

NOTES

—ON—

BANKING IN CANADA;

AN ADDRESS

DELIVERED BEFORE THE

BRITISH AMERICAN BUSINESS COLLEGE,

FRIDAY, APRIL 12th, 1889,

—BY—

D. R. WILKIE,

IMPERIAL BANK OF CANADA, TORONTO.

The EDITH *and* LORNE PIERCE
COLLECTION *of* CANADIANA



Queen's University at Kingston

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TO THE READER.

THIS short essay was read before the Students of the British American Business College, Toronto, and was not originally intended for publication; but extracts from it having appeared in the daily and weekly press, I have been asked to allow it to appear in this form.

D. R. W.

BANKING IN CANADA.

I HAVE been invited by my old friend, your energetic and pains-taking President, to address a few remarks to you on the Theory and Practice of Banking in Canada, and I can assure you that it was not until after I had accepted the invitation that I appreciated the magnitude of my task and my own inability to deal with it as it deserves. To give you a clear insight into the subject, I should meet you not once but fifty times.

I have myself been actively engaged both in the study of the theory and in the practice of banking for twenty-six years, and I can assure you that not a day has passed during this period which has not brought its lesson.

The theory of banking is embraced in the science of Political Economy, which itself, Mr. Bagehot says, is neither more nor less than the theory of business ; and we know what an important science Political Economy has become, and how many able men have devoted their best talents to the subject. You need not wonder, therefore, that I feel somewhat diffident when I address you to-day on one of its most important branches. It

is impossible for me, in the short time at my disposal, to give you more than a brief insight into the practice of banking in Canada. I must leave the theory to be studied by yourselves in the works of Walter Bagehot, Jevons, Gilbert, Stuart Mill, McLeod, and other well-known writers.

McLeod says that "Banking is a department of
" the great science of Economics or the science of
" Exchanges, or of commerce in its widest extent and
" in all its forms and varieties. The term 'Economics'
" is derived from two Greek words *oikos* and *nomos*,
" meaning property and law. *Oikos*, in Greek, means
" property of every sort and description. It is the
" technical term in Attic law for a person's whole sub-
" stance in every shape or form. It includes not
" only such material property as lands, houses, money,
" grain, cattle, timber, &c., but also such property as
" rights of action, bank notes, bills of exchange,
" funds, shares in companies, good-will of business,
" copyrights, patents, policies of insurance, and all
" property which consists of mere abstract rights,
" which in law are termed incorporeal property. *Nomos*
" in Greek means a law, hence Economics is the
" science which treats of the exchanges of all different
" kinds of property; it is the science which treats of
" the law which governs the relations of exchange-
" able quantities; of the principles and mechanism of
" commerce in all its forms.

“ Banking is that department of the general science “ of economics or commerce, which treats of the “ exchange of money for credit and of credit for credit.”

This interpretation of the word ‘banking’ may be accepted as final and affords you an idea of the immense territory covered by the expression.

There are to-day in Canada 36 chartered banks exclusive of those in liquidation, having branches numbering nearly 400, scattered from the Atlantic to the Pacific, and giving direct employment to over 2,000 people.

The amount of capital invested amounts to \$59,000,000, to which is to be added the reserve funds, or ascertained undivided profits, amounting to \$19,000,000; in all \$78,000,000. To this capital again is to be added the amount of auxiliary capital in the shape of public and private deposits and of notes in circulation. The deposits of the public in chartered banks now amount to about \$120,000,000 as compared with \$33,000,000 in 1868. The deposits of the Dominion and Provincial Governments with the banks are fluctuating in amount and are composed of surplus or unused revenues, or the unused portions of loans made either through the Government Savings Banks or upon the London market. These deposits amount at present to \$11,500,000. The circulation of bank notes now amounts to \$32,000,000, as compared with

\$8,300,000 in 1868, so that there is to-day an amount of \$240,000,000 of capital and auxiliary capital under the control of the banks and requiring the exercise of constant vigilance and foresight on the part of directors and officials to insure its safe and profitable employment.

When vigilance, caution, and foresight are not exercised the effect is soon demonstrated by heavy losses; (by a lock-up of capital in inconvertible securities and real estate, followed in course of time by the withdrawal of confidence of shareholders and depositors, and resulting in the transfer of deposits to other institutions); in reduced circulation of the notes of the bank, and by a drop in the market value of the shares of the institution; and finally, if there has been occasion for the uneasiness and want of confidence, by the liquidation of the bank itself.

In Canada we have been, thanks to our banking system, exceedingly fortunate in our comparative freedom from bank disasters, and we are obliged to go back to the days of the Bank of Upper Canada, in 1866, to find an institution of any importance that has not paid its creditors in full; and the creditors of that institution would have been paid in full if the present Bank Act had been in force, or if the double liability of shareholders, which existed under the Bank Act of that day had been enforced as rigidly as it has been against the shareholders of the Central Bank within the past year.

