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THE Canadian Banking System

By

JOSEPH FRENCH JOHNSON

Dean of New York University School of Commerce, Accounts, and Finance

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PREFATORY NOTE.

The author spent a few weeks in Canada during the spring of 1909 and is certain that he sorely taxed the patience of bankers and business men with his questions. But they did not let him know it, and he now wishes to thank them all for their uniform courtesy, and to say to his own countrymen that Canadian hospitality is of the warm, old-fashioned, dependable kind. He is under greatest obligation to Hon. T. C. Boville, deputy minister of finance; Mr. John T. P. Knight, of Montreal, secretary-treasurer of the Canadian Bankers' Association; Prof. James Mavor, of the University of Toronto; and Mr. Fred W. Field, editor of the Monetary Times. Readers interested in the development of the Canadian banking system should read, in connection with this volume, Dr. R. M. Breckenridge's "The History of Banking in Canada," which is also published by the National Monetary Commission.

THE AUTHOR.

APRIL 18, 1910.

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INTRODUCTION.

Financially Canada is part of the United States. Fully half the gold reserve upon which its credit system is based is lodged in the vaults of the New York Clearing House. In any emergency requiring additional capital Montreal, Toronto, and Winnipeg call on New York for funds just as do St. Paul, Kansas City, and New Orleans. New York exchange is a current and universal medium in Canada and is in constant demand among the banks. A Canadian wishing to invest in securities that may be quickly marketed commonly turns to the New York market for stocks and bonds. Yet the American banker visiting in Canada, if he is unacquainted with the history of banking in his own country, finds himself in a land of financial novelties, for Canada has a banking system unlike any in operation in the United States at the present time. Twenty-nine banks, known as the "chartered banks," transact all the banking business of the Dominion. They have 2,200 branches, and each may establish new branches without increase of its capital stock. They issue notes without depositing security with the government and in such abundance that no other form of currency in denominations of $5 and above is in circulation. Notwithstanding the fact that the notes are "unsecured," their "goodness" is unquestioned among the Canadian people.

THE SYSTEM NOT NEW.

But to the student of the history of banking in the United States there is little that is radically new in the Canadian system. He finds in it many of the practices and expedients that were found excellent in the United States in the first half of the nineteenth century, and is almost persuaded that but for the civil war what is now known as the Canadian banking system would everywhere be called the American system.

The fiscal exigencies of war, which have caused changes in the banking systems of most countries, have had no influence upon the development of banking in Canada. During the first half of the nineteenth century the commercial and financial interests of Canada and the United States were comparatively intimate and the financial institutions of both countries developed on similar lines. The safety-fund system, first introduced in the State of New York in 1829, found favor also in Canada and is still an integral part of the Canadian banking system. Branch banking, which was most successfully illustrated in this country by the Bank of Indiana, and which now exists in some form or other in almost all countries except the United States, has always prevailed in Canada. The importance of a prompt redemption of bank notes as exemplified in the old Suffolk banking system in New England before the war, was fully realized in Canada and is probably better illustrated in the present Canadian system than in any other country. There bank notes and bank checks are treated as identical in nature, both being cleared with the same regularity and promptness. The so-called free banking system, which was first adopted in the State of New York in 1839 and thereafter adopted by 18 other States of the Union, was tried in Canada in the fifties, but not on a large scale. This system, requiring that issues of bank notes should be secured by a segregated deposit of certain classes of stocks and bonds, has never met with approval among the leading bankers of Canada.

The Canadian system is a product of evolution. It has taken its present form because of the commercial and financial needs of the Canadian people. It was not created by lawyers or statesmen to meet a fiscal need of the government, but has grown up gradually under the fostering care of experienced bankers, no changes having been made until experience proved them necessary or advisable. The business interests of the Dominion, through their representatives in the provincial legislatures and in the Dominion Parliament, have had much to do with its development in a natural effort to protect the rights of the borrower, the depositor, and the note holder. The banks do not possess all the privileges many of the bankers would like to have, nor do the business men of Canada believe in the real necessity for all the protection given to the banks by the law, yet in the main the system is satisfactory both to bankers and to their customers.

The chartered banks transact the business which in the United States is divided among national banks, trust companies, private banks, and savings banks. They buy and sell commercial paper, discount the notes of their customers, lend money on stocks and bonds, make advances to farmers, and sometimes aid in the financing of railroads and industrial enterprises. To a Canadian the word "bank" means one of the twenty-nine "chartered banks," for the law prohibits the use of the word "bank" by any other institution.

OTHER FINANCIAL INSTITUTIONS.

The only other financial institutions in Canada which possess much importance are the mortgage and loan companies. These usually operate under charters granted by the provincial legislatures and do a business similar to that of the farm and mortgage companies which once flourished in the United States, making loans to farmers for a term of years and taking farm mortgage for security. They also make loans upon urban and suburban real estate and thus aid in the upbuilding of the cities and their suburbs. The business of these institutions is made possible by the fact that the bank act does not permit the chartered banks to accept loans secured by real estate.

The Dominion government maintains a double system of savings banks. One set is managed by the post-office department, every post-office receiving deposits. The other set is managed by the finance department. The post-office department also sells annuities and old-age pensions. The money received through the savings banks is regarded as a loan from the people and is used, like money obtained by taxation, in the payment of the government's general expenses. The government is required to carry a gold reserve of 10 per cent against the savings deposits, but no assets are set aside for their security. The chartered banks pay the same rate of interest and get most of the business, for they offer facilities with which the government does not attempt to compete.[a] Most of the government's deposits come from the poorest and most ignorant classes, people who in all countries are suspicious of banks. In 1909 the deposits amounted to about $60,000,000, of which fully 80 per cent came through the post-offices. In the same year the time or savings deposits of the chartered banks amounted to about $350,000,000. Some of the Canadian cities maintain municipal savings banks, but they are of relatively small importance.

Trust companies in Canada are not financial institutions. They are trust companies in fact as well as in name, their business being to act as trustee and administrator. A few of them accept deposits, although it is not certain that they have a right to do so. The bulk of the money they handle comes to them through the administration of estates and trust funds.

Private banking firms are almost unknown in Canada, there being only two or three in the entire Dominion, and

[a] The attitude of the bankers toward the government savings banks is shown by the following remarks of a Montreal banker: "The government savings bank deposits are in the aggregate too small to have made any inroads upon our business. The disadvantages to the depositor are so many more than with the savings accounts of the banks that people prefer the banks. We do not worry over the competition that they offer. The accounts that the government gets we are about as well off without."

these do a mortgage and loan business rather than a strictly commercial banking business.

Hence, if anyone seeks to understand the financial or banking situation in Canada, he must devote his attention in the main to the chartered banks. These through their branches furnish the loanable capital necessary for the support of the Dominion's trade and industry and for much of its agricultural enterprise. To them the government turns when funds are needed for internal improvements or when the exchequer faces a deficit. The promoters of street railways, steam railways, steam railroads, and other permanent improvements take counsel with the managers of these chartered banks before they issue their securities. The banks as a rule do not invest their funds in the stocks or bonds of new enterprises, yet their managers are the men most familiar with the world's money markets and their approval, therefore, of any financial undertaking is highly esteemed.

MONETARY SYSTEM.

Canada's monetary system is substantially the same as that of the United States. The unit is the dollar of 23.22 grains of pure gold. The gold coins of the United States are legal tender in Canada. So is the British sovereign, which is rated at $4.86⅔. Until recently all Canadian coins were minted in either England or the United States, but in 1908 a branch of the British mint was established in Ottawa.

The paper currency of Canada consists of Dominion notes and bank notes. The former are issued by the government under authority of the "Dominion notes act," which permits an unlimited issue, requiring security as follows: That for $30,000,000 of the notes outstanding the minister of finance shall hold in gold and government securities a reserve equal to 25 per cent of the issue, the amount held in gold to be not less than 15 per cent of the amount of notes outstanding; and that against all notes issued in excess of $30,000,000 the minister shall hold an equal amount of gold. The framers of the act evidently had in mind the limitation placed upon the Bank of England's issue of notes by the Peel act of 1844. The Dominion notes, accordingly, are gold certificates rather than credit notes. The minister of finance is required to redeem the notes in gold at branches of his department in several different cities. If need be, the minister may sell bonds to obtain gold for use in the redemption of the notes.

Dominion notes are legal tender and may be issued in any denominations, but experience has proved that they are most needed in bills of large denominations for use in banking reserves and in the form of $1 and $2 bills, the banks not being permitted to issue notes under $5. The average circulation of Dominion notes in 1908 amounted to $68,602,944, of which amount $52,882,708 was in $500, $1,000, and $5,000 bills, and $14,910,365 in $1 and $2 bills. There has been a pretty constant increase in the amount of Dominion notes outstanding. In 1900 the total was only $26,550,465. The bills of large denominations are practically all carried by the banks in their reserves.

Canadian banks are not permitted to issue notes of a denomination less than $5. Of fives and multiples thereof they may issue an amount equal to their paid-up capital without deposit of security and without payment of tax. As a result the currency in the hands of the people consists almost exclusively of bank notes. The amount in circulation increased from $50,000,000 in 1900 to $81,400,000 in 1909.

RESOURCES AND INDUSTRIES.

The Dominion of Canada contains more territory than the United States with Alaska included. Its area is 3,745,000 square miles, of which about 70,000,000 acres are occupied. Much of the territory lying in the unknown North will probably remain long unoccupied and unexplored. Yet the Dominion contains idle land and unutilized resources sufficient to maintain a population many times larger than it now possesses. The minister of finance in his budget speech in April, 1909, estimated the population of Canada at 7,500,000 people. It would be hard to find a Canadian who does not believe that this country is destined soon to have 100,000,000 people enjoying all the comforts and luxuries of modern civilization, and it is partly because of this confident belief that the Canadian public has lost interest in the question of annexation to the United States.

The leading industries of Canada are agriculture, lumbering, mining, and fisheries. Western Canada has a soil and climate well suited to the culture of wheat and good for the raising of cattle and horses. Dairying is an important industry in Ontario and all the provinces to the eastward. In 1908 Canada produced 115,000,000 bushels of wheat, 267,000,000 bushels of oats, 50,000,000 bushels of barley, 21,000,000 bushels of corn, and 73,000,000 bushels of potatoes. The Province of Manitoba produced nearly one-half of the wheat crop and Saskatchewan one-third of it.

The foreign trade of Canada has more than doubled in the last ten years. In 1898 the total of imports and exports amounted to $304,000,000, the imports having been $140,000,000 and the exports $164,000,000. In 1908 the total was $651,000,000, the imports having been $371,000,000, and the exports $280,000,000. Since 1902 the imports have uniformly been larger than the exports, the excess of imports doubtless representing in some measure the investments of foreign capital.

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Chapter II.

ESSENTIALS OF THE CANADIAN BANKING SYSTEM.

A chartered bank in Canada is a bank of branches, not a bank with branches. The parent bank, technically known as the "head office," neither takes deposits nor lends money. All the banking business is done by the branches, each enjoying considerable independence, but all subject to the supervision and control of the head office. The law places no restrictions upon the number or location of branches. Canadian banks, therefore, have branches in foreign countries as well as in Canada.

The general bank act, under the terms of which every bank obtains and holds its charter, is subject to revision every ten years. In its present form it is substantially as passed in 1890. A few unimportant changes were made in 1900, and among both bankers and politicians there is some talk to-day about the modifications of the act that will be proposed in 1910. The bankers themselves would be well satisfied if the present law were reenacted without amendment.

PROCESS OF INCORPORATION.

The provisions of the bank act with respect to the organization of new banks are intended to guard against the entry of unfit or inexperienced persons into the banking business. The minimum required capital of a bank is $500,000, of which all must be subscribed and one-half paid in before a new bank can open. At least five men of integrity and good financial standing must agree to act as provisional directors and secure a favorable report on their project from the parliamentary committee on banking and commerce. These men must agree to subscribe for fairly large blocks of stock, otherwise the committee will be inclined to reject their application. They must convince the committee that their project is a well-considered one, that there is need for the new bank, that it is a bona fide enterprise, that they have in mind a competent man for general manager, that they really intend and expect to do a legitimate banking business. If they satisfy the parliamentary committee it will be granted. The bank, however, can not yet begin business. Provisional directors now have merely the right to advertise and cause stock books to be opened. If inside of one year capital stock to the amount of $500,000 has been subscribed and $250,000 thereof paid in, the provisional directors may call a meeting of the shareholders, at which a board of regular directors shall be chosen. Before this meeting is held at least $250,000 in cash must be paid over to the minister of finance. The regular directors must then apply to a body known as the treasury board [a] for a certificate permitting the bank to issue notes [b] and begin business and

[a] The treasury board consists of the minister of finance and five ministers nominated from time to time by the governor in council. The minister of finance is chairman of the board and the deputy minister of finance ex officio the secretary.

[b] The designing and engraving of the notes is left with the bank itself. Many of the banks have had their notes made in the United States, but a bank-note company has been established in Canada and is getting a larger proportion of this business every year. The notes must bear the signatures of two officers of the bank. The authority to sign, however, may be delegated to subordinates. When notes are shipped by the head office to a branch they are usually sent with only one signature, the other being supplied by one of the branch offices. If the notes should be lost or stolen en route they are worthless.

the treasury board may refuse this certificate unless it is entirely satisfied that all the requirements of the law have been met. Delay on the part of the treasury board might prove fatal to the new enterprise, for if a new bank does not obtain a certificate within one year from the date of its incorporation, all the rights, powers, and privileges conferred by the act of incorporation cease.

These requirements make it impossible to organize a new bank in Canada with any degree of secrecy. When application is made for a new charter the fact is known to every banker in the Dominion. The secretary of the Canadian Bankers' Association, although not required to do so by law, would undoubtedly get together at once all possible information with regard to the proposed incorporators and the board of provisional directors.

Having obtained its charter, a new bank must open its head office in the place designated, and may then proceed to establish branches or agencies, upon the number and location of which the law places no restriction. Under its charter it has authority to do a general banking business; it may discount commercial paper, lend money on collateral security, accept deposits payable on demand or after notice, and issue circulating notes up to the amount of its unimpaired paid-up capital in denominations of $5 and multiples thereof. An amendment of the bank act passed July 20, 1908, gives the bank the right to issue what may be called an emergency circulation during the crop-moving season (October 1 to January 31). During this period the legal maximum of the circulation of a bank is its paid-up capital plus 15 per cent of its combined paid-up capital and surplus or rest fund. This emergency circulation, which consists of notes in form and in other respects exactly like the regular issues, is subject to a tax at a rate not to exceed 5 per cent per annum, the rate being fixed by the governor in council. If a bank's circulation does not exceed its paid-up capital, it pays no tax.

SECURITY AND REDEMPTION OF NOTES.

The law is silent on several subjects that seem of great importance to most bankers in the United States. For instance, it does not require that the banks shall deposit with a government official, or in any way set aside any kind of security for the protection of the note holder. It does not even require that the banks shall carry a cash reserve against either notes or deposits, nor does the law make the notes a legal tender for any payment. A bank need not accept the notes of other banks. The government does not guarantee the redemption of the notes. Neither does it bind itself to receive them in payment of dues to itself.

Nevertheless the notes of the Canadian banks are everywhere acceptable at par, the people apparently not being at all concerned about their "goodness." And their confidence in the note has been well justified, for nobody since 1890 has lost a dollar through the failure of a bank to redeem its notes. Following are the legal requirements, which for twenty years have proved adequate protection for the note holder:

1. Every bank must redeem its notes at its head office and in such commercial centers as are designated by the treasury board. The redemption cities are the same for all the banks. They are Toronto, Montreal, Halifax, Winnipeg, Victoria, St. John, and Charlottetown.

2. Each bank must keep on deposit with the minister of finance a sum of lawful money (gold or Dominion notes) equal to 5 per cent of its average circulation; the total so deposited is called the "circulation redemption fund." It is a guaranty or insurance fund for use, if need be, in the redemption of the notes of failed banks.

3. Bank notes possess first lien upon the assets of a bank.

4. Bank stockholders are liable to an assessment equal to the par value of their stock.

5. A bank must make to the minister of finance on or before the fifteenth of each month a detailed statement of its assets and liabilities on the last business day of the preceding month. This monthly return, the form for which is set forth in the act, must be signed by three general officers.

6. The Canadian Bankers' Association, an incorporated body of which each bank is a member, is given supervision by the bank act of the issue and cancellation of notes and of the affairs of a failed bank.

7. The notes of a failed bank draw interest at 5 per cent from the date fixed for their redemption by the minister of finance, who may redeem them out of the assets of the bank or out of the "circulation redemption fund."

IMPORTANCE OF REDEMPTION.

Each of these provisions of the law has its value and significance, but only the first is absolutely essential to the successful operation of the system. All the other provisions might be changed or abolished without impairment of the efficiency of the banking system. But the abolishment of this redemption system would at once give Canada a new banking system. The bank note is almost the sole circulating medium in Canada, and the people have confidence in it because it is tested every day at the clearing houses and proves itself as good as gold. This daily test would probably not take place with the same regularity as now if the banks did not have branches or if they were obliged to deposit security against their issues. Canadian banks are national, not local institutions. All but a few of them have branches in every part of the Dominion, and these branches, as fast as they receive the notes of other banks, either send them in to the nearest redemption center or convert them into lawful money—or its equivalent, a bill of exchange—through branches of the issuing banks located in the same towns. The 29 chartered banks have 2,200 branches and each bank is seeking, through its branches, to satisfy all the legitimate needs of the people for a circulating medium. When the note of a bank is in circulation it is earning money for the bank, but when it is in the vault or on the counter of the bank it is an idle and useless piece of paper. Hence every bank always pays out its own notes through its branches and sends the notes of other banks in for redemption, thus increasing its own circulation and strengthening its own reserve.

Furthermore, if the banks were not allowed complete freedom of issue within the prescribed limit, but were required to deposit some form of security, as is required of the national banks in the United States, an investment or speculative risk would arise that would inevitably cause friction. If bonds were designated as security, bankers might often be tempted by high prices to sell their bonds and forego the profit on circulation for the sake of making a larger profit by the sale of the security. Thus the volume of bank notes might contract even at a time when the people needed more currency. In such case, of course, Canada would be obliged to import gold in order to fill the gap in the circulating medium.

THE CIRCULATION REDEMPTION FUND.

The 5 per cent insurance fund for the redemption of the notes of failed banks is theoretically an important and prominent part of the system, yet practically it would seem to be of little consequence, for not once since 1890 has it been necessary to use a dollar of the fund. Banks have failed, to be sure, but the notes of these banks have always been redeemed either out of the assets or by recourse to the double liability of the shareholders. It is a mistake to suppose that the people of Canada have confidence in bank notes because of the existence of this redemption fund. The average business man knows nothing about the fund and if his attention were called to it as being a source of security for the bank notes he would probably think a 5 per cent reserve altogether too small. The real reason why the people have faith in bank notes is because the notes are always honored by the banks and never fail to stand the test of the clearing house. In other words, they believe that bank notes are good for about the same reason that they believe the sun will rise in the east every twenty-four hours and do not bother themselves about reasons.

Nevertheless this redemption fund does contribute to the strength of the banking system. It makes each bank to a certain extent liable for the mistakes of other banks, and as a result gives rise to a spirit of mutual watchfulness and helpfulness. Other features of the system contribute to the same result, especially the fact that a Canadian bank accepts from a depositor without indorsement the notes of other banks. Since the banks have branches in agricultural and mining communities, often distant from the railroad by several days' journey, and these branches are accepting the notes of other banks and giving credit for them as if they were gold itself, it is evidently important that each banker should have all possible information with regard to the status and business of his competitors. As a result one finds among the bankers of Canada a surprisingly intimate knowledge of each other's affairs.

TWO NEGATIVE QUALITIES.

The two negative qualities of the Canadian bank note—its lack of a legal-tender quality and of a government guaranty—at first sight may seem to readers in the United States a source of weakness. Yet Canadian bankers would doubtless all agree that nothing would be gained by making bank notes legal tender for any kind of payment or by making the government in any measure liable for their ultimate redemption. Such measures would probably be rejected as likely to prove harmful. It would be like hampering a flying machine with unnecessary bars of steel. Bank notes, like bank checks, are mere promises to pay money and are more convenient than money because they can be created as need for a medium of exchange arises. When either has done the work that called it into existence, it should disappear from circulation and be redeemed. If it is made a legal tender like money itself, or if its redemption is guaranteed by a strong government, there is always the danger that ignorant classes of people will regard it as money itself and withdraw it from circulation.

The Canadian government has nothing to do with the daily redemption of bank notes and does not guarantee that they shall be redeemed. It is custodian of the 5 per cent redemption fund and is under obligation to redeem the notes of failed banks out of this fund, but if a series of bank failures should exhaust it the note holder has no guaranty that government funds will be used for his relief.[a]

The possession by the note holder of a first lien upon the assets of a bank, including the funds that may be collected from shareholders on account of their double liability, gives rise to such general confidence in the ultimate convertibility of a bank note that the notes of a failed bank, on account of the interest they bear, sometimes command a premium. As a rule, the notes of such a bank are collected by the other banks and held until the date of redemption has been named by the minister of finance.

MANAGEMENT OF FAILED BANKS.

If a Canadian bank fails to meet any of its liabilities as they accrue, it forfeits at once its right of independent management and is taken charge of by a "curator" appointed by the Canadian Bankers' Association. His powers and duties are defined thus in the law:

[a] Bank act, section 65: (6) Nothing herein contained shall be construed to impose any liability upon the government of Canada, or upon the minister, beyond the amount available from time to time out of the circulation fund.

"The curator shall assume supervision of the affairs of the bank, and all necessary arrangements for the payment of notes of the bank issued for circulation then outstanding and in circulation shall be made under his supervision; and generally he shall have all powers and shall take all steps and do all things necessary or expedient to protect the rights and interests of the creditors and shareholders of the bank, and to conserve and insure the proper disposition according to law of the assets of the bank, and for the purpose aforesaid he shall have full and free access to all books, accounts, documents, and papers of the bank; and the curator shall continue to supervise the affairs of the bank until he is removed from office, or until the bank resumes business, or until a liquidator is duly appointed to wind up the business of the bank."

If the curator within ninety days is able to restore the solvency of the bank so that it is able to resume payments, it may resume business; otherwise the bank may be "wound up" and its charter revoked. During the first three months of a bank's suspension the stockholders have a chance to raise funds and restore the bank to solvency. If they fail, the curator then gives place to an official called a liquidator, who is appointed by the courts. Under a curator the stockholders still have hope and opportunity; under the liquidator the creditors of the bank are in the saddle.

The liquidator must first of all attend to the notes in circulation, their lien upon the assets being prior to all others. Inasmuch as the notes bear interest at 5 per cent from the date of suspension, the other banks are perfectly willing to hold them in their vaults until such a date as the liquidator names for their final redemption, all feeling certain that the notes will sooner or later be paid, for if the assets of the failed bank should prove inadequate, the mutual guaranty fund in the possession of the government will be drawn upon.

Next to the notes the deposits of the Dominion government have a prior lien, and then the deposits of provincial governments. If the assets of the bank are not sufficient to satisfy all the claims, the stockholders are liable to an assessment equal in amount to the amount of capital stock to which they subscribed plus any portion thereof which has not been paid up.[a] Thus if a stockholder has subscribed for 50 shares of stock, par value $100, and has paid in only $2,500, he is liable to an assessment of $7,500, of which $2,500 is on account of the unpaid subscription and $5,000 is on account of the double liability.[b]

MONTHLY RETURNS TO THE GOVERNMENT.

The law provides for no publicity with regard to bank affairs beyond the returns to the minister of finance. The items called for in the monthly report are shown in the statements for February and November, 1909, printed in chapter VI, pages 75 and 76. The minister of finance may call for supplementary information or "special returns from any bank whenever in his judgment they are necessary to afford a full and complete knowledge of its condi-

[a] Section 89 of the bank act: "In the event of the property and assets of the bank being insufficient to pay its debts and liabilities, each shareholder of the bank shall be liable for the deficiency to an amount equal to the par value of the shares held by him in addition to any amount not paid up on such shares."

[b] As a matter of fact in the case of most Canadian banks the paid-up capital stock is equal to the capital subscribed. For instance, the returns to the government for February, 1909, give the following totals: Capital subscribed, $98,294,381; capital paid up, $96,160,555.

tion." The law, however, gives him no right of examination, and the government maintains no inspecting force.

In addition to the monthly returns, each must make report once a year as to its dividends, drafts, and bills of exchange that have remained unpaid for five years, and the names and residences of its shareholders. This information, as well as the monthly returns, is given to Parliament and the public.

CANADIAN BANKERS' ASSOCIATION.

The Canadian Bankers' Association is an incorporated body with powers and duties prescribed in an amendment to the bank act passed in 1900. Each chartered bank is represented in the membership and has one vote. The association is required by law to supervise the issue of bank notes and to report to the government all over-issues, to look after the destruction of worn and mutilated notes, and to take charge of suspended banks. Its headquarters are in Montreal in the Bank of Montreal building, and its active executive officer is the secretary-treasurer. The expenses of the association are apportioned among the banks and do not apparently constitute a very heavy burden, for the secretary has an exceedingly small staff. All expenses incurred by the association on account of a suspended bank are, of course, a charge against the assets of the bank.

When the notes of a bank are so worn or mutilated that it wishes to replace them with new notes, notice is sent to the secretary of the association, a date is fixed, and in the presence of the secretary the old notes are duly counted and taken to a furnace,[a] where they are consumed in the presence of the secretary and other witnesses. After this solemn operation has been performed and the signatures of all parties observing it have been duly attested, new notes are issued by the association to replace those that have been destroyed.

The clearing houses in the Dominion are subject to regulation by the association. It also has the power to establish subsections and to do educational work by providing for lectures, competitive papers, examinations, etc. The Journal of the Canadian Bankers' Association, a monthly publication of excellent quality, is edited by the secretary and is at present the only educational force at work among bank employees.

[a] Each bank maintains one such furnace for this purpose. A wire netting over the chimney prevents the draft from carrying any portions of the consumed notes into the air.

Chapter III.

THE MANAGEMENT.

The keynote of the organization of a Canadian bank is the centralization of responsibility. One man, the general manager, is supreme. Above him in authority under the law are the directors, representing the stockholders. Below him is an army of employees, of whom all but two or three owe their positions entirely to his favor.

The general managers of Canadian banks are, without exception, men who have been in the banking business since boyhood. They have worked their way up through all the grades of employment by the force of brains, industry, character, and good health. They know from experience the task of every employee and they know when it is well done. They hold their positions because they have proved their fitness. They are, in other words, professional bankers. Untrained outsiders can not break into the banking business as they do in the United States.

The president of a Canadian bank is merely the chairman of the board of directors. This body holds meetings at least once a week. At these meetings the general manager reports on the business of the week and presents such applications for new credit as seem to require the approval of the board. As a rule, the general manager gives to the directors, either orally or in typewritten form, full information with regard to all the operations of the bank. His recommendations as to the granting of credits are usually approved without much discussion, yet in Canada it is expected of every bank director that he shall give close and personal attention to the bank's operations as reported by the general manager and promptly raise objection whenever in his judgment a mistake is being made. All extensions of credit are reported by the general manager and must be formally approved by the board. Members of the board can not personally investigate individual cases, and are therefore obliged to place great reliance upon the judgment of the general manager. Nevertheless it is expected of each director that he shall always be well informed as to the important operations of the bank, as to its general policy, as to the amount of its cash reserve, the nature of its investments, etc.

The directors are not forced to rely entirely on the general manager. An officer called the "chief accountant" is expected to know quite as much about the bank's affairs as the general manager himself, and is often present at the board meetings. If the general manager misrepresents any transaction, or fails to reveal to the board the true condition of the bank, the accountant is expected to correct him. In some of the larger banks the board of directors has deemed it wise to place in the head office still another man to represent them, having full power to acquaint himself with the details of all transactions. This man is usually given some routine duties to perform, yet his prime function in the head office is as a representative of the board of directors. The appointment of such a man does not imply any lack of confidence in the general manager, but is justified rather by the belief that the general manager, with two good advisers, will be less liable to an aberration of judgment than if he has only one.

The other general or "chief" officers, with headquarters in the "head office," are the superintendent of branches, the inspector, and the secretary. The superintendent is the general manager's right-hand man and is usually in very close touch with his chief and in sympathy with his general policy. The superintendents of the larger banks have the assistance of deputy and department superintendents.

The inspector is at the head of the bank's system of examination. He and his assistants visit the branches at irregular intervals, counting the cash and examining the discounts and other assets. As a rule they are keen to find something to condemn or criticise, and branch managers and their subordinates seem to regard them with considerable fear and respect. Canadian banks are not subject to government inspection, and bankers maintain that no inspection by an outsider could be as thorough or salutary as that which results from the present system. The expenses of the inspecting staff of some of the larger banks amount to $80,000 a year.

Theoretically the board of directors is superior to the general manager and can bring him to a halt if he enters upon any policy of which they disapprove. In practice, however, the general manager of a Canadian bank knows so much more about the banking business than any one or all of the directors combined that if a conflict of opinion does arise between the board and himself, the chances are that he will dominate. Yet in most of the banks it would be very difficult for the general manager from improper motives to hold long to a detrimental policy. Even though the accountant did not report against him, the directors, the moment their suspicions were aroused, would call into consultation the managers of some of the larger branches and other experienced officers in whose judgment they had confidence. The entire system of managment is so correlated that it is practically impossible for one man to be the bank. Some of the smaller institutions are doubtless dominated by single individuals, but as a rule a Canadian bank has connected with it in responsible positions, all having access to the board of directors, so many men of long experience in the banking business that no one man, however high his position, can use the institution to gratify personal ambition or cupidity.

MANAGEMENT OF BRANCHES.

The responsible head of a branch is called the manager. He is selected by the general manager and must conduct his branch in harmony with the views of his chief. His duties are analogous to those of a bank president in the United States. His chief assistant, called the accountant, has charge of all the details, and in the manager's absence is the ranking officer in the branch. He is responsible to the manager and is expected to keep fully informed as to the manager's policy in all its details and to be familiar with all correspondence that passes between the manager and the general manager. He is, in fact, the manager's understudy. In the United States the duties of the so-called Canadian bank accountant are assumed in the smaller banks by the cashier, and in the larger banks are divided between the vice-president and the cashier.

A large branch is in daily communication either by wire or letter with the general manager. The head office allots to each a certain quantity of the bank's notes, a certain amount of "legals," as the Dominion notes are called, and a certain credit balance in New York and London and other foreign cities. A limit is also placed upon the amount which a branch may loan without consultation with the head office. This limit, of course, varies with the different branches, according to the magnitude of their business.[a] In some respects each branch is treated as an independent institution. For example, a man having an account in one branch of an institution can not draw checks on another branch. His checks upon the branch with which he has an account, if presented at the counters of other branches of the same bank, will be treated as if they were checks upon some other institution, exchange being charged. A customer, however, can easily arrange to have his account transferred from one branch to another of the same bank.

[a] "Our branch managers," said a Montreal banker, "have the authority to make loans up to a certain size on their own responsibility. Then each Province has its own supervisor or inspector. In case there is an application for a loan too large for the branch manager to pass on, he makes his recommendation and sends it on to his district supervisor. Up to a certain figure these supervisors have authority to grant loans. If the size of the loan comes within this figure and the branch manager's recommendation is O. K., and it has the approval of his best judgment, the supervisor will grant the loan. With us he can loan up to $10,000 on his own judgment, backed by the branch manager's. If the loan is for a greater amount than this, the supervisor makes his recommendation and forwards the application with his and the branch manager's opinion to the head office. The head office usually follows the advice of the supervisor and branch manager. If this should come at a time when it is necessary to restrict loans, we can refuse these big loans or have the customer get along with less."

Managers of branches are required to make weekly returns to the head office of all loans and discounts. They are required to make quarterly reports of profits earned. Every six months they credit earnings to head office. At the end of every month they must submit a balance sheet, a detailed statement of current accounts and liabilities, and a description of all collateral security which they hold. Every quarter they report the amount of profits earned, and twice a year they credit earnings to "head office."

