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CENTENNIAL EDITION

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**FIFTY  
YEARS OF  
BANKING  
SERVICE**



**THE DOMINION BANK**

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By O. D. Skelton  
Curated by C. Willmore

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Original work by O. D. Skelton *et al.*

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*Cover Image: Frontispiece to the 1922 edition.*

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## PROGRESS OF THE DOMINION BANK

<i>Year</i>	<i>Total Deposits</i>	<i>Net Profits</i>	<i>Total Assets</i>
1871 . . .	\$ 1,057,000	\$ 107,000	\$ 2,541,000
1881 . . .	3,380,000	143,000	5,939,000
1891 . . .	8,576,000	220,000	12,731,000
1901 . . .	18,577,000	275,000	25,623,000
1911 . . .	53,547,000	704,000	70,179,000
1920 . . .	104,941,000	1,188,000	139,263,000

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### TOTAL NUMBER OF SHAREHOLDERS

1871	-	-	-	-	286
1920	-	-	-	-	1920

## Curator's Preface

It's not often that a vanity business history is remembered a century after its publication. Time and history have been kind to the present one. Its "Historical Sketch" was written<sup>1</sup> by one of the most influential civil servants in Canadian history, and its role as a chronicle of a "monotonously successful" bank allows it to relish in the ordinary business of Canadian banking – unexciting at the time of its publication in 1922, but enlightening to the reader of the 21st century.

For this new edition, I have treated the Sketch by O. D. Skelton as a preface and invitation to a journey through a century of Canada's history as experienced by its bankers. The various crises, events and opportunities mentioned in passing are expanded on in new chapters collecting (mostly) contemporary sources I hope will prove interesting and insightful to the modern reader.

Chris Willmore

August 12, 2022

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<sup>1</sup> "in co-operation with a small committee of the bank's officials"



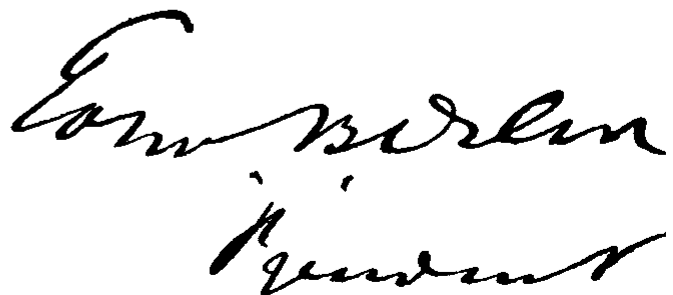
## INTRODUCTION

It has been thought fitting to commemorate the completion of the first fifty years of service of The Dominion Bank by a brief sketch of its foundation, its growth and achievements.

A bank which for half a century has taken its full part in the development of the country becomes a partner in the nation's progress—stimulating thrift, ministering to its enterprises and mobilizing its financial resources to the best advantage.

This short narrative of the bank's history has been drawn from its records, supplemented by contemporary documents and personal reminiscences. It has been written by Dr. Skelton of Queen's University in co-operation with a small committee of the bank's officials. The illustrations portray most of the men closely linked with its progress, a number of its buildings, past and present, and some special phases of its activities.

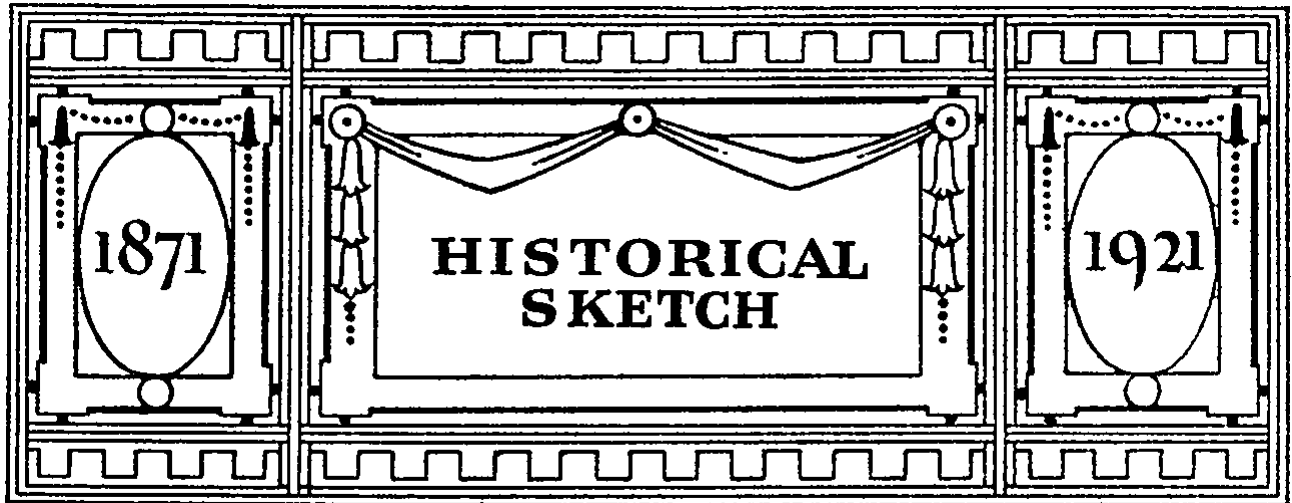
The record of The Dominion Bank's first half century is commended to the members of its wide partnership, and to its friends with the hope that the future will more than fulfil the endeavor and the promise of the past.



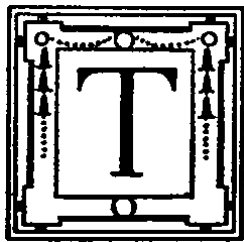
*E. W. Skelton*  
*President*

February 1, 1921

# Fifty Years of Banking Service



By Dr. Oscar D. Skelton<sup>2</sup>



The Dominion Bank<sup>3</sup> obtained its charter in 1869 and opened its doors on the first day of February, 1871. Its beginnings thus go back to the first years of the Dominion from which it took its name. Nor is it only in its beginning that the linking of fortunes holds. The bank shared with the nation the first flush of youthful confidence, the trials and slow development of the middle years, and the expansion and prosperity of the days when Canada had at last come into its own. Now that fifty years have passed since that beginning, it is well to look back over the long road, to recall the stages in the bank's progress, and to pay tribute to the memory of the men who laid the broad foundations, and the men who built soundly and surely upon them.

[CANADA IN 1871]

It is difficult, particularly for the younger men of today, to realize what the Canada was like in which The Dominion Bank made its beginning. It is true that, before the close of 1871, Canada stretched from the Atlantic to the Pacific, and that its people numbered nearly four millions. But as yet Canada had only staked a claim to the northern half-continent; it had not yet begun to develop the vast western and northern wildernesses. The Maritime Provinces had not yet been linked with central Canada by rail; there was not a completed mile of railroad west of Georgian Bay<sup>4</sup>.

<sup>2</sup> From Skelton, O. D. (1922). *The Dominion Bank 1871 – 1921: Fifty years of banking service*. Toronto: The Dominion Bank. Written by Dr. Oscar D. Skelton (1878 – 1941), an early Canadian political economist, “in co-operation with a small committee of the bank's officials.”

<sup>3</sup> The Dominion Bank merged with the Bank of Toronto in 1955, forming the Toronto Dominion Bank.

<sup>4</sup> An arm of lake Huron, in Ontario.

Nor did the four million Canadians of the seventies carry on anything approaching one-half the business of the eight millions of today. Imports, exports, railway mileage, life insurance, fire insurance, federal revenue, federal debt, reached not a half, but barely a twentieth, of latter-day levels. Farming and lumbering were still the dominant industries. There were only three cities, Montreal, Quebec and Toronto, with more than fifty thousand people, and only three others, Halifax, St. John and Hamilton, with twenty-five thousand. There was very little trade and intercourse between the different parts of the country, and such business as existed was much less city-centered than today. The whole country, each province, each community, each household, was largely sufficient unto itself. The country village was still a vigorous community center; its grist mill, its blacksmith shop and implement or carriage factory, its general store, and its taverns, all did a thriving trade. Every house no longer had its spinning wheel, but the leach<sup>5</sup> and cooler for making soap and the tallow cakes and molds for making candles were still necessary for the housewife's art. Whiskey was cheap and flowing freely, and a barn-raising was a lively scene. It was just seven years since the first cheese factory had been built in Canada, and the first creamery was yet to be begun; the mower and reaper and the thresher were coming in, but the self-binder was yet unknown, and the silo and the Babcock test<sup>6</sup> were for the future. In the forest, square timber then was lord and pulp-wood still unsought. No building in Toronto was more than five stories high. The elevator, the typewriter, the telephone, the filing systems, all the technical apparatus of modern office work, had not yet widened the range and quickened the pace of business.

#### [EARLY CANADIAN BANKING]

The banking system, required to finance the trade of Canada at this stage, was naturally much less comprehensive than today. The number of banks, it is true, was greater; when Confederation<sup>7</sup> began, there were eighteen banks chartered by the Province of Canada, carrying on business in Ontario and Quebec, five chartered banks in Nova Scotia, besides the private Halifax Banking Company, and four in New Brunswick, while the Bank of British North America operated under Royal charter. But in spite of recent competitive development on the part of a few banks, the total number of branches was only a third of the number sometimes added nowadays in a single year; in 1868, there were 121 branches in Canada, and two<sup>8</sup> in British Columbia. All banks, except the British North America, had hitherto been confined to the bounds of the province which had given them their charters, and although this legal restriction was now removed, there was not yet any actual interprovincial expansion. Transactions were on a correspondingly modest scale. The total assets of all the banks of Canada at Confederation were little more than half the assets of the

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<sup>5</sup> A leaching barrel is used to turn wood ash into lye for use in soap-making.

<sup>6</sup> A test developed in 1890 for determining the fat content in milk.

<sup>7</sup> Confederation took place in 1867. British Columbia would not join until 1871.

<sup>8</sup> The Bank of British Columbia, and the Bank of British North America. Edward Mallandaine's Victoria *Directory* for 1868 also lists Wells, Fargo & Co. under "Banks".

Dominion Bank today, and their deposits were not one-third of the bank's present total.

Yet, while the number of branches was small and their business relatively restricted, the Canadian banking system had already attained its distinctive features. There had been, during the Union period, from 1841 to 1867, much criticism and much discussion, and bankers and legislators alike had been active in experiment. The establishment of the National banks in the United States during the Civil War<sup>9</sup> period, the unfortunate fate<sup>10</sup> of several Canadian banks, and the exigencies of provincial treasurers, eager to secure for the province a share of the fabled profits that came from note<sup>11</sup> circulation, had led to repeated, and, in part, successful attempts to introduce new features. After Confederation, when it became necessary to consolidate the banking regulations of the separate provinces, the debate continued. But by 1871, when Sir Francis Hincks<sup>12</sup> succeeded in piloting a general Bank Act through Parliament, most of the proposed innovations had been either tested and accepted or discarded, and banking in the Dominion had been firmly established on the lines worked out and approved by experience in the generation that preceded.

The free banking experiment of the fifties had proved unsatisfactory, and it was definitely determined that only corporations specially chartered by parliament could exercise full banking powers. There were still a great many private bankers, particularly in Ontario towns and villages, taking deposits and lending money, but they were not permitted to issue notes. For safety, a relatively large capital was required of all chartered banks; according to the Act of 1871, no new bank could begin business until \$500,000 had been bona fide subscribed and \$100,000 paid up, with an additional \$100,000 to be paid up within two years. The banks were banks of branches. They were permitted to issue notes on the general security of their assets, subject only to the restriction that the issue must not exceed the paid-up capital. The attempt in 1869 of the Minister of Finance, Hon. John Rose<sup>13</sup>, to force the adoption of the United States plan of a note issue based on government securities, had been defeated by the opposition of the western banks and the business community. More success had followed the endeavor of Sir Francis Hincks to carry out in some measure the policy, which Lord Sydenham<sup>14</sup> and Hon. A. T. Galt<sup>15</sup> had urged, of giving the State control of the note issue: the banks were now not allowed to issue notes for less than \$4, the Dominion Government issuing the \$1 and \$2 bills. While the banks were required to receive their own notes at part at any of their offices, in payment of debts,

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<sup>9</sup> The United States Civil War (1861 – 1865).

<sup>10</sup> The International Bank, Colonial Bank, Banque Jacques Cartier, Commercial Bank of the Midland District and the Bank of Upper Canada all failed prior to 1867. For more information, see Ferrier, R. T. (1913). *Bank Failures in Canada* [M. A. Thesis]. Canada: McMaster University.

<sup>11</sup> Canadian banks could issue their own notes until the establishment of the Bank of Canada in 1935

<sup>12</sup> Sir Francis Hincks (1807 – 1885) was Canada's Minister of Finance from 1869 to 1873.

<sup>13</sup> Sir John Rose (1820 – 1888) was Minister of Finance from 1867 to 1869, and was succeeded by Sir Francis Hincks.

<sup>14</sup> Possibly Charles Pulett Thomson (1799 – 1841), first governor of the Province of Canada.

<sup>15</sup> Sir Alexander Tilloch Galt (1817 – 1893), Minister of Finance from July to November, 1867.

they were not obliged to pay out specie or Dominion notes for them at any place other than the office where they were expressly made payable. Consequently there persisted what strikes us today as the anomaly of a bank's notes being subject to discount at its own branches. Notes had not yet been made a first lien on the bank's assets, and the redemption fund was still in the future, but the essential characteristics of a free and flexible asset-secured bank currency were firmly established.

Many restrictions designed to avert the troubles of the Union period were enforced. Proposals for a fixed reserve had not been pressed, but had left a trace in the requirement that the banks should hold from one-third to one-half of such cash reserve as they did maintain, in Dominion notes. No bank was to be allowed to pay more than 9 per cent. in dividends until its reserve fund, after the deduction of all bad debts, equaled 20 per cent. of the paid-up capital stock. The shareholders were subject to double liability.<sup>16</sup> Banks were not allowed to lend on the security of their own shares, nor to lend on real estate, though mortgages might be taken as additional security. The important power of lending on warehouse receipts<sup>17</sup>, which has been so characteristic a feature of later banking and so essential in the development of Canadian industry, was only partially accorded as yet. Every bank was required to make a monthly return to the government of its assets and liabilities, in more detailed form than in previous years.

#### [THE UPPER CANADA BANK FAILURE AND ITS CONSEQUENCES]

The banking situation in Ontario when The Dominion Bank was chartered was peculiar. Of the hundred and twenty-one bank branches in the Dominion in 1868, exactly one hundred were in Ontario. Yet there was not one long established bank with headquarters in Ontario. The two great western banks, the Bank of Upper Canada, with headquarters in Toronto, and the Commercial Bank, with headquarters in Kingston, had just gone into liquidation. The Bank of Upper Canada had played a great part in the life of the province, and had long been considered as safe as the Bank of England. Excessive and top-heavy dignity, inability during the railroad and real estate boom of the fifties to fulfil the banker's first duty of distinguishing between a bill and a mortgage, a too easy acceptance of accommodation paper, [and] a too intimate connection with governments and politicians, brought its downfall. It never recovered from the crisis of 1857,<sup>18</sup> and though the decay was gradual the collapse

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<sup>16</sup> If a corporation goes bankrupt, typically its shareholders are only responsible for its debts up to the amount of their investment in the corporation. Under double liability, they are liable for *double* the amount of their investment.

<sup>17</sup> "The annual cry of barley monopoly is being made to do duty again this year as it has during every year since money ceased to be made out of the crop. It is alleged that the Dominion bank controls the local market, the innuendo being that the price paid is less than the value warrants. [...] The fact seems to be that the Dominion bank is the only one here willing to make advances on warehouse receipts, and, as is the case with all lending corporations, the bank is a good servant but a hard master." Zig-Zag. (1887, July 28). ZIG-ZAG'S THOUGHTS. *The British Whig* (Kingston), p. 4.

<sup>18</sup> The Panic of 1857 was the first financial crisis in North America to spread at the speed of the telegraph. The panic was started by the failure of the Ohio Life Insurance and Trust Company in the summer of 1857.

came at last in 1866. The Commercial Bank had been more soundly managed and not as deeply involved in land speculation, but one unfortunate railway account had been carelessly handled. The inability of the bank to realize upon its too fixed assets, together with the suspicion created by the closing of the Bank of Upper Canada, compelled it to close its doors in October, 1867.

The fall of the Upper Canada and the Commercial left a gap in Ontario banking which alert business men were quick to seize upon once the first echoes of the disasters had ceased. There were already in the field some half dozen banks, with head offices outside the province: the Bank of Montreal, which had over twenty branches or agencies in Ontario in 1871; the Merchants Bank of Canada, which had been established in 1864, under Sir Hugh Allan's presidency, and had taken over the assets of the Commercial Bank, with some twenty-eight branches and agencies; the Molson Bank, founded under the Free Banking Act of 1854, but transferring later to the customary chartered basis, with four branches; the Quebec Bank, another solid institution, with four; the City Bank, of Montreal, with one branch, in Toronto; the Union Bank with one, in Ottawa, and the Bank of British North America, second only to the Bank of Montreal in capital, with nine Ontario branches.

Nor were Ontario banks lacking. The Bank of Toronto, established in 1855 by men closely in touch with the milling industry, had not sought to compete in the extension of branches and had only five in Ontario. The Ontario Bank, with headquarters in Bowmanville, and with nine branches elsewhere in Ontario, was then sound and prosperous, though some of its lumber accounts were soon to prove a source of danger. The Niagara District Bank, with only two offices, had passed through a checkered but honorable career, and continued developing slowly until in 1875 it entered upon a more vigorous existence by amalgamation with the newly-formed Imperial Bank of Canada. Much more spectacular had been the annals of the Royal Canadian Bank, which, though only founded in 1865, had over twenty branches in Ontario by 1869, when "bad management, bad debts, and bad blood which was soon to pass from the board-room to the street" forced it to close its doors, and, though it reopened a few months later, its days were numbered. The Canadian Bank of Commerce, destined to enjoy a more illustrious fortune, had been founded in 1867, and by 1871 had eighteen branches in Ontario, besides one in Montreal. In 1869, it absorbed the Gore Bank, which once had shared the leading position with the Bank of Upper Canada and the Commercial Bank, but had tied up its funds unwisely and had been hard-hit by withdrawals of deposits when its larger rivals failed.

Yet in the public eye none of these younger banks wholly filled the gap left by the disappearance of the old pillars of Upper Canada finance. The opening for new banks was the greater because of the outburst of prosperity which marked the years from 1869 to 1873. In the United States, the energy pent up during the Civil War was building railways east and west and opening the new lands beyond the Mississippi to eager thousands of homesteaders. Canada shared in the continent's prosperity. In five years its railway mileage doubled; even the ending of the reciprocity agreement<sup>19</sup> did not yet halt the flow of products southward, and the demand for lumber sent the

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<sup>19</sup> An early free trade agreement between the U.S. and Canada that lasted from 1854 to 1866.

prices of timber-limits soaring. Manufacturing expanded slowly. As yet, it was from trade rather than from production that the chief demand for credit came: the exporter of lumber or barley, the importer of English broadcloth or China tea, were the leading figures in business. The wholesale and retail trade, largely resting on small capital and long terms, absorbed a great part of the country's energy and offered a ready, if often dubious, outlet for banking funds.

It was therefore not wholly surprising that in the first seven years of Confederation, parliament issued charters for twenty-eight new banks – one in the session of 1868, two in 1869, four in 1871, ten in 1872, nine in 1873, and two in 1874. Not all were able to raise the minimum capital required, but nineteen finally got under way. Some of the older banks increased their capital, so that between the old and the new the total bank capital grew from thirty millions in 1869 to sixty-six in 1876 – a total, it may be noted, not again attained for a quarter century. Eight Ontario banks were chartered. Of these, three, the Bank of Agriculture, with head office in Hamilton, chartered in 1868, the Superior Bank of Canada, with head office in Toronto, in 1872, and the London and Canada Bank, in 1874, forfeited their charters for non-use. Five succeeded in securing the necessary subscribed capital, and began careers of varying fortunes: The Dominion Bank, with head office in Toronto, chartered in 1869; the St. Lawrence Bank, also of Toronto, and the Bank of Hamilton, with head office in Hamilton, chartered in 1872; the Imperial Bank of Canada, with head office in Toronto, chartered in 1873; and the Bank of Ottawa in 1874.

#### [FOUNDING THE DOMINION BANK]

It was early in 1869 that the first steps were taken to found The Dominion Bank. A group of men prominent in the business and professional life of the Toronto district determined to enter the banking field. It was two years before the bank began operations, and in this interval many changes occurred in the group.

On April 26, 1869, at a meeting held in the office of Ross, Lauder and Mulock, Toronto, it was decided to apply for a charter forthwith. Only four men are recorded in the minute book as being present at this meeting – John Worthington, James Crowther, James Holden and William Mulock – but the names of all who were most active at this stage and who were made provisional directors are given in the preamble of the charter which was granted two months later. The preamble, which has a further interest in its recital of the special purpose of the new undertaking, ran as follows:-

“Whereas John Worthington, James Crowther, John Crawford, M.P., the Honorable J. C. Aikens, Walter Sutherland Lee, Joseph Gould, the Honorable John Ross, James Holden and Aaron Ross, and others, have by their Petition prayed that they and their legal representatives might be incorporated for the purpose of establishing a Bank in the City of Toronto; and whereas it would be conducive to the general prosperity of that section of the country and greatly facilitate and promote the agricultural and commercial growth of the said locality; and whereas it is but just that the said persons and others who see fit to associate themselves should be incorporated for the said purpose: Therefore, Her Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows: . . .”

The first of the petitioners, John Worthington, was a Toronto building contractor, who was also owner of one of the largest quarries in the State of New York. James Crowther was a barrister, of the firm of Bell and Crowther, which William Mulock later joined. John Crawford was a North of Ireland man, a barrister and Bencher of Upper Canada, who had varied the practice of the law by fighting George Brown<sup>20</sup> in Toronto constituencies and by taking the foremost part in the promotion of the narrow-gauge Toronto and Nipissing Railway: he was shortly to become Ontario's third Lieutenant-Governor. The Honorable J. C. Aikens was also a North of Ireland man and a prominent barrister, who had been called to the Senate at Confederation and had become Secretary of State in Sir John Macdonald's first Dominion Ministry. The Honorable John Ross, the last of this trio of Ulster-born barristers and politicians, had played an active part in public and business life, as Solicitor-General and Speaker of the Upper House in the larger Canada, and for ten years as president of the Grand Trunk Railway. Mr. Ross was then head of the firm of Ross, Lauder and Mulock. Abram W. Lauder, his partner, and at that time a member of the provincial legislature, was also interested in the promotion of the bank. The William Mulock who was present at the initial meeting is now the Honorable Sir William Mulock, who, after a vigorous and successful career in public life, has become Chief Justice of the Exchequer of Ontario. Walter Sutherland Lee, Toronto-born, was a well-known financier, active in militia, hospital and school affairs, and for many years manager of the Western Canada Loan and Savings Company.

The other three petitioners were all residents of Ontario county, where a considerable development in railway building and in the timber trade was proceeding. Joseph Gould, who fought at Montgomery's Tavern<sup>21</sup> with Mackenzie's<sup>22</sup> forces, and later represented North Ontario in the legislature, was the outstanding business figure in Uxbridge and its vicinity, where his woolen mills, saw mills, and flour mills had done much to bring prosperity and plenty. James Holden, of Whitby, was the chief builder and later the managing director of the Whitby and Port Perry Railway, then under construction – to the outsider, merely a little lumber road joining Lake Ontario and the nearby Scugog chain of inland lakes, but, in Mr. Holden's eyes, the first link in a railway to Georgian Bay, a railway which in its turn was to be only the first link in a road to the Pacific. Aaron Ross, who was a director of the same railway, was a substantial merchant of Port Perry.

The provisional committee soon found that it was no easy task to secure the minimum subscription of \$400,000, with \$100,000 paid-up, required by their special charter. It was decided to place the subscription books in charge of the brokerage firm of Pellatt and Osler. In September, 1869, this firm undertook to secure the required

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<sup>20</sup> George Brown (1818 – 1880), briefly Premier of Canada West, Senator for Lambton, Ontario from 1873 to 1880, and founder of the Toronto *Globe* newspaper. George Brown University is named after him.

<sup>21</sup> The Battle of Montgomery's Tavern, on December 7, 1837, was part of the Upper Canada Rebellion.

<sup>22</sup> William Lyon Mackenzie (1795 – 1861). Not to be confused with his famous grandson, prime minister William Lyon Mackenzie King.



subscriptions, for a commission of \$2,000 in cash and \$2,000 in stock, if successful, and of nothing, if the whole amount were not raised. Two months later, in order to expedite matters, it was decided to set a definite time limit, January 15, 1870, to this agreement, and it was also provided that Messrs. Pellatt and Osler might secure the assistance of other brokers, receiving, if successful, an extra one-half of one per cent. on such subscriptions.

In the endeavor to enlist a substantial capital interest, negotiations were carried on for a time with the chief stockholders in the Royal Canadian Bank, with a view to its absorption. The Royal Canadian had begun its checkered career in 1865. Its founders were too eager to build fast to build soundly. In the first year, fifteen branches had been established, or more than any but two of the older banks had built up in their whole career. A policy of unconsidered expansion and indiscriminate lending soon set rumor going; the directors began quarreling first in private and later in public, and in spite of aid from other banks and the deposit of provincial funds by John Sandfield Macdonald's government, the bank was forced to close its doors on May 21, 1869. Investigation showed that the bank was still solvent, if time could be secured to realize its assets. An act of parliament was obtained, extending the time set by general statute for re-opening, and permitting amalgamation with any other bank. New directors were chosen, a new president, Hon. John Crawford, and a new cashier, Thomas McCracken. William Thomson, of Toronto, was elected vice-president, and James McGee, of King, a lumberman with large interests north of Toronto, became a member of the new board. Mr. Crawford had been one of the original promoters of The Dominion Bank. With Mr. Thomson and Mr. McGee, he was active in attending meetings of the provisional directors of The Dominion Bank throughout the fall of 1869, and in endeavoring to save the older bank by uniting it with a new and unsullied institution. It was not found possible to come to terms, and the three men most interested in the project henceforth confined their activities to the vain endeavor to revive the Royal Canadian, which maintained a flickering existence until 1876.

A new group of Toronto capitalists now came upon the scene. Much time had been lost in considering the proposed amalgamation, and the subscription of the necessary capital was proceeding very slowly. The new men brought to the task the personal weight and the financial experience required to convince investors of the soundness of the venture.

A minute of November 18, 1870, records a motion made by John Worthington and James Holden, "That Messrs. James Austin, Frank Smith, Peleg Howland, Samuel Nordheimer, and J. H. Mead shall be and are hereby declared associates with the Provisional Directors of The Dominion Bank and shall for all purposes, acts, matters and things connected with the organization of said Bank, so far as is lawful, be in the same position as if named as Provisional Directors of the said Bank in the Act of Parliament of the Dominion of Canada incorporating the same." At a meeting, two months earlier, attended by the provisional directors and a few of the original promoters, it had been moved "That the meeting pledge itself to support the following gentlemen for the following positions and to use all their influence individually to

have them confirmed therein: Manager, Mr. Sache; President, Mr. Austin; Vice-President, Hon. John Ross; Directors, Messrs. Worthington, Holden, Crowther, Nordheimer, P. Howland.”

James Austin, the future president of The Dominion Bank, was a well-known Toronto financier. He had come to Canada with his family from the North of Ireland in 1836, and when the father took up a farm in Trafalgar township, the boy was left in Toronto as an apprentice in the printing business with William Lyon Mackenzie. In the troubled years that followed the young apprentice found that life in a printing office which was the center of an insurrection movement was not all “pi”; like his employer, he spent several years, after the [Upper Canada] rebellion, in the United States. Returning to Toronto, he became a member of the firm of Foy and Austin, wholesale and retail grocers, and later established a brokerage business. He was one of the chief holders of stock in the Whitby and Port Perry Railway, and had an interest in many other local enterprises, notably in the Consumers’ Gas Company of Toronto.

Frank Smith was an intimate friend of James Austin. Born in County Armagh in 1822, he had settled with his parents near Toronto in 1832. In 1849 Mr. Austin aided him in starting in the grocery business in London, Ontario. Here he became a prominent figure, serving some years as alderman and as mayor. Then in 1866 he came to Toronto, where Mr. Austin assisted him in securing New York connections for the wholesale grocery, wines and liquor business he established. His activities and his influence steadily widened. In later years, he became the controlling owner of the Toronto Street Railway, and found scope for another of his interests as a member of the Dominion Senate and minister without portfolio in the administration of Sir John A. Macdonald. He was for many years one of the most sagacious and most influential counsellors alike in the financial and in the political world of Canada, and in such crises as faced the Canadian Pacific Railway during the construction period, he played a decisive part.

Peleg Howland, who was also prominent in the second group of founders of The Dominion Bank, was a member of a family which had come from the United States between 1830 and 1840 and had been active for thirty years in the development of the Toronto district, particularly in the milling industry. Three brothers were closely connected with Ontario banking development. William Howland, or Sir William, as he had then become, after a political career during which he was for a short time Minister of Finance for the province, succeeded Hon. John Simpson as president of the Ontario Bank, and H. S. Howland became first president of the Imperial Bank. Peleg Howland was a member of the firm of P. and F. A. Howland, of Lambton Mills and Toronto. Samuel Nordheimer was the surviving partner in a Toronto firm which had been [a] pioneer in establishing the piano industry in Canada. J. H. Mead was a fur merchant, with a store on King St. East, Toronto.

James Austin and Frank Smith, who were henceforth to play the foremost part in upbuilding The Dominion Bank, had been led to link their fortunes with it as the result of a series of differences of opinion as to Canadian banking policy. When in 1866, the gold situation in New York and the dubious position of trade in Canada West, caused E. H. King, the Napoleonic manager of the Bank of Montreal, to

withdraw funds from the province, the local director of the Bank of Montreal in Toronto, Hon. William McMaster, and the manager of the Toronto branch, Archibald Greer, vigorously dissented from this policy, and finally withdrew. Taking up the charter of the Bank of Canada,<sup>23</sup> issued in 1858, and having it amended in name and in more material points to suit their larger plans, they launched the Canadian Bank of Commerce in 1867, Mr. McMaster serving as its first president and Mr. Greer becoming the cashier.

At the instance of Mr. McMaster, Mr. Austin, and with him Mr. Smith, had taken stock in the Canadian Bank of Commerce. Mr. Austin was elected one of the original seven directors. From the outset, the bank was highly successful, but its rapid success and the masterful ways of its president soon led to a clash of opinion. Mr. Austin doubted the wisdom of the policy of rapid expansion of capital from \$1,000,000 to \$4,000,000, contending that not sufficient business was in sight to employ this sum profitably. Mr. McMaster had his way and Mr. Austin retired as director in 1870.

Mr. Holden was quick to see the opportunity. He at once went to Mr. Austin and asked him to join the board of the new bank. Mr. Austin agreed, and with him came Frank Smith and Mr. Mead, who had been shareholders in the Commerce. His adherence put new life into the enterprise. From that time, Sir William Mulock has recorded, "things went ahead." The stock list closed the next day, and the moment the stock books closed, when a little over half a million was subscribed, the stock rose to a premium of nine and never went below that figure.

One of the first tasks of the provisional management was to secure a Cashier, or, to use the title adopted later, a General Manager. In November, 1869, the provisional directors had put themselves on record to the effect that "so far as the Provisional Directors and Promoters of The Dominion Bank can bind or influence the regular board hereafter to be elected, a gentleman of first-class banking attainments and possessing the confidence of the public shall be selected as cashier." In view of the negotiations with the Royal Canadian group, it was not surprising that the provisional directors turned first to the cashier of that bank, Thomas McCracken. Mr. McCracken was sufficiently sanguine of the prospects of the Royal Canadian to determine to remain with it; he continued to act as its cashier until the collapse, when he became head of the lumber firm of McCracken, Gall and Company. The directors next offered the post to William Sache, manager of the Royal Canadian Bank, Montreal, but he also preferred what seemed a certainty to a venture into the unknown. A third offer, this time to J. N. Travers, manager of the Bank of Montreal in Brockville, met with no more favorable response. The fourth attempt proved more successful. In November, 1870, Mr. Austin was authorized to make terms with Robert Henry Bethune, manager of the Quebec Bank in Toronto, with fifteen years' experience in banking to his credit. Mr. Bethune agreed to take the post, at an initial salary of \$4,000 a year.

With the adherence of the new shareholders, the necessary capital was now authorized. A call of 25 per cent. was made. It was significant of the change in control

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<sup>23</sup> Not the central bank of the same name, which would only be established in 1935.

that resolutions were passed in November, 1870, rescinding the earlier decision to deposit moneys collected in the Royal Canadian Bank, and appointing Mr. Austin and Mr. Howland trustees to hold the receipts provisionally. A week later they reported that arrangements had been made with the Bank of Toronto to receive the money paid in on the first call, interest at 4 per cent. per annum being allowed. The same committee, with Mr. Bethune, made the necessary arrangements for an office and for engraving notes. A temporary office was secured in the store of E. Harris, No. 40 King Street East, at a rental of \$1,100 per annum, Mr. Harris retaining the second floor, cellar and end room for three months.

The provisional directors considered carefully the location of their branches. In October, 1870, it was agreed to open agencies in Hamilton, London, Whitby and Fergus, on condition that subscriptions of stock to the amount of \$50,000 were obtained in each of the former two places, and of \$25,000 in each of the latter. This was a method of securing stock which had been introduced by the Royal Canadian Bank, and while there was some danger of abuse in the practice, it ensured a local interest in the bank's success. In Whitby alone was the set minimum attained. A little later stock books were opened at Oshawa and Uxbridge, both of which towns were within the range of influence of the Ontario County directors.

#### [1871 AND THE START OF BUSINESS]

On January 10, 1871, all the preliminary arrangements having been concluded, the first general meeting of shareholders was held at the Mechanics Institute, Toronto. The subscribers present were:-

“Messrs. James Austin, Peleg Howland, James Holden, John Worthington, Frank Smith, Joseph H. Mead, James Crowther, E. Blong, H. Blong, A. T. Button, William Brown, William Croft, D. G. Carnegie, N. Dickey, John Eastwood, George Flint, John Garvin, D. Galbraith, J. Herson, Mr. Hunter (of Hunter, Rose & Co.), P. Hughes, John O. Heward, H. I. Johnson, W. Kesterman, A. W. Lauder, John Leckie, A. Lepper, Walter S. Lee, James Lawson, James Michie, James Moffat, James Maclennan, William Mulock, John McBean, D. McGee, Thomas McCrosson, E. B. Osler, Alexander Purse, Henry Pellatt, Rev. S. Rose, John Strathy, James Shields, J. L. Smith, W. B. Scarth, James Stock, Robert Stewart, James Scott, W. E. Snider, John Severn, G. L. Iazard, J. M. Trout, A. Thornton Todd, James Tilt, Henry Taylor, John Wickson, William Cawthra and James G. Worts.”

Mr. Austin was appointed chairman, and Mr. Mulock secretary. The chairman reported the proceedings of the provisional board. The election of directors followed. Henry Pellatt and Walter S. Lee, as scrutineers, reported that the following had been duly elected, with 3,687 votes each: James Austin, James Crowther, Peleg Howland, James Holden, Joseph H. Mead, Frank Smith and John Worthington. Before the election the chairman read a letter from Mr. Nordheimer, requesting that his name be withdrawn from consideration; in view of frequent absences and the pressure of personal affairs it would not be possible to take the active interest in the management he would feel it his duty to give. A little later, it may be noted here, Mr. Nordheimer became president of the Federal Bank. Hon. John Ross, who was to have become vice-

president of The Dominion Bank, was seriously ill and died within the course of the year.

At a meeting of the directors, immediately following, James Austin was elected president, and Peleg Howland, vice-president, while R. H. Bethune was formally appointed cashier.

The first general business which required attention was the revision of the bank's charter. The charter granted in 1869 had set the capital of the bank at \$1,000,000, divided into twenty thousand shares of \$50 each. Operations were not to begin before \$400,000 was subscribed and \$100,000 paid, and the whole stock was to be paid up in four years. Notes were payable in specie at the place of issue and not elsewhere. Notes under \$4 were not to exceed one-fifth of the paid-up capital. The total note issue was not to exceed the sum of the paid-up capital plus the deposits. One-tenth of the paid-up capital was to be invested in stock or debentures of the Dominion, or of the former Province, of Canada. In view of recent developments it is interesting to note that the bank was forbidden "at any time whatever, directly or indirectly, to advance or lend to or for the use of or on account of any foreign Prince, Power, or State, any sum or sums of money or any securities for money."

There were two reasons for seeking a revision of this charter. One was that during the session of 1870 an Act respecting Banks and Banking had been passed setting forth certain uniform provisions which were to be included in all charters granted thereafter, and which might be adopted as amendments to the charter of any existing bank. The new measure increased the amount of capital to be paid up in advance, prohibited the issue of notes under four dollars, required the bank to redeem its notes at any branch, if tendered in payment of debts to the bank, provided that from one-third to one-half of the cash reserves should be held in Dominion notes, and forbade the payment of more than an eight per cent. dividend before a twenty per cent. reserve fund had been accumulated. It was further provided that any existing bank accepting these amendments in a revised and extended charter, should in return be exempted from the tax of one per cent. imposed on the average amount of its notes in circulation. The other motive for seeking an amendment was the desire to increase the authorized capital from \$1,000,000 to \$2,000,000. In view of the reasons for the new president's withdrawal from his former banking affiliations, this might appear inconsistent, but the unusual prosperity of Canada in 1871, and the rapid growth of business seemed to call for greatly increased accommodation. Accordingly the necessary shareholders' and directors' meetings were held in January, 1871, and the petitions forwarded to the Minister of Finance.

In the session of 1871 the new Minister of Finance, Sir Francis Hincks, determined to consolidate in a single measure all the existing regulations as to banks and banking which it was desirable to retain. The Bank Act of 1871 which resulted, became the first general banking law of the Dominion. It did not introduce any important changes from the policy adopted in 1870, but it did provide for the amendment of the charters of existing banks in conformity with the general rules, and for the extension of their term until 1881. It therefore became unnecessary to seek special amendments for The Dominion Bank by legislation or Letters Patent. On

further consideration, it was also decided not to press the proposal for doubling the authorized capital.

Another preliminary question was the possibility of amalgamation with the Niagara District Bank, which had its head office at St. Catharines, with branches at Ingersoll and Port Colborne. At the first directors' meeting after the organization, it was moved by John Worthington, seconded by James Holden, and carried, that James Austin, Peleg Howland and R. H. Bethune be appointed a committee to investigate the Niagara District Bank with a view to amalgamation. Though this St. Catharine's institution was in much sounder shape than the Royal Canadian Bank, the proposal of amalgamation did not go any further. The Dominion Bank continued to build up its own business from the foundations, and never again<sup>24</sup> in its history did it seek to absorb or unite with any other bank.

In the first year's operations, branches were opened in Whitby, Oshawa, Orillia and Uxbridge, as well as in Toronto. For the first time in Canadian banking annals, the directors decided to open a city branch in addition to the head office. An office was opened, mainly for savings, on Queen Street West, Toronto, near the corner of Peter Street, and was later transferred to the corner of Esther Street, now Augusta Avenue. The credit for this innovation lay with Mr. Austin. The Dominion Bank developed the practice of establishing city branches, to the great convenience of the public. Its policy was soon adopted by other banks and became an accepted feature of Canadian banking.

In the character of the business done, there was little room for innovation. There were comparatively few manufacturing plants to finance, and still less need for assisting company flotations or lending money on call. Exporters of the country's natural products, importers of dry goods and groceries, [and] wholesale and retail merchants, were the chief seekers of credit. The exportation of barley and lumber to the United States was a particularly important source of banking business. Yet it did not follow that, because banking was restricted to a relatively narrow and local field, there was not room for serious difficulties to arise. Accommodation bills were common; thinly disguised lending on real estate had been a feature of banking in the earlier days of the province, while the long credit terms given by importers and wholesalers to retailers, and the excessive number of merchants working on small capital offered many pitfalls for the unwary banker. So long as times were prosperous the testing might not come, but given a few years' depression, many a weak spot in banking practice stood revealed. Before 1880 had passed, two banks had been forced to make drastic cuts in capital, two had found a refuge in amalgamations, two had gone into voluntary liquidation, and six had suspended, three of them to resume a precarious existence.

It is therefore no small tribute to the business acumen and the prudent management of the directors and officers of The Dominion Bank that never in the trying years that were to come, was it involved in financial worries of any moment. The eminent historian of the Canadian banking system has recorded that "from the first the management of the bank was recognized as representing an exceptional

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<sup>24</sup> It would merge with the Toronto Bank in 1955.

combination of prudence and enterprise, and its stock soon stood in the first rank of Canadian banks, a position which it has always maintained.”<sup>25</sup> In the first year \$50,000, partly derived from a premium on stock, was carried to rest account. Every year that followed, in lean days or in fat years, an appropriation to rest account was made, nor was it ever found necessary to withdraw a dollar from reserve to meet losses. A dividend at the rate of eight per cent. per annum was paid in 1871; the dividend was never passed, and never fell below this rate. In the hard years that followed, the wisdom of keeping the capital down to a modest sum was thus amply demonstrated.

#### [WEATHERING THE FINANCIAL CRISIS OF 1873]

The bank had only two years to consolidate its position when the financial crisis of 1873 developed, followed by nearly seven years of deep depression. In Canada, financial panic was much less acute than in the United States, and there was much less shutting down of mill and factory, but the lumber trade<sup>26</sup> was hard hit and traders’ profits vanished; in one year one out of every twenty-eight merchants in Canada went bankrupt, and in the year that followed one out of twenty-nine. Bank after bank, particularly in Quebec, was forced to cut its capital or close its doors, or at least to draw heavily on its accumulated reserves. In 1879 Sir Francis Hincks estimated the shortage of the market value of bank shares in five years at \$25,000,000. The Dominion Bank remained unshaken. In 1876 the directors did report that “owing to the depressed condition of almost all branches of trade, greater caution than usual has been necessary, and it is gratifying to conclude the year adding a considerable sum to Rest.” Three years later they reported that nearly \$300,000 had been invested in government securities; while the rate of interest was low, yet “the amount will be without risk and always available.”

Several changes occurred in the directorate in these trying years. In 1873 John Worthington died, and in his stead John Severn, a brewer of Yorkville, was elected to the board. Mr. Severn himself died in 1880, and was succeeded by James Scott, a prominent Toronto merchant. On the death of Joseph H. Mead, in 1879, Edward Leadlay, a Toronto wool merchant, joined the directorate. No expansion took place other than the opening of branches at Bowmanville, Cobourg, Brampton, and Napanee.

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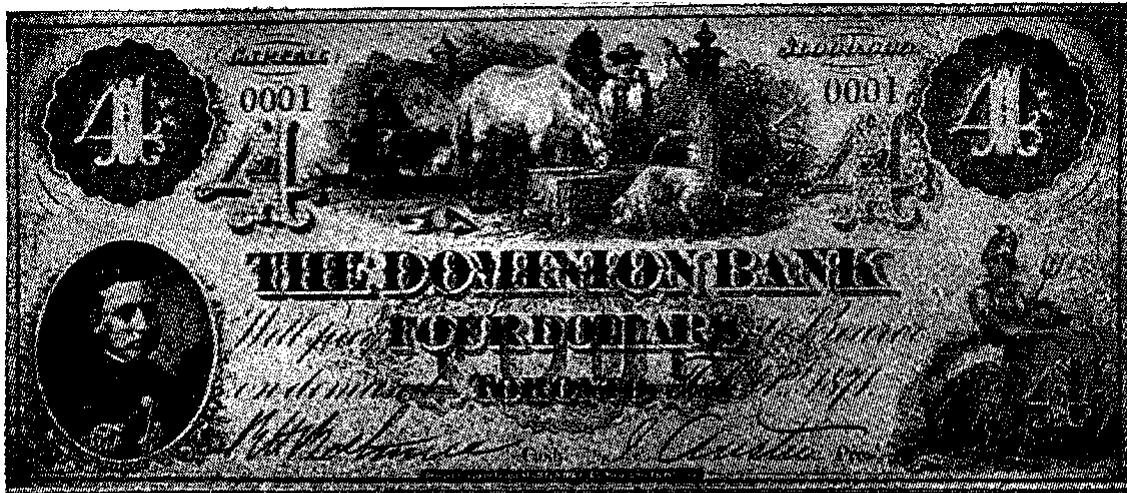
<sup>25</sup> Dr. Adam Shortt, in the *Journal of the Canadian Bankers’ Association*, vol. XIII, p. 276. [Note in the original.]

<sup>26</sup> “All who were interested in the sale of timber in this market [Quebec] last spring will long remember it as one of the dullest on record, and at one time it seemed as if it should be impossible to work off the large stock on hand for sale. The shipping houses were, generally speaking, supplied for, owing to the over-stocked markets in Great Britain and the falling off in the consumption caused by the great depression in trade, and also the competition in pitch pine and other woods, the Quebec merchants found it impossible to dispose of their stocks, and were not inclined to purchase except at ruinously low rates.” J, Bell, Forsyth & Co. (1879, December 19). QUEBEC LUMBER TRADE. *Montreal Gazette*, p. 1.

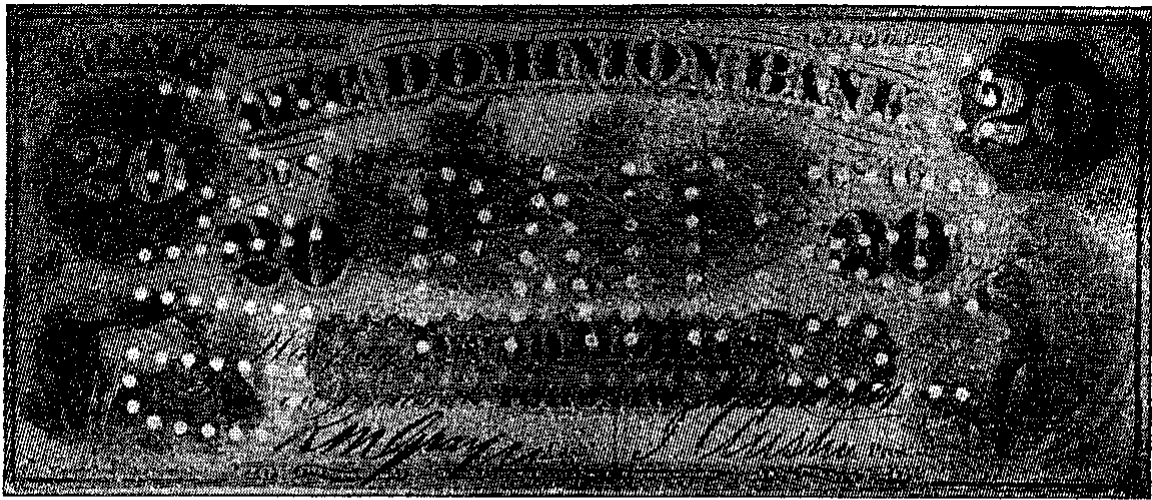


**ORIGINAL HEAD OFFICE  
40 KING STREET EAST, TORONTO  
OPENED 1ST FEBRUARY, 1871**





SPECIMENS OF ORIGINAL NOTES ISSUED BY THE BANK



SPECIMENS OF ORIGINAL NOTES ISSUED BY THE BANK

**FIRST GENERAL**

Term ending

**ASSETS**

By Specie . . . . .	\$	90,830.49
“ Provincial or Dominion Notes . . . . .		73,055.00
“ Notes and Cheques of other Banks . . . . .		75,351.39
“ Balances due from other Banks in Canada . . . . .		127,048.92
“ Balances due from other Banks or Agents not in Canada . . . . .		41,984.85
		<hr/>
Total Assets immediately available . . . . .	\$	408,270.65
By Loans, Discounts or Advances on Current Ac- count to Corporations . . . . .		14,000.00
“ Notes and Bills Discounted and Current . . . . .		2,075,612.70
“ Notes and Bills Discounted, Overdue and not specially secured . . . . .		14,420.90
“ Overdue Debts secured by mortgages or other deed on real estate, or by deposit of or lien on stock or other securities . . . . .		16,333.57
“ Bank Premises . . . . .		12,946.07

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**\$2,541,583.89**

# STATEMENT

April 22, 1872

## LIABILITIES

To Notes in Circulation . . . . .	\$ 540,508.00
“ Government Deposits payable on demand . . . . .	26,000.00
“ Other Deposits payable on demand . . . . .	513,317.78
“ Government Deposits payable after notice or on a fixed day . . . . .	100,000.00
“ Other Deposits payable after notice or on a fixed day . . . . .	417,832.82
Due to other Banks in Canada . . . . .	14,209.73
Due to other Banks or Agents, not in Canada . . . . .	4,779.96
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Total Liabilities to the Public . . . . .	\$ 1,616,648.29
Capital . . . . .	834,544.00
Rest . . . . .	50,000.00
Reserved for Accrued Interest Due, etc. . . . .	7,456.72
Dividends Unclaimed . . . . .	679.08
Dividend No. 2, payable 1st May . . . . .	31,842.03
Balance of Profit and Loss Account carried forward to next year . . . . .	413.77
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	\$2,541,583.89

JAMES AUSTIN,  
*President*

R. H. BETHUNE,  
*Cashier*

### [NEW PROSPERITY IN THE 1880s]

With the revival of prosperity in the United States, in 1880, and the beginning of the activities of the Canadian Pacific Railway, the pace of business and banking in Canada quickened once more. Thirteen bank charters were issued between 1882 and 1886, though only five of the new banks began business – the Commercial of Winnipeg, the Bank of London in Canada, the Western of Oshawa, and the Central and the Traders in Toronto. There was much agitation for local and farm mortgage banks and for freer issue of paper currency, but the only important changes in the banking system consisted in the amendments to the Bank Act of 1880, making notes a first lien on assets, fixing \$5 as the minimum denomination for bank-notes, and increasing to forty per cent. the proportion of reserve to be held in Dominion Government notes.

