severe run upon the banks. This they managed to meet partly by cash and partly by the usual time-consuming devices adopted by bankers with limited cash and clamorous creditors. Much use was made of the simple plan of furnishing dummy creditors with large quantities of notes in order that hours might be consumed in paying out at the wicket small silver, which was soon afterwards returned to the vaults through the rear.

Special devices were employed to block individual demands for large sums. Thus, in the case of the Commercial Bank at Kingston, a large quantity of notes was presented by a person who was suspected of desiring the specie for export. He was told that the clerk was busy with previous claims, and he would have to wait. Shortly afterwards he re-appeared accompanied by a lawyer prepared to formally protest every note not cashed on demand. He was asked to present his first note, which he did; whereupon the clerk with great deliberation and gravity proceeded to pay it in fractional currency. He was then asked for a second note, which was treated in like manner. At the end of an hour the creditor and his lawyer retired in disgust having secured but a few pounds.

The extent to which the run upon the chartered banks had reduced their reserves may be gathered from the following statement, furnished to the Select Committee of the Assembly in 1837:

SPECIE IN THE VAULTS, 15TH MAY, 1837

Chartered banks	£107,334
Joint-stock banks.....	11,039

SPECIE IN THE VAULTS, 15TH JUNE, 1837

Chartered banks	£ 78,884
Joint-stock banks.....	12,094

The Bank of Upper Canada had paid out, in the redemption of notes, from May 3rd to June 24th, £39,516. It had imported from New York in that time £20,000, and on the 27th of June an additional £5,000. It will be observed that the joint-stock banks had more specie on hand at the end of the month than at the beginning of it. This is accounted for by the fact that before the crisis they held their reserves largely in notes of the chartered banks, particularly of the Bank of Upper Canada.

During the crisis Governor Head continued to press the chartered banks, and especially the Bank of Upper Canada, to continue specie payments, threatening coercion if they suspended, and promising special assistance if they held out.

In a letter to the Bank of Upper Canada, he promised to solicit assistance from the Military Chest, through the Commissary General at Quebec, on condition that the bank should pay out its funds to the last shilling. The Government connection and patronage, with its command of specie and foreign exchange, being of more importance to the bank than any other interests, it decided to continue payments, though such a course was contrary to the conviction of a majority of the directors.

In his evidence before the Legislative Committee, the Hon. Wm. Proudfoot, President of the Bank, stated that the banks of Upper Canada should "follow the same plan as in Lower Canada and suspend specie payments." The Hon. John Maccaulay, a director and formerly manager of the branch at Kingston, said that there must either be suspension of cash payments or paralysis of the banking business of the country, hence he favoured as the lesser evil the suspending of specie payments. On the other hand, Jos. Ridout, the cashier of the Bank, while admitting that it could not continue discounting or keep up its circulation without some legislative protection, yet professed himself opposed to the suspension of specie payments, taking the purely technical ground that the Bank should meet its obligations regardless of the effect which that might have upon the business of the country. This was indeed the language of the Governor, but that it expressed the real conviction of Mr. Ridout may be doubted. When Governor Head was recalled and the Bank of Upper Canada found it convenient to suspend specie payment, Mr. Ridout was much the stoutest advocate of the

policy of suspension, and presented what passed for very forcible arguments against the very position which he now maintained.

The Commercial Bank was frankly anxious for suspension, and, as in the case of the Lower Canadian banks, it was backed in this course by the unanimous voice of a public meeting of the merchants and others at Kingston. But as it, too, enjoyed a certain amount of Government patronage and its notes were taken in Government payments, its directors wished to have the sanction of the Government before suspending specie payments.

On May 22nd, Lieut.-Governor Head sent a letter to the chartered banks, in which he expressed his approval of their determination to redeem their notes regardless of consequences, but added that, in response to their representations, should the worst come to the worst he was prepared to receive from the president, cashier and a majority of the directors of any of the chartered banks the accompanying declaration, upon which he would assume the responsibility of authorizing the bank to continue its business, under certain restrictions, until thirty days after the next meeting of the Legislature, without the necessity of redeeming its notes. The declaration was as follows: "We, the undersigned president, directors and cashier of the — Bank, do hereby solemnly declare that in the course of the business of the institution and under circumstances which we cannot control, this bank has actually, in the redemption of its outstanding bills, put out all the gold and silver specie in its possession or immediate power, and that the said bank for the bona-fide want of such gold and silver, and for no other cause, was forced on the — day of — at the hour of — o'clock to suspend specie payment." Such terms being as good as impossible from every point of view, the banks making what virtue they could of necessity sacrificed their customers rather than attempt suspension.