The manager of a branch is allowed, as a rule, to select the members of his staff, but this privilege gives him little patronage, for custom prescribes that vacancies shall be filled by promotion. Boys are engaged as "juniors" at about the age of 14 and are paid a salary of $150 or $200 a year. Rarely does a bank take into its service a youth who is over 16 years of age, or a man who has been trained up in another bank. Practically no university men are in the banking business. Bankers believe that the best results are obtained by taking on boys at 15 or 16 and training them up through the various subordinate positions, gradually increasing their salaries and adding to their responsibilities. When a boy applies for a position in a bank he is given an application blank containing nearly a hundred questions with regard to his parents, schooling, favorite studies, use of tobacco and intoxicants, attendance at church, his present salary and employment if he is at work, etc., and is required to give the names of at least three or more persons, reputable householders, who have known him for five years. If he is hired, he must then take an oath of secrecy, solemnly binding himself not to reveal to any person any information whatever with regard to the operations of the bank.

These precautions in the employment of juniors are deemed necessary because the bank expects during the coming generations to select its branch managers and general managers from these juniors. After a boy is admitted to a bank he is expected not only to do his work well, but also to conduct himself in the community in an orderly and becoming fashion. If he contracts bad habits, gets into debt, or keeps fast company, he is likely to lose his place in the bank, and he must beware of too early marriage, for his general manager will disapprove if he marries on a salary of less than $1,000. This means that the average bank clerk in Canada can not marry much before the age of 25. The managers of the banks want the members of their staffs to be well dressed and well fed. Marriage on a small salary, they fear, would give their clerks a worried aspect detrimental to the interests of the bank.

Employees are obliged to furnish a bond, which may be supplied either by private persons or by a guaranty company. Some of the banks have formed mutual guaranty funds, to which all employees, from the general manager down, make regular contribution. The bank itself usually contributes at the outset a sum of money out of profits as a nucleus for the fund. Employees are allowed interest on the money they contribute to the fund, and the entire contribution is returned to the employee when he retires from the service of the bank.

Some of the larger banks have instituted pension schemes for the benefit of employees, the directors setting aside each year a certain percentage of the profits for this purpose and deducting from each employee's salary a certain percentage. The mutual insurance plan has been found more economical than the older methods, and the pension scheme is said to be exerting a most beneficent effect upon the morale of the banks' staff.

Chapter IV.

LOANS AND DISCOUNTS.

The assets of Canadian banks are unusually good for two reasons: First, because the law provides effective safeguards; second, because banking practice in Canada makes it very difficult to negotiate commercial paper of inferior quality.

The bank act gives almost a blanket privilege to a bank.[a] It may engage in all transactions appertaining "to the business of banking." But the sections of the act which contribute most to the quality of its assets are sections 88 and 89. These make it possible for a Canadian banker to become, as it were, a silent partner in an industry and at the same time to possess a first lien on all its liquid assets. A bank may loan money to wholesale dealers and shippers of produce of all kinds and possess a lien, not only upon the goods originally accepted as secured, but upon the goods which in the course of business are substituted therefor. These sections apply also to manufacturers, so that a bank may lend to a manufacturer

[a] The bank may open branches, agencies, and offices and may engage in and carry on business as a dealer in gold and silver coin and bullion, and it may deal in, discount, and lend money and make advances upon the security of, and may take as collateral security for any loan made by it, bills of exchange, promissory notes, and other negotiable securities, or the stock, bonds, debentures, and obligations of municipal and other corporations, whether secured by mortgage or otherwise, or Dominion, provincial, British, foreign, and other public securities, and it may engage in and carry on such business generally as appertains to the business of banking.

upon the security of his raw material and retain its lien upon the property through all the processes of manufacturing, having the same rights and powers with respect to the goods that it would possess if it had acquired the same by virtue of a warehouse receipt. On account of their importance sections 88 and 89 are printed below:

SEC. 88. The bank may lend money to any wholesale purchaser or shipper of or dealer in products of agriculture, the forest, quarry and mine, or the sea, lakes and rivers, or to any wholesale purchaser or shipper of or dealer in live stock or dead stock and the products thereof, upon the security of such products, or of such live stock or dead stock and the products thereof.

2. The bank may allow the goods, wares, and merchandise covered by such security to be removed and other goods, wares, and merchandise, such as mentioned in the last preceding subsection, to be substituted therefor, if the goods, wares, and merchandise so substituted are of substantially the same character, and of substantially the same value as, or of less value than, those for which they have been so substituted; and the goods, wares, and merchandise so substituted shall be covered by such security as if originally covered thereby.

3. The bank may lend money to any person engaged in business as a wholesale manufacturer of any goods, wares, and merchandise, upon the security of the goods, wares, and merchandise manufactured by him, or procured for such manufacture.

4. Any such security, as mentioned in the foregoing provisions of this section, may be given by the owner of said goods, wares, and merchandise, stock, or products.

5. The security may be taken in the form set forth in Schedule C to this act, or to the like effect.

6. The bank shall, by virtue of such security, acquire the same rights and powers in respect to the goods, wares, and merchandise, stock, or products covered thereby, as if it had acquired the same by virtue of a warehouse receipt. (53 V., c. 31, s. 74, 63–64 V., c. 26, s. 17.)

89. If goods, wares, and merchandise are manufactured or produced from the goods, wares, and merchandise, or any of them, included in or covered by any warehouse receipt, or included in or covered by any security given under the last preceding section, while so covered, the bank holding such warehouse receipt or security shall hold or continue to hold such goods, wares, and merchandise during the process and after the completion of such manufacture or production, with the same right and title, and for the same purposes and upon the same conditions, as it held or could have held the original goods, wares, and merchandise.

2. All advances made on the security of any bill of lading or warehouse receipt, or of any security given under the last preceding section, shall give to the bank making the advances a claim for the repayment of the advances on the goods, wares, and merchandise therein mentioned, or into which they have been converted, prior to and by preference over the claim of any unpaid vendor, provided that such preference shall not be given over the claim of any unpaid vender who had a lien upon the goods, wares, and merchandise at the time of the acquisition by the bank of such warehouse receipt, bill of lading, or security, unless the same was acquired without knowledge on the part of the bank of such lien.

HOW THE LAW PROTECTS THE BANKS.

The law puts the banks in a position to be of great service to the business interests of Canada and at the same time protects their advances. If a bank lends money to a wholesaler or to a manufacturer it practically becomes owner of all the goods in his establishment. Yet the borrower is in no wise embarrassed, for he has the same right to buy and sell that he would have if he were under no obligation to the bank. If at any time, however, he adopts a policy of which the bank disapproves, or if the course of his business indicates that something is wrong, his bank may take immediate possession of his stock of goods. On account of the importance of this class of advances the law sets forth in detail the form of note or contract which the borrower must sign, as follows:

SCHEDULE C.

In consideration of an advance of -------------------- dollars made by the -------------------- Bank of A. B., for which the said bank holds the following bills or notes (describe the bills or notes, if any) [or, in consideration of the discounting of the following bills or notes by the -------------------- bank for A. B. (describe the bills or notes)], the goods, wares, and merchandise mentioned below are hereby assigned to the said bank as security for the payment on or before the -------- day of ---------------- of the said advance, together with interest thereon at the rate of ------ per centum per annum from the -------- day of ---------------- (or, of the said bills or notes, or renewals thereof, or substitutions therefor, and interest thereon, or as the case may be).

This security is given under the provisions of section eighty-eight of the bank act, and is subject to the provisions of the said act.

The said goods, wares, and merchandise are now owned by ____________, and are now in the possession of ____________________, and are free from any mortgage, lien, or charge thereon (or as the case may be), and are the following (description of goods assigned).

Dated, etc.

(N. B.—The bills or notes and the goods, etc., may be set out in schedules annexed.)

A bank's lien upon property accepted as security for a loan, or covered by a bailee or warehouse receipt or a bill of lading, is superior to that of any vendor unless the vendor's claim was known to the bank when it accepted the goods or documents as security. If a debt is not paid when due the goods put up as security may be sold by the bank at public auction within ten or thirty days after notice has been sent by mail to the pledger. The bank, however, can not acquire this hold on the property of a borrower unless the security is given at the time the loan is negotiated. A bill of lading or warehouse receipt acquired by a bank as supplementary security for a loan gives it no special rights or powers.

BANKS SILENT PARTNERS IN INDUSTRY.

These provisions of the law contribute greatly to the strength of the assets of Canadian banks. A large part of their so-called commercial paper is secured practically by title to goods in warehouses, factories, and wholesale stores. Such security is more saleable than stocks and bonds, and paper having such security back of it is therefore better banking paper than notes secured by stock-market collateral. So far as would seem possible the Canadian bank act makes merchandise of all kinds a sort of collateral security for bank advances. It assumes that if a bank advances capital for the conduct of a business it should have a claim upon all the assets of the business and upon all goods as they come and go in the course of trade. No matter how a merchant's stock may change in character, it all belongs to his bank in case he fails to take up his paper or meet his engagements. In the same way a manufacturer's stock of goods, the raw material and the finished products, no matter how they change from day to day and month to month, will become the property of his bank if he fails to pay his note. The law practically makes every bank a silent partner in many wholesale and manufacturing businesses and gives it many rights which no ordinary silent partner can acquire. It has the effect naturally of making bankers keep a close eye upon business conditions as well as upon the affairs of their individual borrowers. Canadian bankers are interested in the lumber market, in the prices of metals, in changes in the tariff, and in the acquisition of foreign markets for Canadian manufactures and products, even as the Wall street banker is interested in the prices of stocks and bonds. He is in a sense the owner of merchandise of all kinds, and both trade and financial news have equal significance to him.

The law contains a number of other important provisions. A bank, for example, must not make a loan secured by the pledge of shares of its own capital stock. If it makes loans to any directors or officers of the bank, the amount of such loan must be reported each month to the government. No general manager or other employee of the bank can vote at a meeting of the stockholders. The bank must not pay dividends in excess of 8 per cent unless it has a rest or surplus equal to 30 per cent of its paid-up capital. It shall not hypothecate its notes. It shall not buy and sell goods, nor shall it make advances upon real property as security. It may acquire title to real estate and other immovable property, but can not hold such property for a period exceeding seven years, except that which is needed for its own business.

A CUSTOMER'S LINE OF CREDIT.

These legal safeguards are not the most important sources of strength to the assets of a Canadian bank. No matter how carefully a law may be framed, it can not prevent bad banking if the system under which the law is applied is unscientific or if the bankers themselves are not keenly alive to all the risks inherent in their business. In Canada the banks are managed by men whose long experience in the business has taught them to avoid certain banking practices that are in vogue in other countries. Realizing how important is the relation between a bank and its customer, they believe that this relation should be made as intimate and helpful as possible. Among Canadian bankers, therefore, it is part of the law and gospel of banking that a bank is entitled to full knowledge of the financial condition and business operations and prospects of its customers. Hence a bank insists that its customers shall rely entirely upon itself, that they shall make a full statement of their affairs at least once a year, and that they shall begin each year with a clean slate.

As a result of this policy a business man in Canada deals exclusively with one bank. Once a year he arranges with his bank for a line of credit and learns exactly the amount of paper he will be able to discount. If he happens to need less than he anticipated, he will not exhaust the credit allowed by the bank and will pay interest, of course, only upon such portion of the bank's funds as he actually utilizes. If, on the other hand, his business is unexpectedly large, giving opportunity to make bigger profits and creating the need for more capital, he will find the bank ready to increase his line of credit, provided the manager is satisfied that business conditions and prospects warrant expansion. Under no circumstances, however, must the customer of a bank seek to raise funds elsewhere unless he first gets the consent of his bank. If he sells his notes in the open market, he must do it with the full knowledge of his bank or run the risk of being placed upon the "black list."

THE "ONE-BANK" POLICY.

This "one-bank" policy is so thoroughly a part of the Canadian system that a merchant would find it very difficult, having exhausted his credit at one institution, to get a favorable hearing at another. The very first question put to him would be, "Where have you been keeping an account, and why do you wish to make a change?" If his answers were not satisfactory, the manager of the second bank would either decline outright to help him or get in touch with officers of the bank with which he had been doing business.[a]

[a] A general manager of a large bank gave his views of the one-bank policy as follows: "In the States the banks are not large enough to furnish all the credit accommodations needed by the larger firms and corporations. So such concerns are forced to raise funds by selling their commercial paper through note brokers. This paper must be paid when due, and in panicky times, there being less demand for the paper, the concerns are denied credit when they need it the worst. Consequently solvent firms

The effect of this policy upon the quality of the bank assets is undeniable. The bulk of the paper held by Canadian banks bears the signatures of men whose business affairs and financial status and general credit have long been well known to the managers. They feel morally certain that the same signatures are not in the portfolios of other banks. The manager of a bank knows the extent to which each borrower's credit has been extended. He knows not merely what his assets and liabilities were when he made application for credit, but has every reason to believe that he knows all the obligations he has assumed since that date.

As one would naturally expect, there is very little commercial paper floating about in the Canadian money market. The bill broker is unknown. Wholesalers and manufacturers, unless shipping to foreign countries, do not draw upon their customers. If credit is granted, it takes the form of a book account or of a promissory note.

The promissory notes received by a manufacturer or wholesaler are deposited with his bank. The book accounts under ordinary conditions remain entirely at the disposal of the business, but in extraordinary cases,

have been pushed to the wall. In Canada it would be a disgrace to a bank if it should force a creditor into an assignment just because he happened at the time to be hard up, through a panic or otherwise, and then have it proved that the firm was really solvent all the time.

"When a firm does all of its banking business with one bank or, if it is a very large firm, with two or more banks who work in harmony, the bank or banks will not allow a line of credit which will make the firm insolvent in case of an ordinary depreciation of values or partial failure of some new expansion.

"By having all of a firm's business we can and do safely make loans that would make the hair of a banker across the line stand on end."

when the situation is not satisfactory, or if additional credit at the bank is desired, an assignment of the book accounts to the bank may be required.[a]

During the harvest season heavy drafts are made upon the resources of the banks to provide for the movement of the grain crops of the West. In its advances of money for this purpose the law makes it possible for a bank always to have abundant security. Under

[a] The head of a large wholesale house in Montreal talked as follows about his firm's dealings with the banks: "We, like many other firms, have two lines of credit. One is our single-name paper up to a certain amount. All in excess of that is secured by trade paper. By the banks getting so much of this trade paper and of the drafts, it can keep in close touch with a firm's business, not only with ours, but with our customers' as well. We discount a customer's paper. He also has the paper discounted which he gives to other wholesalers and manufacturers. If he is straining his credit, the bank is in a good position to know it and to warn us.

"The accounts of some of the largest firms or corporations are often divided between two banks. In this case the two banks work in harmony and they keep in touch with the total debts of the firm by working together.

"Some of our merchants and manufacturers thought at the time of the panic of 1907 that the banks were too severe on them, but looking backward they all now think that in view of the extent of the panic and the conditions that followed, the banks gave them all the assistance they could have expected.

"In our line of business we draw drafts on our customers for from thirty to one hundred and thirty days. These we discount at our bank and deposit as cash. The bank then forwards drafts through its branches, and after they have been accepted by the customers, holds them for maturity. In this way the bank has both us and the customer on the paper, although they have to be vigilant in the matter of presenting for acceptance and for collection at maturity.

"Our business a few years ago was conducted more on a credit basis than it is now. We then gave two to six months. However, as the banking facilities have increased throughout the country, commercial credit has been contracting.

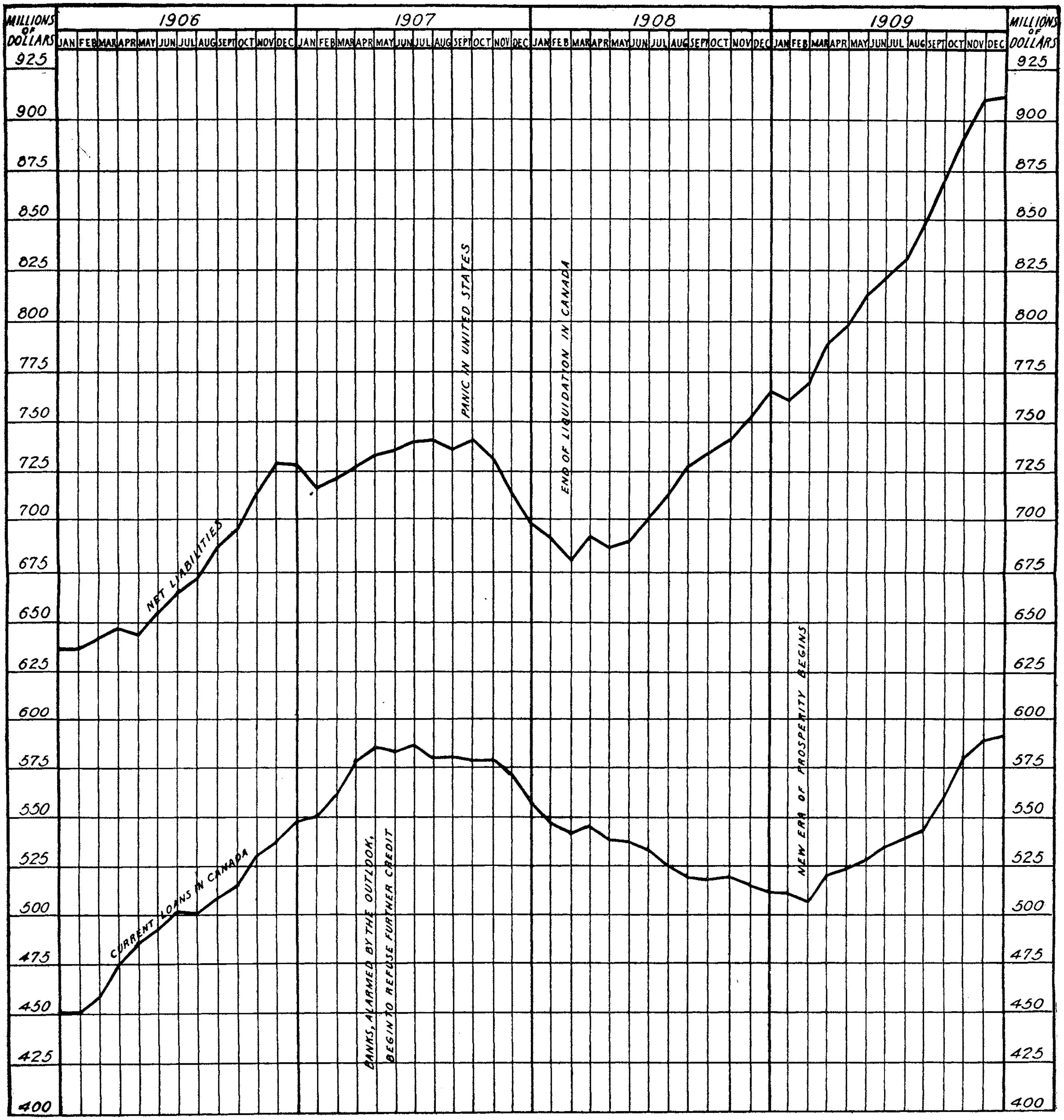
"Our business is facilitated because warehouse receipts may be given on material in the borrower's own yard, which may be put up as collateral. If the note is not paid at maturity the material back of the receipt may be taken as easily by the bank as though the warehouse receipt was from one of the public warehouses in the States."

section 88 of the bank act the buyer makes assignment to his bank of the grain purchased. When the grain is delivered to a railroad, the bill of lading becomes the property of the bank. When it reaches Port Arthur, or some other distributing point, and is stored in an elevator, the bank receives a warehouse receipt in exchange for the bill of lading; and when shipment is made to New York, to Montreal, or to Europe, the bank receives on surrendering the warehouse receipt the shipper's draft on the consignee, the bill of lading, and other documents. Throughout the entire transaction, from the purchase from the farmer to the final sale to the eastern consumer, the bank practically has title to all agricultural products which are being moved by means of its funds.

LOANS TO FARMERS.

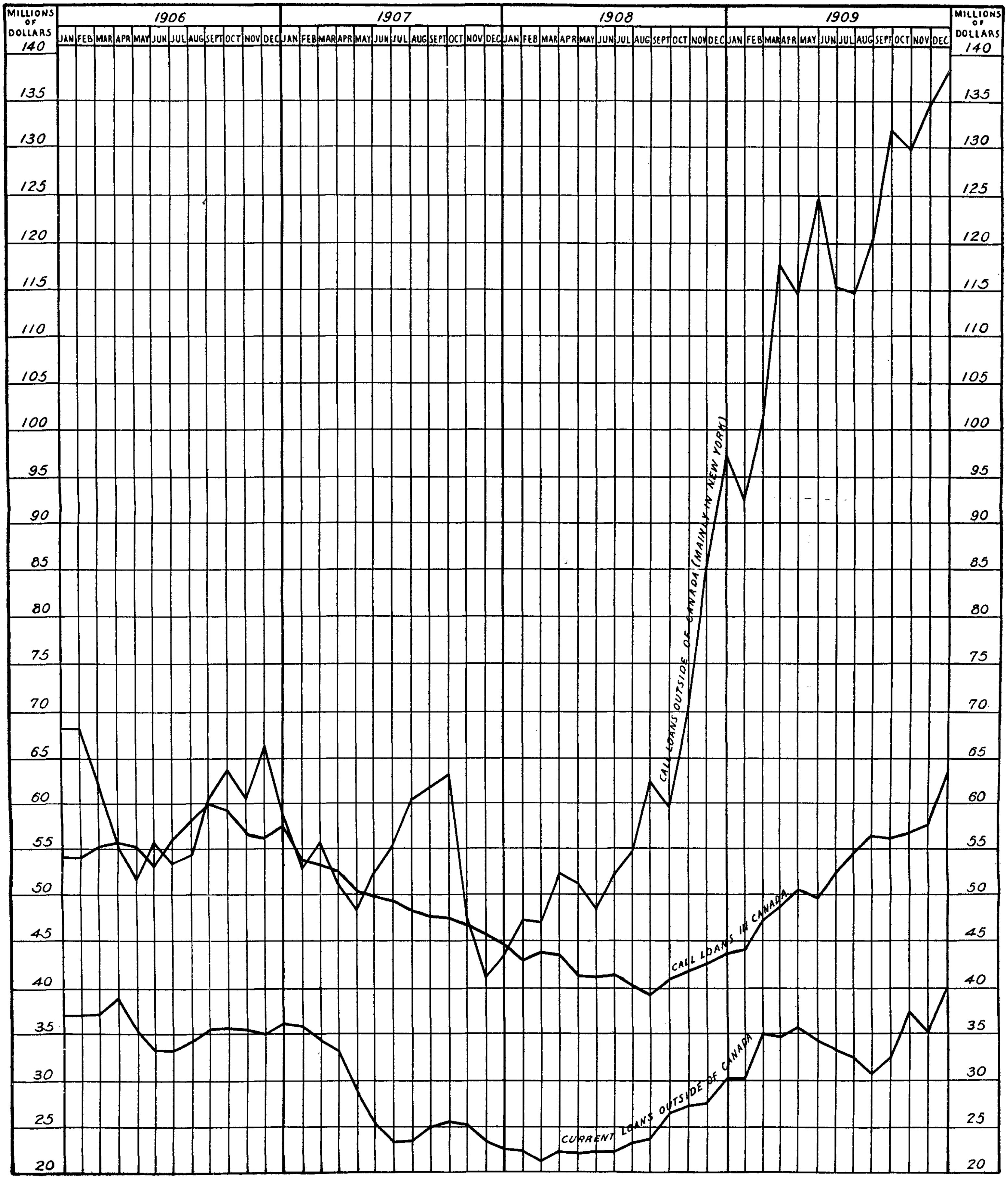
The branches of Canadian banks in agricultural districts quite commonly lend assistance to farmers. They do not make a practice of taking mortgages on farm property, but lend outright on the farmer's credit, depending for their security upon his character as a man and ability as a farmer, and often as well upon a neighbor's indorsement. Farmers' paper ranks high among the Canadian bankers and constitutes a considerable proportion of the assets of some of the banks. The banks, of course, do not undertake to supply the farmer with anything more than working capital. They do not help him pay for his land and buildings, but they do let him have at least part of the money he needs for tools, wages, seed, stock, etc. Despite the fact that these advances are unsecured by mortgage, the banks suffer very little loss on farm paper.

CHART I.—NET LIABILITIES AND CURRENT LOANS IN CANADA, 1906–1909.



31870—10. (To face page 48.) No. 1.

CHART II.—CALL LOANS IN CANADA AND ELSEWHERE, AND CURRENT LOANS OUTSIDE CANADA, 1906–1909.



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CALL LOANS IN CANADA AND ELSEWHERE.

After "current loans in Canada" the next largest item among the assets is "call and short loans elsewhere than in Canada." For example, this item in October, 1909, amounted to $130,000,000, while the current loans in Canada were $580,000,000. The call loans outside of Canada consist mainly of loans in the New York market and are as a rule secured by collateral easily convertible into cash. These loans are regarded by Canadian bankers as equivalent to cash and are figured by them as part of their reserve. Only the larger banks make a practice of loaning on call in New York. In October, 1909, for example, the Bank of Montreal's call loans outside of Canada amounted to over $77,000,000, which was about 70 per cent of the total for all the banks. Indeed, this bank's call loans outside of Canada during this month were only about one and one-half million dollars less than its current loans in Canada. The Canadian Bank of Commerce during the same month had $19,000,000 loaned on call outside of Canada and $72,000,000 invested in current loans in Canada. The Bank of British North America had $9,000,000 on call outside of Canada; the Merchants' Bank, $7,389,836; and the Bank of Nova Scotia, $4,000,000. The call loans of these five banks amounted to over 90 per cent of the total. During that month 14 of the banks had no funds whatever invested on call outside of Canada.

The item of "call and short loans on stocks and bonds in Canada" is relatively unimportant. In October, 1909, it amounted to only $56,996,065 and was pretty evenly distributed among the different banks, except that no such loans whatever were reported by the Bank of Montreal. These are not call loans in the New York sense of the word. The market for securities in Canada is narrow and inactive, and Canadian bankers realize that a demand loan secured by the stock or bonds of a Canadian corporation can not be realized on promptly without considerable sacrifice on the part of the lender.

A demand note in Canada, as in most of the smaller cities in the United States, means merely that the bank has a right to call for payment at any time; that the borrower will pay when called if he can, and that if he can not take up the note immediately, the bank will give him such time as may be necessary for raising the money. This item of call loans in Canada, therefore, is not subject to such great fluctuations as the item "call loans elsewhere." The rate of interest on call loans is always a trifle lower than the rate on commercial discounts. Consequently, when there is an increasing demand for money on time, borrowers on call are less welcome at the banks and the amount of call loans in Canada is quite likely to decline. For example, throughout 1906 the amount of current loans in Canada, which includes time loans and commercial discounts, was steadily on the increase. The total rose from $450,000,000, January 1, 1906, to $585,000,000, April 1, 1907. Here was a gain of $135,000,000. During this same period the amount of call loans in Canada rose from $55,000,000, January 1, 1906, to $60,000,000 in August of that year, and then almost steadily declined, having been less than $50,000,000 April 1, 1907.[a]

[a] Charts I and II on pages 46–47 show changes in the different classes of loans during the four years 1906–1909.

AS FINANCIAL INSTITUTIONS.

That the chartered banks of Canada are financial as well as commercial institutions is evidenced by their holdings of stocks and bonds. In October, 1909, they held of railway and industrial stocks and bonds $51,000,000, of municipal bonds $21,000,000, and of Dominion and provincial government securities $13,000,000; total $85,000,000. These securities represent partly an investment carried as a secondary reserve and partly a business carried on for the benefit of their customers. In Canada the demand for long-time investments is not large, but whatever market there is for securities is mainly in the hands of the chartered banks. An investor seeks the advice of a bank manager and often is able to obtain from him securities which satisfy his needs. The banks do not publish a list of their holdings, but it is generally taken for granted that they carry only gilt-edge securities. If a customer desires to obtain second or third rate securities, being eager for a high rate of return, a bank can accommodate him, not by selling him out of its own stock, but by negotiating the purchase of the desired securities in New York or London.

As the wealth in Canada increases and idle capital accumulates in excess of its immediate needs, this financial side of the business of Canadian banks will doubtless expand. It may, indeed, during the next generation or two greatly expand and become an important feature of the chartered banks. They are in a position to take care of the business as it develops and will doubtless be able to prevent the establishment of any purely financial banking houses in Canada.

Chapter V.

LIABILITIES.

The liabilities of Canadian banks, like those of commercial banks in Great Britain and the United States, furnish a fairly correct index to the expansion of the country's credit. Since the Canadians, like other Anglo-Saxons, make free use of the check book in the settlement of both business and private accounts, any increase of bank loans and discounts is usually attended by a corresponding increase in deposits. When a Canadian business man discounts his note at his bank he almost invariably leaves the proceeds on deposit with the bank. As he makes his payments by check his own deposit account declines, but the bank accounts of his creditors increase, so that the net result of borrowing in Canada is an increase in the total of bank deposits. Consequently, in good times, when the banks are freely extending credit, the deposits grow, and in periods of dullness and liquidation they decline. A growth of deposits, therefore, is commonly accepted as an indication of business and industrial activity.

Bank notes constitute the second important liability. The amount of these in circulation, as will be shown later in this chapter, has little relation to general business conditions or to the amount of loans and discounts.

THREE KINDS OF DEPOSITS.

Deposits by the public are of three kinds—deposits payable on demand, deposits payable after notice (usually ten to fifteen days), and deposits payable at a fixed date. The deposits payable after notice are commonly known as savings bank deposits, and are accepted in sums of $1 and upward, interest being allowed on minimum monthly balances. Many of the banks, if not all, permit a limited use of the check book by depositors in their savings departments. The deposits payable at a fixed date are technically known as "time deposits" and are represented by deposit certificates. In recent years the banks have paid 3 per cent per annum on both the "time" and the savings bank deposits. In the monthly bank statement these two classes of deposits are reported under the single head of "deposits by the public payable after notice or on a fixed day," and are commonly known as the "time deposits." On January 31, 1909, these deposits amounted to $443,170,532, but the returns do not show how much of this sum consisted of deposits in the savings department and how much of "time" deposits payable at a fixed date. As the two classes of deposits are quite different in character, one being much like a current account subject to check, the other being comparatively fixed or permanent, it would seem worth while to report them in separate columns.

In Canada the funds of savings bank depositors, who are usually people having no immediate use for their money, contribute directly toward the furtherance of trade and industry, whereas in the United States, where such depositors put their money into savings banks, it is quite commonly loaned out upon the security of real estate and corporation mortgages. The time deposits in Canada are almost double the demand deposits. For instance, in

October, 1909, the time deposits amounted to $481,000,000 while the demand deposits equaled only $251,000,000. It must not be inferred, however, that the whole of this $481,000,000 would have found its way into savings banks had Canada a banking system like that of the United States. This sum really represents funds which in the United States would be distributed among the commercial banks, the trust companies, and the savings banks. A considerable proportion of Canadian time deposits consists of money belonging to business men, and is quite as likely to be used in the furtherance of business enterprise as are any of the funds which stand to the credit of demand depositors. If a business man in Canada has temporarily a large balance in his bank and realizes that he will not need the money for several months, he will either arrange for its entry as a time or savings bank account, or for the payment of interest on his balance as a current account. Of course, the bankers do not encourage this practice, nor can it be indulged in by a depositor who is also a borrower. Depositors of the class who are paid a small rate of interest—usually 2 per cent—by national and state banks in the United States, usually have savings department accounts in Canada and get 3 per cent.

SAVINGS DEPOSITS ALWAYS PAID ON DEMAND.

On account of the fact that the time or savings bank deposits contain such a large proportion of money likely to be needed in business at any time, the banks regard both classes of deposit as being essentially the same form of liability. Practically all the deposit liabilities of a Canadian bank are payable on demand, although payment on two-thirds of them at the present time can not legally be demanded until after notice. Custom has made it imperative that a Canadian bank shall pay any and all of its depositors on demand. For any bank to refuse to let a depositor have his money when he calls for it would be regarded by the public as an acknowledgment of weakness. Certainly no Canadian bank would take the risk of making the experiment.

Canadian bankers feel that 3 per cent is too high a rate of interest to pay depositors. This rate is a matter of tacit agreement among the banks and no single bank can afford to lower it, for such action would cause it a loss of business. On the other hand, if any bank, hoping to increase its deposits, should offer to pay 3½ per cent or 4 per cent, its conduct would be looked upon with grave disapproval by its competitors. Some of the new banks in recent years have obtained business in this manner and have been severely criticised by the managers of the older institutions.

SAVINGS DEPOSITORS NOT PROPERLY REWARDED.