The Dominion Bank shared fully in the new prosperity. Branches were opened in Belleville, Lindsay, and in three sections of Toronto. Increasingly large sums were added to rest. In 1882 it was determined to increase the capital by \$500,000; the new stock was issued at 150, the total premium being carried to rest account. In the same year, the half-yearly dividend was raised to five per cent., while in 1888 a bonus of one per cent. was added. In 1887 a guarantee and a pension fund for officers was established by an initial vote of \$5,000. The Dominion Bank was the second bank in Canada to recognize the necessity of providing a retiring allowance for members of its staff. In 1899 the fund became solely a pension fund. Thanks to its early establishment it has now grown to very substantial proportions.

On the death of James Holden in 1882, the bank was fortunate in securing the services of Edmund B. Osler, “a gentleman,” as the report of that year declared, “well known in financial circles as a successful business man well qualified for the post.” Even before he joined the board, Mr. Osler had been in close touch with the management, and his judgment had frequently been called upon. In 1882 also occurred the death of Peleg Howland. The Hon. Frank Smith was elected vice-president to succeed him and Wilmot D. Matthews, a prominent grain merchant of Toronto, became a director. Upon the retirement of James Crowther in 1884, William Ince, of the long-established firm of Perkins, Ince and Company, was added to the board.

At the beginning of this period, and in fact before the depression of the seventies had wholly passed, it had been determined to secure more adequate head office quarters. The bank was still using the Harris store on King Street East. In 1877, tenders were called for the erection of a building on the southwest corner of King and Yonge Streets.<sup>27</sup> Fifty years earlier, in 1826, this plot of ground had been

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<sup>27</sup> NOTICE CALLING FOR TENDERS / Toronto, 28th August, 1877. / The Dominion Bank intend erecting a Banking House on the corner of King and Yonge Streets, Toronto at a cost not exceeding \$40,000, and are prepared to receive designs for the proposed work. / For information as to the dimensions of the lot and requirements of the Bank, apply to the undersigned. / The Bank shall not be bound to accept or pay for any designs submitted, but if any design is accepted, the author of it will be appointed Architect for the work, on condition that the total allowance for his services until the completion of the work shall not exceed \$1,500. / No design will be received after the 15th October, 1877. / (sgd.) JAMES AUSTIN. / President. [Note in the original. The ‘/’ indicate line breaks.]

described in an official document as “a meadow with a very offensive pool of water thereon,” and had been sold for £750. It was now becoming the business and financial center of the city. The building was completed in 1879, and further enlarged in 1884. In spite of what today appears its extraordinarily low cost, the new structure served its purpose admirably for many years, and was long considered one of the outstanding buildings of the city.

It was still optional with any bank to redeem its notes at par or at a discount, at any office other than that of issue, but competition and a sense of obligation were leading the larger banks to agree to par redemption throughout the Dominion. In the directors’ report of 1889 it is noted that arrangements had been made with the Bank of British North America in British Columbia, the Imperial Bank in Manitoba and the North-West Territories, and with the Merchants Bank of Halifax in Nova Scotia, new Brunswick, and Prince Edward Island, for the redemption of The Dominion Bank’s notes at par.

At the twenty-first annual meeting, in 1892, the directors noted with pride that deposits had grown from one million dollars in 1872 to nine million in 1892, and that the bank had paid a dividend of 8 per cent. from the day it opened until April 30, 1882, 10 per cent. until April 30, 1887, and, including a bonus of one per cent., 11 per cent. from that time.

#### [REGULARITY THROUGH FINANCIAL UPHEAVALS]

In the reaction which followed the completion of the construction work on the Canadian Pacific Railway and the collapse of the Manitoba boom, many banks had found the going difficult. Three of the five banks which had pioneered in the Winnipeg field found it necessary to dismiss their local managers; six banks made heavy reductions in capital to meet losses, and six others, the Exchange Bank, of Montreal, the Maritime Bank, of St. John, the Pictou Bank, of Pictou, the Bank of London in Canada, [and] the Central and Federal Banks, of Toronto, paid the penalty of loose banking practice by going into liquidation. It was not surprising that in the face of these failures many drastic proposals were put forward when the revision of the Bank Act came round once more in 1890. A Bank Circulation Redemption Fund was established, more stringent provisions were enacted as to the initial subscription of capital, and all banks were required to do what The Dominion and others had already done, arrange for the acceptance of their notes at par throughout Canada. The power of lending on warehouse receipts was extended, and proposals for a fixed minimum reserve were defeated.

Throughout these financial upheavals and legislative changes, The Dominion Bank had continued with monotonous, but very comforting, regularity to pay substantial dividends and make an annual addition to rest account. Even the bleak depression which came upon the world in the early nineties with the steady fall in prices of farm products and the Baring<sup>28</sup> failure, did not materially impede the bank’s progress. By 1894 the reserve had been increased to \$1,500,000, thus equaling the

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<sup>28</sup> The London-based Baring bank nearly failed in 1890-1891 (the same bank would fail a century later). It was bailed out by an international “Guarantee Fund” that guaranteed its debts, but the echoes of the near-miss led to an international financial crisis and recession.

paid-up capital. It was determined, now that so strong a position had been attained, to increase the dividend to twelve per cent. For the convenience of small shareholders, it was arranged to pay the dividend quarterly instead of half-yearly. An experiment in this direction had been made by the Exchange Bank in the early eighties, but it had ended with the bank itself. The revival of the practice by The Dominion Bank under happier auspices proved so advantageous to shareholders that it rapidly became the custom.

The middle nineties took heavy toll of the men who had been most active in bringing the bank to this height of success. In 1895 came the death of Mr. Bethune, under whose skilled and prudent direction the bank had flourished for twenty-three years. He was succeeded in the general managership – this title had been substituted for that of cashier in 1892 – by R. D. Gamble, who had been in the service of the bank from the beginning, and had of late years been manager of the Toronto branch. Mr. Gamble was succeeded in the local branch by T. G. Brough, H. J. Bethune taking Mr. Brough's former post as inspector. A year later James Scott died, and was succeeded on the board by the well-known Toronto wholesale merchant, W. R. Brock, who, aside from his own successful business, had always taken an active and prominent part in public affairs. In February, 1897, the man who was the real founder of the bank passed away. For twenty-five years James Austin had devoted his best efforts to the upbuilding of The Dominion Bank. His shrewd and solid judgment, his high standards of honor, and his keen and unflinching attention to every side of the bank's activities were largely to thank for the unbroken success of the institution to which he had given his heart. He was succeeded in the presidency by Sir Frank Smith, while Edmund B. Osler became vice-president and Albert W. Austin, son of the late president, was elected a director.

#### [EXPANDING BEYOND ONTARIO]

Until this time, The Dominion Bank had been wholly an Ontario institution. Its seventeen branches stretched between Seaforth in the west of the province and Napanee in the east, a prosperous, stable and fairly homogeneous community. Now circumstances were making it essential to seek a wider field. The expansion of the bank's own business and the evidences of coming development in the western provinces warranted the establishment of new branches east and west. In June, 1897, an office was opened in Winnipeg, under the management of F. L. Patton, and in February, 1898, a branch in Montreal, with C. A. Bogert as manager. The men chosen for these strategic posts, as it happened, were both Eastern Ontario men, and both sons of Anglican clergymen. Mr. Bogert, a son of Archdeacon Bogert, then resident at Napanee, had joined The Dominion's staff as a junior in 1881; twelve years later he was assistant inspector and by 1895 assistant manager of the Toronto office. Mr. Patton, a son of Archdeacon Patton of Belleville, had served with the Federal Bank and the Union Bank of Canada before beginning his long term with The Dominion.

Mr. Gamble's term as general manager was brief; he died in 1899, after nearly five years as chief executive. His cautious and tenacious judgment enabled him to direct the administration successfully through a very trying period. In his stead, T. G. Brough was appointed general manager. Mr. Brough, who was a son of Seeker

Brough, county judge of Huron, upon completing a term at Model School, had entered the offices of a New York firm of wholesale merchants, and had later joined the St. Lawrence Bank in Toronto. In 1875 he became clerk in The Dominion Bank; ten years later he was appointed manager of the Market branch, Toronto, in 1892, inspector, and in 1895, manager of the Toronto branch.

In 1899 Edward Leadlay died and was succeeded on the board by Timothy Eaton, of Toronto, pioneer and foremost practitioner in Canadian merchandising. In 1901 the bank suffered the loss of its president. Sir Frank Smith had been a man of many interests, but to none had he given as freely of his time and thought and his forceful counsel as to The Dominion Bank. Fortunately the bank was able to secure as its new president another outstanding figure in Canadian finance. Edmund Boyd Osler, a son of the rectory, had begun his business career as a clerk in the old Bank of Upper Canada, and had later become a broker and financial agent, first as member of the firm of Pellatt and Osler, and later in the firm of Osler and Hammond. He had taken an active part in promoting railway development in Ontario, and had been a member of the group of men who had carried the Canadian Pacific Railway through to success. His wide financial interests and his many public-spirited activities had made him one of Canada's foremost citizens, and had fitted him pre-eminently to maintain the traditions established by Mr. Austin and Sir Frank Smith. W. D. Matthews had succeeded to the vice-presidency, and J. J. Foy, K.C., was elected to the vacant seat on the board.

The new general manager held office little longer than his predecessor. In May, 1906 news was received of the sudden death of Mr. Brough while on a visit to England. He was only fifty-three when the end came. His quick but sound judgment, his generous impulses and his reserved but kindly demeanor had made him a very popular and very highly esteemed official. C. A. Bogert, who had gained useful experience in the management of the Montreal branch, was appointed general manager of the bank he had joined on a salary of \$250, twenty-five years before.

The bank was now well advanced upon a new stage of its development. Since the beginning of the century, Canadian business life had been undergoing a remarkable transformation. Canada's hour at last had struck. The west was again being opened; immigrants were pouring in by the hundreds of thousands; a thousand miles of railway were being built every year; new towns were springing up on the prairie every week; new factories or extensions were being built in the east; capital was flowing in from overseas in unwonted abundance. New standards of achievement, a new self-confidence, marked public as well as private relations. In this expansion the banks had their full share, keeping pace with the westward growth, finding funds for farm and factory and shop, and weaving the strands of international finance. The Dominion Bank, without abandoning its characteristic policy of concentrating on a known field, had its full part in the work of national development and in its fruits.

#### [INTO THE TWENTIETH CENTURY]

The years between 1900 and 1913 saw the most rapid expansion in branch offices in the bank's history. It had required fifteen years, from 1885 to 1900, to double



the number of branches (rising from 11 to 22); in the five years following 1900 the number doubled, and doubled again in the next five, while by 1915, a total of 95 branches had been attained. In 1902 four branches were opened in Manitoba and one in the Territories; in 1906 Calgary, Edmonton, and Regina branches were opened, and in 1907 the establishment of a branch in Vancouver completed the chain between the two great seaports of the East and West. The increasing importance of business relations with the United Kingdom led to the opening on July 1, 1911, of a branch in London, England, under the management of E. W. Hamber. Yet with all this growth in new fields, the old territory, and particularly western Ontario, was not neglected.

The increased range of the bank's activities called for fresh capital. In the annual report in 1900 it was observed that the bank had found itself at some disadvantage owing to the limitation of its note-issue. It was true that the ability in the past to pay relatively large dividends had rested in some measure on the small capital on which business was operated, but an increase had now become imperative. In 1900, an issue of \$1,000,000 and in 1902 an issue of \$500,000 new stock was made, in both cases at a premium of 100 per cent., and in 1907 an issue of \$1,000,000 at a premium of 110 per cent. In 1910 the authorized capital was increased from \$5,000,000 to \$10,000,000 and of this sum \$1,000,000 was issued in 1911 and again in 1913 at 100 per cent. premium. As a result of these additions, the paid-up capital reached the total of \$6,000,000 by 1914, while the reserve fund was a million more. As the president noted in 1913, the greater part of this reserve fund had been contributed by the shareholders themselves, in the form of premiums on new stock; it was not money from the accumulation of profits. Assets grew in proportion, doubling from 1900 to 1905, and reaching \$80,000,000 by 1913; deposits and net profits followed the same lines of growth.

In 1906, the dividend, which had been reduced from 12 to 10 per cent. in 1900, was restored to the old level. Addressing the annual meeting in 1912, the president declared – “The Dominion Bank has, I think, paid its shareholders a higher percentage in dividends since its inception than has been distributed by any other bank in Canada. We have paid for many years 12 per cent. where other banks paid 10 per cent. We have paid 10 per cent. when other banks paid 6 per cent. and 8 per cent. and we have at the same time steadily added to our Reserve Fund.” In the year 1913, also in 1914 and again in 1915, a bonus of 2 per cent. was paid in addition to the 12 per cent. dividend. With the stringency which marked the first part of 1915 it was considered more prudent to limit the distribution of the regular dividend, particularly as considerable sums were being appropriated for the Pension and Bank Premises funds. A bonus of 1 per cent., however, was paid in the year 1920 and again in 1921. In 1910 the par value of shares was brought into line with other bank stocks by being increased from \$50 to \$100.

For some years, the need of a new head office building had been increasingly felt. The building erected in 1879, though a distinct achievement and a city landmark in its day, had become inadequate through the growth of business and the changes in methods and in standards. The directors secured land on the opposite or north-east corner of the King and Yonge property, but later succeeded in purchasing the land

and buildings south and west of the existing structure. The new building was accordingly erected on the enlarged site and the north-east corner was sold. The designing and supervision of the erection of the building was entrusted to Messrs. Frank Darling and John Pearson of the firm of Darling & Pearson. The bank was fortunate not only in constructing a building which once more set standards in bank architecture and efficiency, but also in doing so at a time when building operations were slack and before the war rise in costs had begun. The new structure was occupied in November, 1914.

A number of important changes in the administration of the bank marked these years. In 1905 William Ince had died, and was succeeded on the board by one of the leading younger business men of Canada, Robert Jaffray Christie, president of Christie, Brown, Limited, of Toronto. On the death of Timothy Eaton two years later, John Craig Eaton (afterwards Sir John) succeeded his father on the board of the bank and also in the presidency of the great mercantile enterprise his father had founded. The expansion of the bank's interests was calling for increased supervision, and accordingly in 1907 it was agreed to increase the number of directors from seven to nine. James Carruthers of Montreal, whose connection with the grain trade, which had always been a notable feature of the bank's business, made his selection doubly appropriate, and Augustus Meredith Nanton of Winnipeg (afterwards Sir Augustus), were elected to fill these new posts. Again in 1913 it was found advisable to add more directors to the board. Eric W. Hamber, who had been the first manager of the London, England office of the bank and was now managing director of the British Columbia Mills Timber and Trading Company, in Vancouver, and Hodgson W. Hutchinson, vice-president of the John Deere Plow Company, of Winnipeg, and a pioneer in western industrial development, were elected accordingly. In 1911, Arthur Pepler and Evan A. Begg were appointed assistants to the general manager. In 1920, after 39 years' efficient service, Mr. Pepler retired, and in the same year W. K. Pearce and F. L. Patton became assistant general managers, and Mr. Begg superintendent of branches.

#### [THE DOMINION BANK AND THE GREAT WAR]

With the outbreak of the Great War, The Dominion Bank, in common with all the other banks in Canada, faced new problems and new opportunities. To continue to finance the industry of the country, to assist in meeting the tremendous task of public financing which the war thrust upon the nation and to provide a full share of the man power required to uphold Canada's cause, taxed the resources of the banks to the utmost; their success proved the flexibility of the banking system of the country and the unsuspected powers of endurance which individuals and nations may develop in a great emergency.

Even before the outbreak of the war, the task of financing the ordinary business of the country had become difficult. The unaccustomed prosperity of the first decade of the century had turned men's heads and swept away old standards, with the result that a speculative frenzy had seized the country, leading in 1913 to sudden collapse and subsequent business depression. When, further, the outbreak of war strained financial resources and dislocated trade channels, it seemed as if the fragile

structure of modern credit must collapse. But it proved more solid than critics had imagined. Moratoria, suspension of gold payments and of the stock exchanges, and additional note-issue facilities gave a breathing-space, until in 1915, a record wheat crop and the beginning of war orders set the wheels of industry whirring again. Not only did prosperity return, but with the lessons of 1913 and 1914 already forgotten, many carried enterprise to extremes of speculation and forgot tomorrow in the extravagance of the day. A unique comment on this wave of extravagance which was sweeping over the community was provided by the president when at the annual meeting in 1918, he distributed copies of a reprint of Poor Richard's Almanac. Judging from results, quite a few Canadians did not receive copies.

That The Dominion Bank was able to meet its full share of industrial needs was made clear by the fact that despite the diversion of funds to government needs, commercial advances increased by \$17,000,000 during the war period. An interesting summary of the range of the bank's business was presented in a statement of the general manager at the annual meeting in January, 1915, which was of course equally true of later years:-

"A recent analysis of these commercial advances reveals the interesting fact that The Dominion Bank is assisting practically every form of legitimate business in Canada – having, of course, due regard for the integrity and financial responsibility of the various borrowers – including the following classes: Grain, dairy products, dressed meats, flour, lumber, hardware, furs, dry-goods and clothing, hides and leather, groceries, boots and shoes, iron and steel products, breweries, agricultural implements and vehicles, drovers, farmers, municipalities and school districts, stocks and bonds, rubber goods, builders and contractors, hospitals and churches, transportation, metal dealers, coal and wood, furniture, woodenware, fish, stationery, etc."

The financing of the government's war activities was still more difficult, because a more novel task. Fortunately no man knew at the beginning how great would be the length and magnitude of the task, and so by easy stages the impossibility of one day had come to be the actual achievement of the next. The Dominion Bank participated to the extent of \$50,000,000 in the loans to the Canadian and to the British Government, which went so far toward meeting military outlays and financing munitions contracts and crop purchases. In spite of the heavy absorption of government securities, The Dominion Bank succeeded in maintaining the liquidity of assets which had always been a feature of its policy. When the country set out upon the untrodden path of huge internal long-term popular loans, the bank gave to the government all the assistance that lay in its power. It was computed that, including the 1919 issue, depositors withdrew \$32,000,000 to invest in war loans, and that for the 1917, 1918 and 1919 Victory issues, 155,000 subscribers made use of the facilities provided by the bank. To the Patriotic Fund, the Red Cross, the Belgian Relief and other national causes, substantial appropriations were made throughout, while the compulsory levies in the form of provincial and federal taxes rose to large figures.

It was not credit or financial machinery alone that the bank was called upon to give. The call for men appealed, from the first day of the war to the last, to the

members of its staff. Their enlistment made it extremely difficult at times to carry on the heavy tasks of war-time business, but neither they nor the bank as a whole counted the cost. In August, 1914, there were 736 men on the roll of the bank; including some later temporary appointments, 436 of the staff saw active service. Of these 52 lost their lives, 30 were wounded and 7 taken prisoner, 9 were awarded the Military Cross, 3 the Military Medal and 2 the Distinguished Service Order, while many others were mentioned in despatches.

The new interest of Canada in international trade and international finance was indicated by the opening of an agency in New York City, in March, 1919, with C. S. Howard as agent, and by the participation of the bank in 1919 in the formation of the British Overseas Bank, Limited, a new British corporation designed to aid in the extension of foreign trade. At home, in the same year, a moderate number of new branches were opened, where business appeared likely to justify the expansion. By the end of 1920 the total number of branches had increased to 128; the fact that The Dominion Bank ranked second, among Canadian banks, in deposits in proportion to the number of branches indicated the care with which the strategic positions had been chosen in the past.

These war-time years brought many personal changes. In 1916, after the death of the Hon. J. J. Foy, Alexander Thomas Reid, president of the A. T. Reid Co. Ltd., joined the board. It was felt that, as several of the directors resided in Montreal, Winnipeg and Vancouver, it was desirable to increase the number of men more readily available for board meetings, and accordingly in 1917 two additional directors, William Wallace Near, of Toronto, and Robert Samuel McLaughlin, of Oshawa, representing large manufacturing interests, were elected. Following the death of Mr. Brock, Herbert Hale Williams, of Toronto, was appointed in 1918, while in 1919 Wilmot Love Matthews succeeded his father, who had for nearly forty years been active and influential in the councils of the bank, and whose sudden death was greatly regretted. Although W. D. Matthews had been connected with many of the leading Canadian corporations, he had always found time to give the bank the benefit of his keen interest and experienced judgment. In the same year it was decided to appoint two vice-presidents. Albert W. Austin, who had joined the board in 1897 and who, among his other financial activities, was the president of the Consumers' Gas Company of Toronto, was elected to one of the posts. Sir Augustus M. Nanton, of Winnipeg, a director since 1907 and for nearly forty years one of the foremost citizens of Western Canada, became the other vice-president. Another personal development of interest was the election of Mr. Bogert as president of the Canadian Bankers' Association for 1920 and again for 1921.

#### [FIFTY YEARS' EXISTENCE]

While the development of The Dominion Bank has never halted in its fifty years' existence, it is in the twenty years of the twentieth century that the growth has been most marked. Since 1900 the paid-up capital has increased four-fold and the reserve fund somewhat more than four-fold, the number of branches six-fold, the total deposits seven-fold, the total assets seven-fold, the liquid assets nearly nine-fold, and the net profits six-fold.

With 1921 The Dominion Bank completes its first half century. For the nation, and, in its own field, for the bank, it has been a half century of ceaseless striving, of progress and achievement. The history of The Dominion Bank in these fifty years has not been marked by the spectacular interest that comes from oft-repeated crises or Napoleonic mergers. "Happy the country that has no history;" fortunate the banks that have had a monotonously successful and honorable career. Yet the record has the abiding interest which attaches to the memory of a definite task clearly seen and steadfastly pursued. The scop and magnitude of the bank's operations today far exceed any dreams of 1871, but if a measure of success has come it has been because of the endeavor to carry the principles and policies of sound banking and honorably dealing, laid down in the days of small things, forward into the days of larger things. From the beginning it was assumed that the community and the shareholders alike could best be served by tempering enterprise with prudence and by concentrating effort on financing the staple and permanent interests of the country. To this end, presidents who looked upon office as responsibility, directors who tried to direct, officers who took a keen and loyal pride in the bank's prosperity, and shareholders who in increasing numbers showed their faith in its future progress, have all given of their best.



FIFTIETH ANNIVERSARY DINNER  
HELD IN THE HEAD OFFICE, JANUARY 25TH, 1921, ATTENDED BY DIRECTORS, OFFICIALS AND MANAGERS

**GENERAL**  
Year ending

**ASSETS**

Gold and Silver Coin . . . . .	\$ 2,092,477.15	
Dominion Government Notes . . . . .	18,052,783.25	
Deposit with Central Gold Reserves . . . . .	4,000,000.00	
Notes of other Banks . . . . .	1,104,306.27	
Cheques on other Banks . . . . .	7,530,033.85	
Balances due by other Banks in Canada . . . . .	1,005.25	
Balances due by Banks and Banking Correspondents elsewhere than in Canada . . . . .	1,881,011.95	
	\$34,661,617.72	
Dominion and Provincial Government Securities, not exceeding market value . . . . .	5,106,158.31	
Canadian Municipal Securities, and British, Foreign and Colonial Public Securities other than Canadian, not exceeding market value . . . . .	9,956,980.78	
Railway and other Bonds, Debentures and Stocks, not exceeding market value . . . . .	1,810,680.54	
Call and Short (not exceeding thirty days) Loans in Canada on Bonds, Debentures and Stocks . . . . .	7,646,420.30	
Call and Short (not exceeding thirty days) Loans elsewhere than in Canada . . . . .	5,139,899.60	
	\$ 64,321,757.25	
Other Current Loans and Discounts in Canada (less rebate of interest) . . . . .	66,216,946.21	
Other Current Loans and Discounts elsewhere than in Canada (less rebate of interest) . . . . .	523,395.60	
Liabilities of Customers under Letters of Credit, as per contra . . . . .	1,823,472.17	
Real Estate other than Bank Premises . . . . .	5,408.76	
Overdue Debts (estimated loss provided for) . . . . .	80,913.40	
Bank Premises, at not more than cost, less amounts written off . . . . .	5,631,453.83	
Deposit with the Minister of Finance for the purposes of the Circulation Fund . . . . .	309,575.00	
Mortgages on Real Estate sold . . . . .	19,326.41	
Other Assets not included in the foregoing . . . . .	330,844.52	
	74,941,335.90	
	\$139,263,093.15	

# STATEMENT

December 31, 1920

## LIABILITIES

Capital Stock paid in . . . . .		\$ 6,000,000.00
Reserve Fund . . . . .	\$ 7,000,000.00	
Balance of Profit and Loss Account carried forward . . . . .	669,218.16	
Dividend No. 153, payable 3rd January, 1921	180,000.00	
Bonus, one per cent., payable 3rd January, 1921 . . . . .	60,000.00	
Former Dividends unclaimed . . . . .	921.00	
	<hr/>	7,910,139.16
Total Liabilities to the Shareholders . . . . .		\$ 13,910,139.16
Notes in Circulation . . . . .	9,159,886.00	
Due to Dominion Government . . . . .	7,000,000.00	
Deposits not bearing interest \$20,051,816.72		
Deposits bearing interest, including interest accrued to date . . . . .	84,889,439.45	
	<hr/>	104,941,256.17
Balances due to other Banks in Canada . . . . .	806,717.59	
Balances due to Banks and Banking Correspondents elsewhere than in Canada . . . . .	914,116.78	
Bills Payable . . . . .	67,104.20	
Acceptances under Letters of Credit . . . . .	1,823,472.17	
Liabilities not included in the foregoing . . . . .	640,401.08	
	<hr/>	125,352,953.99
Total Public Liabilities . . . . .		\$139,263,093.15

E. B. OSLER,  
*President.*

C. A. BOGERT,  
*General Manager.*

### AUDITORS' REPORT TO SHAREHOLDERS

We have compared the above Balance Sheet with the books and accounts at the Chief Office of The Dominion Bank, and the certified returns received from its Branches, and after checking the cash and verifying the securities at the Chief Office and certain of the principal Branches on December 31st, 1920, we certify that, in our opinion, such Balance Sheet exhibits a true and correct view of the state of the Bank's affairs, according to the best of our information, the explanations given to us and as shown by the books of the Bank.

In addition to the examinations mentioned, the cash and securities at the Chief Office and certain of the principal Branches were checked and verified by us at another time during the year and found to be in accord with the books of the Bank.

All information and explanations required have been given to us and all transactions of the Bank which have come under our notice have, in our opinion, been within the powers of the Bank.

Toronto, January 20th, 1921.

G. T. CLARKSON  
R. J. DILWORTH of Clarkson, Gordon & Dilworth, C. A.

## **“The free banking experiment of the fifties”**

### **“Free Banking in Canada”<sup>29</sup> (1894)**

#### **I. [ESTABLISHING FREEDOM OF BANKING]**

In the session of 1850 of the Legislative Assembly of Canada, the Honorable William Hamilton Merritt introduced a Bill “to establish freedom of banking in this Province, and for other purposes relative to Banks and Banking.”

The group of large chartered banks which had hitherto carried on the banking business of the Province seemed to the general public to be insufficiently equipped with capital. Whether just or not, complaints of a lack of banking facilities were frequent, and there was a widespread demand, as often happens in comparatively undeveloped countries, for an increase of bank capital, for the extension of banking facilities, and particularly for the incorporation of small banks in the lesser towns where local opportunities for accommodation were much desired.

Important safeguards in the then existing banking system were the large capital stock of the banks, the small number doing business, the broad fields from which they drew their business, and the prudent and cautious manner in which that business was as a whole conducted. It was thought that in maintaining the system it would be very difficult for the Legislature to refuse to incorporate small banks for the small towns. But to allow such institutions the important privileges of chartered banks, especially that of circulating notes which would be only a general charge against assets, seemed too great a risk. If small banks were to be established it was necessary to devise some other plan for issuing a sound currency. There was no bank of such predominant position that to it alone, as to the Bank of England, the function of issue could be entrusted, after the complete failure of Lord Sydenham’s proposals of 1841 (largely, to be sure, through the influence of the chartered banks); there was no probability of establishing a Government Bank of Issue, and there was on the part of the Government itself such pressing financial need that any step towards relief would be welcome.

The Free Banking Laws of the State of New York had been in force since 1838. The commercial relations between the Upper Province and New York had long been close and important. When the economic conditions of the two countries were compared, New York, no doubt, appeared to marked advantage. New York’s legislation, therefore, was not unlikely to be regarded by Canadians as recommended by the success and prosperity of the land in which it was in force. Nor was its influence necessarily the weaker because the judgment as to results was not entirely logical. So in spite of the early record of the system, in spite of the failure of twenty-nine banks in the first five years of the law’s operation, and the fact that the special deposits of securities realized but 74 per cent. on the defaulted notes, Mr. Merritt’s Bill was modeled after the Free Banking Laws of New York. Its objects are sufficiently

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<sup>29</sup> From Breckenridge, R. M. (1894). *Free Banking in Canada*. School of Political Science, Columbia College. Written by Roeliff Morton Breckenridge (1870 – 1914).



described as (a) to provide for the establishment of small banks, (b) properly to secure their circulation, [and] (c) to relieve, in part at least, the financial difficulties of the Government by widening the market for its securities, and at the same time so stimulating the demand as to raise their value.

## II. [THE MEASURE AS PASSED]

The measure as passed (13 and 14 Vic., cap. 21) first repealed the old laws of Lower Canada (Ord. L. C. 2 Vic. (3), cap. 57), “to regulate private banking and the circulation of notes of private bankers,” and of Upper Canada (7 Wm.IV., cap. 13), “to protect the public against injury from private banks.” Henceforth it became lawful only for chartered banks or other corporations or persons authorized under the new Act to issue circulating notes, which were to be of the value of 5 shillings or over. Notes under 5 shillings were prohibited. So also circulation by unauthorized persons was forbidden on penalty of fines of £100.

The significant provision of the Act is the extension of the privilege of note issue “to other persons or corporations thereunto authorized as provided for herein.” Individuals or general partners might establish banks, or joint stock companies might be formed to carry on the business, but in any case the bank was to have an office in but one place, and in but one city, town or village. Of the companies was required a minimum capital stock of £25,000, divided into shares of £10 or more.<sup>30</sup> Articles of agreement in notarial form, showing the name, place of business, capital stock, number of shares, names and residences of the shareholders and the time when the company should begin and end, were the legal basis for organization. After the articles were duly filed in stipulated courts of record, the companies became incorporated, and the liabilities of the shareholders limited to double the amount of their subscribed stock. Every institution working under the Act was required to keep *bona fide* an office of discount and deposit, at all times to keep exposed in its place of business a list of its partners or shareholders, and to make detailed semi-annual returns to the Inspector General, as well as to submit to official inspection at the discretion of the Government.

In order to issue notes the banks thus formed were each obliged to deposit with the Receiver-General Provincial securities for not less than £25,000 currency (\$100,000) par value in pledge for the redemption of their notes. Interest on the securities was to be paid to the depositor as it accrued, and against the bonds the Receiver-General was authorized to deliver to the bank an equal amount of registered notes, printed from plates furnished by the bank upon paper selected by the Receiver-General. When signed by the proper officer these notes were to become notes of the bank. In every case they were to be payable in specie on demand at the bank’s place of business. They were to be marked “Secured by Provincial securities deposited with the Receiver-General,” and were to be receivable for all duties and sums due to the

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<sup>30</sup> NOTE – The denominations of pounds, shillings and pence used in this article are those of the so-called “Halifax Currency,” the usual money of account in the British North American Colonies down to the latter half of the [eighteen] fifties, when the change was made to dollars, cents and mills. A pound currency was worth approximately \$4 U. S. coin, and a pound stg. Was valued at £1 4s. 4d. Halifax currency. [Note in the original.]

Provincial Government, so long as the issuing bank redeemed its notes. These registered notes were exempt from the rate of 1 per cent. per annum levied on the average monthly circulation of the chartered banks. The third or fiscal object of the Act is especially plain in that clause which permits the chartered banks to surrender their right of circulation against assets, and to secure from the Receiver-General registered notes in return for deposits of securities. Any of the corporations within the purview of the Act might deposit additional securities from time to time, and withdraw sums of not less than £5,000, provided that like amounts of the notes were returned to the Receiver-General and the required deposit of £25,000 maintained.

If, in case of suspension of specie payment and protest of the notes, the paper was not paid with interest at 6 per cent. within ten days after the requisition issued by the Inspector-General of the Province upon receipt of the protested notes, that officer was commanded to close the institution and wind up its affairs, should it have no valid excuse to offer for the default. The process of liquidation was to be completed by a Receiver appointed by the Receiver-General. His duty was *first* to pay off the notes from the proceeds of the securities on deposit. The remaining proceeds were then to be applied with the other assets to settlement of the remaining debts of the bank. But if insufficient funds were realized from the sale of the securities, the general assets of the bank were to be applied to the payment of the notes before they were used for the other claims. This is the first appearance in Canadian legislation of that principle of making bank notes a preferred claim, which, 30 years later, was embodied in the Bank Act of the Dominion.

### III. [AN IMPERFECT ACT]

The Act to establish Freedom of Banking could hardly be called perfect. Time proved it ill-calculated to promote the ends of the Legislature which passed it. The amendments passed in the following years show that certain of its defects were recognized. From the very first it suffered severe criticism on the part of the English Lords of the Treasury. The most serious defect of the Act, in their opinion, was the lack of guarantee for the immediate convertibility of the notes on demand. Against the fancied completeness of Government obligations as to "security," they cite the fall of Exchequer bills to 35 shillings discount in 1847. Anxious as always that the financial and monetary systems of the colonies should be sound, they warn the Canadian Government against the reverses following too great an extension of the facilities which may be afforded by the use of paper money. The measure might cause Canadian securities to rise temporarily, but they would also be exposed to the risk of depreciation should it become necessary to throw them into the market in order to provide for the payment of bank notes. In the opinion of the Lords of the Treasury, the great protection against over-issue was the constant maintenance of a proportionate reserve of specie against the outstanding circulation, with Government supervision and frequent publication of bank statements. They recommended the requirement of a specie reserve of one-third of the notes issued, and of monthly statements.

The following year, accordingly, an amendment was passed requiring monthly statements from the free banks. It is plain that half-yearly returns provided a basis

for intelligent criticism to neither the Government nor the public. The period of one year in which to retire their circulation and begin operations under the new plan accorded by the Act of 1850 to banks or companies whose authority to issue notes had been withdrawn by the Act, was increased to five years, provided that in each year of the next four they should retire one-fourth of the average circulation during 1850, of notes not secured by a deposit of bonds. The requirement of a specie reserve of one-third was not adopted.

In the same session, the Assembly passed another Act with a view "to encourage the chartered banks to adopt as far as conveniently practicable, the principles of the General Banking Act in regard to the securing of the redemption of their bank notes." The real purpose, of course, was a further sale of bonds. The means were (a) a remission during the next three years of one-half the tax on circulation to those banks willing forthwith to restrict their circulation to the highest amount shown in the last statement, and at the end of three years to three-fourths of the average for 1849 and 1850; (b) at the end of the three years, entire exemption from the tax to banks with note circulation thus restricted; (c) permission to such banks to issue in excess of the restricted circulation further notes to the amount they should hold of gold or silver coin or bullion or debentures of any kind issued by the Receiver-General, the value of such securities to be reckoned at par; (d) exemption of these banks from the requirement to deposit the debentures and to secure registered notes. But if failures occurred, the proceeds of bonds thus held by the banks were to be applied exclusively to the redemption of outstanding notes.

The Act 16 Vic., cap. clxii. (session of 1853) was an attempt further "to encourage the issue by the Chartered Banks of notes secured" in this manner. They were permitted to issue notes in excess of the limit laid down by their charters, i.e., the amount of their paid up capital stock, to the amount of the sums held by them in specie or debentures receivable in deposit by the Receiver-General, although the deposit of the securities was not required. The 1 per cent. tax upon circulation, also, was to be calculated only upon the sum by which the average during any period of the outstanding notes of a bank should exceed the average of the securities and specie which the bank had on hand.

These measures, though the original Act was copied from the New York law, seem strongly to reflect the influence upon Canadian legislators of Sir Robert Peel's Bank Act of 1844, and the Statutes of 1845, which dealt with Scotch and Irish banks. The plan of restricting that part of the circulation "unprotected" by special security, the extension to the banks of the privilege of indefinitely increasing circulation beyond that limit, provided equivalent values in specie or debentures were held, and the repeated efforts to provide as much as possible of the fiduciary currency with bond security, might not perhaps be conclusive evidence of this influence. The regulations might have been adopted after independent consideration, or to reach other ultimate ends than those sought by Lord Overstone, Sir Robert Peel and their followers. In Canada, too, the financial purpose, though the laws failed to afford the anticipated help, was highly influential.

But the influence of an effort to follow English example is strongly supported by the authority of Sir Francis Hincks in the Assembly at the time. Ten years before he had supported against his own party the proposals of Lord Sydenham for improving the Canadian currency by means similar to those suggested by Lord Overstone. As late as 1870 his views on the question were unchanged. The inference is confirmed by the fact that in 1851 the Colonial Office itself advised the Canadians to adopt, as far as possible, the principles of Peel's Bank Act in their regulation of banking and currency. The authority of the officials in Downing Street and the usual promptness with which the colony carried out their recommendations, leave no doubt of the marked and even decisive effect of this factor in the "freedom of banking" legislation of 1852 to 1856. Following is the significant excerpt from the letter of C. E. Trevelyan for the Lords of the Treasury, enclosed in the despatch of Earl Grey, H. M. Principal Secretary of State for the Colonies, dated 24th June, 1851: "Although the establishment of a bank in connection with the Government appears to have been impracticable or inexpedient, it does not follow that some modification of the scheme adopted in the United Kingdom with respect to the circulation, the leading feature of which is a limitation to the amount of notes issued on the credit of securities, and the maintenance of a deposit of specie equal to all issues exceeding that amount, might not still be attainable in Canada."

The possible dangers or fault of the original Act, pointed out for the Lords of the Treasury in the same letter, [...] were not, on the whole, the source of much trouble in the working of the system. To discuss the other defects in the scheme, or what might be termed the errors in principle, would be to raise the question of bond-based or specially secured bank circulation *versus* circulation as a general charge against assets, and of the system of many small local banks *versus* that of fewer larger banks with branches. But for Canada, at least, these and the minor controversies they involve had been decided. What really prevented a thorough trial of so-called "Free Banking," and a complete experience of its results, whether for good or evil, was the inferior opportunity which it afforded for banking profits. Very few banks began operations under the law; the system of chartered banks remained predominant and characteristic. The fate of the free banks will show how unequal was the struggle with these competitors. Nor is the reason far to seek.

The bonds receivable on deposit as a note security bore interest at 6 per cent. Since they could be bought at less than par, they netted as an investment a somewhat higher rate. The minimum legal deposit for a bank beginning business was £25,000 currency, or \$100,000. The small banks, however, which it was expected to establish under this Act, would seldom need a capital greater than £25,000, and, even if they needed it, a greater sum would be hard to get in the localities whence the demand for such institutions came. But before a bank could begin business this hardly-gained capital was to be removed from the locality and locked up in debentures. In return for these, the free bank was to receive an equivalent amount in registered circulating notes. A chartered bank, on the other hand, acquired by the privilege of circulation a power of loaning to the community, in addition to its capital stock, the amount of its authorized note issue. To meet the needs of its district the free bank in our example

was to derive from capital and circulation combined a fund of only £25,000, i.e., the amount of its note issue, or rather so much of it as could be kept in circulation, a proportion of which rarely reached 90 per cent., and in some cases did not exceed 50 per cent. In brief, £25,000 of the capital of the district was to be taken bodily away and replaced by notes, of which only a part were available for loaning purposes. If carried out, the scheme to provide banking facilities for poor communities was destined actually to diminish the loanable funds in the districts for whose benefit it was devised.

Intimately connected with this fault, is the fatal defect of the Act – the slight inducement to investment afforded by its provisions. With its capital locked up in debentures there remained to the free bank, besides its deposits, which need not be considered here, the £25,000 of registered notes for accommodation of the local public. Of these, we have seen that only 50 to 90 per cent. constituted the actual loaning fund which could be turned over several times a year in banking operations, and from which could be derived the additional and incidental profits that banks, in spite of usury laws and other hindrances, will contrive to secure whenever the markets permit. From an equal sum invested in one of the chartered banks could be gained the banking profit on the capital itself, and the circulation upon the credit of that capital.

The advantage, in favor of the chartered bank, apart from the important consideration of its control of much larger means – none of its capital being locked up in debentures – was approximately the difference between the banking profit on the amount of its capital and the interest on an equal amount invested in Government securities. In other words, the chartered bank would get the greater return from both circulation and capital; the free bank from circulation alone, its capital being invested, by law, at a lower rate of interest.

This higher gain to be had from employing their funds in their own business, also caused the chartered banks, as a rule, to reject the encouragement offered by the Legislature so to invest those funds in debentures as to make them practically a permanent loan to the Government. And in a country where the best bank profits were moderate, other investors were slow and unwilling to engage in a form of banking in which the chances for gain were still more restricted.

#### IV. [AN INDISPOSED PUBLIC]

In November, 1854, there came before the Legislature the question of the renewal of bank charters, and the increase of their capital stock. In this connection Sir Francis Hincks admitted that the public had not shown any great disposition to take advantage of the free banking law. He said further:

“First. He thought that the public wanted a large increase of banking capital.

“Second. There was not money in Canada to furnish that capital.

“Third. The country must get this capital from foreigners, and the people of Canada would have to consult foreigners as to the manner in which it should be done.

“Fourth. The country knew that no English capitalist was disposed to furnish money to Canada through the agency of private banks. But English capitalists would recognize the large chartered banks, because these banks have been known for many

years as a safe means of investing capital. . . . Capitalists had confidence in them, but they would not have confidence in private banks established under a new banking system. If the people wanted to increase their banking capital they must do so through the existing banks.”

To the Bank of British North America, however, the new law had permitted a valuable privilege, denied it by its Royal Charter, but enjoyed by the other banks under their Colonial Charters, usually to the extent of one-fifth of their entire note issue. This was the right to issue notes of denominations under \$4. December 31st, 1854, the British Bank held £162,215 of bonds, and had outstanding against them £153,750 of one and two dollar notes. Until the banks surrendered their small note circulation in 1870 it appears to have continued its issues under this Act. Three other banks were doing business at the close of 1854 under the Act. Their statements are as follows:

	Molson's Bank, Montreal.	Niagara Dist. Bank, St. Catharines.	Zimmerman Bank, Clifton.	Total.
Capital in Provincial De- bentures deposited with the Receiver-General	£50,000	£50,000	£25,000	£281,125
Amount of registered notes outstanding and delivered to the banks by the Inspector-General	£50,000	£49,999	£24,500	£278,249
Circulation	£37,861	£46,169	£22,000	
Liabilities, including circulation	£85,446	£67,615	£29,321	
Assets	£136,840	£101,642	£49,931	

The next year operations reach the highest figure in the whole history of the Act, though only four banks appear in the statement.

	Bank of B. N. America	Molson's Bank.	Niagara Dist. Bank..	Zimmerman Bank.	Total.
Capital in Provincial Debentures depos- ited with the Re- ceiver-General	£170,708	£50,000	£50,000	£40,000	£310,708
Registered notes outstanding	£169,750	£49,794	£49,999	£40,000	£309,549
Circulation		£24,332	£69,050 <sup>31</sup>	£40,000	
Liabilities		£24,332	£77,761	£48,817	
Assets		£79,100	£133,285	£54,585	

<sup>31</sup> Also issues under charter. [Note in the original.]

In 1855 the Legislature granted charters to the Molson's Bank, the Zimmerman Bank, and the Bank of the Niagara District, and required as one of the conditions of the extended privileges, the increase of the capital stock of each to £250,000, of which, in each instance, at least £100,000 was to be subscribed before the bank began its new corporate existence.

After 1855 there was a steady falling off in the amount of securities deposited, notes outstanding against them, and notes in circulation. In the statement of 1856 the Provincial Bank and the Bank of the County of Elgin first appear, the former with a deposit of securities for \$120,000 and notes for the same amount, the latter with securities for \$100,000 and notes for \$79,950. The newly chartered banks appear to have been retiring their secured notes. The total bond deposits are \$1,114,633.33 (£278,658) and notes outstanding \$1,080,864 (£270,171). In 1857 the figures have fallen to \$770,319.33 and \$769,730. In 1858 they are \$730,503.33, and notes outstanding, \$699,531; in 1860, \$562,603.33, and \$495,631, of which the British Bank stands for \$440,933.33 and \$373,964, about \$100,000 less than in the statements for 1857 to 1859.

#### V. [THE END OF FREE BANKING IN CANADA]

The failure of the system had received the attention of the Legislative Assembly at least three years before. On March 6, 1857, the Hon. Wm. Cayley introduced a Bill to discontinue the incorporation of joint stock banks and the issue of registered notes. The merchants and moneyed men of the Province were generally in favor of the older chartered system, he said, and even in 1855, the Assembly had decided to perpetuate it. Its decided superiority had been shown by the action of the three banks which had retired their registered notes and continued their business under charters. Wm. Hamilton Merritt was still in the Assembly, and in reaffirming his responsibility for the first Free Banking Act, he declared with a lofty disdain of the facts, that it was the "best system adopted in any country from the beginning of the world to the present time." "The sole cause of its being inoperative in Canada," he contended, "was that it had not been honestly carried out." Mr. Cayley's Bill did not come up for the third reading, for what reason the debates give no evidence.

In 1859, the then Minister of Finance, the Honorable A. T. Galt, in moving for a select committee on banking and currency, referred to the tendency of the free banks to secure charters, and to the unimportant and limited character of the operations then carried on under the Act. Of the "Resolutions for a Bank of Issue or Treasury Department," which the Minister in 1860 based upon the investigations of this committee, the third provided for the repeal of the free banking law, with the permission to banks working under it to come under the general Act for all banks outlined in the other resolutions. But in these, as a whole, were proposed such revolutionary changes in the currency and banking system of the country that action upon them was indefinitely postponed.

By December 1861, the Niagara District Bank had nearly withdrawn its Provincial securities, and the Provincial and County of Elgin Banks had only \$2,000

and \$20,440 of bonds, respectively, on deposit. At the end of 1862, the British Bank held securities for \$436,933.33; its registered notes amounted to \$336,964, of which \$130,505 were in circulation. But the Provincial Bank had deposits and circulation of only \$9,729, and the Bank of the County of Elgin had disappeared both from the Government statement and the world of business. To all intents and purposes, free banking in Canada had run its course.

Six banks in all had taken advantage of the Act. To one of these, the Bank of British North America, the privileges acquired under the Act were doubtless of considerable value. It was enabled to issue notes of denominations originally forbidden by its Royal Charter, without much other inconvenience than a change in one of its accounts. For even before 1850, it had been the custom of the British Bank to hold among its more liquid assets a much larger amount of Provincial debentures than even its small-note circulation amounted to in after years. Two of the companies working solely under the free banking laws wearily struggled for three years (1856 to 1858) against the competition and prestige of the chartered banks, and then began to retire their issues and wind up their business. The three banks earliest started under the Act soon applied for charters and secured them.

Of these the Zimmerman Bank had the shortest life. Founded in 1854 by a person of means, it was to an unusual degree the creature of one man. It seems, however, to have been well and honorably managed by the capitalist whose name it bore. In 1858 the charter of 1855 was amended by changing the name of the institution to the "Bank of Clifton," and extending the time for the subscription and payment in full of its capital stock. But in spite of these favors and of the extraordinary privilege "that the bank notes and bills in circulation shall be of whatsoever value the Directors shall think fit to issue the same, but none shall be under the value of 5 shillings (\$1)," the bank was soon wound up after the death of Mr. Zimmerman. In 1863 its charter was repealed.

The Bank of the Niagara District, with its head office in St. Catharines, Canada West, found difficulty from the first in securing the capital required by its charter. The Act of 1855 required subscription and payment in full of the million dollars in five years. In 1857 an indulgent Legislature extended the term to 1861; in 1861 to 1866; in 1863 the capital stock requirement was reduced to \$400,000, and the time for paying it up extended to 1865. The bank had a fairly successful career until it suffered large losses through the failures of Jay Cooke & Co., and others, in 1873. Hardly able longer to carry on an independent business, it was amalgamated early in 1875 with the Imperial Bank of Canada. The shares of the Niagara District Bank were exchanged for those of the Imperial, according to the relative value of the two stocks, and thereafter the former bank disappeared as a separate institution.



## Canada, New York and Free Banking<sup>32</sup> (1854)

### MONTREAL CITY BANK

The House went into Committee of the whole on the Bill to increase the Capital Stock of the City Bank.

Mr. Merritt said he desired to call the attention of the Committee to the principles to be observed in passing through the bill. These principles were not adopted when this bill was last before the house, and on that occasion the hon. member for Renfrew took occasion to propound what he called three propositions: First, that the Free Banking system had not thriven in this country, but had proved a failure. [Second,] that it was all important for this country to draw in European capital, and [third,] that inasmuch as Banks with small capital under the Free Banking system, had failed, that chartered Banks were those alone that could draw into this country English capital. These propositions he (Mr. Merritt) would contend were unsound and untenable.

The free Banking system had never been given a fair chance. It was part of the policy of the Government of 1849, but in 1852 the chartered Banks were given increased advantages, denied to other Banks. They had the power of creating other Banks and agencies throughout the country, and enjoyed a perfect monopoly. They had the power of obtaining brokerage in addition to the regular discount on notes, making it a very profitable business. How was it to be expected that when the chartered Banks could create branch banks throughout the country, that other Banking institutions could cope with them?

In the State of New York in 1846, a financial system of Free Banking formed a prominent part in the constitution, then remodeled, by which monopolies were in future prevented taking place. Another part of that system was, that they created a sinking fund. In 1849, the same system was adopted in Canada; under the 5th clause of the Customs Act, it was guaranteed that the sinking fund should be created to pay off the public debt. The Government pledged themselves to create no further debt.