The Commercial Bank then claimed a share in the assistance promised to the Bank of Upper Canada, and the Governor agreed to afford aid proportionally to the three chartered banks of the Province. To enlarge the sphere of service and give additional credit to the notes of the chartered banks, the Governor issued an order to the Receiver General, the Commissioner of Crown Lands, the Sheriffs, Collectors of Customs, Inspectors of Districts and all other public officials, instructing them to

receive on the part of the Government of Upper Canada the notes of the three chartered banks.

The policy of the Governor was very severely criticized by almost all elements in the Province. The Toronto Board of Trade urged him to change his policy and authorize suspension of specie payments. The merchants in other parts of the country protested at public meetings against the Governor's action, and he was freely condemned by the papers of both Provinces. When, later, the Legislature was called in response to the clamour of the country, a Select Committee reported in favour of the bill authorizing the banks to suspend. In answer to the assertions of the Governor that the suspension would compromise the credit of the Province, the committee pointed out that, owing to the suspension of the banks in the United States and Lower Canada, it was impossible for the Upper Canadian banks to maintain specie payments and serve the exchange needs of the country. By the forced curtailment of their accommodations the banks were placing their customers in a very awkward position. The ordinary obligation of the banks, under normal circumstances, to cash their notes on demand, and which was established in the public interest, should not be made upon special circumstances to militate against the public interest. The commerce of the country urgently requires accommodations, and the only question is as to whether this accommodation should be furnished in bank notes or in Government legal tenders to be issued to the banks.

When the first scare was over and the issues of the banks had been curtailed from twenty-five to thirty per cent., the urgent need for money prevented the remainder of the notes from returning upon the banks. At the same time the banks, owing to the instability of the economic situation, could not with safety extend their issues nor hence their accommodations. Indeed, as was being discovered by the Bank of Upper Canada, it was often much more profitable under the circumstances to employ specie in the field of foreign exchange or in securing the high premiums of the specie market generally than to hold it as security for ordinary note issues. There was naturally a constant demand among the merchants in Upper Canada for the means of remittance to Lower Canada, a service which was a common occasion of their seeking discounts from the banks. To grant

such discounts was now equivalent to advancing so much specie, and commanded rates accordingly. The Bank of Upper Canada, however, hit upon the plan of obtaining from the Bank of Montreal large quantities of its suspended notes with which it discounted the paper of the merchants without any drain on its own specie. Thus the distress occasioned by the policy of the Government in Upper Canada was partly relieved by the suspension which had been permitted in Lower Canada.

This object lesson was not lost upon the public, who soon came to regard the suspension of specie payment not as simply the lesser of two alternative evils which faced the country, but as some great boon or privilege the withholding of which by the Governor was the chief cause of the severe depression from which the Province was visibly suffering. The clamour for relief rose to such a pitch as to disturb the self-complacency of even Sir Francis Bond Head. With great reluctance he called a special session of the Legislature for the 19th of June, to take into consideration the commercial difficulties of the Province owing to the banking situation within and without the Province.

In the Speech from the Throne the customary solemn declaration that black is white was rather more impressive than usual, the shade of black in the present case being rather deeper than common, and the Governor quite aware that his assurances were certain to be questioned. However, he put a bold front upon his sophistry, declaring the situation in Upper Canada to be quite satisfactory and the banks not at all anxious to suspend; yet a few people professed to think that there might be trouble in the future, which ought to be provided for, hence the special session. He implied among other things that the suspension of specie payments was a thing unknown in the history of British banking, and speculation or a crisis something heard of only among remote and Godless peoples.

