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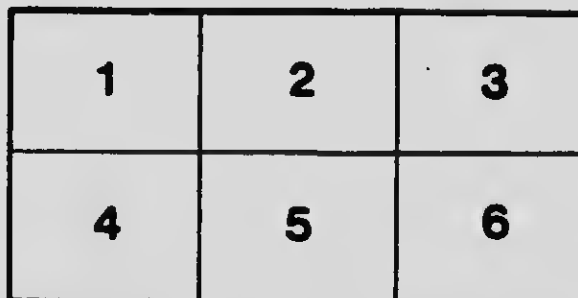
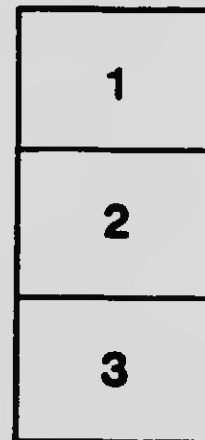
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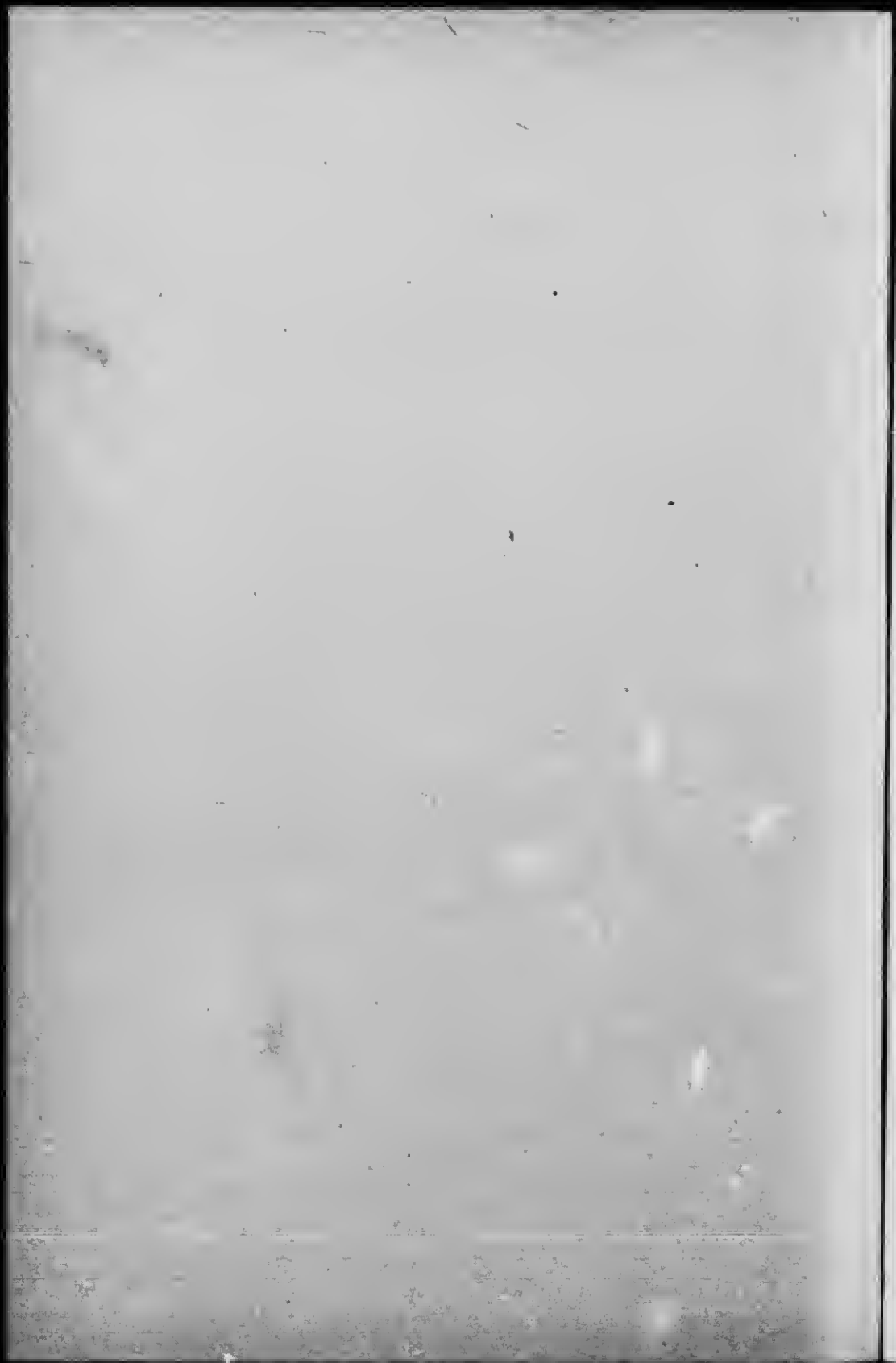
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THE  
HISTORY OF CANADIAN CURRENCY, BANKING  
AND EXCHANGE

—  
EXPERIMENT AND INFLATION

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TORONTO  
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## THE HISTORY OF CANADIAN CURRENCY, BANKING AND EXCHANGE\*