This was not done, however, owing in part to legal difficulties and in part to public policy, the failure of the bank having been occasioned in great measure through its intimate connection with the Government of the Provinces.

I spoke a few moments ago of the auxiliary capital of the banks in the shape of their deposits and circulation. The comparison with 1868 will be still more striking when it is noted that the loan companies, which had on deposit in 1868, in their savings branches, an amount of \$1,000,000, now have the sum of \$18,000,000 on deposit; and that the savings bank deposits, including deposits in Government and Post Office Savings Banks, have risen from \$4,200,000 to over \$52,000,000. To the increase in the circulation of notes is to be added the increase in the circulation of Government notes from \$3,800,000 to \$16,000,000. The discounts given by the Canadian banks within the same period have increased from \$50,000,000 to \$170,000,000. I mention these figures to afford you some idea of the growth of the banking interests of the country within the last twenty years, indicative of the greater field that now exists within the Dominion for commercial pursuits.

The increase in deposits in the chartered banks is in the face of the competition of the Dominion Government, which has fostered the withdrawal of capital from the commercial industries of the country to the extent of \$45,000,000 by the payment of an abnormal and

extravagant rate of interest to depositors in the Government and Post Office Savings Banks, resulting not only in the removal of that amount from the channels of legitimate trade, in the lowering of public credit, and in a loss to the country at large upon the present volume of such deposits of no less than \$450,000 annually, representing the excessive interest paid (an amount, by the way, sufficient to meet the interest on \$14,000,000 of the public debt,) but beyond all, in keeping the standard rate for borrowers at from one to two per cent. above what is paid by borrowers in other countries with whom our producers compete. Many manufacturers could better afford a reduction of ten per cent. in the tariff that protects them than the payment of an extra one per cent. interest on their borrowings. It is unfortunate that a country that is anxious to foster the manufacturing and agricultural industries of its people should neutralize in part the good effects of such a policy by indirect exactions.

An agitation has sprung up of late in favor of Government note circulation to replace the notes of chartered banks. It is only natural that one ignorant of the laws of supply and demand, of the interests and commercial history of the country, and of the fate elsewhere of Government issues that have been forced upon the people, should be carried away by the idea. Let us look into the subject for a few minutes. The circulating medium of the country consists of bank-

notes, Government notes, and specie. The bank-notes are issued and redeemed by the banks, and are the first charge upon their assets. A bank is not allowed to have in circulation a larger amount of its bills than the amount of its unimpaired paid-up capital. The bills are a first charge upon its assets, and are further secured by being a first charge upon shareholders to the extent of an amount equal to their subscribed capital. The safety of bank notes is therefore guaranteed almost beyond peradventure. They are redeemable at all times in gold or Government notes, and I know of no instance, with the exception of the Maritime Bank of St. John, N.B., a small and unimportant concern, where the bills of a chartered bank, or of a bank in liquidation, have not been redeemed very shortly after its doors have been closed. The assets of the Maritime Bank have been difficult to realise, but I am informed that the notes of that bank will shortly be redeemed in full.* This fact is of itself proof of the safety of the present circulation and is an answer to the theorists who on the grounds of public safety are prepared to destroy a system that has, above all others, been of incalculable benefit in the development of the country.

During the season of the year when the movement of crops or development of trade requires an expanded circulation, the means for supplying this demand are

* Since the above was written the bills of the Maritime Bank have been paid off in full.

always ready. A bank is always willing to lend its notes to a customer who will afford them a good circulation rather than to a borrower who will make use of them in such a way that will oblige the issuing bank to redeem them forthwith. The consequence is that in the autumn months, when the produce of the field is being marketed, the circulation of bank notes increases to an amount necessary to carry the trade. This expansion amounts to about six millions of dollars, and with the further development of the country will far exceed that amount. The contraction takes place in due course by the use of the extended circulation in the ordinary way of business: the farmer pays the store-keeper, the store-keeper makes his remittances to the wholesale merchant, the merchant pays his borrowings from the bank, and, without occasioning the slightest ripple in the money market, the products of the country are moved from field and forest to the consumer, and the one note has paid many debts.