To an outsider it would seem that the savings bank depositor in Canada is not generously treated. In the United States he gets 4 per cent on his savings even in the large cities. In Canada, a country where real estate mortgages yield from 7 to 9 per cent and the bonds of new corporations are selling at prices giving the investor a higher return than he can get in the United States, it is certain that a real savings bank could well afford to pay depositors 4 per cent. It is doubtless true that 3 per cent is a higher rate of interest than most of the savings depositors in the chartered banks have a right to expect. A large part of these deposits are not savings deposits at all. Nevertheless it is doubtful if the banks would be justified in a reduction of the rate.

The right solution of the problem seems to lie in another direction, namely, in the making of a sharper distinction between demand and savings deposits. The funds received from both classes of depositors should not be treated alike. The money of savings bank depositors should be invested in bonds and mortgages and then could be made to yield a net return of over 5 per cent. If the depositors were not allowed to check upon their accounts they would be a source of such little expense to a bank that it could easily afford to pay them interest at the rate of 4 per cent. At the present time the banks are paying 3 per cent interest on money which they are lending to commercial borrowers and for the care of which they are maintaining an expensive force of clerks. Depositors who have checking accounts might be allowed 2 per cent on large balances, but out-and-out savings depositors, people who make no use of the check book, are certainly entitled to a 4-per-cent rate in a country where investment capital is as fruitful as it is in Canada.

Strictly speaking, the savings departments of the Chartered Banks are not savings banks, for they do not pretend to devote their time funds to long-time investments. The amount of securities held by the banks is never equal to the amount of time deposits. For example, in October, 1909, the deposits payable at a fixed date or after notice amounted to $480,000,000, against $86,000,000 invested in securities. The banks in the use of funds at their disposal make no distinction between the funds received from the different classes of depositors. Every depositor's money goes into the bank's general fund, most of which is loaned on short-time paper to merchants and manufacturers. Thus in October, 1909, when the deposits payable on demand amounted to only $251,000,000, the current loans stood at $580,000,000.

A thorough reorganization of the savings departments of the chartered banks, to equip them for the real business of a savings bank, would not be possible without an amendment of the bank act, which now prohibits them from loaning money upon real estate or upon the security of real-estate mortgages. It is generally believed that this prohibition is commonly evaded by the banks through the acceptance of such mortgages as "additional security" after loans have been made. A savings bank, of course, must have the legal right to accept such security.[a]

NO BANKERS' BANK.

The indebtedness of banks to banks is not large in Canada. The branch system makes it unnecessary for banks to carry balances in other institutions located in the financial centers. Nearly every bank has a branch in either Montreal or Toronto and in these branches carries the major proportion of its cash reserve, so that branches in the far west or in the maritime provinces are always able to sell ex-

[a] The government savings institutions, although paying the same rate of interest, are in no sense competitors of the chartered banks. The latter pay the depositor on demand; whereas the depositor can get money from the government only after several days' notice. Some of the loan companies accept savings deposits and pay interest at from 3 to 4 per cent per annum, permitting also a limited use of the check book. The total of such deposits in loan companies in 1909 was $22,000,000.

change on Montreal or Toronto. Canada has no bankers' bank. The Bank of Montreal, which is the largest bank in the Dominion, its assets being equal to about 25 per cent of the total, is often spoken of as the government bank because it is the largest government depositary, yet it holds a very small amount of funds belonging to other banks. In the statement of October, 1909, the balances due to other banks in Canada amounted to only $5,269,216. Of this sum the Bank of Montreal held $1,395,935, and the Merchants' Bank, $1,309,008.

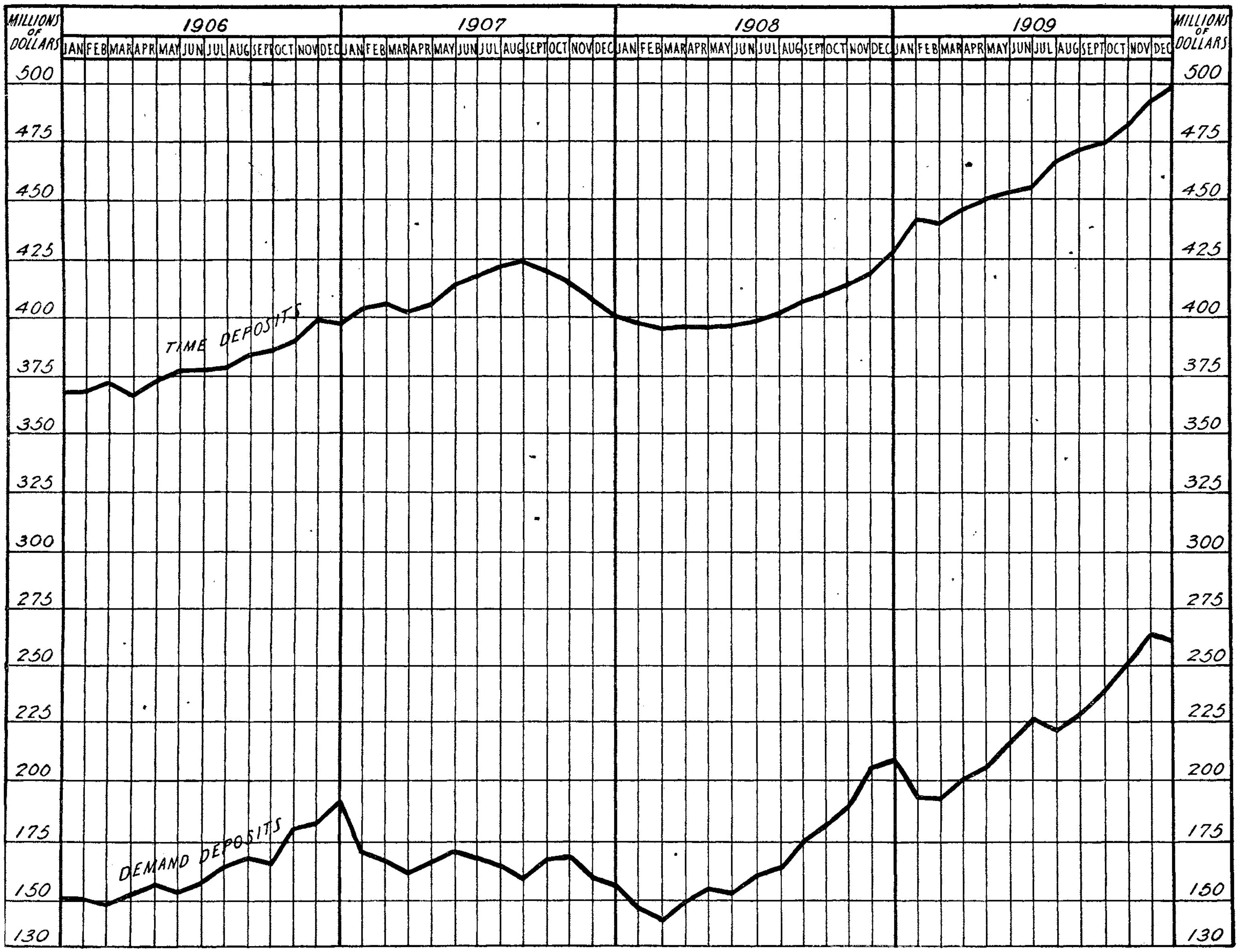
Chart III on the opposite page shows the changes in time and demand deposits during 1906–1909. It is interesting to note that demand deposits fell off much more than time deposits during the panic year 1907, and that both greatly increased during the two following years. The growth of deposits during 1909 was generally regarded in Canada as a most encouraging sign.

ISSUE AND REDEMPTION OF NOTES.

While the amount of notes that the chartered banks may issue is limited by the bank act to the amount of their paid-up capital,[a] experience has proved that this legal limitation is only nominal and that the real and effective limit is imposed unconsciously and automatically by their customers and themselves. Each constantly seeks to increase its issue of notes to the legal limit, yet the combined efforts of all are never able to force into circulation more notes than the people need.

[a] The only exception is the Bank of British North America. It operates under an old charter from Great Britain and its head office is in London. The stockholders are not subject to a double liability, and the bank can issue notes only to the extent of 75 per cent of its paid-up capital. It may exceed this limit by depositing gold or government bonds, and frequently does so.

CHART III.—TIME AND DEMAND DEPOSITS, 1906-1909.



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The reason why an excessive issue of bank notes in Canada is impossible is found in the two following facts:

1. Every bank must redeem its notes on demand in seven commercial centers in different parts of the Dominion.

2. The monetary circulation of Canada, exclusive of $1 and $2 bills, consists entirely of bank notes.

The redemption system is an automatic and effectual check against inflation. It is easier to get notes redeemed in Canada than it is to secure the payment of checks in the United States, for the notes are redeemable at different points throughout the Dominion and no exchange is ever charged. If a country merchant accumulates more currency than he desires to keep on hand, he deposits it, together with his checks and drafts, in the local branch of his bank. This branch immediately sorts out the notes of other banks and treats them as it does checks and drafts upon other banks, either sending them to the nearest redemption agency or using them as an offset in the local clearing house if the issuing banks have branches in the locality. The branches of a bank are not obliged to redeem the notes of the parent bank, but must accept them at par in the payment of all dues. Thus each bank is doing its utmost to bring about the redemption of the notes of other banks. At the same time it is paying out its own notes to all customers who ask for cash, seeking to bring its circulation up to the limit. As a result of these operations, two powerful forces are constantly at work, one putting notes into circulation, the other retiring them, and the people of Canada always have on hand just the amount of currency they need and no more. It is the people, not the banks, who determine how much the circulation of the banks shall be.

BANK NOTES HAVE NO COMPETITION.

The fact that the bank note has exclusive possession of the monetary field in Canada is most important. His ignorance of this fact is one reason why the average banker or business man in the United States has been unable to get a practical understanding of the Canadian system. Its significance is easily seen. If Canada, like the United States, had in circulation a lot of government notes in denominations of $5, $10, $20, the Canadian banks would be able to increase their issues of bank notes almost without limit, for their new notes would simply take the place of the government notes, the latter going into bank reserves. The people of Canada in making deposits would not discriminate against bank notes, but would deposit the government paper quite as freely as the bank paper. As a result, the amount of the government paper in circulation would gradually decrease and the amount of bank notes would increase. The volume of Dominion notes in the vaults of the banks would expand, and as these notes are redeemable in gold the banks would feel justified in larger extension of their credit, so that an increase in deposits and current loans would ensue. Under such circumstances such freedom of issue as is enjoyed by the Canadian banks would doubtless result in inflation.

But such conditions do not exist in Canada. All the paper currency in the hands of the people, excepting $1 and $2 bills, is in the form of bank notes. There is no chance to substitute bank notes for government notes.

Hence, if at any time business relaxes and the need for money among the people grows less, an increasing tide of bank notes flows into the banks. The people who bring these notes do not ask for money in exchange, for to them the notes are money. They take bank notes to the banks just as people in the United States take greenbacks and silver certificates—to be exchanged for a deposit credit or account.

ELASTICITY OF THE CIRCULATION.

The redemption system, besides making currency inflation impossible, results also in what is commonly called "elasticity," by which is meant capacity to expand and contract in automatic response to the country's need of currency. Such elasticity is desirable for the reason that it enables the banks to satisfy the mere currency needs of a country without increase of their liabilities or diminution of their power to lend.

Canada, like every other country, at certain seasons of the year makes use of more currency, or hand-to-hand money, than at other seasons. This currency is supplied by the banks. If they were not permitted to furnish it in the form of their own notes, they would be obliged to furnish it in the form of lawful or legal tender money, and would at the same time be compelled to restrict their loans in order that they might reduce their liabilities, the loss of the legal tender money having by so much reduced their cash reserve. Since the Canadian banks, however, meet the seasonal needs for currency by the issue of notes, their liabilities are not changed, for their deposits decline by as much as their notes increase. It is clear that if a depositor draws $1,000 from his bank and receives $1,000 in the notes of the bank, the liabilities of the bank have not been affected. It has simply converted a deposit liability into a note liability. Its reserve of legal tender money having been untouched, it is under no necessity to reduce its loans. It follows that since a Canadian bank is able to supply its depositors' needs for cash with its own bank notes, it can do so without being compelled to lessen its usefulness to the community as a lender of money.

It is evident also that every bank will steadfastly pursue this policy of paying out its own notes and getting the others redeemed. If in the course of business it receives from its depositors the notes of other banks, it does not pay these out again, for they are convertible through the redemption agencies into legal tender money. The more of such money a bank has in its vaults, the stronger its position and the greater its power to lend. Every dollar of legal tender money that a Canadian bank can retain in its cash reserve, adds $10 to its lending power, permitting the safe increase of its liabilities by the same amount.

That the redemption system contributes to the acceptability and elasticity of the Canadian bank note more than any other factor must be evident to anyone who considers how the system would operate if the efficient redemption machinery were lacking. Every bank must redeem its notes in seven different cities, and no bank is obliged to accept the notes of other banks either on deposit or in payment of dues to it. Yet on account of the ease with which notes are redeemed, every bank accepts at par the notes of all other banks exactly as if they were legal tender, and then sends them to the nearest redemption center to be exchanged for gold coin or Dominion notes, or to be used as a credit offset in the redemption of its own notes. It is this ease of redemption which gives the circulation its elasticity and makes it immediately responsive to every fluctuation in the needs of business. If the notes were redeemable only at the place of issue, which is usually the head office of the bank, they would frequently be at a discount in remote parts of the Dominion and would often stay in circulation among the people for a period longer than necessary. A tradesman does not like to deposit money in a bank at a discount if he can circulate it at par among his customers. Just as the notes of country banks before the establishment of the Suffolk banking system in New England filled the channels of circulation in Boston, so in Canada, without its present redemption system, the notes of each bank would doubtless very soon find lodgement in distant communities and remain in circulation in excess of the real needs of the people. Canada would, indeed, have an abundance of currency, but it would be exposed to all the risks of depreciation and the banks would be tempted to adopt schemes for the increase of their circulation which in the end would prove fatal to the soundness of the currency.

The Canadian bank note might still be good even though it were not a first lien upon the assets of a bank, or even if its payment were not in a measure guaranteed by all the banks, or if stockholders were not subject to a double liability. Indeed, all three of these safeguards might disappear and yet the Canadian bank note remain a safe, elastic, and acceptable medium of exchange. But if the redemption system were destroyed, Canada would very soon be filled with a banking circulation in varying stages of depreciation.

NO LIMIT OF ISSUE REALLY NECESSARY.

Theoretically there is no reason why any limit should be fixed upon the amount of notes which a bank may issue. Even though a bank has a monopoly of issue in a country—like the Bank of France—it nevertheless is unable to expand its circulation beyond the people's needs. Such a bank, unless it should adopt a reckless policy of lending which would bring ruin quickly upon itself, can exercise very little influence upon the amount of currency in circulation. In a country like Canada, where several banks are issuing currency, no single institution can enlarge its issue of notes beyond the needs of its own customers. If it should endeavor to do this by lending freely to customers who promised to use its notes in different parts of the country, the effort would be futile. The notes would quickly find their way into the branches of other banks and be sent in for redemption.

Like most other countries, however, Canada has placed a limit on the note-issuing privilege, fixing it at the amount of a bank's paid-up capital. While there is no scientific necessity that such a limit be fixed in order to prevent the over-issue of notes, nevertheless there are other considerations which justify it. It is an indirect method of compelling banks to increase their capitalization *pari passu* with the growth of their business. Inasmuch as the capital of a bank is the stockholder's contribution toward its assets, it is exceedingly desirable that this contribution be made as large as possible, for, other things being equal, the strength of a bank varies with the amount of its capital. It is not unreasonable, therefore, to require that banks in return for the useful note-issuing privilege should be required to keep their capital resources large.

When a Canadian bank has reached the limit of its note issue—which has rarely happened—it begins at once to treat the notes of other banks very much as if they were its own. Instead of going to the expense of sending them in for redemption, it uses them as counter money, paying them out to depositors in response to their calls for cash. If all the banks in Canada should issue notes up to the limit, as some of them did during the exciting months of 1907, and if the current rate of interest did not warrant the issue of the taxed notes provided for by the amendment of 1908, the note circulation would immediately lose its elasticity. As further expansion would be impossible, the banks would have to meet any increasing demand for currency by paying out gold and Dominion notes, thus depleting their reserves. Such a situation would doubtless lead to a sharp advance in the discount rate and to the importation of gold.

THE PRACTICAL LIMIT UNDER THE LEGAL.

It should be noted that the practical limit of note issue is about 10 per cent below the legal limit. The manager of a bank having a paid-up capital of $1,000,000 begins to get nervous when his circulation equals $900,000. His office may be in Montreal and his bank may have branches

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in the far East and in the far West and in the mining wilderness of the North. Some of these branches he can not reach by telegraph and some are distant a week by mail.[a] He immediately sends warning to all the branches and cautions them against any large outgiving of notes and against entering into transactions which will be likely to lead to unusual demands for currency. On account of this situation, even in times of greatest pressure, the total issue of the banks is usually 10 per cent below the authorized limit.[b]

Chart IV, on the opposite page, shows the circulation during the last ten years; also the comparative increase of the paid-up capital and the surplus. The reader will note that the amount of notes outstanding is invariably largest in November and smallest in February, and that the surplus has been increased at a more rapid rate than the capital.

[a] Said a general manager in Montreal: "We have trouble at times keeping exactly within the limit, and have to keep about half a million under it. Our branches always have on hand a stock of notes which if they were all issued would run the total outstanding above the limit. When the total approaches the limit, I notify the branches not to issue above a certain amount, say $10,000, without wiring me. It takes a week to hear from our Yukon branch."

[b] The penalty for excessive issue of notes is severe. If the excess is less than $1,000 the penalty equals the amount of the excess. If it is between $1,000 and $20,000 the penalty is $1,000; if it is between $20,000 and $100,000, the penalty is $10,000; between $100,000 and $200,000, penalty is $50,000. If it exceeds $200,000, the penalty is $100,000. The fact that such large penalties overhang them explains why the maximum issue of Canadian bank notes is usuallv $10,000,000 under the authorized limit.

CHART IV.—GROWTH OF CAPITAL, SURPLUS, AND CIRCULATION, 1900-1909.

Chapter VI.

THE RESERVE.

The subject of cash reserves [a] is disposed of in the bank act in two short paragraphs; the first providing that not less than 40 per cent of a bank's reserves shall be in Dominion notes, the second instructing the minister of finance to arrange for the delivery of Dominion notes to any bank in exchange for specie. As for the amount of cash reserve to be carried by a bank or its ratio to net liabilities, the law is silent. Every bank manager is free to keep his reserve at any figure which in his judgment is adequate.

There is no reason at present why the law should compel banks to hold Dominion notes. As these are practically gold certificates, the only apparent effect of the requirement, as banking operations enlarge, is to compel the Dominion government to increase its issue of notes and guard an increasing amount of gold coin. If the notes were mere credit instruments, their issue would be equivalent to an involuntary government loan and the requirement that they shall constitute 40 per cent of banking reserves would insure the permanence of the issue and save finance ministers from ever being worried over calls

[a] The bank act uses the word "reserve" in two senses. Section 59 provides that a bank shall not pay a dividend at a rate higher than 8 per cent per annum unless its "rest or reserve fund" is equal to at least 30 per cent of its paid-up capital. The reference here is to what in the United States is called the "surplus." In section 60 the act mentions "cash reserves," meaning the amount of legal-tender money held by the banks. This is its ordinary use among bankers in Canada as well as in the United States.

for their redemption. Since all notes in excess of $30,-000,000 are secured by a deposit of gold in the Dominion treasury, their issue in no way increases the revenues of the finance department. The 40 per cent requirement, as a matter of fact, is entirely unnecessary; the notes, being in large denominations, are preferred by bankers to gold and would be utilized by them even though the law did not require it.

To American bankers, trained under the national bank act, the failure of the Canadian law to prescribe a minimum reserve undoubtedly seems a dangerous oversight. To many these questions will doubtless arise: What is to prevent a Canadian bank from assuming liabilities in excess of its redemption capacity? How, indeed, does the Canadian banker know whether or no he is carrying a sufficient reserve? Does not the failure of the law to require a minimum reserve encourage the development of speculative banking and a perilous expansion of credit on an inadequate basis of coin?

In Canada neither among the bankers nor in business circles are questions of this sort ever raised. Canadian bankers and many business men know a good deal about the national banking system of the United States, but they do not hold it in high esteem. On the contrary, they express surprise that a resourceful and intelligent people should have been content for so many years with a banking system so cumbersome and irrational. In their opinion, a law which fixes a minimum reserve against deposits and forbids the issue of bank notes, except on the deposit of government bonds, makes safe and sound banking absolutely impossible.

AMOUNT OF THE RESERVE FIXED BY EACH BANK.

It must not be supposed that the Canadian banks do not carry adequate reserves. On the contrary, every bank manager gives to this subject daily and most conscientious thought. To the Canadian banker the word "reserve" means a fund immediately available for the liquidation of liabilities. How much this fund ought to be depends altogether upon the amount and character of the liabilities to be protected. Theoretically, with respect to its time deposits, a Canadian bank is in the position of a savings bank and in order to be safe need not keep on hand for the liquidation of such deposits a very large amount of cash, but may rely upon investment securities to furnish whatever funds may be needed to satisfy unexpected calls from depositors. Practically, however, the Canadian bankers do not avail themselves of the privilege afforded by the law. All do not permit time depositors to check upon their accounts, but they do pay them on demand, and no Canadian bank would like to have it rumored that any of its depositors had ever had the slightest difficulty in obtaining funds when he wanted them. Apparently, therefore, all the deposits of a Canadian bank belong in the same class and are equally liable to become immediate claims upon the bank. As a matter of fact, however, this is not the case. The time depositor receives interest at the rate of 3 per cent under conditions which will cause him loss if he reduces his balance except on definite dates. A bank manager has learned by long experience when withdrawals of time deposits are to be expected and to what extent he can depend upon fresh deposits as an offset.

A Canadian bank manager, having before him the amount of time deposits and demand deposits, respectively, knowing the probable future needs of the various depositors, being in constant touch with branch managers both by wire and by letter, and having back of him information born of many years' experience, easily determines how much his bank's reserve ought to be in order to assure its safety. The law neither helps nor hinders him; it simply requires that the bank shall satisfy the demands of depositors in accordance with the terms of the contract and that it shall redeem its notes on demand. The public by force of custom expects a bank to do a little more than the law requires, for its credit is bound to suffer if it take advantage of its legal privilege to delay payment upon time deposits. The manager is a hired man, sworn to do his utmost to protect the credit of the bank, trained for many years in its service, familiar with its history and its policy, anxious to guard his own reputation and character against criticism. Under these circumstances it would be remarkable if he did not fix the amount of his bank's reserve nearer the ideal figure—if an ideal banking reserve is possible—than could possibly be done by a body of lawmakers or of any other men outside the bank.

RESERVE COMPOSED OF FOUR ELEMENTS.

A Canadian banker thinks of a bank reserve as comprising four different kinds of assets: (1) Cash on hand, (2) cash balances in other banks, (3) call loans, and (4) securities.

Strictly speaking, "cash reserve" means only the first, but a banker usually has in mind both the first and second when speaking of his "cash reserve." He keeps on hand a supply of cash, either gold or Dominion notes, more than ample for the settlement of daily balances at clearing houses. The counter demand for cash he knows by experience can be met almost entirely by the use of the bank's own notes. In order to be prepared for any emergency that may arise, such as a panic in Europe or in the United States, the failure of a large customer, the suspension of a bank, an unexpectedly adverse balance of trade, any of which events might cause a demand for gold for export, he keeps some money on deposit in banks outside of Canada, lends some on call in New York City, and invests some in securities easily marketed. All these funds are thought of as part of the "reserve."

Although the law is silent on the subject, there is a tacit understanding or agreement among the banks that in ordinary times the cash assets of a bank ought to equal 15 per cent of its liabilities and that at least 8 per cent should be in cash on hand, the remaining 7 per cent being in balances due from other banks.

From the American point of view the Canadian banks carry a very small amount of cash. For example, on January 1, 1906, it amounted to only $61,000,000, whereas the net liabilities, notes as well as all deposits being included, amounted to $610,000,000, the ratio of the cash on hand being only about 10 per cent. In November of the same year the cash on hand stood at $75,000,000 and the net liabilities at $705,000,000, the ratio of cash to liabilities being still only a little over 10 per cent.

For many years the cash-on-hand reserve of the Canadian banks has averaged between 10 and 12 per cent of the net liabilities. Some banks constantly keep on hand a higher ratio, and others a lower. The ratio varies with the same bank at different times. At one time a bank may feel abundantly protected with a cash reserve of 9 per cent; at another time its managers may see occasion for holding a larger amount of cash. Again a period of business depression, by lessening the demand for money, may cause cash reserves to increase more rapidly than satisfactory investment can be found in call loans or securities. This situation arose in 1908, when the cash reserve increased from $83,000,000 July 31 to $97,000,000 December 31. On July 31 of that year deposits were reported at only $568,000,000. By December 31 they had increased to $640,000,000. During these months the ratio of cash to net liabilities exceeded 12 per cent, and in the case of many banks was much larger than was necessary. As a result the banks added to their credit balances in banks and agencies outside of Canada, thus getting a low rate of interest on part of their surplus funds and increased their call loans in New York.

CALL LOANS IN NEW YORK CITY.

New York City is the favorite call loan market, and several Canadian banks find it profitable to maintain branches or agencies there. In the eyes of a Canadian banker a call loan payable in New York City and secured by high-class collateral, is practically equivalent to cash on hand. In normal times he can convert the loans into money within twenty-four hours, adding to his cash on hand either by the sale of New York exchange or by an importation of gold. If times are panicky in New York and stock market prices are tumbling, the Canadian banker is among the first to get rid of all loans based on securities about which there is the slightest question. If the situation gets so bad that the New York banks decline to ship gold, as they did in 1907, the Canadian banks utilize their New York balances for the purchase of sterling bills and so transfer their accounts from New York to London, importing from Europe whatever gold they need.

The call loans in Canada the bankers do not rely upon as in any way equivalent to or as a substitute for a cash reserve. Call loans in Canada are really not payable on demand. The securities put up as collateral can not be quickly marketed without a sacrifice and bankers know very well that they can not rely on such loans as a means for increasing their cash in an emergency. Even though this were not the case, these loans could not be reckoned as a source of strength to the Canadian banking situation, for the payment of the domestic call loans would not add a dollar to the country's cash on hand. Its only effect, as events have often illustrated in a parallel situation in New York City, would be a reduction of bank deposits.

INVESTMENT SECURITIES.

In their choice of investment securities the banks are not hampered by the law. They may purchase not only government and provincial bonds, but also the stocks and bonds of both Canadian cities and cities of foreign countries, and the stocks and bonds of domestic and foreign railways and industrial corporations. On January 1, 1907, the Canadian banks held securities as follows: Dominion and provincial government securities, $10,-300,000; municipal securities, $20,000,000; railway and other bonds and stocks, $46,000,000, making a total of about $76,000,000. The fluctuations in the amount of total securities held are not great or frequent. When the banks need a larger supply of cash, they prefer, as a rule, to reduce their call loans in New York rather than to sell securities. During the three years 1906–1908 the total amount of securities held by the banks ranged from $63,000,000 in March, 1906, to $74,000,000 in December, 1908. During eighteen consecutive months of that period the amount varied by only $1,000,000.

Bankers do not place much reliance upon securities as a part of the reserve. These constitute a sort of auxiliary reserve, on which the banks expect never to be forced to lean. But credit balances and call loans outside of Canada are "cash" to most Canadian bankers and are quite commonly included in what they call their cash reserve.

Some of the banks in calculating their reserve make a distinction between demand and time deposits, figuring that the time deposits are protected by the cash on hand

and the time deposits by credit balances and call loans outside of Canada. The manager of one of the largest and most conservative banks said to the writer:

"We aim always to have on hand a cash reserve equal to 33⅓ per cent of the demand liabilities. We carry also a reserve of about 25 per cent of the time deposits in the form of funds in New York and London, either balances in banks or call loans. We consider this a kind of secondary reserve."

Their call loans in New York subject the banks to considerable criticism. Some people assume that the money loaned in New York rightly belongs to Canadian industries, and that it would be loaned in Canada if only their bankers were not so eager to make "easy" money in Wall street. This criticism betrays ignorance of the nature of the Canadian banking reserve. If either the law or public opinion should prevent the banks from lending money in Wall street, Canadian borrowers would be no better off than now. The banks merely would be obliged to carry in their own vaults the money they now lend in New York. As their earnings would be less than now, quite possibly their equipment and facilities would also be less and the Canadian borrower not so well cared for as now.

The statistics furnished by the banks in their monthly returns to the government are shown in the following tables, which give the totals for the months of February and November, 1909.

		February 28, 1909.	November 30, 1909.
	LIABILITIES.		
	Capital authorized	$142,466,000	$141,466,000
	Capital subscribed	$98,294,000	$98,960,000
	Capital paid up	$96,160,000	$98,046,000
	Amount of rest or reserve fund	$74,490,000	$77,868,000
	Rate per cent of last dividend		
1	Notes in circulation	$67,348,000	$86,391,000
2	Balance due to Dominion government after deducting advances for credits, pay lists, etc.	4,808,000	5,934,000
3	Balance due to Provincial governments	14,512,000	23,137,000
4	Deposits by the public payable on demand in Canada	192,969,000	264,286,000
5	Deposits by the public payable after notice or on a fixed day in Canada	441,391,000	493,254,000
6	Deposits elsewhere than in Canada	65,334,000	71,836,000
7	Loans from other banks in Canada secured, including bills rediscounted	5,347,000	4,520,000
8	Deposits made by and balances due to other banks in Canada	7,208,000	5,949,000
9	Balances due to agencies of the bank, or to other banks or agencies in the United Kingdom	2,607,000	2,739,000
10	Balances due to agencies of the bank or to other banks or agencies elsewhere than in Canada and the United Kingdom	3,337,000	3,559,000
11	Liabilities not included under foregoing heads	5,753,000	6,998,000
	Total liabilities	810,614,000	968,603,000
	ASSETS.		
1	Specie	26,807,000	31,798,000
2	Dominion notes	67,270,000	71,511,000
3	Deposits with Dominion government for security of note circulation	4,051,000	4,575,000
4	Notes and checks on other banks	25,346,000	43,609,000
5	Loans to other banks in Canada, secured, including bills rediscounted	5,108,000	4,421,000
6	Deposits made with and balances due from other banks in Canada	10,417,000	10,120,000
7	Balances due from agencies of the bank, or from other banks or agencies in the United Kingdom	10,523,000	18,078,000
8	Balances due from agencies of the bank, or from other banks or agencies elsewhere than in Canada and the United Kingdom	25,950,000	25,624,000

		February 28, 1909.	November 30, 1909.
	ASSETS—continued.		
9	Dominion and Provincial government securities	$10,240,000	$12,840,000
10	Canadian municipal securities, and British or foreign or colonial public securities other than Canadian	20,590,000	22,038,000
11	Railways and other bonds, debentures, and stocks	49,349,000	49,916,000
12	Call and short loans on stocks and bonds in Canada	47,555,000	57,876,000
13	Call and short loans elsewhere than in Canada	101,444,000	134,837,000
14	Current loans in Canada	507,350,000	590,292,000
15	Current loans elsewhere than in Canada	35,055,000	35,358,000
16	Loans to the government of Canada	5,000,000	-------------
17	Loans to Provincial governments	1,620,000	2,501,000
18	Overdue debts	7,893,000	7,037,000
19	Real estate other than bank premises	1,710,000	1,192,000
20	Mortgages on real estate sold by the bank	549,000	631,000
21	Bank premises	18,593,000	21,109,000
22	Other assets not included under the foregoing heads	7,920,000	10,502,000
	Total assets	990,340,000	1,155,865,000

It seems worth while to call attention to some of the items in these tables.

The item "Notes in circulation" was nearly $20,000,000 larger in November than in February. The increase was due to the crop-moving need for additional currency, and is an annual occurrence. During the next two months the amount declined $13,000,000.

The increase in deposits (liabilities Nos. 4 and 5) was due to the flow of money into Canada and to the great activity of trade and industry, which caused an expansion of "current loans" (assets No. 14). In other words, there was a gain in both cash and credit deposits.

"Loans from other banks in Canada" (liabilities No. 7) represent advances made to two banks in liquidation.

Items 7 and 8 under "assets" indicate that the credit balances in London increased $8,000,000, while those in New York were unchanged.