### VI. EXPERIMENT AND INFLATION

THAT period in the history of Canadian currency and banking upon which we have now to enter is of a very varied and complex character. For the first time in the development of the colony, the real nature of money and the true function of banking had to be seriously considered by the exponents of public opinion. The immediate result was the production of a great variety of views and doctrines on the subject of money. The zeal with which the various schemes were advocated and defended was not always proportioned to the information or insight of their respective champions. Elements of discord were introduced by the growing bitterness of political faction. To add to the difficulties of the period, the Home Government, in its usual spirit of cheerful ignorance and blind benevolence, attempted untimely interferences and suffered loss of prestige through awkward retreats. Finally, the very active but bewildering influence of American commercial enterprise and monetary experiment introduced into Canadian affairs elements of great uncertainty. With all these influences operating at the same

\*Chief sources :—

- Journals of the Assembly and Legislative Council, Upper Canada.
- Dominion Archives, State Papers, Upper Canada.
- Statutes of Upper Canada.
- British Blue Books relating to Canada, 1834-36.
- Bill for establishing a Provincial Bank in Upper Canada, (1835).
- 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, N.Y., 1896.
- The Quebec Gazette*, 1833-36.
- The Patriot and Farmers' Monitor*, York, U.C., 1834-35.
- The Brockville Recorder*, 1834-35.

time, there is little marvel that we should find the exchange conditions of Canada, during the thirties, somewhat of a jungle. When unravelled, however, the period is both interesting in itself and instructive for the future.

It may be remembered that McKenzie was strongly opposed to the granting of a charter to the Commercial Bank, and that, in his opposition to the enlargement of the capital of the Bank of Upper Canada, he had dramatically registered a vow that should he not be able to defeat the bill before the Assembly, or the Council, or the Governor, he would go to Britain and do his best towards having the Home Government disallow the act.

He was as good as his word, for, shortly after the acts were passed, he set out for London in April, 1832. He had, of course, many other grievances to ventilate on behalf of himself and the faction which he represented. The gracious reception which he met with at the hands of Lord Goderich, who then presided over the Colonial Office, enabled him to gain, for a time, the ear of the Home Government. He had several interviews with the Colonial Secretary, who seems to have recognized in him an earnest but troublesome agitator, and, with the politician's instinct, sought, though without success, to quench McKenzie's fire in the tranquil routine of a lucrative public office.

Not being able to get a very coherent account of the Canadian situation from McKenzie's impassioned declamation, that eccentric gentleman was asked to put his case concisely in writing. In response to this invitation he poured forth his soul in grievances for the space of six days and six nights without intermission. A transcript of the product fills a large folio volume in our Canadian Archives.

A considerable portion of this screed is devoted to the subject of the chartered banks, and particularly the Bank of Upper Canada, the malevolent influence of which, as there pictured, was indeed alarming. McKenzie had much correspondence also with the Board of Trade, and, as a result, the Government, content as often with one side of the story, undertook to disallow both the bank acts.

When rumors of McKenzie's doings reached Upper Canada, there was consternation in the counsels of the Compact and more serious results for the commerce of the country. When Hager-



man and Boulton were dismissed from office, and the Compact realized what it was to have its ox gored, these hitherto devoted loyalists, who adored monarchy and abhorred republicanism, talked wildly of tyranny on the part of the Colonial Office and of ruin, rebellion and appeals to the neighbouring Republic for rescue. McKenzie and the Radicals, on the other hand, in unaccustomed phrases extolled the beneficent connection with a righteous monarchy, and hailed Lord Goderich as a Daniel come to judgment. But McKenzie's triumph was, in most respects, of short duration. While he was still in London, Lord Goderich left the Colonial Office, and was succeeded by a potentate who knew not Joseph. The wrongs of the Compact were righted, the rights of the Radicals were disregarded; each Canadian party resumed its normal political clothing and spoke its accustomed dialect.

The banking matter, however, was not so quickly settled. Rumors were current in both provinces, early in 1833, to the effect that the Home Government had adopted a policy with reference to colonial banking. But it was not till McKenzie's letter of May 31st was printed, that the public had any definite idea of what had been done. In this letter McKenzie takes to himself the credit of having induced the Home Government to disallow the bank acts. The Lords of the Treasury, the Board of Trade and the Colonial Office were represented as at one on the subject. He went on to explain that it was not intended to destroy these banks, but to insure that in future the people should be protected from mismanagement on the part of the directors. Instructions were expected to be sent to the Governor of Upper Canada, which would prevent in future all attempts to monopolize for political and personal ends the currency of the country. "That His Majesty in Council has dissolved these acts is a fact on which you may place the most implicit dependence; the people of Upper Canada ought to be for ever grateful to the Crown for this special mark of its wisdom and goodness."

Shortly after this, the Lieut.-Governor received the official dispatches with reference to the banks, and communicated their substance to the president of the Bank of Upper Canada. They contained certain instructions for the regulation of the banks, which had been suggested by the Committee of the Privy Council

for Trade and Plantations, "with a view to the security of the public, and to prevent fluctuation in the amount and value of paper money." It was expected that the Home Government would recommend to the Legislature, at its next session, an amended act, containing the suggested improvements. The Governor sought the opinion of the president and directors of the Bank of Upper Canada on the subject.