In his despatch to the Colonial Secretary, he admits that the suspending of discounts in Upper Canada had caused a great deal of distress, and that from various causes the Province was in a bad plight. By the people the distress was attributed to the continuance of specie payments by the banks, an opinion which prevailed also in the Legislature. In the bill passed by the Assembly the chartered banks were to be relieved from the for-

feiture of their charters should they suspend. The notes of all the banks of the Province, chartered and unchartered, as well as the debentures authorized by the last session of the Legislature, were virtually made legal tender. However, the Legislative Council rejected these features and placed in the hands of the Lieut. Governor in Council the power to allow the banks to continue business after suspending. These conditions the Assembly in turn rejected and the house was on the point of breaking up in disgust, when some of those who recognized the political ferment which this was sure to produce, managed to get a narrow majority to consent to the amendments of the Council.

The power to deal with the banks being once more left in his own hands, the Governor states that he intends to urge the banks to pay out freely what specie they have and when it is gone he will authorize them to suspend. But before the specie is exhausted he hopes that resumption may take place, and his position be vindicated. The patriotic attempt to represent things to the Colonial office not as they were, but as they ought to be, characteristic of not a few colonial officials, is well illustrated in the closing statement of the despatch. "Though a violent and almost universal clamour has been raised against the continuance of cash payments, yet I feel proud in informing Your Lordship that up to the present day no application has been made by any one of the chartered banks to the Legislature or myself for permission to suspend." This was simply a technical quibble with a virtuous intent to deceive, for suspension had been practically asked for more than once.

Soon after the close of the Session the Commercial Bank once more applied to the Governor for permission to suspend, hoping for more favourable conditions under the new Act. Again the Governor sought to defeat their purpose. He raised objections to the character of the returns made of the bank's affairs, he reversed his statements with reference to the United States banks and predicted an early resumption of specie payments. Meanwhile the public excitement was steadily rising, and as a last resort he stated the terms on which he would consent to the suspension of specie payment. They involved the loss of the bank's specie and the refusal of its notes in Government payments. The conditions were considered so onerous that the

president and directors of the bank declared themselves unable to accept them, especially as the Bank of Upper Canada and the Gore Bank, which followed its policy, were not prepared to suspend. It is to be remembered that the public were much more anxious for suspension than the banks. Hence public sympathy was entirely with the Commercial Bank and against the Governor and the Bank of Upper Canada.

On July 7th, at a public meeting of the Toronto Board of Trade, various resolutions were passed condemning the action of the Bank of Upper Canada in selfishly maintaining specie payments and withholding discounts from the merchants and others, while the bank employed its capital in more profitable speculations in foreign exchange. A public meeting at Cobourg on August 1st also strongly condemned the Bank of Upper Canada for its selfish attitude, and the Governor for the harsh conditions attached to suspension, and undertook to support any bank which would suspend in order to increase accommodation to the public.

At first sight it might seem strange that a bank should be accused by the business men of a country of selfish action in maintaining specie payments and declining the chance of revenue from even temporarily irredeemable notes. But, owing to the policy of the Governor, the bank could suspend payment of its notes only after it had paid out all its specie. Hence to increase its accommodation was simply to hand over its specie to the public at ordinary discount rates and deprive itself of the most profitable part of its business. Now, the Bank of Upper Canada owing to its Government connection had an exceptionally strong command of specie and exchange, and it naturally wished to enjoy to the full the high profit on these. At the same time it could enjoy without risk to its reserves a limited but profitable note issue owing to the urgent needs of the country for a circulating medium. It is true that the Bank of Upper Canada, quite unlike the Bank of England, had divorced its own interests from the general interests of the country and was likely to suffer from this in the end, but in the meantime it was certainly reaping large immediate profits from the policy of "every man for himself and the Devil take the hindmost." While the question of suspension still filled the public mind the Toronto *Patriot* proposed that the banks, while still redeeming their ordinary notes

on demand, should issue in addition a considerable quantity of post-notes payable twelve months after date, and with these afford relief to the public. The Farmers' Bank alone adopted the suggestion and issued a quantity of post-notes. The natural result was that the ordinary notes of the bank came back for redemption in much the same proportion as the others were issued, hence instead of affording the bank any practical relief the post-notes were the occasion of compelling it on October 1st to suspend specie payments altogether.