Call loans in Canada gained $10,000,000, while call loans outside of Canada—mostly in New York City—gained $33,000,000. On the other hand, in "current loans" there was practically no increase outside of Canada, but a gain of $83,000,000 in Canada. Such figures mean good times in Canada.

ADEQUACY OF THE RESERVE.

In figuring the total reserve carried by the banks the items 4, 5 and 6 under "Assets" can not be included, although each individual bank might properly count them as part of its reserve. They are credits with other banks in the system, and are not a source of strength to the system as a whole. As they are counterbalanced by an equal indebtedness within the system, the net liabilities to the public are obtained by deducting these three items from "total liabilities." Thus we find that the net liabilities in February were $769,740,000, and in November $910,453,000.

The ratio to net liabilities of each element of the reserve is shown in the table below:

	February 28.	November 30.
	Per cent.	*Per cent.*
Cash on hand	12.7	11.7
Credit balances in banks outside of Canada	4.7	4.8
Call loans outside of Canada	13.2	14.8
Securities	10.4	9.3
Total reserve	41.0	40.6

Leaving out of account the securities, which are the least liquid element, the reserve stood at 30.6 per cent in February and at 31.3 per cent in November. The adequacy and immediate availability of a reserve of this size and kind has been well proved by experience. Some critics hold that the supply of gold is too small and that a real crisis in Canada would shake the foundations of banking credit. The situation certainly does not warrant such pessimism. Canada's banking reserve, securities excepted, consists of gold and of assets that can be turned into gold within a day. To be sure, if Great Britain and the United States should both suspend specie payments, Canada would suffer as one of their financial dependencies, but its banking system would stand a credit storm better than theirs, for it would be able more quickly and efficiently to adopt measures of protection and relief.

The bankers know very well that they can not afford to count New York and London funds as being money on hand. Clearing-house balances are apt to vary greatly in certain seasons, and a bank must be prepared at all times for the unusual and unexpected. Hence the banks carry a much larger cash reserve than seems necessary in ordinary times.[a] It keeps them always prepared

[a] "On account of our large number of branches and the different conditions they encounter in the different sections of the country," said a general manager to the writer, "we have to carry a cash reserve that seems to the outsider larger than is necessary. For example, when notes go out rapidly in a place like Winnipeg, they soon come back and have to be redeemed in gold, and actual cash is required at the western redemption points. It requires constant vigilance to keep proper cash balances. Balances in the Bank of England and in the banks of New York we can not count as cash at a redemption point. During the panic of 1907 we had nearly $2,000,000 in London and New York, but we could not really count them as part of

to meet emergency calls from redemption points and prevents local suspicion of their strength. It must be borne in mind that the public never comes in contact with any portion of the cash reserve. To most of a bank's customers its holdings of legal-tender money are a matter of indifference; so long as their checks and drafts are honored at the clearing house they are satisfied. But the banks must maintain their standing with one another. That is of first importance, and for that purpose money on call in New York and London is as good as money on hand.

Gold exports and imports are of small consequence in Canada. This is what one would naturally expect. As seasonal variations in the need for currency are taken care of by the elastic note circulation, no gold need be imported or exported on that account. Furthermore, when the banks increase their balances in New York and London, they do it by the remittance of exchange, not by the exportation of gold. The so-called balance of trade is against Canada, yet sterling bills are fairly plentiful as a result of the sale of Canadian securities in England. The output of

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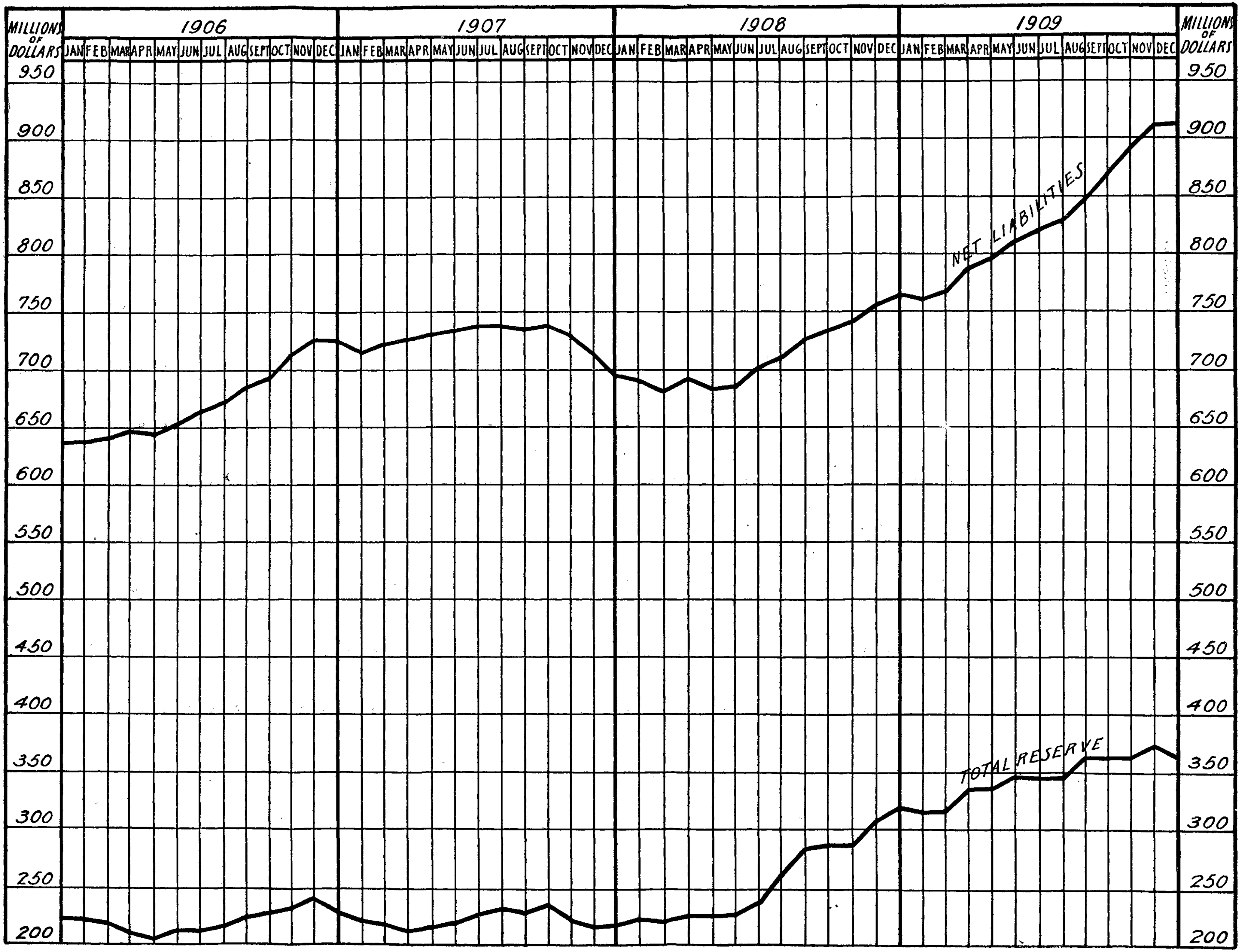
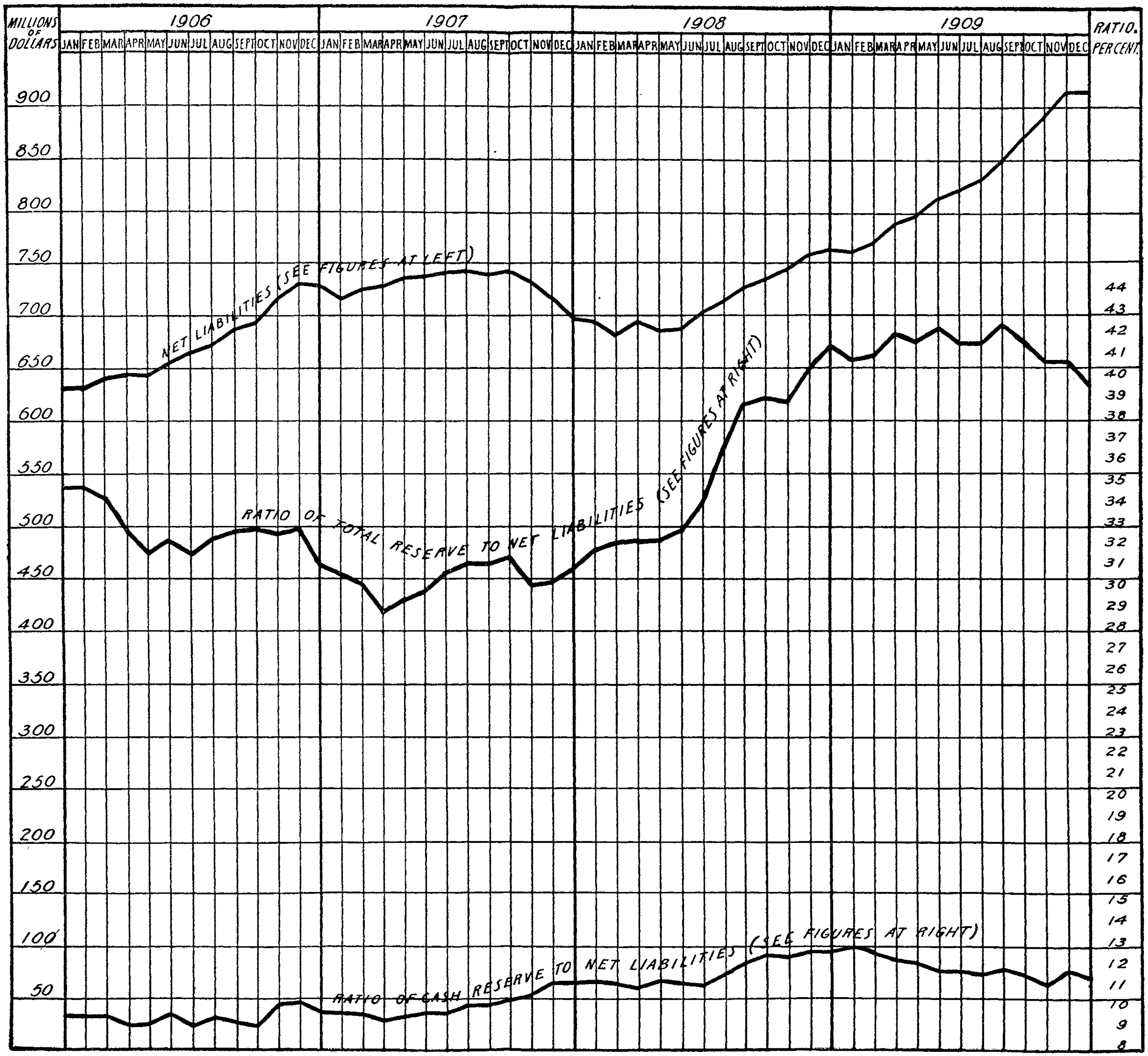
our cash reserve, for we could not have imported the gold without having caused foreign complications. The knowledge that we had the gold there did us practically as much good as to have had it here. We seldom import gold for our own use or merely for the profit of the transaction. Despite the fact that New York fell down during 1907, we should have had a pretty serious time if we had not had some money loaned out in New York before that panic. We knew that we could get the actual money at any time by selling sterling exchange. In fact, all our money loaned in London and New York is a kind of secondary reserve."

CHART V.—NET LIABILITIES AND TOTAL RESERVE, 1906–1909.



31870—10. (To face page 81.) No. 1.

CHART VI.—RATIO OF TOTAL RESERVE AND OF CASH RESERVE TO NET LIABILITIES, 1906–1909.



31870—10 (To face page 81.) No. 2.

Canada's own mines is more than sufficient to furnish the annual increment in the banking reserve.[a]

FLUCTUATIONS OF RESERVE, 1906–1909.

Charts V and VI (on the opposite page) show the fluctuations of the reserve during the four years 1906–1909; also changes in the amount of net liabilities. It will be noted that as a rule the total reserve (Chart V) moved up and down with changes in net liabilities, increasing greatly as the liabilities grew after the middle of 1908. Chart VI shows that the ratio of reserves to liabilities rose rapidly during the last half of 1908, when business was quiet and funds were accumulating. The ratio was nearly constant throughout 1909, but showed a downward tendency toward the end of the year, on account, doubtless, of renewed business activity in Canada.

By reference to Chart II (see page 48) the reader will note that during these three years there were great monthly fluctuations in the item "call loans" elsewhere, and a remarkable increase in 1908 and 1909. The gain in call loans in the spring and summer of 1907 doubtless reflected the Canadian bankers' desire to take advantage of the high rates of interest current in New York City. At the same time the Canadian banks were reducing their current loans in Canada, as is shown graphically on Chart I (page 48). The sharp decline in call loans in September and October,

[a] The banks quote sterling exchange in the terms of the old par of exchange, according to which the sovereign was worth, in Spanish dollars, $4.44 1/9. The present par ($4.8665) is about 9½ per cent above the "old par." There is some ground for suspicion that the Canadian banks preserve the antiquated par because a sixteenth added to 9½ per cent means a bigger profit than when added to $4.8665.

1907, was probably due to the desire of Canadian banks to increase their cash holdings, coupled with a rather well-founded distrust of the New York situation. After the October currency panic in New York the foreign call loans of the Canadian banks show a steady increase. They were at the lowest point in November, 1907, being then $41,000,000. By December, 1908, they had risen to $95,000,000. During the same period the cash reserve advanced from $81,000,000 to $97,000,000. This great increase in the cash and secondary reserve was due to the quietude in Canadian trade and industry as a result of the panic of 1907. Current loans in Canada declined from $580,000,000 in October, 1907, to $512,000,000 in December, 1908. (Chart I, p. 48.) Canadian banks were suffering from a glut of idle money. Their net liabilities during the last six months of 1908 increased from $700,000,000 to $760,000,000, and their cash reserve from $79,000,000 to $97,000,000. Here was a gain of $72,000,000 in deposits and of $18,000,000 in the cash reserve. As the current loans in Canada during this period were steadily growing less, having declined $50,000,000 during 1908, it is evident that the gain in deposits must have been accompanied by an increase in the cash resources of the bank and that the only available outlet for this surplus was the call-loan market in New York City and elsewhere. As a result of these operations there was, of course, a considerable gain in both the cash reserve and in the secondary reserve in the latter part of 1908. The ratio of cash reserve advanced from 11 per cent in the beginning of the year to 13 per cent at the close. The total reserve rose from 31 per cent at the beginning of the year to 41 per cent at the end. These figures mean a very easy money market in Canada, too large a proportion of banking resources being in cash and call loans. The banks would gladly have reduced their call loans in New York City during these dull months in 1908 if they could have found profitable use for the money in Canada.

CHAPTER VII.

OPERATION OF THE SYSTEM.

The 7,500,000 people living in Canada are engaged in gainful pursuits very much like those which give support to the inhabitants of the United States. Agriculture, lumbering, mining, and fisheries are the most important industries, but manufacturing, stimulated by a moderately protective tariff, is making rapid progress. Capital at the rate of $200,000,000 a year is coming into the Dominion from England and Scotland. From the United States are coming both money and men at such a rate that the western provinces are almost "American." Ontario is English and Scotch in ideals and customs. In Montreal and Quebec the population is largely of French descent. The population of the Dominion as a whole is intelligent, thrifty, and law-abiding, and nearly every Canadian is convinced that his country is the best on earth to work and live in, and that the development of its wonderful resources in the very near future is bound to astonish the world.

Great as has been the growth of Canada's population and wealth in the last ten years, the chartered banks have more than kept pace with it. The 36 banks in existence in 1900 had 700 branches, or one office for every 7,500 people. In 1909 the 29 banks in operation had over 2,100 branches, or one for every 3,600 inhabitants. The average of deposits per branch has declined from $453,000 in 1900 to

$336,000 in 1908. The banks maintain 50 branches outside of Canada—16 in the United States, 3 in England, 5 in New Foundland, 1 in Mexico, 24 in the West Indies, and 1 in Paris.[a] Only a few of the branches in the United States are permitted to receive deposits under the laws of the States in which they are located. The branches in New York City are mainly concerned in foreign exchange transactions and call loans.

OLD BANKS GET THE NEW BUSINESS.

The decline in the number of banks from 39 to 29 during the last ten years has been in part the result of failures and in part the result of consolidations. Five banks have either failed or gone into liquidation since 1900. Three of them were institutions having small deposits and their failure was of little consequence. Two, the Sovereign Bank and the Bank of Ontario, were fairly large insti-

[a] Of these 50 branches 15 are offices of the Royal Bank of Canada, 7 of the Canadian Bank of Commerce, 13 of the Bank of Nova Scotia, and 7 of the Bank of Montreal.

The Monetary Times of Toronto, in its issue of February 26, 1910, puts the number of branches then in existence at 2,214, distributed as follows:

Newfoundland	6
Elsewhere	44
Ontario	962
Quebec	342
Nova Scotia	106
New Brunswick	67
Prince Edward Island	16
Manitoba	175
Alberta	156
Saskatchewan	207
British Columbia	130
Yukon	3
	2,214

tutions, one having 30 branches, the other 70. The liquidation of these was mainly due to the oversanguine and speculative temperaments of their chief managers, as is explained in the next chapter.

Eight banks have come into existence since 1900, but one of these, the Sovereign, is in liquidation, and two of the others, the Northern and the Crown, have been amalgamated. Some critics insist that the difficulties in the way of establishing a new bank are so great that the existing banks practically possess a monopoly. This criticism, however, is not altogether justifiable. A dozen or more new banks have been chartered since 1890, and there is no evidence whatever that Parliament has refused a charter to any set of deserving incorporators. The dividends of the chartered banks range from 4 to 13 per cent,[a] most of them are accumulating large rest or surplus funds, and their stocks are selling at high prices. But other business enterprises in Canada are yielding higher rates of profit, and the amount of capital which men are willing to invest in a new bank is very limited. The real reason why more banks are not created in Canada does not appear to lie in the legal restrictions, but rather in the difficulty of finding the necessary amount of capital. The banking field is so well covered by existing institutions, and competition is so keen among them, that the prospects of a new bank are not as alluring as those of many other enterprises which invite capital. The population and business in Canada

[a] According to Doctor Breckenridge the average rate of dividend increased from 7.59 per cent in 1900 to 8.53 per cent in 1908; while the average per cent of dividend to total of capital paid up and rest has fallen from 5.01 to 4.81.

are increasing, however, at a rapid rate, and new banks will doubtless come into existence, although the old institutions, with their large capital and surplus, and with the unlimited right to establish branches, are in a position to expand their business indefinitely. Indeed, it is easier for the banks now in the field to get new capital than it is to get subscriptions to the stock of a new bank. Hence, while it is probable that new banks will be started from year to year, it is not likely that Canada, even when its population is four times the present figure, will have many more banks than it now has. The advantages of consolidation and the evils of unrestricted competition are realized in Canada as clearly as in the United States and have in the last decade caused a reduction in the number of banks from 39 to 29.

COMPETITION IS NOT LACKING.

In many respects banking competition is quite as active in Canada as it is in the United States. Apparently there are only two things which the banks do not like to do in order to attract business—lower the discount rate, or advance the rate paid on depositors' balances. There is no express agreement among the bankers on these points, but every banker knows that he would become persona non grata among his brethren if he should discount certain kinds of paper at less than 6 per cent, or pay his depositors on their monthly minimum balances more than 3 per cent per annum. In Montreal and Toronto large borrowers can get money at 5 per cent, but the average merchant and manufacturer must pay 6. In Winnipeg borrowers can do almost as well, but farther west the usual rate is 7 per cent, and in some of the remoter districts merchants and farmers alike pay 8 per cent. Bankers do not believe in lowering the discount or interest rate unless they are compelled to do so in order to find a market for their funds.

Some of the older institutions would like to prevent competition from absorbing the minor profits which come from collections and transactions in exchange, but they are not entirely successful. The nominal or schedule charges for collections and exchange are frequently cut for the benefit of business men whose favor it is desired to propitiate.

In their efforts to get new business, to be the first to open a branch in a promising new community, or to keep their regular customers from being dissatisfied, there seems to be the keenest kind of competition. Few villages of 500 people can complain that their banking facilities are less than they deserve, and many of them, with barely enough business to pay the expenses of one branch, are supplied with two. The recent rapid increase in the number of branches has been caused by the great expansion of the West and by the competition among the more progressive and energetic general managers, each desiring that his bank shall be the first in a promising field, even though his enterprise lead him to establish branches which at first do not pay expenses. In a new mining camp the first bank, like the first saloon or the first boarding house, usually begins business in a tent. Some of the more conservative bank managers in Canada think that new branches are being started in excess of the country's needs, but others are willing to take chances on the country's future and to charge considerable sums to the debit side of the profit and loss account in order to keep their institutions at the front in the great and developing West.[a] That mistakes are not infrequent is proved by the fact that in 1909 the banks, while they opened 267 new branches, abandoned 40 old ones. Of the 40 closed 30 were located in the Province of Ontario. Of the new

[a] "When a new country opens up," said a Toronto manager, "we often have to establish a branch on short notice, and we open up in any kind of quarters. At Cobalt, for instance, we cleared the snow off the ground, erected a tent, tacked up a sign, and the bank was ready for business. Supplies were rushed in and better quarters built as soon as possible. Our employees hold themselves ready to go anywhere on a moment's notice.

"Our branch bank buildings in the smaller towns are uniform in construction and equipment, and have sleeping quarters for two or three men above the banking room. The construction of these uniform buildings is so systematized that we can order a certain style building from our carpenters and they can cut and saw every piece and ship it ready to be put together. Then we have uniform equipment of bank fixtures, desks, etc., so when we order fittings for a certain style of building we know every article that is needed for its furnishings.

"In some sections of the country west of Winnipeg the branches commenced paying from the first day they were opened. At one small town the branch had $250,000 in deposits in an incredibly short time.

"We have plenty of promising locations for branches, but our greatest trouble in expanding is in finding competent managers."

"We have branches," said another manager, "in towns too small to afford a permanent office. They are kept open only two or three days a week. One manager with two junior clerks has charge of two or three such branches, dividing their time between them. We make it a point never to have a branch bank in charge of less than three men, on account of the protection they afford from without and within. Dishonesty is very rare. We do not carry any burglar insurance, as till money is all that is kept at the smaller branches, the reserve being kept at the more important points. Money can be quickly centered at any branch where there is a call for it. At least two men are expected to sleep on the premises of the permanent branches.

"Our system allows banks to be operated with profit in all towns of 500 population. In many towns of 200 inhabitants there are branch banks."

branches 72 were opened in Ontario and 40 in Quebec, two of the older Provinces, while in the west 13 were opened in Manitoba, 57 in Saskatchewan, 49 in Alberta, and 26 in British Columbia.

CLEARING HOUSES.

The law gives to the Canadian Bankers' Association the right to establish and regulate clearing houses. In 1909 clearing houses were in operation in fourteen cities. Total clearances for the last five years and for 1900 are given in the table below:

Clearing-house statistics.

[Expressed in thousands.]

Clearing house at—	1900.	1905.	1906.	1907.	1908.	1909.
Calgary			$41,771	$69,798	$64,815	$98,754
Edmonton			3,936	45,716	38,596	50,561
Halifax	$77,594	$98,251	91,552	93,587	90,232	95,278
Hamilton	40,262	68,367	78,480	88,104	72,329	84,803
London		50,429	57,863	65,760	56,875	62,093
Montreal	734,941	1,324,314	1,533,596	1,555,737	1,467,315	1,866,649
Ottawa		120,891	135,866	156,487	154,367	173,181
Quebec	70,707	86,794	92,934	107,460	111,812	118,803
Regina						14,153
St. John	37,907	52,836	60,032	66,150	66,435	72,404
Toronto	513;697	1,047,490	1,219,125	1,228,905	1,166,902	1,437,700
Vancouver	46,161	88,460	132,606	191,734	183,083	287,529
Victoria	32,038	36,890	45,615	55,330	55,356	70,705
Winnipeg	106,956	369,868	504,585	596,667	614,111	770,649
Total	1,660,263	3,335,595	3,997,960	4,321,441	4,142,233	5,203,269

All the clearing houses are operated alike, the rules being made and approved by the Bankers' Association. The methods employed are very similar to those in use in the United States. Balances are paid with Dominion notes that are negotiable only between banks, by draft on Montreal, and sometimes by draft on New York. Since bank notes as well as checks are always sent through the clearing house, the totals given above include notes as well as checks. The amounts of each are not separately reported or even recorded at the clearing houses.

BANKING IN DIFFERENT PROVINCES.

The clearing-house statistics possess special value in Canada for the reason that they constitute the only available data with respect to the growth of banking operations in the different provinces. The monthly bank statements give totals for the Dominion. That is all the law requires, and the banks do not give the public more information than they are obliged to. One can not find out, therefore, what proportion of the deposits belong to Ontario, Quebec, Manitoba, and other provinces, in what sections loans are expanding most rapidly, or what branches make the call loans. It is generally known that the eastern branches get heavy deposits and are creditors of the head office, and that the funds they collect are forwarded to the western branches, whose loans greatly exceed deposits. Bankers will admit that this transference of funds takes place, but there is considerable grumbling about it in the old communities of the East, and the bankers fear that a monthly or even annual publication of the facts would keep them perpetually in hot water. A glance at the above clearing-house statistics leaves no doubt as to the banking importance of the western Provinces or as to the relative financial quietude of the East. Between 1900 and 1909 the total of Canada's bank clearings increased 227 per cent, but Halifax gained only 23 per cent, St. John only 90 per cent, and Quebec only 68 per cent. On the other hand, Toronto's clearings increased 179 per cent, Winnipeg's 600 per cent, and Vancouver's 524 per cent.

EASTERN PROVINCES HAVE SUFFERED.

This transference of funds from sluggish to active communities is the inevitable result of a system of branch banking and is the cause of the tendency of the rate of interest toward uniformity in all parts of Canada. Whatever may be said against a system of branch banks, there can be no question that it does bring about a more even distribution of capital in a country than is possible under a system of independent local banks. Canadian bank managers are anxious to put out their money where it is most wanted, for there they get the best possible rate of interest and obtain paper of the best quality. No matter where a manager's headquarters may be, he is most deeply concerned in three questions: (1) Where is idle money accumulating? (2) How can he best draw it into his bank? (3) In what parts of the Dominion is money most needed? In localities of both kinds he establishes branches; in the one the branches accumulate deposits often much in excess of their loans, in the others the loans exceed the deposits. Thus it happens that the savings of the Eastern Provinces, where the growth of industry and trade is slow and the demand for new capital is not increasing, are sent westward and loaned out to merchants and manufacturers and farmers of the new territories. The people of the East supply the capital for the development of the West, though many of them perhaps are entirely ignorant of the useful purpose their savings are made to perform. In the western cities of Canada one hears no talk among business men about the scarcity of capital. A merchant or manufacturer in Manitoba gets the money he needs as easily as does a merchant or manufacturer in Toronto or Montreal.

Justifiable as the bank's policy is from a national point of view, one can not help believing that the branch banking system has really checked the development of business and industry in the maritime Provinces. If Canada during the last thirty years had depended, like the United States, upon independent local banks, there would have been a plethora of capital in the East, and Montreal, Quebec, and Halifax, like Boston, New York, and Philadelphia, would years ago have had 4 and 5 per cent money, while Winnipeg and other western cities, less populous than now, would still be paying 1 per cent a month. The relative cheapness of capital undoubtedly helped build up the prosperous industries of Massachusetts. The same cause operating in the maritime Provinces of Canada would doubtless have led to the establishment there of industries of which the people under existing conditions have not ventured to dream.

HOW THE CROP MOVEMENT IS FINANCED.

On account of the variety of industries in Canada, the demand upon bankers for money is fairly steady throughout the year. The heaviest pressure is felt in the fall months, when the great crops of the West are harvested and brought forward for export; and during these months the credit of the Canadian banks is always most extended, both the circulation and the deposits then being at the maximum. The movement of the crops causes an increase in the demand for loans and in the demand for currency. The additional demand for loans comes from the buyers of agricultural products and gives rise to a western movement of banking funds. Each buyer of grain or of cattle, at the beginning of the season, arranges with his bank for all the money that he expects to need. As a rule, he draws on his bank for funds with which to pay for the stock of grain he buys and forwards warehouse receipts and bills of lading as collateral security.

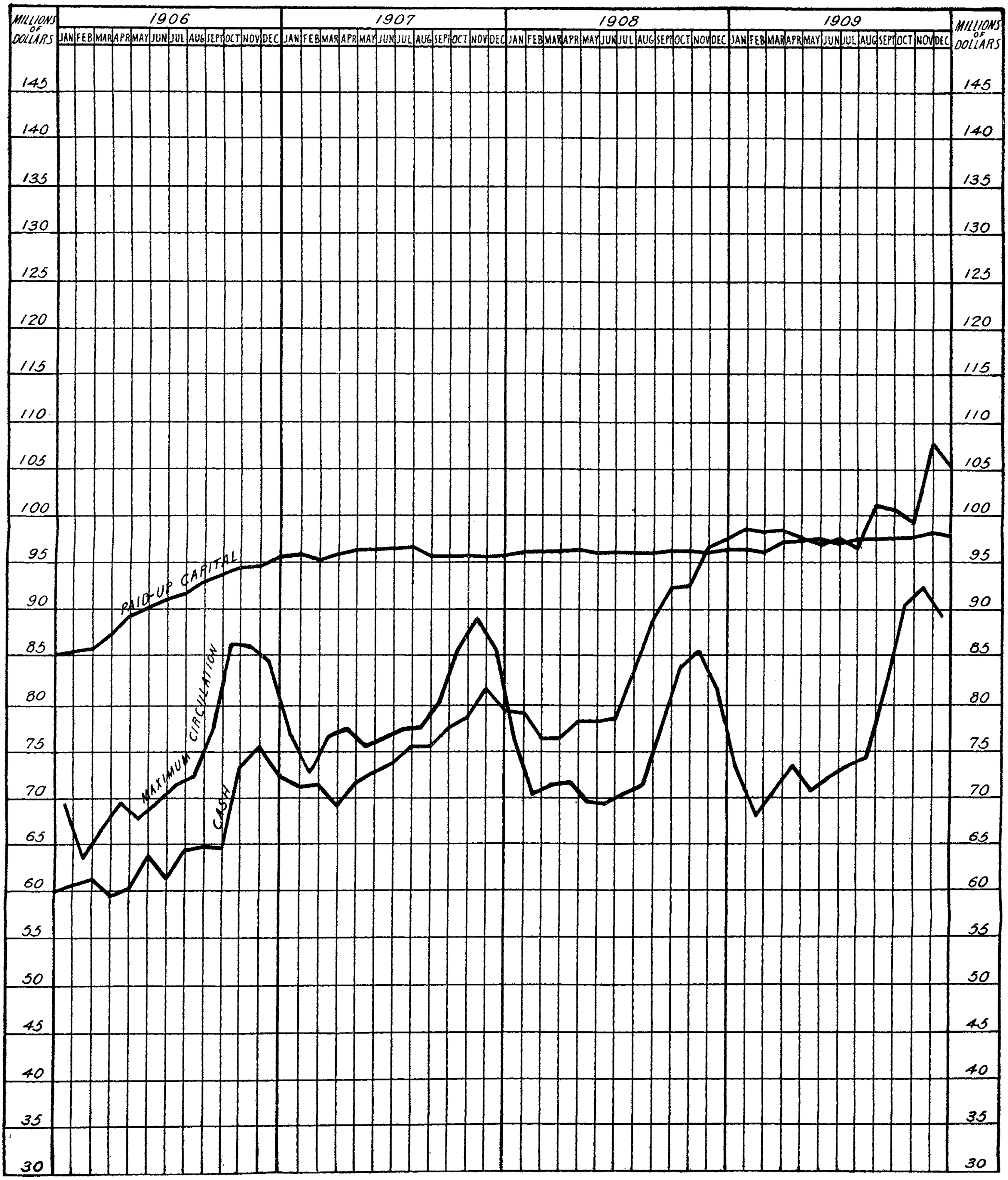
At the same time depositors are calling upon the banks for large sums of currency in denominations of $5, $10, and $20 to use in the agricultural districts in making payments to people who prefer cash to checks. In Canada, as in the United States, many farmers who are distant from towns have no checking bank account. When they pay off their hired men and settle their accounts at the village store, they do it with cash; and in Canada this cash always consists of bank notes. As a result, the circulation of Canadian banks invariably expands during the months of September, October, and November. By December an inward movement begins. As the bank notes are paid to him by the farmers, the country storekeeper deposits them in the local branch of his bank, and this sends them at once to the nearest redemption center or clearing house. At the same time the checks paid out by the buyers of grain and stock are also pouring into the clearing houses and both checks and notes are cleared in the same fashion.