As the result of the attitude of the Home Government, both banks, but especially the Commercial Bank, whose whole business depended upon the threatened charter, began to curtail their discounts; the one with a view to falling back within its former limits, and the other to face the possibility of having to immediately wind up its affairs. The effect upon business was very severe, and several failures resulted. The consequences would have been more serious had not the Bank of Montreal come to the rescue of the merchants and others deprived of their discounts.

However, the alarm of the banks was soon allayed by letters from Messrs. Hagerman and Boulton, then in London, who, on learning of the proposed action with reference to the bank charters, protested against any hasty decision on the part of the Government. As a result, Hagerman was given to understand that nothing further would be done till a reply had been received from Canada. The banks were thus relieved from all immediate anxiety, and encouraged to believe that, by a strong representation, ultimate interference might be avoided. They accordingly resumed their usual discounting, and the crisis was over.

At the next session of the Legislature the matter was brought up and referred to a select committee, to whom was submitted the dispatches on the subject. The special conditions which the Home Government wished to have introduced into the new charters may be summarized as follows:—

- 1 Suspension of cash payments for sixty days to result in forfeiture of the charter.
- 2 Notes issued at any branch to be redeemable both at the branch and at the head office.
- 3 One-half of the capital of the bank to be immediately paid in.

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4 The amount of discounts on paper bearing the name of a director or officer of the bank to be limited to one-third of the whole discounts.

5 The bank must not hold its own shares, or make advances to shareholders on the security of their shares.

6 A statement of the affairs of the bank, as prescribed in the charter, to be prepared weekly, and from these statements a half-yearly return to be made.

7 The shareholders to be liable for double the amount of their shares.

8 The funds of the bank not to be loaned upon the security of land or other property not easily disposed of. Nor should the bank hold such property beyond what is necessary for carrying on its business. It should not own or be interested in merchandise further than may be necessary to realise securities. The business of banking should be confined to legitimate operations of banking, namely, advances upon commercial paper or Government securities, and general dealing in money, bills of exchange, or bullion.

All these conditions were to apply to the Commercial Bank, but only the 2nd, 4th, 6th and 8th were to apply to the Bank of Upper Canada as a whole, and the 3rd and 7th to the new shares.

Looked at from the point of view of our present banking regulations, there appears to be nothing very objectionable in these conditions. Indeed several of them were not only admitted at the time, but regularly acted upon; such as the 3rd, 4th, 5th and 8th. The 1st was held to be sufficiently secured in the charters as passed, and the 6th was objected to merely as inconvenient; quarterly or half-yearly reports being held to be quite sufficient. The 2nd and 7th conditions, however, were strongly opposed. The second was opposed because it would require each bank to keep on hand double the normal amount of specie to meet the same notes at the branches and the central office. Expense and difficulty of transport had also to be considered. Double liability was strongly objected to on the ground that those possessed of considerable property would not invest in bank stock on account of the risk involved, while those having nothing to lose, beyond their bank shares, would remain the only stockholders, and the very security aimed at would be made

impossible. Even if wealthy men should take stock, they would likely, as directors or through their general business, know more about the affairs of the bank than others, and if it were at all liable to fail they could simply sell out their stock and cease to be liable. Hence, it was urged that the result of this regulation would be to render the banks less secure than at present.

However sincere those who advanced these arguments may have been at the time, yet within the next three years we find several of them successfully arguing for the incorporation of this latter condition in all new bank acts.

But whether the conditions were admissible or not, the majority of the Legislature were opposed to amending the charters already passed. Again it was shown that, where their own interests were at stake, none could be more radical than the ultra loyalists. It was maintained by all parties that the Home Government, while it had technically the right to disallow acts, had, in reality, no right to interfere with matters of purely local interest. Moreover, there was no reason why the bank acts of Upper Canada should be specially interfered with, while similar acts, passed at practically the same time in Lower Canada, had not been questioned.

Though sharing these views, the president and directors of the Commercial Bank were yet so fearful of their charter being disallowed, should the proposed amendments be declined, that they were prepared, as the lesser of two evils, to accept an amended charter. A bill for this purpose was introduced into the Assembly, but the majority were so strongly opposed to the concession that it was thrown out. In the meantime, McKenzie, through his paper, the *Colonial Advocate*, was steadily defending the Home Government against the Tory loyalists as seeking to maintain a vile American system of banking. In the issue of February 6th, he threatened that unless the banks accepted the prescribed amendments to prevent "scandalous bank jobbing," he would publish five thousand pamphlets urging the people to make a run on the banks.

Notwithstanding these threats, strongly worded addresses were sent by the Legislature to the King, protesting against the interference of the Home Government in the purely local affairs of the colony, representing the inconvenience and commercial dis-

trass which would result from the disallowance of the bank acts, and praying, therefore, that they be not disallowed.

The reply to this, dated May 28th, 1834, was received through Lieut.-Governor Colborne at the next session of the Legislature, January, 26th, 1835. In this Mr. Stanley, the Colonial Secretary, makes his retreat, saying that in view of the confusion and distress which would result from the disallowance of the bank acts, the King will not disallow them. At the same time he attempts to defend the constitutional right of the Crown to interfere in such matters, and expresses surprise at the heat with which the Assembly protests against the exercise of that right, even to the extent of casting doubt upon it.