In the State of New York the free system of banking had created 228 Banks, with a capital of \$64,000,000. In Canada, under a similar act, three banks had been created, with a capital of about a million of dollars, or a little less.

Now, why was it that under one system such successful results should be obtained, and not under the other? It was very easy to answer – the one system had stability in it, was created under a fixed constitution, and capitalists had confidence in it; while that system existing in Canada had no stability whatever.

Ever since the time of the Union, almost every system of finance attempted in Canada, continued only for one year. Why should Canada not adopt the system of Banking, carried on in the State of New York, with such advantageous results? Were hon. members in the House legislating for the benefit of Banks, or the public? He would admit that the course the Government had taken in relation to the chartered Banks, had raised their stock to a high premium.

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<sup>32</sup> From PROVINCIAL PARLIAMENT. (1854, December 2). *Semi-Weekly Spectator* (Hamilton), p. 2.

Canada must look to other sources for Banking Capital than England, and where it was found that in New York all the private capital in the country is drawn out, the system there prevailing ought to be taken up in Canada. In New York they had sold their debentures at auction, at 17 per cent premium, while Canadian debentures were at par. Why should not our debentures be as high as theirs? If any hon. gentleman could show him, that the system of the other side had not worked well, he would be glad. But, he was not opposed to the increase of Banking capital. We required more capital, but in creating it, all the Banks ought to be put upon the same footing, and let them have what capital they pleased if they took the debentures of the Province. Then would our debentures go up to a premium, and our public improvements advance, and the country prosper, but he saw no such result by the system now followed out.

Hon. Mr. Cayley observed that in the course which the Government had adopted with regard to the Banks in consenting to an extension of their charters without making it a condition, that an extension should be based upon the Free Banking system, it was not intended in any way to cast a reflection upon the Free Banking system, or to draw any unfavorable comparison between the Free Banks, and the old chartered Banks. He thought that his hon. friend, the member for Renfrew, had been entirely misapprehended in what he had said on the subject on a previous evening.

The hon. member had stated that the Free Banking system had failed to induce the influx of capital from the old country, and that he, and the hon. member for Renfrew concurred in opinion, that the old chartered Banks promised to be more fortunate in that respect. This remark had been misconstrued into a reflection against the credit of the Free Banks. It was very evident that had the English capitalist chosen to avail himself of the opportunity of investing his money in Free Banks, that opportunity had not been wanting for the last three years, and the fair inference was, that as a means of inviting capital into the country the Free Banking system had failed.

On the other hand the hon. member for Lincoln had endeavored to show, that as the notes payable on demand, issued by the Free Banks were secured by the deposit of securities with the Receiver General, these Banks offered a much better security to the Public, than the old chartered Banks, and that all that was requisite, was to put them on the same footing. But the hon. member had totally overlooked the fact that banking transactions were not confined to the issue of notes, but embraced dealing in bullion, bills of exchange, drafts, bills receivable, and so forth; and that while the holders of bank notes in circulation were secured by the deposit of Government securities, heavy losses might take place, bringing ruin to many transactions with a bank misconducting its affairs.

Some honorable members seemed to be of the opinion that the banks, in making application for the extension of their charters, were seeking merely the means of issuing more notes, and concluded that they might obtain those means by engrafting on the old stock, the free banking system; but they were much mistaken – few of the banks had reached their limit of issue. What they sought for was additional

capital to work with, which would not be obtained by compelling them to invest the whole of their additional capital in public securities. He thought that the restriction imposed by the Government – that of holding one-tenth, which might be called “the reserve fund of the bank,” in Government or rather Municipal securities, was quite a sufficient restriction.

As the hon. member for Lincoln had challenged contradiction to his assertion, that not an instance was to [be] found of failure in the free banking system of the United States, he (Mr. Cayley) would venture to read an extract from an American paper of the 10th November instant describing the condition of the free banks of Indiana. The letter was dated Indianapolis and addressed to John Thompson, of Wall St., New York. This is the extract:-

“I regret to have to state, that nearly the whole of the free banks of this State have suspended specie payments, and many of the accessible ones have been already protested. Of the owners of the free banks, I regret to say, that some entirely disown any connection with banks that are currently reported to belong to them; and as some of those banks are *inaccessible*, and others have only a nominal place of business, it becomes almost impossible to protest them. Of the State Stock Bank of Logansport, I could find no office, no owner, nor anybody that knew anything about it. Of those banks situated in the remote swampy districts of the State, such as the Bank of America, at Morocco, the Wabash River Bank, at Jaspar, I am not able to say anything, nobody, to my knowledge, having yet penetrated to them. Of the Delaware County Bank, said to be at Munote, I can discover no officer nor owner. Banks of this class are numerous, as are also those like Wayne Bank, which we were recommended to a saw-mill to find, and the Newport Banks, three of which were in the County Clerk’s Office.”

After this extract that he (Mr. Cayley) had just read, he thought it would be admitted that the Free Banks of the United States, at least, had not established for themselves a reputation wholly free from suspicion.

The hon. member for Lincoln had made another objection to the conditions on which the Chartered Banks were allowed to issue notes, namely, that it was not compulsory on the Banks to redeem their paper at all their Agencies. The effect of such a condition would be, that the Banks, not knowing where the pressure or the demand might be made upon them, would be compelled to provide a much larger supply of specie, or other means of redemption at each Agency, than is now required; more than was at all requisite to answer the efficiency of banking transactions, and would lead to serious embarrassment.

Mr. Holton wished to know whether the Inspector General intended to insist on the application of the rule to this bank which had been laid down for others. At the time of the second reading of this bill this bank was considered an exceptional case, and he hoped that it would still be allowed to be so considered. He had no objection to the application of the rule to the other banks.

Attorney General Macdonald thought if the rule was a good one it ought to be generally applied. He did not see why it should be relaxed in this case. It was true that the original capital of this bank was as great as it was now proposed to make it.

The decrease of capital had previously been voluntarily made by the bank, and this increase must be considered an addition of a new capital. He thought there was no reason why a special exception should be made in this case.

Mr. Merritt said the chartered banks had been placed on better footing than the free banks, and that was the reason why the free banking system had not thriven. It was very easy to say that the free banking system had failed when other banks had received greater advantages. If the free banking system had been exclusively established, we should have had ten times the amount of banking capital that we have at present. The hon. Inspector General had not met this statement, because it was unanswerable, but he had gone off to the Wabash, or some out of the way place, for proofs of the failure of the free bank system.

Mr. Hincks said the hon. member for Lincoln had a strong delusion about the advantages which the chartered banks had possessed over the free banks. The former had to pay a tax of one per cent. on their issues, from which the others were exempted. The chartered banks were obliged to keep a certain proportion of gold and silver, while the free banks were at liberty to issue just as much paper as they pleased, by depositing security with the Receiver General. He believed the advantage to be in favor of free banks. He thought that under the present system the bill holders were fully secured, and that it was not the business of the Legislature to look to any other parties.

He was surprised to hear the hon. member for Lincoln say that there was no danger in the free banking system. It was true that it secured the bill holders, but there was another class of persons entirely overlooked, namely, the depositors. In the States they did not depend upon foreign capital as we did for banking purposes, which was an important difference between this and that country. He had no feeling against the free banking system, but desired it to have a fair trial. He was satisfied that while we wanted foreign capital for banking purposes, it would be bad policy to insist on all banks being carried on under that system.

Mr. Merritt said the great difference between the advantages enjoyed by the chartered and the free banks was, that while the free banks can issue only as much paper as they had capital paid up, the former had no such limit imposed upon them.

Mr. Mackenzie spoke at length in favor of the free banking system in preference to that now in existence in this country.

Mr. Holton moved to add a proviso to the amendment of the Inspector General, "that if the bank do not increase its capital within one year, it shall not be obliged to invest one tenth of its capital in public securities."

Mr. Terrill said, the proviso would be good enough so far as the taking of new stock was concerned, but he did not for a moment suppose that the existing charters of Banks could be interfered with. It might be well to consider whether a restriction should be imposed of this character upon Banks now applying for charters, and not to others. If this Proviso be added, the time of the charter should be restricted.

Mr. J. S. Macdonald thought that either the present system or that of the Free Banks ought, after a few years exclusively to prevail, in order that some general system might be laid down for all Banks. The chartered Banks, with their numerous

agencies, had advantages over the Free Banks in being able, for instance, to issue notes at the Kingston Agency, payable at the Montreal Agency; and also, in the circumstance that when notes payable at one agency were represented at another agency, they charged a quarter per cent. for receiving them.

Mr. Holton then moved the proviso previously referred to.

Mr. Mackenzie objected to the extension of the Bank Charters. It would be several years before they would legally expire, and Parliament ought not to deprive itself of the power of altering the system, if it were found to work badly. No notice of the application for the extension of the charters had been made by any of the Banks, and, if the motion were persisted in, he must move that the Chairman leave the Chair.

This the Chairman declined to do, unless so directed by a majority of the Committee. He then put the question, whether he should leave the chair, which was negatived.

The motion was then carried.

## Scarcity of money in 1857-58

### “On the scarcity of money”<sup>33</sup> (1858)

The scarcity of money is the universal cry; yet there never was more of that much coveted article in the country than there is at present. But it is locked up in the banks, and they can't let it out. [...] If we investigate the causes of the money pressure, we may get at the root of the disease, and then we need not be long in determining the remedy which ought to be applied, namely, a return to sobriety and honest industry, both of which have lagged behind these few years past, and have been nearly left out of sight.

Some years ago the country was steadily progressing in wealth and prosperity. The merchant, the trader, the farmer, the mechanic, and the laborer, were, each in his respective vocation, industriously endeavoring to improve his fortunes by those means which never fail of success, industry, prudence, and temperance; but all their moderate views were suddenly carried away by an unprecedented tide of prosperity, which set in all over the Province as well as the United States; every article of produce realized double and treble its former value; labor, and all which it produces, rose in the same ratio; consequently money became plentiful, and then a wild rush for speculation seized the minds of a majority of the inhabitants.

Men who had begun business with small means and were doing well, tradesmen and mechanics who were in comfortable circumstances, and farmers who had been successful beyond measure, yielded to the mania for land speculation. Lands, in consequence, in embryo towns and villages, were knocked down by the glib-tongued auctioneer, to many of the dupes of slush and fuddle, at from five to ten times their real value. Lands, thus enhanced in value, formed a basis for money [sic.] extended credits; money being plentiful, was easily obtained; at the banks the wholesale merchants, too, were not slow in putting in a claim for a share of the general prosperity; they will not stint their supply of goods to customers, who had suddenly grown rich; and so things went until nearly the whole community had become involved one way or another in these ruinous speculations.

The Banks had loaned out a great portion of their funds, not indeed to parties for the purpose of land speculation, but in the legitimate course of business; and so long as the staple produce of the country commanded high prices, and a large amount of money borrowed from foreign capitalists was being expended on every insane project which reckless enterprise could conceive, their customers' paper was well met; but so soon as the sheep had been fleeced, and it was found their wool would not fetch half price; so soon as whet, lumber, &c., fell in the same proportion, then the fabric of universal credit tumbled to the ground, and the banks found themselves with a large amount of *inconvertible* paper; in fact, a large amount of their funds locked up.

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<sup>33</sup> From A BRITISH CANADIAN. (1858, February 3). On the Scarcity of Money. *Semi-Weekly Hamilton Spectator*, p. 2. I have also silently included the conclusion of the letter, published in the issue of Feb. 10.

I need not lead your readers through all the highways and byways by which the funds obtained from banks have been diverted from their original purposes. I need not tell you how many thousands of men in good credit have become greatly embarrassed, not by speculating, themselves, but by backing the notes of others, who did. I need not tell you what a large amount of money has now been drawn from circulation to pay interest on loans for profitless railways and taxes. You, as well as your readers, are too well advised of all these things.

What I mean to tell you, and those who feel the pressure of the times (and who does not?) [is] that it is needless to look for relief by creating any further amount of inconvertible paper, or by substituting any other currency than that based on gold and silver unless you are prepared to remove all restrictions from banking; for so long as banks are privileged institutions for the issuing of bank notes, they must submit to restrictions. Unless I say, you are prepared to make banking entirely free, as free as every other branch of business, you cannot establish banks on a sounder or better basis than they are at present in Canada. [...]

Various plans and suggestions have been submitted to the public, proposing to afford relief, but none that I have seen which will answer the end in view. This, I think, we shall discover when we have considered the nature of money and its uses.

Money, in all civilized countries, is composed of metallic coins bearing generally the impress of the Sovereign of the State to which it belongs; and bank notes, which are usually called money, are merely promises to pay money when called for. Both specie and bank notes form the currency, the circulating medium; but bank notes will not generally circulate out of the country where they are issued. Money, then, is the medium through which the trade of the country is carried on; indeed, it is the instrument of trade and commerce, and cannot properly be applied to any other purpose. We buy goods and produce with it, and we pay debts with it. We pay for labor and services of every kind with money, it is true; still it is employed by all for the purposes of trade. Bank notes are useful only in carrying on the internal trade of the country, and must be converted into specie or Bills of Exchange to serve the purposes of commerce generally, or the foreign trade.

This glance at the nature and uses of money is sufficient to show us that, like every other kind of property, money must be usefully employed to be of any real value and produce profit, and that if it be largely expended on non-productive objects, embarrassment will ensue. If a person gets heavily into debt, without sufficient active capital to make returns, to meet his engagements, or if he employs his capital in producing or manufacturing articles, which are not required, he will become embarrassed. It is so with Canada West. The active capital of the country is insufficient to pay the demands on it. As I have already shown, high prices and land speculations have had the effect of encouraging extravagance and of extending our credit, so that through excessive importations the country has become largely indebted, while the means of paying our debts have diminished in as great proportion. The equilibrium between supply and demand has become so deranged that the balance of trade is heavily against us. This is an evil we cannot cure by altering the nature of money.

In England the money market was restored to its wonted ease, after a few weeks' derangement consequent on the American money panic; and in the United States money has become more plentiful than it was; while in Canada there is no *let up*. [...] Since England and the United States have overcome the extreme money pressure, why is Canada so dreadfully oppressed with financial difficulties, and is there no remedy?

### **“What causes the scarcity”<sup>34</sup> (1857)**

While the general prosperity of the country [Canada West] is universally admitted, we hear constant complaints of the stringency of the money market, and many enquiries as to its cause, and the best means for its removal. A stringency in the money market is of frequent occurrence in all commercial countries, and may arise from several causes affecting supply and demand. The principal causes are, dullness of sale, or a fall in the price of any of the principal articles of export, thus leaving the balance of trade against us, and draining our specie to make up the difference; over-importations producing similar results; and a sudden increase of population and trade requiring a much larger amount of the circulating medium to carry on the increased business of the country. This will explain the reason of the well-known scarcity of money in all new countries.

In Canada West we think all these causes have more or less affected the money market. Our principal articles of export are lumber and breadstuffs. The former has been dull of sale during the last eighteen months, while within that time the price of the latter has fallen over one third as a reference to our trade tables will show. These causes alone were sufficient to tighten very materially the money market, by reducing the value of our exports and leaving a large balance against us in our trade with foreign countries. The excess of our imports over our exports has not alone been caused by the fall in prices, but has been going on during the last five years, as the following table will show. Besides the exports given below, the trade returns add a considerable amount as estimated short returns from Inland Ports, but we must place against this the imports entered under value notwithstanding the vigilance of our Custom House officers. While the great majority of our merchants furnish true invoices to the Custom House, it is well known that numerous frauds on the revenue are successfully carried out.

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<sup>34</sup> From What causes the Scarcity of Money in Canada West. (1857). *The Canadian Merchants' Magazine and Commercial Review*, 1(1), 2-7.



	IMPORTS		EXPORTS
1852	£5,071,623		£3,513,993
1853	£7,995,359		£5,503,057
1854	£10,132,331		£5,312,327
1855	£9,021,542		£6,230,861
1856	£10,941,785		£7,294,524 Estimate
		Balance	£15,307,878
	<u>£43,162,640</u>		<u>£43,162,640</u>

Balance against us £15,307,878.<sup>35</sup>

The above table does not show any large amount of over-importations if we consider the requirements of the country caused by the rapid increase of population, and the amount of foreign capital expended within that time, a great part of which left the country to purchase railroad iron, locomotives, machinery and other articles of English and American manufacture which Canada could not furnish; but it clearly shows that however much we may have increased the internal wealth of the country we have not increased to any great extent its cash capital.

[Let us begin by] estimating the foreign capital expended in this country within the last five years in the prosecution of various public at £12,000,000. Add extra time purchases abroad, not adjusted, £5,000,000. [Together, this makes] £17,000,000. Deduct 10 per cent profits on £10,000,000 to foreign contractors, £1,000,000, [and what remains is] £16,000,000.

It will thus be seen that unless by the introduction of foreign capital invested in private enterprises or bank stock, we have not materially increased the cash capital of the country, *and that if we were to reduce our accounts with foreign nations to the same level, we would not have as much as we had five years ago.* Twelve millions at least of foreign capital have been invested in our railroads, canals, and other public improvements, within the above period, but our imports have exceeded our exports during that time by a still greater sum. It would not be difficult to show that in a new country such an influx of foreign capital would necessarily require large importations to meet the increased demands of trade, and that such an expenditure would also diminish our exports by absorbing a larger quantity of our lumber and breadstuffs at home; still it is equally clear that when this expenditure even practically ceases, importations must also be reduced, and to this subject we desire to call the attention of our importing friends.

Doubtless the rapid growth of the country in population and material wealth would seem to warrant even larger importations, but we must bear in mind that much of that wealth is inconvertible, and while the country may be rich in all that constitutes real wealth, a large drain on the currency must cause such a stringency in the money market as seriously to injure our prosperity at home and the credit of our merchants abroad. It would, in our opinion, be much better for the prosperity of the country to see our merchants realize their profits from an advance in the price of goods sold, than by larger sales and uncertain payments.

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<sup>35</sup> I've corrected a minor math error in the original, which had £15,307,871 both here and in the table.

It will thus be seen that so far as Canada is concerned, the principal benefits arising from the completion of the Grand Trunk Railroad and similar public enterprises, are yet to be derived from the facilities they afford in developing our resources. To secure this, what we most require is a more adequate supply of banking or other cash capital to carry on the increased business of the country. What has been the increase of banking capital during the last six years? The entire paid up capital of all our banks was in May, 1850, £2,775,880; and in November, 1856, including free banks £4,804,768. This increase, large as it is, has not been equal to the increased trade of our country. From 1850 to 1856 our imports increased in round numbers from £5,000,000 to £11,000,000, while our banking capital only increased £2,000,000, or not sufficient to meet the increased requirements of commerce alone, and nothing at all to aid the extension in our manufactures, or to facilitate transactions in real estate at its present enhanced value. That our banks have extended their accommodation to the utmost safe limit is shown by referring to their published statements in 1850 and 1856.

	COIN	CIRCULATION	DEPOSITS	LOANS
1850	£384,111	£1,309,932	£1,524,261	£4,374,898
1856	£886,410 <sup>36</sup>	£4,199,211	£2,803,238	£9,611,315
Increase	£502,299	£2,889,279	£1,278,977	£5,236,417

These tables are taken from the returns of May, 1850, and November, 1856.

These statements show that in 1850 the coin and bullion was nearly one third of the circulation, while in 1856 it was only a little over one fifth. The loans and discounts increased £5,236,417, while the deposits only increased £1,278,977, or not one fourth the increased amount of accommodation. But this great expansion places the trading community in a very precarious position, for the slightest drain upon the specie necessarily affects the circulation, and curtails, when not needed, the already inadequate accommodation of the banks. It is stated by one of our banks in its last annual statement that the amount withdrawn by settlers going west (although no doubt more than balanced by the sums brought by settlers into the country) affects seriously the bank circulation in Canada West.

A closer examination of the causes of this constant drain of gold will, we think, show that it arises mainly from the large amount of our imports from, over our exports to, the United States: payment of such imports to places bordering on the Lakes being made to a large extent in Canada Bank Bills, are taken in deposit by their banks and sent home for redemption in the usual course of their business. At the same time our banks refuse all American Bank Bills on deposit and thus prevent their circulation in Canada; so that Americans wishing to make payments in Canada, collect all our bank notes for remittance here, and thus our whole circulation is forced home for redemption. The United States returns for the past year show a balance of

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<sup>36</sup> The correspondent has omitted the Gore Bank, capital £200,000. This bank makes no returns. The bank of B. N. America is only an estimate, but will be found nearly correct. -Ed. M. M. [Note in the original.]

trade against us of \$3,395,044. These returns are not very reliable, but sufficiently so to show a large balance against us. At least one half of the imports from the United States are of such manufactures as a little extra capital would enable us to furnish equally good and cheap at home, while our exports are of such articles as the United States cannot themselves produce in sufficient quantities for home consumption.

Perhaps nothing shows more clearly the inadequacy of our banking capital than a comparison of the present condition of the Canadian banks with that of the banks of the principal states of the American Union – as shown by the following table:

STATES	CAPITAL	CIRCULATION	DEPOSITS	DISCOUNTS	SPECIE
Massachusetts	\$58,571,930	\$17,494,232	\$23,613,096	\$99,725,161	\$4,880,756
Rhode Island	\$19,905,300	\$4,374,615	\$3,845,782	\$28,749,478	\$548,348
Connecticut	\$15,641,397	\$11,527,839	\$6,923,457	\$33,425,687	\$1,425,739
New York	\$98,108,031	\$11,974,943	\$108,957,654	\$239,347,698	\$11,800,330
Total of U.S.	\$313,874,272	\$195,747,950	\$212,705,662	\$634,183,280	\$59,314,063
Boston City	\$31,960,000	\$7,150,064	\$14,889,428	\$52,796,404	\$2,879,160
Canada	\$22,869,072	\$16,796,844	\$11,212,952	\$38,445,260	\$3,465,640

No doubt the state of New York, which contains the principal commercial city of the Union, requires a much larger banking capital in proportion to its population, but surely if Boston alone requires banking capital of 31 millions, Canada requires a much larger capital than 22 millions.

Looking at our present condition from every point of view, we are more and more confirmed in the opinion that nothing can so much advance the prosperity of the country as an increase of banking capital. Doubtless when the vast natural resources which we possess and the means of transportation at our command, become better known, a large amount of foreign capital will flow into the country seeking a profitable investment; but unless our manufacturers are in a position to supply the increased demands of the country no amount of foreign capital expended in private enterprises will materially enrich us, for it will be constantly drained off, as we have seen [in] the expenditure of the last five years, in importing from abroad many articles of manufacture, which sufficient capital would have enabled our manufacturers to furnish better and cheaper at home.

Among the minor causes which affect the money market we mention the following:-

The employment of foreign contractors in prosecuting our public works; this cause alone during the last four years has, undoubtedly, withdrawn from the country an amount which would otherwise have remained in it equal to one half the increase of bank stock during the same period. This may to a great extent have been unavoidable, but is not the less true on that account. And here we must remember that it is not one tenth only that is lost to the country, for if ten millions of money are spent on public improvements, we may safely reckon the cost to the country at eight millions, leaving two millions to be divided as profits between the contractors and the storekeepers, farmers, sub-contractors, &c., who furnish various requirements for

carrying on the works, so that if the contractor carries off one million, he in fact withdraws from the country one half the entire profits derived from the whole expenditure.

The refusal of our farmers to submit to falling prices in the disposal of their produce, a considerable quantity of which remains unsold, thus keeping a corresponding amount of money out of circulation; particularly as most of them have running accounts with country merchants, depending solely upon the sale of their grain for liquidation.

The large amount of gold and bank notes held by farmers and small traders who make no bank deposits, thus locking up so much capital and diminishing the ability of the banks to accommodate their customers.

The government deposits being made principally in one bank, has, during the spring and fall seasons, an injurious effect upon the money market by giving one bank an undue advantage over the others, forcing them to reduce their circulation, and of course the amount of their accommodation.

Another cause is the custom of our country merchants giving one- and two-years' credit to their customers. We can easily understand how important this was to the early settler with little means and less credit, but surely there is not good reason why the wealthy farmers of the present day should require such indulgence. Yet so universal has been this custom that it is now quite common to hear of farmers lending their money at ten per cent. interest, and at the same time taking twelve months credit on their store purchases.

Our country is certainly not yet able to abolish entirely the credit system, but the practice so general among our farmers of making large credit purchases and trusting to good crops and high prices to bring them out square, ought certainly to be checked. The inability of many farmers to pay these large accounts has a much more injurious effect on the money market than the unwillingness of those who are able. This is a kind of overtrading which in its turn encourages the overtrading of the retailer and the over-importation of the merchant. If country merchants were at liberty to charge a higher rate of interest on all overdue accounts, it might have a good effect. Wholesale houses might also use their influence to restrict the credits given by their country customers to six months, and also to lessen the amount of their sales. It is well known that many country merchants credit their customers to any extent their property will warrant, thus the note follows the open account, the mortgage follows the note, and the farm at last follows the mortgage. This may be very advantageous to the country trader (in these land speculating times), while he can renew his own paper at six per cent, but it is certainly embarrassing to the wholesale merchant and injurious to the trade of the country.

The removal of these minor causes would materially relieve the money pressure if our country was content to advance in the slow manner of European nations. But if our future advancement is to be estimated by the past, we must, after all, acquire a much larger amount of cash capital to accommodate our trade, assist our manufactures, and develop the resources of the country.

What inducements, then, do we hold out to English or other capitalists to invest their funds in our bank stock? Our banks are restricted to six per cent interest, the present rate of the Bank of England. Our bank stock pays dividends of seven and eight per cent per annum, while English and United States bank stock, on account of their larger deposits, pay 10, 12 and even 15 per cent. Can we expect to see capital flow into our country when it can be so much better employed elsewhere? Nor do we think seven or even eight per cent sufficiently high to bring capital into the country, or to keep it here in times of general scarcity. Could the cashiers or directors of our different banks be constituted a Board of Directors to regulate periodically the rate of interest according to the state of the money market at home and abroad, limiting the maximum to, say ten per cent, we might expect soon to see more banking capital in the country and a greater abundance of the circulating medium.

We must not be understood, however, to say that any amount of banking capital would relieve our money pressure, unless we are able to keep it in the country. This can only be done by reducing our imports to a figure much nearer our exports than they have lately reached. If the extra capital brought into the country is to be sent back for goods to be laid on our merchants' shelves or trusted out in unreasonable amounts to their country customers, we must expect to suffer the disastrous consequences which follow over-trading, whether as regards the individual or the community. The whole subject resolves itself into two simple propositions. We must have more cash capital; and when we have got it we must keep it in the country.

## The end of the Bank of Upper Canada



### **“Failure of the Bank of Upper Canada!!!”<sup>37</sup> (September 18, 1866)**

The city has been thrown into a great state of excitement to-day, owing to the suspension of specie payments by the Bank of Upper Canada. Yesterday afternoon the Bank of Upper Canada in Montreal failed to square up balances with the Bank of Montreal, consequently orders were sent to the different agencies throughout the Province this morning to refuse the bills of the Bank of Upper Canada. Rumor, however, began to noise the matter about the city and about eight o'clock the Bank of Upper Canada bills were refused by one of the steamboat companies. Immediately on the Bank doors being opened a rush commenced, and the paying teller was kept busily engaged paying out specie.

This morning an informal meeting of the Managers of the different Banks was held in the manager's office of the Commercial Bank of Canada. Mr. Cassels, cashier of the Bank of Upper Canada was present, as [were] also Messrs. Campbell, Commercial Bank; Hague, Bank of Toronto; Woodside, Royal Canadian Bank; Fisher, Ontario Bank; Graham, City Bank; and Ransom, Quebec Bank. At the meeting Mr.

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<sup>37</sup> From FAILURE OF THE BANK OF UPPER CANADA!!! (1866, September 19). *Ottawa Citizen*, p. 2. The article's dateline reads "Toronto, September 18". Image: Bank of Upper Canada bank token, from the collection of Chris Willmore. The opposite side of the same token is displayed below.

Cassels explained the position of matters, stating that with the aid of the other Banks they could meet the run, and also that their assets would cover all their liabilities to the fullest extent.

At the moment it was agreed to render assistance, but on subsequent enquiry other managers deemed it necessary to refuse any aid. At the Bank of Montreal the usual Custom House deposit containing Bank of Upper Canada bills was refused, and when this became known in the city, Yonge Street swarmed with crowds of people – old and young – hurrying to the Bank with notes in their hands.

The space in front of the paying teller's counter was rather interesting – men, women and youths with outstretched hands endeavoring to get ahead of one another in presenting their bills. Gold seemed plentiful, and for some moments the people began to think it was a needless fright, but soon the countenances of the people began to look glum and the visage of the Bank teller became darker and darker till after some hours' run the crowd were informed that specie payments were suspended, and soon the noise of doors grating told hundreds outside that the Bank of Upper Canada had closed its portals.

The Bank messenger soon afterwards issued forth from the side entrance and posted the following document in the hand-writing of the cashier, on the door:-

“PUBLIC NOTICE – The public are respectfully informed that in consequence of the refusal of their notes by other Banks this morning the Bank of Upper Canada has to suspend specie payments. (Signed,) R. CASSELLS, Cashier.”

By this time at least 500 persons had congregated outside the bank, and groups stood eagerly discussing the probabilities of disaster. One poor person, of Erin, with a couple of X's endeavored to get in by the back entrance, but the messenger on sentry refused all egress. Women hurried to and fro with their hard-hoarded earnings in their hands, and one of them in vain went to the Commercial Bank, and earnestly besought the teller to change them, but the Teller did not “see it.” On George St. numbers of persons could be seen going about with silver in their hands offering to buy up the notes at 50 per cent. discount; in some cases parties disposed of their bills at these rates, but numbers still held their bills, confident that they will be redeemed at par. One man offered 75 cents on the dollar.

There is no doubt that every depositor and bill-holder will be paid in full, as the assets are quite sufficient to cover all liabilities. The bank directors seem to have been as much in the dark about matters as the public, and some of them were not even aware this morning when the bank opened that affairs even looked shaky.

A meeting is to be held to-morrow, and a full financial statement will be made and published.

LIABILITIES	
Provincial notes in circulation	\$750,000
Debt due the Government	\$1,200,000
Current accounts	\$350,000
Deposits	<u>\$350,000</u>
Total	\$2,650,000
ASSETS	
Coin and bullion	\$1,000,000
Real estate	\$1,500,000
Provincial debentures	\$196,000
Notes and bills discounted	\$2,500,000
Other debentures	<u>\$780,000</u>
Total	\$5,976,000

### **“The great event of the week”<sup>38</sup> (September 21, 1866)**

The great event of the week in financial circles has been the failure of the Bank of Upper Canada on the 18th instant. We have already fully noticed this misfortune, but as the present edition goes extensively into the country, and to Europe, we shall further extend the notice.

For some years this bank has labored under great embarrassment growing out of heavy losses some years ago, which arose from the management of the bank having departed from the legitimate business of banking, investing the means of this institution in loans on wild lands and other real estate securities. The present Directors have struggled with great perseverance to overcome this mistake; but the loss of the government account three years ago, and the loss of the accounts of the Grand Trunk and Great Western Railways recently, increased its difficulties; other banking institutions refused its notes, and a run ensued, which was met by an attempt to pay in specie for a while, but the Directors were soon forced to close the doors of the bank in Toronto and its branches for the purpose of going into liquidation.

In consequence of the severe losses referred to, the bank has paid no dividend for two years, and its shares were reduced a few years ago, from \$50 to \$30; and during the last Session of Parliament power was obtained to reduce them still further to \$20. Under these circumstances the stock gradually declined to \$3 per share, yet such was the good feeling towards the institution throughout Canada, that its notes passed current freely all the time.

The conditions of the Bank as set forth in the last Statement of the Provincial Auditor [August 16, 1866] was as follows:

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<sup>38</sup> From COMMERCIAL. (1866, September 21). *Montreal Gazette*, p. 3.



## LIABILITIES

Promissory notes in circulation	\$888,056
Balances due to other banks	\$369,770
Cash deposits not bearing interest	\$677,102
Cash deposits bearing interest	<u>\$1,800,748</u>
[Total Assets]	\$3,735,676

## ASSETS

Coin and bullion	\$367,044
Landed or other property	\$1,632,958
Government securities	\$196,126
Promissory notes or bills of other Banks	\$84,152
Balances due from other Banks	\$22,869
Notes and bills discounted	\$2,531,226
Other debts due to the Bank	<u>\$894,295</u>
[Total Liabilities]	\$5,728,670

When we add to these assets the paid-up capital of the Bank, \$1,937,287, and take into account the double liability of the stockholders to other creditors, the note holders and other creditors of the Bank will perceive that they have a large margin, over one hundred per cent. of the liabilities. The stockholders must lose something, but we cannot see by any good reason why the other creditors of the institution cannot ultimately be paid in full.

The Toronto *Globe* of the 19th, in speaking of the failure of the Bank, makes the following remarks:-

“Let it be clearly understood that not one shilling of loss can possibly result to the public from the stoppage of the Bank of Upper Canada. The stockholders may lose part of their capital, possibly the whole of it, but the bill-holders and depositors must be paid every penny that is due them. The assets of the Bank are amply sufficient to pay all its creditors; and even were it not so, the stockholders are a large and wealthy body, and they are personally responsible for the debts of the Bank to double the amount of the stock they hold.<sup>39</sup>

“Let not, then, any holder of Upper Canada Bank bills, or any depositor, sacrifice his debt under the influence of panic. The worst that can happen to him is to be kept out of his money for a time. The whole amount of notes in circulation is about \$750,000; the deposits of individuals make up nearly the same amount; and the debt due the Government is about \$1,200,000. The whole liabilities of the Bank are under three millions of dollars. To meet this, there is, specie, \$100,000;

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<sup>39</sup> A similar provision is found in Canada’s Bank Act of 1890: “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.” *The Bank Act* – 1890, c. 31, s. 89.

Government debentures, \$200,000; Postal and Municipal debentures, \$400,000; Bills Receivable, \$2,500,000; and Real Estate, \$1,750,000. No doubt it will take a considerable time to realize these assets; but in the meantime the promissory notes held by the Bank will be maturing, the bills of the Bank must be taken in payment of these notes, and thus the Bank note circulation will be very soon absorbed.”

### “Bank of Upper Canada notes”<sup>40</sup> (September 22, 1866)

The following paragraph from a recent article in the *Globe* on the subject of the Bank of Upper Canada embodies an opinion which has obtained some currency in business circles, but which I think a little reflection will show to be unsound. It is as follows:-

“In the meantime the promissory notes held by the Bank will be maturing, the bills of the Bank must be taken in payment of these notes, and thus the Bank Note circulation will be very soon abolished [sic].”

The only ground on which the Bank can be required to accept its own notes in payment of debts due to it is that of the well-acknowledged principle of “set off,” whereby any two parties, each sustaining to the other the relations of both debtor and creditor, are allowed to adjust their claims, the *balance* only, resulting from this adjustment, being payable by the party found to owe. Now, the parties liable to the Bank, on discounted paper held by it, and who were, on the day of its suspension, at the same time creditors of the Bank, by reason of either having money at their credit in account current, or holding *bona fide* the circulating notes of the Bank, are clearly entitled to the benefit of the above provision of law, and will doubtless avail themselves of it, applying such balances at credit of their deposit accounts with the Bank, and also all of the Bank notes held by them on the 18th instant toward payment of their discounted paper as it matures. The total amount of circulation liable to be absorbed in this manner, however, is likely to prove very limited. The class of men who seek accommodation from Banks, rarely hold any considerable amount of Bank notes overnight in their safes: the usual practice being that of making cash deposits daily to the credit of the current account which is almost invariably kept with the Bank granting the accommodation. And even of the small amounts which might occasionally be so held, the relative proportion of the circulation of the Bank of Upper Canada to that of the whole of the other Banks would not lead us to expect that more than one-fifteenth part would, on an average, consist of Bank of Upper Canada notes.

It is evident that the result indicated by the writer in the *Globe* can be attained only by those indebted to the Bank buying up its notes at a discount, from brokers and speculators, for the express purpose of discharging their indebtedness to the Bank, in what would then be a depreciated currency – for of course if the notes could not be bought at a discount, there would be no inducement to buy them at all – and this operation, there is reason to believe, is already pretty generally contemplated by those in a position to be benefited by it.

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<sup>40</sup> From N. (1866, September 22). BANK OF UPPER CANADA NOTES. *Montreal Gazette*, p. 2.

The principles, however, embodied in the Insolvent Act of 1864 and subsequent amendments, may be reasonably expected to guide the process of liquidation of the Bank, and these principles would clearly preclude any benefit being derived from such a course of action as the above on the part of any debtor of the Bank. One of the fundamental ideas underlying that Act is the rigid maintenance after insolvency of the exact relative positions of all parties at the moment of insolvency being declared. The winding up of a Chartered Bank may doubtless exhibit some points of detail, differing from any experience yet gained in the management of the Insolvent estates of private parties, but there can be no doubt that principles of law recognized in both will be essentially the same.

It may, however, be noticed, that while for the reasons above specified, the circulation of the Bank is not likely to be employed to any considerable extent in the payment of debts due to it, it is otherwise with its deposits; that portion of them at least *not* bearing interest being likely to furnish a fair contribution towards the payment of the paper now held by the Bank under discount.

### **“Stoppage of the Bank of Upper Canada”<sup>41</sup> (October 3, 1866)**

The public have long been aware that a large portion of the capital of the Bank of Upper Canada had been lost. A few years ago, in consequence of severe losses, the shares were reduced from \$50 to \$30, and during the last session of parliament power was obtained to cut them down further to \$20. For two years past no dividend has been paid; and the stock gradually sank on the Exchange, until immediately before the stoppage it reached the low point of \$3 per share. So strong a hold had the bank, however, on the popular confidence in Upper Canada, that these facts hardly affected the circulation of its notes. People took them with every confidence in their safety; and in spite of all rumors and the innuendos of rival institutions, a large circulation was kept afloat, and no run against the bank could be got up.

The transference, however, of the government account and the Grand Trunk Railway account to the Bank of Montreal, and the more recent transference of the Great Western Railway account to the Commercial Bank, were heavy blows at the stability of the institution. Coupled with the large lock-up of capital in real estate, taken in settlement of old debts, they practically forced the bank into rapid liquidation.

From month to month the reduction in the liabilities of the bank has been steadily going on, but this drain on its resources unfortunately forbade the possibility of maintaining the business connections of the bank. Under these circumstances it became evident to all interested in the welfare of the bank that the only mode of at once restoring its vitality and realizing its large landed property to the best advantage was by the introduction of fresh capital into the concern. Steps towards that end were being taken, when the new government banking scheme knocked all such calculations on the head.

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<sup>41</sup> From STOPPAGE OF THE BANK OF UPPER CANADA. (1866, October 3). *Daily News* (London), p. 7. Originally published in the Toronto *Globe* of September 19, 1866.

The coercive policy commenced by the Bank of Montreal six weeks ago, and continued ever since, settled the fate of the Bank of Upper Canada. The stoppage of discounts at all the agencies of the Montreal Bank in Upper Canada, and the harsh manner in which every penny due to the bank has been forced in, produced a severe pressure in the money market, from which some of the banks and every business man in Canada is now seriously suffering.

The Bank of Upper Canada felt the full force of Mr. King's reckless proceedings. From the 1st day of August last its circulation was reduced 150,000 dollars, and its deposits were reduced to over half a million of dollars. In the same space the coin of the bank ran down from 357,044 dollars to about 100,000 dollars. Feeling that there could be but one end to this movement should the Bank of Montreal persist in its course, the cashier of the Bank of Upper Canada applied last week to the government for assistance, stating frankly the position of the bank, and offering undoubted security for the amount to be advanced. Government responded to this appeal, and advanced \$50,000. Mr. Cassels asked \$50,000 additional – some delay took place – the fact that such an application had been made reached the ears of Mr. King; and down came the Bank of Montreal on its enfeebled neighbor every morning without mercy, demanding gold for every penny of Upper Canada notes it had succeeded in gathering in. The moment it was in default, the telegraph wires carried the news to every Montreal Bank agency throughout the province, and the run soon followed that closed the doors of the oldest bank in Upper Canada.



## “How Bank of Upper Canada met disaster in 1866”<sup>42</sup> (1925)

The failure of the Home Bank of Canada has been a shock to the people of the Dominion. Not only has it been a calamity to those who had entrusted their savings to its care, but it has tended to undermine, to some extent, the public confidence in the Canadian banking system generally.

A claim has been made by the depositors that, owing to the government's failure to exercise proper supervision, it is morally bound to come to the relief of the sufferers. Almost the only objection raised to this course of action is the fear that it will be a precedent which may be invoked in future cases.

But such a precedent already exists, a precedent in which a government, owing to its relation to a great bank, felt itself compelled to come to the relief of the bank's creditors, and not only did so, but also jettisoned its own claim for preferential treatment for an indebtedness of upwards of a million dollars.

The province which did this was the old province of Upper Canada, now Ontario, and the bank was the Bank of Upper Canada. It may be interesting at the present time to review shortly the history of this old bank and the circumstances surrounding its fall.

During that struggle between the United States and Great Britain, which is known to history as the War of 1812, and which centered chiefly in what is now the eastern part of the Dominion of Canada, large expenditures were necessarily made by the British Government in Canada, in the purchase of supplies for the sustenance and equipment of the troops, and in payment for their services. The authorities found it to be both inconvenient and unsafe to transport across the seas sufficient specie for these purposes, so resort was had to another mode of payment. Accordingly they issued “Army Bills,” partly in small denominations payable on demand without interest, and partly for larger sums which were interest-bearing. These “Army Bills” were redeemable in government bills of exchange on London. They were widely circulated throughout the provinces, and by their use people became quickly accustomed to the use of paper money as a medium of exchange.

With the conclusion of the war the issuance of these bills ceased. Redemption of those outstanding followed soon after and the country soon found the need of some form of reliable currency to take their place. The demand for such a currency was met by the formation and organization of banks of issue, both in Upper and Lower Canada.

In Upper Canada the residents of Kingston took the lead. In 1817 a number of the merchants of that city applied to the Legislature for a charter for a bank to be known as the Bank of Upper Canada, and a bill duly passed to comply with their request. The Lieutenant-Governor, who was by no means the “rubber stamp” of later days, refused to sign it without the direct authority of the London authorities, and reserved it for their consideration and approval. He forwarded it to the Colonial Office

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<sup>42</sup> From Reid, R. L. (1925, May 3). How Bank of Upper Canada met disaster in 1866. *The Sunday Province* (Vancouver), p. 11. Written by Robie Lewis Reid (1866 – 1945).

for instructions, where it peacefully reposed for about four years before that august body gave attention, so the bill did not become law until the year 1821.

#### KINGSTON DROPS OUT OF THE STORY

This delay was not pleasing to the good people of Kingston, who, giving up hopes of getting the charter for the Bank of Upper Canada through, again invaded the precincts of the Legislature in 1821 with a demand for a charter for "The Bank of Kingston." Their request was again granted, but the bill received the same treatment from the Lieutenant-Governor, who refused to sign it and sent it also to London for consideration. Both charters were approved and became law. The Kingston people failed to comply with the terms of the later charter, which required £20,000 to be paid up in specie before the commencement of business, and the charter lapsed, and Kingston drops out of the story.

The charter of the Bank of Upper Canada seemed likely to have the same fate as the Bank of Kingston. However, Toronto was a wealthier city than Kingston and it was thought possible to make a success of it at the capital.<sup>43</sup> The residents there took the matter up; the government agreed to assist by subscribing for one-fourth of its capital, receiving thereby the right to appoint four of the directors: the inner circle of magnates of the city known in later years as the "Family Compact," thinking there might be a chance of its being a pecuniary success, took part in the movement; and in this way the Bank of Upper Canada got under way and became a reality and a power in the financial life of the time.

It took some time, however, to get the bank in operation even in Toronto, and that with all the assistance which could be obtained. Under the charter £50,000 had to be subscribed and £20,000 paid in specie before it could open its doors. This, as in Kingston, was found to be impossible, so the Legislature kindly reduced the necessary amount of capital to £10,000. Even this amount was found difficult to obtain, and it is said that it was only done by appropriating funds from the military chest of the province. The government subscribed the promised quarter of the capital – 2,000 shares of £12-10 currency (equaling \$50 of our money) each, and the bank was in a condition to do business and commenced operations in 1822.

Under its charter the bank was allowed to open branches at any point in Upper Canada. It was given power to issue bank notes for five shillings currency (\$1) and upwards. It was under a statutory obligation to redeem its notes in specie on demand under penalty of being forced to suspend in case of refusal. The charter was to exist until 1848, but of course could be and was renewed by legislative authority.

From a bank standpoint, it commenced business under most favorable auspices. It had received a large part of its capital from the government, an assistance without which it could never have come into existence as a going concern. It was the depository of the government funds. It was backed by the richest and most influential men in Upper Canada. These advantages naturally brought other and lucrative business to its doors. It had everything which Upper Canada could supply to make it prosperous, and prosperous it was, notwithstanding the competition which naturally

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<sup>43</sup> Toronto, then named York, was the capital of Upper Canada from 1797 to 1841.

followed such prosperity. Dividends of 8 per cent. per annum were regularly paid, sometimes with occasional bonuses in exceptionally successful years.

#### CAPITAL RISES TO £100,000

With its prosperity its capital increased. By 1830 there was paid up £100,000. In 1831 it was allowed to increase this to £200,000. Bank of Upper Canada shares looked good to the people of the province. No other investment seemed so safe and lucrative. Everyone with money clamored for the shares, and although they were put on at a large premium and for one day only, with a provision that no subscription could exceed eighty shares, all were taken. Strange as it may seem to us, the premium on the shares was not kept for the purposes of the bank, but was treated as earned profits and immediately divided amongst the old shareholders, who were able to draw from their shares that year not only their regular dividend of 8 per cent., but also a bonus of 18 per cent. out of the premium paid by the new shareholders.

This rosy path was trodden by the bank until 1837. Then trouble came. The year marks one of the greatest financial panics ever experienced in the United States. Six hundred and eighteen banks in that country closed their doors. To the woes caused by private bankruptcies were added those occasioned by state repudiation. Owing to its close business relations with the great republic, business in Canada was seriously affected and added to this the harvests of 1836 and 1837 were almost complete failures. The banks in Lower Canada suspended specie payments early in the year. The Legislature of Upper Canada, recognizing the difficulties in which financial institutions were involved, granted the same right to the banks of that province on certain conditions.

But the Bank of Upper Canada refused to take advantage of the permission so given by the Legislature. With its financial strength and prestige it continued on the even tenor of its way. Its notes continued to be paid in specie on demand as in other and more prosperous times. In this course it was encouraged by Sir Francis Bond Head, the Lieutenant-Governor. But in the latter part of the year there came another shock which forced it to bow its proud head to the financial storm. Armed rebellion broke out in Upper and Lower Canada. Ordinary business ceased to function. In March, 1838, it applied for and obtained from the Lieutenant-Governor permission to suspend specie payments, and this permission continued in force until November, 1839, when the bank resumed its ordinary course of business.

In 1840 the bank lost its direct connection with the government, for in that year the shares belonging to the province were disposed of and it became an entirely private concern, although it continued to retain its business as depository of the provincial funds. These government shares had increased in number from 2,000 to 8,000, with a par value of £25,000 and were sold for £25,250. The province had received from the bank as dividends and bonuses up to the time of sale sums amounting in all to £38,215.

#### BANK CONTINUES PROSPEROUS CAREER

In 1841 the provinces of Upper and Lower Canada united and this allowed the monetary institutions of Lower Canada to enter freely into the financial life of the Upper province. Notwithstanding the competition for business occasioned in this way

and the loss of part of the government business, the bank continued to have a prosperous career. In 1850 it was able again to obtain the exclusive handling of the government account and this added to the prestige of the old bank. It had the complete confidence of the people of the province, who looked upon its "green notes" as absolutely safe as gold itself.

But in the fifties there was in Upper Canada what we Westerners would call a boom. There was a tremendous rise in real estate values and this brought on an orgy of land speculation. Railways were projected and built in every direction. Everyone hastened to obtain part of the immense profits which were being realized. Loans were requested and given on mere accommodation paper and in very large amounts. Loans to railways of immense sums were made. Small business was overlooked in the great prosperity of the country. Large dividends and bonuses were paid on the shares, amounting in one year to 20 per cent. But with all this profit accruing to the bank, no adequate surplus or rest was accumulated and no one seemed to think that there might come less prosperous times, or that it might have losses which would need to be covered.

Then came the inevitable reaction. Values fell and this brought the bank enormous losses. Instead of the government receiving assistance from the bank, the government was compelled to assist the bank. Large amounts of provincial funds had come into its keeping which it could not repay. The crisis of 1857-58 first revealed to the government the true position. To have forced repayment of the government funds forthwith would have precipitated bankruptcy and panic. So matters were allowed to drift under the hope that there would be a favorable turn of affairs and the bank be thereby enabled to carry out its obligations.

Then there arose disputes between the bank and the government, the most important of which was a matter in which the Grand Trunk Railway was involved. A bill of exchange on London for £100,000 sterling or \$486,666 was drawn by the railway in favor of the bank, and this was sold to the government in 1859. This was eventually dishonored by the railway, after some renewals, and the government claimed the bank as its debtor. The bank denied all liability, alleging that its only connection with the matter was as go-between for the purpose of helping the government to assist the railway.

Another disputed claim was for £61,990, which the bank had advanced to the government and which had been by it deposited with a mushroom institution known as the Zimmerman Bank, which soon failed. Certain securities had been taken by the bank from the defunct Zimmerman Bank, but these were not of sufficient value to cover the debt. The bank claimed that the government was responsible for the amount of the loss.