DOUBLE PULL ON THE BANKS.

The banks stand this double drain on their resources—the increased demand for loans and for currency—without any inconvenience. They do not advance the rate of interest and apparently do not deny any of their regular customers. Ordinarily, as their liabilities increase in the fall on account of expanding deposits and note circulation, they reduce their call loans in New York City, and so add a few million to their cash reserve. In 1906, for example, the net liabilities of the Canadian banks rose from $635,000,000 September 1 to $705,000,000 November 1, an increase of $40,000,000. Their current loans in Canada during the same months rose from $515,000,000 to $550,000,000, a gain of $35,000,000. The note circulation that year began to increase in August and reached its highest point in October, rising from $72,000,000 to $86,000,000. By December 31 it had declined to $78,000,000. The banks began to increase their cash reserves on May 1 of that year, raising the total during the next four months from $59,000,000 to $65,000,000. During the month of September the cash reserve was increased from $65,000,000 to $74,000,000, a gain of $9,000,000 in one month. During October there was an increase of $1,000,000. After November 1 the cash reserve declined. The increase of $9,000,000 during the month of September was evidently due to the bankers' desire to guard against their increasing liabilities and appears to have been brought about by a reduction in call loans in New York City and by the sale of securities. Merely by adding $10,000,000 to their holdings of money the banks were able to permit their demand deposits during the months of September, October, and November to increase $25,000,000, and their circulating notes about $12,000,000, making a total increase in their net liabilities of $37,000,000.

The conduct of the banks during the next two years—1907 and 1908—which were unusual in character, is discussed in the next chapter. In both these years, as the reader will see by a glance at Chart VII (page 96), the volume of notes in circulation varied in the usual manner, reaching the maximum in November, then declining to the minimum in February. The liquidation that everywhere followed the panic of October, 1907, causing a general reduction in bank deposits and bank loans, was quickly over in Canada. The year 1908 was a breathing spell in Canadian industry and finance, but the bank returns show that there was no lack of confidence in the banks and that the floating capital of the country had not been seriously impaired. The demand deposits, which declined throughout 1907, began to gain in February of 1908, and climbed steadily upward throughout the year. The time deposits held their own after February 1, but did not begin to increase until August 1. That these gains in deposits were mainly due to increasing cash receipts is indicated by the

CHART VII.—COMPARISON OF MAXIMUM CIRCULATION WITH CASH ON HAND AND WITH PAID-UP CAPITAL, 1906-1909.



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fact that the current loans in Canada declined steadily throughout 1908, and by the steady augmentation of the cash reserve, which throughout both 1908 and 1909 exceeded at all times the amount of notes in circulation.

In 1908, although the maximum circulation was only $85,000,000, being $11,000,000 under the legal limit, seven banks took advantage of the amendment to the bank act and issued notes in excess of their paid-up capital, paying a tax on the excess at the rate of 5 per cent per annum. In 1909 the maximum circulation in November touched the highest point ever reached and thirteen banks issued notes in excess of their paid-up capital, the largest excess on any one day being $2,373,000. In 1908 the largest amount of "emergency" notes outstanding on any day was only $775,000.[a] As is pointed out in Chapter IX, if the banks since 1900 had properly increased the amount of their capital stock, instead of charging their undivided profits to the surplus or rest account, there would have been no necessity for "emergency" issues of notes

VARIATIONS IN THE CIRCULATION.

By referring to Chart II (see page 48) the reader will easily get an idea of the elasticity of the circulation. He will observe that the amount of notes outstanding invariably increases after September 1 and reaches its maxi-

[a] In 1908 the total daily excess amounted to $9,299,000 in October, $9,105,000 in November, and $705,826 in December. The largest one-day excess issued by all the banks was $723,000 in October, $775,000 in November, and $144,000 in December.

In 1909 the total daily excess was $12,500,000 in October, $26,300,000 in November, and $15,612,000 in December. The largest one-day excess by all the banks, $1,448,000 in October, $2,373,000 in November, and $1,600,000 in December.

mum in November, then declining sharply during January and February. With respect to these changes in the circulation two facts should be borne in mind by anyone wishing to understand the Canadian system.

First, the autumnal increase is not brought about by any effort on the part of the banks; it is beyond their control, and they could not prevent it if they wished to. Indeed, the note circulation of the Canadian banks is one liability they can not reduce or enlarge at will. They can stop the growth of deposits by refusing new accounts or by declining to make additional loans, and the people would have to submit; but the public's need for currency, small in the summer, large in the autumn, the banks must satisfy—the only alternative being suspension.

Second, the additional notes are not directly a source of profit to the banks. The notion that Canadian banks give notes to their borrowers and that the additional issues in the fall represent loans at 6 per cent, is a mistake. Canadian banks, like those in the United States, give deposit accounts to borrowers, and it is a matter of indifference to the Canadian banks whether their customers check out their accounts or call for notes. The fact that the banks can issue the notes as needed is directly an advantage to the public and hence indirectly beneficial to the banks, for it saves them from the necessity of calling loans in order to get the extra currency needed in the crop-moving season. By reference to Chart VII (page 96) the reader will see that the amount of legal-tender money in the banks, i. e., their cash reserve, tends to vary somewhat with the amount of notes in circulation, the two being nearly equal; but he must not infer that the fluctuations in the cash reserve are due to changes in the volume of the circulation. The reserve is the protection for all the liabilities of the banks, and of these the deposits exceed the circulation nearly tenfold. The banks take pains to increase it in the fall, because then all their liabilities, deposits as well as notes, are certain to increase, and they wish to be fully prepared for the redemption of an unusually large amount of both checks and notes. As a rule, they add to the reserve in the fall by a slight reduction of their balances on deposit in foreign countries, especially in New York City, and thus are enabled to enlarge their current loans in Canada. If they were not permitted to issue notes, they would every fall have to import from New York a considerable amount of gold, and all the risk and expense involved in getting it would be borne by the Canadian people.

LARGE USE OF DEPOSIT CURRENCY.

It is sometimes assumed that a free and large use of bank notes tends to discourage the use of the check book and the growth of bank deposits. On the continent of Europe, for instance, where the notes of central banks supply all the currency the people need, the check book is comparatively little used. This fact is sometimes explained by the ease with which people can obtain bank notes for use in making all payments. Experience in Canada makes one doubt the validity of this explanation. The check book is almost as popular there as in the United States, and would probably be used still more than it is if the banks would adopt a policy as liberal as that in vogue in the United States. The Canadian banks not only charge exchange on checks and drafts payable in other localities, but even charge exchange on checks drawn on their own branches. The charge is a small one and probably has no great effect one way or the other, yet it certainly does not encourage the increase of deposits or the use of the check book. When a Canadian starts on a journey it is in a small way economical for him to fill his wallet with all the cash he expects to need. The notes of his bank will be taken at par everywhere throughout the country; his checks, even though he presents them at a branch of his bank, will be cashed only at a discount.[a]

Notwithstanding this discrimination against the check, the deposits of Canadian banks have grown much more rapidly than the note circulation and the inference is that the volume of deposit currency has increased at the same rapid pace. Since 1900 the volume of notes has increased from $50,758,000 to $81,326,000 in 1909, a gain of 60 per cent. During the same period the deposits by the public increased from $297,915,000 to $760,350,000, a gain of 155 per cent, and the total clearings in the same period increased 227 per cent. These figures prove that business men in Canada appreciate the advantages of the check as a means of payment, and that the proportion of business transactions settled by it is steadily increasing.

[a] Competition forces the banks to grant favors to large and regular customers which are denied to the small and occasional customer, and the free collection of checks and drafts upon Canadian banks, as well as upon some cities in the United States, is one of the concessions which a valued customer usually obtains.

INVESTMENT CAPITAL WELL DISTRIBUTED.

The conditions which bring about the even or equitable distribution of business capital have a similar effect upon the flow of investment funds. A western city in Canada can obtain money for the construction of a street railway or the installation of an electric-light plant almost as cheaply and as readily as can an eastern city. Indeed, the stocks and bonds of new enterprises in all Canadian towns and cities obtain capital strictly on their merits. If two towns or cities—one in the west, the other in the east—need capital for enterprises containing inherently equally good assurance of income and safety, the one is likely to fare as well as the other in the loan market. This does not mean, of course, that all municipal and industrial enterprises in Canada borrow funds at the same rate of interest, nor that the rate of interest paid in the west is uniformly as low as that paid in the east, for the prospects of enterprises vary in Canada as in other countries, and the future of every new community is more or less uncertain.

Taking into account the uncertainties that necessarily attach to the development of enterprises in new localities, which add to the element of risk always involved in the loaning of money, it may fairly be said that Canada has only one money market and only one rate of interest. In the United States great masses of loanable capital accumulate in the cities of the east and can be drawn into the country only by positive assurance of an extraordinary rate of interest. In Canada one finds no such accumulation of capital in a few cities and no such reluctance to loan it out at distant points. Banks in Montreal or Toronto lend with equal freedom in both the west and in the east, and their managers have equal familiarity with the needs and credit of both sections. The fact that a bank's head office is in one of these cities is no evidence whatever that its main interests are there. Nor if the head office is in a smaller city, such as Sherbrook or Hamilton, does it follow that it is a second-rate institution with local interests only. The real nature of the Canadian system can not be understood by anyone who fails to grasp the fact that the Canadian banks are in no sense local institutions. With two or three unimportant exceptions they are national institutions, and their managers are on the keen lookout for any chance to increase their business in any community between the Atlantic and Pacific oceans.

I have said that if we make allowance for the element of risk involved, the rate of interest is practically the same throughout the Dominion. Perhaps we should also take into account the element of expense. As a matter of fact, the rate of interest is about 1 per cent higher in the west than in the east. Borrowers in country districts also pay a higher rate than those living in the cities. Prime commercial paper can be discounted in Montreal at 5 per cent, but the bulk of discounts is at 6 per cent. In Winnipeg the prevailing rate on commercial paper is 6 per cent, but in the new towns west of Winnipeg the rate upon all but the choicest kind of paper is 7 per cent. The rate is higher in the new localities and in the country districts, not because the paper is necessarily poorer, but because the maintenance of branches in these new localities, and in all small towns, is more expensive per dollar of business done than in the larger cities. If the people in a newly settled community were not willing and able to pay 7 per cent for money, the banks could not afford to establish branches among them as quickly as they do. If a bank has the enterprise to open a branch in a mining camp, which can be reached only by a long journey through the wilderness, it is naturally to be expected that it will charge for its services a price that will compensate for the risk and expense involved. In this respect banks, as dealers in money and credit, are like dealers in provisions and general merchandise. They charge high prices because their risks and expenses are high, not because they have an assured monopoly, nor because they handle a commodity which can not stand long or rough journeys.

Chapter VIII.

THE SYSTEM IN TIME OF STRESS.

Since the present system of banking was perfected in 1890, Canada has had no banking panic. She has suffered from periods of depression and hard times, caused either by short crops or by the failure of outside markets to absorb her produce at satisfactory prices, but never from scarcity of currency, from runs upon banks, from business failures, or from the inability of banks to meet their obligations. It is impossible to escape the conclusion that the credit for Canada's immunity from panic and financial distress is largely due to the character of her banking system.

No country can expect to be free from periods of dullness, no matter how perfect its banking system. International relations in trade and finance are so close that all countries suffer from the mistakes made by any one. Canada has depended very much upon English capital. She is relatively a large consumer of the products of the United States and has many an enterprise which owes its inception to American initiative. Hard times in England or in the United States must inevitably affect Canadian business. She is borrowing from England as this country did a century ago. Her credit system rests upon the gold reserves of London and New York. Under these circumstances, when one recalls how the credit and financial system of England and the United States have been shaken during the last twenty years, it is remarkable that Canada has escaped serious damage.

STRONG BECAUSE ELASTIC.

Canada's banking system contains two features that give it great strength under the threat of panic or crises. One is the elasticity of the note circulation, the other the solidarity or unity of the system. The reason why Canada has never suffered from a currency panic lies on the surface. The banks always have cash enough to meet the demands of their depositors. Instead of being in the position of their brethren across the border, that is, anxious to conserve their cash, they welcome any legitimate opportunity for the increase of their circulation. Except for a few weeks during the panic period of 1907, when practically all the banks of the United States had suspended cash payments, the Canadian banks have always had currency on hand in excess of their customers' needs. This currency consisted of their own notes. To their customers the bank notes are perfectly good money. Even though people got suspicious of the solvency of a Canadian bank, its notes would not be in disfavor.

Furthermore, when Canadian banks satisfy their customers' demands for cash, their resources are unimpaired. They are not obliged, as are the banks of the United States, to call loans in order to make good their cash reserve. With the public their notes have all the efficiency of gold itself, and the fact that they are paid out so willingly by the bankers, the supply as a rule seeming inexhaustible, prevents anything like a panic starting among the people.

The elasticity of the note issue, however, is not the most important factor contributing to the peace and security of the Canadian financial system. It must be regarded, indeed, as an essential factor, for without it the banks would be unable to maintain equilibrium without resorting to methods that at times would be perilous. If in any emergency they were obliged to raise their rates of interest and to seek to increase their resources by the reduction of loans, it is doubtful if Canada, despite the strength of its banking system in other respects, could escape from the losses caused by panic.

SOLIDARITY OR UNITY OF THE SYSTEM.

The other feature making for financial ease in Canada, namely, the solidarity or unity of the banking system, is not easy to describe. It is a growth, a situation, rather than a creation of the law. When one has in view the protection of Canada's business and financial welfare, it is impossible not to regard the 29 chartered banks, with their 2,200 branches, as a single institution. As lenders of money they are independent units. For that matter, the branch of each bank has a great deal of independence. All are independently seeking for deposits. Each branch is seeking to make the largest possible profit, and its manager is encouraging to the utmost the enterprises in his locality, for on the growth of the business he does depends his favor at headquarters. Nevertheless, from a national point of view, despite the competition among the banks and their branches, there is considerable reason for regarding the 29 chartered banks of Canada as one institution.

Consider, for instance, the following facts:

1. Over 50 per cent of the banking business in Canada is done by 6 banks. One of these, the Bank of Montreal, has assets exceeding 20 per cent of the total. Another,

the Bank of Commerce, with head office at Toronto, has resources equal to 13 per cent of the total.

2. The Bank of Montreal is the depositary of most of the government funds and among the people is commonly spoken of as the government bank.

3. The Bankers' Association, an organization created by law, is a medium through which the best banking opinion finds authoritative expression. Through this association the banks keep advised of all pending legislation in any way affecting banking interests.

4. Bank managers are trained experts and each one has the expert's regard for a man who has had a wider experience or a better training than himself. As a result, no manager will venture far upon a policy which is regarded by his competitors as dangerous.

5. All the banks are equally interested in the unbroken prosperity of the country. The managers of the six largest banks, each having charge of over a hundred branches, are particularly watchful. They realize that speculative excesses in any part of the country will bring loss to them and must be discouraged.

6. On account of this mutual interdependence of the banks, no bank in Canada can hope to achieve success by striking out upon an absolutely independent policy, if such conduct is likely to meet with the disapproval of the banking fraternity. The business public, from which a new bank must get its support, has confidence in the management and judgment of the established institutions. A depositor may feel that he ought to get more than 3 per cent interest on his balance. He may complain that his bank does not give him credit enough, or that it is not

liberal enough in its collections. Nevertheless he would be reluctant to give his account to a new institution or to any institution, whether old or new, if it were managed by men not in good standing with the leading bankers.

7. In their insistence on the rule that a man shall borrow from only one bank the banks have done more than appears on the surface to make their system a unit. If a merchant is refused credit at one bank, he finds it practically impossible to get help from any other. This rule certainly makes the 29 banks of the Dominion, from the borrower's point of view, a single institution.

8. There is practical unanimity of opinion among bankers with regard to business conditions and the outlook. The managers of Canadian banks get their information with regard to the country's condition from the managers of branches. Since all know what is going on in every part of the country, it is not remarkable that all usually are very much in agreement, for the sources of information of all are practically the same.[a] As a result, Canada has a "banker's opinion" with regard to the business situation, as distinguished from the "opinions of bankers" in the United States. In the latter country the bankers in the West are often in disagreement with the bankers in the East, and the eastern bankers are fre-

[a] During the writer's stay in Canada in April, 1909, he talked with bankers in Montreal, Ottawa, Toronto, and Winnipeg. Everywhere he raised practically the same topics of conversation, and everywhere got practically the same answers. The managers at the head offices get daily reports and letters from their branch managers, and the head offices in their turn send out information to the branches. As a result the men in the banking business in Canada know more about the whole country than any other set of men. The files of one of the larger banks probably contain more valuable and more accurate information about the current events in Canada than can be found in the files of any newspaper.

quently in considerable ignorance of the conditions and events which are shaping the opinions of their western brethren. In Canada, with reference to questions of fact or actual conditions, one finds very seldom any difference of opinion among Canadian bankers. If there is excessive speculation in any part of the country, if a certain industry is suffering because of tariff changes in Europe, or because of a scarcity of raw materials, or if capital is being employed in an industry in amounts not warranted by the demand, or if there is the prospect of a light yield of any agricultural product, the bankers are among the first to get the information, and all of them have it.

IMPORTANCE OF THE BANKER.

This unanimity among the bankers with regard to business conditions makes the individual banker a much more important person in Canada than he is in the United States. Business men there do not speak of him as a mere money lender. They look upon him as a man who has especial facilities for getting information about business and financial questions and whose opinion, therefore, is entitled to great respect. This is true not only of the general managers, who as a rule live in the large cities and are men past middle life, but is true as well of the managers even of the small branches. In every community the manager of a branch bank, especially if it is a branch of one of the half dozen largest institutions, occupies a prominent position and exerts a powerful influence in the shaping of business opinion. Not only does he send reports daily or weekly with respect to events of importance within his field, but he himself is constantly getting letters of advice from the head office. He is the one man in the community who is in touch with the business conditions of the Dominion or, for that matter, of the world. He may be a young man, but he has had a training in the methods of Canadian banking, and it is known that he would not occupy his position if his superiors did not have confidence in his judgment.

As a result of all these conditions working together, it may fairly be said that Canada possesses many of the advantages of a central bank. The employees of each bank, from general manager down to the office boy in the smallest branch, are busily occupied in doing their share toward increasing the bank's business and profits. Each is keenly on the lookout for an opportunity to establish a new branch in a promising young community, and each is doing its best to serve its customers and to gain new ones. But if a cloud appear on the horizon, if bad news comes from England with regard to Canadian investments, or if there is wild speculation in Wall street, the leading bankers get together, not formally, but informally, and as a result the Canadian banks become practically a unit in their attitude toward the common peril.

THE PANIC OF 1907.

The policy adopted by the Canadian banks at the end of 1906, and followed throughout the strenuous year of 1907, illustrates forcibly the solidarity of the banking system. All business men remember the feverish activity of 1906, the steady advance in prices of goods, the insatiable demand for money, and the high rates of interest everywhere prevailing at the end of the year. To the average man it seemed a period of boundless and unending prosperity. Railroads had not cars enough to haul the freight offered them and could not get them built fast enough. Manufacturers in the United States and in Canada had withdrawn their traveling salesmen because they already had orders for a year ahead.

In the United States a few of the leaders in industry and finance sounded a note of warning, but most men were too busy to hear it and most of the 10,000 bankers refused to believe it justified. As the decline in the market prices of securities began in January, a few bankers in New York City—those in closest touch with the financial needs of corporations and with the temper of foreign money markets—became convinced that serious times were ahead. Most of those men, knowing that a public expression of their apprehensions would do little good and might do harm, silently went about the business of strengthening their resources. Meantime 10,000 or more bankers throughout the country, wondering why the stock market should be weak when the country was so prosperous, continued to make advances at high rates of interest to expanding enterprises. As a result, when the crash came in October, it is doubtful if more than 10 per cent of the bankers in the United States were prepared for it, and for several weeks there was an almost universal suspension of specie payments and withdrawal of banking support from deserving borrowers.

CANADIAN BANKS WERE PREPARED.

In Canada there was no panic. For a year the leading Canadian bankers had been urging upon their customers the necessity for caution, and in their annual reports to the shareholders early in 1907 bank presidents and general managers had given notice that the phenomenal profits and business of the preceding few years could not be expected to continue much longer. Financial journals and editorial writers for the daily press, taking their cue from the bankers, had for months called attention to the strain upon the world's money markets and pointed out the necessity for conservatism, not only among the banks but among the promoters of new enterprises.

As an illustration of the attitude of the Canadian banker, and therefore of the Canadian business public, the following paragraph from the annual address of the general manager of the Canadian Bank of Commerce, delivered before the shareholders January 8, 1907, is worth quoting:

"While we are enjoying an extraordinary prosperity, there are signs about us of a strain which must bring trouble if they are disregarded. We are a borrowing country, and we can not be reminded of this too often. As we fix capital in new structures, public or private, railways, buildings, etc., someone must find the capital in excess of what we can ourselves provide out of the salable products of our labor. The number of countries willing to buy our securities has been steadily increasing, but we must not be blind, as we sometimes seem to be, to the fact that our power to build depends largely on whether these countries have surplus capital to invest. By means of the cable the trading nations of the world have been brought very near together, and while many local panics have thus been averted, and the adjustment of capital to the world's needs has been greatly improved, still for the same reason world-wide trouble in the money markets sometimes arises with a suddenness which is alarming to those at least who are not watching for the signs. We are passing through such a period just now, happily without a general breakdown, but unless we mend our ways we are not likely to escape a similar or still worse condition next autumn, which may wreck our fair prosperity. Europe is bearing the enormous cost of two great wars, both in the loss of capital actually destroyed and also in the loss to individuals from the decline in the values of the national securities of the countries interested in the wars. And since these wars, losses on an unexampled scale have occurred by earthquake and fire. The volume of trade and the unusual amount of building in many countries have at the same time vastly increased the amount of capital required. This has been accompanied by a steady rise in prices throughout the world, and by a most pronounced and widespread advance in the scale of personal expenditure. It is true that it has also been accompanied by the greatest production of gold and of other commodities, but the effect of the various influences has naturally been to put upon the money markets a strain which has only just failed to cause a general breakdown of credit. To make the outlook still more serious, the United States and other less important countries, including Canada, contemplate expenditures on a very large scale for railway and other building.

"This, then, is a time for every prudent man to survey carefully his financial position. If he has debts he should consider how he will pay them if he should have to face worldwide stringency in money. Has he assets which the

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world needs for daily use, or assets which will sell only when the sun is shining? If he is happily in easy condition as to debt, he will, if he be wise, consider every circumstance arising in his business which tends toward debt instead of toward liquidation. As for those who are plunging in real estate at inflated prices, and in mining stocks, nothing we presume, but the inevitable collapse which follows these seasons of mania will do any good."

The important thing about this paragraph is not the fact that events have fully justified its gloomy predictions, but the fact that practically every general manager in Canada was talking in similar fashion at the same time to his own shareholders. In January, 1907, there was only one opinion among bankers as to the financial situation. For several years the country's trade had been expanding by leaps and bounds. Immigrants had poured into the country from Europe and from the United States. New capital had come from England and the United States at the rate of $200,000,000 a year. The profits of industrial and commercial products had been large. In ten years bank loans and deposits had doubled. In short, Canada's prosperity had been even greater than that of the United States. The demand for capital had outrun the supply, and the strain upon the banking resources every bank manager knew had reached the danger point. Every one of them said this to their shareholders; the newspapers published their remarks, and business men throughout the Dominion knew not only that they ought to retrench, but that they must. They knew that they could get no help from the banks if they sought to enlarge their operations.

GRADUAL CONTRACTION OF LOANS.

It was impossible, of course, for the banks to call an immediate halt in the expansion of enterprise or in the use of their credit. During 1906 (as is graphically shown by Chart I, p. 46) the current loans in Canada had risen from $450,000,000 to $550,000,000, an increase of nearly 25 per cent. Any attempt on the part of the banks to bring this upward movement to a sudden termination would have ruined many a solvent concern. For five months, or until the end of May, the banks suffered it to continue, their loans during that period rising from $550,000,000 to $590,000,000. Then began a gradual contraction and a steady increase in the cash reserve. Between June 1 and September 1 the total of their current loans in Canada declined $10,000,000. At the same time they strengthened their reserves by accumulating cash in their own vaults and by enlarging the amount of their funds on call in New York City. Canadian borrowers were treated with more consideration than those in foreign countries, as is shown by the reduction in current loans elsewhere from $36,000,000 to $23,000,000 between February 1 and July 1. The banks appear to have endeavored to convert their time loans outside of Canada into call loans, having in view an increase in the amount of funds available for immediate use. (See Chart II.)

Between January 1 and September 1 there was a decline in the demand deposits from $192,000,000 to $160,000,000 and an increase in time deposits from $400,000,000 to $425,000,000, so that the total of deposits suffered very little diminution. After the first of September, however, deposits steadily declined until the end of the year; time deposits from $425,000,000 September 1 to $400,000,000 December 31. Demand deposits remained practically unchanged during this period.

By the first of September Canadian bank managers were evidently quite alive to the necessity for caution. Thereafter all the changes in their statements indicated a conviction on their part that the situation was precarious and that the banker's first duty is to preserve the solvency of his bank and take care of its regular customers. They knew that large sums would be demanded of them for the movement of the crops and were disposed therefore to take every precaution against weakness. The season was late and it was known therefore that there would be difficulty getting the crops to market, for the Canadian railroads, like those in the United States, were embarrassed by lack of equipment. The Toronto News, whose financial editor was doubtless in touch with Toronto bankers, thus describes the situation in September, 1907:

"The Canadian situation corresponds more or less fully with that of New York. Here also considerable sums must be found for moving the western crops at a period of the year later than usual. Here also the banks are finding difficulty in keeping up their deposits and in finding the funds necessary for financing the extensive industrial enterprises which they are supporting. The raising of fresh capital for these enterprises is necessarily a matter of difficulty under the present conditions. There is, however, no indication of unsoundness. The obvious policy is to resist temptation toward increased expenditure on capital account on the one hand and to exercise a close scrutiny of current expenditure on the other."

In that paragraph the Toronto News doubtless expressed the opinion prevailing among bankers with regard to the situation. They were confident that they could take care of their customers' needs and provide funds for the movement of the country's crops. That there might be a crash in the United States they knew to be a possibility, but they could not foresee it and they hoped that the worst was over.

CALL LOANS REDUCED IN NEW YORK.

When the crash came in New York and the Knickerbocker Trust Company suspended on the 22d of October, Canadian banks immediately adopted measures of self-protection. During the next two months the total of their call loans outside of Canada declined from $62,000,000 to $40,000,000. There was also a small reduction of their call loans in Canada. Their cash reserve was increased by $5,000,000. Their current loans in Canada, however, were $10,000,000 less Novenber 30 than on October 1, and in December they fell off $15,000,000 more. These two months, November and December, were strenuous months in Canada as they were everywhere in the world. The western wheat crop was late and as a result there was a great clamor for funds for their movement. Currency was so scarce in the United States that Canadian bank notes disappeared over the border and performed their function as a medium of exchange in towns and country districts in the United States many miles distant from the Canadian line. Most of the banks found that their circulation was dangerously near the maximum and feared that they might be called upon to pay out legal tender. There was not the slightest suspicion of banks in Canada and no talk whatever of a run upon any bank. People did complain, however, that the banks were not doing their duty by the western farmers. Why should the banks be lending money on call in Wall street, when the farmers of Manitoba were unable to market their crops because buyers could not get funds from the banks?

CIRCULATION TOO NEAR THE LIMIT.

The banks, their deposits declining, their circulation near the maximum, the railroads unable to haul the crops promptly to market, dared not tie up funds in agricultural products which might later be called for by the commercial and industrial interests of the Dominion. If their capital had been larger so that they might have expanded their note circulation with impunity, the situation would have have been less difficult. Yet something more than notes was wanted. For the first time in many years Canada felt the pinch of that want which is annually felt in the United States, namely, a sudden and great increase in the demand for both capital and currency. And for the first time they faced the risk of being compelled to pay out legal tender money if they satisfied the demands of grain buyers. In other words, the Canadian banks and the agricultural interests of Canada during the last three months of 1907 had a taste of what the banks and farmers of the United States experience every year. The banks dared not make large advances to the buyers of grain lest the depletion of their reserves or an excessive issue of notes should result. The total circulation had climbed up to $89,000,000, which was only about $6,000,000 under the maximum, and no bank felt that it could authorize its branches to increase the issue of notes; the risk of being called upon to pay the penalty for excessive issue was too great.

To the Canadian banker and to his customer the situation was entirely new. Never before during this generation had the banks been obliged to restrict their loans merely because they feared that an excessive issue of notes might result. Serious and new as the situation was, and though it gave rise to many complaints in business circles, nevertheless there were no important business failures in Canada, and bankers in general felt confident that they would be able to bring the country safely through the crisis. In the last two months of the year the deposits declined $30,000,000 and the current loans in Canada $25,000,000. This shrinkage was inevitable. Many depositors having investments in the United States were obliged to protect them by the withdrawal of funds from Canada. The banks, on their side, were obliged to withdraw their assistance from such customers as needed it least. It is the boast of the banks, however, and is now generally admitted, that during these two months no man who actually deserved and needed a loan was refused it, and few borrowers were obliged to pay an unusual rate of interest.

THE GOVERNMENT TRIES TO HELP.

Canadians are readers of the newspapers of the United States, and they know something about our habit of calling upon the Government for aid whenever money is "tight." So the question was asked, Why should not the Dominion treasury come to our relief? The banks, it should be noted, did not ask this question. They did not believe that government aid was necessary. Nor was it evident how government aid could be afforded, for the Dominion treasury, unlike that of the United States, keeps all of its cash at all times in the banks, and so has no reserve fund on hand on which to draw for the purpose of easing the money market. The Government, however, was impressed by the popular demand and came forward with an offer of relief which involved a suspension of the Dominion legal tender act, similar to the suspension of the Peel bank act whereby the Bank of England has been permitted to issue notes unsecured by coin.

The issue was made upon the authority of the governor in council dated November 12, 1907, on a memorandum from the minister of finance, in which he described the effect of the world-wide monetary stringency upon Canada and declared that there was much anxiety in the West among farmers, traders, and bankers over "the prospect of insufficient financial accommodation to move the crop." He recommended that the minister be authorized to issue new Dominion notes and deposit them with the banks most largely interested in the grain business, and to accept from the banks high-class securities. In the second memorandum, dated November 26, he recommended that the advances be made through the Bank of Montreal, at such rates of interest, not less than 4 per cent per annum, as the Bank of Montreal might deem fair and reasonable. The advances were not to exceed $10,000,000 and were to be protected by the deposit of securities satisfactory to the Bank of Montreal. These issues of Dominion notes were approved by act of Parliament July 20, 1908.[a] Events proved that the bankers were right in their claim that they were fully able to take care of the western situation, for there was a call for only $5,115,000 of this emergency issue of Dominion notes. The bankers understood the situation better than did the minister of finance, yet to a citizen of the United States who is used to seeing the Treasury come to the relief of the money market, it is not at all remarkable that the minister felt constrained to give heed to the western cry for more money. The situation was without precedence in Canadian finance. For the first time in their history the chartered banks were obliged to limit their operations, not because their cash resources were low, but because their note issues were practically up to the legal limit, and they feared that further expansion of their loans would cause an inroad upon their cash reserve.

The situation was complicated by the lateness of the wheat crop and still further by the fact that a large part of the crop had been injured by frost. Furthermore, the farmers of the West were dissatisfied with the price offered for their wheat and were holding much of it back from the market. These circumstances caused delay in the movement of the crop and hence tended to tie up bank funds for a longer period than usual. But these were not all the causes of difficulty and delay. Much Canadian wheat is shipped to the East via Port Arthur and Buffalo. This

[a] The memoranda and act of Parliament relating to this issue of Dominion notes are presented in Appendix A.