In the meantime, efforts were being made to obtain from the Legislature charters for banks in London, Hamilton, St. Catharines and Cobourg. Bills were also introduced to increase the capital of the two banks already established.

In their report on these projects the select committee on banking, following the suggestions of the last report of the bank commissioners of the State of New York, considered it better to increase the capital of the two banks already chartered than to create new banks. With special reference to increasing the capital of the Bank of Upper Canada, they thought that a bank with a large capital would be able, like the Bank of the United States, to establish branches in all parts of the province, and thus regulate the issues of any smaller banks and the internal exchange of the country. It could also manage properly the foreign exchanges and import from abroad such specie as might be necessary, while, at the same time, it would be able to give more extended loans to those dealing in agricultural products where returns were slow. To accomplish this, the capital of the bank should be increased to at least £500,000.

In the opinion of the committee, the unusual demand for new banks, following the example of the neighbouring States, proved the need for more capital. But paper money was not capital; hence specie must be obtained. This could be accomplished by increasing the capital of the existing banks, while restricting their note issues to denominations of one pound and over. Much of the additional capital would then come into the country as specie, to replace the small notes. The committee was also in favour of

a special metallic currency, but of increased nominal value to prevent it from leaving the country. In this recommendation there is the usual confusion of the period between two distinct needs. The first is the need for a fractional metallic currency to supply the pocket change of retail trade, and the other is the need for a concrete standard of value, as a medium for the redemption of bank notes and the balancing of exchanges. Only the first want could be supplied by the proposed measure, and that only in a permanent way if the second was also supplied. Yet this report reflected the wishes and ideas of the chartered banks and their friends.

Throughout America, at this time, we find all the symptoms of a rising speculative fever. The demand for accommodation at the banks was steadily pressing upon their limited means. So long as apparently adequate security was offered for the discounts sought, it seemed reasonable that the needed money should be forthcoming. Much of the security was indeed adequate under ordinary circumstances. Yet the fact remained that the investments being made were of a highly speculative character, hence the paper currency was at once inadequate and inflated. It is not the quantity of money in circulation, but the use to which it is put, which determines the question as to security or inflation. In no case is it to be expected that the greater part of the possible security of a country should be pledged for the raising of loans. Yet this aspect of the situation was steadily ignored by all but a few under the insatiable fever which was sweeping North America, and which, having devoured the natural prosperity from which it started, was now feeding upon itself. Canada was already responding to the infecting influences of the neighbouring states, and the cry for more money was fostering numerous devices for supplying it, invariably, however, in the shape of paper.

One effect of the more rapid movement of trade, and the increasing demand for banking accommodation, was the curtailing of the period over which discounts had been extended. Owing to the long credits which were usual between the merchants and their customers, it had been the practice of the Canadian banks in discounting, to require only one-fifth of the amount to be repaid at the end of three months, a renewal being granted

for the remainder. The period for the complete repayment of a loan was thus extended over fifteen months. However, after the establishment of the Commercial Bank, and the development of more speculative and rapid methods, the banks began to insist upon the payment of at least one-third, and sometimes one-half of the original loan, at the end of three months. The export trades in lumber and grain, the two staples of the country, owing to the necessarily long periods for obtaining returns, required extended accommodation, thus locking up a considerable quantity of banking capital. To meet these heavy charges, high profits were necessary, and the returns to the producers were correspondingly low.

Though the committee on banking had reported in favour of extending the capital of the existing banks rather than the establishing of new ones, yet the prevailing opinion of the merchants and people generally was in favour of at least one chartered bank in each District of the Province. The result was that the Assembly, in 1834, passed bills to charter two new banks, one at Hamilton and the other at Cobourg, but the Council rejected them, and in return, the Assembly refused to pass the bills enlarging the capital of the two chartered banks.

Those interested in starting a bank at Cobourg, having regard to the wishes of the Home Government, in their public resolution of November, 1833, decided to petition for a charter in which the stockholders should be liable for double the amount of their stock. Thus the Home Government was gaining in a roundabout manner what it could not directly force upon the country.

An effort was also made, in 1834, to regulate the agencies of foreign banks in the Province. This was chiefly aimed at the banks of Lower Canada, whose notes enjoyed considerable currency in the upper Province yet were not under the control of its Legislature. The real purpose of the measure seems to have been to preserve to the local banks a monopoly of the issue of small notes which usually remained in circulation, and to secure through the larger notes, which commonly passed into the hands of the banks, a command on the specie of the outside banks, especially the Bank of Montreal, without going beyond the commercial centres of the Province. Hence the bill required that

the outside banks should redeem their notes in Upper Canada, either at York or Kingston, and limit their issues in the Province to notes of twenty shillings and upwards.

It was pointed out that in Lower Canada foreign banks were prohibited from circulating notes under twenty-five shillings. The strongest argument against the bill was that it would tend to prevent the introduction of new capital, and this was quite sufficient to defeat it.

In the meantime, the Bank of Upper Canada, having made strong representations to the Home Government through its president backed by the Lieut.-Governor, managed to wrest from the Bank of Montreal, in 1833, the patronage of the British Treasury in the upper Province. In consequence, the Bank of Montreal determined to withdraw its agency from Kingston, its ordinary business being taken over by the Commercial Bank.