In 1861 the position became so serious that the government was forced to take action. It could not get the deposited funds repaid, for the bank was not in a financial position to do so, but it did insist on a change of management, and Mr. Robert Cassels, formerly manager of the Quebec branch of the Bank of British North America, a most capable man, took his place. Mr. Cassels did all that was possible to save the bank, but conditions had developed to such an extent that it was impossible for him to



succeed in so doing. The capital was reduced from \$3,000,000 to \$1,900,000 and dividends ceased to be paid. The government transferred its current business to the Bank of Montreal, but allowed the indebtedness of the Bank of Upper Canada, amounting to some \$1,150,000, to remain as a special account.

But all without avail. Gradually the business of the bank dwindled until in September, 1866, the Bank of Montreal refused to accept its notes on deposit and it was forced to cease business and go into liquidation.

Liquidation was slow. For some reason, the double liability of the shareholders was not enforced. The expense of liquidation, as usual, was heavy. Values of real estate and of doubtful debts depreciated more and more.

Here the government stepped in and provided the precedent which today might be followed in connection with the Home Bank. In 1870 the whole of the assets were turned over to the government, which paid the creditors seventy-five cents on the dollar in satisfaction of their claims and made no claim to priority on behalf of the Crown. In the end the province made a total loss of about \$1,000,000; the creditors of the bank (other than the province) lost about \$300,000 and the shareholders their whole investment. Such was the fate of the great Bank of Upper Canada.

#### FINANCES OF UPPER CANADA PRECARIOUS

The failure of the Bank of Upper Canada in 1866 left financial matters in the upper province in a serious condition. True, two other banks were operating, the Commercial Bank of Canada and the Gore Bank; but even these had participated in like sins of omission and commission as the senior bank, and consequently were not in a condition to fill its place. A strong bank issue was necessary in Upper Canada and this need forced the organization and establishment of the Canadian Bank of Commerce. Its establishment was none too soon, for within five months after it began to do business the Commercial Bank of Canada went into liquidation. Shortly afterwards the Gore Bank amalgamated with the Canadian Bank of Commerce, and the field was cleared for the success of the new bank.

The head office of the Bank of Upper Canada at the time of its failure, and for many years previously, was the four-story building at the southeast corner of Yonge and Colborne streets, Toronto. This building was purchased from the liquidator of the old bank in 1867 by the Canadian Bank of Commerce and became its head office. Owing to the Government of Ontario coming to the assistance of the creditors of the Bank of Upper Canada and providing for its note issue, it is very difficult to obtain any of the old "green notes" of the bank. Only once in a long time there is one discovered.

Besides those notes the bank issued pence and half pence in copper in the years 1850, 1852, 1854 and 1857 and large amounts of these continued to be in circulation long after the bank ceased to do business. On liquidation there was found in the vaults of the bank some eleven tons of these coins. They were taken possession of by the government and after a time sold to one Chanteloup of Montreal, by whom they were melted down under the supervision of a government officer. There were, however, so many of these coins that they are quite common.

## Aside: The Home Bank Failure and Double Liability<sup>44</sup> (1926)

**For many years, shareholders in Canadian banks were subject to *double liability*: if the bank failed, they were liable for up to *twice* the par value of their shares. It wasn't always easy to make use of this in practice, as the two-year court battle over double liability and the Home Bank shows.**

Shareholders of the Home Bank of Canada, which collapsed August 17, 1923, with liabilities approximating \$10,000,000, must pay the double liability on their shares, if fully paid up, and also contribute the balance unpaid, as well as double liability, if not fully paid up, according to the judgment today of Charles Garrow, K.C., Master of the Supreme Court of Ontario, acting as official referee under the Winding-Up Act. This decision, which is given after a hearing of the case extending over a period of two years, affects about 1,700 shareholders of the bank in various parts of Canada and elsewhere. The only exceptions to the master's ruling as to double liability are certain stock subscribers who paid ten per cent. of the stock price, but were allotted no stock and drew no dividends.

The capital stock of the defunct bank was \$2,000,000, of which \$1,960,000 was reported as paid up. At a conference some time ago the liquidator, G. T. Clarkson, reported that forty of the smaller shareholders had contributed to the extent of their double liability.

Proceedings to compel shareholders of the bank to contribute to the extent of their double liability under section 125<sup>45</sup> of the Bank Act of Canada were commenced January 12, 1924, when summonses were issued against the shareholders to show cause why they should not be added as contributories to the assets of the bank. "Contestations" were filed by 350 shareholders, and the cases were grouped into the one on which judgment was given today.

### MAIN GROUNDS OF DEFENSE

In the proceedings before the referee, M. H. Ludwig, K.C., and A. A. Shuyler, appeared for the liquidator, and J. W. Bain, K.C., and J. G. O'Donoghue, K.C., for the shareholders, or alleged contributories. Four main grounds of defense were put forward by the counsel for the shareholders. They were as follows:

First – That the Home Bank of Canada was never legally authorized to commence business, and, in consequence, was not entitled to accept deposits; that, disregarding claims of depositors, there are assets sufficient to meet the claims of other creditors, and that, consequently, the double liability need not and should not be resorted to.

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<sup>44</sup> From Canadian Press. (1926, January 15). HOME BANK SHARE OWNERS MUST PAY DOUBLE LIABILITY. *Montreal Gazette*, p. 9.

<sup>45</sup> From the equivalent section of the Bank Act of 1890: "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." *The Bank Act* – 1890, c. 31, s. 89.

Second – That the statutory conditions upon the performance of which the certificate is to issue were not complied with. (This referred to the certificate of June 29, 1905, authorizing the bank to do business.)

Third – That there can in an event be no liability on the part of these defendants (shareholders), or of the class to which they belong in respect of two blocks of shares, one of 2,622, spoken of throughout as the Barnard shares or Banque Internationale shares, and the other of 1,066, referred to as the Western Grain Growers' shares, because it is said that the Home Bank trafficked in these shares contrary to the provisions of sections 76 and 77 of the Bank Act.

Fourth – That subscriptions were obtained by misrepresentation. This ground of defense was set up by those who were referred to as western shareholders.

The statute of limitations was also pleaded by the shareholders, but the referee decided that it did not afford a defense.

#### SUMMARY OF JUDGMENT

The referee summed up his judgment in the following paragraph:

“My conclusion upon the whole case is that all the defenses fail and that the defendants and those whom they represent for the purposes of these proceedings must have their names placed upon the list of contributories; those who have already paid for their shares in full, to the extent of the double liability on their shares, and as to the others, to the extent of the balance unpaid on their shares, as well as the double liability. The only exception to this is as to any cases there may be where the ten per cent. was paid and nothing further whatever took place, which cases I have already dealt with in a preceding paragraph.”

In regard to the objection that the bank was never legally authorized to transact business, the judgment says:

“It is not denied that there were subscriptions totaling more than \$500,000, and that the required \$250,000 was deposited, but the contention is that a large proportion of these subscriptions were not *bona fide*, viz., those of the Home Savings and Loan Company shareholders, 3,000 shares; Sir Henry Pellatt, 500 shares; and James Mason, 500 shares.

“Mr. Bain (counsel for shareholders) was careful in his argument to insist upon distinguishing his contention based upon a lack of *bona fides* in the subscriptions, such as have been referred to, and a resulting ineffectual appointment of permanent directors, from the contention also relied upon by him, that the requirements of the statute had not been complied with as to obtaining the certificate under sections 14<sup>46</sup> and 15<sup>47</sup> to enable the bank to commence operations. Of course, the two contentions

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<sup>46</sup> “The bank shall not issue notes nor commence the business of banking until it has obtained from the Treasury Board a certificate permitting it to do so, and no application for such certificate shall be made until directors have been elected by the subscribers to the stock in a manner hereinbefore provided; and every director, provisional director or other person, issuing or authorizing the issue of the notes of such bank or transacting or authorizing the transaction of any business in connection with such bank, except as in hereinbefore provided, before the obtaining of the certificate from the Treasury Board, shall be guilty of an offence against this Act.” *The Bank Act* – 1890, c. 31, s. 14.

<sup>47</sup> “No certificate shall be given by the Treasury Board until it has been shown to the satisfaction of the Board, by affidavit or otherwise, that all the requirements of this Act and of the special Act of

are distinguishable, but it is impossible to my mind to overlook the fact that before a certificate could be obtained under section 15, it was necessary to satisfy the board that all the requirements of the act as to the payment required to be made to the Minister of Finance and Receiver-General, the election of directors, deposit for security for note issue, or otherwise have been complied with. Now, all this was done. The board was satisfied among other things as to the validity of the election of the directors, and it appears to me that, even if my conclusion were wrong as to the *bona fides* of the subscriptions, it would avail nothing, because that was one of the very things upon which the board was satisfied before issuing its certificate, and the authorities (referred to later) are clear that after winding-up it is too late to question the grounds upon which the certificate was issued.”

“This brings me to the second ground of defense raised, namely, that the statutory conditions upon the performance of which the certificate is to issue were not complied with; section 14 and 15 of the statute of 1890 already referred to.

“It would be, I think, an extraordinary state of affairs in a contest between creditors and shareholders if twenty years after this institution was authorized to commence business those who had been for the greater part of that time receiving their dividends regularly on their shares should now be permitted to say to those whose money largely went to pay those dividends, ‘this bank from which we have been deriving profits (perhaps illegally) never was a bank at all; although we, through our directors, took your money for the purpose of carrying on a banking business, we now learn that we had no right to do so, and, therefore, you must lose your money while we retain the dividends paid, and will not be liable for anything further in respect to our shares.’ I do not stop to consider whether if this could by any possibility be sound, the individual shareholders might not nevertheless be liable as partners, not only to the extent of their double liability but to the full extent of the losses of the institution.”

## TWO BLOCKS OF SHARES

“Then the next defense discussed is this, that there can be no liability on the part of these defendants or of the class to which they belong, in respect of two blocks of shares, one of 2,622, spoken of throughout as the Barnard shares or Banque Internationale shares, and the other of 1,006 referred to as the Western Grain Growers shares, because it is said the Home Bank trafficked in respect of these shares contrary to the provisions of sections 76 and 77 of the Bank Act.

“On the question of fact, it is, I think, almost admitted, certainly the evidence all points to the conclusion, that it is a complete impossibility to trace with certainty any of the shares of these two blocks to any of the defendants, and, therefore, even if otherwise the defense was a valid one, it is one which these defendants cannot avail themselves of.

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incorporation of the bank, as to the payment required to be made to the Minister of Finance and Receiver General, the election of directors, deposit of security for note issue, or otherwise, have been complied with, and that the sum so paid was then held by the Minister of Finance and Receiver General; and no certificate as aforesaid shall be given except within one year from the passing of the Act of incorporation of the bank applying for the said certificate.” *The Bank Act* – 1890, c. 31, s. 15.

“On the question of law, it has been determined in several cases in our own courts that even if trafficking by the bank in its own shares is established, that fact affords no defense to contributories after a winding-up order.

“First as to the Banque Internationale shares. One H. K. Ridout, had in the year 1912 acquired an option on a block of shares of this bank, which carried on business largely in Quebec. These shares were sufficient in number to go a long way towards controlling the future of the bank, and forcing a sale of its assets, if that should be desirable. For this option Ridout had paid the sum of \$10,000. C. A. Barnard, K.C., of Montreal, was a friend of Ridout, and although the latter held the option in his own name, it was understood by Barnard at least, although why it is not quite clear, that if the option was taken up he would share with Ridout in the profits. Barnard was at that time a wealthy man and engaged apparently in large transactions of this nature, either alone or with a group of friends. Both he and Ridout felt that there was a lot of money to be made in connection with this option, and no doubt the former was greatly disappointed when he learned from Ridout, as he did, that on this occasion at least Barnard was to be left out and Ridout alone was to reap the profits.

“It is contended that throughout this transaction, Barnard was acting for and on behalf of the Home Bank and was simply its agent. I am unable to agree with this. There is no doubt whatever that Mason strongly desired to secure the assets of the French bank for the Home Bank, if it could be accomplished on profitable terms, nor that the shares controlled by Barnard would be a determining factor as the possibility of effecting such a sale. And there is no doubt that Mason was determined that he should as far as possible control the voting power of those shares after the completion of the sale, if it was to be completed. But this, I think, is as far as the evidence goes.”

#### WESTERN SHAREHOLDERS

“The last ground of defense relied upon is that set up by those who were referred to as the western shareholders. In the years 1909 and 1910, there appears to have been a special effort made to sell the shares of the bank in western farming communities, and many shares were sold; the applicants for shares in each case signing subscriptions and paying ten per cent. of the purchase price. It is said that many of these subscriptions were obtained by misrepresentation. On that ground it is of course hopeless for these subscribers to ask for relief; indeed, it was not seriously urged as a defense.

“But it is argued that it is not shown that they were (many of them) shareholders, because no notice of allotment is proved to have been received by the shareholders. There is no magic in the word ‘allotment,’ it has been held. What is required to be proved is a completed contract, and that may be proved as any other contract may be, and it is not essential that formal notice of allotment be established, if, in fact, the contract is otherwise made out.

“Many of those who made this contention, most of them I think, admitted receiving and cashing dividend cheques, and this, in my opinion, apart from the books and records, is sufficient proof of the completion of the contract, and of the acceptance of the application by the bank and of the allotment of shares. This includes, in my

opinion, the case of Mrs. Dickie, whose signature was made to the application by her husband; she says without her consent. She did, however, herself subsequently endorse dividend cheques.

“The referee’s judgment excepts the case of some of the western shareholders in the following paragraph:

#### BUT FEW EXCEPTIONS

“There may be a few cases in which nothing appears but the application and the payment of the ten per cent., with no proof of allotment or notice thereof, or of payment of dividends of any kind between the bank and the subscriber. In those cases, if there are any, in my opinion the subscriber [is] not liable as a shareholder in any respect, either for the balance of the subscription or in respect of double liability.”

The judgment continues:

“The statute of limitations also is pleaded, but I do not think it affords a defense. The document signed by each subscriber contains an application for the allotment or transfer of so many shares, an agreement to accept the shares applied for and to pay the same as follows: Ten per cent. with the application, and the balance (in the one I have before me), on May 1st, 1910. It also purports to appoint Mason and Street attorneys of the subscriber to accept the shares, and Partridge, Kennedy and Crerar, or one of them, as proxy for the subscriber to vote at all meetings. Opposite the signature is a reproduction printed in red ink of a seal, but there is nothing beyond this in the document to indicate that it is in fact to be regarded as an instrument under seal.

“I do not think that any question arises as to the statute of limitations, but if it does I would hold that the unpaid balance is in the nature of a debt secured by specialty and recoverable at any time within 20 years.”

#### \$2,500,000 INVOLVED

Two and a half million dollars is involved by the judgment given out today. If only half of the double liability were collected, it would mean a big dividend on the deposits in the bank. It would appear, however, that any such possible payment is in the distant future.

The heaviest shareholder in the Home Bank was the president, the late H. J. Daly, who held 2,114 shares with a par value of \$211,460. None of the other directors were heavy shareholders, R. P. Gough, vice-president, having only 82 shares. There were very many small shareholders, whose holdings ranged from one to forty shares.

The Home Bank closed its doors on August 17, 1923. Ten officials and directors were arrested during October of the same year. The late H. J. Daly, president of the bank when it failed, one of those arrested, never faced trial. The charge which was laid originally against A. E. Calvert, one of the bank staff, was withdrawn. The eight others were all tried for alleged offences under the Canadian Banking Act. All were convicted on at least one count. Sidney H. Jones, bank auditor, was sentenced to jail for four months and served his term. Ocean G. Smith, chief accountant, was convicted, but allowed out on suspended sentence. The directors, R. P. Gough, S. Casey Wood, J. F. M. Stewart, F. J. B. Russell, C. A. Barnard and Colonel Clarence Smith, were all convicted in the county criminal court, and sentenced to terms of from

four to eighteen months' imprisonment. The convictions and sentences were later quashed by the Supreme Court of Ontario.

Depositors were paid 25 cents on the dollar by the liquidator. The Federal Government later supplemented this with a "compassionate allowance of 35 cents on the dollar for depositors of less than \$500."

#### CHARGES AGAINST DALY

H. J. Daly, who was president of the Home Bank when it closed its doors, and who died before charges of conspiracy in connection with the failure came to trial, is accused in the judgment of Official Referee Garrow given out today on the double liability case, of trafficking in shares, with the bank's money "to secure the commanding position which he afterwards obtained." Speaking specifically of the Grain Growers' shares, which Daly acquired, the judgment said: "There is no doubt whatever that, whether or not the bank was trafficking in shares, certainly Daly was, and with the bank's money. . . . There is nothing in the evidence to indicate a desire on the part of the bank to control or hold this stock in order to keep up the general price on the market, and I am quite satisfied that if there was money to be made out of it, it was Daly's intention that the profits should be his and not the bank's. It is undoubtedly true that it was largely money of the Home Bank improperly made use of by Daly that enabled him to acquire these shares, but it does not follow that they were held by him for the bank."

## The Depression of 1876

### “Stray notes”<sup>48</sup> (April, 1876)

During a trip, lasting three or four days, as far as St. Catharines, we saw and heard a good deal about the depression that has been existing for some months past throughout the Dominion, and from all we could glean, we are only more fully confirmed in the opinion that we have frequently expressed, that it is purely the result of reckless extravagance and trading upon credit. This extravagance has created a greater demand for manufactured articles than the country was in a position to pay for, and now that payment is called for, for that portion that has been used it cannot be done, the debtors being compelled to go under. Of course, the demand for manufacturers has decreased, throwing numbers out of employment.

In the streets of St. Catharines and Hamilton can be met hundreds of men out of employment, but they are not willing to accept it from farmers who offer them wages that are in keeping with the income of farm business. To give these loafers work at higher wages than they can under ordinary circumstances now obtain, a few short-sighted city papers are crying out for protection, but we are glad to see that many in these cities, even manufacturers, are sufficiently versed in political economy as to know that such a system would, in a short time, only intensify the evil.

The changeable weather, causing bad roads, has materially increased the effects of the depression. Generally, a large amount of teaming is done throughout the winter, but this winter scarcely anything has been done. We feel certain that so soon as navigation opens business will revive, and by the check that has been given to extravagance, the country will soon be in as flourishing a condition as ever it was.

### “Trade depression”<sup>49</sup> (April, 1876)

We have repeatedly stated that we did not look upon the so-called depression of trade, through which the country has lately been passing, as an altogether unmixed evil, or as one that could not have been avoided, and as time elapses and developments take place, we are more than ever, if possible, confirmed in that opinion. The bankruptcies that are so frequently being made public just now are not evidences of any lack of prosperity in the country, but that there has been a lack of commercial prudence and common honesty, and a shameful degree of extravagance and breach of confidence. There [have] been but few breaks lately but of those that were really unsound, even if there had been no stoppage of trade, and it is only this stoppage that has brought their rottenness to light, and instead of causing despondency, there is cause for rejoicing that the commercial community has, in some measure, been purged of those pariahs, and that a sounder and more healthy state of

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<sup>48</sup> From STRAY NOTES. (1876, April 6). *Clinton New Era*, p. 2.

<sup>49</sup> From TRADE DEPRESSION. (1876, April 20). *Clinton New Era*, p. 2.



trade will be certain to follow. As a proof that our conclusions are in keeping with facts, we refer to the following from the *Montreal Witness*:

The revelations now being made as to the business policy and management of many large firms affords a sad commentary on the real condition of our mercantile classes during the years just passed, which have been deemed so prosperous. We have before us the statement of the affairs of one firm, high in repute and presumably doing a splendid business, which shows that no proper balancing of the firm's books has taken place for some years, and that the partners kept on drawing from \$7,000 to \$8,000 per annum, utterly regardless of the question whether profits were made to that extent or not. Indeed, in years when no profits at all were made, the private spending was kept up at this enormous rate. This estate now shows a deficit of \$135,000 on \$305,000 owing, about one-third being to English merchants. The accountant's report is that the average drawings of the partners in this firm has been \$14,447.71, and average profits \$1,148.77; so that these gentlemen have for fifteen years been living luxuriously on the money of their creditors – a meaner mode of life than a pauper's.

Another case is before us of excessive drawings year by year, and from a business in which there was neither capital nor profits – a form, in short, of the “confidence game” carried on under the disguise of trading operations.

Even worse, if possible, is a third case of a firm doing an immense business with a very small capital, if any at all, who have manufactured accommodation paper<sup>50</sup> to a large amount, and from this fraud have gone on to another department of paper-making, that of forging<sup>51</sup> signatures. This question of accommodation paper has to be met by our Canadian bankers<sup>52</sup> in a very different spirit to that prevailing

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<sup>50</sup> A practice by which a party wishing to obtain credit, but not having collateral, can present an “accommodation paper,” or note, endorsed by another party of known reputation. The endorsing party is “on the hook” if the credit thus obtained is not paid back. In the 1870s it was often referred to as “kite-flying” by its detractors. An example of a failure caused by accommodation papers: “The immediate cause of the suspension of Messrs. W. Ross & Co., of Picton and Wellington, was the granting of a large amount of accommodation paper to W. S. Wood & Co., of this city, for which they hold no security. It is difficult to understand how a firm of the standing and reputation for business ability of Ross & Co. could have been induced to assist Wood & Co. in their extensive kite-flying operations.” FINANCIAL. (1877, December 3). *Montreal Gazette*, p. 3.

<sup>51</sup> “MONTREAL, April 3. An examination of the affairs of Ireland, Gay & Co., insolvents, having disclosed the issue of a large amount of forged papers, the creditors have decided upon a criminal action against the firm. About \$15,000 of this paper on which the names of country customers were fraudulently used, is in the hands of bankers.” HEAVY FORGERIES BY A MONTREAL FIRM. (1876, April 4). *Boston Transcript*, p. 2.

<sup>52</sup> Reliance on accommodation paper had fallen in the early 1860s: “In attempting to account for and justify the harsh conduct of the Bank [of Montreal] in Ontario in 1864-5, the Directors reflect upon what they are pleased to term the ‘old system’ of banking, under which a large portion of the business of the country was carried on by accommodation paper, and state that the violent curtailment of loans during these years was the result of the process of eliminating this class of paper. [...] The system of making advances on accommodation paper unrepresented by produce or lumber is, we have reason to believe, almost entirely abandoned by the Ontario Banks, and in the more recently established banks has never been admitted in practice to any considerable extent.” Correspondent. (1867, December 2). THE BANKING QUESTION – A REVIEW. *Montreal Gazette*, p. 1.

generally amongst their customers. The plethora of [lenders who abandoned] the wholesale rules of banking, and utterly fallacious and irrelevant precedent, that of the Scotch banks<sup>53</sup>, has been used to blind the eyes of those who have been engaged in “kite flying” to the gross irregularity and fraudulent tendency of making bills and notes solely for the purpose of raising money, of manufacturing, privately as it were, a currency, which the Legislature has declared to be the privilege of only the State and of chartered banks, the true nature of which and its guarantees being publicly known.

Another base form of fraud the hard times has brought to light is seen in the suit brought lately by the trustees of a lady against her guardian, a merchant in high standing, who had taken \$400,000 of trust money to gamble with and lost it. A very remarkable escape this “guardian” has had from enforced retirement from the scene of his exploits. We have known offenders in this line compelled to leave business for life.

These disclosures are terrible. Their influence abroad is a national calamity, and the tender treatment of these cases locally by those whose duty it is to hold up the interests of honest trading, has been severely criticized abroad as evidence of national corruption.

### **“A few observations”<sup>54</sup> (February, 1876)**

It may be well, before going further, to offer a few observations on what appeared to me to be the cases of the prevailing depression which we all deplore. I do not think there will be found any great difference of opinion as to what the causes are, although I am inclined to believe there will be a wide divergence as to the extent to which they operate and the way they act upon each other.

I think it must be abundantly plain to anybody who watched the extraordinary expansion of our commerce during the past few years, and also of banking discounts during the same period, that one considerable element of the present depression is due to the large over-importation that has taken place. We find the imports entered for consumption increased as follows: \$87,000,000 in 1871; \$107,000,000 in 1872; \$127,000,000 in 1873. Then they remained stationary for a year and last year they fell to \$119,000,000.

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<sup>53</sup> Scottish banks had made great use of accommodation paper in the 1850s, sometimes with tragic results: “In several instances houses which have lately suspended and submitted their accounts to creditors have been discovered to have followed the practice of fabricating accommodation paper. [...] In one case within the present week it has transpired that bills were regularly created between one house and another for a trifling commission, with a full knowledge on the part of the acceptor that they represented no business operation whatever, and that in the event of accident he had not a shilling wherewith to meet his liability, except at the expense of his ordinary creditors. Some of the knot of Glasgow failures also, which were announced about the middle of last month, are understood to have revealed a combination in this direction of a most gigantic kind.” MANUFACTURE OF FRAUDULENT ACCEPTANCES. (1857, November 25). *Montreal Gazette*, p. 2.

<sup>54</sup> From Cartwright, R. J. (1876, February 26). Parliament of Canada. *Montreal Gazette*, p. 2. Written by Richard John Cartwright (1835 – 1912), then Minister of Finance.

We find during the same period that the bank discounts rose from forty-nine or fifty millions of dollars in 1869, on the 1st of July, to \$61,000,000 in the same period of 1870, \$79,000,000 in 1871, \$102,000,000 in 1872, \$116,000,000 in 1873, and \$130,000,000 in 1874, at which point they appear to have remained tolerably stationary.

It is perfectly clear by these figures that there was, to say the least, a very considerable risk that many of our importers were holding vastly larger stocks than it was at all prudent for them to do; and after this process had gone on for some years they were confronted with the disturbance in trade to which I have alluded. It is no wonder very serious distress was inflicted on some of these people.

These causes operate in two ways: In the first place there was a very large depreciation in value, caused from the fact of carrying over these stocks from year to year. There can be no doubt a very large proportion of the distress in commercial quarters is very largely attributable to this case. The second cause which has operated very powerfully is the unfortunate depression that has prevailed for some years in that great branch of industry – the lumber trade. Everybody who has paid any attention to our affairs, particularly in Ontario, Quebec and New Brunswick, is aware, perhaps, this is the largest single industry in the country except the agricultural. They are also aware that it gives support and employment to several hundreds of thousands of people, and furnishes one-third of our exports to foreign countries. From the nature of the trade and the amount of money it puts in circulation, it is one of great importance to all classes of the community.

It is no secret that this industry has been depressed for a considerable period. For that there were, of course, the ordinary causes. In the first place, it was aggravated by the depression in the United States. I believe, sir, it will be found that no inconsiderable part of that depression resulted from very common causes, as that of a number of people without sufficient capital and experience choosing to engage in the production of lumber in the face of a falling market, stimulated, no doubt, by the fact that many of my hon. friends had been accumulating very rapid fortunes. Then, sir, when the great fall of prices took place in the United States two or three years ago – thereby cheapening, of course, the productions of that country – it became very difficult for our lumbermen to compete on reasonable terms with the American lumbermen with a large class of that article they imported to that country; and this, sir, I deem to be another and very potent influence indeed in producing the present depression.

There was besides all this, general extravagance and over-speculation, which unfortunately always follow any period of inflation or great prosperity continued for several years. Everyone knows our market is limited. Everyone knows that there are few manufacturing industries which will allow more than a certain number of people to engage in them, and I think, sir, most people who have watched the course of business in this country will agree with me, that during the last few years a very considerable number of persons had engaged in manufacturing enterprises and, as was well said on a recent occasion, many of them possessed neither the brains nor the money to bring them to a successful issue. And although I know our banks are

exceedingly well managed and conservative in their way of carrying on business, and although I don't at all mean to say they are one whit worse than their peers in the United States or Great Britain for the matter of that, still I say that various banking institutions of this country are not wholly guiltless in this matter.

Every one who know much about the mode of carrying on banking business is aware that banks, when they have accumulated large sums of money, discount largely to men of straw. Nothing they can do does such frequent injury to banks as encouraging adventurers of that class who have entered into speculations, and I don't hesitate to venture to say that no inconsiderable portion of the depression has arisen from that cause. I don't mean to say that our Banks are worse than those of other countries, but I merely mean to say that it is a course common to all Banks, so far as I know, to grant discounts at such times to persons on terms which no legitimate enterprise would warrant.

These causes, Mr. Speaker, appear to be the chief internal causes, so far as I can at present ascertain, which have led to the depression. But it must be remarked that our distress has been considerably aggravated by external causes over which we had no sort of control.

The House knows that the people of the United States have been laboring for two or three years under the most unusual depression. The House knows also that it is quite impossible for a small community like ours, placed as it is in the immediate vicinity of a great nation of forty-four million people bordering on us for two or three thousand miles – the House knows, I say, that it is quite impossible that any long-continued permanent depression can exist in the United States without reacting very powerfully upon us. We know, sir, that when the prices of American staples are high, ours will be also; when labor is dear in the United States, it will be dear in Canada; when cheap, it will tend powerfully to make it cheap in Canada also. And it is no source of wonder that when the cost of production becomes small in the United States, it should react more or less unfavorably to those persons engaged in similar manufactures on this side. I do not propose at this present moment to enter fully into the discussion raised as to Canada being a sacrifice or a slaughter market, but I must admit candidly and honestly that I have no doubt that the distress of the manufacturers has been aggravated, though I will not say to what extent, by this cause.

Then, unfortunately for us, the preceding year was one of general financial trouble throughout the world. I do not know a country in Europe that has not suffered during the year that has just closed. There can be no greater mistake than to suppose that the commercial depression which we all regret so much is confined to New York or Montreal alone. Everybody who knows anything of the state of commerce in those places cannot but know that in London, Berlin, Vienna, Moscow and St. Petersburg to boot, there is a very great and long-continued commercial distrust and depression, and no doubt this did react considerably on the state of things here. [...]

I do not believe it is necessary for me to dwell on this theme any longer. From all these facts that I have laid before the House, this result, if no other, appears tolerably patent to my mind: if more men and more capital are engaged in any

business than it legitimately requires, there is nothing more likely than that you will have distress; and it does not matter whether your market be four or forty million, or four hundred million; over-production will always produce distress. Nor does it very much matter for that particular purpose whether free trade or protection is the policy.

### **“Sir A. T. Galt on Dominion trade”<sup>55</sup> (June, 1876)**

Sir A. T. Galt, for some time Finance Minister in Sir John Macdonald’s Administration, lectured in Toronto on Wednesday evening on the state of Canadian finances and the present business depression. At the outset he desired to steer clear of all political bias. He referred to the important place Ontario occupied as a portion of the Dominion.

In regard to the cause of the existing depression, he stated that he had arrived at the conclusion that it had arisen from “general extravagance, extravagance individually, extravagance nationally, and extravagance in the Government.” After pointing out that during the first four years of Confederation prudence characterized the action of the Government and “laid the basis of a general and national prosperity,” he proceeded to allude to the expansion which took place, to the increased expenditure connected with additional works, to the increase of imports over exports, and the increase in the public debt.

“The true remedy,” said Sir Alexander, “for the general commercial distress in the country was to put the break on and stop to a large extent the excessive importations which had taken place. If we import more than we can pay for, our efforts must inevitably lead to a disastrous failure.”

Sir Alexander favored a reduction of the national expenditure.

### **“Sir Francis Hincks on the commercial depression”<sup>56</sup> (June, 1876)**

At a meeting of the Consolidated Bank of Canada, in Montreal, Sir Francis Hincks made a speech in reply to Sir A. T. Galt on the depression of trade. He did not agree with Sir Alexander, that the depression in trade was caused by over-trading or extravagance, as he alleged, but rather from the reaction that had taken place after an extraordinary amount of money had been spent upon public works, which created a necessity for importation of articles required by new consumers. He concluded that they could not help themselves, so trade had been stimulated by these expenditures, which had now ceased, and a reaction had taken place.

“I am sure many of the gentlemen here,” [said Sir Francis,] “will remember that precisely the same kind of reaction took place in connection with the Grand Trunk [Railway] many years ago, and it necessarily follows [...] these works; whether productive or unproductive, for my argument, it is of secondary importance. The large

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<sup>55</sup> From SIR A. T. GALT ON DOMINION TRADE AND FINANCES. (1876, June 2). *Daily News* (Kingston), p. 2.

<sup>56</sup> From Sir Francis Hincks on the Commercial Depression. (1876, June 10). *Daily Expositor* (Brantford), p. 2.

amount of expenditure creates loss, and has been the cause of what is designated over-trade, and also designated as extravagance, whereas the merchants concerned have been unable to prevent it, and have suffered from the reaction that has taken place – a reaction they could not face.”

### **“Mercator” on “The state of the country”<sup>57</sup> (June, 1876)**

The retrospect of our condition of the past two years – the now and the then – reveals an altered state of commerce and wealth, and of diminished individual prosperity, that the soberest and gloomiest thinker could never have portrayed. Yet it is but the sure result of diverted trade, and the decentralizing process we are undergoing, initiated and fostered by the stubborn and blinded rulers it is the misfortune and calamity of Canada at present to possess. That a so-to-speak tidal wave of depression is passing over many countries, one cannot but acknowledge – a depression mainly attributable to the inflation and extravagances that the great internecine war in the United States entailed on itself, and by contact to some extent affected other lands. But to argue that a little community like Canada should be a sharer in these woes because others are afflicted is sheer nonsense.

Our trouble is this: The policy of the misguided amateurs who now rule our destinies has been, under the delusive guise of free trade, to denationalize our country, and on the buncombe cry of “cheapness for the masses” allow our foreign commerce to go by the board, and open New York and Boston markets to the whole land, to the ruin and collapse of all importing and manufacturing interests.

To those who have been absent, say from Montreal, for a couple of years – the present aspect of the city is one of empty stores; gloom, depression, insolvency – and in the middle classes of society an anxiety as to how employment or even food can be assured for the ensuing winter. And this condition is not at its worst yet. We have to see lower depths. There is an inevitability in the course of commerce, which, if tampered with or diverted, must result in certain causes, and the causes which are operating against us are all-powerful and absorbing, and cannot result in any other climax than annexation. [...]

Already our population is largely diminished – our best energy and young blood are leaving us in shoals – and, worse still, our capital, too. And Montreal, to-day, is left but the ghost of her former self. Reports from the country tell us that the farmers are beginning to find out that cheap goods and cheap living bring them lessened prices for their produce and grain; and many feel they would rather pay more and get remunerative returns for their products. The cheap and nasty policy is very evanescent – it is soon seen through, and flimsiness is its characteristic.

Sir A. T. Galt gives a no uncertain sound, in his speech at Toronto on Wednesday night, and he plainly and clearly shows where we are drifting. Our tea trade and our sugar trade gone, with others departing, and nothing in return but a half-starving population. [...]

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<sup>57</sup> MERCATOR. (1876, June 7). The State of the Country. *Daily News* (Kingston), p. 4.

The Americans own to being in a bad way, but it is in comparison with their former prosperity. They have a fair foreign trade, all their home markets, and Canada's besides. We have lost our home commerce entirely; it has gone to New York and Boston, and as regards foreign trade, it is *nil*. Our national influence abroad is about equal to that of the State of Vermont.

Let us arise and change our false position before poverty takes us as supplicants to Washington for annexation.

## Accommodation Paper

**In this section, we take a closer look at this once-ubiquitous feature of Canadian banking. After an overview, the section includes two accounts of a business failure, and a report of a court case, related to accommodation paper.**

### “On accommodation bills”<sup>58</sup> (1876)

This is a species of credit which demands great attention, because it is the curse and plague spot of commerce, and it has been the great cause of those frightful commercial crises which seem to recur periodically; and yet, though there can be no doubt that it is in many cases essentially fraudulent, yet it is of so subtle a nature as to defy all powers of legislation to cope with it. [...]

There is nothing essentially dangerous or fraudulent in a credit being created for the purpose of promoting future operations. On the contrary, such credits have been one of the most powerful weapons ever devised by the ingenuity of man to promote the prosperity of the country. A certain species of this credit, however, having been grossly misused for fraudulent purposes, and having produced great calamities, we must now examine wherein the danger and the fraud of this particular form of credit lie.

When a Bill of Exchange is given in exchange for goods actually purchased at the time, it is called a Real Bill, and it is supposed by many writers, and even by many commercial men, that there is something essentially safe in it; because as the goods have been received for it, it is supposed that they are always there to provide for the payment of it; and that only so much credit is created as there are goods to redeem it.

But such ideas are highly erroneous. A Bill of Exchange, it is true, only arises out of a transfer of goods; but then a fresh bill is created at each transfer. In the ordinary course of business, there will always be in general at least *twice* the amount of bills to what there are goods. But if twenty transfers took place, twenty bills would be created. If goods to the amount of £100 were transferred twenty times, supposing even that the price of the goods did not change, which it most assuredly would, there would be credit created to the amount of £2,000. And it would only be the last holder of the goods who would have them, and be enabled to devote the proceeds to the payment of the last bill only. The remaining nineteen bills must evidently depend on other sources for payment.

The security, therefore, which is supposed to reside in Real Bills, on account of their being founded on the transfer of goods, is shown to be to a great extent imaginary. Suppose, however, that A sees that a profitable operation may be done. The Bank will not, as traders do, make him an advance on his own name alone. It must have at least *two* names. A therefore goes to B, and gets him to join him as security to the bank, on engaging to find the funds to meet the bill when due. A then

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<sup>58</sup> From ON ACCOMMODATION BILLS. (1876, May 19). *The Journal of Commerce, Finance and Insurance Review* (Montreal), 2(14), 377-379.



draws a bill on B, who accepts it to *accommodate* A, as it is called, and such a Bill is called an *Accommodation Bill*.

The Bill thus created without any consideration, as it is termed in legal language, or in common language without any transfer of goods, may be taken to a banker to be discounted like any other bill; an operation may be performed, and if successful the bill may be paid with the proceeds.

Stated therefore in this way, there is nothing more objectionable in such an Accommodation Bill than in any ordinary Real Bill. The security is just the same in one case as in the other. In the one case goods *have been* purchased, which will pay the bill; in the other case goods *are to be* purchased, whose proceeds are to pay the Bill. In fact, we may say that all commercial credit is of this nature, because a credit is created to purchase the goods whose proceeds are to pay it. There is, therefore, clearly nothing in the *nature* of this paper worse than in the other, and when carefully used, nothing more dangerous. Cash credits, which have been one of the safest and most profitable parts of Scotch banking, and have done so much for the country, are all of this nature. They were created without any anterior operation, for the express purpose of stimulating future operations out of which the credit was to be redeemed. There is, therefore, not anything more criminal, atrocious, and vicious in the one system rather than in the other. Or if there be, the criminality and atrocity must lie in the difference between *have been* and *is to be*.

Nevertheless, as it is indubitably certain that most of those terrible commercial crises which have so frequently convulsed the nation have sprung out of this species of paper, it does merit a very considerable portion of the obloquy and vituperation heaped upon it. It is therefore now our duty to investigate the method in which it is applied, and to point out wherein the true danger lies.

The security supposed to reside in Real Bills, as such, is as we have seen exaggerated. But there is at least this in them, that as they only arise out of the real transfers of property, their number must be limited by the nature of things. However bad and worthless they may be individually, they cannot be multiplied beyond a certain limit. There is, therefore, a limit to the calamities they cause. But it will be seen that with Accommodation Bills, the limits of disaster are immensely and indefinitely extended, frequently involving in utter ruin all who are brought within their vortex.

We shall now endeavor to explain to our readers wherein the difference between Real and Accommodation Paper consists, and wherein the true danger lies.

Let us suppose that a manufacturer, or wholesale dealer, has sold goods to ten customers, and received ten *bona fide* trade bills for them. He then discounts these ten bills with his banker. The ten acceptors to the bills, having received value for them, are the principal debtors to the bank, and are bound to meet them at maturity, under the penalty of commercial ruin. The Bank, however, has not only their names on the bills, but also that of its own customer as security. It, moreover, generally keeps a certain balance of its customer's in its own hands, proportional to the amount of the limit of discount allowed. Not [sic.] even under the best circumstances, an acceptor may yet fail to meet his bill. The Bank then immediately debits its

customer's account with the amount of the bill, and gives it to him back. If there should not be enough, the customer is called upon to pay up the difference. If the worst comes to the worst, and its customer fails, the Bank can pursue its legal remedy against the estates of both parties to the bill, without in any way affecting the position of the remaining nine acceptors, who, of course, are still bound to meet their own bills. Even supposing, however, it is only the acceptor who fails to meet his bill, the Bank would not probably take a second bill upon him, nor would a dealer sell his goods again to him, after giving him the annoyance of having to take up his bill.

In the case of Accommodation Paper there are very material differences. To the eye of the banker there is no visible difference between Real and Accommodation Bills. They are nevertheless very different, and it is in these differences that the danger consists.

In Accommodation Papers, the person for whose accommodation the drawing, endorsing, or accepting is done is bound to provide the funds to meet the bill or to indemnify the person who gives his name. In the most usual form of Accommodation Paper, that of an acceptance, the acceptor is a mere surety, the drawer is the real principal debtor.

Now suppose as before, that A gets ten of his friends to accommodate him with their names, and discounts these bills this banker's; it is A's duty to provide funds to meet every one of these bills at maturity. There is in fact only one real principal debtor, and ten sureties. Now, these ten accommodation acceptors are probably ignorant of each other's proceedings. They only give their names on the express understanding that they are not to be called upon to meet the bill: and accordingly they make no provision to do so. If any one of them is called upon to meet his bill, he immediately has a remedy against the drawer. In the case of Real Bills, then, the Bank would have ten persons, who would each take care to be in a position to meet his own engagement: in the case of Accommodation Paper, there is only one person to meet the engagements of ten. Furthermore, if one of ten real acceptors fails in his engagement, the bank can safely press the drawer: but if the drawer of the accommodation bill fails to meet one of the ten acceptances, and the bank suddenly discovers that it is an accommodation bill, and they are under large advances to the drawer, they dare not for their own safety press the acceptor, because he will, of course, have immediate recourse against his debtor, and the whole fabric will probably tumble down like a house of cards. Hence the chances of disaster are much greater when there is only one person to meet so many engagements, than when there are so many, each bound to meet his own.

We see, then, that the real danger to a bank in being led into discounting Accommodation Paper is, that the position of principal and surety is reversed. They are deceived as to who the real debtor is, and who the real surety is, being precisely the reverse to what they appear to be, which makes a great difference in the security to the holder of the bills. To advance money by way of cash credit, or by loan with security, is quite a different affair; because the bank then knows exactly what it is doing, and as soon as anything occurs amiss, it knows the remedy to be adopted. Moreover, it never permits the advance to exceed a certain definite limit; but it never

can tell to what length it may be inveigled into discounting Accommodation Paper until some commercial reverse happens, when it may discover that its customer has been carrying on some great speculative operation, with capital borrowed from it alone.

In order to explain how such things are possible, it will be as well to notice a delusion which is very prevalent among uninformed writers, namely that Bills of Exchange must always be expressed to be payable in money, but [...] very few bills are really ever paid in money. When a customer has a banking account, the banker discounts his bills by writing down the amount to his credit, and this credit is called a *deposit*. The customer always pays his bills by drawing upon this credit, and when it gets low the usual practice is for him to discount a fresh batch of bills. Thus in ordinary times, the previous debts are always paid by creating new debts.<sup>59</sup> No doubt if the banker refuses to discount, the customer must meet his bill in money, but then no trader ever expects to do so. If his character be good, he counts upon discounts with his banker almost as a matter of right; and therefore to call upon him to meet his bills in money may oblige him to sell goods, &c., at a great sacrifice, or may cause his ruin.

However, it is always supposed that the bills discounted are good ones; that is, they could be paid in money if required. Thus, though in common practice very few bills are really paid in money, it is manifest that the whole stability of the banks depends upon the last bills discounted being good ones.

Now let us suppose that for some time a customer brings good bills to the bank, and acquires a good character, and thus throws the banker off his guard; meeting some temporary embarrassment, perhaps, he is in difficulty to meet his bills. In order to get over this difficulty, perhaps he goes to some man of straw, and perhaps for a trifling consideration, gets him to accept a bill without having any property to meet it. He then takes this fraudulent bill to his banker. Thrown off his guard, perhaps, by his previous regularity, the unsuspecting banker buys this bill, and gives him a deposit for it. This deposit goes to pay the former bills. In the meantime the rotten bill is falling due, and must be met. The acceptor has manifestly no means to meet it, and the only way to do so, is to create more of these rotten bills. Now the drawer may be speculating in trade and losing money every day: but his bills must be met, and there is no other way of doing so but by constantly creating fresh rotten bills to meet the former ones. By this means the customer may extract indefinite sums of money from his banker, and give him in return so many pieces of paper!

Now, when times are prosperous and discounts are low, this system may go on for many years. If traders are in a considerable way of business they may actually establish a number of sham houses doing a fictitious business for the very purpose of creating accommodation bills. But at last a commercial crisis comes. The money market becomes "tight". Bankers not only raise the rate of discount, but they refuse to discount as freely as formerly; they contract their "issues". All these rotten bills are in the bank and must be met, but if the banker refuses to discount, they must be met with *money*. But all the property which the conspirators ever had may have been

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<sup>59</sup> That is, debts are rolled over as a matter of course.

lost twenty times over, and consequently, when the crisis comes, they have nothing to convert into money. Then comes the crash! Directly the banker refuses to discount any more bills he finds that he has been paying all his customer's bills for many years with his own money!

This is the *rationale* of Accommodation Paper; and here we see how entirely it differs from Real Paper. Because with Real Paper, and *bona fide* customers, though losses may come, still directly [once] the loss occurs there is an end of it. But with Accommodation Paper, the prospect of a loss is [the] very cause of a greater one being made, and so perpetually in an ever-widening circle, till at last the canker may eat into a banker's assets to any amount, almost. It is also clear that if a man, having got a good character, may sometimes do so much mischief to a single banker, the capacity for mischief is vastly increased, if from a high position and old standing, he is able to discount with several banks, for he is then able to diminish greatly the chances of detection.

From these Accommodation Bills to forged bills there is but one step. It is but a thin line of division between drawing upon a man who is notoriously utterly unable to pay, and drawing upon a person who does not exist at all, or forging an acceptance. In practical morality, and in its practical effects, there is none. Traders sometimes do not even take the trouble to get a beggar to write his name on their bills, but they invent one. The case of traders dealing with a number of small country connections affords facilities for such practices. They begin by establishing a good character for their bills. Their business gradually increases. Their connections gradually extend over all the country. The banker, satisfied with the regularity of the account, cannot take the trouble of sending down to enquire as to the acceptor of every bill. The circle gradually enlarges until some fine morning the whole affair blows up. The ingenuity sometimes exercised by traders in carrying out such a system is absolutely marvelous.

It is in times of speculation in great commodities that Accommodation Paper is particularly rife. In a great failure of the harvest, when large importations are required, and it is expected that prices will rise very high, every corn merchant wishes to purchase as much as possible. But if no sales have taken place there can be no real trade bills. They therefore proceed to manufacture them in order to extract funds from bankers to speculate with. No banker in his senses would actually advance money for them to speculate with, with his eyes open. Nevertheless, they must have the funds from the bankers, and this they do by means of cross acceptances, which they go and discount with their bankers. They then perhaps buy a certain amount of corn, or any other goods, and many bankers will discount their bills with the collateral security of the Bill of Lading. And this they may repeat many times over, till the quantity of credit created is something astonishing. In the Crimean War here was a great demand for shipping, and there was an enormous amount of accommodation bills manufactured by the Liverpool shipowners and discounted all over the kingdom. The results were frightfully disastrous.

The insurmountable objection, therefore, to this species of paper, is the dangerous and boundless facility it affords for raising money for speculative purposes.

And there is much reason to fear that this pernicious system prevails to a much greater extent than is generally supposed. The Legislature has imposed bounds upon the issue of Notes by banks, but there is much greater reason that some attempt should be made to curb the extravagant magnitude to which this detestable practice has been developed. The Bank of England is strictly forbidden to issue a single £5 note of accommodation paper, and is it to be tolerated that any set of adventurers may set afloat many hundred thousand pounds' worth of their accommodation paper?

To deal, however, legislatively with Accommodation Paper, is the most perplexing commercial problem of the day. The difficulty consists in determining what is really an Accommodation Bill. An Accommodation Bill is defined to be a Bill to which the acceptor, drawer, or endorser, as the case may be, has put his name, without consideration, for the purpose of benefiting or accommodating some other party, who is to provide for the bill when due. But the whole difficulty turns on the *consideration*. The consideration may be of many sorts, and does not by any means denote a sale of goods at the time. Moreover, a bill may be an Accommodation Bill at its creation, but if any consideration be given during the period of its currency, it ceases to be an Accommodation Bill.

Moreover, this consideration may be of many sorts. If A draws a bill upon B, who accepts it for A's accommodation, for the express purpose of enabling him to go to the Bank and get money for it, that is a pure Accommodation Bill, and manifestly fraudulent. But if B draws an exactly similar bill at the same time on A, and A accepts it for the accommodation of B, then neither of the Bills are Accommodation Bills; but both are given for a good consideration.

This perhaps may seem somewhat strange to an unlearned reader: it is nevertheless firmly law. In *Rolfe v. Caslon* (2 H. Blackstone, p. 571), A and B, being desirous to accommodate each other, each drew a bill upon the other, and accepted one in return, the two bills being precisely alike, in the date, sum of money, and times of payment – neither party having any effects of the other in his hands. The Court were clearly of opinion that the two bills were mutual engagements constituting on each part a debt, the one being a consideration of the other. This doctrine was repeated and confirmed in *Cowley v. Dunlop* (7 T. R. 565) in which Grose, J., said the instant the bills were exchanged, each was indebted to the other in the sum which was the amount off their respective acceptances, for the counter acceptances were a good consideration to found a debt upon either side respectively.

In the case of a single accommodation acceptance there is no debt to the acceptor; the debt accrues only by payment of the money. The acceptor, *qua* acceptor, can never be a creditor: his acceptance imports the admission of a debt from him to another, and when he has paid as acceptor, if he paid for any other reason in consequence of any request from that other, he becomes a creditor, not on the face of the bill, but by a contract collateral to the bill. When two persons exchange acceptances, each becomes the debtor of the other upon his accepted bills. But when a man accepts without consideration, he is never a creditor of the person for whom he accepts till he pays: from that payment arises the debt, but when the acceptance was exchanged, the debt arises from these acceptances. This doctrine was repeated and

confirmed in subsequent cases when it was adopted by the whole Court of King's Bench.