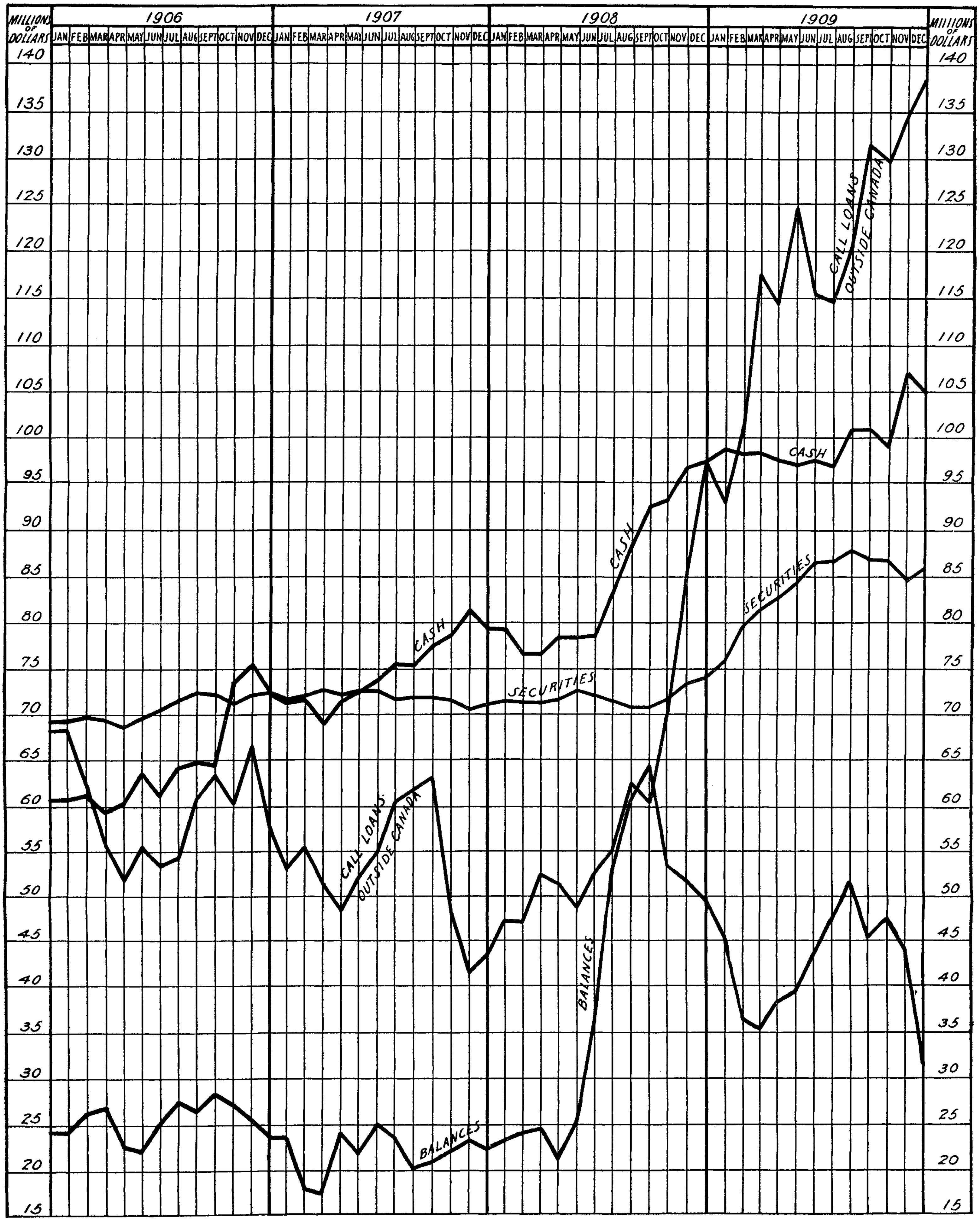
route in 1907 Canadian shippers did not like to use, for the New York checks or drafts which they got in payment were at a discount in gold. The bulk of the wheat had to be shipped, therefore, either by the Montreal water route or by the Canadian Pacific, and the transportation facilities were not adequate.

It would seem, therefore, that the inability of the farmer to get a satisfactory price for his wheat, or to get it forward quickly to market, was due not to the failure of banks to do their part, but to the inferior quality of a large part of their crop and to the inadequacy of transportation facilities, aggravated by the panic in the United States.

EVENTS IN 1908.

During 1908 it was inevitable that Canada should suffer from the after effect of the panic in the United States. Immigrants from the United States continued to pour into the Dominion and they brought considerable capital with them. As a result the development of the western provinces, such as Alberta and Saskatchewan, continued without abatement, and the city of Winnipeg, which is the metropolis for the great western country, had a fairly prosperous and active year. In the eastern provinces, however, hard times prevailed. Practically no new capital came over the border from the United States, prices of commodities were low, and most business concerns were seeking to hold their own rather than to enlarge their operations. Canada's financial and commercial relations with the United States and England are so intimate that her economic activities were necessarily affected by the universal reaction.

CHART VIII.—FLUCTUATIONS IN THE FOUR FACTORS OF THE RESERVE CASH, BALANCES ON DEPOSIT OUTSIDE OF CANADA, CALL LOANS OUTSIDE OF CANADA, AND SECURITIES, 1906-1909.



31870—10. (To face page 122.)

The character of the year 1908 is shown by the bank returns. Current loans declined steadily from November 1, 1907, until March 1, 1909. Deposits, however, began to increase early in 1908, time deposits rising from $395,-000,000, March 1, to $430,000,000 December 31. In the same period demand deposits increased from $140,000,000 to $210,000,000, while the cash reserve moved up from $75,000,000 to $100,000,000. The banks being unable to employ their idle funds in Canada during this year, put them out on call in the New York market. The item "call loans elsewhere" (see Chart VIII, page 122,) rose from $41,000,000, December 1, 1907, to $106,000,000, December 31, 1908, and by the end of May, 1909, had climbed to $125,000,000. This is a much larger sum of money than the Canadian banks care to employ in the call-loan market.

During 1907 the banks gradually reduced the amount of call loans in Canada by about $11,000,000. The funds thus released were loaned to merchants, manufacturers, and the buyers of grain. In 1908 this item began to increase, the banks having more money than was needed by business interests. They adopted the same policy with current loans outside of Canada, reducing these during 1907 from $36,000,000 to $23,000,000. In 1908 this item began to increase.

Chart VIII (page 122) makes an interesting exhibit of the use the chartered banks made of the several elements of their reserve in 1907. Early in the year, in anticipation of a strain, they began to increase the cash reserve, at the same time calling loans in New York and reducing foreign balances. Between May and October they loaned rather freely in the New York call-money market, but during October and November they reduced their outside call loans by $20,000,000. Their credit balances and call loans outside of Canada both increased greatly in the first seven months of 1908, when the demand for money was small in Canada. In the last quarter of 1908 the decline in foreign credit balances explains the rapid increase in outside call loans. Throughout 1909 the banks had resources beyond the needs of Canada, and the outside call loans rose to $138,000,000, an increase of nearly $100,000,000 in two years. In the same two years the cash reserve rose from $80,000,000 to $105,000,000, and the amount of securities held from $71,000,000 to $86,000,000. It is interesting to note that the amount of securities varied but little during 1907. It was not a good year for bonds.

TWO INTERESTING BANK FAILURES.

The story of banking is not without its dramatic incidents in any country. Canada has probably had fewer such incidents in the last generation than most countries, yet there was a bank failure in 1906 which furnished unique details. On the evening of October 12 the bankers in Toronto and Montreal heard with surprise that the Bank of Ontario had got beyond its depth and would not open its doors the next morning. Its capital was $1,500,000 and its deposits $12,000,000. The leading bankers in the Dominion dreaded the effect which the failure of such a bank might have. The Bank of Montreal agreed to take over the assets and pay all the liabilities, provided a number of other banks would agree to share with it any losses. Its offer was accepted and a representative of the Bank of Montreal took the night train for Toronto. Going breakfastless to the office of the Bank of Ontario he found the directors at the end of an all-night session and laid before them resolutions officially transferring the business and accounts of the bank to the Bank of Montreal. They adopted the resolution before 9 a. m. and the bank opened business for the day with the following notice over its door: "This is the Bank of Montreal."

Before 1 o'clock the same notice, painted on a board or penciled on brown wrapping paper, was over the door of the 31 branches in different parts of the Dominion. Its customers were astonished that day when they went to the bank, but none of them took alarm and many of them were well pleased with the change. The note holders and depositors were paid in full and it is generally understood that the venture was a profitable one for the Bank of Montreal, although litigation is still pending over the double liability of the stockholders. The general manager of the Bank of Ontario, who had sunk its capital in Wall street, received a five years' sentence for making false statements with regard to the bank's affairs.

FIRST OUTBREAK OF HIGH FINANCE.

One other large bank has been in trouble since 1890. It was the Sovereign Bank, an institution having over 80 branches and $16,000,000 in deposits. It was established in 1903 and was managed by an artist in "high finance," the only one of that class, it is claimed, who ever controlled a big Canadian bank. It is claimed that he was backed by large financial houses in New York and in Germany. He was reckless both in spending and in lending money, and early in 1907, when the assets amounted to over $25,000,000, it became known that much of its paper was valueless. The capital stock was reduced and a new management was placed in charge, but in January, 1908, the bankers of Toronto and Montreal were informed that the Sovereign would be obliged to suspend unless it received assistance. On the 18th of January its business was taken over by 12 banks which guaranteed the creditors against loss. The branches of the bank were divided among these 12 institutions, and report has it that some of the general managers were for a time unable to find all the branches that had been allotted to them. The manager of the Sovereign, in his search for communities needing branch banks, had got ahead of both map makers and the post-office department. The assets of the bank are not proving equal to the liabilities, but the guaranteeing banks are protected from loss by the double liability of the stockholders.

The circumstances attending the liquidation of these two large banks certainly strengthen the view advanced in the early part of this chapter with regard to the solidarity or unity of the Canadian system. Bankers still shake their heads ruefully over the havoc wrought by the Sovereign and over the changes it made in banking practices, whereby various minor profits were annihilated, and declare that if another specialist in "high finance" appears among them they will let him and his friends take their medicine. "The banks can not go on forever," they say "standing between the people and a rotten bank." Like the directors of the Bank of England, the presidents and managers of the big banks in Canada deny that any responsibility rests upon them for the protection of the country's financial security, yet when the next pinch comes the situation itself will compel them in self-defense to act together both quickly and effectively.

Since 1889 six small banks have failed, but note holders have lost nothing and depositors very little. They were local institutions with few branches and their failures possess little significance in a study of the banking system as a whole.

Chapter IX.

CONCLUSION.

We have seen that the Canadian banking system possesses features of extraordinary merit, adapting it admirably to the needs of the country which it serves. It performs most efficiently the service for which banks are created, gathering up the country's idle capital and placing it in channels of useful employment. The assets of the banks are of high quality because of protection afforded by the law and because borrowers are prevented by custom from hawking their paper through brokers. The law leaves the banks such freedom in the use of their credit that business is never brought to a halt through lack of instruments of exchange; whether the need be for checks and drafts or for bank notes, the supply is always adequate. The redemption system insures perfect elasticity for both the note and deposit currency. The reserve seems to be abundant for the protection of the liabilities and to be composed of elements sufficiently liquid and available. Finally, on account of the extent to which the larger banks are interested in the trade and industries of all parts of the Dominion because of the investments made through their branches, the system possesses a solidarity that makes possible united action in the face of a common peril.

IS THERE A WEAK SPOT?

Would Canada's banking system stand a real strain? Is its gold reserve large enough? Does it not depend too much on London and New York? If England should withdraw her invested capital, or send no more, would not this banking system break down? Questions of this sort, which are sometimes asked, imply that Canada's system contains a weak but hitherto undiscovered spot, and most of the critics are inclined to think it lies in the smallness of the gold reserve. In the writer's opinion Canada's financial position is of the strongest. Comparatively little gold is needed for the reason that the banks have developed an almost perfect credit system. The people have unquestioning confidence in the credit instruments provided by the banks and never demand that they be converted into gold. Credit settles all debts between the banks and the public. Gold is used only between banks and in the foreign exchanges, and in the latter field a credit balance in London or New York is more useful than a stock of gold in Montreal or Toronto. If England and the United States some day suddenly stop sending capital to Canada, the country will undoubtedly suffer, but the notion that Canada will at once be called on to export large quantities of gold in payment for the imported merchandise now paid for with bills of exchange created by English investments, is crudely mercantilistic. Canada's imports, of course, would decline the moment English capital ceased coming, and the present "unfavorable balance" of trade disappear. There is no likelihood, however, that Canada will cease to draw capital from abroad. It is estimated that England has sent her a round billion dollars in the last ten years, and prospects are much brighter now than they were in 1900.

THE REST-FUND FAD.

The bankers of Canada may some day have cause to regret having allowed a condition to arise which made necessary the amendment of the bank act in 1908 permitting them to issue notes in excess of their paid-up capital, yet at the present time they seem rather complacent over their power to issue an "emergency" circulation. This is surprising, for it is in conflict with the principles upon which the Canadian system is based, and, furthermore, would have been entirely unnecessary if the banks within the last ten years had taken pains to see that the amount of their paid-up capital had increased in the same proportion as their business. In the ten years following 1899 the paid-up capital of the banks increased from $64,000,000 to $96,000,000, a gain of about 50 per cent. In the same period the deposits of the banks grew from $298,000,000 to $640,000,000, a gain of 115 per cent. The ratio of capital to deposit liabilities was suffered to decline steadily during this period. Meantime the rest or surplus was increased from $30,000,000, or about 50 per cent of the capital in 1899, to $74,000,000, or about 75 per cent of the capital, at the end of 1908. The banks have made the mistake of increasing their rest funds rather than their capital. During these ten years they added $44,000,000 to the rest or surplus. If half of this sum had been added to the capital, the banks would have had in 1907 a total paid-up capital of at least $115,000,000 and would have been abundantly able to satisfy the needs of that year. They would then not have been obliged to ask for the right to issue a taxed circulation and would not have exposed themselves, as they have done, to the risk of having a tax imposed on all their notes. If it is right to tax the notes issued in excess of the paid-up capital, people are asking, why is it not right and proper that the banks should pay a tax on all their circulation?

Sentiment seems to have had most to do with the increase of the rest fund.[a] There is a popular notion, and the banks have done a good deal to create it, that a bank's solidity and prosperity are somehow measured by the size of its rest fund, and the banks have engaged in unreasonable competition to bring their rests up to the highest possible amounts. Furthermore, bank directors and managers like to have the market prices of their stocks steadily climbing upward. If they divided part of their profits among stockholders in the form of a stock dividend, there has always been the fear that the market price of the stock in consequence would decline and the bank somehow be injured. Bank directors also take pride in the maintenance of a regular rate of dividend. If they can increase the rate and at the same time add a proper amount to their rest fund, well and good, but they shrink

[a] The general manager of one of the largest banks said to the writer: "I consider the new emergency law allowing a bank to issue, during certain seasons of the year, 15 per cent of their capital and surplus in additional bank notes by paying a tax, as very unscientific. We have had no real need to increase our capital stock to supply additional notes. The only time there has not been an ample supply of notes was during the crop-moving season of 1907. This season and the panic came together; otherwise we could have handled the situation satisfactorily. Only five banks have ever taken advantage of the new law. With our present powers we have for the most of the year a large amount of our notes on hand that we can not keep in circulation. Then there is a tax on capital stock, so the greater our capital the greater the burden of taxes. The banks take pride in their surplus fund and do not want it disturbed. By adding to it we show that we are gaining in strength each year."

from increasing the capital stock at the expense of the dividend rate. For all these reasons the Canadian banks during the last prosperous decade have failed to make their capital account grow with their business and are now paying the penalty, for there is no reason in the nature of things why a Canadian bank should be obliged to pay a high tax upon any portion of the currency which the country requires. It is quite possible, of course, that the banks are not paying their due share of taxes. But this possibility furnishes no excuse for a tax on circulating notes. Such a tax in the long run is always paid by the people. In one way or another, either by the exaction of a high rate of interest or by the imposition of unusually hard conditions, banks will probably force their customers to pay the tax on the emergency circulation. Nevertheless the banks will have the annoyance of payment, and few of them will realize that the tax is shifted.

It may occur to some readers that perhaps the government imposed a tax on the "emergency circulation" in order to compel its retirement at the end of the crop-moving season. Such a thought was in nobody's mind when the law was passed. Everybody knew that the notes, whether taxed or not, would be retired automatically in January. However, the country's business is growing so rapidly that some of the banks, if they do not increase their capital, may very soon have difficulty keeping their circulation within limits even during the dull months. Since the business of the banks, as indicated by their deposits and loans, is increasing at a much faster pace than their circulation, the natural and proper increase of the capital account should be sufficient in the future to permit an untaxed circulation adequate at all seasons of the year.

HAVE CANADIAN BANKERS A MONOPOLY?

The people of Canada generally speak of their banking system with a good deal of pride and satisfaction. Many of them know that it has been called one of the best in the world, and are not slow to mention this fact when critics appear from abroad. Home critics, however, are not lacking.

One of the commonest charges against the banks is that they possess a monopoly of the money power. This is not surprising, for the banks pursue a policy of secretiveness which gives outsiders the impression that somehow they are leagued together in a manner prejudicial to the interests of the public. In the writer's opinion this impression is not justified, yet it must be admitted that Canadian bankers are a bit too secretive. They are unwilling to give out any more information about their affairs than the law compels, as is shown, for instance, by their reluctance to let the public know the facts about banking operations in the different provinces. In the United States, by the aid of the reports of the Comptroller of the Currency and of the state banking departments, one can study the development of banking in any state or even in a small community. In Canada bankers will make general statements about the growth and prosperity of certain sections of the country, as indicated by the number of new branches established, which are matters of newspaper report, but they do not want any discussion of the sources from which the funds are drawn for the maintenance of these new branches. The inquirer should be satisfied with the general statement that the bank's resources are growing, so that it is always ready to take care of new business. That the additional funds come from communities whose loanable funds exceed the amount they are willing to use at the current rate of interest, is a fact that the banks do not care to advertise. There is also the policy of the banks with regard to government examinations. The banks hold that they can examine themselves better than the government can and that no bank should be called on to open its books to outsiders. It is also understood that the banks act together in matters of legislation. No bill affecting the interests of banks can get into the Dominion parliament, or into a provincial legislature, without the fact being known within twenty-four hours to practically all bank presidents and general managers. The writer could find no reason for believing that the banks were actuated in any of these matters by improper motives. Yet the secretiveness and effectiveness of their policy do give the politician as well as the demagogue some excuse for hostility.[a]

The tendency in Canadian banking, as in all forms of business activity, is unmistakably toward combination. The chartered banks possess no monopoly now, but the situation is such that the large banks have a great ad-

[a] It is interesting to have the view of an "outsider" among the banks. One of the smaller banks insisted on paying depositors at the rate of 3½ per cent, and was in consequence expelled from the Toronto clearing house. Its general manager talked to the writer as follows:

"The older banks demand that no bank pay more than 3 per cent interest on its deposits. Deposits are worth more than that. Up to a decade or so ago it was the custom and was expected that all new banks would pay one-half to one per cent more interest on deposits than the older banks did. Now the large banks, which dominate the policy of the clearing houses, say to us younger banks that if we pay more than 3 per cent interest we can not have the privileges of the clearing house. By the use vantage over the small ones and seem destined to get most of the new business that will be created in Canada in coming years. Their prestige assures their branches a welcome in every new community. No business is too large for their resources, and none is so small as to be despised. They are able to open more new branches than their small competitors, and can much better afford, if need be, to operate them for a time at a loss. It will not be surprising, therefore, if Canada has fewer banks ten years hence than now. One or two mergers would give the country a bank as dominant in its field as is the Bank of France or Bank of Germany.

BANK INSPECTION BY OUTSIDERS.

The system of bank inspection, satisfactory as it is from the general manager's point of view, does not altogether satisfy the public, and will doubtless be amended in 1910. Under the present system the branches are very closely watched by the head office, but nobody examines the head office. Theoretically, the directors are supposed to keep a sharp eye upon the general manager and to be able to prevent him from making improper use of a bank's funds. As a matter of fact, however, boards of directors in Canada

of this club they have forced several of the younger banks not to pay over 3 per cent and thus prevented their giving the depositor the interest he deserved and prevented the new bank from being a real competitor of the older banks.

"This is the only bank that they could not force into line, so I am denied the use of the clearing house here. The other banks in the city have to send their messengers around to us every day with our notes and checks. We get rid of their notes and checks by simply depositing them with one of the clearing-house banks. I find that I can get along very well without the use of the clearing house and my not belonging to it puts them to a great deal more trouble than it does me."

do not always direct. The careers of the Bank of Ontario and the Sovereign Bank show that it is not impossible for a speculative general manager to keep a board of directors very much in the dark as to the character of his transactions and the value of the bank's assets. At any rate, the opinion is growing in Canada among bank shareholders and in business circles that the chartered banks ought to be subject to some sort of outside supervision or examination. In some quarters inspection by government officials is favored. This is opposed by the banks on the ground that government examiners would usually be incompetent, the task of examining a bank with a hundred or more branches being a very difficult one. Some of their critics say that the real reason why the larger banks are against any system of government inspection is because they fear it would lessen their advantage by giving an unearned prestige to their smaller competitors, many people being likely to think that one bank must be as good as another if the government has its eye on all.

Logically the power of inspection ought to be invested in the Canadian Bankers' Association. This body now has supervision of the circulation, but it has no authority to make any investigation of a bank's affairs. Since it represents both the government and the banks, it would seem that it ought to have the power to protect the interests of both. The associated bankers should certainly be able to devise an inspection system which, while not injuring the interests of any particular bank, would both satisfy and protect the public. If they do not do this, the politicians will probably insist upon some form of government examination.

NEED OF EDUCATION.

Being a teacher, the writer must express his regret because of the seeming indifference of Canadian bankers with regard to the education of their employees. When a boy at the age of 15 enters a Canadian bank, he leaves all hope of education behind. He will learn a great deal "by doing" and by contact with strong and successful men, but he will have little chance to improve his mind by systematic study or through attendance upon lectures. His hours will be long and, from the American point of view, his pay will be small. If he has an iron constitution, sound nerves, and an inconquerable stomach, together with a clear head, a steady will, and a good character, he will some day be manager of a branch and perhaps a general manager. But he will have to work out his own salvation without the aid or encouragement of the world's best thought and experience. It is to be hoped that the older bankers of Canada will get a conviction of sin on this subject and through their Bankers' Association make some provision for the intellectual growth of the young fellows in their employ. If they fail on this score, the time may come when the staffs of the Canadian banks, despite their prestige, may no longer contain men of the quality necessary to the making of a first-class general manager.[a]

[a] Banks are already losing their charm for young men. Said a general manager in Montreal:

"Twenty years ago there was a long waiting list—often as high as 150 boys—from the best families, who were desirous of entering into the service of the bank. But of late years the commercial development of the country has been such that the young men are entering other lines of business where perhaps the inducements are greater. Now there is not only no waiting list, but we find it hard to get young men of the standard we used to get."

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APPENDIXES.

APPENDIX A.

MEMORANDA AND LEGISLATION RELATING TO CURRENCY IN 1907 AND 1908.

I.

[P. C. 2501.]

Extract from a Report of the Committee of the Privy Council, approved by the Governor-General on the 12th November, 1907.

On a memorandum dated 11th November, 1907, from the minister of finance, calling attention to certain conditions of an exceptional nature existing at the present time in connection with the important business of moving to the world market the grain crop of western Canada, which conditions seem to call for governmental action, the minister observes that throughout the financial stringency which has been and is being felt in all the money markets of the world the general business of Canada so far has stood well. At such a time, however, all loaning business must be conducted more conservatively than at other times. The banks, finding it difficult to readily turn into cash resources which under normal conditions are of an easily realizable character, deem it necessary to restrict to some extent their commercial credits.

In the case of the grain trade of the Northwest special conditions have arisen to which the attention of the minister of finance has recently been drawn.

Experience shows that a very limited quantity of grain can be brought to the seaboard by the present railway facilities. The successful movement of the crop is dependent largely on water transportation. The present season of lake navigation will close in about a month. The crop of 1907 has been somewhat later than usual, and accordingly the pressure of moving it falls within a short period. An unusually large percentage of the harvest, it is represented, particularly in Saskatchewan and Alberta, consists of low-grade wheat, for which there is at present an available market at good prices in eastern Canada and abroad, but which, if not brought out before the close of navigation, will have to be carried over at a heavy loss, owing to deterioration, which, it is represented, will take place if the wheat be stored for the winter.

The prospect of insufficient financial accommodation to move the crop is the cause of much anxiety in the West among farmers, traders, and bankers, and urgent appeals have been made to the government to devise some means of meeting the temporary difficulty. The question can not be deemed a local one, affecting the West only, inasmuch as the satisfactory marketing of the crop has an important bearing upon the trade and commerce of the Dominion at large. In other branches of business, no doubt, the financial stringency is felt, but the necessity of moving the grain crop before the close of lake navigation, now so near at hand, creates exceptional conditions which seem to demand exceptional action.

The minister of finance has given careful consideration to representations which have reached him through commercial bodies and government officials in the West, and has had communications with leading bankers, who agree that the situation is a serious one, which calls for some relief.

In the opinion of the minister the only way in which relief can properly be granted by the government is by placing the banks handling this class of business in a position to provide the necessary credits to responsible parties. For this purpose the minister recommends that he be authorized to advance, upon the security hereinafter mentioned, to chartered banks to be designated by him, being banks which are engaged in the business of financing the moving of the grain crop of the Northwest to the seaboard, such sums of money as he may deem reasonable and proper, not to exceed in the aggregate $10,000,000, such advances to be accepted by the said banks upon the condition that the moneys are to be employed in the creation or enlargement of credits to parties in the grain trade, either as producers or dealers, for the purpose of assisting in the transportation of the crop from the West to the seaboard during the present season.

The minister further recommends that such advances be made upon the deposit by the said banks of such high-class securities as they may be able to offer and of which the minister of finance may approve.

The minister further recommends that he be authorized to appoint a competent advisory committee to assist him in the carrying out of the proposed arrangements; that such committee be composed of Mr. E. S. Clouston, general manager of the Bank of Montreal; Mr. Thomas Fyshe, late general manager of the Merchants' Bank of Canada; and Mr. J. M. Courtney, C. M. G., I. S. O., late deputy minister of finance; and that no securities offered by the said banks for the advances herein referred to be approved by the minister of finance unless they have first been approved by the said advisory committee.

The minister further recommends that any bank which may avail itself of the assistance herein recommended shall be required to pay to the government interest at the rate of 6 per cent per annum on such advances for a period of three months, and that for any period after the said three months the rate of interest to be paid shall be at the rate of 7 per cent per annum; that all sums so advanced shall be repayable by the banks to the government on or before the 1st day of May, 1908; that the securities deposited by the banks be returned to them from time to time in proportion as the advances are repaid, and that upon the repayment of such advances to the government the authority to issue the additional notes herein referred to be canceled and the note circulation be thereafter governed by the provisions of the existing law.

As to the manner in which the moneys for the proposed advances are to be provided, the minister observes that the funds in hand are not more than sufficient to meet the ordinary requirements of the government's business, and that in the present condition of the money market, when the Bank of England rate of discount has been advanced to the high rate of 7 per cent, the borrowing of this money by the issue of treasury bills would be unusually difficult and a rate of interest would undoubtedly have to be paid which might have an injurious effect on the general credit of the Dominion. For these reasons the minister recommends that he be authorized to issue such additional amount of Dominion notes as may be necessary, not exceeding in all the said amount of $10,000,000. A strict compliance with the terms of the Dominion notes act would require that such an issue be made against the deposit of an equal amount of gold in the treasury. For the reasons already stated, it would be exceedingly difficult to comply with the letter of the provisions of the law in this respect. The minister of finance is of opinion that under such circumstances the government might properly issue such notes against the deposit by the banks of high-class securities to be approved, as hereinbefore stated, by the advisory committee and the minister of finance. The government would, in the opinion of the minister, be fully protected against loss in the transaction, inasmuch as they would have, in addition to the deposit of the high-class securities before referred to, the general credit of all the banks which might avail themselves of the advance; and in this connection it is to be noted that the government have priority of claim against the banks over all other creditors except note holders. In the opinion of the minister, therefore, although the arrangement proposed would be a technical departure from the terms of the Dominion notes act, such departure is justified by the exceptional circumstances above mentioned.

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The minister further recommends that, at the ensuing session, Parliament be asked to enact a bill of indemnity confirming and sanctioning the proceedings herein recommended in so far as they require, for their validity, legal confirmation or sanction.

The committee submit the same for approval.

RODOLPHE BOUDREAU,
Clerk of the Privy Council.

II.

[P. C. 2631.]

Extract from a Report of the Committee of the Privy Council, approved by the Governor-General on the 26th November, 1907.

On a memorandum, dated 20th November, 1907, from the minister of finance, recommending with a view to the taking of prompt action in the case of any bank which may desire to avail itself of the aids proposed in the order in council of November 12, 1907, for the handling of the western grain crop, that the said order in council be amended to the following effect:

That the advances to be made to the banks be made through the Bank of Montreal.

That the Bank of Montreal, acting on behalf of the government, be authorized to advance such sum or sums as may be required, not exceeding in all $10,000,000, for the purpose set forth in the said order in council of November 12, at such rate or rates of interest, not less than 4 per cent per annum, as the said Bank of Montreal may deem fair and reasonable.

That the Bank of Montreal shall pay to the government such sums as it may receive by way of interest from the banks to which such advances shall be made.

That, for the purpose of providing the funds necessary for such advances, the minister of finance shall deposit in the Bank of Montreal from time to time Dominion notes equal to the amounts so advanced.

That the Bank of Montreal shall receive from the banks to which such advances shall be made such securities as are deemed by the Bank of Montreal satisfactory, and that such securities shall be held by the Bank of Montreal in trust for the government against the issue of Dominion notes herein referred to, but such securities may be released from time to time as the advances may be repaid by the banks.

That the Bank of Montreal, besides holding the said securities in trust for the government as aforesaid, shall become responsible to the government for all advances so made and shall guarantee the repayment of such advances to the minister of finance on or before the 1st day of May, 1908.

That for its services in the management of the business and for guaranteeing repayment of advances so to be made, the Bank of Montreal shall be paid a fair and reasonable commission to be hereafter fixed by the Governor-General in council.

The committee submit the same for approval.

RODOLPHE BOUDREAU,
Clerk of the Privy Council.

III.

AN ACT Respecting a certain issue of Dominion notes.

[Assented to 20th July, 1908.]

Whereas for the purposes set forth in an order in council of the 12th day of November, 1907, and an amending order in council of the 26th day of November, 1907, copies of which with related documents have been laid before Parliament, and pursuant to the said orders the minister of finance, between the 20th day of November, 1907, and the 3d day of January, 1908, from time to time issued and made advances of Dominion notes to the amount of $5,315,000, the greatest amount of such notes at any time issued and outstanding being $5,115,000; and whereas, with respect to the greater part of the last-mentioned amount, security in the form required by section 5 of the Dominion notes act was not held; and whereas it is expedient, in so far as the said issue and the making of the said advances require legal confirmation, that they be confirmed; therefore His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

1. The issue of Dominion notes and all things done under the provisions of the orders in council cited in the preamble are hereby confirmed, and shall be deemed to have been duly authorized.

APPENDIX B.

THE COOPERATIVE PEOPLE'S BANKS OF CANADA.

By ALPHONSE DESJARDINS,[a] *President and Manager of "La Caisse Populaire de Lévis."*

The perplexing problem of adequately and safely supplying the financial needs of the laboring and farming classes is one that has long attracted the attention of thinkers and philanthropists. It was in this connection that the *Mont de piété* was originated in Italy several hundred years ago, traces of which are still to be found in many large cities of Europe. Although based upon a very commendable desire to help those who were in great need of money and credit, the methods evolved proved very often inadequate, depending almost entirely upon the charity or benevolence of those who took upon themselves the onerous duty of providing the necessary funds to carry on the operations of those institutions. In fact, the *Mont de piété* was almost purely a charitable establishment, appealing in no way to the energetic and invigorating sentiment of self-help through the redeeming practice of saving. As was to be expected, the defects of this system became more and more apparent as time went on, and with the gradual dwindling of the enthusiasm on which it was founded, the institution itself waned through want of the necessary funds. Hence, the unfortunate

[a] M. Desjardins was the originator of this movement in Canada, and, in fact, on this continent. He organized the cooperative bank of Lévis, of which he has ever since been the president and manager.

borrowers of the working classes had again to call upon the usurers and pay, as theretofore, extortionate rates for loans of every description. It was not until the middle of the nineteenth century that a practical method was discovered, and half a century of success has proved how sound and reliable this new system is when applied with common sense and with due regard to local requirements and circumstances.