In 1834 the Bank of Upper Canada had branches at Niagara, Hamilton, Cobourg, Kingston and Brockville, and was doing a large and profitable business. In its operations the bank did not allow any interest on deposits, even to the Government, though it frequently held a large amount of public money. In local exchange no charge was made for transferring money to the head office when paid in at any of the branches. But for drafts on the head office, or on any of the branches or agencies, a charge of one-eighth to one-quarter per cent. was made. Foreign exchange was sold at the same rate throughout the system. Exchange on New York was sold at a profit to the bank of from one-half to one per cent. On Montreal it ranged from nothing to one-quarter per cent., and on London it was as a rule one and one-half per cent.

In 1835 the Hon. Wm. Allan resigned the position of president of the bank, and was succeeded by the Hon. Mr. Proudfoot. Mr. Cawthra, a wealthy merchant of York, joined the directorate at the same time. Opposition to the Bank of Upper Canada on account of its political connection was still very strong. An effort was once more made, in 1835, and renewed in 1836, to sever the connection between the bank and the Government, by having the provincial shares sold; but the investment was too profitable to make it a fair subject for attack, and not till the economic and political crises were past, was an act for this purpose finally carried.



In 1835 another attempt was made to have the capital stock of the bank increased, but the Assembly resolved briefly that it was inexpedient. Yet at the same session, acts were passed to increase the capital of the Commercial Bank, and to establish the Gore Bank at Hamilton.

The following session, 1836, an attempt was made to draw out the opponents of the bank, and test the feeling of the country, by requesting the committee on banking to consider what objection there might be to increasing the capital of the Bank of Upper Canada to £500,000, on certain terms. Among the conditions suggested were the following. The subscribers to the new stock were to pay to the Government a tax of ten per cent. upon the amount of stock subscribed, and a further annual tax of the same amount was to be levied upon the whole capital stock of the bank, in consideration of the public moneys of the Province being deposited with the bank. This suggestion evidently came from current American ideas of the period and the experience of the Bank of the United States. Again, as a sop to the men of small means, it was suggested that while those who subscribed for ten shares or under should not be required to pay immediately more than ten per cent. on each share, those subscribing for larger amounts should pay in full. Further, following a new law of New York State, to satisfy those who were anxious to have an increased circulation of specie, it was suggested that after one year the bank should cease to issue notes for less than four dollars each. For the convenience of internal exchange, the bank agencies and the district branches were to redeem the notes of the bank by draft upon the head office at par and sight. The bank should also pay out the public moneys for the Government, in any part of the Province, free of charge. Apparently to offset the demand for a Provincial Bank, then being agitated, it was proposed that the Provincial stock might be increased to £100,000. Though these were merely tentative proposals, yet the fact of their being made showed that the bank was willing to make considerable concessions to the popular feeling to save itself from such a possible fate as that which had just overtaken the Bank of the United States. However, so strong was the feeling against the bank, that the Assembly refused, by a majority of twenty-four to eleven, to even submit these proposals to the banking committee.

Though the Commercial Bank was naturally opposed by those who were hostile to the whole system of chartered banks, yet it was not so closely identified with the Compact, and was therefore not subject to bitter political opposition. When the bank applied in 1835 to have its capital stock increased, petitions were presented in its favour from every important District in the Province. McKenzie and his supporters, though unable to prevent the bill from passing, endeavoured to have the Board of Trade conditions incorporated in the charter. That failing, he sought to fasten upon the capital of the bank an annual tax of a penny on the pound, but did not succeed.

The act, as passed, increased the authorized capital to £200,000, making it equal to that of the Bank of Upper Canada. A couple of harmless clauses, with reference to discounts in which directors were interested and the sources of dividends, were added. So great was the faith in banks as sources of wealth, and so difficult the obtaining of a charter owing to the jealousies of political factions, that, when the books for subscription to the new stock were opened, the amount subscribed on the first day reached £1,937,125.

In March, 1836, a branch of the Commercial Bank was opened in Brockville with a local board of directors.

During the same month the parent bank in Kingston found itself compelled to suspend discounting owing to circumstances familiar enough in many parts of the United States and soon to become so in Canada. The Canadian banks, as their cashiers had repeatedly pointed out, depended almost entirely upon American commercial centres for their supplies of specie. As a means of obtaining specie and balancing exchanges, American bank notes, as well as American bills, were usually in demand. Taking advantage of this fact, some Americans from the adjoining section of New York State, being in need of specie, collected Commercial Bank notes on both sides of the border to the extent of some thousands of pounds. They then presented the notes for redemption at the bank in Kingston, which so alarmed the management that discounting was entirely suspended for a short time. The Canadian papers with characteristic loyalty denounced the incident as a "foul transaction," and sarcastically referred to the scheme as "the laudable and praiseworthy idea of plundering a neighbouring province." The idea that banks should be pre-

pared to meet their notes in specie on demand, while admitted in theory, was hardly regarded as coming within the scope of legitimate practical banking. Specie, if wanted, was supposed to be paid for at special rates. Those who asked for cash in any quantity in return for notes, were looked upon with suspicion, and were apt to be regarded by the banks as infidel enemies of the public welfare.