In the meantime the Commercial Bank had again made application to the Governor in Council for permission to suspend specie payments, and on the 11th of September, a public declaration of their resolution and a notice of their suspension were issued by the directors. On the 29th of September, 1837, an Order in Council authorized the bank to continue its business notwithstanding the suspension of cash payments. The bank had not been required to pay out all its specie, for it still had £17,327 on hand when allowed to suspend.

In suspending, however, the Commercial Bank lost the privilege of having its notes accepted in payment of public dues. This was a serious inconvenience so long as the other chartered banks had their notes accepted in Government payments, as it tended to compel merchants to seek accommodation from the Bank of Upper Canada so far at least as paying Government dues was concerned. It also threw into the hands of the Bank of Upper Canada all the Commissariat bills and other bills of exchange which gave a command on specie. This was but one phase of the advantages enjoyed by the Bank of Upper Canada in abandoning much of the ordinary mercantile discounting and expanding into the more profitable business of dealing in specie and exchanges.

As in the case of the Lower Canadian and leading American banks, the Commercial Bank found it necessary to afford accommodation to its customers in specie where they had special need for it, charging of course a special rate for that form of accommodation. In order to replenish its stores of specie it had to pay a considerable premium on specie, or on bills of exchange commanding specie.

The Bank of Upper Canada having a virtual monopoly of the Government exchange, the Commissariat and other depart-

ments made their payments by means of cheques drawn upon that bank and which it, of course, paid in its own notes, these being received in Government transactions. Practically the only hold which the Commercial Bank could obtain upon the Government specie was through the purchase of these Government drafts upon the Bank of Upper Canada. When, however, the Commercial Bank, through its Toronto branch, presented these drafts to the Bank of Upper Canada they were tendered their own Commercial Bank notes, which, if accepted, would have utterly defeated the purpose of the bank in procuring the drafts. The Commercial Bank, therefore, refused to accept its own notes in payment of such bills, though in all ordinary transactions and balances it was quite willing to accept its own notes. Obviously there was a good deal to be said on both sides of the question. The matter being referred to a committee of the Assembly, it reported in favour of a measure to require all banks, whether paying specie or not, to receive their own notes in payment of sums due them at any place.

In the latter part of 1837, apparently on account of the growing uncertainty as to the safety of the banks, the Commissary General had withdrawn his accounts from even the Bank of Upper Canada. Yet the Bank continued to enjoy a monopoly of the Provincial Government business, and its notes were accepted in all Government transactions as equivalent to specie.

Towards the end of 1837 there was a marked recovery in the monetary condition of the United States. Exchange on Britain was declining and the stronger banks were beginning to resume; indeed a few eastern banks had never suspended. In January, 1838, exchange on Britain had reached par at New York and resumption was spreading. In April and May the rates were from four and a half to five per cent. in favour of the United States, specie was being extensively imported and resumption was general.

The commercial distress in Upper Canada during 1837, which was more severe than anywhere else on the continent, aggravated the political discontent of the people and might have led to very serious results, had not a small faction of the ultra radicals cleared the atmosphere by a disorganized and premature outbreak in December of that year, which was very easily sup-

pressed. Thus unwittingly did McKenzie in the end render the country a great service. The rebellion in Lower Canada was much more serious from both the political and military points of view. On account of these outbreaks a great outlay on Government account immediately took place in both Provinces.

At this time the Bank of Upper Canada had only £80,000 of notes in circulation but £140,000 in specie. The Commissary General being suddenly in need of extra funds, the bank advanced him £50,000 in dollars, and offered to furnish its notes to meet his outlay within the Province. The offer being accepted the bank soon found its note issue raised to £154,000 and its specie reduced to £60,000. The bank of course received the Commissary General's bills in exchange for its notes. But these no longer brought the high premium in New York which they formerly commanded. By the end of February they were actually at a discount, and it was no longer profitable to deal in exchange. It now became the interest of the Bank of Upper Canada to reverse its policy of 1837. It now wished to issue its own notes, irredeemable if possible, and send its exchanges, not to New York as before, but to London.