It is to Germany that we owe the fundamental idea of this most beneficent and practical innovation. Schulze-Delitsch and Raiffeisen, without concerted action, but animated by the same idea of helping the poor, devised systems, similar in principle, whereby the use of credit, so advantageous in the higher spheres of trade and industry, could safely be extended to the masses of the people—the small folk, farmers, laborers, and the like. The first experiments with the new system were made about the year 1850. It was, however, some years before its safety and feasibility were generally recognized, even in Germany, whence it gradually spread to other countries. But its subsequent development has been marvelous, and it has taken a firm root almost everywhere with equal success when the pioneers have been wise enough, as was the case with Signor Luigi Luzzatti in Italy, to take into due consideration the circumstances and the prejudices with which they had to deal, and to modify it in such a way as to suit the varying conditions of their respective communities.

At the start Schulze and Raiffeisen rested their cooperative banks upon the principle of unlimited and joint liability of the members, the former requiring the cooperators to provide the necessary funds by subscribing and paying large shares, with a view to impressing on the members the necessity of thrift if they would expect credit later on. Raiffeisen, on the other hand, would not admit the share feature, believing unlimited and joint liability sufficient to attract savings deposits ample enough to meet all the requirements of the borrowing members. But both Schulze and Raiffeisen insisted upon the exclusively local character of their banks, the sphere of their activity being restricted to a very small territorial area, say a ward in a large city, a parish, or a municipality in a rural district. And in this principle lies the very essence of the safety of the institution, as will be shown later on.

The subsequent elimination of the unlimited-liability feature of these banks in many countries, so far from justifying the fear entertained by the great founders of the system, has removed obstacles that would, in numerous instances, have inevitably deprived the population of the immense benefits that they have enjoyed by adopting it in a more suitable form. The illustrious father of the Italian *Banche Popolare* was the first to depart from the principle of unlimited liability, contending that in his country it was not viewed with favor by the masses, and, moreover, that it was not required for securing the necessary funds; experience, indeed, has shown that these funds have been abundant at all times. He therefore recommended a milder form of liability based on the amount of the shares subscribed; and the admirable success of his banks is evidence that he was right. The same principle is now being adopted even in Germany and many other countries that have closely followed the German example. Taking a still broader view of this question, and considering the decided hostility of our people to anything like wide and, therefore, more or less unknown liability, I adopted in Canada an entirely new régime similar to the prevailing system of the savings banks of the New England States, where there is no capital stock, the depositors alone providing the funds and enjoying to the fullest extent the right to withdraw their money almost at will, a mere notice being required if the necessity of so doing arises.

Our working capital is composed of shares and deposits, the difference between them being more of a moral character than a practical one, so far as the member is concerned; for his liability is the same in either case, his shares and his deposits being alike withdrawable just as are the deposits in an ordinary banking depository.

The distinction between a share and a deposit is that the former is made up of savings with a view of meeting future contingencies more or less remote, a kind of time deposit, while the latter is money put aside for almost daily use, like the bulk of the funds put in banks and withdrawable by check.

This régime of a withdrawable capital was sanctioned by law in France as long ago as 1867, with the passing of the legislation authorizing the organization of societies with a variable membership and capital, the capital being liable to variation by the admission of new members, or by the subscription of new shares on the part of the old members.

As will be readily seen, the main idea of this system is exactly the same as is to be found in the uncapitalized savings banks of the United States, but with this most commendable feature, that the funds thus accumulated are utilized to meet the needs of the very classes from which the customers of these banks are drawn; in other words, the savings of the working classes are put at the disposal of such working people as happen to be in need of money for provident and useful purposes, not for extravagance or ill use, thus preventing their having to appeal to the professional money lenders or usurers at an enormous if not ruinous expense. One can hardly realize how benificent such a system can be if properly worked upon practical and safe principles. Experience of more than half a century elsewhere, mainly in Europe, and of nine full years in Canada, proves conclusively that institutions of savings and credit, in the modified form above indicated, are easily and safely practicable among the humbler classes.

Now, it is obvious that such a credit system must be worked upon different methods and with safeguards distinct from those to be found in the higher banking sphere. The requirements do not very materially differ in their intrinsic nature, although larger in the latter case than in the former; but the ways and means being different, so the methods must differ.

In the banking system the capital is fixed; in the cooperative credit régime it is withdrawable, and therefore variable. Hence due regard must be had to this particular feature of divergence. The banks use to a very large extent borrowed capital in the shape of deposits from the general public; so do the people's cooperative banks, but in their case this capital is provided by the members either in the form of withdrawable shares or of mere deposits.

The banks do business with the general public, either borrowing on the confidence they enjoy or loaning to whosoever offers what is considered a good banking security; the cooperative people's banks are associations dealing only with their members. The banks being an aggregation of capital, the character of the shareholders is not scrutinized in any way; the cooperative people's banks being an association of persons, qualities and good habits are predominant, not the funds they can bring to the society. The banks in doing business with the general public may loan money to parties thousands of miles away; the cooperative people's banks on account of their special character do not loan funds outside their immediate vicinity—in other words, beyond the very locality where they are worked—refusing even members who have gone abroad, unless a resident member holds himself responsible for the faithful repayment of the loan and is considered perfectly reliable in every way. The banks being a concentration of capital, the capital alone is paramount, and the system of one vote one share prevails as well as the vote by proxy; the cooperative people's banks being associations of persons or individuals, the person is paramount. Hence the principle of only one vote, without regard to the number of shares held, and there is no vote by proxy, except for corporate or public bodies.

The banks being organized by capitalists, or those that have money to spare, which they can dispense with for a long time, the amount of the share is generally a larger one than a workingman or a poor man can afford.

The cooperative people's banks being intended for people who have no money, except what they can save by very small sums, putting a few cents aside weekly, the shares must be of a few dollars only, payable by small installments. Some of the most powerful cooperative banks in Europe have started with $4 shares, payable 2 cents a month. This and the withdrawable feature of these credit unions are necessitated by the circumstances of the desired members and are adopted in order to induce the largest possible number of the working classes to join the societes and reap the benefit they offer.

With these differences in view it is easy to realize how appropriate are the principles laid down for the management of these cooperative people's banks.

Three boards are chosen by the annual general meeting called, respectively, the board of administration, the commission on credit, and the board of supervision.

The members of each of these boards must be distinct; that is, one member can not be on two boards, exception being made for the president of the society, who is *ex officio* a member of the commission on credit, in order that he may be in a position to acquaint the board of administration with all that is done in this important body, the motives and reasons upon which its decisions are based, and the propriety of measures having for their object the increasing of the funds of the society.

The president being, or supposed to be, the best man on this general board, and this board being selected out of the best men in the society, his moral authority is large, and so is his responsibility. It is therefore but fair that his guiding influence should be strengthened by corresponding opportunities for supervision and advice. He is, as just stated, the only exception to the rule that one person can not be member of more than one board or commission, the object of this rule being to avoid any dividing or shifting of responsibility.

Without going into every detail, let us next consider the various duties to be discharged by these boards.

The board of administration has general powers of supervision and control over the affairs of the society. It controls the admission and expulsion of members, sees to the transfer of shares, if any, makes all necessary recommendations to the general meeting in connection with the dividing of the profits of the year, the disposal of which is not already provided for in the constitution, approves or suggests any desirable amendments to the by-laws, submits to the general meeting any increase in the number of shares that may be held by, or the amount loanable to, one member, appoints the manager and other officials required, and exercises all the necessary administrative powers not specially assigned to the two other boards.

The commission on credit deals only with the loans submitted to it through the manager. It makes by-laws determining the conditions upon which the loans are to be made, the security exacted, apart from the moral qualities which are paramount, the rate of interest to be charged, and the proper repayment of such loans. The fixing of the rate of interest upon loans must be made with due regard to the prevailing rates in the locality for similar loans and at lowest rate consistent with safety, having in view the proper interest on the capital in order always to offer a legitimate inducement to members to increase their holdings and thereby keep abundant resources for the borrowing portion of the membership. No loan can be made unless the members present are unanimous. In case of refusal for want of unanimity, the would-be borrower can appeal to the board of administration, and the decision of this body is final. The members of the commission on credit can not borrow either directly or indirectly.

As the granting of loans must be considered to be the most important duty of the commission on credit and therefore deserving the closest attention, it must be stated here that the borrower is always requested to declare distinctly the object for which he asks the loan and how he intends to repay it. If the object is an improvident one in the opinion of the commission, it must not be granted for any consideration or under any circumstances, be the security of the highest character. No person is allowed to borrow if it is not to effect an economy or for a productive purpose. This golden rule, this essential principle, has always been enforced and has worked wonders as a measure of safety. The character and habits of the borrower, as well as of his family, have of course to be inquired carefully into in order to assure not only his willingness but also his ability to reimburse the loan. The moral security is paramount, and refusal must follow if this security is not forthcoming, however reliable may be the other guarantees offered, because the contrary will inevitably bring trouble and discredit upon the society. Thus honesty, industrious habits, good conduct, and thrift become valid and negotiable assets for the poor man.

The loan must be repaid regularly and faithfully. The conditions in most cases are those offered by the borrower himself, if considered reasonable and fair, but once accepted he must be held strictly to them, unless there is a case of *force majeure*, like sickness or unemployment. Punctuality is a virtue that must be taught. Its practice will confer so great advantages that the borrower himself will soon appreciate them.

The interest is usually made payable every three months, but all installments paid in are deducted from the loan, the interest being computed upon the balance only, and so on until the whole sum is repaid.

The board of administration is renewable half every year. The commission on credit and the board of supervision are elected every year, and are composed, say, the former of four and the latter of three members. But of course the number will vary according to circumstances.

The powers of the board of supervision are of the widest character, including the ordinary duties of auditors. In fact, its functions may be best described as those of a general meeting sitting *en permanence* alongside the officers chosen to administer the affairs of the society. This board may, and in some stated cases must, call at any time a general meeting and submit to it, as representing the whole society, an account of the acts of the commission on credit.

Officers and members of the boards give their services gratuitously. None can receive one cent either as remuneration or indemnity. The manager and clerks, if any, alone are paid.

The boards meet as often as the affairs of the society require. The manager, whose duties are very important and whose services are most valuable to insure the success of the association, should be selected, with care and wisdom, from among the members, or must become a member before being appointed.

In a democratic organization like the one here described, it is hardly necessary to add that the general meeting is supreme, and intervenes as often as required. It must further be remarked that it fixes from time to time the maximum amount of shares that a member can hold, the maximum amount that can be loaned at one time to a member, the annual dividend to be paid on shares, and the percentage of the net profits to be appropriated annually for the guarantee fund, or other funds, if any.

Apart from good management, certain principles must be strictly adhered to if the success of such an association is to be assured. Of these the most important is that the bank, to be truly cooperative—that is, in order to arouse the interest of every one of its members and to induce them to extend to it the benefit of their own personal experience—must restrict its activity to a very small area, or if formed in a trade union or some similar organization, then it should not go beyond the membership of such a society to enlist members. The object being to associate together people that have a mutual knowledge of their moral worth, this could not be easily attained if the credit union were to accept members over a large area of territory or from the population of a large city.

True, there are instances in Europe where such cooperative banks have been very successful in large cities, the *Banche Popolare di Milano*, called the jewel of cooperative credit of Italy, being the most striking example. Without denying the force of such cases, I believe that, as a matter of principle and safety, it is better to restrict the field and make it as narrow as possible, consistent with the requirements of the existing circumstances. Above all, in America, where the population is more fluid, so to speak, not having to the same degree that character of permanency which is to be found in European cities, this principle offers a safeguard that can not be dispensed with without grave danger. It must be borne in mind that the object is not to create huge concerns with large funds at their disposal, but small societies for the benefit of the masses, where needs can be attended to with a comparatively small amount of loanable capital. Moreover, the union, moving in such a small sphere of activity, is less liable to be deceived by borrowers as to their good character, the honest utilization of the funds, their standing, and their means to repay the loan as agreed, all of which must be ascertained before the money is handed over.

Borrowers have also to state distinctly for what object they want loans, and after the proper officers have satisfied themselves that such object is a good one—that the parties will in all probability benefit by it—that their experience, their good judgment, industry, and energy will successfully utilize the funds put at their disposal—these officers, by the fact that the transactions are only local, are in a much better position to follow up the borrowers and ascertain that the money is faithfully invested in the way stated. Thus this rule tends to the safety of the union and protects it against losses—a view which is confirmed by practical everyday experience, as will be shown later on.

When a member is admitted, the board of administration has to be satisfied that he is honest, upright, and industrious; furthermore, a new inquiry is made when the same individual applies for a loan. The commission on credit has to look carefully into his character and be certain that the would-be borrower possesses the required qualities, for these moral assets are the very groundwork of his credit. A man may not be wealthy, but nothing prevents him from being honest, thrifty, and industrious, and with such qualities he will in most, if not all, cases be able to repay the amount borrowed. This, again, can much more easily be ascertained if the cooperative bank has but a narrow field of activity. However, all this does not preclude the association from taking additional measures of security in the way of indorsers or other substantial guaranty, which, indeed, is generally done until the borrower has established a first-class reputation for himself by his punctuality in meeting his installments or payments when due.

Moreover, the amount that can be loaned at any time to one member is always passed upon by the general annual meeting, having, of course, due regard to the funds available and the necessity of providing useful employment for all the money at the disposal of the society. Thus the danger or possibility of loaning too large an amount to one individual is surely avoided.

Loans may be made for a long time, even for ten or fifteen years, provided the installment plan is adopted, once the guaranty fund has reached a certain proportion of the general assets. Furthermore, it is a very strict and rigidly enforced rule that the smaller the loans the greater is the preference they enjoy; in other words, the small borrower has always the preference over the larger one, this being considered as consistent with the spirit and object of the society.

The stability of such a credit union is increased and insured by the rapid formation of a guaranty fund, to be eventually equal to, if not more than, the maximum amount of paid-up shares. This fund is early accumulated by means of annual contributions from the net profits. These contributions should be relatively large to begin with, say, 20 per cent, or one-fifth of the net earnings. When, as will soon be the case, the fund shall have reached an amount affording a fairly substantial security, the percentage can be lowered safely, not less than 5 per cent, however, until the said fund is completed as provided for.

The shares being withdrawable in order better to meet the requirements of the poor, for whose benefit these unions or cooperative banks are designed, the guaranty fund above described was devised so as to offset any tendency to instability entailed by that feature. In the New England savings-bank system the law fixes a very small percentage of the annual net earnings as a contribution to such a fund, the total amount of which is only from 5 to 15 per cent of the deposits held. This fund is to meet possible losses in the investments of the banks.

In our cooperative people's banks the same fund has an additional object, being regarded as the real nonwithdrawable capital of the society, and this explains why it is allowed to accumulate until it reaches an amount equal to the total of the paid-up shares.

Thus, by perseverance and stringent provision for the stability of the institution, the laboring and farming classes are enabled to create a treasury owned and controlled by themselves, to which they and their descendants may look for credit; ineed, doing along this line what is done in other spheres of activity, as, for instance, in the municipal life, where future generations will enjoy the benefit of all the improvements made by their predecessors.

The guaranty fund has also the advantage of increasing the confidence and the interest felt by the members, on which depend the vitality and the very existence of their association.

One striking feature of these cooperative credit unions is that they are excellent local savings banks, stimulating thrift, bringing out hoarded money, and thus conferring on the general community the benefits resulting from capital properly invested. However small a village may be, it can organize such a union, which will offer to its people all the benefits of the ordinary bank—except, of course, the peculiar advantages derived from its larger sphere of action—and will extend the practice of thrift to almost every home in the immediate locality.

To sum up, the cooperative bank that I have endeavored thus to describe borrows from and lends to its members. It borrows from them by receiving their savings, either in the shape of shares or mere deposits, for thrift must precede credit. This is a fundamental principle which it would be dangerous to depart from, even if it could be done.

The advantages of such cooperative banks are very numerous and far-reaching, among which the following are, perhaps, the most striking:

Their close proximity to the saver and borrower.

Their adaptability to local wants of all kinds, and their ability, through the enjoyment of local confidence, to attract the available resources of the community.

Their familiarity with their clients who are the members, and their influence over them arising from their all being members of the same labor union or residents of the same village, town, or city ward.

Their special mechanism allowing them to make the smallest loans and to undertake transactions of the pettiest kind, in compliance with local needs, preference, indeed, being deliberately given to the humbler demands.

Their ability to assist in a general or particular liquidation of debts, especially in the case of farmers whose property is heavily mortgaged and where the repayment is made burdensome by provisions of an onerous character.

Their ability to work cheaply, almost gratuitously, being thus in a position to supply cheap credit to their members.

Their accumulation of local savings and the profits thereupon, until they form a capital for the benefit of the members and borrowers.

Their ability to act as agents for their members in certain circumstances and outside their restricted field of activity, more especially for the benefit of farmers, whose needs of this kind are greater than those of the workingmen.

Their power of influencing borrowers toward a beneficent use of credit and of supervising the utilization of loans in accordance with contract.

Their tendency to group themselves into federations for mutual help, development, inspection, instruction, and audit.

Their steady and continuous educative influence in matters of thrift, association, and self-help, by their constant presence, their daily object lessons, by their frequent though easy calls upon the activity, thought, and services of their members.

Their tendency to develop high forms of individual capacity, of public life, and of national character, and, last and most desirable, their powerful influence in calling forth habits of thrift, economy, and prudence, guiding expenditure into productive channels, granting credit for productive and useful purposes only, and in promoting union and associated action among units which, but for them, would be isolated and ineffective.

Being administered by responsible officers of the local population's own choice these local banks, of which everyone can be a member, soon and rightly gain the confidence of everyone. Unlike the ordinary savings banks, they have not a mere slot in their wall through which to receive money, but a mouth wherewith to give advice, a heart wherewith to feel, and a credit organization designed and specially fitted to help by loans the very people who provide the funds. In their keeping the depositor or member—for both are one and the same individual—may, so to speak, see his money, see it safely held, see it laid out profitably in the locality, benefiting the district and producing more money, whereas elsewhere it disappears into the large monetary market, absorbed in huge financial schemes sometimes worked out for the squeezing or the economic detriment of the consumers, while the poor men, the very clients who have contributed to the accumulation of this wealth, are, as a class, the victims of extortionate money lenders. Organized by and entirely under the direct control of the farmers and laborers who are almost the entire *clientèle* of these money lenders, the cooperative banks offer the best means of putting an end to the frightful cancer of usury that is causing so much suffering in this very part of the body politic. It is an undeniable fact that no law, no matter how stringent or how rigidly enforced, can stamp out or even lessen usury in an appreciable degree. Centuries of experience have demonstrated this truth. Usury exists because there are people who want money, and are ready to borrow it at any price where there is no organized machinery offering it at a reasonable rate. Let these people have their wants provided for in a human and business-like way, and usury will soon disappear as surely as snow melts away in the spring.

The proposal to introduce such an institution into a country often gives rise to objections, which, however, are, as a rule, based upon ignorance or a wrong conception of the real nature of these cooperative credit unions. It is, for example, often alleged that existing banks would suffer from the competition of the newcomer. But is this objection founded upon facts and has actual experience proved it to be correct?

In the first place, this new organization in no way invades the field of activity of the banks; it strikes another soil; a stratum unknown to those financial bodies. Organized to meet the needs of the highest sphere of trade industry, and for the benefit of larger enterprises, the ordinary banks have neither the equipment nor the opportunity to cater to the wants of the classes for which the cooperative banks are exclusively intended. This explains why the money lenders' business is so widespread and usury so prevalent and profitable where such an institution does not exist. People in need of money must go to the usurers for want of a better medium. Experience has shown in Europe that the banks, even the largest, have not been slow in recognizing this fact and have, therefore, ceased to oppose the cooperative banks, nay, have even very materially aided them.

Experience, too, soon demonstrated another potent fact, namely, that these very modest financial institutions act as excellent feeders to the higher banks, by stimulating and teaching thrift in a sphere inaccessible to the latter or to any other similarly organized institutions, and by depositing the surplus funds that the cooperative banks must keep constantly available and do not utilize in their every-day transactions. I could mention here many of the largest financial institutions of the world that go out of their way to assist in the organization of such parish or cooperative banks, or, when so organized, aid them by special or preferential treatment in order to insure their success and prosperity.

Another objection is that the farming and laboring classes would be unable to work out such a scheme. But why should the farmers, laborers, artisans, and mechanics of America be less intelligent, less able to learn by practice how to manage these unions? Or are they less honest than their brethren of the various European countries, or even East India? Surely not.

Objection might also be based on the shifting character of the population, but that difficulty can be overcome by special precautions and proper safeguards. I feel confident that the genius of our American nations can easily find and apply an adequate remedy to this particular state of things, for, after all, this difficulty had to be faced to a certain extent by the ordinary banks, and they seem to have succeeded very well. Other means might be devised for the protection of credit unions and be as successful in their way as those chosen by the existing banking institutions.

It may also be argued that these cooperative banks would compete with the savings banks already in the field and tend to divert their funds into their own treasuries. This is hardly probable. But even if it should so happen, is that a good reason for putting aside a more perfect organization in order to avoid damaging an inferior one; for enriching the usurers by depriving the masses of the people of a means to obtain loans at a fair rate of interest? Surely the savings institutions were established to benefit the people, not to enslave them; in other words, the savings banks were instituted for the public, not the public for the savings banks. But such a fear is absolutely unfounded and need not be considered, for is it not a well-established fact that the more numerous the depositories for savings, the larger the inflow of funds? And why? Because each one of these depositories attracts its own customers, offers special inducements that tend to increase the number of its clients, and, in the end, by the accumulation of small sums, creates an ever growing capital. The savings banks themselves have not competed in a damaging way with the banks previously established, but have, on the contrary, been helpful in teaching thrift, foresight, and providence, and thereby increasing the public wealth. And the same result may confidently be expected from this new system, while its benefits will be larger, as it covers a larger area than the existing institutions. In fine, it is almost a truism to say that the more numerous and varied a country's savings institutions are, the higher is its development and civilization, for uncivilized nations have none.

The numerous building and loan societies of Massachusetts, together with its large and prosperous so-called "cooperative banks," are doing much good in their own way, but they restrict their activity to one particular class of transactions, namely, the purchasing of a home by the laborer. Why not, as the progressive State of Massachusetts has done, provide for all the various wants of the farmers as well as of the workingmen? Such wants can not be denied in face of the large business done by private money lenders and usurers generally, in spite of stringent laws. Why not adopt an organization that will put at the disposal of the people part of their own savings instead of utilizing them only or mainly for the advantage of large undertakings, while the wealth producers are entirely left to the tender mercy of the sharks?

Anyone who studies the existing financial fabric on this continent, seeing, as he can not fail to do, the almost helpless situation in which the farmers and workingmen are practically left so far as banking credit is concerned, will inevitably come to the conclusion that there is a missing link of a very great importance, and that missing link is the cooperative bank above described.

Such an organization would complete the financial mechanism by meeting, in a systematic way, the wants of the masses of the population, who find themselves to-day with no organized means for satisfying their economic needs, if we except the item of home building. It would inculcate and stimulate the habit of making small savings; it would educate—teach how capital can be formed gradually by mere cents, how it must be managed, safeguarded, multiplied by useful and provident employment; it would kill usury; it would be an excellent feeder to the ordinary banks, as shown by the practical experience of half a century; it would democratize finance, organize credit, and transform the moral qualities into valuable assets; it would instill habits of foresight, of providence, and of punctuality in promptly paying a debt when due; it would teach honesty, and bring to the man of industrious habits a higher reward than mere wages—the confidence of his fellow-citizens; it would promote the spirit of local enterprise, and facilitate improvements of all kinds; finally, it would obviate the disasters attending panics, since everyone would participate in the management of affairs, through officers representing the free choice of himself and his fellow-members.

Here again experience has shown that such a cooperative union has never been upset by a run; quite the contrary, because such an institution is not practically owned by one or a few individuals possessing the largest number of shares, and thereby having the entire control by the multiplicity of votes based upon shares, but is open to all upon the basis of a perfect equality.

A conclusive experiment has been made on this continent, and the results obtained warrant the belief that such cooperative people's banks would be amply successful anywhere, provided there be a faithful adherence to the principles laid down.

Levis is a small town of 7,000 inhabitants, situated on the shores of the St. Lawrence, opposite the old city of Quebec. Its population is mostly French Canadian and of the laboring classes. It was here that "La Caisse Populaire de Lévis" was organized on the 6th of December, 1900. It did not, however, commence business until the 23d of January, 1901. Besides the town proper, the enterprise included two neighboring parishes inhabited by farmers, which had been separated from the present town some years before without, however, interrupting the daily intercourse between these farming and urban groups, so that everybody knew everybody else, as if all were still one unit. The object in including these outside parishes was to extend the experiment to a farming community in order to see how the institution would work among both classes.

Started with not a cent in the treasury, its general assets were at the close of its ninth financial year, the 30th of November, 1909, $102,880.35. The total amount of loans had reached $463,070.60, distributed in 3,037 accounts.

The 1,000 members of this cooperative bank, the first of its kind on the continent of America, are proud to say that as yet not one cent has been lost through bad loans or mismanagement. The workingmen and farmers have chosen the managing bodies, have provided the funds, and it was to them that the money was loaned, their honor being in most cases the main security. The total turnover in these nine years has reached the sum of $617,483.45, with gross profits amounting to $18,697.90, and a total of working expenses of $1,774.74, although there are four branches of joint-stock banks in Levis doing, apparently, very good business. The success of the Levis experiment has spread the idea throughout all French Canada, and in less than two years 32 other similar cooperative banks in as many different places have been organized by the writer at the request of the local population desirous of benefiting by the advantages offered. Twenty-six of these credit unions are working in rural parishes and are doing most useful work both as savings and loan associations. One of them has already a general turnover of $18,727.83 after only ten months of existence. More than 25 others will very soon be organized in the Province of Quebec alone.

Such a cooperative bank exists in Manchester, N. H., among the French-Canadian population, working mostly in the cotton mills of that city.

The movement has spread to the United States, and Massachusetts has enacted a law to further it. Other States seem inclined to follow the good example of Massachusetts and enact laws along the same lines. The prospects are hopeful and promise abundant as well as most beneficial returns for the masses of the rural and working classes.

APPENDIX C.

Statistics from Canada Yearbook, 1908.

APPENDIX C.

[Statistics from Canada Yearbook, 1908.]

(1) GENERAL STATEMENT OF CHARTERED BANKS, 1868–1908.[a]

Calendar year.	Capital paid up.	Notes in circulation.	Total on deposit.[b]	Discounts to the people.	Liabilities.[c]	Assets.
1868	$30,507,447	$9,350,646	$33,653,594	$52,299 050	$45,144,854	$79,860,976
1869	30,790,137	9,539,511	40,028,090	56,433,953	50,940,226	86,283,693
1870	33,031,249	15,149,031	48,763,205	66,276,961	65,685,870	103,197,103
1871	37,095,340	20,914,637	56,287,391	84,799,841	80,250,974	125,273,631
1872	45,190,085	25,296,454	61,481,452	106,744,665	90,864,688	148,862,445
1873	54,690,561	27,165,878	65,426,042	119,274,317	98,982,668	166,056,595
1874	60,388,340	27,904,963	77,113,754	131,680,111	116,412,392	187,921,031
1875	64,619,513	23,035,639	74,642,446	136,029,307	104,609,356	186,255,330
1876	66,804,398	21,245,935	72,852,686	127,621,577	99,614,014	183,499,801
1877	65,206,009	20,704,338	74,166,287	125,681,658	99,810,731	181,019,194
1878	63,682,863	20,475,586	70,856,253	119,682,659	95,538,831	175,450,274
1879	62,737,276	19,486,103	73,151,425	113,485,108	96,760,113	173,548,490
1880	60,052,117	22,529,623	85,303,814	102,166,115	111,838,941	184,276,190
1881	59,534,977	28,516,692	94,346,481	116,953,497	127,176,249	200,613,879
1882	59,799,644	33,582,080	110,133,124	140,077,194	149,777,214	227,426,835
1883	61,390,118	33,283,302	107,648,383	143,944,957	145,938,095	228,084,650
1884	61,579,021	30,449,410	102,398,228	130,490 053	137,493,917	219,998,642
1885	61,711,566	30,720,762	104,014,660	126,827 792	138,762,695	219,147,080
1886	61,662,093	31,030,499	111,449,365	132,833 313	146,954,260	228,061,872
1887	60,860,561	32,478,118	112,656,985	139,753 755	149,704,402	230,393,072
1888	60,345,035	32,205,259	125,136,473	141,002 373	163,990,797	243,504,164
1889	60,229,752	32,207,144	134,650,732	149,958 980	173,029,602	253,789,803
1890	59,974,902	32,834,511	135,548,704	153,301 335	173,207,587	254,546,329
1891	60,700,697	33,061,042	148,396,968	171,082 677	187,332,325	269,307,032
1892	61,626,311	33,788,679	166,668,471	193,455 883	208,062,169	291,635,251
1893	62,009,346	33,811,925	174,776,722	206,623 042	217,195,975	302,696,715
1894	62,063,371	31,166,003	181,743,890	204,124 939	221,006,724	307,520,020
1895	61,800,700	30,807,041	190,916,939	203,730 800	229,794,322	316,536,527
1896	62,043,173	31,456,297	193,616,049	213,211 996	232,338,086	320,937,643
1897	62,027,703	34,350,118	211,788,096	212,014 635	252,660,708	341,163,505
1898	62,571,920	37,873,934	236,161,062	223,806 320	281,076,656	370,583,991
1899	63,726,399	41,513,139	266,504,528	251,467 076	318,624,033	412,504,768
1900	65,154,594	46,574,780	305,140,242	279,279 761	356,394,095	459,715,065
1901	67,035,615	50,601,205	[d] 349,573,327	388,299 888	420,003,743	531,829,324
1902	69,869,670	55,412,598	[d] 390,370,493	430,662 670	466,963,829	585,761,109
1903	76,453,125	60,244,072	[d] 424,167,140	472,019 689	507,527,550	641,543,226
1904	79,234,191	61,769,888	[d] 470,265,744	509,011 993	554,014,076	695,417,756
1905	82,655,828	64,025,643	[d] 531,243,476	559,814 918	618,678,633	767,490,183
1906	91,035,604	70,638,870	[d] 605,968,513	655,869 879	713,790,553	878,512,076
1907	95,953,732	75,784,482	[d] 654,839,711	709,975 274	769,026,924	945,685,708
1908	96,147,526	71,401,697	[d] 658,367,015	670,170 833	762,077,184	941,290,619

[a] The statistics of this table are averages computed from the monthly returns in each year.
[b] Including deposits of federal and provincial governments.
[c] Excluding capital and reserves.
[d] Including amounts deposited elsewhere than in Canada, not previously included in deposits.

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(2) STATEMENT OF CHARTERED BANKS FOR THE CALENDAR YEARS, 1904–1908.[a]

ASSETS.

Schedule.	1904.	1905.	1906.	1907.	1908.
Balances due from agencies of the banks or from other banks or agencies in the United Kingdom	$7,523,615	$9,960,562	$8,877,979	$6,027,157	$9,828,186
Balances due from agencies of chartered banks or from other banks or agencies elsewhere than in Canada and the United Kingdom	16,817,357	19,201,939	16,801,119	15,363,728	30,822,761
Bank premises	9,720,652	10,707,018	12,844,918	16,248,177	18,144,338
Call and short loans on stocks and bonds in Canada	36,999,790	42,659,144	56,597,649	49,192,291	42,060,715
Call and short loans elsewhere than in Canada	41,212,007	51,452,955	59,363,639	52,907,513	60,764,075
Current loans in Canada	407,475,439	436,659,384	500,770,572	574,784,939	529,320,134
Current loans elsewhere than in Canada	18,665,002	25,097,824	35,777,625	27,340,135	24,383,503
Deposits made with and balances due from other banks in Canada	6,064,286	6,834,816	7,667,093	9,186,472	10,641,722
Deposits with Dominion government for security of note circulation	3,237,891	3,448,463	3,923,531	4,304,524	4,249,367
Dominion notes	33,428,779	38,053,983	40,186,748	46,486,741	56,007,874
Dominion and provincial government securities	10,705,202	8,833,626	9,360,614	9,546,927	9,522,743
Loans to provincial governments	2,465,495	1,960,465	1,353,258	2,183,799	5,542,149
Loans to other banks in Canada	820,508	768,161	2,521,860	2,025,495	7,789,831
Mortgages on real estate sold by banks	761,885	602,524	447,001	407,492	470,441
Municipal securities in Canada and public securities elsewhere than in Canada	15,560,145	18,820,985	20,460,670	21,198,817	19,788,937
Notes of and checks on other banks	19,045,787	22,883,207	27,083,043	29,496,390	27,843,677
Overdue debts	2,194,260	1,985,146	2,007,136	3,566,597	8,100,257
Railway and other bonds, debentures, and stocks	38,779,477	39,974,520	41,125,898	41,239,589	42,651,006
Real estate other than bank premises	739,905	681,628	801,211	923,523	1,416,659
Specie	16,879,092	18,536,340	21,100,833	24,063,779	24,646,402
Other assets	6,321,182	8,367,493	9,439,679	9,191,623	7,295,842
Total assets	695,417,756	767,490,183	878,512,076	945,685,708	941,290,619

LIABILITIES.