During the session of 1835, the Gore Bank of Hamilton, of which Mr. A. McNab was the moving spirit, managed to obtain a charter. During the previous session a bill to establish this bank passed the Assembly but was rejected by the Council. This rather stirred Mr. McNab's highland blood, and, as he had been associated with the Bank of Upper Canada and the members of the Compact, he began to expose the methods and the motives of the Council in such matters, much to the delight of the enemies of the Compact and the edification of the public in general. However, the breach was soon repaired, and the following session the Gore Bank bill, passing the Council, became law. It was announced, in September, 1835, that the stock books of the new bank would be open at the head office and the various branches and agencies of the Bank of Upper Canada.

The authorized capital of the bank was fixed at £100,000, and the bank might begin business when £10,000 had been paid in. The general conditions and regulations were practically the same as those contained in the charter of the Commercial Bank, with the addition of a couple of features which appear for the first time in a Canadian bank charter. The most important was the introduction of the double liability of the stockholders, which was regarded as so ruinous a feature when proposed by the Home Government. It was also provided that no incorporated company should hold stock in the bank, unless conveyed to the company in payment of debts previously contracted. This feature was afterwards repealed in 1839.

Early in 1836 the Gore Bank went into operation, and shared in the inflated prosperity of the country previous to the crisis of the following year. Under the influence of the growing time the bank was hardly started before it applied for another act authorizing an increase in its capital stock. A bill for this purpose passed the Assembly, but got no further. The following session,

1836-7, just on the eve of the crisis, in common with the two other chartered banks, a bill to increase its capital passed both houses, but was reserved by the Governor, under instructions from the Home Government.

We have seen that attempts had been made to obtain charters for new banks in London and Cobourg. But though these were denied, additional claimants pressed every year. During the session of 1836 several new bank charters passed the Assembly, but were either rejected by the Council, or so amended that they were dropped by the Assembly. However, during the session of 1836-7, bills passed both houses for establishing banks in Brockville, Cobourg, St. Catharines, Prescott, London, Prince Edward District, and the Western District. Also to charter the Erie and Ontario Bank, the Freeholders Bank, and to increase the capital of the three chartered banks. But the Lieut.-Governor had received instructions from the Colonial Office to reserve any further bills dealing with currency or banking. Consequently these bills were all reserved, which led to further remonstrance on the part of the Legislature. They admitted the expediency of the Home Government regulating the metallic currency of the colonies, but strongly objected to its interference with banking. They urged the withdrawal of the instructions to the Governor, praying that in future the Home Government might not prevent the Governor from assenting to bills of a purely local nature, at his own discretion. Before the effect of this second claim to independence in the matter of banks, could be ascertained, the American bubble had burst, and no one thought of new bank charters for a time.

Various other banking projects were brought before the Legislature during this period, the most important of which was that for the establishment of a Provincial Bank. This bank was intended to combine the best features of those two semi-state institutions, the Bank of the United States, and the Bank of Upper Canada. But, by enlisting a larger popular interest, it was hoped it might avoid the narrower political affinities which had excited so much hostility to those institutions.

The most active promoter of this scheme was Mr. W. H. Merritt of St. Catharines, intimately connected with the Welland Canal and a member of the Assembly.

In 1835, Mr. Merritt brought the project before the Assembly and secured the appointment of a friendly select committee to examine and report upon the expediency of establishing a Provincial Bank. The committee found, on obtaining the views of the leading banking and business men of the Province, that there was a great variety of opinions as to how best to increase the circulation of the country, by which most of them meant the amount of loanable capital. Some recommended increasing the capital of the Upper Canada and Commercial banks, putting a check upon all private banking, and refusing additional charters. Others, going to the opposite extreme, would leave banking to be a matter of individual enterprise, untrammelled by any other regulations than those applying to ordinary business. Others supported strongly the proposed Provincial Bank. There were also various modifications and combinations of these three phases.

The committee found the chief objection to the Provincial Bank to be the fear of its becoming a political engine. They venture the opinion, however, that there would have been less criticism of the Bank of the United States and the Bank of Upper Canada if the Government, in each case, had held the majority, instead of the minority of the stock.

After considering the matter from all sides, the committee outlined a plan, combining foreign capital guaranteed by the Government, private capital in subscribed shares, and Provincial credit. The central bank should start with a capital of £500,000, made up of £350,000 to be raised in Britain by loan on the security of the Province, £25,000 contributed by the Province itself, and £125,000 of private capital. Branches were to be provided for in each District, with a capital of £100,000 each, £75,000 of which were to be furnished by debentures of the bank, bearing six per cent. interest, and the remainder to be contributed by private subscriptions from the District.

The issues of the bank were to be limited to three times the paid-up capital. Its notes were to be received for all public dues, and it was to have the custody of all public funds. It was to conduct its business on the Scotch system, allowing three per cent. on deposits, and granting cash credits, or open accounts, on security given. It was not to charge a higher interest for loans

or discounts than at the rate of six per cent. per annum. It was expected to pay five per cent. on the capital borrowed in Britain, six per cent. on that borrowed in Canada, allow reasonable dividends to the stockholders, and, out of the surplus profits, pay off the Provincial debt in a few years, and provide a revenue for public purposes for all future time. Such was the faith of the day in bank profits. A bill embodying these features was submitted to the Assembly, but as it involved the combination of public credit with private interest, there prevailed a reasonable fear that it might only exaggerate the evils already complained of in the case of the Bank of Upper Canada and the Bank of the United States, hence the bill was defeated. In the following session it was revived by the committee on banking, but received the six months' promotion, though by a majority of only one.