Stated in the above form, no doubt, the doctrine may appear somewhat startling to some: but when we consider the principle and not the accidental circumstances that the persons who may do it are insolvent, the difficulty disappears. It is just what happens every day in banking. It is by no means unusual for the customer of a banker to ask him to discount his promissory note. If the banker does so, and gives him a deposit, or credit, or his own notes, this is an exchange of securities. It is precisely the same in the other case. Supposing that the holders of these bills are enabled to purchase goods with them, they may be paid off at maturity: if they cannot do so, then the re-exchange of the securities is the mutual payment of each debt, precisely in the same manner as when two bankers exchange notes, or as when a merchant pays his own acceptance to a banker in the banker's notes. The two contracts are extinguished.

### **“The Failure”<sup>60</sup> (1884)**

By the distinctive name of “The” we characterize the failure of James Campbell & Son, publishers and wholesale booksellers and stationers of Toronto. It is *the* failure by reason of its widespread and calamitous effects on the book trade of Canada, causing serious loss, and in many cases disastrous bankruptcy.

The firm, a long time in existence, had an honored name at home and abroad, until the consummation of the evil inner workings of the concern was brought to light through an assignment made on the 15th of last month [October, 1884]. The firm has been in questionable standing for some years; therefore, when the failure was announced, it did not, at least among the wholesale trade, cause any great surprise, though it was entirely unlooked for just at the time it took place.

The origin of the great deficiency is said to have occurred some years ago, through the carelessness of management of one of the partners of the firm. It has been going from bad to worse ever since, until, no longer being able to meet payments, an assignment was made, when the fact became public property (hitherto known to at least some of their opponents in trade), that a large proportion of the booksellers and stationers in Canada had been foolish enough to give the firm accommodation paper to a considerable extent.

At first the paper was given, as a general thing, through good nature and confidence in the name of James Campbell, and when objection was made to renewals or the giving of additional amounts, threats of forcing payments of indebtedness made the reluctant retail merchant to do the bidding of the firm, who now had become master.

It is the old, old story, and, as far as we can learn, without a redeeming feature. The whole thing was done with the eyes of the financial manager of the firm fully open – knowing that the firm was hopelessly insolvent, and that those who were

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<sup>60</sup> From THE FAILURE. (1884). *Books and Notions* (Toronto), 1(4), 60-61.

aiding in tiding over the difficulties were but bringing ruin on themselves. There might have been some palliation for the offence had there been any hope in the future.

Had there, for instance, been any chance of obtaining more capital, or of selling the business with its good-will (which might have been supposed to have been considerable) – this has been the case in other somewhat similar circumstances – then there might be considered to be some excuse, but we cannot learn that such was the case.

While blame is justly attached to the firm, others must also bear the odium of the failure of the retail dealers. As already mentioned, the fact of accommodation paper being used by the firm was known a good while ago by others in the same line of business. Why did the banks not know it? Were they blind where others could see? Paper given by parties, whose rating would not warrant their receiving any credit, was discounted in large amounts – renewed and re-renewed from time to time, and yet was there no inquiry made as to whether or not the amounts were genuine indebtedness, and if they were, whether or not the parties could be expected in reasonable time, or in any time at all, to pay? Again, it is the old story, but with less excuse than the customer had for giving his notes, for the banks have had so many experiences that there is no reason they should have been so duped, if duped they were. Had the banks acted wisely a year ago in stopping discounts, at least some unfortunates would have less burden to bear, and some, perhaps, would have escaped entirely.

### **“Disastrous and far-reaching”<sup>61</sup> (1884)**

The failure of James Campbell & Sons, Wholesale Stationers and Booksellers, of Toronto, although affecting only their line of business, is one of the most disastrous and far-reaching in its effects that has ever occurred in Canada. The amount of liabilities is placed at about \$800,000, and from present appearances it would seem that the unsecured creditors will not receive more than ten cents on the dollar, if they are lucky enough to get even that. The worst feature of this failure, and the only reason why we go out of our usual course to moralize upon what concerns another line of business almost exclusively, is that most of the disaster attendant upon this failure will result from the fact that this concern, which has been financially rotten for years, has been bolstered up by accommodation paper obtained from their customers. The result of this system of financial juggling is that the assignment of this firm alone will probably be the immediate cause of the failure of some sixty of those customers who had sufficient confidence in their integrity and sound business standing to put their names to paper merely to oblige them, and for sums they never owed, and that the accommodation paper discounted by them will aggregate nearly \$100,000.

A more practical comment than this upon the folly of any merchant ever giving accommodation paper it would be hard to imagine, but we very much doubt whether

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<sup>61</sup> From ACCOMODATION PAPER. (1884). *The Trader* (Toronto), November 1884, p. 4.

this warning will deter merchants from asking and granting such dangerous and unbusinesslike favors.

It is a well-known fact that a good many firms are in the habit of getting notes from their customers for which no value has ever been received, and thus bolstering up a rotten business, long after it has become practically bankrupt. When the after-clap comes and the firm is declared insolvent (which, in fact, they may have been for months or years previous), people read the list of victims of this kite-flying system and say they have their sympathy. If they were bluntly told that they had been a parcel of fools, and that the result was but a certain consequence of their own folly, it would be but the truth, and probably do these victims of misplaced confidence more good than the pleasant but misdirected sympathy of which they are generally the recipients.

“But,” says one of the victims, “although we knew well enough that it might be dangerous, we couldn’t very well help it; the wholesale house with whom we were dealing asked us to give them our note as a favor, and as we sometimes require favors ourselves from them, could not refuse, although we knew well enough we had never received value for it; besides, they assured us that it would never trouble us, as they would take it up themselves when due.”

A more absurd argument than this, when you come to analyze it, could hardly be imagined, for in the first place none but a weak house would ever ask or require to use accommodation paper. The very fact of a house being compelled to ask their customers to lend them their names on which to raise money, ought to be proof positive of its financial weakness, and in itself the very strongest reason for refusing it. It is true they may take up the note at maturity, so that their customers are never troubled about it at all, but this apparent security and freedom from risk only makes the danger greater by inducing recklessness on the part of the dealer, who argues that if he can put the wholesale house he deals with under an obligation to him by so “cheap” a favor as simply signing a note, it cannot be a bad investment. When the assignee is in possession of the estate, and the dealer is officially notified by the bank that they look to him for one hundred cents on the dollar for the amount of his accommodation note, he begins to realize that he will have to pay pretty dearly for his whistle; unfortunately for him the knowledge came too late to be of practical use to him, except as an experience not to be repeated.

The ease with which wholesale dealers in fair credit can discount even inferior paper, is often a great incentive for unfortunate or unprincipled men to make use of their friends and customers by obtaining notes to be used in this way, but the danger would be greatly lessened if all the retail dealers could be brought to understand and believe, that with the aid of a financier with plenty of cheek and a judicious use of accommodation paper, a business utterly rotten to all intents and purposes can be floated on for years. In the end it must go down in the maelstrom of bankruptcy around which it has been so long circling, but until the crash comes it presents to the unthinking outsider a fair but deceitful appearance.

Our advice to all dealers, whether wholesale or retail, and we cannot too strongly emphasize it, is to have a watchful care with whom you deal. Especially in



this matter of accommodation paper, rest assured that a house that has to ask for it is a weak house, and should either be avoided altogether, or dealt with on hard business lines.

In conclusion, we offer as a maxim to all traders, “*Never give your paper to any firm, unless you owe them the money and have received value for it.*”

### **“Merchants Bank of Halifax v. Whidden”<sup>62</sup> (1891)**

*Bank – Agent of – Excess of authority – Dealing with funds contrary to instructions – Liability to bank – Discounting for his own accommodation – Position of parties on accommodation paper.*

K., agent of a bank and also a member of a business firm, procured accommodation drafts from a customer of the bank, which he discounted as such agent, and without endorsing the drafts, used the proceeds, in violation of his instructions from the head office, in the business of his firm.

The firm, having become insolvent, executed an assignment in trust of all their property by which the trustee was to pay “all debts by the assignors or either of them due and owing or accruing or becoming due and owing” to the said bank as first preferred creditor and to the makers of the accommodation paper among others, as second preferred creditor. The estate not proving sufficient to pay the bank in full, a dispute arose as to the accommodation drafts, the bank claiming the right to disavow the action of the agent in discounting them and appropriating the proceeds in breach of his duty, the makers claiming that they were really debts due to the bank from the insolvents.

In a suit to enforce the carrying out of the trusts held by the assignment:

*Held*, affirming the judgment of the court below, Wynne, J., dissenting, that the drafts were “debts due and owing” from the insolvents to the bank and within the first preference created by the deed.

*Per Ritchie, C. J.*: K. procured the accommodation paper for the sole purpose of borrowing the money of the bank for his firm, and when the firm received that money they became debtors to the bank for the amount.

*Per Strong and Patterson, J. J.*: That the agent, being bound to account to the bank for the funds placed at his disposal, became a debtor to the bank, on his authority being revoked, for the amount of these drafts as money for which he failed to account. The right the bank had to elect to treat the act of the agent as a tort was not important, as in any case there was a debt due.

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<sup>62</sup> From *MERCHANTS BANK OF HALIFAX v. WHIDDEN*. (1891, September 12). *The Legal News* (Montreal), 14(37), p. 290. The decision is dated Ottawa, May 12, 1891.

*Per Gwynne, J.:* The evidence does not establish that these drafts were anything else than paper discounted in the ordinary course of banking business, as to which the bank had its recourse against all persons whose names appeared on the face of the paper, and were not obliged to look to any other for payment.

Appeal dismissed with costs.

*Henry, Q.C., and Ross, Q.C.,* for appellant.

*W. Cassels, Q.C., and W. B. Ritchie* for respondent.

## The Manitoba Boom of the 1880s

### “Manitoba in Toronto”<sup>63</sup> (February, 1882)

The excitement in Toronto over the Manitoba boom is observed everywhere, and maps and plans are posted everywhere.

A World reporter overheard two men making a deal in a real estate office yesterday. Says A (buyer) to B (the owner of the lot), “There’s three feet of water over that property.” B replied, “What difference does that make? You don’t want to live on it; you are only buying to sell over again.”

The sale of Manchester<sup>64</sup> lots, “the future manufacturing center of the G.N.W.,” was put up at Oliver’s yesterday. Only a few lots were sold. The sale closed with \$20 taken for lots of fifty feet frontage. This is the only “town” on the plan of which no market squares, church plots, public school squares, and sites for court and registry office are reserved thereon. But like many other paper towns, the plan shows no relative position; there is most likely no relative position to show, not even to a log hut, or a prairie gopher’s mound.

Mr. T. H. Gilmour, now in Toronto, yesterday bought 50 feet on Main St., between Portage Avenue and Broadway, near the new Palace Hotel, Winnipeg, for \$550 a foot. He expects Main St. property to go to \$1,000 a foot.

### “Manitoba and the North-west lands” <sup>65</sup>(March, 1882)

The following are the existing land regulations issued by the Dominion Government:-

1. Any head of a family, male or female, or any person over eighteen years of age, can obtain, free of charge, any unoccupied quarter-section of 160 acres retained by the Government, in any surveyed township in Manitoba or the Territories.

2. The person who takes a free grant must reside on it for three years, then can obtain a deed on payment of \$10.

3. The person taking a free grant has the option of “pre-empting” or buying on certain easily fulfilled conditions the adjacent quarter section (160 acres) at from \$2 to \$2.50 per acre, payment to be made in one sum at the end of three years from entering on the free grant.

4. Free grants and pre-emptions can be taken within the C.P.R. Co.’s or any other railway belt, the price of \$2.50 for pre-emption applying in the railway belts and throughout the whole district south of the main line of the C.P.R.

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<sup>63</sup> From MANITOBA IN TORONTO. (1882, February 28). *Toronto World*, p. 4.

<sup>64</sup> “His Grace the Duke of Manchester [...] recently made a purchase of some five million acres of land when in Manitoba, and it is understood to be his intention to colonize and settle this large tract with as little delay as possible.” THE DUKE OF MANCHESTER AND MANITOBA. (1882, July 5). *Manchester Evening News*, p. 4.

<sup>65</sup> From Manitoba and North-West Lands. (1882, March 3). *Listowel Banner*, p. 1.

5. The C.P.R. Co. owns each unnumbered or alternate section, i.e. half the land within twenty-four miles of the main line or its branches, the odd-numbered sections being retained by the Government for actual settlers only. Half the land within twelve miles on each side of all other railways is also retained for actual settlers only.

6. The C.P.R. Co. offers its land, except certain specified reservations, such as village sites, &c., to actual settlers at \$2.50 an acre, payable in five years by equal annual instalments, and returns \$1.25 for each acre cultivated within that time. The settler must cultivate half his purchase to get a deed for the whole of it; he can get no more than double of what he cultivates within five years, except by favor of the Company.

### News notes<sup>66</sup> (March, 1882)

Some two hundred settlers in the Edmonton district, Manitoba, [sic.] on Tuesday, last week, effectually disposed of a claim jumper by hurling all his building materials over the embankment into the Saskatchewan River.

Mr. Donald McLaughlin, of Grey, sold a lot of land he owned in Manitoba, the other day, and cleared \$800 by the transaction. He intends going to Manitoba in the spring to make another investment, as he says it pays. [...]

Mr. P. Erbach, of Baden, purchased a section of land in Manitoba in August last for \$5 an acre, and sold it the other day for \$10 per acre, a clear profit of \$3,200. This land is 40 miles from Emerson, and in the very heart of the Mennonite settlement. [...]

The prospectus has been opened in London of a new Manitoba Land Company, with a capital of £200,000 in 20,000 £10 shares. This Company's purpose [is] buying land in Manitoba and the North-West Territory. No contracts have been made by or on behalf of the Company. [...]

Mr. A. R. McNichol, who for several years kept a general store at Clyde, a few miles below Galt on the Credit Valley, and about a year ago disposed of his business to Mr. E. M. Sipprell, has made a few thousand dollars by the Manitoba boom. Five months ago he purchased a piece of property at Brandon for \$2,000, and from it he can now realize \$150,000. He don't want to go back to Clyde.

The Rapid City *Standard*, Manitoba, of the 17th says: "The boom in town and farm property hereabouts continues unabated. A number of good sales are reported. Mr. Balkwill has disposed of 3009 acres adjoining to his mill property for \$20,000. A number of other transactions have taken place, but the prices have not transpired. From five to sixty dollars per acre have been paid for farm lands."

The other day five young women made application to an immigrant agent in Toronto to be sent to Winnipeg. They stated that they had recently immigrated from Scotland, and having heard of the scarcity of female labor in Manitoba had determined to go thither. They had no money, but they were intent upon seeking their

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<sup>66</sup> From CANADIAN. (1882, March 3). *Listowel Banner*, p. 1.

fortune where it might be more easily earned as domestics. Much to their disappointment the agent stated that he only dealt in man-servants. [...]

About six months ago, A. E. Harvey, formerly railway agent at Palmerston, left for Manitoba. A short time ago he met with an accident on a railway there, losing one of his feet. Recently Mr. Milne, the present agent at Palmerston and who is a brother-in-law to the unfortunate man, brought him home to recuperate his strength. The employees of the W.G. & B. Division of the Great Western, always of a sympathetic and generous turn of mind, learning of Mr. Harvey's condition, made up a purse of \$211 and presented it to him.

It is understood that the Great North-Western Telegraph Company are making arrangements for extending telegraphic facilities in Western Manitoba and the North-West during the coming spring and summer. The system of the Great North-Western Company now extends from Emerson to Winnipeg, Portage La Prairie, Brandon, and Minnedosa, and it is the intention to extend during the season to Gladstone, Shoal Lake, Rapid City, Birtle, Fort Ellis, Qu'Appelle, Touchwood Hills and Humboldt. At this latter point it is proposed to connect with the Government lines from Battleford to Edmonton. The existing local rate from Winnipeg to Edmonton is two dollars, and if proper arrangements can be made it is proposed to reduce this rate to one dollar between these terminal points, with a proportionate reduction from intermediate places. It is also intended to extend a spur from the south branch, near Humboldt, to Prince Albert, touching at Stobert, Duck Lake, and Carleton.

### **“How a sharp man was neatly caught”<sup>67</sup> (February, 1885)**

A good story is told of a sharp land transaction which occurred in an adjoining [Ontario] county during the late Manitoba boom. There were two brothers, one in Manitoba, and the other in a village not a hundred miles from Welland, [Ontario]. They owned a Manitoba property which they were highly desirous of getting rid of. A gentleman living in the same village as the brother in Ontario, talked of buying the property but could not quite be brought to the sticking point. He happened, however, to be the telegraph operator of his village, and as such, one day, whilst negotiations still hung fire, [he] received a telegram from the Manitoba to the Ontario brother to withdraw the property from the market at once, as owing to some contemplated public work, they could get three times the price asked for it.

The doubting purchaser doubted no longer, but straightway and before the message could be delivered, went and purchased the property for \$8,000. The biter was bit. He could not only not get three times the purchase price for the property, but it is extremely doubtful if he gets one third of his money back if he waits for 20 years. Under the circumstances he cannot squeal. All he can do is grin and bear it, occasionally reflecting upon the old saying that, after all, honesty is the best policy.

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<sup>67</sup> From How a Sharp Man was Neatly Caught. (1885, February 19). *Hamilton Weekly Spectator*, p. 5. Originally published in the Welland Tribune.

## The Manitoba “Boom”<sup>68</sup> (March, 1882)

At present the Manitoba “boom” shows no signs of abating; companies are forming for the purpose of getting hold of large tracts of North-west lands, while in almost every city or town in Ontario lots in mere paper towns are daily offered for sale by auction. The greater portion of a vast territory is beyond all doubt good farming land, and will at an early day be settled and producing immense crops, of wheat especially. As for the paper towns, the greater part of the money paid for lots in them will inevitably be lost. It is not possible that the country should support half the towns that are being laid out on paper merely.

It must be remembered that in Manitoba and the North-west there cannot be any manufacturing to speak of – flour milling excepted – for a long time to come. In the towns and villages which are yet to be, there will be found, of course, storekeepers, blacksmiths, wagon-makers, tailors, shoemakers, bakers, butchers, doctors, clergymen and school teachers, more or less – and, we had almost forgotten to add – lawyers. But wagons, farm implements, iron work of all kinds, boots and shoes, and ready made clothing, and in fact almost everything that can be finished and sent there for sale, will continue to be supplied from the Eastern Provinces, so that any great expansion of manufacturing or mechanical industry need not be expected, until some time pretty far on in the future. And this brings us to an important point – the value to manufacturers in the old Provinces of the rapidly-expanding and almost boundless market of the great North-west.

Had our tariff remained as it was three years ago and before, then beyond all doubt the trade of the Canadian North-west would have been seized upon by American manufacturers, and Chicago and St. Paul would have taken the business which Montreal, Toronto, and Hamilton are doing. It seems almost providential, in fact, that the change in our policy [a higher tariff on imports] came just in time to keep this vast Canadian trade in Canadian hands, and to retain, for the good of our own country, what would otherwise have been appropriated by foreigners.

Nor is there any injustice in this to North-western settlers, present or prospective. If Ontario did not supply them with reapers and mowers, they would have got these necessary articles from the States, and not a cent cheaper, either, than the prices paid to our own manufacturers. As regards clothing and other manufactured articles, those who take the opposite view are welcome, if they like, to follow it up to its logical conclusion, and to affirm that such goods are obtained by the farmer cheaper in the States, where the duties range from forty to one hundred per cent., than in Canada, where the duties are only about half the American average.

There is no injustice to the people of the North-west in the circumstance that the older Provinces may profit by their large demand for goods. If the Provinces did not take this trade, the neighboring States would; not a cent’s worth better off would the people of the North-west be for the substitution of foreigners instead of our own

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<sup>68</sup> From THE MANITOBA “BOOM.” (1882, March 17). *The Canadian Manufacturer*, I(6), 93-94.

people to deal with. Further, the millions of money that the old Provinces are spending on the development of the new country must be considered.

Some go so far as to say that Ontario is now being bled most unmercifully, in various ways, through the rush of people to Manitoba, carrying their money and goods and chattels with them. We do not take this view; the loss is apparent merely, and not real. The people who go remain customers to our manufacturers still; nay, they will certainly be larger customers there than they were here. Some people again, are taking fright at the number of Ontario farms alleged to be in the market and for sale; which is held to show that the Province is being deserted. But if they were asked to point out a single Ontario farm – anything worth calling a farm – now actually vacant and uncultivated because the former occupier had gone west, they would be unable to do so. Let any man follow up any such supposed cases, and this is what he will find. He will find, on tracing up the facts, that in every case where an Ontario farmer has left his farm and gone west, there is now *somebody else* on that identical farm, working it very much as it was worked before.

We would like to see the Ontario Government offer a reward for the actual discovery and positive proof of a case in which any farm in this Province worth tilling is now left untilled, in consequence of emigration to the North-west. Our conclusion is that the supposed loss is merely imaginary, while the gain from the development of the new country now going on is vast, and real, and substantial; and, further, destined to be permanent and long-enduring.

### **“Migrants getting experience”<sup>69</sup> (April, 1882)**

WINNIPEG, April 6 – The swarms of immigrants who have been coming in of late are having a terrible experience. They are blockaded in cars, some time without food or fire – out on the boundless prairie. The blockade is caused in this way: On account of repeated shoveling-outs the track is lined on either bank with a solid wall of snow. The sun during the middle day is very hot and the snow walls melt, filling the track-bed with water. At night it is very cold, the water freezes and the rails are covered under three inches of ice or more. It is not snow so much as ice that is causing the trouble.

On the 4th a train with 800 emigrants was frozen in three miles from the nearest source of supply. Provisions were being carried by a relief train. It will be three or four days before the train can be got out. A train of ten cars was sent out with one engine, and two could have been spared. All drifts were safely passed before the train was stopped. Captain Kirwin, who returned partly on foot and partly by sleigh, says a man is dying in the train. It was piteous to hear the little children crying for bread during the night. One barrel of biscuit and one cheese were discovered on board and dealt out. There is no danger of starvation, but fuel and light may give out.

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<sup>69</sup> From MIGRANTS GETTING EXPERIENCE. (1882, April 7). *The Toronto World*, p. 1.

On the St. Paul line, near Crookston, five miles of the road are submerged, and there is no sign of traffic being resumed. Floods are expected out west if the thaw to-day continues. It is not advisable for emigrants to start for a week yet.

### **“The Manitoba of hard facts”<sup>70</sup> (August, 1882)**

The party in power at Ottawa has staked heavily on the Northwest as a field for immigration. The “touting” maintained on the subject is, therefore, an intelligible if not an honest performance on the part of the conservatives. It is even still more intelligible on their part as a means of detaching votes from Mr. Mowat in the coming elections for the local legislature, a means used most dexterously for holding in dependence on the good pleasure of the conservative chief, of influential bodies of men as “colonization companies” representative of the Methodists, the Roman Catholics, of the Sons of Temperance, &c., &c. In this point of view one may well feel puzzled to understand why the journals of the reform party should not go behind that political performance of their opponents, by placing the question of settlement in the Northwest on its actual merits.

The press of this city [Toronto] owes its first duty to Ontario. Why should it maintain a cry that, even though justified in fact, is calculated to drain the province of much of her resources in men and money/ When Muskoka is seen to have increased in population during the last decade at as high a ratio as Manitoba, that cry is a very treason to interests at our own doors. If the wrong done this province, in many such instances, rise up in judgment some day not very remote, under the light of denunciations of returned emigrants ruined by the so-called Manitoba “boom,” the reform journals will stand condemned of having participated in ruinous clap-trap in the very teeth of the interests of their province and their party. On these grounds I pray you to give me space in your columns for some expressions of doubt that the Northwest is, or ought to be, the scene of any great rush of agricultural enterprise.

Like everyone else in this province, I had supposed that the Northwest is a fine field for immigration. But a friend who has lately returned from that region placed that opinion in doubt. Formerly a member of parliament for his county, he is a practical man who has had experience in farming as a settler. He assured me that the water obtainable in the Northwest at depths of even forty feet is unfit for use: and that to obtain good water, it is necessary to go fifty or sixty feet deeper, much of the way through rock. Many of the men who had entered homesteads have, the gentleman assures me, abandoned them on making that discovery. The flatness of the land aggravates, he says, the drawback of thaw-wet and causes thus an encroachment on the short season which exposes the crop to frost before maturity. These objections, he tells me, have resulted in a return-tide of emigration, a tide that in his observation is fully equal in volume to that which is coming in. His statement has led me to an examination of the official reports – with a result which I proceed now to present in brief.

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<sup>70</sup> From Hewson, M. B. (1882, August 17). THE MANITOBA OF HARD FACTS. *Toronto World*, p. 2. Written by General Martin Butt Hewson (c. 1821 – 1891), civil engineer.



Page 405 of the last census sets the population of Manitoba in 1871 at 18,895. Volume XII of the sessional papers of 1879 contains an official estimate which says that the number of people in Manitoba in 1878 “may be placed at 50,000 to 55,000” – say 53,000. The census asserts that in 1881 the inhabitants of Manitoba numbered 65,054.

These enumerations may be recapitulated thus:

In 1871 – 18,895 people  
 In 1878 – 53,000 people  
 In 1881 – 65,054<sup>71</sup> people

The actual facts of the case declare therefore, that the increase of population in Manitoba during the seven years ending in 1878, averaged 4872 persons annually. In all the Northwest, outside Manitoba, the total number of inhabitants, exclusive of Indians, was, according to the census taken last April, but 6,594. When Sir John Macdonald estimated the immigration into the northwest at 25,000 in 1880 and 30,000 in 1881, he spoke in clap-trap. Reports of the Department of the Interior throw the following light on the progress of settlement in the northwest:

	Number of Homesteads	Number of Pre-emptions
In 1878	1,753	1,588
In 1879	3,874	1,729
In 1880	2,074	1,004
In 1881	2,753	1,649

These gauges of settlement give but little evidence of the so-called “boom.” On the contrary, they show in 1880 and again in 1881, a falling off. But the question arises on the face of the official report: did all those who are seen above to have arranged with the land-office for homesteads, remain in the country? The large and increasing numbers in which the homesteaders have not committed themselves still further by pre-emptions, throws some doubt on that point. Additional doubt is thrown upon it by the fact that a large number of dwellings in the Northwest are returned in the census as uninhabited! Vacant houses are not found to any considerable extent on the scene of a rush of population. When the census of last April tells us of Muskoka, that of her 5,110 dwellings, those uninhabited numbered 531 [10.4%], we accept the fact as evidence of disappointed emigrants and deserted homesteads; and may, therefore, accept as evidence of the same conclusions, the fact that the census of last April tells us of Manitoba, that of her 12,803 dwellings, those uninhabited numbered so many as 796 [6.2%].

In the whole Northwest outside Manitoba, the number of houses being built last April is set down in the census at 100. That seems to be proof positive that the region was not flooded sixteen months ago with a great stream of new settlers. At that time some of the old counties of this province showed a greater number of houses being built; Russell 126, Essex 123. On last April Muskoka, from which the Manitoba “boom” had diverted immigration, contained houses in progress of construction to the number of 229. Manitoba, it is true, contained at the same time so many as 1,136

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<sup>71</sup> The original reads “65,954”.

houses being built; but on the basis of population, that shows a rate of progress only double that of Muskoka. On the basis of area, it shows a rate of progress not one-fifth that of Muskoka.

Farming has been carried on in Manitoba since the time of Lord Selkirk. In 1871 a population of 12,000 – exclusive of Indians – was engaged in agricultural production on lands of that province which had been under cultivation for generations previously. At a moderate rate of yield those people could have fed three times the number of those who have settled in the province since. Surpluses ought, therefore, to have been given out to commerce from the settlers to a volume, for every year since 1871, in excess of the total production of the new-comers.

Under these circumstances it is impossible to read without surprise the following statement of the values of Manitoba exports:

1874	\$797,762
1875	\$855,958
1876	\$770,188
1877	\$653,816
1878	\$725,898
1879	\$512,899
1880	\$562,714
1881	\$626,116

The surprise in which these figures will be read is lost in bewilderment when they are examined in detail. The values they represent are composed mainly of [the] Hudson's Bay Company's furs! In 1880, for example, the furs aggregated a value of \$494,181; in 1881 a value of \$573,975. After ten years of immigration into a prairie ready for the plough, into a country having at the outset, several thousands of farms under tillage, that immigration has not given out surpluses of agriculture for external exchange to an extent exceeding – in 1881 – a value of thirty or thirty-five thousand dollars. Even that is not all the story; for the Northwest actually depends to a considerable extent for its food on the farms of Minnesota. It imported from them last year wheat flour to the value of \$17,000; potatoes to the value of nearly \$2,000; pork to the value of nearly \$70,000; [and] food-animals, on foot, to the value of over \$150,00! These supplies being supplemented by large contributions from the breadstuffs of this province, there seems to be no room for doubt that the farmer of the Northwest has some very ugly skeletons in the closet.

The imports into the Northwest are as follows:

1874	\$1,797,033
1875	\$1,243,309
1876	\$1,803,651
1877	\$1,208,877
1878	\$1,122,744
1879	\$1,140,871
1880	\$1,227,105
1881	\$1,941,574

Of the eleven millions and a half represented in this table a considerable part was doubtless paid on account of the Hudson's Bay Company and of the Pacific Railway contractors. Suppose seven millions to have been paid on account of the settlers, and suppose also that an equal amount had been imported on their account from Ontario. This leads to the supposition that these settlers have been consuming outside products for the last eight years at the average rate of \$1,750,000 a year. Consumed by a population which, during all that time, has earned little or nothing, that expenditure represents an unliquidated debt on account of the settlement of the Northwest, in cash and credit of this province. How much longer is that state of things likely to go on, without a return in earnings?

Some fatal fact seems to lie behind all the "tooting" for Manitoba. The difficulty as to wood and water may explain the tide which is certainly returning from that country. That some farms there do produce as well as farms here, may probably be referred to deep outfalls and rolling surfaces. The continuance of thaw-wet in spring seems, however, to be so long on flat lands – and nearly all the lands are of that description – as to prevent ploughing until too late for a crop. This accounts very likely for the otherwise unaccountable failure of surpluses. Be all that, however, as it may, the gentlemen who "toot" for Manitoba in the parliament and in the press are threatened this moment with a grave responsibility. If that region do not supply in its exports of this year such evidence of its powers as to give some return on its heavy expenditures as shall reverse the evidence it has given for the last decade to the contrary, the makers of the "boom" will find no escape from the charge that they have led farmers, merchants, manufacturers, bankers, of this province into a loss which will not stop short in hundreds of cases, of financial ruin.

### **"Burst by the Manitoba Boom"<sup>72</sup> (November, 1882)**

A sad sight was witnessed in Stirling [Ontario] last Saturday. A man, with his wife and three small children, passed through and applied to the reeve for lodging, telling a most painful yet plausible story. Last spring he went to Manitoba with \$1,000 in cash, high hopes, and prospects apparently good. His fortune proved to be on the wrong side of the boom, however, and as the season passed away, his pile disappeared, for where somebody makes money by speculating, someone else must lose. Finally he sold his last lot for \$5, and started for Ontario, having succeeded somehow in getting this far, and would soon be again among friends. The poor woman looked nearly heart-broken.

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<sup>72</sup> From Burst by the Manitoba Boom. (1882, November 2). *Ingersoll Chronicle*, p. 1.

### **“An immense, cheerless plain”<sup>73</sup> (July, 1883)**

Manitoba is an immense, cheerless plain, with the Red River of the North running through it, and in localities has land that is splendid for wheat. The Canadians, during the last five years, have been getting a “boom” upon these lands in their town of Winnipeg, and now correspondents report that the Manitoba boom has collapsed. The country is crowded with people who are unable to obtain work; values are greatly reduced, and thousands are leaving for better fields. Hard times there next winter; the thermometer goes down to 46° [Fahrenheit] below zero [-43.3° Celsius].

### **“A banker on the Northwest”<sup>74</sup> (June, 1884)**

We publish this morning a portion of the speech of Mr. Hague<sup>75</sup>, General Manager of the Merchants’ Bank of Canada, delivered at the annual meeting of the stockholders of that institution in Montreal, a few days ago. Mr. Hague’s remarks on the business situation will be listened to with attention throughout the Dominion. His exceptional faculties for acquiring information concerning the state of trade, and his extensive banking experience, give special weight to his opinions. In the Northwest his utterances will be found interesting on account of the manner in which our affairs are reviewed, and the hopefulness expressed with regard to our future.

Much of the depression at present prevailing in the Dominion he is inclined to attribute to the late period of extravagant speculation in this country. The speculative spirit, he says, extended over every part of Canada, influencing even those apparently least likely to be affected by it. Two-thirds of the losses sustained by his bank in other Provinces, he alleges, can be traced to the “boom” here [in Manitoba]. This statement may or may not be true. Few who take time to think will be inclined to swallow it without a little salt. The Manitoba “boom” has proved itself a convenient scape-goat on which to cast the financial sins of the Dominion, but there is a limit to its carrying capacity and Mr. Hague has about reached that limit.

With the responsibility for the direct damage which it has occasioned, the “boom” may justly enough be saddled; but when it comes to heaping upon it indefinite liability for indirect damages, it is time for the long-suffering “boom” to protest. Among the charges which Mr. Hague is now attempting to file against it are: that “it diverted time and thought” from regular business in the in the East; that habits of extravagance contracted during the prevalence of the excitement in Manitoba remained to the injury of business when parties had returned to other parts of Canada; and that it led to “the braking down of that tone of honor and probity which is the foundation of al proper relations between a banker and his customer.” This is proving rather too much against the “boom,” which after all was only a local affair, comparatively circumscribed in influence.

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<sup>73</sup> From MANITOBA. (1883, July 21). *Memphis Daily*, p. 1.

<sup>74</sup> From A BANKER ON THE NORTHWEST. (1884, June 24). *Manitoba Free Press*, p. 2.

<sup>75</sup> George Hague (1825 – 1915).

## “Consequences followed”<sup>76</sup> (June, 1884)

The report of the directors [of The Merchants' Bank] states that remote, as well as direct, consequences followed from the deepening of the depression in Manitoba. None but those who have acquaintance with the subject could have an idea how far-reaching the speculation in the Northwest was. It extended to every Province in the Dominion, and drew within its influence numbers of persons engaged in mercantile business, who appeared unlikely to be affected by it. Of the losses suffered by this bank in the Provinces other than Manitoba, fully two-thirds can be traced to the influence of the speculative era in that Province. Monies were taken from active business to the detriment thereof, and time and thought were diverted therefrom to the injury and ultimate insolvency of the party. Habits of extravagance contracted during the prevalence of the excitement in Manitoba remained to the injury of business when parties had returned to other parts of Canada. In addition to this, it needs to be said, that such a period of excitement often brings in its train not only extravagance, but a breaking down of that tone of honor and probity which is the foundation of all proper relations between a banker and his customer. [...]

The business of the Northwest is peculiar. There is a certain amount of lumbering in Manitoba and much money has both been made and lost in this enterprise. But agriculture there is the mainstay. You have already heard<sup>77</sup> what a bad crop will do in dragging the country down. It is to be hoped we shall see what a good crop will do in the way of lifting the country up. There is an immense increase of acreage sown – in some districts no less than fourfold – and a most desirable class of immigrants is moving in, persons with both capital and experience.

The depression in Manitoba is not without precedent in Canada; we have seen every feature of it before. There is nothing in the condition of Manitoba now which is not a repetition of the experience of Ontario after 1857. That province is rich and prosperous now, as you are aware. None, however, but those who have passed through it can realize the depth of poverty into which it was plunged after the year named. But Ontario emerged from her poverty in due time, and no doubt will our North-West.

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<sup>76</sup> From Hague, G. (1884, June 24). THE MERCHANTS' BANK. *Manitoba Free Press*, p. 3. Written by George Hague (1825 – 1915), General Manager of The Merchants Bank.

<sup>77</sup> From earlier in the speech: “A considerable part of the ultimate loss can finally be traced to the calamity which befell the Province in the shape of the frost that injured a considerable part of the wheat crop. Many millions of value were lost thereby to the Northwest, and this bank amongst others had to bear a share of the loss.”

### “Secure investment”<sup>78</sup> (February, 1882)

When the Manitoba land boom collapsed in 1882, the yearly accruing surplus of cash in Eastern Canada, which had found an outlet in the North-West for several previous years, was turned into channels nearer home. It was put into bank stocks, insurance companies, city lots, etc., the theory being that because these things were more nearly under the eye of the investors, and because eastern [interests] were on a more solid footing than western interests, they were safer. It may be freely admitted that the investments made in the North-West during the boom were unsafe, not because of the lack of solid value, but on account of the largely inflated value. The North-West offered an ample field for the profitable investment of capital in productive industries of various kinds, but the profits in these were small compared with those to be derived from the rise in the value of the mere land. Consequently, land was the favorite investment. As it grew in favor values became inflated. The inflation increased the favor, until the boom rose to its height and finally burst, bringing discredit on North-West investments of every kind. [...] Had the money that was squandered on mere land in the Manitoba boom been invested in farming or stock raising, in mills, in creameries, in packing houses, in steamboats or in railways the country would be far further ahead to-day and the men who lost the money would have it still, and would have added to it considerably. Such opportunities for investment are still open.

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<sup>78</sup> From SECURE INVESTMENT. (1888, February 11). *Edmonton Bulletin*, p. 3.

## The Canadian Pacific Railway

### “Completed!”<sup>79</sup> (British Columbia, 1885)

The burying of the political hatchet by the then Hon. John A. Macdonald and the late Hon. George Brown in Quebec, where the Canadian Parliament then met, in the spring of 1864, caused by a deadlock in the carrying on of the legislature of the country, was the precursory step towards confederation. Invitations were issued to the political leaders of the provinces of Upper and Lower Canada, Nova Scotia, New Brunswick, Prince Edward Island, and Newfoundland, to attend a convention to be held in Charlottetown, P.E.I., in July, 1864. At this most important gathering there were a large number of distinguished politicians present. The subject of a union of all their provinces was discussed. The two provinces of old Canada struck hands with New Brunswick and Nova Scotia, and confederation was resolved upon. For some years Prince Edward Island remained aloof, as did also Newfoundland, which attitude the latter maintains to the present day. The financial position of each province in relation to the Dominion was adjusted on a certain basis and accepted accordingly.

The Intercolonial Railway, the construction of which under another name had been begun, but abandoned in consequence of lack of funds, was to be completed by the government as a public work. The difficulty of sending troops from Halifax to Quebec, a distance of over 600 miles, in the dead of winter, during the Trent affair, rendered the construction of this road imperative as a political and military necessity. All parties were committed to the building of this line, and it was pushed forward with such rapidity as is usually the case with all public works undertaken by a government. Without such a railway, there would be no means of direct communication during the winter between the maritime provinces and those further westward.

Offers had been made to Prince Edward Island to construct a railway from end to end of that beautiful Island, but the people were not as yet prepared to capitulate to the Canadian wooer.

The Dominion of Canada came into existence on the 1st of July, 1867, by virtue of the North America Act which had been passed by the Imperial Parliament. Confederation was a union of the four provinces already named, Ontario, Quebec, New Brunswick and Nova Scotia.

The control of the Hudson Bay Territory, of Canada, had long been agitated, and in 1869 terms had been agreed upon and Canada took possession of that vast inland empire, in January, 1870. But the possession of this land of “illimitable possibilities” would not be of much value unless an outlet could be procured for its products. Supplies in the early days had reached the trading posts of the company by sailing vessels from Liverpool to Hudson Bay, thence by the Nelson River to Lake Winnipeg, the great Saskatchewan and other navigable streams for small craft. The

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<sup>79</sup> From COMPLETED! (1885, November 7). *The Victoria Daily Times*, p. 1.

age of steam demanded a somewhat swifter means of communication than this process. A railway was mooted, but few gave the matter any serious consideration, as it was considered altogether utopian for a country like Canada to undertake the work. Far-seeing statesmen, however, predicted that at a not very remote period it would be an accomplished fact.

#### OVERTURES TO BRITISH COLUMBIA

The union of the British North American provinces into a single nation had received the approval of the Colonial office in Downing street, London. Communications passed between the Secretary of State for the Colonies and the Governors of the provinces of Prince Edward Island, Newfoundland, and British Columbia. Having secured the great Northwest territory, extending from the western boundary of Ontario to the eastern boundary of this province and from the international boundary line on the south to the Arctic sea on the north, it was deemed of the utmost importance that British Columbia should be induced to cast in her destinies with the Eastern provinces. With this object in view, it has been stated that the then Governor of this province, Sir Anthony Musgrave, was urged by the Colonial office to induce his government to bring the subject before the legislature. Overtures then came from Canada. As early as 1868 the Governor of the province began agitating for a union. The scheme at first was not a popular one; but it gradually gained in public favor. Great as had been the triumph of the Unionists in the East, they were not satisfied. The crowning act of their achievements had yet to be achieved. British Columbia must be won. The wooer and the wooed began negotiations in earnest.

#### THE PACIFIC RAILWAY PROMISED

While the scheme of uniting with Canada found friends in this province, there were a large number who were hostile to the change. The pros and cons were discussed ably and intelligently. At last a delegation was appointed to proceed to Ottawa to secure for the province the best terms possible. The delegation was composed of Hon. J. W. Trutch, who was then Commissioner of Land and Works under the Crown Colony government, [and] Drs. Carroll and Helmcken. The delegates only asked that a coach road be constructed across the mountains at once, to connect with the railroad systems of the east, and that a transcontinental railroad be afterwards constructed at a moderate rate of speed; \$1,000,000 a year being the sum named to be expended there-on yearly. This was a very modest demand. Sir John Macdonald, however, knowing full well that a wagon road would not prove acceptable to British Columbia, in a fit of enthusiastic liberality, offered to substitute instead of a wagon road the commencement of the building of a transcontinental railway within two years after the union, and its completion in 1881. This proposal was at once accepted by the British Columbia delegates, and Canada then became bound to construct, within ten years, the Canadian Pacific Railway, from a connection with the eastern railway system to the Pacific ocean. The delegates returned to this city highly elated with their success. Hon. Mr. Trutch again went to Ottawa during the season of 1870-1. The terms of union were discussed in parliament very warmly. It was held that a rash bargain had been made by the government, for even a preliminary line,



or survey, had not been made, rendering it impossible to complete the line within the time specified, and that the undertaking was too much for the resources of the country.

Mr. Trutch was asked to signify that the province would not hold the Dominion to the literal fulfilment of the undertaking, should the difficulties prove great, and that it would be satisfied with an earnest effort to do what was promised; a declaration, however, which added nothing to its value, for once the resolutions, which specified the terms of the bargain made with British Columbia, [which] would, when embodied in a royal proclamation, become part of our constitution, and would not be modified by any Act or resolution of the Canadian Parliament.

#### SURVEYING BEGUN

The articles of union were finally passed by the local legislature of this province and the parliament of Canada, and the nuptials consummated in July, 1871. The province accepted of the Dominion Customs tariff and Inland Revenue regulations. The Dominion agreed to pay an amount per annum for the right of way for the railway line as a subsidy to the province for the administration of justice, postal and other facilities.

A force of surveyors was sent to the province and operations were begun by them. Many routes had been suggested by which to reach this city, and these were being explored. By an Order in Council, passed in 1872, Esquimalt had been selected as the Pacific Coast terminus of the road, and the first sod was turned there. It was believed by many that the Bute Inlet route to this city would be the one finally selected. The first year's operations on the surveys revealed the fact that formidable obstacles would be met with, and it was a question how far these could be surmounted. At the end of 1872 three routes were reported upon, but none of these were considered as satisfactory. Explorations were continued in British Columbia, from Fort Garry to the Rocky Mountains, and from the Ottawa valley along the shores of Lake Huron and Lake Superior to the Red River.

The progress made on this coast, it is asserted by those who should know, [was said] to have been wretchedly slow, and extremely expensive.

#### THE POLICY FOR BUILDING THE ROAD

Sir George E. Cartier, in explaining in Parliament how the government intended constructing the road, laid down two principles, which dominated all Canadian Pacific legislation for many succeeding years. The first was that the road should be built without increasing the rate of taxation, that is, that it should not become a burden on the people of Canada. The second was that the road should be constructed by a private company. But time showed that the project of building a railway which the finance minister of that day, Sir Francis Hincks, estimated would cost \$100,000,000, without increasing the burdens of the country, was chimerical. In those days Canadian statesmen were nearly all optimists, and they believed that liberal grants of land would enable a private company to construct the road. The length estimated at that time was 2500 miles and the proposed subsidy, 20,000 acres per mile, for the entire distance. To aid in the construction of the road, this province

handed over to the Dominion government a belt of land 20 miles wide on both sides of the railway.

Mr. Mackenzie, the leader of the Liberal opposition, enunciated his policy in an amendment to the union resolutions, that the route should be first ascertained by careful surveys, and the road then constructed as rapidly as the financial condition of the country would warrant. It would be found necessary to build the greater portion of the road for thirty years, Mr. Mackenzie said. The House differed with him, however, and his amendment was voted down.

#### COMPANIES ARE FOUND TO COMPLETE THE UNDERTAKING

Alfred Haddington, who had lived in this province for many years, and had an enthusiastic faith in the project of a transcontinental railway, interested some American capitalists in the subject, and ultimately a company was formed, with Sir Hugh Allan as its president, for the purpose of constructing the road. Most of the capitalists associated with Sir Hugh were Americans. They applied for a charter under the title of the Canadian Pacific Railway Company. A rival company of Canadian capitalists was soon afterwards formed at Toronto, under the name of the Interoceanic Company, with the Hon. (now Sir) D. L. Macpherson as its president. Between these two companies there was a bitter rivalry, and the friends of the Interoceanic Company raised the patriotic cry until Sir Hugh Allan found it expedient to drop, at least nominally, his American associates.

Both companies were incorporated with a capital of \$10,000,000, and when the House opened in 1872 each used all its influence to secure the contract for itself. The government, with a general election imminent, dared not offend either powerful company by giving the preference to its rival, and they accordingly introduced resolutions giving them the power to deal with either company, or an amalgamation of the two companies, or, in case an arrangement could not be arrived at, with a new company.

The resolutions outlined the Conservative railway policy. The road was to be built from some point near Lake Nipissing, to the Pacific coast, and to aid in its construction the government were authorized to grant to the company undertaking it a money subsidy of \$30,000,000 and a land grant not exceeding 50,000,000 acres to be given in alternate blocks twenty miles square on each side of the line. The money subsidy, it was explained by Sir George Cartier, would in all probability be recouped to the government by the proceeds from land sales in the Northwest.

#### THE ALLAN COMPANY – 1872 – THE PACIFIC SCANDAL

The Allan-McPherson companies being unable to affect a compromise they dissolved, and a new one was formed, with Sir Hugh Allan at its head and many of the persons who had been interested in the other ventures as members. To this company the charter was given, and in the subsequent general election it was announced to the public that the difficulty had been satisfactorily solved, and that the road would be immediately constructed by a rich and powerful company.

Parliament was dissolved in the summer of 1872. An appeal was made to the people. The Pacific Railway and the Washington Treaty of 1871 were the pivot

questions on which the elections were to turn. The elections resulted in a Conservative victory, and everything pointed to an era of great railway development.

In a few months, however, confusion reigned supreme. The Allan Company had failed to secure the support of European capitalists, as a result of which it went to pieces. Then came the charges of the Hon. Huntington in the Canadian Parliament that Sir Hugh Allan had advanced large sums of money to the Government to enable them to carry the elections in return for obtaining the charter. The Conservative Government resigned; a Reform administration took its place; a general election in January, 1874, resulted in a sweeping Liberal victory, and the Hon. Alex Mackenzie was given an opportunity to put his views on the construction of the road into execution.

#### THE GENERAL ELECTION OF 1874 SUSTAINED THE LIBERALS

While in opposition Mr. Mackenzie, as leader of the Liberal party, gave an uncompromising opposition to the scheme. Fears and doubts were entertained as to the policy his government and party would be likely to pursue. His cabinet on appealing to their constituents for endorsement were triumphantly elected. A vacancy occurred in West Toronto, which was an ultra-Conservative constituency. The Liberal candidate, the late Chief Justice for Ontario, then Mr. Thos. Moss, carried the riding by a majority so convincing that a strong Liberal wave had set in that the parliament elected in 1872 was dissolved, and a new election held in January 1874. The victory of the government at the polls was an overwhelming one. The irregularities that had taken place between the Conservative government and Sir Hugh Allan was handled to advantage by the Liberals. This party had professed much, and accordingly great things were expected of them.

#### RAILWAY POLICY OF THE LIBERALS

In opening the election campaign of 1874, Mr. Mackenzie in his address to the electors of Lambton briefly outlined the general policy his government was going to pursue. His predecessors had on two occasions passed acts affirming the principle that the taxation of the country should not be increased by the building of the road. Mr. Mackenzie endorsed this declaration. The most striking characteristic of this policy was the building of the road gradually, utilizing the "magnificent water stretches" of which the public heard so much at that time, and the intention of the government to build the road as a government work instead of handing it over to a company. A provision was inserted in the Act of 1874 offering a subsidy in money per mile of \$10,000; 4 per cent guarantee during 25 years on a sum per mile to be named by the tenders, and a land subsidy of 20,000 acres per mile, to be arranged for at the discretion of the government. But it was evident that the intention of the government was to build the line by connecting the Ontario and Quebec system of railways with the Georgian Bay. The lakes were then to be utilized to Fort William. From this point there was to be a sort of amphibious route, partly on water and partly on land to the Red River. A railway was to be run from that point to the Saskatchewan, which was to be then utilized in reaching the Rocky Mountains. A road was to be constructed from that point through to the Pacific Ocean. This scheme postponed for a number of years the construction of the greater portion of the road.