Schedule.	1904.	1905.	1906.	1907.	1908.
Liabilities to shareholders:					
Capital paid up	$79,234,191	$82,655,828	$91,035,604	$95,953,732	$96,147,526
Rest or reserve fund	52,082,335	56,474,124	64,002,266	69,806,892	72,041,265
Total	131,316,526	139,129,952	155,037,870	165,760,624	168,188,791
Other liabilities:					
Balances due to agencies of Canadian banks or to other banks or agencies in the United Kingdom	5,739,709	5,081,798	6,771,683	11,240,826	5,694,437
Balances due to agencies of Canadian banks or to other banks or agencies elsewhere than in Canada and the United Kingdom	1,498,340	1,715,171	2,292,718	4,397,200	3,636,753
Balance due to Dominion government after deducting advances for credits, pay lists, etc	3,349,179	3,107,678	4,656,857	6,379,118	5,775,400
Balance due to provincial governments	5,559,020	7,282,441	8,358,140	10,276,445	10,973,477
Deposits by the public payable on demand in Canada	117,962,023	138,116,550	165,144,569	166,342,144	169,721,755
Deposits by the public payable after notice or on a fixed day in Canada	307,007,192	338,411,275	381,778,705	413,014,657	406,103,063
Deposits made by and balances due to other banks in Canada	4,542,724	5,152,395	5,562,900	6,786,223	7,338,252
Deposits elsewhere than in Canada	36,388,330	44,325,531	46,030,241	58,828,181	65,793,319
Loans from other banks in Canada, secured, including bills rediscounted	823,839	791,736	2,616,806	2,078,923	8,929,166
Notes in circulation	61,769,888	64,025,643	70,638,870	75,784,482	71,401,697
Liabilities not included under foregoing heads	9,373,832	10,668,415	19,939,064	13,898,725	6,709,865
Total	554,014,076	618,678,633	713,790,553	769,026,924	762,077,184
Total liabilities to shareholders, and other liabilities	685,330,602	757,808,585	868,828,423	934,787,548	930,265,975
Excess of assets over all liabilities, undivided profits not included	10,087,154	9,681,598	9,683,653	10,898,160	11,024,644

[a] The statistics of this table are averages computed from monthly returns in each year.

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(3) PRINCIPAL ASSETS OF EACH OF THE CHARTERED BANKS OF CANADA, DECEMBER 31, 1908.

Chartered banks.	Specie.	Dominion notes.	Call and short loans in Canada.	Current loans in Canada.	Other assets.	Total assets.
Bank of British North America	$916,328	$1,846,338	$1,288,758	$17,278,656	$22,554,152	$43,884,232
Bank of Hamilton	558,688	2,261,122	2,068,566	18,740,002	10,185,021	33,813,399
Bank of New Brunswick	254,330	484,796	553,974	4,883,939	1,651,199	7,828,238
Bank of Nova Scotia	2,399,623	2,598,022	1,968,557	13,561,217	24,219,229	44,746,648
Bank of Montreal	6,109,969	9,997,919	----------	74,051,785	106,963,055	197,122,728
Bank of Ottawa	775,146	2,918,531	837,891	20,586,837	8,431,452	33,549,857
Bank of Toronto	714,514	2,880,431	1,853,017	26,977,711	7,329,618	39,755,291
Banque d'Hochelaga	282,403	1,115,911	615,031	13,338,795	4,428,895	19,781,035
Banque Nationale	138,146	494,140	935,730	10,923,915	2,133,849	14,625,780
Banque Provinciale du Canada	67,414	36,977	948,653	2,674,167	2,418,015	6,145,226
Banque de St. Hyacinthe [a]	----------	----------	----------	30,698	1,060,793	1,091,491
Banque de St. Jean [b]	16	----------	----------	1,024	144,738	145,778
Canadian Bank of Commerce	4,471,001	9,137,358	7,327,600	63,893,420	36,425,865	121,255,244
Dominion Bank	1,138,165	4,766,913	3,261,660	30,960,438	10,754,205	50,881,381
Eastern Townships Bank	413,940	718,006	920,477	13,985,468	5,503,001	21,540,892
Farmers Bank of Canada	7,238	63,812	591,518	782,600	880,059	2,325,227
Home Bank of Canada	53,467	502,085	2,157,297	3,489,963	1,508,977	7,711,789
Imperial Bank of Canada	1,128,575	6,050,176	3,385,994	25,168,246	13,128,014	48,861,005
Merchants Bank of Canada	1,559,004	2,785,804	2,313,196	29,558,357	21,159,995	57,376,356
Metropolitan Bank	102,813	745,527	845,145	3,991,635	2,239,589	7,924,709
Molsons Bank	556,016	2,026,144	2,742,514	22,414,213	7,623,368	35,362,255
Northern Crown Bank	179,742	1,233,307	140,713	8,202,901	3,391,952	13,148,615
Quebec Bank	378,545	438,531	1,384,182	9,878,805	2,748,986	14,829,049
Royal Bank of Canada	3,221,717	3,760,344	1,936,986	21,411,972	20,139,191	50,470,210
St. Stephens Bank	9,563	21,156	10,000	596,020	215,399	852,138
Sovereign Bank of Canada [c]	178	1,869	225,792	2,401,116	6,423,180	9,055,135
Standard Bank of Canada	319,042	1,110,881	1,433,647	13,008,731	4,826,570	20,698,871
Sterling Bank of Canada	31,054	785,596	875,494	3,076,295	1,230,679	5,999,118
Traders Bank of Canada	400,327	2,632,234	1,871,773	23,512,673	6,442,583	34,859,590
Union Bank of Canada	560,215	3,805,238	1,088,330	19,371,568	8,389,901	33,215,252
Union Bank of Halifax	300,319	849,017	133,629	8,561,599	4,339,519	14,184,083
United Empire Bank of Canada	14,072	21,564	111,650	1,254,973	664,336	2,066,595
Western Bank of Canada	37,504	35,011	----------	3,236,170	2,936,388	6,245,073
Total	27,099,074	66,124,760	43,827,774	511,808,909	352,491,773	1,001,352,290

[a] Suspended payment July 25, 1908. [b] Went into liquidation April 28, 1908. [c] Is being wound up.

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(4) PRINCIPAL LIABILITIES OF EACH OF THE CHARTERED BANKS OF CANADA, DECEMBER 31, 1908.

Chartered banks.	Capital paid up.	Rest or reserve fund.	Notes in circulation.	Deposited by the public in Canada.	Other liabilities.	Total liabilities.[a]	Rate of last dividend.
							Per cent.
Bank of British North America	$4,866,666	$2,336,000	$2,868,943	$23,315,129	$8,183,240	$34,367,312	7
Bank of Hamilton	2,473,960	2,473,960	2,145,498	25,738,886	504,556	28,388,940	10
Bank of New Brunswick	737,500	1,291,875	679,455	4,798,583	294,649	5,771,687	13
Bank of Nova Scotia	3,000,000	5,400,000	2,888,974	24,269,301	8,918,070	36,076,345	12
Bank of Montreal	14,000,000	12,000,000	11,068,327	117,488,783	41,331,941	169,889,051	10
Bank of Ottawa	3,000,000	3,000,000	2,634,405	23,884,489	537,919	27,056,813	10
Bank of Toronto	4,000,000	4,500,000	3,019,219	27,236,893	552,283	30,808,395	10
Banque d'Hochelaga	2,500,000	2,150,000	1,978,756	12,692,474	376,408	15,047,638	8
Banque Nationale	1,886,491	900,000	1,723,302	9,216,260	602,489	11,542,451	7
Banque Provinciale du Canada	1,000,000	300,000	931,313	3,525,682	377,953	4,834,948	5
Banque de St. Hyacinthe [b]	339,375	75,000	28,535	645,086	8,116	681,737	--------
Banque de St. Jean [c]	------------	------------	10,659	295,418	72,503	378,580	--------
Canadian Bank of Commerce	10,000,000	6,000,000	8,596,268	78,362,075	17,891,751	104,850,094	8
Dominion Bank	3,983,392	4,981,731	3,087,539	37,801,510	476,105	41,365,154	12
Eastern Townships Bank	3,000,000	2,000,000	2,307,455	13,702,189	181,174	16,190,818	8
Farmers Bank of Canada	555,254	------------	308,745	1,382,816	49,622	1,741,183	4
Home Bank of Canada	929,033	297,705	915,190	5,451,158	76,582	6,442,930	6
Imperial Bank of Canada	5,000,000	5,000,000	3,345,970	33,940,590	764,187	38,050,747	11
Merchants Bank of Canada	6,000,000	4,000,000	4,267,423	38,697,788	3,901,869	46,867,080	8
Metropolitan Bank	1,000,000	1,000,000	918,922	4,681,349	31,064	5,631,335	8
Molsons Bank	3,500,000	3,500,000	2,677,423	24,496,776	646,077	27,820,276	10
Northern Crown Bank	2,201,568	50,000	1,688,800	8,419,161	789,087	10,897,048	5
Quebec Bank	2,500,000	1,250,000	1,583,773	8,732,145	415,474	10,731,392	7
Royal Bank of Canada	3,900,000	4,600,000	3,556,432	27,624,130	10,610,963	41,791,525	10
St. Stephens Bank	200,000	52,500	179,750	384,256	22,492	586,498	5
Sovereign Bank of Canada [d]	3,000,000	------------	104,025	615,541	5,891,312	6,610,878	--------
Standard Bank of Canada	1,560,110	1,760,110	1,261,147	15,738,811	114,912	17,114,870	12
Sterling Bank of Canada	812,630	183,749	704,293	4,140,200	109,735	4,954,228	5
Traders Bank of Canada	4,353,592	2,000,000	2,600,905	25,158,704	470,035	28,229,644	7
Union Bank of Canada	3,201,210	1,800,000	2,936,583	23,704,908	1,374,352	28,015,843	7
Union Bank of Halifax	1,500,000	1,175,000	1,429,835	8,020,622	1,888,102	11,338,559	8
United Empire Bank of Canada	501,792	------------	129,315	1,082,166	339,762	1,551,243	4
Western Bank of Canada	555,000	350,000	481,055	4,655,086	155,285	5,291,426	7
Total	96,457,573	74,427,630	73,058,234	639,899,365	107,959,069	820,916,668	--------

[a] Exclusive of capital stock and rest or reserve fund.
[b] Suspended payment July 25, 1908.
[c] Went into liquidation April 28, 1908.
[d] Is being wound up.

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(5) AVERAGE MONTHLY CIRCULATION OF DOMINION NOTES, BY DENOMINATIONS, 1884–1908.[a]

Calendar year.	Denominations.						Total average.
	$5,000.	$500 and $1,000.	$50 and $100.	$4, $5, $10, and $20.	$1 and $2.	Fractionals.	
1884		$9,507,000	$760,353	$518,409	$5,454,760	$183,030	$16,423,552
1885		9,885,042	612,646	583,480	5,310,554	177,118	16,568,840
1886		9,739,375	557,123	525,471	5,472,393	164,986	16,459,348
1887		7,961,417	503,446	497,106	5,976,094	162,838	15,100,901
1888		9,027,208	451,225	492,788	6,094,316	167,282	16,232,819
1889		8,450,542	412,275	471,617	6,127,394	170,470	15,632,298
1890		8,211,000	350,000	434,760	6,331,600	174,000	15,501,360
1891		9,050,000	280,860	449,644	6,412,825	181,130	16,374,459
1892		9,895,000	299,988	473,290	6,551,283	187,880	17,407,441
1893		11,280,125	250,820	451,061	6,788,000	196,000	18,966,006
1894		13,297,166	227,070	403,334	6,615,048	206,550	20,749,168
1895		13,834,666	232,300	369,439	6,743,555	217,802	21,397,762
1896	[b] $2,285,000	12,135,875	219,600	348,827	6,980,012	227,390	22,196,704
1897	4,891,250	10,309,208	241,821	322,751	7,237,520	236,156	23,238,706
1898	6,410,417	8,137,833	216,883	364,992	7,851,532	248,122	23,229,779
1899	7,474,583	8,130,083	211,196	434,286	8,524,327	267,175	25,041,650
1900	8,480,000	7,854,500	218,921	395,573	9,315,354	286,117	26,550,465
1901	8,862,083	9,363,375	232,142	524,480	9,757,778	312,911	29,052,769
1902	11,358,750	9,010,667	229,858	639,937	10,463,359	338,842	32,041,413
1903	18,004,167	7,649,000	189,121	558,987	11,409,251	352,934	38,163,460
1904	23,460,000	6,941,167	150,758	456,313	11,995,396	362,203	43,365,837
1905	28,300,417	6,785,792	128,554	493,264	12,630,271	376,359	48,714,657
1906	30,019,583	6,919,583	122,883	392,779	13,997,323	407,381	51,859,532
1907	36,163,667	6,763,625	116,921	334,589	15,188,627	450,011	59,017,440
1908	45,739,583	7,143,125	105,154	214,831	14,910,365	489,886	68,602,944

[a] The statistics of this table are averages computed from the monthly returns of each year.

[b] Three months only.

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(6) BUSINESS OF THE DOMINION GOVERNMENT SAVINGS BANKS, 1868–1908.

Fiscal year.	Cash deposits in year.	Interest on total deposits.	Total cash and interest.	Withdrawals in year.	At credit of depositors June 30.
1868	$292,994	$66,078	$359,072	$297,900	$1,483,219
1869	323,138	69,528	392,666	281,360	1,594,525
1870	462,481	77,128	539,609	311,564	1,822,570
1871	556,669	88,256	644,925	395,458	2,072,037
1872	1,085,289	100,836	1,186,125	1,142,346	2,154,234
1873	2,442,917	93,892	2,536,809	1,732,873	2,958,170
1874	3,207,689	154,491	3,362,180	2,564,996	4,005,295
1875	3,570,289	177,896	3,748,185	3,508,389	4,245,091
1876	3,222,672	178,572	2,951,244	3,343,170	4,303,165
1877	3,911,576	190,156	4,101,732	3,574,204	4,830,693
1878	5,366,358	232,816	5,599,174	4,687,338	5,742,729
1879	4,549,290	242,665	4,791,955	4,431,991	6,102,492
1880	5,240,195	268,729	5,508,924	4,504,129	7,107,287
1881	6,494,640	323,874	6,818,514	4,297,356	9,628,445
1882	7,090,434	411,949	7,502,383	4,835,828	12,295,000
1883	7,067,390	505,388	7,572,778	5,624,908	14,242,870
1884	6,807,632	576,653	7,384,285	5,655,171	15,971,984
1885	7,170,480	645,707	7,816,187	5,899,635	17,888,536
1886	7,513,069	728,546	8,241,615	6,115,708	20,014,442
1887	6,134,911	795,164	6,930,075	5,609,992	21,334,525
1888	3,541,144	813,349	4,354,493	5,006,992	20,682,025
1889	3,645,188	777,300	4,422,488	5,159,579	19,944,935
1890	3,086,935	688,417	3,775,352	4,698,476	19,021,812
1891	2,858,535	614,094	3,472,629	4,833,062	17,661,378
1892	3,155,344	585,989	3,741,333	4,171,565	17,231,146
1893	3,410,093	588,319	3,998,412	3,533,094	17,696,464
1894	3,400,456	601,420	4,001,876	3,920,196	17,778,144
1895	3,242,278	594,283	3,836,561	3,969,749	17,644,956
1896	3,293,378	598,445	3,891,823	3,670,391	17,866,389
1897	3,186,581	597,580	3,784,161	5,096,403	16,554,147
1898	2,705,020	463,313	3,168,333	4,092,309	15,630,171
1899	2,514,398	449,166	2,963,564	3,123,635	15,470,100
1900	2,784,581	452,400	3,236,981	3,064,825	15,642,257
1901	2,881,477	462,809	3,344,286	2,888,406	16,098,136
1902	2,971,583	473,334	3,444,917	3,425,284	16,117,769
1903	3,051,868	475,244	3,527,112	3,129,088	16,515,793
1904	2,879,793	483,232	3,363,025	3,140,084	16,738,734
1905	2,817,267	489,322	3,306,589	3,396,198	16,649,126
1906	2,744,818	473,281	3,218,099	3,693,101	16,174,124
1907 (9 months)	1,981,286	333,866	2,315,152	3,400,702	[a] 15,088,574
1908	2,457,330	436,539	2,893,869	2,965,582	[a] 15,016,861
Totals for 41 fiscal years	145,119,466	17,380,026	162,499,492	149,193,037	[b] 15,016,861

[a] March 31.

[b] This amount includes $1,422,047 at credit of depositors June 30, 1867, together with $38,418 at credit of New Brunswick account in 1871 and $249,941 at credit of Prince Edward Island account in 1871.

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(7) BUSINESS OF THE POST-OFFICE SAVINGS BANKS, 1868–1908.

Fiscal year.	Savings banks at end of fiscal year.	Deposits received in year.	Transferred from government savings banks to post-office savings banks.	Interest on deposits in year.	Total cash and interest.	Amount withdrawn in year.	Amount at credit of open accounts at end of year.	Open accounts at end of year.
1868 [a]	81	$212,507		$939	$213,446	$8,857	$204,589	2,102
1869	213	927,885		21,095	948,980	296,754	856,814	7,212
1870	226	1,347,901		48,689	1,396,590	664,556	1,588,849	12,178
1871	230	1,917,576		84,274	2,001,850	1,093,439	2,497,260	17,153
1872	235	2,261,631		116,175	2,377,806	1,778,565	3,096,500	21,059
1873	239	2,306,918		126,933	2,433,851	2,323,299	3,207,052	23,526
1874	266	2,340,284		126,273	2,466,557	2,468,643	3,204,965	24,968
1875	268	1,942,346		120,758	2,063,104	2,341,979	2,926,090	24,294
1876	279	1,726,204		110,116	1,836,320	2,021,458	2,740,953	24,415
1877	287	1,521,000		104,068	1,625,068	1,726,083	2,639,937	24,074
1878	295	1,724,371		103,834	1,828,205	1,713,659	2,754,484	25,535
1879	297	1,973,243		110,913	2,084,156	1,733,449	3,105,191	27,445
1880	297	2,720,216		136,075	2,856,291	2,015,813	3,945,669	31,365
1881	304	4,175,042		184,905	4,359,947	2,097,389	6,208,227	39,605
1882	308	6,435,989		291,065	6,727,054	3,461,619	9,473,662	51,463
1883	330	6,826,266		407,305	7,233,571	4,730,995	11,976,237	61,059
1884	343	6,441,439		477,487	6,918,926	5,649,611	13,245,553	66,682
1885	355	7,098,459		539,561	7,638,020	5,793,032	15,090,540	73,322
1886	392	7,645,227		607,075	8,252,302	6,183,471	17,159,372	80,870
1887	415	8,272,041		692,404	8,964,445	6,626,068	19,497,750	90,159
1888	433	7,722,330	$217,385	765,639	8,705,354	7,514,072	20,689,033	101,693
1889	463	7,926,634	1,085,980	841,922	9,854,536	7,532,146	23,011,423	113,123
1890	494	6,599,896	167,502	786,875	7,554,273	8,575,042	21,990,653	112,321
1891	634	6,500,372	389,169	734,431	7,623,972	7,875,978	21,738,648	111,230
1892	642	7,056,002		734,591	7,790,593	7,230,839	22,298,402	110,805
1893	673	7,708,888		777,483	8,486,371	6,631,579	24,153,194	114,275
1894	699	7,524,286	218,174	835,800	8,578,260	7,473,585	25,257,868	117,020
1895	731	7,488,028	493,889	876,049	8,857,966	7,310,292	26,805,542	120,628
1896	755	8,138,947	449,982	944,525	9,533,454	7,406,066	28,932,930	126,442
1897	779	8,223,000	1,856,474	1,024,512	11,103,986	7,656,087	32,380,829	135,737
1898	814	9,183,693	786,868	982,726	10,953,287	8,853,178	34,480,938	142,289
1899	838	8,310,630		1,001,900	9,312,530	9,021,863	34,771,605	142,141
1900	847	10,448,485	141,172	1,049,699	11,639,356	8,903,505	37,507,456	150,987
1901	895	11,091,099		1,126,952	12,218,051	9,774,695	39,950,813	157,368
1902	915	11,382,035	415,508	1,188,925	12,986,468	10,617,071	42,320,210	162,761
1903	934	12,060,825		1,254,048	13,314,873	11,379,757	44,255,327	167,023
1904	961	11,737,940		1,309,567	13,047,507	11,883,128	45,419,706	168,572
1905	989	10,504,430	252,774	1,320,512	12,077,716	12,129,101	45,368,321	165,518
1906	1,011	10,805,458	559,593	1,328,206	12,693,257	12,324,529	45,736,488	164,542
1907 (9 months)	1,043	8,803,503	1,216,169	1,027,834	11,047,506	9,330,766	47,453,228	167,285
1908	1,084	12,293,274	59,244	1,369,405	13,721,923	13,610,866	47,564,284	165,691
Totals for 41 fiscal years		261,326,300	8,309,883	25,691,545	295,337,728	257,762,884		

[a] Three months only.

NOTE.—The fiscal year of the Dominion for 1868–1906 ended June 30, and since that date it ends March 31.

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(8) TOTAL BUSINESS OF POST-OFFICE AND DOMINION GOVERNMENT SAVINGS BANKS, 1868–1908.

Fiscal year.	Cash deposits in year.	Interest on total deposits.	Total cash and interest.	Withdrawals in year.	At credit of depositors June 30.
1868	$505,501	$67,017	$572,518	$306,757	$1,687,808
1869	1,251,023	90,622	1,341,645	578,114	2,451,335
1870	1,810,382	125,817	1,936,199	976,119	3,411,419
1871	2,474,245	172,530	2,646,775	1,488,897	4,569,297
1872	3,385,338	217,010	3,602,348	2,920,911	5,250,734
1873	4,749,835	220,825	4,970,660	4,056,172	6,165,222
1874	5,797,914	280,764	6,078,678	5,033,639	7,210,261
1875	5,512,635	298,654	5,811,289	5,850,368	7,171,181
1876	4,948,877	288,688	5,237,565	5,364,628	7,044,118
1877	5,432,576	294,224	5,726,800	5,300,287	7,470,631
1878	7,090,729	336,651	7,427,380	6,400,997	8,497,013
1879	6,522,533	353,578	6,876,111	6,165,441	9,207,683
1880	7,960,411	404,804	8,365,215	6,519,942	11,052,956
1881	10,669,682	508,779	11,178,461	6,394,745	15,836,672
1882	13,526,422	703,014	14,229,436	8,297,446	21,768,662
1883	13,893,656	912,693	14,806,349	10,355,903	26,219,108
1884	13,249,071	1,054,140	14,303,211	11,304,782	29,217,537
1885	14,268,939	1,185,267	15,454,206	11,692,666	32,979,076
1886	15,158,296	1,335,620	16,493,916	12,299,179	37,173,814
1887	14,406,952	1,487,569	15,894,521	12,236,060	40,832,275
1888	11,480,859	1,578,988	13,059,847	12,521,064	41,371,058
1889	12,657,802	1,619,222	14,277,024	12,691,725	42,956,358
1890	9,854,333	1,475,292	11,329,625	13,273,518	41,012,465
1891	9,748,076	1,348,525	11,096,601	12,709,040	39,400,026
1892	10,211,345	1,320,580	11,531,925	11,402,404	39,529,548
1893	11,118,981	1,365,802	12,484,783	10,164,673	41,849,658
1894	11,142,916	1,437,220	12,580,136	11,393,782	43,036,012
1895	11,224,195	1,470,332	12,694,527	11,280,041	44,450,499
1896	11,882,307	1,542,970	13,425,277	11,076,457	46,799,319
1897	13,266,055	1,622,092	14,888,147	12,752,490	48,934,976
1898	12,675,591	1,446,039	14,121,630	12,945,487	50,111,119
1899	10,825,028	1,451,066	12,276,094	12,145,498	50,241,715
1900	13,374,238	1,502,099	14,876,337	11,968,330	53,149,722
1901	13,972,574	1,589,761	15,562,335	12,663,100	56,048,957
1902	14,769,126	1,662,258	16,431,384	14,042,355	58,437,987
1903	15,112,695	1,729,293	16,841,988	14,508,845	60,771,129
1904	14,617,733	1,792,799	16,410,532	15,023,212	62,158,450
1905	13,574,471	1,809,834	15,384,305	15,525,298	62,017,457
1906	14,109,869	1,801,487	15,911,356	16,017,631	61,911,182
1907 (9 months)	12,000,958	1,361,700	13,362,658	12,731,468	[a] 62,541,802
1908	14,809,848	1,805,944	16,615,792	16,576,448	[a] 62,581,145
Totals for 41 fiscal years	415,044,018	43,071,572	458,115,590	396,955,921	[b] 62,581,145

[a] March 31. [b] This includes the amount at credit of depositors June 30, 1867.

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APPENDIX D.

Specimen Forms used by Branches in Reports to Head-office.

31870—10——12

I.

QUARTERLY STATEMENT OF PROFITS. ....BRANCH.

ABSTRACT OF CHARGES ACCOUNT FROM DATE OF ....TO..............19....

Salaries, viz:	Months at $	per annum.......		
	" $	"		
	" $	"		
	" $	"		
	" $	"		
	" $	"		
	" $	"		
	" $	"		
Rent of Office				
Taxes.............. { Office				
{ Officers				
Insurance				
Water				
Fuel :—Wood........				
Coal				
Light........				
Repairs........				
Office Furniture........				
Cleaning Office........				
Stationery........				
Subscriptions to Newspapers, Books, etc				
Commercial Agency........				
Rent and Depreciation of Office Furniture........				
Rent of Telephone				
Clearing House Expenses..				
Advertising				
Postage				
Telegraph Messages........				
Telephone "				
Travelling Expenses				
Express and Freight Charges on Stationery, etc........				
Street Car Tickets				
Laundry........				
Sundries (to be detailed)				
		Total........		($)
Less Telegraph Messages Recovered				
" Telephone " "				
" Postage Recovered				
" Rent of Offices, sublet........				
Received from				
	Transferred to Profit and Loss Account........			($)

II.

STATEMENT OF PROFIT AND LOSS FOR QUARTER ENDING.

....

....BRANCH.

AVERAGE BALANCE OF SAVINGS, Showing Min. Monthly Balance.

Date.	Amount.
Total	
Average	
Interest Accrued allowed for Savings to date, days @	
Deduct Interest paid since ..	
Amount reserved.......	

ADJUSTMENT OF RESERVED INTEREST ACCOUNT.

	Dr.	Cr.
Balance of Account...		
Reserved for Deposit Receipts as per Statement...........................		
" for Current Accounts "		
Balance....		

DISCOUNT AND INTEREST ACCOUNT.

	Dr.	Cr.
Total Discount on Local Bills..		
" " " Bills Remitted..		
" Interest on Demand Notes..		
" " " Produce Notes..		
" " " Overdrawn Current Accounts........................		
" " Cr. on Overdue and Past Due Bills..........................		
" " " Cash Items and Items held in Cash....................		
" Rebate on Bills Discounted..		
Balance....		

EXCHANGE AND COMMISSION ACCOUNT.

	Dr.	Cr.
Total Commission on Bills Remitted..		
" " " Cash Items..		
" " " Collections..		
" Exchange on Drafts Sold..		
" Amount paid for Collection of Bills..............................		
Balance....		

MANAGER'S REMARKS.

TOTAL AMOUNT due to DEPOSITORS.. $
TOTAL AMOUNT OF DEPOSITS *not* bearing interest.. $
AVERAGE BALANCE BRANCH CLEARINGS ACCOUNT.. $
TOTAL LOANS.. $

Local Bills........ $
Bills Remitted.... $
Overdue Bills..... $
Past Due Bills.... $

PROFIT AND LOSS ACCOUNT.	Debit.	Credit.
Balance of—		
Discount and Interest Account..		
Exchange and Commission Account..		
Reserved Interest Account, Adjusted..		
Charges Account..		
TOTAL PROFITS FOR QUARTER..		

INTEREST ACCRUED ON CURRENT ACCOUNTS.

NAME.	Average Cr. Bal.	Rate.	Accrued Interest.	NAME.	Average Cr. Bal.	Rate.	Accrued Interest.
				Forward.......................			

III.

BALANCE OF DEPOSIT RECEIPTS.

SHOWING INTEREST ACCRUED TO DATE.

No.	When issued.	NAME.	Amount.	No. of days.	Rate.	Interest.

IV.

INTEREST ON DEMAND NOTES WITH PAYMENTS.

When discounted.	No.	Amount.	Date of payments.	Payments.	Balance.	Days.	Rate.	Interest.	Date interest charged.

V.

Return of the Liabilities and Assets of

....BRANCH

AS ON THE..DAY OF..................................19

LIABILITIES.			
2. Due to Dominion Government......			
3. Due to Provincial Governments			
4. Deposits by the Public, payable on demand, in Canada			
5. Deposits by the Public, payable after notice or on a fixed day in Canada			
Drafts issued account	$		
Balance at Credit of Branch Clearings Account	$		
8. Deposits made by, and Balances due to, other Banks in Canada			
9. Balances due to Agencies of the Bank in the United Kingdom			
10. Balances due to Agencies of the Bank elsewhere than in Canada and the United Kingdom			
Balance at Credit of Interest and Exchange Accounts			
		$	
ASSETS.			
Cash per Specification:			
Specie	$		
Legals	$		
Notes of this Bank	$		
Notes of other Banks	$		
Cheques of other Banks	$		
Items held in Cash	$		
Cash Items Account:			
Parcels, Checks, and Bank Drafts	$		
Sight and Demand Drafts	$		
Balance at Debit Branch Clearing Account			
6. Deposits made with, and balances due from, other Banks in Canada			
7. Balances due from Agencies of the Bank in the United Kingdom			
8. Balances due from Agencies of the Bank elsewhere than in Canada and the United Kingdom			
12. Call and Short Loans on Stocks and Bonds in Canada			
14. Current Loans in Canada			
18. Overdue Debts			
19. Real Estate, other than Bank Premises			
20. Mortgages on Real Estate sold by the Bank			
22. Other Assets not included under the foregoing heads			
Charges Account			
Balance at Debit of Reserved Interest Account			
		$	

We declare that the above return is made up from the books of this office, and that to the best of our knowledge and belief, it is correct, and shows truly the financial position of the branch.

....*Manager.*

....*Accountant.*

VI.

FOREIGN EXCHANGE ACCOUNT.

Balance at Credit of Account.............19............				
Total Exchange on U. S. Drafts sold..........				
" " " Sterling " "				
" Commission on U. S. Cash Items........				
" " " " Collections........				
" Exchange on Sterling "				
" " " Bills of Exchange bought........				
" " " Continental Bills of Exchange........				
Total Debit Exchange on Bills of Exchange bought, and London Agent's charges (Rebates, Stamps, Etc.)....				
Total paid for Collection Currency Bills, Discount on New York Funds, etc........				
Amount Reserved for London Agents' Charges:				
For Rebates........	£			
" Interest on Overdue Account........	£			
" Commission on Demand Drafts, Cables, etc........	£			
" " " Sixty Day Drafts........	£			
" " " Commercial Credits........	£			
" Stamps........	£			
" to cover London Balance Cr........£ @	£			
	£	$		
Less—				
Premium London Balance Dr........£ @				
Paris Exchange adjusted........				
Berlin " "				
Naples " "				
Balance........				
			$	