The idea, however, that the Government was in some way directly responsible for the prosperity of the country and had unlimited capacity to promote it, was as prevalent then as at present. There was a widely spread conviction, especially in the counties, that the Province could supply, on its own credit, an indefinite amount of paper money, with all the vitalizing power of real capital, without any further basis of security than those marvelous undeveloped natural resources which have been the pride and comfort of the people of Canada for a century past.

During the session of 1835 these floating ideas took definite shape. Petitions were presented from several Districts in the Province praying for the establishment of Provincial loan offices, or loan banks. The petition from the Home District, of which York was the centre, is a fair representative. It referred to the great distress throughout the country owing to the depressed value of agricultural products, and the fact that the farmers were heavily in debt and liable to be sold out at any time. There is but one remedy, it is said, and that is a Provincial paper currency, which may be called Provincial loan notes. These could be issued to at least twice the amount of the Provincial debt. There should be an agency in every county, and the notes should be distributed on mortgage security according to population. Loans should be made to the extent of half the value of the lands, and repaid in annual instalments extending over fifteen years.

Under the magic spell of this paper money untrammelled by

specie, the numerous advocates of the scheme throughout the Province saw foreign markets opening before them, the prices of their products rising, and such fountains of wealth opened should overflow the land, enriching the farmers and enabling the Government to pay off its heavy debt, and have an ample surplus for roads, schools, poorhouses, asylums, penitentiaries and other evidences of a prosperous, healthy and law-abiding people. The scheme was vigorously supported in the Assembly, yet the pessimistic element prevailed, and the friends of free paper were left to marvel at the blindness and selfishness of their fellow men.

We have next to glance at the attempts to introduce into Canada the British system of joint-stock banks.

It was first announced, early in the year 1834, that a couple of English gentlemen of capital had arrived in Upper Canada with a view to establishing a bank in York on the joint-stock principle, the partners being liable for all the obligations of the bank as in other business enterprises. These gentlemen were Capt. Geo. Truscott, of the Royal Navy, who had apparently been interested in joint-stock banking in England, and John Cleveland Green, a retired commissary-general.

The bank was organized and opened by Truscott, Green & Co., in May, 1834, under the title of "The Agricultural Bank, City of Toronto." The bank seems to have enjoyed a fairly good business, for within ten months it had discounted paper to the amount of £32,500, had notes in circulation for £28,500, and deposits to the extent of £11,697. They seem to have adopted the Scotch system of granting cash credits, which, on security given, permitted the customer to draw at his convenience up to a certain amount. This obviated the necessity of providing special security for every sum obtained, or having to pay interest on the full amount discounted before it was really needed. In Britain landed security was taken as a basis for these general credits, and to a certain extent this method was followed by the new bank in Canada, though Truscott admitted that it was not so safe here owing to the instability of land values.

In its operations the Agricultural Bank received and held the notes of the chartered banks, and particularly those of the Bank of Upper Canada, as a reserve fund, employing them in much the same manner as the banks now use Dominion notes,

of as Bank of England notes were used in Britain. Thus the Bank of Upper Canada seemed to regard at first as rather complimentary. Then it was discovered that when the Agricultural Bank wanted specie, it drew it from the vaults of the Bank of Upper Canada by presenting the accumulated notes. According to the Canadian banking ethics of the time, such methods were deemed dishonourable, and war was declared upon the new institution. Its credit was cried down, its methods condemned, and its notes scornfully refused by the chartered banks. One of the grievances against the new bank was that it allowed interest on deposits, a lead which the Commercial Bank felt itself compelled to follow in July, 1834. The refusal of its notes did not trouble the Agricultural Bank, for that only aided in keeping them in circulation. But to vindicate its credit it was forced to appeal to the Assembly to investigate its affairs. A committee of the Assembly reported its credit good, and referred to the fact that in Britain there were many similar institutions.

The new bank being vindicated, the Bank of Upper Canada found it necessary to change its tactics. It now not only eagerly accepted Agricultural Bank notes whenever tendered, but even furnished certain parties with funds to buy up the notes with a view to returning them upon the bank and paralyzing its operations. By these means \$145,000 in notes were returned upon the bank within three months, yet it managed to protect itself, and the war went gaily forward to the benefit of some, and the annoyance of others in the business world.

McKenzie of course took the side of the Agricultural Bank during this conflict, but, in the course of the summer of 1835, falling out with Capt. Truscott over another banking venture, he produced a three days' run upon the Agricultural Bank by one of his fiery newspaper attacks. However, the bank weathered the storm and shared in the general inflation before the crisis of 1837.

Another joint stock bank, in which for a time Capt. Truscott was interested, was the Farmers' Bank. This institution had been outlined before the Agricultural Bank was started, by a number of Canadians, chiefly of the popular party, who advocated the system of joint-stock banking, though none of them seems to have been familiar with the practical working of such an institution. When, however, Capt. Truscott had proved his experience



and ability in this line, he seems to have been appealed to, in connection with the establishing of the proposed bank. The Hon. John Elmsley was also prominently connected with it.