The friends of the government claimed that in adopting this policy the entire energies of the country could be devoted to the British Columbia portion, which it was estimated would cost a sum in the neighborhood of \$35,000,000. Extensive surveys were to be made with the view of ascertaining the best and easiest route from the east to the Pacific Ocean. British Columbia was to be asked to agree to some new arrangement claimed to be more in consonance with the resources of the country than the terms of the union treaty of 1871.

#### MISSIONARY EDGAR VISITS THE PROVINCE

The Customs tariff in force here prior to the union was light, as compared with the Canadian one, which the British Columbians had agreed upon accepting, on condition that railway construction was to be proceeded with. Alarm was taken at the proposal of Mr. Mackenzie to ask for a relaxation in the terms of union. Shortly after the election of 1874, when the Liberals found themselves safely entrenched on the treasury benches, the government decided on sending Mr. J. D. Edgar, who was supposed to be an adept at diplomacy, to this province with the view of securing either an extension of the time specified with the former government for the commencement of operations on this coast, or by substituting a bonus and an annual allowance that the union terms would be modified. It was claimed by the Ottawa government that the fulfillment of the terms of 1871 was a mechanical and financial impossibility. Nearly four years had now passed, and nothing practically had been done on this coast; the most competent engineer had been unable to determine upon a permanent route. It had a perfect right to do so; this province had entered the union in perfect good faith, and equal faithfulness and integrity was expected of the Dominion. A very hostile feeling to the Federal government now took possession of the people and secession was freely discussed.

#### PROMINENT PERSONAGES "FLOP."

It has since become known that Mr. Edgar, although he had letters of introduction to the Lieut.-Governor of the Province – Hon. J. W. Trutch – and the government, he had not the power to bind the Federal government to any arrangement that might be arrived at. He had several interviews with the Cabinet, during which the gravity of the situation was discussed. A prominent journal in this city, which had hitherto been relentless in its onslaughts on the Ottawa government, suddenly became its most abject apologist. No cogent reason was given at the time. It was broadly charged that very substantial arguments, in the shape of glittering gold, or some such falm, [sic.] were brought to bear on those connected with the journal in question; one receiving the "needful" while another was provided for in being appointed to a comfortable government office. The feeling of indignation now became greater than ever.

#### THE CARNARVON TERMS

Mr. Edgar's movements and actions while in this province did not tend greatly to popularize the government which sent him hither, both of whom were looked upon with the gravest of suspicion. Finding it impossible to arrive at an understanding, Mr. Edgar was recalled. The local government here then took up the matter in earnest. The action of the Federal government had alienated the sympathies of many

who had hitherto professed warm friendship. The people undoubtedly were now with the local government, which now determined upon referring the matter to Lord Carnarvon, who was then Colonial Secretary, for a solution. He drew up what has since been known as the Carnarvon terms, the principal provisions of which were that a railway should be built across the Island of Vancouver from Nanaimo to Esquimalt, that the moment the necessary surveys were completed at least \$2,000,000 would be annually spent in railway construction in the province, and that by December 31st, 1890, the road was to be open from Lake Superior to Esquimalt.

These terms were regarded as somewhat severe by the Dominion. However, to give effect thereto a bill was introduced by Mr. Mackenzie and carried through the Commons, ratifying the building of the Esquimalt-Nanaimo railway. A certain wing of the Liberal party, led by Mr. Blake, who at this time was without a portfolio, were still hostile to the project, some of whom refrained from voting on the question. The bill was thrown out of the Senate by a majority vote of one. The Conservative Senators in a body voting against the measure, while but one prominent Liberal Senator, Hon. Mr. Penny, recorded his vote with the majority. Mr. Mackenzie determined to bring up the measure again, but on applying to Lord Dufferin, then Governor-General for powers to enlarge representation of the Senate, which would have been selected from the Liberal ranks, his request was refused, and the question for the time being allowed to slumber. The feeling of indignation, if possible, now became stronger than ever. Mr. Mackenzie has been charged with insincerity in the transaction, and that the sending of steel rails to Esquimalt was but a blind.

#### LORD DUFFERIN'S ARRIVAL

Lord Dufferin's arrival in the province did not in the least allay that feeling, nor did his well-known diplomacy tend to bring about a solution of the matters in dispute. There could be no mistaking the expression of indignation which was everywhere observable from the time he arrived till his departure. Arches which had been erected in honor of his arrival bore mottoes, such as "Carnarvon Terms or Secession." No assurance that the Governor-General could give would satisfy the people as to the sincerity of the government appeared to be relished. He returned, and to Mr. Mackenzie related all he had observed, and, it is understood, suggested the immediate commencement of operations.

#### THE FRASER ROUTE SELECTED

It was expected that this city would be the terminus of the transcontinental railway. Color was given to this supposition when Esquimalt was declared to be the point by an Order in Council. The route was to be via Bute Inlet and thence to the Northeast coast of this Island to Esquimalt and Victoria. When it became known that this route was found to be impracticable and that the Thomson and Fraser River routes to Burrard Inlet were certain to be adopted, disappointment took possession of the citizens of Victoria. Mr. Sandford Fleming in his report of 1877 gives his reasons for recommending the route finally accepted. It is claimed, and with considerable reason, that Victoria for all time will be the practical terminus, as the Canadian Pacific and the Northern Pacific will make such favorable concessions to shippers, it being a competing center, as will always command for it a leading position as a

commercial, shipping and manufacturing center. A ferry in connection with the Island Railway will be built and goods carried in bulk from the east to the ship's side in the harbor. That the completion of the Canadian Pacific will revolutionize the transportation traffic on this coast none will attempt to gainsay, and in these changes beyond doubt Victoria will be benefited to a large degree not hoped for by even the most sanguine.

#### EXIT OF THE MACKENZIE GOVERNMENT

In the general elections of September 17, 1878, the Conservatives made as clean a sweep as did their predecessors in January 1874, if not greater. Finding the country so pronounced against him, Mr. Mackenzie, waiving the constitutional right to hold office until the assembling of Parliament, resigned in October 1878. Sir John Macdonald was again asked by Lord Dufferin, who had left Ottawa en route for Britain, to form a Cabinet, which he succeeded in accomplishing in a short time, choosing for his colleagues many of those associated with him previous to his fall in 1873. It was now hoped that greater progress and energy would be displayed than hitherto in prosecuting the work, for after an expenditure of three millions and a half of dollars, the route was at last determined upon. Speaking in Parliament, Mr. Mackenzie announced that the route which had been decided upon ran from Thunder Bay, on the western coast of Lake Superior, to Selkirk, on the Red River, *via* Rat Portage. Leaving Selkirk, it crossed Lake Manitoba, ran in a northwesterly direction to Northcote, and then struck due west to Battleford and Edmonton, and then through the Yellowhead pass, down the Fraser and Thompson rivers to Burrard Inlet. When the Conservatives came into office again their affairs stood thus: The line from Selkirk to Thunder Bay was completed, with the exception of a gap of 185 miles; the line from the C.P.R. main line to Pembina was all graded and ready for the rails, and the road was built east from Selkirk one hundred miles or so, while the entire route from Callander to Port Moody was surveyed. Up to that date the enterprise had cost \$10,203,000.

#### POLICY OF THE CONSERVATIVES

On assuming control of the reigns of government in October 1878, the Conservative leaders divided the portfolio of Minister of Public Works, whose duties Hon. Alex. Mackenzie had administered for close to five years, but not with that success which many of his admirers would have wished for. As a matter of fact, every serious blunder committed by his government were perpetrated in his own department. His most virulent opponent will nevertheless admit that these errors were attributable to a desire to save money and not to any improper motive, such as aiding political friends. It was a blunder to send cargoes of steel rails to this province many years in advance of their requirements; it was an error of judgment to have purchased steel rails when the market was falling. Many similar errors could be named. The duties of premier and Minister of Public Works were too much for even so able an administrator as Mr. Mackenzie proved himself to be.

The Conservatives felt that the duties were too great for one man, and accordingly another portfolio was created, that of Minister of Railways and Canals,

Sir Charles Tupper assuming control of this portfolio, while Sir Hector Langevin continued to administer the Public Works Department.

Mr. Mackenzie had completed the Pembina branch, which formed no<sup>80</sup> part of the Canadian Pacific proper, connecting Winnipeg with the American railway system at St. Vincent on the Minnesota border, [which] was rapidly approaching completion. The construction of the line from Fort William at the head of Lake Superior westward to English River, Messrs. Purcill and Ryan being the contractors, another one eastward from Selkirk on the Red River to Cross Lake, the contractors being Messrs. Sifton, Ward & Co., who likewise constructed the overland telegraph line from the Red River to Humboldt, N.W.T., along the line proposed to be adopted by Mr. Mackenzie from the Red River to the Yellow Head Pass. The famous No. 15 contract was likewise in progress by Mr. Joseph Whitehead, [whose tasks] were all in an advanced condition.

In August 1878, tenders were invited by the Mackenzie administration for the remaining unfinished sections between Rat Portage and English River in the east, and the construction of the line on this coast through the Fraser River canyons from Emory to Savona's Ferry. The contracts were to be awarded in short sections. The Macdonald administration practically ratified the act of their predecessors.

#### DISSATISFACTION IN MANITOBA

In consequence of the decision arrived at by the Mackenzie administration to carry the main line from Selkirk north-westerly to the Yellow Head Pass by way of the Narrows of Lake Manitoba to the Pacific coast, the people of Winnipeg and Southern Manitoba were very hostile to that government. Mr. Mackenzie was most obdurate in his determination as to the point of crossing for the main line at Selkirk; stating that the desire was to make the line as straight a one as possible, with easy gradients for heavy traffic. The city of Winnipeg offered to build a bridge and present it to the government if the line were brought into the city. The Selkirk and Pembina branch was now ready for traffic, and a very determined effort was made to secure a connection for the city.

Repeated remonstrances had been made against the action of the government by the people of Winnipeg. Representations were made that the "fertile belt" was being neglected; that this was the garden of the province and the government evidently indifferent to its vast capabilities. A contingent favorable to the Liberal government had been elected in 1874, in the hope that justice would be done to the section referred to; but without avail. At last, a re-survey was made of the territory lying between Winnipeg, south of Lake Manitoba and the Riding Mountains, with the view of constructing a branch line to join the trunk road at Livingstone. A favorable route was found. A bill was then introduced in the session of 1878 by the Hon. David Mills, Minister of the Interior, relating to the construction of Colonization Railways in Manitoba and the Northwest. It was strangled in its infancy; having received but the first reading. Its provisions were very liberal in the interest of that country, and many were eager to obtain control of the charters to be issued under this act. It was

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<sup>80</sup> There appear to be some lines missing here in the original.

hoped that the passage of this act would aid Winnipeg and secure a railway service for that fine section of the province between Winnipeg, Portage La Prairie and Fort Pelly, on the original line approved of by Mr. Mackenzie.

#### SIR CHARLES' VISIT TO MANITOBA

In the early part of 1879 Sir Charles Tupper visited Winnipeg, and on inspecting the ground personally, decided to construct a line from that city in a northwesterly direction, and abandon in the meantime the main line from Selkirk by way of Lake Manitoba. At this decision there was much rejoicing in Winnipeg and Portage La Prairie – then the most important centres in the Northwest. Property advanced rapidly and the “boom” days began. A contract for one hundred miles was awarded in the summer of 1879 to Mr. Hugh Ryan. The country was an admirable one for railway construction, and the work was pushed to completion with amazing rapidity. It was afterwards discovered that such a line was totally unfit for a prairie country, and it had to be rebuilt in some sections, and entirely abandoned in others.

The effect of the change in the government's railway policy towards Winnipeg and Manitoba was now apparent. Mr. Donald A. Smith had been unseated on some legal technicality. On appealing for re-election, he was defeated by Capt. (now Col.) Scott by a handsome majority.

An outlet had been given Winnipeg by way of the Pembina branch in December 1878. The St. Paul, Minneapolis and Manitoba had been completed to St. Vincent and regular traffic was begun in the spring of 1879. This was the line that had been manipulated during the summer of 1878, in such a manner as to yield Messrs. J. J. Hill, Donald A. Smith, George Stephen and R. B. Angus vast fortunes, in consequence of the liberal advances made them by the Bank of Montreal, to secure control of the stock held in Germany and Holland. Mr. Donald A. Smith, at a meeting of the Hudson's Bay Company, held since in London, stated that the shares when purchased by himself and his friends were not worth a shilling in the \$100; since which time, he asserted, each share had risen to the value of \$170, or £34 sterling per share.

#### SIR JOHN MACDONALD

Sir John Macdonald, in the summer of 1879 went to New York to confer with capitalists, with the view of organizing a company and relieving the government of the responsibility and anxiety of completing the railway from Callandar, Ont., to Prince Arthur's Landing, and from Winnipeg to Savona's Ferry in this province. It has been asserted that offers much more favorable than those ultimately agreed upon had been made to the premier about this time, by a syndicate of Canadian capitalists. Not satisfied with these proposals, Sir John Macdonald, Sir Charles Tupper and Hon. J. H. Pope, visited London where they met and consulted with the wealthy capitalists of that great financial centre, as well as corresponding with others on the continent. It now became apparent that the Conservative Government, like its predecessor, had determined on giving control of the construction of the line to a private company, and that liberal inducements to embark in the undertaking would be held out by the government to such as would relieve it of the herculean task at hand. The building of the Intercolonial Railway had been completed as a government work. The Dominion was averse to repeating that expensive experiment. The inducements held out by the



Mackenzie administration had failed in eliciting even a response or enquiries from capitalists. The depression period still prevailed while Sir John was in London. Capitalists were exceedingly particular in examining the class of security offered them as investments. Their relations with the American railway companies, as well as the Great Western and Grand Trunk, of Canada, were anything but satisfactory, for millions had been irretrievably sunk in these enterprises. The opposition press of Canada was persistent in its attacks upon the government and its railway policy, which was characterized as the "mad scheme of a mad government." At all the monetary centers these strictures were encountered. It was not therefore a matter of surprise that Sir John and his colleagues failed in their mission. They were compelled to return to Canada in a very dejected condition. Sir John's friends in Montreal decided on entertaining him at a public dinner on his return; for it was believed in some quarters that his mission was a success and they wished to extend to him this token of their appreciation of his efforts. At that dinner he asserted that an arrangement had been arrived at between his government and foreign capitalists for completing the line. Subsequent events too plainly revealed the fact that the premier was over-sanguine in his conjectures, for nothing practical resulted from his visit to England.

#### FORMATION OF THE CANADIAN PACIFIC RAILWAY SYNDICATE

During the session of 1879 resolutions were passed by parliament reserving 100,000,000 acres of land in the Northwest to aid in constructing and carrying to completion the great national work. In the autumn of 1880, after the return of the ministers from their unsuccessful mission to London, negotiations were re-opened between the government and several Canadian capitalists, with the view of arriving at a definite arrangement. The terms which these capitalists now proposed were not so favorable – at least so it has been asserted – to the country as was the proposal made to Sir John before his departure to London.

#### THE FAMOUS CONTRACT MADE

At last the basis of an arrangement was drawn up and discussed at a full meeting of the Cabinet and leading gentlemen representing the capitalists. An agreement was concluded. By its terms the road was divided into four sections as follows:

- (1) Callandar to Port Arthur, 657 miles, to be built by the company.
- (2) Port Arthur to Red River, 428 miles, to be built by the government.
- (3) Red River to Savona Ferry, 1,252 miles, to be built by the company; and
- (4) Savona Ferry to Port Moody, 213 miles, to be built by the government, making a total of 2,555 miles, from Callandar to the Pacific Ocean.

The syndicate were to receive a cash subsidy of \$25,000,000, a land grant of 25,000,000 acres in alternate sections, extending along the line from the limits of Manitoba to the eastern base of the Rocky Mountains, for a distance of twenty miles on each side of the line. The government was to complete sections 2 and 4, estimated to be worth at least \$30,000,000. The construction of rival roads was prohibited for twenty years; all material to be used in the construction of the road was to enter the country without paying duty; a free gift of all land required for workshops and

stations was made, and the entire property of the company was exempted from taxation for twenty years. The road was to be completed by May 1st, 1891.

### THE CAPITALISTS

The capitalists forming the syndicate were, Messrs. George Stephen, and Duncan McIntyre, of Montreal; Messrs. John S. Kennedy, of New York; Morton, Rose & Co. of London, England; Kohn, Reinack & Co., of Paris; Richard B. Angus and James J. Hill of St. Paul. Subsequently these gentlemen resolved themselves into a company, and shares were sold to whoever would buy them in the market.

It was insisted upon by Sir John Macdonald and Sir Charles Tupper that the name of Hon. Donald A. Smith should be omitted from the list submitted to parliament as those constituting the syndicate. Both of these gentlemen had a reason for this. Mr. Smith not only had spoken against the Macdonald government in its dying hours in 1873, but until his defeat by Capt. Scott, in Winnipeg, had ranged himself as a follower of Mr. Mackenzie. His very name to Sir John and Sir Charles was like unto gall and wormwood. Time in its whirligigs brings about wonderful changes. Mr. Smith, so soon as the company was organized, became the owner of a large block of shares in the capital stock of the company. The gentleman whom Sir John Macdonald threatened to whip quicker than a certain hot place would scorch a feather now became a very prominent personage in the Canadian enterprise, with which was so closely linked the destiny of Canada and the security of the Conservative Government.

### THE CONTRACT DISCUSSED

Yielding to public opinion, formed largely by the opposition and a certain wing of the Conservative press, the government decided on an early session of Parliament in order to lay the conditions of the contract before the country, to procure its ratification and enable the company to proceed with the formation of its plans for the commencement of its gigantic undertaking. Accordingly, early in December 1880, parliament met, and so soon as routine business had been disposed of, the full text of the contract was laid on the table of the House, and immediately published throughout the entire Dominion. Its terms and conditions at first reading were regarded as monstrous and did not meet with approval from many of the Conservatives, while the Liberals characterized it as outrageous and ruinous; and great oratorical battles were waged in the House, the contending parties showing a keen rivalry as to which had the better stock of adjectives, the one of laudation, the other of denunciation. Parliament adjourned over the Christmas holidays, but there was no cessation of the strife between the parties. The battle was transferred from the parliament to the platform, and members of both parties, from Mr. Blake and Sir Charles Tupper down, addressed meetings in various parts of Canada, in hostility to the ratifying of the contract by parliament. The leading opposition journals urged the holding of protesting meetings everywhere; in some instances they were held, but they proved of no avail. The leading spirits in the scheme – Messrs. Stephen, Smith, Angus and Hill – had netted very handsome fortunes on their St. Paul deal and were now prepared to invest in the Canadian enterprise. Mr. Angus was elected as general manager of the St. Paul Road, and resided in that city, after resigning his position as

general manager of the Bank of Montreal. It was felt that the government and its followers were determined to bring the question to a vote as soon after the holidays as possible and notified its supporters to this effect.

#### THE HOWLAND SYNDICATE

Objection was taken to the policy of the government in awarding the contract, without having advertised and afforded other parties an opportunity to tender or submit proposals. With the view of embarrassing the government a counter proposal was submitted by the Hon. Edward Blake, as member of the opposition party, from Sir W. P. Howland and others of Toronto, which was considered a much more favorable scheme for the country than the one endorsed by the government. At the time it was asserted that the Howland company was gotten up merely for the purpose of obstructing the immediate passage of the government scheme, and that the parties comprising the company were "men of straw." This, however, was incorrect, for the gentlemen forming the Howland company belonged to both political parties, and many of them were very wealthy. Sir W. P. Howland was the promoter of the scheme; his associates being Edward Gurney, Jr., John Proctor and John Stewart, of Hamilton, all wealthy capitalists; Col. Walker of London, representing a wealthy corporation; A. W. Ross, then of Winnipeg, but now of Victoria, on his own behalf and [that of] others; James McLaren, president of the Ottawa Bank; H. H. Cook, and a Mr. Gibson of New Brunswick, both lumber kings. Their proposal was to accept of \$22,000,000 in cash; 22,000,000 acres of land and waiving the monopoly clause, but agreeing to all the other conditions. However favorable some might consider this offer, it was rejected by parliament. The government measure carried in the Commons by a vote of 140 to 54 – probably the largest majority secured for any measure in the parliament of this country. All objections against the original contract were promptly voted down. The contract was ratified by the senate, and effect given to this legislation by the Governor-General giving Royal assent to the act the day after it passed the senate. On the 1st day of May, 1881, the road passed into the hands of the Canadian Pacific Railway Company.

While the contract was being discussed in parliament an indignation meeting was held in Winnipeg, the citizens of which place had misinterpreted some of the clauses in the contract. They were assured that their fears were entirely groundless; that the government and the company were determined to do that city full justice in railway matters. It was likewise during this debate that Sir John assured the house that they "could not check Manitoba."

#### THE ONDERDONK CONTRACTS

The plans and specifications upon which tenders had been called for by the Mackenzie administration in 1878, were modified by their successors. It is reported that Mr. David Oppenheimer of this city, endeavored to induce Messrs. Crocker & Co., of San Francisco, to tender for the contract, but that they declined. He was then introduced to Mr. Andrew Onderdonk, who was then constructing the sea wall for that city. Mr. Onderdonk, on behalf of himself and others, tendered for the whole, as well as sections, of the work between Emory and Savona's Ferry, but was not successful. Mr. Oppenheimer was then in Ottawa and succeeded in buying off the

successful contractors for the section from Spence's Bridge to Savona's Ferry; Mr. Onderdonk at this time being in New York. On his return to Ottawa, Mr. Oppenheimer and Mr. Onderdonk manipulated matters in such a manner as to secure control of the remaining sections, by buying off the contractors. Mr. Onderdonk manipulated matters in such a manner as to secure control of the remaining sections, by buying off the contractors. Mr. Onderdonk is supposed to have had associated with him in the scheme such capitalists as Mr. D. O. Mills and others. Active operations were begun on the work in the early part of 1880 and continued with unflinching zeal and determination until completion.

### CONSTRUCTION BEGUN IN EARNEST

No sooner was the transfer completed than the company immediately resumed the construction of the road with an earnestness that neither of the governments had hitherto displayed. At a meeting of the company it was resolved to make Montreal the headquarters of the company. Mr. George Stephen was appointed president; Mr. Duncan McIntyre, 1st vice-president; Mr. R. B. Angus, 2nd vice-president, and Mr. C. Drinkwater, secretary. These constituted the executive board. Other gentlemen, amongst whom was Mr. Donald A. Smith, were associated with them as directors.

For a time the offices of general manager, and the superintendent, engineer-in-chief, and the offices of the heads of subordinates for the various departments were located at Winnipeg, that city being in close proximity to the base of operations.

In consequence of the St. Paul element being strongly represented in the directorate it is said [it] induced the selection of Mr. A. B. Stickney, as the company's first general manager, and Gen. Rosser as chief engineer, both of whom were Americans. The former resigned his position in the fall of 1881. The present efficient general manager, Mr. W. C. Van Horne, assumed control on the 1st January, 1882, having previously occupied the same position on the Chicago, Milwaukee & St. Paul line. At an early stage he secured the services of Mr. John Egan, an energetic and experienced railway man, from St. Louis, as general superintendent of the operating department. Mr. John H. McTavish, manager for the Hudson's Bay Company in Winnipeg, had been selected as land commissioner for the sale and management of the lands of the company. He likewise set to work to organize his staff of assistants. Sales of lands began early in the summer of 1881.

The company concentrated their efforts on the prairie section. Gen. Rosser with his staff were kept at work night and day, preparing plans, etc. This officer was found to be equally as desirous of looking after his own personal advantages as other human beings are. A disagreement took place between Mr. Van Horne and himself, which resulted in Gen. Rosser being compelled to resign his position. Much recrimination took place between these two gentlemen. But still the work went on.

The fall of 1881 saw the line completed to Oak Lake, and a regular daily train service to Brandon, at a distance of 135 miles west of Winnipeg. The company abandoned the Mackenzie line, as well as the air line of 100 miles from Winnipeg westward built by the present government. This was a very disgraceful section of railway work. The company now, it was evident, were determined to pierce the Rocky Mountains in the direction of Calgary. Satisfactory evidence had been furnished them

that much good land was to be found along this route. The more northerly country could be supplied with railway service at a later date; each line of railway so constructed would act as a feeder to the Canadian Pacific trunk line. Time alone will test the wisdom of such a policy.

In 1882 the amount of work accomplished was perfectly astonishing. It was a year of great development for the entire Northwest as well as for the railway. By the end of this season trains were running 450 miles west of Winnipeg; 150 miles more were graded and ready for the rails.

#### C.P.R. OPERATIONS ON THE PACIFIC COAST

Major Rogers and his nephew, of St. Paul, arrived in this city in April 1881, and at once proceeded to the interior with the view of ascertaining the possibility of finding a more southern route through the Selkirks, the Gold and Rocky mountain ranges, than the northerly one by the Yellow Head Pass. Many pronounced the errand a fool hardy one, as none could be found. The Major, however, with his characteristic pluck and energy, persevered until at last his efforts were crowned with success. Capt. Palliser, in 1859, had crossed the great plains to Fort Edmonton; thence to Fort Calgary and through the mountains, following the Bow River, as far as the head waters of that stream, and thence through the mountain gorges, till the Columbia was struck. Following these meanderings, he came out in the Kootenay country. So far as known, Major Rogers was the first to discover a practicable route for the railway from Lake Kamloops eastward to and beyond the Columbia. Mr. Moberly had come across it [at] as early a date as 1862, the Illi-celli-wat being then named Moberly Creek in honor of that trip. The discovery of this route by Major Rogers undoubtedly saved the company man miles in distance – a prime consideration with all railway managers, as it affects the working operations of the line for all time – millions of money were saved on construction account, and the line completed many months earlier than it would [have], had it been carried by the northerly route. The Governor General in Council ratified the change, from the Yellow Head Pass route, in December 1883. The Provincial Government of British Columbia were notified of the fact, and immediately a reserve was placed upon all lands not already alienated within twenty miles on either side of the track, from Kamloops to the eastern boundary of the province. This reserve is held in trust by the Dominion Government to aid in liquidating the debt incurred for the construction of the Canadian Pacific Railway. Much of it is very valuable for its timber and minerals, as well as being agricultural and grazing lands.

#### WINNIPEG, PORT ARTHUR AND THE CANADA CENTRAL

On the 19th of June, 1882, the line between Port Arthur and Winnipeg was completed, and by the end of the summer there was a continuous line of steel from Lake Superior to a point 450 miles west of Winnipeg. But not until the following year did the company obtain control of this division. As yet, work on the line north of Lake Superior had not been vigorously prosecuted. Its starting point was Callandar, an almost unknown place in the wilderness. The company, recognizing the necessity of reaching the sea, during this year bought the Canada Central Railway, which connected them with Ottawa and Brockville, and the Quebec, Montreal and

Occidental Railway, which gave them connection to the seaport of Montreal. Work was then begun on the Lake Superior section, and in his annual statement in the house in May, 1883, Sir Charles Tupper announced that 1132 miles were completed and that the end of 1886 would see the road open from Montreal to the Pacific Ocean. During this year 200 miles of track were laid on the Lake Superior section, and nearly 400 on the section west of Winnipeg, the Summit of the Rocky Mountains being reached, at a distance of 962 miles west of Winnipeg on the 27th November, 1883.

Messrs. Langdon, Sheppard & Co., of St. Paul, had the contract for all the work executed in 1881-2, and part of 1883. The North American Railway Contracting Company was organized late in 1882. On the completion of the Langdon-Sheppard contract it took the work in hand, and under the management of Mr. John Ross completed the line westwards to a junction with Mr. Onderdonk's contract from the company, a short distance east of Eagle Pass Landing.

#### THE COMPANY'S RESOURCES TAXED

The tremendous energy with which the road had been built told severely upon the resources of the company. The road was so far advanced in 1883 that two additional years would only be required to finish it, although the terms of the contract specified 1891 as the date at which it should be completed. The funds of the company were nearly exhausted, and the hostility of rival Canadian and American railways depreciated its stock until it could not be disposed of in the money markets. To enable the company to dispose of its shares, the government in the autumn of 1883 guaranteed interest at 3 per cent. for ten years on the \$65,000,000 worth of stock issued by the company, receiving some \$14,000,000 as a security for its guarantee. This did not have the results expected, and when parliament opened in 1884 the government submitted a proposition to grant the company a loan of \$22,500,000 until 1891, taking as security a first mortgage on the entire property of the company. The payment of some \$7,300,000 due the government on the guaranteed fund was suspended for five years. This enabled the company to go on with their work, and by the end of the year the road was completed with the exception of a few gaps in the Rocky Mountains, and to the north of Lake Superior. The company again became financially embarrassed, and to enable it to secure first class equipment for the road, the government during the last session of parliament authorized the company to issue \$35,000,000 worth of first mortgage bonds, \$20,000,000 worth of which were to be retained by the government as security and the remainder to be put upon the market and sold. A temporary loan of \$5,000,000 was also made. The bonds sold at the unexpectedly high figures of 95, and the company raised enough money to pay back the temporary loan and carry the work to completion. The opposition press, and a powerful rival Canadian Railway Company, had resorted to every possible species of warfare to depreciate the value of this stock, prophesying that the road would not for many years earn sufficient to grease its wheels. Conduct of this character was most unpatriotic; and for a time its effects were apparent in the apathy with which the company's stock was regarded at home and abroad. All this is now happily changed, the stock being a favorite everywhere. All this is now happily changed, the stock being a favorite everywhere.

## LIST OF SHAREHOLDERS – WHERE THE STOCK IS HELD

A return published by order of parliament places the capital of the company at \$100,000,000; but of this sum only \$65,000,000 has been issued to the shareholders. Of these there are 1,500; 35 of the number being Canadians, their holdings aggregating the sum of \$8,298,800, at par. George Stephen, the president, controls \$2,542,200; Donald A. Smith, \$1,175,000; R. B. Angus, \$1,190,000; Duncan McIntyre, \$1,235,000, and W. C. Van Horne, \$416,300. The balance of the stock held by Canadians is in small amounts. A large amount of the stock has been sold in London, Amsterdam and New York. The largest holders are these: Morton, Rose & Co., London, \$7,614,100; administration office, Amsterdam, \$5,344,000; U. Palmetto, New York, \$4,128,000; Chinnery Bros., London, \$3,017,000; Morton, Bliss & Col., New York, \$2,627,500; J. M. Utter, New York, \$1,160,000. Of Canadian Pacific stock, \$18,413,000 is held in New York; \$17,809,100 in London; \$7,418,000 in Amsterdam; \$2,751,000 in Scotland, and \$1,144,500 in Paris.

### THE C. P. R. IN THE EAST

It will be observed that the C. P. R. proper begins at Callandar and terminates at Port Moody. During the session of 1878, a subsidy of \$12,000 per mile was voted to the Canada Central to carry its line from Pembroke, on the Upper Ottawa in Ontario, to Callandar. This grant afterwards proved to be an important precedent, for it formed the basis for Quebec's claim to a refund of \$12,000 for every mile of railway it built between Quebec and Ottawa, known as the North Shore Line. Mr. D. McIntyre controlled a majority of the stock of the Canada Central. He had likewise become a heavy shareholder in the C. P. R. syndicate. He arranged with the latter company for a long lease of the line. Having secured this important link the management of the C. P. R. set to work to secure the control of the Ontario and Quebec, from Ottawa to Toronto, where it had already secured the management of the Credit Valley to St. Thomas, where connection with the systems of the Western States was made by way [of] the Canada Southern and Michigan Central, and on to Elora, where the C. V. terminates for the present. The Toronto Gray and Bruce had been secured some time previous, giving the C. P. R. an outlet at Owen Sound, on the Georgian Bay, where a connection is made with the C. P. R. Lake Superior steamers. The Teeswater branch, in Bruce County, is to be extended to Kincardine, on Lake Huron. The control of these lines by the C. P. R. has resulted in an enormous increase in its traffic receipts, while those of the Grand Trunk show a corresponding decrease. Many of the eastern cities are agitating a connection with the C. P. R. and other branches are likely to be constructed.

From Montreal to the New England and Eastern States cities the company has direct connections under its own control. Within a few weeks past the control of the North Shore line from Quebec to Montreal was purchased. In Manitoba arrangements are being made for railway extension by the company. At present the extension of its Southern Manitoba line is under contract. AN independent outlet will be secured for its traffic on the Atlantic seaboard. When the new steel bridge is built across the St. Lawrence at Montreal, goods can be put on board the cars at Vancouver and run through to the ship's side without the train being stopped or broken on the company's

own system, being the only one crossing the continent that can claim this unrivaled advantage.

#### THE PORT MOODY-EMORY DIVISION

In 1882 tenders were invited for the construction of the Port Moody-Emory division. Many tenders were sent in. It was ascertained that the tender of Messrs. Duncan McDonald & Charlebois was lower by \$209,255 than that of Mr. Onderdonk; but in consequence of some alleged irregularity in the deposit accompanying the tender, Sir Charles Tupper finally awarded the contract to Mr. Onderdonk. The transaction was a puzzling one, and gave room to the belief that favoritism had been displayed in awarding the contract to a firm who were not the lowest bidders. Mr. Onderdonk displayed much executive ability in carrying on these contracts, involving, as they did, a sum of over \$12,000,000. He was awarded a contract from the Canadian Pacific Company in the Spring of 1884, to construct the line from Savona's Ferry eastward to a junction with Mr. Ross's division. Like energy was also by him displayed on this contract, and had not the supply of rails become exhausted on the coast division, it is certain the line would have been completed some time since. It has been considered a fortunate circumstance for this province that so wealthy and reliable a firm as Messrs. Onderdonk & Co., were the contractors, for they now leave the province, after having honorably liquidated all their liabilities to the fullest extent. There are those to be found, however, who are severe on the Onderdonk management for the exorbitant transportation rates levied on both passengers and freight.

#### THE MOVING SPIRITS

The moving spirits in the enterprise, since 1882, are generally believed to have been Mr. George Stephen, the president; Mr. W. C. Van Horne, vice-president and general manager, upon whose shoulders rested the responsibility of working out the company's plans as general manager; while Messrs. Smith, Angus and McIntyre, with that rare ability for which they are famed, proved themselves to be powerful aids. The efficient and energetic secretary, Mr. Chas. Drinkwater, has also displayed wonderful executive talent. In connection with these should be mentioned the general superintendents in the east and in the Northwest, as well as the heads of the several departments, whose sole and only aim has been to render assistance possible to make the service of the C. P. R. equal if not superior to that of any other railway in America. Each and all are now deserving the thanks of the community for having made such excellent calculations as to when the line should be completed. A year ago the 25th of August was named, [and] the work has been finished within twelve weeks of that calculation. Success to the Canadian Pacific Railway and the company controlling it should be the fervent wish of every true Canadian and well-wisher of his country.

#### THE UNDERTAKING FINISHED

We have thus traced the great work from its inception to the driving of the last spike. The politics of the several governments who had control of the national undertaking. The formation of the Canadian Pacific Railway Company; the ability displayed by it in carrying on the work in the face of stupendous difficulties, commanding at once the wonder and admiration of the civilized world. Now that it is



finished Canada may well feel satisfied at the satisfactory manner in which the undertaking has been completed. The scheme was inaugurated by Sir John Macdonald and under his regime it has been successfully finished. It was a gigantic undertaking, but well worthy of Canadians and those under whose management the end has been reached.

#### COMPARATIVE STATEMENTS

At this juncture some comparisons<sup>81</sup> between the Canadian line and its American transcontinental line may prove of interest. The first is the question of mileage:

RAILWAY	MAIN LINE	BRANCHES	TOTAL
Canadian Pacific	2,895 miles	432 miles	3,327 miles
Northern Pacific	1,889 miles	578 miles	2,467 miles
Union Pacific	1,922 miles	1,128 miles	3,050 miles
Southern Pacific	2,115 miles	1,936 miles	4,051 miles

RAILWAY	CAPITAL	FUNDED DEBT
Canadian Pacific	\$65,000,000	\$35,000,000
Northern Pacific	\$109,749,464	\$50,122,200
Union Pacific	\$110,144,000	\$213,394,564
Southern Pacific	\$152,459,700	\$85,317,000

The financial position of the company was fully ventilated and discussed during the recent session of parliament. As compared with other lines, the [Canadian] Pacific stood:

RAILWAY	TOTAL CHARGES	BONDS
Canadian Pacific, per mile	\$27,200	12,000
Northern Pacific, per mile	\$62,800	19,700
Union Pacific, per mile	\$109,357	70,000
Southern Pacific, per mile	\$58,785	21,140

By way of comparison on debt account the traffic on the several transcontinental lines would have to pay first

<sup>81</sup> I've altered the format of the tables for ease of reading.

RAILWAY	PER MILE
Canadian Pacific	\$1,400
Northern Pacific	\$3,200
Union Pacific	\$5,467
Southern Pacific	\$2,939

In other words, each of those roads would have to charge, per mile, on its freight on one thousand miles of road:

RAILWAY	PER TON
Canadian Pacific	\$1.45
Northern Pacific	\$3.24
Union Pacific	\$5.47
Southern Pacific	\$2.94

A tariff of \$5.47 per ton on the Union Pacific would be equivalent to \$1.45 for the same quantity of freight on the Canadian Pacific. And [if we] take one cent as a basis of calculation, the charges with respect to payment of [the] original cost price would be:

RAILWAY	CENTS <sup>82</sup>
Canadian Pacific	0 26 1/2
Northern Pacific	0 57 2/5
Union Pacific	0 01
Southern Pacific	0 58 3/4

#### THE COST OF THE ROAD

Here is a brief resume of the construction of the work.

[The C. P. R. was built in four sections:] Section 1, from Callandar to Port Arthur, built by the company, completed in May 1885; Section 2, from Port Arthur to Winnipeg, built by the government, completed in June, 1882; Section 3, from Winnipeg to Savona's Ferry, just completed; Section 4, from Savona's Ferry to Port Moody, built by the government, completed in July, 1884.

The cost of the work has been as follows:

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<sup>82</sup> I've kept the notation of the original.

Cash subsidy	\$25,000,000
Built by government	\$30,000,000
Loan of last year	\$29,880,912
New obligations of this year	\$15,000,000
Land grant bonds	\$8,702,086
Paid on stock	\$29,568,123
Miscellaneous	<u>\$2,193,593</u>
Total	\$140,344,714

About \$15,000,000 of this was expended in buying up roads from Callandar to Montreal and throughout Ontario and Quebec.

QUEEN VICTORIA'S CONGRATULATIONS

*Transmitted to the People of Canada in Honor of the Event*

Ottawa, Ont., Nov. 5 – The following letter conveying the Queen's congratulations on the completion of the Canadian Pacific Railway, is sent with Mr. Chapleau's compliments, for insertion in your paper tomorrow.

HENRY J. MORGAN

Acting Under Secretary of State, Ottawa, Nov. 6, 1885.

*Dear Sir John Macdonald:* I have received by cable, through the Secretary of State, Her Majesty's commands to convey to the people of Canada her congratulations upon the completion of the Canadian Pacific Railway. Her Majesty is pleased to add that she has watched its progress with much interest, and that she hopes for the future success of a work of such value and importance to the Empire. You will, I have no doubt, take steps in order to give publicity to Her Majesty's most gracious congratulations. Let me conclude this note by expressing the hearty satisfaction with which I have learned that this great national work has been successfully accomplished.

I am, dear Sir John, yours sincerely,

LANDSDOWNE.

## Warehouse Receipts and Banking

“Of vital importance”<sup>83</sup> (1896)

I desire now to refer to a matter which, though you might think it a mere technicality, is really one of vital importance to yourselves and to the vast body of Stockholders in all the banks of the country.

I refer to advances on warehouse receipts and pledges of goods.

You are probably aware that banks in Canada, under authority of Parliament, have been making such advances for thirty years back, and considering their number and enormous magnitude, the questions raised respecting them have been very few. But a mode of interpreting the Banking Act has come into vogue that tends to defeat the end that Parliament had in view and to work injury both to banks and their customers.

I ask your indulgence, therefore, while I say a word or two about it.

Having been present at every discussion on the subject in Parliamentary Committees since Confederation, and taken some part, in conjunction with other bankers, in settling the clauses relating to the matter, I may venture to claim to have a reasonably correct idea as to what Parliament meant to accomplish.

That, I take it, is as follows:

It is a settled principle of Banking that all advances, to be sound, must rest on goods, wares, and merchandise, and not on real estate.

Getting a bank into such a shape that a considerable portion of its loans rested on real estate, has been the ruin of nearly every Bank that has failed in Canada, and was almost the sole cause of recent terrible bank catastrophes in Australia and New Zealand.

Our Legislators have understood this, and enacted accordingly, that Banks in Canada shall be prohibited from lending on real estate altogether. But they have, from an early period been giving, and most wisely, increasing facilities for Banks to lend safely on goods and merchandise.

In pursuance of this idea, Parliament, at an early period, directed its attention to the manner in which such advances should be made to persons dealing in, or working up, our natural products. To that particular class of loans, attention was specially directed so as to enable millers and dealers in farming produce to obtain advances on the best security at the lowest rate, so that they could pay the highest cash price to the farmer.

“Cash for Wheat,” a sign which you may have seen in the earlier settlements, was the sign of a new and better order of things, largely through legislation.

Now the most natural mode of lending on merchandise is for the lender to take it into his own possession. The business of pawnbrokers is carried on in this manner. In that case Banks would have required, as part of their equipment, stores in which

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<sup>83</sup> From Hague, G. E. (1896, June 18). MERCHANTS BANK. *Montreal Gazette*, p. 6. Written by George Edward Hague (1853 – 1933), General Manager of the Merchants Bank.

goods the product of the country could be deposited, and remain in charge of their own officers. This is the very method which has been followed for years by the Imperial Bank of Germany. This Bank is one of the largest and strongest in the world; and it has 23 warehouses in different parts of the Empire, for the purpose of storing goods on which advances are made.

For various reasons, however, it has not been thought advisable to inaugurate a system of this kind in Canada. The alternative adopted was that products should be deposited in warehouses, wharves, or coves, not belonging to the Bank; and that money should be advanced on receipts given for such goods by the person having charge of them.

On this idea is based the whole of that legislation on warehouse receipts, which has been of incalculable advantage to the country, and which Parliament has carefully conserved and improved from time to time, according to the development of trade and commerce for thirty years back. Not to give privileges to the Banks, but to grant facilities for dealing with the country's products.

But to secure that the authority to lend on receipts should only be used to provide facilities for "moving the crops" or securing the outcome of our forests; it was at first provided that no receipt should secure an advance unless lodged at the time. But as capital was scarce with men in the trade, the volume to be handled enormous and the crop movement of vital importance, keepers of warehouses were at first authorized to issue receipts for goods *to be* deposited, as well as for those actually in possession; that is, if they chose to take the risk of it. But, keepers of warehouses found it dangerous and the usage soon dropped.

The risk was then shifted to the banker.

Instead of the warehousemen being authorized to give a receipt for goods to be deposited, the Bank was authorized to advance on *receipts* to be deposited, as well as those actually deposited.

But to prevent misunderstanding, it was provided that this should not take effect unless there was an understanding of the promise to do so. It was early found necessary, if this object was to be accomplished, to extend the provisions of the act, and in this way, and for this reason, viz:

The Act at first contemplated the lodging of goods in a warehouse not belonging to their owner, which could easily be done in cities and centers of commerce. But in country towns there were formerly no such warehouses. Yet these country towns were the most convenient markets in which farmers could sell.

There the miller or the local storekeeper was the man who bought the farmers' products, and it was of importance that they should readily and safely obtain cash to pay for the same.

Following, then, the main idea of this legislation; Banks were authorized to lend money on goods, wares or merchandise when in the possession of their owner.

This is the most important step in this class of legislation, and it was seen to be necessary to surround it with safeguards. It would be very unsafe to allow a merchant or storekeeper to raise money by pledging imported goods still remaining on his shelves, for the reason that such goods are almost universally – except those

purchased with Bank credits – bought on credit, and though in the store or warehouse, are probably not paid for.

But it was equally seen that the class of goods mostly contemplated by this legislation, such as cereals, [and] farm and forest products of all kinds, were almost invariably bought for or produced by cash.

There was no unpaid vendor in this case, and that is well known to be the case down to the present.

The goods then that could be pledged were grains of all kinds, flour and lumber, and such goods as are usually placed in charge of a warehouseman, or on a wharf, or in a yard.

As the productions of the country became more and more diversified it was important to grant facilities for enabling Banks to lend money to purchase them.

So from time to time the scope of the Act was enlarged. And the intention of the Legislature in these successive enlargements is clearly shown in the title of one of the Acts. It was called: “An Act Granting Additional Facilities in Commercial Transactions,” and a very proper title, too.

So when hogs became an important farm product, pork was included; then hides and wool, then, as maltsters and distillers were large purchasers of farm produce, maltsters and distillers were included.

Finally the matter was summed up in general terms of the products of agriculture, the forest, the mine, the sea, lakes and rivers, together with live and dead stock, in addition to which manufacturers were allowed to borrow on pledge of goods of their own manufacture, or raw material therefor.

Down to the very last revision of the Warehousing Act, the great object was kept in view of affording facilities for obtaining money on goods, wares and merchandise; without which the true value of all our products would never be obtained, and all the wheels of commerce and industry would stand still.

The men who sat on the various Parliamentary Committees on this subject were nearly all men of business, who had a practical acquaintance with the needs of the country. They knew the vital importance of affording Banking facilities to the dealers in the country’s products, and from time to time, as the act was reconsidered, they kept this object steadily in view.

Yet they showed their wisdom in the safeguards with which they surrounded the business, and particularly with regard to the rights of an unpaid vendor.

And to show how equitably the matter is worked, though the transactions of this kind have amounted to millions every year, and to hundreds of millions in all, the claims that have been made by unpaid vendors have amounted to an infinitesimal fraction.

But now a mode of looking at this class of business has arisen which will, if carried on, go largely to defeat the object intended by the Legislature.

This is founded on what I must consider to be an extraordinary misconception.

It has been asserted in various quarters that the general principle of bank legislation is that Banks shall *not* make advances on goods, wares or merchandise,

and that the cases in which it can be done must be taken as exceptions to the general rule.

This idea is not only contrary to the fundamental rules of all Banking, but to the spirit and intention of all the foregoing legislation.

To legislate that banks shall not make advances on goods, wares and merchandise as a general rule, would be equivalent to legislating that a saw miller shall not manufacture deals as a rule, or that a dry goods merchant shall not as a rule sell cotton, or that a farmer as a rule shall not grow wheat.

The very essence of the business of a banker is to advance on goods, wares and merchandise, either in the shape of discounting bills representing goods sold, or making loans to enable goods to be produced or held.

And the whole object of the Warehouse Receipt legislation is to enable such advances to be got at the cheapest rate by basing them on actual merchandise.

The restrictive clause of the Act is that advances on goods shall not be made except as provided by the Act. But the Act itself opens the door to a wide enough range of transactions, and the limitation plainly means that the Banks shall not lend on goods as a pawnbroker does, or keep warehouses to store them in as the Bank of Germany does, and also that a storekeeper, or dry goods merchant, who buys goods on credit, shall not have the power of pledging them for Bank advances.

It is true that the Act gives the lender of money, when he advances on goods, a right to them even over an unpaid vendor – a very strong provision, and showing how strong was the desire of Parliament to facilitate loans on merchandise.

But, it is safeguarded by restricting the operations of the Act to cases in which, as a rule, there is no unpaid vendor.

Any other limitation, I venture to think, should always be interpreted reasonably and liberally, and with due regard to the great object intended to be accomplished by the Legislature, and to the vast importance of such advances to the country at large in its increasing development.

An Act of Parliament, as we know, may be variously interpreted, in fact it is impossible to frame clauses that are not susceptible of diverse interpretations.

If such interpretations are of a nature to hamper and embarrass banks in assisting merchants to handle the products of the community, they cannot be for the good of the community, but very much to its detriment.

Banks are rendering far too important services to trade and commerce to be treated as if their operations were disadvantageous to the community, and they have surely a right to expect such an interpretation of the Act as is in accordance with its intention and object.

### “Company in trouble”<sup>84</sup> (September 3, 1900)

**The “Cold Storage Case” of 1900 illustrates a weakness in the warehouse receipt system as then practiced.**

A defalcation amounting to \$300,000 has come to light in connection with the failure of the Montreal Cold Storage & Freezing company. [...] Since the company went into the hands of the provisional liquidator on Tuesday last rumors have been circulated that irregular warehouse receipts [for hundreds of boxes of cheese] had been put in circulation by the company. T. J. Chisholm, manager, stated yesterday that it was quite true that bogus warehouse receipts had been issued some time ago, but the matter had been settled, and as far as the creditors were concerned, no one would lose a cent. [...]

President Mullin was more positive in his statements regarding the trouble, and less sanguine as to a satisfactory ending of it. He said there had been both defalcations and issuance of false warehouse receipts, but the guilty party was not known. [...] These bogus receipts were discovered by accident. How long these receipts were honored by the Bank of Halifax, where they were deposited, is not known. The claim of the Bank of Halifax for \$270,000 was fully secured.

### “Cold storage case”<sup>85</sup> (November 26, 1900)

The Cold Storage conspiracy case continues to excite great interest. The cross-examination of Mr. D. M. Stewart, inspector of the Merchants Bank of Halifax, was continued this morning by Mr. Quinn. [...]

Mr. Quinn asked whether it were not possible that the warehouse receipts might be issued to a person who had never seen the goods, but had bought goods which had been stored by some other person, and whether the person who thus bought the goods could not get his warehouse receipt discounted.

[The] witness replied that a such a transaction would be carried out, and they are carried out, but when the bank gets such a receipt, it makes enquiries to find out whether the goods are stored. The man who thus buys goods goes to the bank with his warehouse receipt, and discounts his note on the security of the warehouse receipt. This receipt is considered good security, with the proper margin and insurance.

Another kind of transaction could be made. For instance, if a lawyer secured a hay dealer to purchase hay, then warehouse the goods, and the receipt was issued in the name of the hay dealer. This receipt could be discounted by the bank without the usage of the lawyer’s name at all, and this would be a perfectly legitimate transaction.