Now let us look upon the probable course of events supposing the country reduced to a Government note issue. We will suppose that the month of September is at hand and there is the usual product of the field to be marketed. The grain dealer or country merchant looks about for the needful with which to buy the farmer's produce. He approaches his banker, who having, under the proposed system, no notes of his own to lend, and having only a limited supply of those of the

Government, is not interested in lending his reserves at a low rate, but prefers to wait until the demand for the six millions above referred to becomes urgent. In the mean time the farmer, if he be impecunious, is forced to sell his crop at a sacrifice; the demand for money increases on all sides; rates of interest advance; prices of produce decline, and very often panic and ruin follow in due course. Such has been the experience of the United States, and such would certainly be the result in Canada if a Government note issue, as at present advocated, should take the place of the system now doing such good service. A country of the enormous extent of Canada (larger than the United States, Alaska not included,) stretching from ocean to ocean, with a sparse population, must have an elastic currency or be subject to the greed of individual and chartered capitalists. The withdrawal, in the first place, of \$36,000,000 of capital now represented by the bank notes in circulation, would prove a severe wrench; values would depreciate on all sides; factories would be closed; merchants would be made bankrupt; real estate would depreciate rapidly in price, and the direst financial and social disasters would speedily follow. The Dominion, now developing rapidly into a nation of great wealth and importance, would be launched into bankruptcy. I do not mean to say that the present bank note system cannot be improved, but I do mean to say that any radical change interfering with its elasticity and general adaptability to the circumstances of the country, will arrest the progress of

the Dominion for twenty-five years, besides being the means of encouraging a lavish extravagance in Dominion finances, placing, as it would, an immense sum of money in the hands of rival politicians from contending Provinces. Bear in mind that every Dominion note substituted for the bank note involves the withdrawal of an equal amount of gold from active use until it is required for the public service. What frightful extravagances would follow the control by Parliament of the circulating medium of the country! No scheme would be too visionary; no enterprise would be too hazardous; no subsidy too large to be considered by the Government of the day.

The public at large have, I think, a very erroneous idea of the duties and responsibilities of a banker. I would advise any one present who has the inclination to enter the fraternity, not only to satisfy himself as to his own fitness for the position, but to be prepared to subject himself to almost military discipline, to wait patiently under small remuneration for promotion and an increase of salary; to devote himself exclusively to the interests of employers; to guard his conduct and his tongue so that he will not be a reproach or hindrance to his institution, and to take the chances of remaining comparatively unappreciated or unknown in a subordinate capacity for years. Although some have entered the service of a bank at an early age and have, by the exercise of integrity, ability, diligence, sobriety, and good

manners attained a high position, I shall be safe in saying that not more than one in one hundred obtain the rank that they at one time looked at as within their grasp. Neither must it be supposed that the aspirant for bank honors does not need more than a very ordinary education. The commerce of Canada is not now, as formerly, confined to the valley of the St. Lawrence. The financial operations of our people encircle the world, and by means of that glorious work, the Canadian Pacific Railway, we are brought to-day into close contact with what was at one time the 'Orient,' but which to-day as the 'Occident,' is as easy of access as the continent of Europe. Our competition therefore is no longer amongst ourselves, but is with the bright, experienced, polished, well-educated, pushing business men of the whole commercial world. A great deal of England's commercial supremacy can be accounted for by the high educational standing of its bankers, merchants and manufacturers, and it is no rare thing now to find university graduates occupying the highest positions in practical finance. I would advise every young man present, no matter what his prospects or ambitions may be, to keep up his studies of the arts and sciences, of the languages, dead and modern, and of classical literature, long after he has entered the commercial world in his struggle for existence and supremacy. There is sure to come a time in his career when he will find himself in competition with other applicants for an important position. Supposing all other things to be equal, he that has occupied his

spare hours diligently will be preferred above one who has abandoned his studies when relieved from enforced attendance at school or college.

It is a source of much gratification to know that we now have in the University of Toronto a chair of Political Economy. It is to be hoped that the opportunity which this curriculum presents will be availed of freely. I bespeak for those who give the lectures from that chair the attention they demand, a far greater influence in the body politic than those who are satisfied to depend upon newspaper scraps and partisan speeches for their acquaintance with the science. And, on the other hand, why should not university students be encouraged to perfect themselves in book-keeping, in the theory and practice of banking, and in many of the subjects which now form the curriculum at this important seat of learning. What an advantage it would be to a professional man to be able to keep his own books, or know how they should be kept. How often we hear of the doctor or lawyer who, from want of experience or training has been obliged to employ outside assistance to enable him to fathom his own assets and liabilities; and how many clients have been ruined by the criminal carelessness of lawyers, honest enough in their intentions at the start, who have through ignorance of book-keeping allowed their client's money and their own to form part of one bank account, drawing against the fund as occasion required, regardless of the proprietorship,

until too late he finds that his all is gone. I am affording the suggestion of the appointment of a commercial examiner at the University in the hope that your President will act upon it, and that we will yet see the leaders of the learned professions looking back at their commercial education as one of the chief elements of their success.