Early in March, when bills on Britain were at a discount in New York, the Bank of Upper Canada discovered that owing to the disturbed condition of the frontiers it was unsafe to bring specie from New York; a difficulty not complained of by any of the other banks, even those of Lower Canada, which were preparing to resume specie payments. On March 6th, the bank applied to the Governor in Council for permission to suspend specie payments. But the act passed the previous session required that the note issue of a suspended bank should not exceed its paid up capital. This did not suit the interests of the Bank of Upper Canada, as things now stood. But if changes were to be made the bank must act rapidly, for the session was almost closed. Its political influence, however, was equal to the occasion. On March 5th, the very last day of the session, a petition was received from the Bank of Upper Canada praying that authority be given to the chartered banks to issue notes to twice the amount of their paid up capital, notwithstanding the suspension of cash payments. The friends of the bank had on hand the draft of a bill, which they at once laid before the House.

It was immediately taken up and rushed through all its stages at one sitting, disturbed only by a message from the Governor notifying the Assembly that he would prorogue the Legislature on the following day. The bill having passed the Assembly was immediately sent to the Council, which dealt with it even more expeditiously, for it had passed that House the next morning and was ready for the Governor's sanction when he arrived to close the session.

Though Sir Francis Bond Head had been notified of his recall and was simply holding the position of Governor till his successor should arrive, yet it is interesting to note how at the instance of the Bank of Upper Canada he had deserted the position which he so stubbornly held during the crisis, and now when the crisis was past, allowed the bank to suspend under greatly relaxed terms. The Act was to remain in force till the close of the following session of the Legislature.

The bank had accomplished its purpose and could now issue notes to the extent of £400,000 without the expense of importing specie from Britain or selling exchange until a handsome profit could be realized. At the same time the irredeemable notes of the Bank of Upper Canada continued to be received in all Government transactions as equivalent to specie.

Now it is quite obvious, when we regard the state of the money market, that the Bank of Upper Canada had no occasion whatever, other than its own temporary interest, for suspending when it did. It had command of an unusual quantity of specie of its own, specie was cheap in America, the United States banks were rapidly resuming, and even the banks in Lower Canada, where the political disturbance was really serious, were preparing to resume.

The very narrow adherence to immediate self-interest which characterized the bank both in maintaining the specie basis while withholding accommodation in the period of crisis, and afterwards in suspending and extending its note issue when the crisis was over, and all this with the aid of Government machinery, did not escape the attention either of the commercial and banking interests in the Canadas or of the financial advisers of the Colonial Office. When the new suspension Act reached Downing Street it caused considerable surprise, but as it was under-

stood that the Canadian banks would very soon resume specie payments no effort was made to have it disallowed. The Colonial Office thought it necessary, however, to transmit to Sir George Arthur for his guidance the opinion of the Lords of the Treasury on the Act assented to by his predecessor. In their opinion it was quite reasonable to pass the suspension Act of 1837 when the crisis was upon the country, but they saw no occasion for its renewal in 1838 and still less for the removal of the restrictions embodied in the former Act. Moreover it should be a necessary condition of any such Act that the banks should not further weaken themselves by paying dividends during the period of suspension.

In the meantime Sir George Arthur had arrived in Canada, too late, as he says, to prevent this Act from going into operation. The banks in Lower Canada having resumed payments in May, 1838, he sent, on July 7th, a circular to the chartered banks of Upper Canada urging them to resume payments as soon as possible, and pointing out the very favourable conditions for doing so. The Commercial Bank, adroitly shifting the responsibility from its own shoulders, replied that it was quite willing to resume whenever the Bank of Upper Canada should lead the way. The Bank of Upper Canada, with an angry fling at the Commercial Bank for leaving to it the whole burden of justifying suspension, nevertheless set itself to the difficult task. It points out how it came to the rescue of the Government when the rebellion broke out, as already stated. To show that its credit is in no danger, it points out that it has remitted bills to London to the extent of £200,000, and has £60,000 of specie on hand. It has, therefore, £260,000 to meet an outstanding note issue of £154,000. Yet, in the face of this demonstration of strength, it goes on to say that it cannot possibly resume specie payments because to do so would require it to cease all discounting and to call in its outstanding debts as fast as possible, which would inevitably bring ruin upon the country, etc., etc. In fact its zealous solicitude for the exchange needs of the country is quite touching. Moreover, it continues, there is no general wish in the Province to enforce specie payments, for if the banks resumed the country would be drained of its specie by the great numbers who are selling their farms and possessions