The prospectus of the bank was published early in May, 1835. It was to be known as the Farmers' Banking Company, with the ambitious capital of £500,000, in £10 shares. A board of twelve directors was to be elected by the shareholders as soon as 25,000 shares should have been subscribed for or £30,000 paid in. In order to enlist the general interest of the province a provisional committee was appointed, to consist of the members of the Assembly, the postmasters and the District officials, to receive and report upon applications for stock. The response through these honorary channels not being very hearty, Capt. Kingsmill, of Port Hope, and Mr. J. V. Boswell, of Cobourg, undertook to canvass some of the chief towns of the Province. Notwithstanding the fact that there was great faith in the profits of banking and a great demand for the shares of the chartered banks, yet people were a little timid about taking stock in a concern for whose obligation each shareholder was indefinitely liable. Besides, the opponents of the bank were strenuously warning the public against it. It had even acquired the reputation of being a strongly partisan affair, owing to the support which it received from McKenzie and other prominent radicals. But when McKenzie and O'Grady, falling out with Truscott and others, withdrew from the enterprise and denounced its promoters, the institution seemed to recover credit somewhat, and, though it failed of its ambitious hopes, yet a number of more stable partners having joined, its establishment was insured.

On September 1st, 1835, a meeting of the directors took place at which the officers of the bank were appointed. Mr. H. Dupuy, formerly the first manager of the Kingston branch of the Bank of Montreal, was appointed manager. It was expected that the bank would open within the month and on good terms with the other banks. However, within a few weeks, Capt. Truscott and one or two others had severed their connection with the bank, owing to some friction among the promoters of the enterprise. Still before the middle of October the bank was in operation, and its notes were added to the rapidly increasing variety of Canadian paper currency.

Another joint-stock bank, though it also applied for a charter, was known as the People's Bank. After parting company with Truscott and the other promoters of the Farmers' Bank, McKenzie and his associates sought to establish a more or less partisan institution, which was to be called the People's Bank, apparently in imitation of the Banque du Peuple, lately established by the popular party in Lower Canada.

In August, 1835, McKenzie thus introduced the new bank to the public, through his newspaper the *Advocate*: "I long ago wanted the reformers to quit Truscott and privately urged them to join among themselves and form a bank upon fair and honorable principles. They are now prepared to do so—their means are ample as their utmost wishes—and the bank will be speedily established on a broad and substantial basis, which will place in the pockets of the people themselves the £50,000 a year of taxes they are now paying to the Aylmers, Strachans, Jonas Joneses, Truscotts, Jarvises, Hagermen, Sherwoods, Boultons, Clarkes, Crooksies, Robinsons, McLeans—the mushroom aristocracy of this fair but ill-governed colony." However, there were more stable supporters than McKenzie behind the institution, and in the course of a year it gradually took shape until, on November 2nd, 1835, the first annual meeting of the stockholders took place in Toronto, when the following directors were elected: John Rolph, Jas. Leslie, D. Gibson, Jas. Beatty, John Montgomery, Thos. Elliot, Hon. M. S. Bidwell, T. D. Morrison, Geo. Barclay, John Harper, John Doel, Jas. H. Price. Two days later the board met and elected John Rolph president, Jas. Leslie cashier, and Messrs. Bidwell and Price solicitors.

During the following session of the Legislature the bank applied for a charter. The application was favourably reported upon by the committee on banking, and a bill to incorporate the bank was duly passed by the Assembly, but was very naturally thrown out by the Council.

The Council was, indeed, alarmed at the rapid increase of banking institutions, and passed a series of resolutions on the subject, which were sent to the Assembly for concurrence. In essence these resolutions urged the need for maintaining the credit of the country, while acknowledging also the need for an increase of capital. It is pointed out that the Legislature began

with the establishment of a single provincial bank, the Bank of Upper Canada, but had since gradually departed from that safe position, and is now on the downward grade towards a condition of absolutely free banking on the basis of ordinary business enterprises.

They urge the necessity of earnestly considering the situation to determine upon some definite course to be followed in connection with this important matter, because with every departure it is increasingly difficult to get back to a prudent course.

A bill was afterwards sent down from the Council to protect the public against injury from private banks, but the Assembly took no definite action on it.

The following session the Assembly passed a measure of its own, to afford protection to the public as well as to facilitate the business of joint stock banking companies, but it failed to pass the Council. The Council, however, managed to adapt its bill to the majority of the Assembly, and it was passed in March, 1837, just on the eve of the crisis. Its object was to check the issue of notes by private or joint-stock banks. It therefore declared illegal the issue of notes or other paper intended to pass as money, except by legislative authority. The joint-stock banks then in existence were exempted from the provisions of the Act.

The banks so exempted were, the Bank of British North America, which had not yet gone into operation in the Province, the Farmers' Bank, the Agricultural Bank, the Bank of the People, and the Niagara Suspension Bridge Bank, so far as the latter and its affairs came under the jurisdiction of the Provincial law.

Many other schemes for promoting the general prosperity, through the expansion or regulation of the currency, were in the air at this period, both within and without the Legislature, but most of them had little or no significance beyond indicating the unstable condition of the period.

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