Mr. Quinn told the witness that the only exception he had to take to the explanation of the transactions in the examination in chief, was that Mr. Stewart seemed to think that the party who received the warehouse receipt, or in whose name

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<sup>84</sup> From COMPANY IN TROUBLE. (1900, September 3). *Manitoba Semi-Weekly Free Press*, p. 7.

<sup>85</sup> From COLD STORAGE CASE. (1900, November 26). *Montreal Daily Star*, p. 7.



the warehouse receipt was made out, should know personally that the cheese or butter represented by that receipt was in the warehouse.

Mr. Stewart was of [the] opinion that the man who discounted the warehouse receipt should know that.

“Would you not be satisfied that he had confidence in the man who gave him the receipt, and in the institution which issued the receipt?”

“I would want to know that the goods were there.”

“Did not the bank accept these warehouse receipts as security for the discounts, satisfied that the goods they represented were in the warehouse?”

“Yes.”

“But the warehouse receipts did not say that the goods were placed there?”

“No, they did not.”

“As a matter of fact the warehouse receipts did not state, [in] this case, that the goods were placed there by the parties in whose favor the receipt was issued, they simply said, ‘for account of the Croil and McCullough Dairy Co.’?”

“Yes.”

#### THE CASE OF GRAIN

Mr. Quinn then enquired whether it was not a common occurrence for warehouse receipts to be issued, for grain, for instance, to show that so many bushels of grain belong to [a] certain person, while the grain is all mixed up with other grain.

The witness explained that the system of warehouse receipts differed for grain from that for products like butter and cheese. The grain was in elevators by the million bushels, and it was impossible to identify it. The banks which discounted warehouse receipts for grain in such cases exacted a certificate from a government or a Board of Trade employee that the grain represented by the warehouse receipt was there. In the case of cheese, however, there were marks on each box for the purpose of identification, and though there may be a thousand of boxes in a warehouse the bank is supposed to be able to have each box identified.

“I am not speaking of the facility of identification; I am confining myself to the issuing of warehouse receipts. Is it not a common thing for a commission merchant to buy a certain amount of butter, cheese or other article, and when once the price is fixed, [the] vendor presents warehouse receipts and says, ‘here are your goods?’”

“Yes, sir, that may be done.”

## “The civil courts”<sup>86</sup> (December 19, 1904)

Jos. Ward vs. The Montreal Cold Storage Company et al. – Doherty, J. – Plaintiff is a shareholder in the company defendant. His action is directed against that company, in liquidation, A. W. Stevenson, its liquidator, and the Merchants Bank of Halifax. Its object is to have declared null and annulled a promissory note for \$270,000 of the company defendant, in favor of the bank defendant, of date May 21, 1900. [...] The grounds of the action are that the company, when said note [...] [was] given, was not indebted to the bank in the sum mentioned; [and] that the sum was made up of moneys which the bank had advanced to third parties upon pretended warehouse receipts issued fraudulently by certain persons in the employ of the company, without its authorization and knowledge. [...]

An argument much insisted on in support of the contention that the company was not bound at all by the receipts in question, was that they were not warehouse receipts at all within the meaning of the Bank Act, and this because the definition given in the Act describes such instruments as being given for goods delivered and “actually in place.” In denying to these receipts the quality of warehouse receipts answering this description, [the] plaintiff is no doubt right. They were not warehouse receipts the transfer whereof would or could give the transferee any pledge upon the goods mentioned in them, as provided by the Bank Act, since there were represented by them no goods in existence in the warehouse or elsewhere. But they were none the less negotiable instruments, whereby the company, through its officers, warranted to the transferee that there were goods actually in the warehouse, upon which said transferee would, by taking the receipts, obtain a pledge, and which the company bound itself to deliver to him. The representation being false, the transferee had no pledge, but that did not relieve the company from the obligations it had undertaken, nor from the responsibility for the representation it had made. If the non-existence of the goods rendered the obligations to deliver them impossible of fulfilment, it left the company responsible for such non-fulfilment and for its misrepresentations, and liable in the damages suffered by the transferee by reason thereof.

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<sup>86</sup> From THE CIVIL COURTS. (1904, December 19). *The Montreal Gazette*, p. 8.

## The American “Invasion” of 1902 – 1913

**The early 20th century saw a rush of immigration by wealthy United States farmers into the Canadian prairies. At the time, this was known as the “American Invasion”.**

**“That man who made the valley”<sup>87</sup> (1910)**

**Andrew D. Davidson, once “president of ten banks,” is credited with jump-starting the rush for land in the Saskatchewan Valley in 1902.**

It is impossible to over-estimate the value and far-reaching importance of the gift Colonel Andrew D. Davidson<sup>88</sup> has conferred upon Canada, but he stands in this unusual attitude towards it: that while remote posterity will continue to enjoy its benefits and shall be better able to estimate it through the perspective of time, he has full credit for it among the people of the present. Yet, like all men who build for the unborn generations, he has done the work for its own sake, unheeding the present praise or blame of other men. With total unconsciousness of saying a fine thing simply, he stated this, himself, at a banquet given in his honor at Winnipeg: “After an absence of twenty-five years,” said he, “I have come back among my fellow countrymen to devote the rest of my life in assisting to settle and develop my native country, and if in the end it can be said Canada is better off because I have lived, then my mission shall have been fulfilled.”

It takes a pretty big man to make a strong and lasting impression upon the material affairs and the course of history in two great nations. Davidson has done this – by sheer inborn force, and no adventitious aids whatever. Bare hands, steady eyes, the power to discern a duty and the instant readiness to do it, made up his capital when, in early boyhood, he first faced the world.

Now, in the high noon of his years, he is commander of many great interests, all of them operating for the good of thousands of people, and has at his call whatever resources may be necessary to anything he undertakes.

But the one performance by which his name will be carried forward was his promulgation of proofs that the Saskatchewan Valley would grow abundantly the best what in the world.

There is no need for going into that story now. It is well enough known, and so is the other fact, that when he had established the truth about Saskatchewan and the western plains, in the face of clamor to the contrary, he set about at once to utilize it by covering the land with farmers. It was an undertaking too immense for any but the largest and broadest kind of method – the country was so big. He had lived among the farmers of the middle western states, and he knew the desire that was growing up among them for more land. It really was a daring conception that lay at the back of his invasion of those states in search of settlers, for it squarely confronted a

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<sup>87</sup> From That Man Who Made the Valley. (1910, April 28). *The Wainwright Star*, p. 2. Originally published in *Canada Monthly*.

<sup>88</sup> Andrew Duncan Davidson (1853 – 1916).

widespread sentiment against changing flags, and a total misunderstanding of Canada, both as to climate and fertility. But he went at it with understanding, and in no small way. He created the first, and one of the greatest, of the land-selling organizations that have canvassed the United States and began to draw people across the boundary by hundreds and then by thousands<sup>89</sup>. It was the nearest and best area of supply, and all his immigrants took with them both money and skill. At one time he had no less than three thousand agents at work spreading the news about Canada and selling Canadian lands. His won first purchase amounted to a million and a quarter acres, sold in seven months – a time record in retail sales that stands as yet unbroken.

The way this was done makes a story in itself. Davidson had closed his purchase and was on his way from Toronto to Chicago, trying to think out a method of operation that would commend itself to Yankee farmers with sufficient force to get them into Saskatchewan at once, and in numbers.

To begin with, he had every confidence in the country and his own proposition and knew full well the right kind of men would make good for themselves, if only he could reach that kind on a scale broad enough to create a real movement.

That was early in June 1902. While a few hundred Yankee farmers had betaken themselves to Canada in the five years preceding, beginning with forty-seven in 1897, there was no organized system, either of attracting or handling definite migration; and he deliberately placed himself in a position where such a thing was necessary. Just how it should be gone about was the question to be answered at once.

The answer presented itself the next day, in Chicago, at a luncheon in the Union League Club, where he sat at table with a half dozen friends, all of them bankers. Someone spoke of his having bought a big tract of land “up north,” and then another asked why he didn’t let them in on some of these good things. He said he had no objection, but he was not drumming for partners. Then the first man suggested their going up north with him and looking around.

“All right, come along,” said Davidson. “Come as my guests, if you like.”

“When are you going?”

He had not thought of that, nor of any such thing as a party, but he answered at once, “On the fifteenth. I’ve a private car, with room enough in it.”

They all said it would be a great trip, and joked each other about going; then the talk turned to other topics.

While they chattered, a project was rapidly forming itself in Colonel Davidson’s head. He said no more then, but after luncheon he walked with his first questioner over to the bank, and going in with him, remarked:

“It seemed like a joke to those men, that trip to Canada. Did you mean it when you said you would like to go?”

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<sup>89</sup> In 1902, Davidson and his partners bought 1,250,000 acres of railway land grants, and half a million acres of homestead land from the Canadian government. A condition of the purchase was the settling of a certain proportion of each township by 1907.

“He hadn’t meant it, really, but inside five minutes he concluded it really would not be such a bad idea. Colonel Davidson had the car, and nothing would suit him better than to take the party with him.

“At my expense, both ways,” he put in.

His friend concluded to go.

“There’s your ‘phone,” said the Colonel. “Call up the others, and tell them it’s an invitation.”

Within an hour all had accepted – and a few more. One car would not be enough. Davidson arranged with the Pullman people for another, and then went back to the bank and told his friend he would be glad to have him extend the invitation to his correspondents in the country. His friend rose to that, and got busy offering his country bankers the time of their lives. The country bankers accepted to a man. All the other Chicago bankers were similarly told to ask their correspondents, with a like response. The one car had expanded to eleven by the time the returns were all in, and the party, all bankers save for a few newspaper men, left Chicago on the fifteen as promised, in a special train of their own.

The idea was growing.

At St. Paul they were joined by a few local bankers. But the Western Bankers’ Association happened to be in an annual meeting just then, at Crookston, and Davidson got in touch with the bankers and the Chamber of Commerce at Winnipeg, with the result that the association as a body was invited to go up there with the Colonel and be entertained. They accepted, and filled so many cars that the train had to run from St. Paul to Winnipeg in sections. The upshot was that about five hundred bankers, from all over the middle western states, were given a day or two of Winnipeg’s hospitality, and then went west, still in that special train of three sections, to the place where the lands were, in the Saskatchewan Valley.

Not a word was said to any of them about buying land. They were Colonel Davidson’s guests, out for enjoyment, and none of the people who helped him entertain them was permitted to talk business for a moment.

A. D. McRae<sup>90</sup>, the Colonel’s partner, who, like him, was a Glencoe boy and who, younger than the Colonel, has also attained to a prominent place in Canadian offices, was much disturbed about what might happen to them in case nothing should come of it. Colonel Davidson told him not to worry, but to make the party happy. They spread out over the prairie and began to make discoveries for themselves. Those country bankers knew land when they saw it. A correspondent of the London Times was there with a camera. He began to be enthusiastic and take pictures. The Yankee newspapermen warmed up to the possibilities. The city bankers promptly arrived at a belief that here was a great big opening. Within two or three days that excursion party without the slightest solicitation had bought 180,000 acres. “The American Invasion” had taken tangible form.

The development and carrying out of the idea that originated in a chance remark at the Union League Club luncheon had cost the partners \$100,000. But by the first month of the next year, it had sold 1,250,000 acres of Canadian land to people

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<sup>90</sup> Alexander Duncan McRae.

from south of the line, and the following summer saw thousands of settlers moving in and breaking for their first crop in the north.

For the bankers from the smaller cities of Iowa, Wisconsin, Minnesota, and the Dakotas, who had gone in with the party, became active and sincere propagandists as soon as they got back to their homes, and did not hesitate to commend to their friends and customers a purchase that had been good enough for their own money. The rest was comparatively easy work, in the details of organizing a system of agencies and sales. All America and most of Europe knows what followed.

That first memorable bunch of Yankee capitalists created an action that is  
“Like a circle in the water / Which never ceaseth to increase itself.”<sup>91</sup>

The number of farmers passing from the States to the western plains has risen with every year that has followed. In 1909 they counted up to more than 90,000. It is fairly sure that this year 125,000 will come; possibly 150,000. So that in less than eight years that which began with good-natured chaffing across a luncheon table has solidified into the growth of a new nation.

“Behold, how great a matter a little fire kindleth!” To promote a nation is to touch the apogee of business invention.

And see how it happened: A casual remark found lodgment in the mind of a man alert enough to catch it, and strong enough to carry out, by instant means, the purpose it gave rise to; and so, a new nation is growing up, in power and prosperity. The way the parts of that excursion plan dovetailed into each other may look like remarkably adroit diplomacy, since every part to it was put in the attitude of conferring a handsome favor upon others, without trouble or cost to himself. But it was less adroit than broad and simple, so that the end was reached by the shortest cut and all was done fairly, in the open light. It took a large-minded man, though, to see it, and to put it through.

Such men are fashioned to much honor, from their cradles. Davidson’s was a crude one, on the farm his father had hewn from an Ontario forest, and his earlier days were hard and hardy. People who knew him tell of his earnestness and industry even then, and the promise he gave of future usefulness. His old schoolteacher, Mrs. Mary Corneil, carries a vivid memory of the time when he was under her charge.

“He was a boy who always seemed to have a purpose in view in whatever he undertook,” she says. “As a student he was very energetic and industrious, anxious to acquire knowledge for himself rather than to excel others. Had I never known of his subsequent career, I would have the feeling that he was filling a man’s place somewhere.”

Another of the neighbors at Glencoe, Isaac Rathburn, sounds the note that has dominated all Colonel Davidson’s life, in this little incident.

“Whatever he was engaged in, he made the very best of. I remember when he was a boy going to school, he took care of a team of horses for a man nearby, to pay for his board. He often drew my attention to the pride he took in seeing them sleek.” And Mr. Rathburn adds with unction, “Colonel Davidson is truly a self-made man, and he certainly made a good job of it.”

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<sup>91</sup> A quote about glory, from Shakespeare’s *Henry VI*.

It was the father of one of his schoolmates who gave him his impulse to fare forth from Glencoe. This gentleman's name was Nathaniel Currie, and he appears to have been a man of considerable affairs himself, being a member of parliament for that riding, a successful railway contractor, and the owner of the townsite. Andrew was in his nineteenth year then, and had taken a contract to haul twelve hundred cords of four-foot wood a mile and a half, and pile it eight feet high.

Mr. Currie came through the woods one day when he had almost controlled this playful diversion, and handed him a good portion of common sense.

"Andy," said he, "you are a smart boy, and you have brains, but you are working too hard for one so young on something that offers no great reward. When you have finished it, get into something else. Go out into the world and make a record of yourself."

In those days and that part of the country, going out into the world meant going to the States. In two weeks' time, the young man had handled the last stick in his contract, and was on his way. But years after, he had something to say to a western railway president about the way the company's wood was piled that showed he knew something about woodpiles. We will come back to that presently. A wise boy always remembers anything he has learned, and finds a way, some time, to make a use of it.

It was a long jump from the Glencoe contract to starting up the Fraser River Lumber Mills, the largest plant of its kind in the Empire, or anywhere else, in the establishment of which, and its construction, Colonel Davidson had a leading share. He has today enormous holdings of standing timber, probably more than any other one man in Canada.

His first few years in the States were by no means easy going. He went to Wisconsin, and after a little, found himself in Janesville, where there was a school of telegraphy. It was there his career actually began, for there the bent was given that shaped his subsequent activities. He attended the school, which was conducted then, as it still is, by Richard Valentine. They remember him there. What Mr. Valentine has to say about him now comes rather near being an illuminative biography.

"I think it was in the fall of 1873 that Davidson entered the Valentine School of Telegraphy. He had worked in the Wisconsin pineries during the winter, and although he had some eight hundred dollars saved, he placed his money in one of our banks and worked out of school hours for his board. Upon his graduation, I procured him a position as agent and operator for the Green Bay and Minnesota Railway at Blair. There he put his eight hundred dollars at work by loaning it, buying produce from the farmers and so on. I think he was at Blair about four years, and then removed to Minneota, [a town in Lyon County,] Minnesota. There he opened a general store, grain and lumber business, and later on a bank. In my opinion, the fact that he was willing to work for his board in order that his little nest egg of eight hundred dollars would not be encroached on, tells the whole story."

It does, in a way, but something happened while he was at Blair that tells a little more. That was the time when it came out that he knew how to pile wood.

The president of the railway company was a fine type of the sort that ruled the roads in those days. He never let the slightest detail of expense get past him without scrutiny and criticism. His name was Timothy Case.

One day, when President Case stopped at Blair, on a trip over the line, he looked with the eye of discontent at a diminishing pile of cordwood up towards the forward end of the platform. Wood was the common fuel for locomotives in those days. Young Davidson stepped forward and told him that the wood was piled in such a way that the company was paying for about ten per cent. more than it got.

The President looked at him as Bacchus may have looked at Eophon before seeing his way to a just opinion of him and came to the same conclusion. "Put him by himself for a while," [he thought,] "and I'll know what to think about him."

"You get aboard this car, young man," said he, "and I'll soon find out whether you know what you're talking about."

At the next stop there was a similar stack of wood. Mr. Case walked him over to it.

"Now," said he, "show me what you mean."

Davidson pointed out that when cordwood is split in the log, it is quartered from the bark in toward the heart, so that a cross-section of a stick would show a triangular form, the outer side bearing the bark; and that where it was piled bark-side down, the sticks would not fit closely in, but leave space between them "that you could throw a dog through." The cord measurements being four by eight feet, these spaces would stand for about one-tenth less wood than could be piled in the same dimensions if so reversed that the sticks would pack tight. He illustrated his point as he talked, by handling the sticks both ways, and proved that the company was getting only about nine-tenths of the wood it was paying for. Mr. Case listened, and saw a light.

"You are appointed wood inspector for this road, beginning right now," said he. A barren promotion, since it brought more work without more pay, for he still had to keep on at Blair as station agent, and stuck there until he went to Minneota, as related by Mr. Valentine. When a railway in the seventies bought any part of a man's time, it bought it all.

But no two-by-twice Minneota was to confine his powers. It was not long before he began to buy and demonstrate the value of cut-over timber lands, and by that means redeem to profitable cultivation great areas that had been considered waste. To make this demonstration successfully and by actual practice, he bought and cleared a large tract in Minnesota, and stocked it and farmed it. Those old cut-over lands are producing now some of the heaviest crops grown in all North America.

This was only an extension of his work. He became interested in iron in the country back of Duluth, and always he was widening his banking interests. Years before he entered the Canadian prairies he had business enterprises of importance going successfully in many places, and found time to help organize the People's Church (nondenominational) in St. Paul, and to interest himself as an active worker in the councils of the Republican party – though he had no political ambitions for himself. Except to serve as mayor of his city, he never held any office, but he was a



delegate to the St. Louis convention of 1896 that declared the gold standard and nominated McKinley for the presidency.

That is to say, he never accepted any other civil office. But he held a commission in the Minnesota National Guard, serving on the governor's staff with the rank of colonel, whence the familiar military prefix to his name.

It was logical, if not automatic, that being busy with so many things which touched or overlapped the international line, he should have approached the Canadian field not only to the development of its agricultural interests, but as the ruling spirit in its many going concerns. Before and after his inauguration of the Yankee movement, much of his money and time were engaged with Canadian industries. Without going into a chronology of his ventures, a partial list of them as they stand at present will show what he was doing, in many widely separated localities.

Colonel Davidson is [involved] in the Saskatchewan Elevator Company; the Western Canada Flour Mills, Limited; the Virginia and Rainy Lake Railway and Lumber Company; the Zenith Furnace Company, Duluth; the Great Lakes Dredging Company, Chicago; the Fraser River Lumber Company, B.C.; the Columbia River Lumber Company; the Anacortes Lumber and Box Company, Washington; the Canadian Loans and Securities Company; the Winnipeg Insurance and Vessel Agency; the Canadian Northern Prairie Land Company; the Davidson & McRae Stock Farm, the largest farm in Minnesota; and he is president of ten banks.

There is a secret, rather a pretty one, in the way this one man contrives to handle so many and such diverse things. He never bothers with anything small; he never worries, nor permits himself to be hurried; and he is simply a master of the art of choosing assistants. This last point is vital.

From the time he became his own master, in business for himself, Davidson has always been on the watch for capable young men, whom he places and trains and advances until they work with him even as the fingers of his own hands. He has a prodigious power of work himself, but he knows how to excite the same power in his young men, who thus multiply his own. And a mighty good thing it is, too, for those same young men themselves.

It is a curious circumstance that there are more Davidsons among the bankers of Canada, Great Britain, and the United States, than men of any other name.

Colonel Davidson is primarily a banker, in the real sense; a born manager of money, with the gift of directing it into avenues of largest and most beneficial public use. He has three brothers, all of them bankers. His grandfather, in the north of Ireland, was a banker. His father chose Canada and farming, but he was a most unusual man, of high character, keen intellect, and an avid love for work.

It is a truism that blood will tell, but Colonel Davidson's work is a notable illustration of it. From both his parents he derived those qualities that have given him dominance. His mother was Canadian Scotch, a well-educated woman, descended from the stalwart McRaes of Glengarry. Thus her son is of the same Scots-Irish stock that produced Presidents Arthur and McKinley, and Mark Hanna, and has given to all America some of the best men it has had. Glencoe, where he was born,

was a Scots settlement. Presbyterians for the most part, Covenanters for the rest; and that has always spelled hard common sense, willpower, sobriety, and high thought. His mother saw that her four boys were given the best education the place and times afforded, and had no scruple in self-sacrifice to that end. She fired Andrew's ambitions and gave him sound counsel in all matters. When he left the farm to go to school at Glencoe she asked him to promise her that he would never drink whisky and never smoke, and that promise he has steadfastly kept. He owes her much for those early inculcations of simple morality, cleanly ideals, prudence, and generosity – and no one could be more willing to acknowledge such a debt than he.

It is too early for a summing up of this most busy life. The close is too far away<sup>92</sup> for that, and too much splendid work lies in the part which is yet to come.

Let no one think the story has been one of all laurels and bay, even since its scene changed from Blair to Minneota, years ago, for there have been reverses, and many hours that to a mind less firm in its own hold upon itself and its intents would have been filled with black doubt and poisonous worryment. If the average of success has been high, and the position attained is secure, it is because his character is of the cast that "in suffering all hath suffered nothing," and that "fortune's buffets and rewards hath ta'en with equal thanks." He has a healthy mind in a particularly healthy body. His mentality receives a joke as promptly as it rejects the toxin of anxiety. No man could have accomplished so much without the saving sense of humor, covering so granite a resolution as opposed to the shock of circumstance. That man who never errs in judgment or act, or who in carving out his fortune has nothing but success, is not among this world's possibilities. But the man who, having taken a bump, can benefit by the lesson it may convey, and let the rest go, is pretty certain of a high place in the seats of security. It is a great thing to be able to realize that "what's past hope is past paying for," and then proceed to the next thing with unabated strength and the steady will to make that next thing go.

In saying this I am trying to give a picture of the Davidson who is back of the man you see – of the man who looks out of Davidson's eyes and speaks through Davidson's lips – the real Davidson. Look at the photograph, and you see his strong exterior; but the outward and visible signs offer no more than an impression of the inward and vital force beyond, by whose works he is known.

"It is a singular thing," wrote Emerson Hough in *The Sowing*, "how, when the world needs a skeptic and a revolutionist, a scout in industry, that man sometimes with small pomp and circumstance, usually appears." This was in speaking of the conditions in Canada when Colonel Davidson, against all accepted belief, and in the face of expert finding reached out and laid hands upon lands in the contumeliously rejected Saskatchewan Valley. "No one would admit that an empire had been hidden for two centuries. No one would believe that a plain man could in twenty minutes add a hundred million pounds to the wealth of Canada and the world. But in time this revolutionary truth could no longer be denied."

When all shall have been said, that colossal achievement will be the one by which Davidson's name will be carried forward through the times to come. Other men

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<sup>92</sup> Colonel Davidson died six years after this article was published.

– though not so very many – have equaled his successes in finance and industry; a few have surpassed them. But in the distinction of having found and forced forward a new country and new lands upon the strength of his own hard-gained knowledge, and with the calm courage of a fixed conviction, regardless else of all the world, and its opinions, he stands alone in his country, a unique and gigantic figure among the harbingers of destiny, the leader on the trails along which millions have traveled and shall travel into new lands of great content. And as the years hang their filmy curtains over the receding view, that figure shall loom larger, but with outlines undimmed.

### **“Emigrants now travel in style”<sup>93</sup> (1903)**

The agricultural occupation of the Saskatchewan valley is lacking in the spectacular features that characterized the settlement of our [United States] prairies. The old prairie schooner, with its freight of women, children, and household plunder and its attendant train of driven farm animals is missing, and with it is gone the romance of home-seeking.

Emigration and land settlement is now simply a business proposition, conducted under the high pressure and absence of sentiment that characterizes the twentieth century. Instead of the slow winding wagon train, weeks on the road, with the romantic settings of the evening campfire, the settler now comes in a Pullman, or, at least, in a colonist car, is driven over the land in livery rigs, makes his selection, and returns to his old home in preparation for his migration next spring to the new.

A striking result of this changed condition is the greater individuality of the settler. In the old days the necessity for association for purposes of mutual defense and mutual assistance limited men in their choice of location and bred a spirit of mutual dependence. Now each settler goes where he chooses, influenced only by personal considerations, and the old community of interest is gone.

#### **SETTLERS OF MANY CHARACTERS**

The character of the American migration into this valley, as shown by actual contact with incoming settlers and land buyers, is radically different from any ever before met in the settlement of a new country. The men who are daily locating homesteads at different points in this valley represent a class that has both agricultural experience in a prairie country and is possessed of sufficient means not only to take and equip the free homesteads of 160 acres, but to purchase an adjoining quarter- or half-section and begin farming operations upon a fair-sized scale.

As an example, out of [a] party of fifty Missouri farmers [...], I am told today by the leader of the excursion that in three days they have located forty homesteads and purchased twenty-two quarter sections in addition.

At the present time the bulk of the [United] States men met are from the winter wheat belt, threshing being over and corn out of the way. Oklahoma, Kansas, Missouri, Illinois and Indiana are especially prominent.

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<sup>93</sup> From Snow, B. W. (1903, September 9). EMIGRANTS NOW TRAVEL IN STYLE. *Chicago Tribune*, p. 7. Written by Bernard Willis Snow (1864 – 1941).

Three types of men are represented. [The first are] the restless land seekers, who always manage to be on the outer fringes of settlements, taking up free land, developing it sufficiently to acquire title, and then selling out to emigrants again.

The next and most important class both in point of numbers and in value to the country is made up of tenant farmers from the middle west, who want to own land, but can hardly hope in a lifetime to acquire a farm where land is worth \$100 to \$150 per acre. These men desire to become proprietors rather than remain share or wage workers, and, with experience and capital already acquired, they will furnish a most desirable acquisition for a new country.

#### MANY SEEKING INVESTMENTS

The next class, especially strong from Illinois, is made up of men and the sons of men who have secured a competence as land investment for their surplus capital not required at home. The men of this class are buyers, not homesteaders, and they will become proprietors rather than farmers. Their advent is not particularly pleasing to thoughtful Canadians, the idea being well-expressed last night by an important official, who said to me: "What we want is settlers, not landlords."

Up to this year most of the settlers from the States have been part of racial colonies, what may be called the tide of individual settlement having only really begun this spring. Mennonites from North Dakota, Minnesota and Nebraska were the first to come, and their colonies are still being added to, elders representing a new settlement being now here, arranging for the location of a colony near Davidson. A Dunkard colony from around Lafayette, Ind., is also now being placed in the same district. The plan with these racial colonies is to select free homesteads for each family and purchase all adjoining land, [and] grant lands, so that the whole community will remain strictly a racial community.

It is interesting to note the social changes which contact with American life has brought in some of these foreign sects. Originally the Mennonites were a community people, living together in central villages and cultivating the land adjacent. Two such villages exist in the Rosthern district, peopled by members of the sect fresh from Europe, but in the district settled by the Mennonites from the States there are no village settlements, each family residing upon its own farm, and each household an independent entity in the social world.

#### MENNONITE SETTLEMENT LARGE

This particular settlement is the oldest in the valley, and at that has only been located some four years. Its progress represents what the next few years will show in the district now receiving the individual settlement to the extent that the individual settlers are the equal of these colonists in thrift, industry, and judicious economy.

These colonists, as a rule, come in with a little money, some experience, and an ability to adapt themselves to circumstances. They took free homesteads, starting with 160 acres, and each year the crop return was invested in more land, until the rule now is farms of some 200 to 900 acres, the acre being the unit of measure of a family's wealth. The original capital was used in developing the homestead, but the annual profit was and is yet invested in adjoining land, so that the family estate widens each year.

If the country is receiving from the States a better class of settlers in point of experience and capital than ever before went into a new country, it is equally apparent that the settler is finding better conditions for comfort and prompt success than he has ever before met. Railway development has come ahead of settlement, and all the functions of government are in full operation. Today the valley is crossed from north to south by the Prince Albert branch of the Canadian Pacific [Railway], while three lines are laying rails as fast as the iron can be secured in a race to give direct connection between the valley and Winnipeg, and by next spring two lines of the Canadian Northern and another branch of the Canadian Pacific will be ready to have stops direct to the head of navigation on Lake Superior, shortening the present haul by more than 100 miles. The ease of transportation and the nearness to market is illustrated by the fact that the elevators at Rosthern are today bidding 60 cents for wheat before the crop is threshed.

#### WILL DEVELOP WHEAT INDUSTRY

In this connection there is one possible development of the wheat industry of this territory which is an interesting subject for speculation. It is only 500 or 600 miles to Hudson's Bay, and an examination of a map of the world will show that the sailing distance from ports on Hudson's Bay to Liverpool is about the same as the distance from New York to Liverpool. For 200 years or more the Hudson's Bay Company has brought in all of its supplies for its numerous trading posts in British North America through Hudson's Bay and then by boat up the Saskatchewan River, and by the same route has shipped out its collection of furs and pelts. I am told by one of the directors of the company that during all this time it never lost a vessel in the bay. This company, as part of its policy of secrecy, gives no information regarding the character of the water route, but it is claimed that the straits are free of ice for eight months in the year, giving a period of navigation quite as long as the navigation of our own Great Lakes. The Canadian government now has a scientific expedition surveying the bay to determine the practicality of a route for a grain fleet.

#### RAILWAY TO BE EXTENDED

The Canadian Northern [Railway] has a franchise for the building of a line from a point in this valley to a deep water harbor in Hudson's Bay, and the extension of the northern line now underway would indicate a purpose to build this line. Should it be done, it will undoubtedly mean the establishment of direct steamer connection between Hudson's Bay and Liverpool, open for eight months in the year, and making it possible to lay wheat down in Liverpool at less cost than is now required to transport it from Lake Superior to New York and thence to Liverpool. The possibility of this line of ocean communication is problematic, but its establishment is under consideration, and Canadian statesmen of today are bending every effort to render Canada free of dependence upon the States. Should it become a fact, it would mean that the wheat lands of the Canadian northwest, with a larger rate of yield and a higher quality than is secured from any other wheat land on the continent, would have the additional advantage of being nearer the world's markets than any other center of production.

## “Invasion of the Dominion”<sup>94</sup> (1903)

The American Invasion of Canada is no mere figure of speech. The tide of immigration now sweeping into the Northwest Territories is a movement of population comparable only to the great waves which for four generations swept the States from the Atlantic to the Rockies, carrying with them the center of population and of political power. Thrown back by the arid belt marking the west of our great plains, this movement of population is now beginning to turn toward the Northwest north of the international line, and the United States becomes for the first time a country of emigrants as well as immigrants.

The tides are yet far from equal so far as the numbers go, the United States getting from Europe last year some 80,000 immigrants and giving to Canada, according to [a] railway count from the St. Paul gateway, some 45,900. *In matter of value as citizens or as an economic proposition, the balance is against the United States.* While United Staters<sup>95</sup> protest, and justly, against the aggregation of misery, ignorance and wretchedness dumped upon the Atlantic Coast, the thrifty, progressive sons of the men who turned the raw prairies into an agricultural empire, and who now seek new homes with a patrimony of money and experience which their fathers lacked.

The Canadian government is at last alive to the possibilities of this class of immigration, and now maintains agents in every state in the west, and the result of the effort is apparent here, more apparent, of course, than in the States. Gathered from a dozen states, the exodus attracts little attention there, but here on the broad plains and in the painfully new towns that are springing up almost overnight the reality of the American Invasion is apparent on every hand. During the year ending June 30, 1903, 31,062 homestead entries of 160 acres each were made in Manitoba and the Northwest Territories, representing 4,969,920 acres of prairie land acres of prairie land actually entered upon by permanent settlers.

The Canadian government maintains land offices throughout the territory open for settlement, and those at Regina, Yorkton and Prince Albert, representing the valley of the Saskatchewan River, the territory of that name, Northern Assiniboia and Northwest Manitoba, show 16,049 entries, or more than half for all Northwestern Canada. From a government official conversant with facts, and from a man himself with a factor in the movement, an opinion is obtained that 80 per cent. of these settlers in the valley last year came from the United States.

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<sup>94</sup> From INVASION OF THE DOMINION. (1903, September 9). *The Standard* (St. Catharines), p. 5. The article claims it was written by “A special staff correspondent of The [Chicago] Tribune, writing from Rosthern, Saskatchewan” on Sept. 8, 1903, but I cannot find this article in any issue of the Chicago Tribune from Summer or Fall 1903. The author is almost certainly Bernard Willis Snow (1864 – 1941), who is credited by an article in the Minneapolis Daily Times of Sept. 8, 1903, with having, in “a recent letter,” told readers “what the Canadian government is doing by way of coaxing immigration from the United States”. The Minneapolis Times’ brief paraphrase of Snow’s letter cites figures identical to those in the current article, e.g. that “4,969,920 acres of prairie land were taken up by permanent settlers.”

<sup>95</sup> Sic. I would have used the admittedly obscure adjective “Usonian,” instead.

These figures, however, represent only part of the movement, for practically the whole of the unsettled and agriculturally available Northwest Canada, one half of the land, or each odd-numbered section, has been given to different railroad companies as land grants, while, in addition, two sections in each township are the property of the Hudson's Bay Company, and two are set aside for school lands, and already good lands for such settlement are only found at considerable distances from the best proven farming districts. To appreciate the rapidity of private acquirement of Canada's lands, to the area homesteaded last year must be added the sales of lands from the various active land grants and the lands located by the Métis<sup>96</sup> scrip. This record for the year ending June 30, 1903, as furnished by the best posted authorities was:

	ACRES
From Canadian Pacific grant	2,500,000
Qu'Appelle and Long Lake grant	1,000,000
Calgary and Edmonton grant	500,000
C. and N. W. Land Co. grant	500,000
Métis scrip	500,000
Total	5,000,000

This makes a total of 5,000,000 acres gone into private ownership by means other than homestead claims. Thus, a grand total of almost 10,000,000 acres of the lands of Northwest Canada has passed into private ownership in the last twelve months.

Of the lands taken by cash purchase by far the largest percentage has gone to Americans. In fact, such purchasers are almost invariably Americans or citizens of Eastern Canada, and, as the people in Ontario and Quebec are only just awakening to the value of Western Canada, *the bulk of transfers to this time has been to citizens of the United States*. The foreign immigration, as with the United States, represents [people of] little means, and [those] must be content with free homesteads on the outer fringe of good lands. It is an American Invasion of both men and money, experience and capital, and it is capturing the last great area of good farming land available on this continent.

A fair sample of results already accomplished, and a promise of what is coming for several hundred miles through the watershed of the Saskatchewan River may be seen here [at Rosthern, Saskatchewan]. Two hundred and fifty miles north of the international boundary, by latitude north of the southern shores of Hudson's Bay and by longitude as far west as Denver and Cheyenne, Rosthern is the center of the most rapid and marvelous agricultural development<sup>97</sup> on the continent.

Located in the center of the broad valley lying between the north and the south branches of the Saskatchewan River, which four years ago was practically virgin of the plow, it made for the crop of 1902, its third crop, a strong bid for a position as one

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<sup>96</sup> Throughout this collection, I've silently replaced an offensive contemporary term ("h.-b.," for those in the know) with the modern term for the Métis people.

<sup>97</sup> As of 2016, the town of Rosthern had fewer than 2,000 inhabitants.

of the greatest initial wheat shipping points in the world, with a record of 1,000,000 bushels. With its fourth crop now ripening for harvest under absolutely perfect weather conditions of heat and brilliant sunshine, it stands every chance of reaching that most remarkable distinction.

After the Riel Rebellion, which closed just north of here at Duck Lake, the railroad was built from Regina, on the Canadian Pacific transcontinental line, north to Prince Albert, an old settlement, and the stronghold of Riel's Métis, for strategic reasons, seasoned, perhaps, with the desire for a fat land grant. This road, running 250 miles, was opened in 1891, but until 1897 there were but two stations between the terminals. In the fall of 1897 the station at Rosthern, the third on the line, was opened, and at that time not a building marred the level prairie which swept to the horizon on either side of the line. There were then thirty settlers in the whole district counted now as tributary to the station, approximately a stretch of country sixty-five miles long by twenty wide, or thirty homesteads on 1,300 square miles of prairie. Ten of these families followed in the year the road was opened, 1891, and three or four a year drifted in from that time until the spring of 1897. The first shipping bin, by courtesy called an elevator, was built in the fall of 1898, and 3,000 bushels of all grains were shipped from the crop of 1899.

The tide of settlement began in the spring of 1899, when 100 cars of immigrants, goods and effects were landed, and to-day, or four years later, the rural population of the territory occupied by thirty families in 1898 reaches fully 25,000 souls. From the crop of 1900 100,000 bushels of grain were shipped, 400,000 in 1901, and 1,000,000 in 1902. Now eight elevators are in operation and two in construction, and from the crop in which the binders are now running local experts count confidently upon shipping 1,400,000 bushels. The town has 1,000 population, blocks of brick, three banks, a roller mill, a dozen stores and two hotels. A single farm implement house has this year sold 246 farm wagons, 45 binders, 100 mowers, two carloads of farm harness, 200 plows, 65 wheat drills, and the depot yard for a quarter of a mile is to-day lined with farm machinery in process of being sent up for impatient purchasers. Most of the wheat machinery is from Chicago. The people, perhaps, are not to be blamed if paper fortunes in corner lots are firmly regarded as realities. The oldest citizen of the town, the first station agent, and the present Mayor, are all combined in H. A. McEwen, with only twenty-six years of life to his credit.

This town is a type – the most pronounced, be it admitted – of what the American Invasion is doing for northwestern Canada. But perhaps the most striking feature is the seeming absence of the American town boomer. This type is missing, and few people from the States are interested in town sites. That boom inflation is left to Canadians, largely with Winnipeg connections. It is by the settlement of the farmlands, and the actual production of wealth from the soil that the American here so far is contributing to town development. In comparison with our own days of the booming western metropolises [of the United States,] this failure of the American to become overenthusiastic in the matter of town lots seems strange. Possibly it is wisdom born of the fathers' experience with collapsed cities and smashed town booms.



At any rate, it is a fact that American men and money coming to this country are acquiring the farming land and plowing wealth from the soil.

At this point largely the settlement has been of a racial colony character. The first to come in were Mennonites, originally scattered through Minnesota and the Dakotas, and for miles outside of the town their well-tilled farms and freshly-painted houses and barns proclaim both good farming and shrewd and successful management. Accompanying this migration from the States was the only influx of Canadian settlers, brethren of the same faith, from southern Manitoba, so near the line as to have been practically part of the [United] States settlement. Next in point of numbers comes the German Catholic colony, occupying 125,000 acres, here now a year, and recruited largely from around Little Falls and St. Cloud, Minn. These two classes number more than half of the population. The other racial colonies are foreign, made up of the Doukhobor settlement, and small groups of Galicians and Hungarians. These classes are homesteaders, pure and simple, taking only what they get for nothing, while each Mennonite and German head of a family entered a homestead and added to it one quarter-section or as much more as his means would permit, purchased outright from the land grants. With the competence earned in the States from their original homesteads, they have come here and homesteaded and purchased land for themselves and to divide among their children. These heirs on every farm are numerous enough to dispel any fear of race suicide [!] in this section of Canada. These people with their thrift, intelligence, and good farming, are a loss to the United States and a distinct gain to Canada, as it is their industry and patience that has revealed to the world the agricultural possibilities of this valley. Their reward lies in the fact that they not only hold the best land, but the most of it so far as this particular district is concerned.

The American Invasion is by no means, however, confined to this racial colonization. In three days' time homesteaders and land-seekers from Montana, Michigan, Illinois, Indiana, Iowa, Ohio, Minnesota and the Dakotas have been met at different points in the valley, and to-day a single party of fifty from Missouri<sup>98</sup> was being shown up the line.

In some respects, the impressions created by the liberal advertising of the Canadian government and interested land companies should be corrected. Free homesteads are yet left but they are largely inaccessible on the outer fringe of the better lands. Official records at land offices show homesteads entered upon fifty, seventy-five, or even 125 miles from railways, and these hungry land-seekers would never have gone out such distances had there still been an abundance of free land available. Another thing, the days of lands at a nominal price has gone. Land that three years ago could be had for 75 cents, and \$1 an acre, and a year ago at \$3 and \$4, now commands \$5 to as high as \$10, with the bulk in this district selling at \$10. The third proposition to be laid down for prospective recruits for this army of invasion is, don't come without money to make a first payment on purchased land, and with enough left to tide over comfortably the first year until crops can be produced.

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<sup>98</sup> Presumably the same party of 50 Missouri farmers as in the previous article, by the same author.

## “The story of Métis scrip”<sup>99</sup> (1911)

“Now, Sandy, listen to me. You know you promised me that scrip-“

“Promised nothing! You make me tired! You know, Sandy, that that promise isn’t worth the paper it’s written on. It’s money that’s talking now.”

“But, Sandy, don’t listen to him for a minute. Last spring that scrip was worth two hundred dollars only; you know a lot of them sold at that. But this year they’re worth more, and although you promised to let us have it for two hundred, we’re not holding you to that – we’re giving you four hundred-“

“He’s lying, Sandy. The truth isn’t in him. You know as well as I do that if I wasn’t here bidding against him, you’d have got just two hundred and not a cent more. He came up here last year and made himself out a big man and said he was going to see that you got your scrip and that his influence would fix it for you and you couldn’t get it without him. I tell you he hadn’t anything more to do with getting your scrip for you than I had; and if you sell it to him for any less than I’ll give you for it, you’re a fool and he’s a scoundrel. If he wants your scrip, let him bid for it, same as I’m doing; and let the highest bidder take it. Come on, now. He says four hundred. I’ll give you four-fifty to start it. Now, Mister, if you want his scrip, raise me.”

For nearly a couple of hours the altercation went on. One would have thought Sandy had no say in the matter at all, he was so seldom consulted as to his wishes. And yet Sandy had in his own right, and by right of being head of his family, the disposal of three Métis scrip certificates – his own, his wife’s, and his sister’s. Each certificate entitled the owner to locate and file on two hundred and forty acres of the best land they could find in the homestead and pre-emption area of Western Canada, to become the owners of it by virtue of a Crown grant, absolutely free and without price or penalty and without any settlement duties to perform. Such land sells, every day in the week, over the counters of the land companies and in the land departments of the railways, for as high as twelve and fifteen dollars an acre.

Sandy’s was a typical case. He had applied for scrip the year before. The buyer who had been on the spot at the time had assisted him in the matter of obtaining birth certificates and other red tape details necessary for establishing his claim to the satisfaction of the department of the government which has such matters in hand. Sandy, grateful for the assistance so generously rendered, had without hesitation promised to turn over to his friend in need at the then current price, \$250. Two hundred and fifty dollars looked like a big sum to Sandy. He had probably never seen [so much mo]ney at once in his life. Besides, his friend was willing to advance him a few dollars to help him through the winter, and Sandy was not blessed with overmuch of this world’s goods; indeed, he was probably on the books of “The Company” for goods already advanced, and his line of credit would thus be naturally somewhat impaired.

So Sandy had promised; he had even gone so far as to put that promise in writing, although, Sandy being an honest man, that was quite unnecessary.

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<sup>99</sup> From Stead, H. (1911, January 20). The Story of [Métis] Scrip. *Raymond Rustler*, p. 11 Written by Hay Strafford Stead (1871 – 1924).

Everything had occurred according to schedule. He had received one hundred dollars or so from the buyer, on the strengths of his prospects. He had passed the winter in comfort, and was correspondingly grateful. The commissioner had that day handed him his scrip, and to his wife and sister also one certificate each.

And then the trouble had begun. Another buyer was on the scene, telling him how little the first man had really done for him, and how he was being cheated out of much wealth in carrying out his bargain to sell for such a small sum. The new buyer was prepared to pay more – much more; how much Sandy could not exactly tell, but certainly there was to be much more money for Sandy if he sold to the new man.

Sandy, in his dilemma, did as all his forbears had done before him – he went to The Company. He gathered the two buyers together and marched them into the Hudson's Bay Company's office at the Fort, and laid the matter before the factor. So did the scrip buyers. They argued it pro and con, and the argument got warmer and warmer as it proceeded. It finally resolved itself into an auction duel, and the price of scrip that evening went up three hundred per cent. At nine hundred and fifty dollars the bidding lagged somewhat, and the factor said:

"I was just t'ink, me," Sandy replied, "de oder feller – mabbe she give me some more money."

He did. Sandy and his family went to bed that night with the satisfied feeling natural to any Métis that has just seen three thousand dollars in bank bills paid over to the Hudson's Bay Company to be placed to the credit of his account, and locked up in the Company's safe in the office before his eyes.

The issuing of Métis scrip is a comparatively recent development. In 1870, when the country now comprised of the three prairie provinces was taken over by the Government of Canada from the Hudson's Bay Company, it became necessary to make some arrangements to purchase the rights of the Indians resident in the country. This was done by means of a series of treaties, with the various bands which occupied the territory covered by each session.

But at that time there was a considerable proportion of Métis population. Some of these lived like white men, engaged in business, or in farming. Others, on the conclusion of the treaty with their relatives, chose to do as they had always done, and live with the Indians as Indians, accepting treaty and residing on the reserve. But there was a large section of Métis, who, while not allying themselves completely with their darker brethren, still lived by hunting and trapping, and did not adopt the white man's life. These had just as much at stake in the country as the Indians themselves, and considered that they should have been dealt with just as generously by the Government. But no provision for them was made by treaty or in any other way; and the dissatisfaction of the Métis at the neglect of the Government to deal with their claims in this regard led directly to the Métis rebellion of 1885.

After the rebellion was quelled, the question of allaying in some manner the discontent rife among the Métis was taken up by the Government. It was impossible to deal with them as the Indians had been dealt with. Unlike the Indians – whose cohesion in comparatively large bands made negotiations easy, and whose mode of

living invited terms totally unsuited to the Métis – the latter were scattered all over the country, each for himself, and owning no master but their own sweet wills.

It was finally decided that a grant of land to each individual Métis would meet the case, and the grant was fixed at the generous allowance of two hundred and forty acres; which was considered a sufficiently large farm to support a man and his family in comfort.

To each Métis, then, who applied and proved his right to participate in the issue, a certificate was given entitling him to two hundred and forty acres of land, which he was allowed to select from all the available homestead land in the possession of the Dominion Government, and for which a deed would be issued to him on presenting his certificate, or scrip, at the office of the Dominion Lands for the district in which his selected land was situated.

Few of the Métis took advantage of the opportunity afforded them to become farmers. Farming was the last thing to which the average Métis would turn his thoughts. They were hunters and trappers, rovers by nature; and their scrip certificates were to them merely an asset, to be disposed of for what they would fetch. Land was cheap. Hundreds of thousands of acres could be purchased by anyone who had a mind for that kind of foolishness for a dollar an acre and less. No Métis with any sense would take the trouble to locate and take a deed for unsaleable land which he couldn't farm (and wouldn't if he could), when he could get cash, or some equally desirable article, for his piece of paper with the writing on it, without any trouble or difficulty.

Thus the Métis fell into the hands of the speculators. Scrip was sold for ten dollars, five dollars, for a blanket, a bottle of whisky or a keg of beer; for any old thing, in fact, which the speculators had come to offer and which the Métis, for the moment, wanted – or thought he wanted. Fortunes have been made, time without number, by the purchase of Métis scrip. There are to-day in Winnipeg, and elsewhere in the West, men who are in the millionaire and near-millionaire classes, who laid the foundations of their fortunes, and made the bulk of them, by their dealings in scrip.

And by no means would all of these transactions bear close scrutiny. Measured under the standard of commercial integrity, it would be found that wholesale fraud was practiced, and that large numbers of Métis were cheated out of what even they considered their due – and little enough it was. One method, easily accomplished, and adopted only too frequently on account of its ease of accomplishment, was to ply the Métis with liquor until he was in a sufficiently besotted state to transfer his scrip for a mere trifle – usually another bottle. That method ran its course, and died out as the Métis grew wiser as to the value of their holding. Another favorite method of the scrip dealer was to look up the record of a Métis, secretly; and on obtaining the necessary evidence that he was entitled to scrip, to take him aside, and whisper gently to him that his benefactor was in a position to get him a certain sum of money. All the Métis had to do was to sign certain papers, and the machinery would be put in motion. The Métis argued that he had nothing to lose, and there was a chance of gain. He usually signed – and when it was all over, he got his money, and the dealer got his scrip.

In all these fraudulent dealings, there was one danger to the dealer on which he had to take a chance, which he had no scruples in doing. In locating Métis scrip, it is necessary for the Métis whose name is on the certificate to appear at the land office for the district where the land is located, and to file his claim in person. But in the old days this was rarely done. It was an expensive matter to transport whole families of Métis to distant points to hand in their certificates, even if the circumstances under which those certificates were obtained from them were such as to make them willing to perform such a service. So here again fraud was introduced. One Métis would impersonate scores of men whom he had probably never heard of before, swearing to a different name in each office he visited. It would probably be not far from the truth to say that less than 50 per cent. of the Métis claims for which deeds have been granted in Western Canada have been located in person, as the law demands, by the Métis to whom the scrip was issued.