for what they can get and going off to the United States. The Government should wait until the next crop is harvested and until there is a resumption of immigration and capital from Britain. Again, before the resumption of payments there should be a uniform coinage established between Upper and Lower Canada; indeed there should be a special silver coinage struck for the Canadas. In connection with this certain statements were made as to the coinage of Lower Canada which were promptly refuted, with accompanying statistics, by the Bank of Montreal. However there was one reliable refuge behind these singularly weak outposts, and that was the fact that suspension had been authorized by law for another year at least, hence the Governor was powerless to bring about resumption.

The Bank of Upper Canada was building upon the confident expectation of a speedy reaction in the United States exchange market. It miscalculated the situation, however. The remainder of 1838 passed and the opening months of 1839 without any opportunity for the bank to unload at a high premium its large amount of London exchange. The result was that the profits of the bank for 1838 fell considerably below the average. The rest fund in the report for 1839 showed a fall from £17,551 to £13,237 instead of a rise to at least £19,500 according to the minimum annual gain during the crisis.

During the course of the next session of the Legislature, from February to May, 1839, exchange which had risen to par at New York during the latter part of 1838 fell off again; hence the Bank of Upper Canada was naturally still opposed to resumption. A committee of the Assembly was appointed to consider the subject of banking. In their third report we trace the influence of the chartered banks and particularly that of Upper Canada. Owing to the discredit thrown upon the Reform element by the escapade of the ultra radical faction, the Compact party for the time held complete sway in the Assembly. Further, owing to the policy of Governor Head, the majority of the people, notwithstanding the easy condition of the money market, were still filled with a vague dread that the resumption of specie payment would reproduce a currency famine and greatly check trade. This idea the Bank of Upper Canada sedulously fostered, though when questioned on the subject it had to admit that for some

time past it had virtually ceased discounting, the fact being that its large note issue represented not discounts to the public but the purchase of Government exchange. At this time it was granting less than half the accommodation to the public that it did at the beginning of the crisis, whereas the Commercial Bank had considerably increased its discounts.

The committee in its report simply echoed the arguments of the Bank of Upper Canada and presented a Bill to authorize suspension for another year, but requiring the banks to keep on hand the means of resumption when the proper time arrived, which was simply building the Bill on the condition of the Bank of Upper Canada as it then stood. In one clause a recommendation of the Commercial and Gore Banks had been introduced, to the effect that the banks should make a periodical exchange of their notes, and that balances should be settled by exchange on London. This clause, however, the Upper Canada people managed to eliminate from the Bill before it became law.

One reason for the opposition of the Upper Canada Bank to resumption is brought out in the evidence of the president and cashier, when taken in connection with the complaints of the other banks. The Bank of Upper Canada holding, as far as Canada was concerned, a virtual monopoly of the exchange on London, purchased by the issue of its own notes, sought to force the other banks to purchase that exchange at a high premium. But if it were to redeem its notes in specie the other banks could obtain the exchange by collecting and presenting its notes. In this connection the attempt of the Commercial Bank to have balances settled by exchange on London is interesting. As already stated, the Bank of Upper Canada had curtailed its discounts and employed its notes in purchasing Government exchange while the Commercial Bank had employed its capital almost entirely in discounts to the public. There being much the same amount of the notes of each bank in circulation more Upper Canada notes were certain to fall into the hands of the Commercial Bank in the repayment of loans, than Commercial Bank notes into the hands of its rival, hence the balances at settlements would usually be against the Upper Canada Bank, and by requiring that balances should be met by exchange on London, the Commercial Bank would be obtaining an opening

into its rival's close preserve. Could this concession be obtained the Commercial Bank was not at all anxious for resumption, for, since the needs of the Commissary General extended to considerably more than could be supplied by the Bank of Upper Canada, some of the surplus had been obtained by the Commercial Bank. Hence it too joined in the cry that the Commissary General could not get specie and had therefore to employ the notes of the chartered banks, and that without suspension the public service would be paralyzed.

One would suppose on reading the complaints of the chartered banks that the Commissary General was some impecunious tradesman desiring accommodation on long credit, and to whom the banks had extended a charitable indulgence since he had no security to offer beyond his personal credit. In point of fact the banks were the indulged parties, being favoured in return for their notes with bills on the British Treasury, affording a perfect command of specie on both sides of the Atlantic, though not always at a premium.

In all the evidence offered before parliamentary committees or in statements to the press, no one shows a more thorough grasp of the general conditions of banking and exchange than Mr. Francis Hincks. A sound judgment and an extensive mercantile experience in connection with the foreign trade of the Mother Country before coming to Canada, eminently fitted him to take a broad and impartial view of the situation. As cashier of the People's Bank he was quite familiar with the practical details of Canadian banking. The People's Bank alone, of all the Canadian banks, had preserved its credit and maintained specie payments throughout the crisis. In doing so, however, since it had neither Government favour nor large resources, it was compelled to confine its business within a close following of its actual capital. Its interests were entirely in accordance with the sounder commercial interests of the country, and the opinion of Mr. Hincks and of the very intelligent and independent president of the bank, Mr. Jas. Lesslie, may be taken to represent the honest and well-informed business interests of the country. Both these gentlemen strongly urged the resumption of payments, there being, as they pointed out, no longer any excuse in the conditions of the money market, or the attitude of the leading

American banks, to maintain suspension. Mr. Hincks points out that suspension cannot afford more than a temporary relief to the country at large, because of the checks imposed upon the currency of the country by the foreign exchanges. And here the chief objection to the continued suspension of the chartered banks comes in, for they have a monopoly of exchange for which they charge the merchants and others who require it exorbitant rates. Moreover, they show favouritism in redeeming notes for some while denying others. The banks of Lower Canada, he thinks, have acted much more in accordance with the interests of the public than have those of Upper Canada. If, however, the Legislature should decide to further extend the period of suspension, some effort should be made to have the banks afford fair rates of exchange, say from two to three per cent. above New York rates, which was certainly a very liberal margin. From the evidence of Mr. Jas. S. Smith, a Toronto merchant, it appears that the chartered banks were accustomed to charge from four to five per cent. premium on New York during the past year. Indeed the burden of all the evidence from those representing the commercial interests of the Province turns on the exorbitant rates of exchange charged by the Bank of Upper Canada, and the withdrawal of the bank from the ordinary discount business of the country.

However, the chartered banks and their friends carried the day and a bill was passed extending the period of authorized suspension until the 1st of November, 1839, and leaving it to the discretion of the Lieut. Governor in council to authorize the banks to suspend for any further period which he might think proper. In deference to the wishes of the Home Government the banks were not to declare dividends during suspension.

In the course of the summer of 1839, the business of the Commissariat Office decreased and exchange on London advanced to a higher point than for a year past. The Bank of Upper Canada, taking advantage of the situation, disposed of its large holdings in London, reduced its excessive note issue and prepared to transfer its capital from the now unprofitable channel of foreign exchange to the more lucrative field of commercial discounts. It being no longer necessary to keep up an artificial suspension the bank resumed specie payments on November 1st, 1839, and the other two chartered banks followed its lead. The

significance of this change in the case of the Bank of Upper Canada in particular may be observed from a comparison of the positions of the banks at the opening and close of 1839.

	Bank of Upper Canada.		Commercial Bank.	
	March 5th.	Dec. 5th.	March 11th.	Dec. 9th.
Notes in circulation	£321,853	£160,472	£279,410	£222,653
Deposits	253,751	113,854	172,889	67,745
Specie	96,376	103,778	58,345	98,267
Notes of other banks	16,780	35,123	72,585	6,525
Balances due from other banks and foreign agents	300,277	23,537	128,644	6,061
Total debts due to the bank ex- cept balances due from other banks	363,867	311,232	416,305	411,096

The rebellious outbreaks in Lower Canada, being much more serious than those in Upper Canada from both the political and the military points of view, the banks of Lower Canada had much more ground than those in Upper Canada for pleading the condition of the country as an excuse for remaining suspended.

In November, 1837, the Montreal banks thought it necessary as a precautionary measure to send their specie partly to Quebec and partly to Upper Canada. Yet when the first outbreak was over, keeping in touch with the movement in the United States, they followed the lead of the banks in New York State in returning to specie payments in the spring of 1838. In the meantime, however, they sought legal protection for their action.

The political condition of the Lower Province being so disturbed at the time of the collapse in the United States, it had been impossible for the banks to obtain any legal authority for their suspension when it first took place. But when in 1838 the Special Council was established, representative government having been suspended, the merchants and banks petitioned the Council for an ordinance giving legal sanction to the course which the bank had pursued. Their petitions set forth the circumstances under which the banks had suspended at the request of the public to save the specie of the country and to prevent widespread distress and bankruptcy among the merchants. The fruits of an opposite policy are referred to as sufficiently visible in the deplorable condition of the Upper Province where the banks have been finally compelled to suspend under the authority of an Act of the Legis-

lature. As there is no immediate prospect of resumption on the part of the United States banks, they pray to have their suspension authorized until the American banks resume, or for such time as the Council may deem proper, and also that the notes of the banks may be accepted in payment of Customs dues.

On the 3rd of May, 1838, there was submitted by the Governor for the consideration of the Council, "An Ordinance to authorize the incorporated, chartered and other banks in this Province to suspend the redemption of their notes in specie for a limited time." As passed the Ordinance relieved the banks incorporated by Provincial or Royal charter, on approval by the Governor, from any disabilities in consequence of having suspended specie payments. They are required to furnish the Lieutenant-Governor on requisition with the usual returns of their affairs. Their notes are made practically a legal tender in ordinary exchange during the period of suspension. But the note issue was not to exceed the amount of paid up capital in each case, and the banks were forbidden to dispose of their specie during suspension. The provisions of the ordinance were extended to the branches of the Bank of British North America in Quebec and Montreal and to the Banque du Peuple, special returns being required from each of these. Power was reserved to the Lieutenant-Governor to withdraw from any bank the privileges of this ordinance after sixty days public notice.

When this ordinance came before the Lords of the Treasury in Britain, they recommended that in any future ordinances of a like nature it should be invariably required that suspension of dividends should accompany suspension of specie payments.

However, the banks in the adjoining States undertook to return to specie payments sooner than had been anticipated. Though an Order in Council was duly issued authorizing the suspension of the banks for two months, yet within a few days of its publication the banks determined to resume, the Banque du Peuple leading the way in point of time. The Montreal banks resumed on the 23rd of May, 1838, and the banks in Quebec followed.

When the Montreal banks resumed they ceased to accept the notes of the Upper Canada banks at par.

The Banks of Lower Canada shared with those of the Upper

Province in the customary prosperity wafted hither from Britain when the peace of the country was threatened whether from within or without. The Lower Canadian banks, therefore, had no difficulty in maintaining specie payments throughout the summer of 1838. But the unusually vigorous outbreak of rebellion in the neighbourhood of Montreal in the autumn of that year quite alarmed the banks. They gave credence to the report that in order to possess the most certain means of carrying out their plans, the rebels intended to obtain through the medium of their notes a large part of the specie then in the vaults of the banks. Moreover, the chief area of the rebellion covered the line of communication between Montreal and New York by which supplies of specie were received.

These facts and fancies were set forth by the Bank of Montreal in a petition to the Lieutenant-Governor praying for some measure of relief for the banks of the Province. A meeting of the Special Council was called for November 5th. On the same day a petition was presented, and, by a suspension of the rules, an ordinance was at one sitting passed through all its stages except the third reading, authorizing certain banks therein mentioned to suspend specie payments in certain cases. The following day it passed the third reading and received the sanction of the Governor. Suspension was authorized until the first of June, 1839, unless earlier abrogated by the Governor.

Accordingly the banks at both Montreal and Quebec suspended for the second time on November 7th, 1838, with the exception of the *Banque du Peuple*, which did not desire to conform to the conditions of the ordinance. The Quebec merchants, in formally sanctioning the suspension of the banks under the circumstances, desired that they should make such arrangements with the collectors of Customs and the Government, as would facilitate the payment of duties and other public dues.

When the authorized period of suspension expired on June 1st, 1839, the banks of Lower Canada resumed specie payments once more, and maintained from that time the regular course of business.

ADAM SHORTT