Even to this day it would seem that this species of fraud is being practiced. Only last year the charge was openly made by one dealer, that another had been guilty of this very practice. With this exception, however, the days of open fraud in scrip purchase are past for ever. To-day, the Métis has a much better knowledge of the value of his certificate, and a much wider appreciation of the ability of the law to protect him in his business transactions.

Yet, even now, the Métis does not by any means get the full value of his scrip. Within the past two years, scrip has been purchased at the point of issue for from two hundred to four hundred dollars, while worth at the time in Winnipeg from eighteen hundred to two thousand dollars – the value of a certificate for two hundred and forty acres at \$7.50 to \$8.50 per acre. The price asked in Winnipeg for scrip to-day is \$9.50 per acre.

There are three kinds of scrip issued by the Dominion Government. The first is comparatively rare, and unimportant. It is an undertaking on the part of the Government to accept at its face value the certificate, which is given out, for services rendered, by Government surveyors and other employees of the Dominion in remote places where [illegible] cash scrip, and is issued in varying amounts to suit the service for which it is remuneration.

The second, and by far the most desirable of all scrip, is that which is called “red-back.” This is a land scrip, similar to the ordinary Métis scrip, for two hundred and forty acres; but it differs from the other and most prevalent form in that it does not require personal application on the part of the person to whom the scrip is issued. The possession of this kind of scrip thus does away with the trouble and expense of transporting the original owner to the spot where the entry for the land is to be made. Red-back scrip is the scrip which was issued to the Métis who were proved to be entitled to its issue, but who had left the country – usually for the United States – and for whom it would have entailed some hardship to have been compelled to make the long journey back to Western Canada to enter in person for their land.

The third kind of scrip, in which there is most traffic, is that issued to Métis resident in the country, with the condition that personal entry must be made when the land is located.

The Métis who are entitled to scrip are not yet all settled with by any means. Every new treaty made by the Dominion Government with the Indians of a hitherto unceded portion of the Dominion, finds some few Métis resident in that particular territory, with whom settlement must be made on the same terms as those granted their brethren in the older portions of the West. These treaties are being made annually; and every summer Inspector Semmens, who as the senior officer of the Indian Department in the West holds the appointment of Commissioner to conclude treaty with the Indians, adds a hundred thousand or so square miles to the area in which the Indians have been brought by treaty under the care of the Indian department.

Métis born in the ceded territory, and Métis resident therein who have not previously been settled with, make their applications before the Commissioner. Their parentage is traced back, the record of their residence in the country since birth to the present time is recorded, birth certificates or baptismal certificates are obtained, and the application, with its evidence of the Métis's claim on the face of it, is forwarded to Ottawa. There the evidence is carefully scrutinized, and the statements of the applicant are compared with the records in the department. If the application is found to be satisfactory, a certificate is forwarded to Winnipeg in due course, and delivered to the applicant in person by the Commissioner.

Frequently the applicant has only the vaguest notion of the information upon which the form of application insists. An applicant will tell his age promptly, and without any hesitation. When the question arises as to where he has lived since his birth, he begins to flounder. By the time he has summed up the term of his residence at various points, it will frequently appear that he has overlapped somewhere – that the addition of these various terms makes him several years older – or younger – than the age he has already given. Then the Commissioner, the applicant, the applicant's relatives, and any other Indians or Métis who happen to be handy (there is always an interested audience at these sessions) dig in and endeavor to create order out of the chaos of years and events. If the applicant is, or has been, an employee of the Hudson's Bay Company, it is a simple matter to obtain the necessary evidence; for the company keeps a full and complete record of the service of all its employees, with dates and place of residence, nature of employment, age, and character.

Another snag is the requirement of a baptismal certificate. Just what value is to be derived by the department from the production of a baptismal certificate is difficult to tell. In many cases, particularly among the old Métis, no baptism has ever been performed. In many other cases, although baptized, no record of the fact is to be found in the registers; which at the remoter places in the north, have often been grossly neglected by the native missionaries in charge, themselves often able to read little and write less. Again, baptism may have taken place at birth, or it may have been performed at any age from birth to second childhood. In many of the older registers, the age is absent from the record; or the applicant for admission to the church has been labelled "infant" or "adult." But whatever the value to the department, this is one of the conditions of application; and it forms the most frequent stumbling block to the seeker after scrip.

It sometimes happens that a man of undoubted and well authenticated Métis lineage will refuse to take scrip, and will insist on taking treaty with the band he lives with. He is absolutely ignorant of the value of scrip, and totally indifferent to the arguments of the scrip buyers who endeavor to show him the error of his ways. One such Métis refused scrip last year, and took treaty with the rest of the Indians. This man had a family of four children. His record was well-known, and his claim was perfect. It was put to him by the scrip buyers that by taking scrip he would come into possession of a large sum of money. He got up at treaty time and made a little speech in which he said that he had lived all his life with the Indians. They were his people. If he took scrip, he and his children would have to live like the white man, away from the [illegible] live and die with his people.

That man could have had for the asking five scrip certificates. These at the current prices in the north, were worth a thousand dollars each. They could have been sold in Winnipeg for ten thousand dollars for the five. The income of that at six per cent. would have brought him in fifty dollars a month in perpetuity. He had probably never earned a hundred dollars a year at any time in his life. Yet he put fortune aside with a wave of the hand and sat back, content with five dollars per annum for himself and each of his children, rather than leave the life he had been brought up to.

With childlike simplicity like that the lot of the scrip buyer must be a happy one – providing he is unhampered by competition. To detach scrip certificates from such specimens of unsophisticated guilelessness must be like taking candy from a baby. And if the Métis himself takes no thought for the morrow, such is far from being the case with the scrip buyer.

This year treaty has been concluded at York Factory and Churchill. All last winter, scrip buyers were on the ground, searching out likely applicants, and persuading the backward ones to apply; making advances in cash or supplies where they would do the most good; hunting up evidence that would probably have been available anyway; and generally making themselves officiously useful – and in spite of the fact that any sale of scrip before it is delivered to the owner is absolutely illegal, doubtless wheedling out of the expectant beneficiaries a promise to deliver up the scrip, when it is obtained, to the good Samaritan who has taken all the trouble and been so kind and helpful.

## A letter from Calgary<sup>100</sup> (1905)

Calgary, April 13.05

Mr. Walter James<sup>101</sup>,  
88 Church St. Windsor.

Dear Sir,

Your favor of a recent date to hand. – You inquired about the south country. Well it is advancing very rapidly. Land that was \$3.00 three years ago has sold for \$22.00 this spring. Claresholm, that was only one house then is now quite a town. Probably 600 population<sup>102</sup>. The Mormons, recently purchased 64,000 acres from the Old Senator Cochrane<sup>103</sup> for \$400,000. – This land is rather dry. Part worth the money and part very inferior. These prices must certainly shrink if there comes dry seasons. But today the people are flocking in very rapidly. And lands 40 miles from the railroads in any directions are worth from \$6.00 to \$10.00 per acre, excepting the part north of Lethbridge. Have not been north lately but am leaving in the morning. There was a heavy fall of snow here on Wednesday, about 8 inches of wet snow without any wind to drift it. The storm seems to have been general. It was greatly needed in the South also East along the main line. Reports indicate very dry weather East from here in Assiniboia. So far this has been a banner year for immigration into Alta:- And while I have had no reports from Lacombe, they must be getting some of the people. Many people around Calgary are very anxious to sell. And much property is changing hands here. – Have had great success with separators this season, and hope to keep on selling. They have taken more to dairying here this season than usual. And trade has boomed accordingly. – Well and hope this may find you all the same. Regards to all[.]

I remain yours truly

Colin McCreery<sup>104</sup>

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<sup>100</sup> Transcribed from the original in the collection of C. Willmore.

<sup>101</sup> Soon to be the father-in-law of the letter writer. “Colin McCreery, of Calgary, formerly of Essex, and Miss Edith James, daughter of Mr. Walter James, were married at 1.30 o’clock Saturday afternoon at the home of the bride, 88 Church street. The ceremony was performed by Rev. Robert Hicks, pastor of the Windsor West Methodist church, in the presence of about 30 immediate friends. The bride, who wore cream toilet de soie over silk, was attended by her sister, Miss Ella James, in pale blue chiffon poplin. George Hanes acted as groomsman. The wedding march was played by Miss Retta Hicks, of Amherstburg. Mr. and Mrs. McCreery left during the afternoon to spend their honeymoon in eastern cities. Their home will be in Calgary.” SOCIETY. (1906, December 24). *Windsor Evening Record*, p. 8.

<sup>102</sup> As of 2016, the population of Claresholm, Alberta was about 4,000.

<sup>103</sup> See letter from D. W. Warner below.

<sup>104</sup> Colin McCreery (1876 – 1951). “Colin McCreery and Chas. Billings, two well-known and highly respected young men of Essex [Ontario], left the C.P.R. station here last night for the Canadian northwest. Mr. McCreery will travel in that section in the interests of the Melotte cream separator, while Mr. Billings will accept a good position in Winnipeg.” PERSONAL & SOCIAL. (1903, April 22). *Windsor Evening Record*, p. 8. The letter was written on letterhead for the DeLaval Separator Company, 248 McDermot Ave., Winnipeg.



R. R. BOWKER, Vice President.

SIR JOHN BERNSTROM, President.

FRANCIS J. AREND, General Manager.

GENERAL OFFICES:  
74 CORTLANDT STREET,  
NEW YORK.  
BRANCH OFFICES:  
MONTREAL—TORONTO,  
CHICAGO—SAN FRANCISCO,  
PHILADELPHIA.  
CANADIAN FACTORY:  
MONTREAL.

FRED. J. WEED,  
WINNIPEG MANAGER.

248 McDERMOT AVE.

# THE DE LAVAL SEPARATOR COMPANY

MANUFACTURERS OF THE  
"ALPHA" AND "BABY"  
DE LAVAL CREAM SEPARATORS  
AND OTHER CENTRIFUGAL MACHINERY.

WINNIPEG, Calgary, April 13, 06.

Mr Walter James,  
88 1/2 Church St. Windsor.

Dear Sir. -

Your favor of a recent date to hand. -  
You enquired about the south country. Well it  
is advancing very rapidly. Land that was \$300  
three years ago has sold for \$2200 this spring  
& laudsholms, that was only one house then is  
now quite a town probably 600 population. -  
The Monmans, recently purchased 64000 acres  
from the old Senator Cochrane for \$400,000. -  
This land is rather dry. Part worth the money  
and part very inferior. These prices must  
certainly shrink if there comes dry seasons.  
But today the people are flocking in very  
rapidly. And lands 40 miles from the  
railroads in any directions are worth from  
\$600 to \$1000 per acre, excepting the part north  
of Lethbridge. Have not been worth lately but  
are leaving in the morning -

R. R. BOWKER, VICE PRESIDENT.

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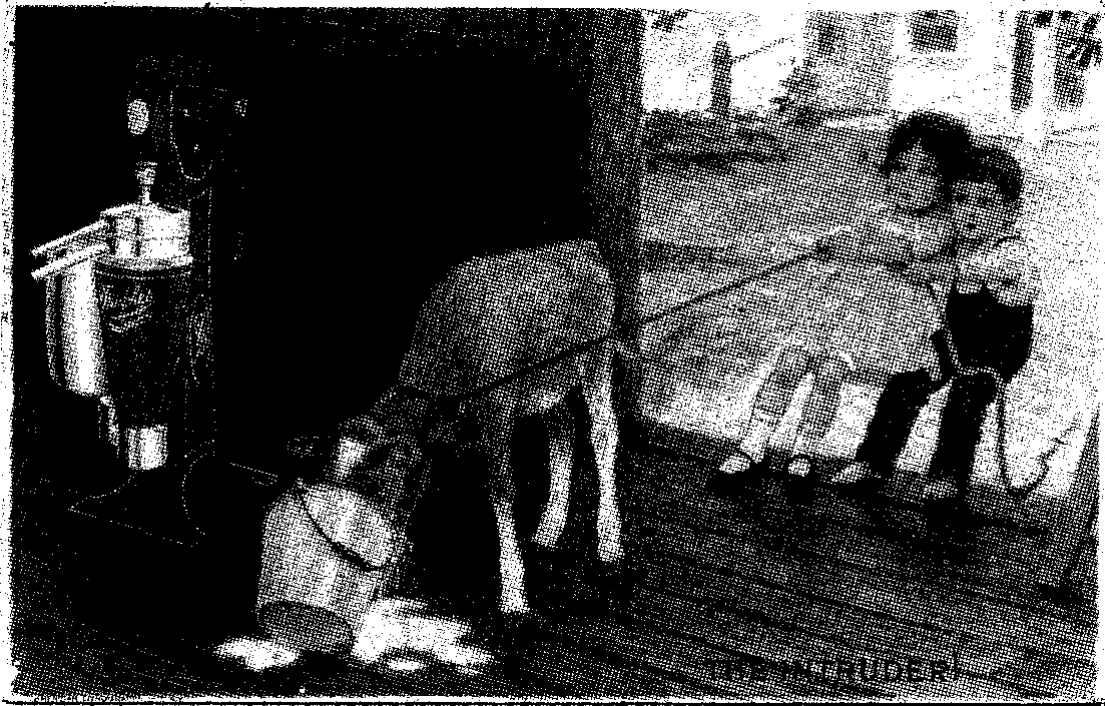
FRED. J. WEED,  
WINNIPEG MANAGER.

## WINNIPEG.

There was a heavy fall of snow here on Wednesday, about six inches of wet snow, without any wind to drift it. The storm seems to have been general. It was greatly needed in the South also East along the prairie line. Reports indicate very dry weather East from here in Assiniboia.

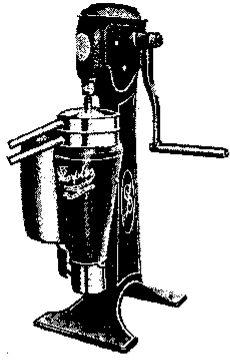
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I remain yours truly  
John McCreery



Cream separators were also popular in Ontario.  
 (Source: Postcard in the Collection of Chris Willmore.)

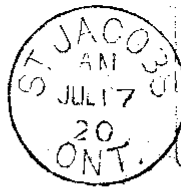

**POST CARD**



**SHARPLES**  
SUCTION-FEED  
**CREAM SEPARATOR**

—earns hundreds of dollars in cream saved over every other separator. Because it is the only separator that—

Skims clean at widely varying speeds; Delivers cream of unchanging thickness at all speeds; Has simple tubular bowl—no discs to clean; Has knee-low supply tank; Has automatic splash oiling system—no oil holes or muss.

THIS SPACE FOR CORRESPONDENCE

*Your wagon repairs are finished you should bring your Pole & King Bolt to you Smith, so as to have it properly adjusted*

*E. A. Brubacher*

*Mr. Elias A. Brubacher*

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*RR 3*

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*Wallenstein*

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*Ont*

## “Mormon farmers organize”<sup>105</sup> (1906)

We have had a better attendance at our meetings among the Mormons than at any other place we have been. They are located on a tract of land south and west of Lethbridge, which is about sixty by seventy-five miles at present, but they are buying more. They are successful colonists. Their church has lately purchased what used to be the Cochrane ranch. It is located between the Belly and Waterton rivers and situated in such a way that it can be irrigated, but so much the better if not needed. A sort of ridge runs between the rivers and comprises 65,500 acres which they sell to their people who are coming to their country at cost. They try to make farmers of all their boys and are anxious for them to take an agricultural education, thinking agriculture the most important of occupations. Their numbers are about seven thousand at present, but are increasing fast. They are tenacious to the last degree of their religious belief, holding that it is acts as well as faith that is required to carry them through, and for anything we see they are trying hard to live according to their belief. They take great care in providing for the young people and children. Very few use tobacco and they have a local option in force preventing the issuing of [alcohol] licenses in their district. Ninety-five per cent. of the people are against the license system and they use all their influence to educate against the habit of drink. They are nearly all farmers and wide awake to anything that will further the interest of farming. The Alberta Famers' Association is getting practically all of them. We have organized at Sterling, Raymond, [and] Cardston, and arrangements have been made at Magrath and several other points by local parties. They, above all others, know the value of union. They study the strength of united action, [and] are very enthusiastic in anything they undertake, which leads us to believe that they will make active members. We were invited to a sociable and entertainment gotten on by the ladies which would have been a credit to any people. A good programme was rendered with ability. A general good time for all present. That day and evening we had no meeting of our own, so were glad to take it in.

They have a good tract of land and nearly all good for farming and [they] are beginning to see the need of dry farming in the past two years. Some have had good crops, however, that farmed on that plan, while many have failed by farming in an ordinary way. They are all taking great interest in the improved methods of farming semi-arid land. As for ourselves we do not believe Alberta has any lands that are so dry that [they] cannot be successfully farmed by using what is known as the thought to be only fit for ranching Campbell system. Southern Alberta has a very progressive people. They are everywhere settling on what was [arid land] where now mixed farming is being carried on successfully and will be more so when they have all learned the merits of dry farming.

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<sup>105</sup> From Warner, D. W. (1906, March 22). MORMON FARMERS ORGANIZE. *Edmonton Journal*, p. 6. Written by D. W. Warner (1857 – 1933), President of the Central Alberta Farmers' Association.

## “Opportunities for investment”<sup>106</sup> (1907)

The Canadian Government enforces all its laws, and one thing is certain, the small investor is protected as much as the millionaire bondholder. Anyone entering Canada for investments with the idea of being favored in any way because he may be an extra large investor will be disappointed. The careful investor, after considering the laws of the country, naturally considers as the next point the moral hazard in connection with the securities offered. On this point it is well to remember that the Canadian Government privately caused an analysis of last year’s American Invasion to be made and the result was astonishing.

### THE AMERICAN INVASION

By counting up the declared value of money and effects carried into Canada by American settlers in 1906 from four states, Michigan, Montana, Illinois, and Massachusetts, it was found that the average wealth brought across the border from these states was \$809 for each settler. This average for the four states amounted to a total of \$6,376,420. As the number of Americans who crossed the frontier during the year was 61,282, the whole value of the possessions they took with them was approximately \$49,586,138. It must also be remembered that the settler usually has made his permanent investment before coming through with his settler’s effects. He usually goes up a year and sometimes two years ahead of the time he goes up permanently, selects his land, and pays all the way from one-third to all cash for his land.

### AVERAGE FARM, 320 ACRES

The average purchase is about a half-section for each family, but on account of the number who are settling on free homesteads the average is undoubtedly brought down to a quarter-section. During the past three years this land has cost on an average about \$10 an acre, which, considering our former proposition that each purchaser pays from one-third to one-half cash for his land, will mean that these settlers have enriched Canada to the extent of \$900 to \$1,000 each, in addition to the amount figured last year by the Canadian Government, when they go in to make their permanent residence. This would increase the total over \$30,000,000 more.

### HIGH CHARACTER OF IMMIGRANTS

These people who are going into Canada are not those who are ignorant or those who have made a failure of life in the States, but are those stalwart farmers who have made a success of farming in the states from which they come. Thousands of them are those who pioneered it in the early days, who got their land cheap and who were considered crazy for going west where the prairies would not yield anything, but who, from experience, have found out that the comforts of life do not all come from the soil, but are also increased by the increasing value of the soil. They realize perfectly well that their children can never secure for themselves a home as easily on land costing \$100 to \$200 an acre which will not produce any better or any

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<sup>106</sup> From Bohrnstedt, A. C.(1907, July 6). Opportunities for Investment. *Financial Post* (Toronto), p. 3. Written by Albert C. Bohrnstedt (1877 – 1954).

greater quantity of grain than western Canada. They have the best interests of their children and their children's children at heart, and are not going into these newer portions of the country without establishing churches, schools and other up-to-now necessities.

#### OTHER COUNTRIES CONTRIBUTE

The United States is not the only country that is losing some of its best people to Canada, but England, Germany, Sweden, Russia and all the rest of the foreign countries are losing some of their best citizens to Canada. Having considered the laws governing the investment and the moral hazard surrounding the investment, the next points to be considered are the form of investment and the value of the investment itself.

#### LAST YEAR'S PRODUCTS

Last year the total amount of wheat produced was 89,630,000 bushels on about 5,000,000 acres of land. The average yield of the western provinces for the past ten years has been 22 bushels to the acre.

#### GREAT WHEAT COUNTRY

The results have exceeded anything ever produced in the best wheat sections of the United States. While wheat seems to be crowned king in western Canada, it by no means has full sway. Barley yields from 30 to 60 bushels per acre, oats yielding from 30 to even as high as 125 bushels per acre, potatoes, sugar beets and other farm products in proportion. When lands are yielding returns such as these, can anyone doubt the stability of an investment in a Canadian farm, a Canadian farm mortgage or any class of security which is governed principally by the output of the farm? This in view of the special fact that most of the land is still selling under \$25 an acre.

#### OTHER GROWING INDUSTRIES

While dealing in this article principally with that portion of Canada with which the writer is most familiar, it must also be remembered that the Canadian fields open up as great an opportunity for manufacturing, mining and other industries, including the vast lumber industry of British Columbia, as is offered by the United States. The Canadian farmer, or any Canadian industry, has an unlimited field for its output and prices are equally as good as the prices in the United States, and the market is continually advancing. A few years ago, the exports were mainly to England, but now Japan, Alaska and other fields are opening up to Canadian products.

#### RATE OF INTEREST VARIES

The rate of interest varies from four to eight per cent. and there are many instances where the shrewd investor can secure even a higher rate of interest which is always the case in a new country. A favorable form of investment with many who want to secure a little better rate of interest than the average, although still looking out for safety, is the investor who picks up contracts of land dealers and others who have sold lands on the contract plan of one-third cash and the balance in five equal annual instalments bearing six per cent. interest. To the man who has the time and opportunity to thoroughly investigate the land and class of people who have purchased it, these contracts are a reasonably safe investment from the fact that the farmer increases the value of his security by improvements placed on the land.

Among the conservative investors mortgages and bonds will always be more popular because they are absolutely safe. Undoubtedly western Canada securities are not selling as rapidly as securities of the same class in the United States, but there is no doubt but that they are increasing in popularity, and the time will soon be at hand when western Canada securities will be in demand and meet with favor by the shrewdest investor.

### **“Why the American Invasion”<sup>107</sup> (1909)**

The Canadian west is absorbing more and more of the best American citizens. Every years, they flock there in increasing numbers. Why? Well! That’s what I tried to find out.

“An honest tale speeds best, being plainly told,” as the wise king said. Nothing has a more direct appeal or a more lively interest than a straight-forward, personal story. I have talked with many people who may be described as pioneers, but with few, if any, who understand themselves better than W. D. Trego<sup>108</sup>, of Gleichen, Alberta.

Mr. Trego operates a fairly large farm near Gleichen, in the 3,000,000 acre irrigation block just east of Calgary. He is as clean-cut a type of American as you would find anywhere at home. This struck me so forcibly that I asked him why he had left the United States.

“I don’t look like a man who came for my health, do I?” came the quick counter question. “Well, I didn’t. I came here because it was good business. That’s why all these Americans come.”

He waved his hand toward a dozen or more farmers who were moving about near us, and making a scene like Illinois.

“Tell me,” quoth I. And he imparted the story of his life about thus:

“I was born on a farm in central Iowa, and lived there until I was 19 years of age. I then moved to southeastern Idaho<sup>109</sup>, where for the next 22 years I was engaged in farming.

“While crops were usually good and farming operations were generally successful, I saw the value of the land change from \$1.25 and \$5 per acre to \$100 per acre, and in many instances even higher. I found it much easier to make a fair percentage of profit on lower valuations, and as land was a good price, I began to cast about for some place where I could secure a larger acreage and at the same time where crops were good and the climate satisfactory.

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<sup>107</sup> From WHY THE AMERICAN INVASION. (1909, May 13). *The Gleichen Call*, p. 1.

<sup>108</sup> Willett Dudley Trego (1866 – 1951).

<sup>109</sup> It was here, in 1897, that Willett Trego married Minerva Alice Howard (1877 – 1933). The couple had four daughters and a son, as of the 1911 census. The three eldest daughters were born in the United States, and the two youngest children in Alberta.

“Two years ago I came to Alberta, and was at once taken with the country – so much that I did not even wait until I had sold my Idaho place, but purchased the east one-half of section 27-22-22, and began development at once.

“I have now 275 acres broken, and have just harvested a crop which is altogether satisfactory to me, and which is netting me good big percentage on my investment. To give you an idea of what I realized, I will give you the exact figures.

“Of wheat I had 53 acres that yielded 34 bushels per acre, which came close to grading No. 1 hard. Of barley I had 59 acres which averaged 43 bushels to the acre of good brewing. Oats, 110 acres, averaged 94 bushels to the acre, and weighed by actual test struck 44½ pounds. I shipped most of my grain and got outside market prices.

“The balance of my land is now alfalfa. I found, only too late, that it is not wise to plant alfalfa until the land has been fairly subdued and would advise anyone who contemplates growing alfalfa not to go after it too soon after the land is broken. Better wait until, say, two crops of grain have been taken off first. Mind you, I believe alfalfa will be one of our most successful crops when it is properly planted and cared for.

“It is my opinion from what I have seen in other sections that the increase in the value of the property (that is, the land in the irrigation belt) will be realized quicker than in any other place I have yet seen. It stands to reason that where hundreds of thousands of acres of land are put under crop almost instantaneously in a given district, it tends to develop it much more rapidly than would be the case if it were farmed in isolated tracts.

“I see every reason to expect an average return of profit of not less than 10 per cent. on a valuation of \$100 per acre.

“As to climate and general conditions, I am well pleased with it, and believe it compares favorably with either Idaho or Iowa.

“It is quite apparent that good crops are now grown on non-irrigable lands, but it was my judgment when purchasing my farm that better results could be obtained by the use of water, and the fact that all my land is irrigable proves my faith in irrigation. The small difference of \$10 in the per acre price is not material when the amount of the products is more than enough to pay interest several times that amount. Besides, there is the security one feels in not being dependent upon rains coming at any particular time, in order to mature one’s crops. The greatest opposition is from those who have not been accustomed to use water, and who therefore look upon it as a very difficult and expensive operation to apply it.”

“May I say you said all this?” asked I.

“you may if you like,” said he. “I’m always ready to speak for this country. It has been good to me.”



## “American Invasion with Capital”<sup>110</sup> (1913)

The recent purchase of two Hamilton public utilities, the Hamilton Gas and Light Co. and the Ontario Pipe Line Col, by the United Gas and Coke Co., a United States holding company, has focused public attention upon an American Invasion that has so far received but little attention here.

One of the outstanding features of the past decade in public utility operation in the United States has been the evolution of the large holding company. Years ago, when a street railway or a gas company wanted to extend its plant, bonds secured by the plant in question were issued. As the demand for additional capital grew, it was found more difficult to raise money in this way, investors not caring to have so much money dependent on a single town or city.

To overcome this difficulty, holding companies owning the stock of public utility enterprises scattered all over the country were organized, and when new capital was needed it was secured by large blanket bond issues, secured by a mortgage on the stock of all the companies owned by the holding company. In this way expansion was provided for much more cheaply than it would have been by means of individual bond issues on the individual plants.

These holding companies have just about exhausted their field of operation in the United States and are now turning their eyes toward Canada. Besides the United Gas and Coke Co. mentioned above, there are two other companies, Stone and Webster and the H. L. Doherty Co., who have been gradually acquiring interests in Canada. Stone and Webster operate the Cape Breton Electric Co. at Sydney, Cape Breton, and the H. L. Doherty Co. has been quietly picking up a number of gas plants in Ontario. The latest purchase by this company was the Ingersoll Gas Co., which was bought from W. C. Noxon of Brent, Noxon and Co., Toronto.

The men at the head of these large American holding companies are usually engineers who have made a specialty of the operation of the kind of public utilities they control. They have evidently recognized that there are some good things that our capitalists have overlooked. Brazilian Traction, Detroit United, Duluth Superior and Illinois Traction are names which conjure up in the minds of Canadians an idea that Canadian financiers have to go abroad to find new fields to conquer, but this quiet, unobtrusive invasion of Canada by the American public utility specialists is apt to make us think that some opportunities at home have been overlooked.

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<sup>110</sup> From Some Financial Notes of the Current Week. (1913, February 15). *Brantford Expositor*, p. 3. The title is quoted from a sub-title in the original.



HEAD OFFICE BUILDING, OCCUPIED 1914

# The Great War: 1914 – 1918

## The Financing of Canada's War Orders<sup>111</sup> (1917)

Of considerable interest to Canadian investors and to students of Canada's financial position is the fact that the Canadian Government together with the banks have been able to make large advances to the Imperial Government through the Imperial Munitions Board for the purchase of munitions, food and other war supplies in Canada.

The earliest opportunities to secure war orders for Canada revealed difficulties in securing skilled labor and adequate credit. Many firms were already deep in debt to the banks on account of the prevailing depression in the steel industry in 1914, especially after war broke out. A few companies were so fortunate as to be quite independent, one of the most fortunate having in the bank capital which had been paid in but which had not been used for purposes of construction.

There has been in certain quarters a good deal of criticism of the supposed failure of the banks to provide sufficient capital to build a new manufacturing plant. At no time is that the function of commercial banks. Otherwise, it was not necessary for many plants to build, but it was of course necessary to get new machinery and to secure raw materials.

Persons close to the manufacturers inform the *Financial Post* that in a general way manufacturers with a good record had no difficulty in securing legitimate bank assistance. Those with an inferior record, or, in other words, those in connection with which the risk was great, received less assistance. If this statement is true, had the munitions manufacturers, or would-be manufacturers, any just ground for complaint?

### ADVERSE EXCHANGE

It was not long, however, before the problem of financing the Canadian munitions business had become a National, if not an Imperial problem, and the Canadian Government found it necessary to step in. This was made more or less necessary by the fact that Great Britain's huge purchases abroad had affected sterling exchange rates adversely. This assumed serious proportions early in 1915. It was not long, however, before Canada was able to finance all new war expenditures in Canada without assistance from Great Britain, and thus the situation was relieved.

Had the Government, however, been obliged to bring funds to Canada in order to finance the war, it would have been competing with the British Government in the sale of sterling exchange in America. This would have been serious because adverse sterling exchange rates make it expensive for Great Britain to buy munitions and other goods in America, including Canada.

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<sup>111</sup> From *The Financing of Canada's War Orders*. (1917, April 21). *Financial Post* (Toronto), p. 18.

Therefore to whatever extent Canada was able to avoid getting financial assistance in Great Britain, she was able to facilitate Great Britain's purchases of munitions in Canada.

#### FIRST DOMESTIC WAR LOAN

But Canada went a step farther. When the first Domestic War Loan proved such a huge success and was increased from \$50,000,000 to \$100,000,000, half of it, \$50,000,000, was used to pay for British purchases of munitions in Canada. This was a distinct advantage not only to overburdened Britain, but also to the Canadian manufacturers of munitions and other war supplies.

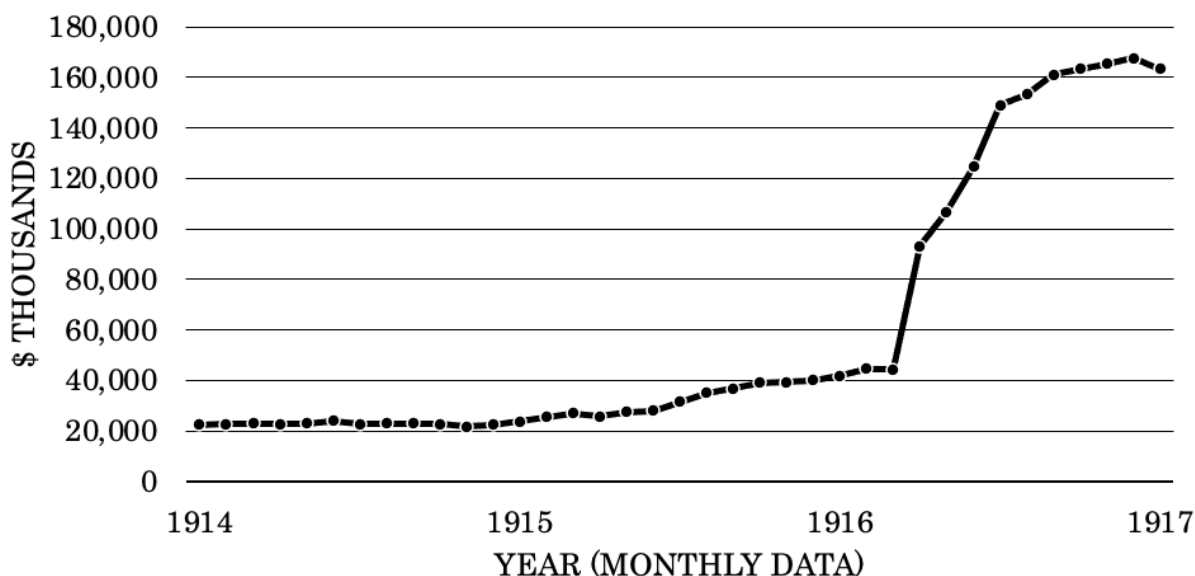
#### 1916 BANK LOAN

During the summer months of 1916 the Dominion Government found that in order to finance the munitions business and otherwise carry on the war it was necessary to have \$30,000,000 at once. As the second war loan was not to be issued until September, the Government therefore borrowed \$30,000,000 from the Canadian banks, on security of three months Treasury notes at 5½ per cent.; seventy per cent. was placed to the credit of the Government on Aug. 1, and 30 per cent. on Sept. 1. As the loan was repayable on Nov. 1, when the proceeds of the second Domestic War Loan would be available, the three months loan from the banks did not interfere with the crop moving.

When the second war loan was issued \$50,000,000 was used as advances to the Munitions Board, thus bringing the Government's total up to \$100,000,000.

#### ADVANCES BY THE BANKS

#### CANADIAN MUNICIPAL SECURITIES AND BRITISH, FOREIGN AND COLONIAL PUBLIC SECURITIES OTHER THAN CANADIAN



In addition, the manufacture of munitions and other supplies in Canada has been greatly facilitated by the loans arranged with Canadian banks. The [preceding

chart]<sup>112</sup> shows quite clearly the growth of the banking accommodation for the Imperial Munitions board; securities held in 1914 were fairly regular in volume and must have consisted chiefly of Canadian Municipal Securities.

Increases in 1915 consisted to some extent of Canadian Municipal Securities for the British Market, [which] was by that time quite closed to Canadian municipals. The sudden increase from \$44,000,000 to \$93,000,000 in April 1916 and thereafter to \$167,000,000 at the end of 1916 was due, however, to advances made by the banks for the purchase of munitions in Canada. It may be safely estimated that the Canadian banks have loaned on security of British Treasury Bills nearly \$150,000,000 and possibly a good deal more at the present time.

#### BANK LOAN TO THE GOVERNMENT

[...]<sup>113</sup> The banks have purchased between January and February 1, [1917,] about \$35,000,000 of Dominion and provincial securities. These consist altogether of short time Dominion Treasury Bills which were issued on the security or in anticipation of the War Loan of March 1917. It is interesting to note [...]<sup>114</sup> that while the commerce, Montreal and Royal Banks advanced nearly two thirds of this amount, nevertheless practically all of the banks participated. It may be taken for granted that a portion of this loan has been used by the Government for the financing of munitions works in Canada, though it has been used chiefly for military purposes. Doubtless the Government, and thus the banks in proportion to their subscription, will use a share of the proceeds of the March War Loan to help finance additional orders in Canada. It is perfectly evident, therefore that the banks should have a large share in the credit for the financing of the profitable munitions business in Canada.

#### **“Striking change in investments”<sup>115</sup> (1918)**

Ever since Canada was first called upon to embark upon the special financing vital to winning the war, the composition of Canadian bank assets has undergone striking changes. Chief among these changes has been a remarkable expansion in the holdings of securities. This was noticeable even from the early months of Canada’s participation in the war. It became even more pronounced in the last twelve months.

The statement of Canadian chartered banks of July 31, 1914, the last before the outbreak of the war, compared with the statement for December 31, 1917, illustrates this change in banking assets as follows:

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<sup>112</sup> The original had a table, instead of a chart..

<sup>113</sup> I omit a mention of a “following table” which is not present in the original.

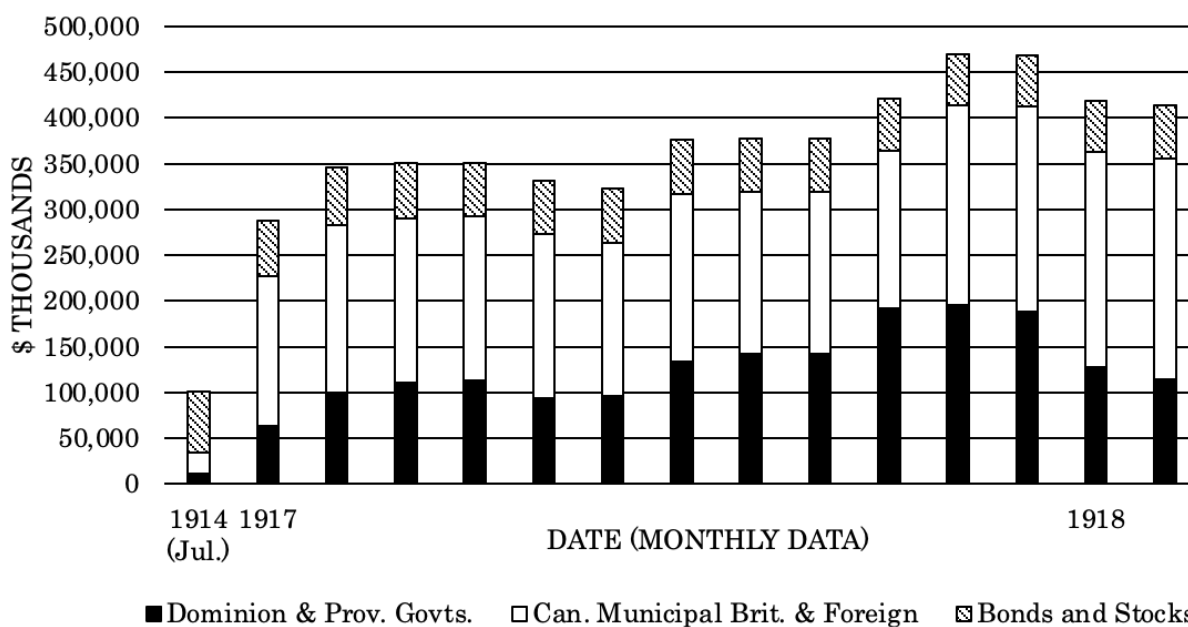
<sup>114</sup> Another mention of the missing table.

<sup>115</sup> From STRIKING CHANGE IN INVESTMENTS OF CANADIAN CHARTERED BANKS ACCOMPANYING PROGRESS OF WAR. (1918, April 20). *Financial Post* (Toronto), p. 28.

	% of total assets	
	July, 1914	Dec., 1917
Specie and Notes	9	10.7
Call Loans and Bank Balances (foreign)	10	8.8
Securities	6.5	20.1
Current loans, Canada	53.5	36.9

The peak point of security holdings was reached in November last when the banks in Canada were carrying a total of \$470,128,2778, or 20.8 per cent. of total assets. Since then there has been a disposition to liquidate until, as seen by the last statement available, at the close of business in February the aggregate had been reduced to \$413,4441,599, or 18.4 per cent. of the total. Probably much of this liquidation has been induced from a desire to be in a position to further assist the government when a new loan issue may be found necessary.

### SECURITY HOLDINGS



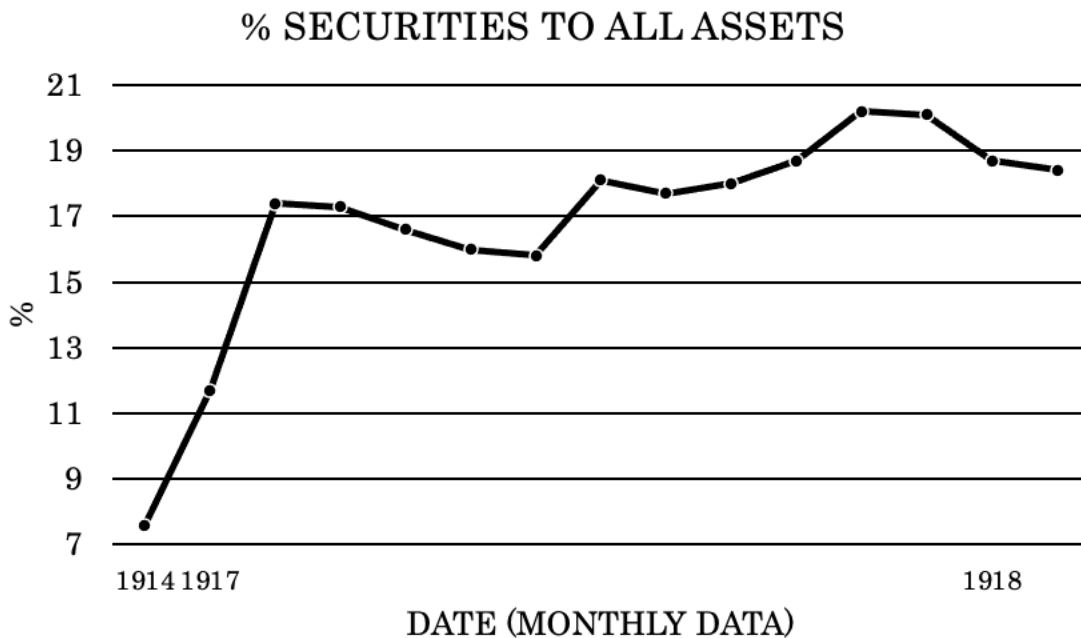
While the great struggle lasts, Canadian banks unquestionably will be called upon to continue buying Dominion Government bonds and British Treasury bills. In fact, it is a well-known fact that Canadian banks, through their New York agencies, have been important participants in the frequent issues of British Treasuries made through J. P. Morgan & Co. The rate of interest on these British Treasuries has ranged around 6 and 5½ per cent., so they may be looked upon as a profitable investment.

### NO EFFECT ON BUSINESS

The interesting point so far as the Canadian public is concerned is that the investment in securities has not been followed by an unfavorable influence on Canadian industry and trade. Conditions were such that the money could be spared. The 1913 depression in Canada released capital through the liquidation of bank loans, and in spite of the amazing activity of Canada's war industries there have been ample funds for "carrying on" commercially.

When bankers become convinced that peace is near they will begin to pull down the totals under the head of security holdings. The funds will be needed to look after general business and industry.

The [preceding chart] shows the increased security holdings throughout the past year, together with the figures at July 31, 1914, [while the chart below] shows the comparatively unimportant part securities played toward total assets prior to the war.



It was a good thing for Canada that Canadian bankers were so free of Government and other securities in July, 1914. The result has been that Canadian bankers have been able to invest heavily in all Government offerings. It seems natural to expect that the proportion of security holdings to total assets will continue heavy while the war lasts. A large portion of the war bonds will probably be held until maturity. The rate [of] interest is satisfactory.

When the London money market resumes its normal functions, Canadian Government bonds will be excellent cover for exchange operations. Too, it has been continually emphasized, that Canada's bonds may reasonably be expected to rise above par. This would give the banks an opportunity to liquidate their holdings at a profit to the investing public and thus secure the funds that will be required for the commercial needs of the country.

## ADVANCES TO BRITAIN

The various advances which Canadian banks have made to the Imperial Government since war orders began to come to Canada from overseas have been accomplished by the turning over to the banks of British Treasury bills. The British Treasury bills are short-dated securities. Original issues on this account have been renewed once, and in some instances twice. There was an important renewal this month. Other advances were made by the Canadian banks for the purpose of supplying munitions on Imperial account, but the securities taken were Dominion Government obligations. The Dominion Government no doubt is offsetting these advances against counter-advances made by the British Treasury to the Dominion Government on the other side of the Atlantic in connection with the maintenance of the Canadian army in the field.

With the return of normal conditions, the markets in London and New York will be reopened. It would not be surprising if the New York money market were opened to Canada as well as other outsiders even before the London market. Up to the time the United States entered the war as a belligerent Canada had developed the New York money market to a notable extent.

## AN UNCERTAIN FUTURE

In these changing days it would be inadvisable to hazard guesses as to the future; so many guesses in the past few months have gone astray. It does not appear, however, that the remarkable changes in the composition of the assets of Canadian banks should prove worrying to Canadian business. It has not retarded prosperity in the war period.

It must be remembered, however, that Canada has many economic problems yet to work out. Canada will be required to work out her problems unaided for the remainder of the war. This year, in 1918, the people of the Dominion must raise in the vicinity of, but not less than, \$800,000,000, if we are to accept the figures of Hon. Frank Carvell, Minister of Public Works. This is a huge amount to be taken from domestic sources, it is true.

Canadian bankers and Canadians generally have their "work cut out for them." But having regard for the wonderful response to the Victory Loan last autumn, and indeed to all that Canada has done since embarking upon her fight for civilization, one may be forgiven for looking to the future with characteristic Canadian optimism.



# MEMBERS OF THE STAFF OF THE DOMINION BANK

KILLED IN ACTION, DIED OF WOUNDS, OR DIED WHILE ON  
MILITARY SERVICE.

ERIC MUNRO ANDERSON  
JAMES OGSTON BEATTIE  
HERBERT JASSE BOND  
WILLIAM CHRISTOPHER BOYD  
NORMAN AINSLIE BROWN  
RUSSELL ARTHUR CAMPBELL  
HARWARD EASTMAN CHAFFEY  
HENRY MAURICE CORBOLD  
VALENTINE ARTHUR BUTLER  
CRANWILL  
ALBERT WALTER GORDON  
CROSBY  
HAROLD EDWARD CROSBY  
FRED CUMMINGS  
REGINALD NEVILLE CRAIG  
DAVIS  
JAMES HUTCHINSON DOWKER  
HENRY EDWARD ENGLAND  
LESLIE FURMSTON EVANS  
CECIL ACKROYD FALLS  
HARRY EDGAR GERMAIN  
PAUL EVAN GILLESPIE  
HORACE HEBER HANEY  
GORDON RUTHVEN HERON  
THOMAS WILSON HUTCHISON  
HENRY DONLY IVEY  
GEORGE JOHNSTON  
CHARLES JOHN NAIRNE LEE  
ROBERT BIRNEY LEEPER  
NICOLAS MACNEILL  
ROBERT MAITLAND McLINTOCK  
MILNE

LENNOX MUIRHEAD  
WILLIAM EWART GLADSTONE  
MURPHY  
JOHN SEIVWRIGHT PATERSON  
WALTER KING PEARCE  
OLIVER LAWRENCE PENDER  
JOHN RUTHERFORD PIPON  
SAMUEL JOHN REEVES (M.C.)  
ALFRED BALDWIN RIMMER  
FREDERIC RISING  
JOHN PRENDERGAST ROBERTS  
EDGAR RULE  
ARTHUR GEORGE RUTHERFORD  
EDGAR DAVID SMYTH  
ANDREW JOHNSTON SNADDON  
CAVANAGH NIXON SOMERVILLE  
GORDON HENRY STAUFFER  
JOSEPH CYRIL STEPHAN  
STANLEY CLAYTON STEVENS  
ROSS MACKENZIE STEWART  
ARTHUR BOUCHETTE THOMPSON  
FREDERICK GEORGE WALDRON  
DAVID LAWSON WALKER  
HASTINGS DE BLOIS WETMORE  
ARTHUR COURTNEY WILLIAMS  
PHILIP REGINALD WOOLLATT  
HAROLD WORTHINGTON  
CARLETON DOUGLAS LESSINGHAM  
YEARWOOD  
GEORGE EDMUND YOUNG  
WALTER YOUNG

## Merging with the Toronto Bank

“Expansion-minded and aggressive”<sup>116</sup> (December, 1954)

The Canadian banks have perhaps never been so expansion-minded and aggressive in any previous era as they have in the era of growth since World War II. It may surprise you that in this period of intensive competition your Bank [The Toronto Bank] and The Dominion Bank have more than held their own percentagewise, but that is not good enough. Due to the great lead the larger institutions have had over us – chiefly because of their earlier mergers – and in spite of the progress of The Dominion Bank and ourselves percentagewise, the gap in respect to assets, branches, and volume of business has been steadily widening. Thus individually we have been faced with the prospect of our effective growth an influence probably declining in the future in comparison with those of the larger banks.

The whole trend of the economy in Canada as elsewhere is toward size in all forms of business. As our country grows, so must the banks grow with it to function and compete effectively, but the establishment of new branches, which are costly and require trained staff, cannot be hurried and only a limited number can be afforded yearly in relation to size and earnings. A considerable outlay for building and equipment is necessary for even the smallest additional unit, and on top of this capital investment it takes an average of five years to place a branch on a paying basis. Therefore, in endeavoring to continue its growth alone in the future, your bank would be severely handicapped by the competition of the larger institutions.

### EXTENDED FACILITIES

Only through amalgamation with a bank already established at points where our services have not yet been extended can we now expect to attain a proper coverage of Canada before finding place after place over-banked before we reach it. It is estimated that by the proposed move at least ten years will be saved in branch development. [...] The branch systems of the two banks complement each other admirably. Outside the large cities we are in opposition in only 19 places, and even in the large centers it is surprising that we conflict in so few instances.

The new institution will commence with 450 branches, and the excellent representation in Ontario will permit a large share of resources available for expansion to be directed to other areas. This will give us greater national coverage and place us generally in a more effective competitive position. With a further early and worthwhile development visualized in the other provinces of Canada, both east and west, it is essential that we be able to take our full part.

The Dominion Bank has offices in New York and London, England, where we are not located, and these will aid greatly in providing a more comprehensive and

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<sup>116</sup> From Vanstone, B. S. (1954, December 23). New industries promise extensive secondary development. *Vancouver Province*, p. 15. Written by Byron Samuel Vanstone (1884 – 1959), last president of the Bank of Toronto.

attractive service to customers from other lands and in improving our position in the important field of foreign trade. [...]

To preserve the good-will of both institutions built up over a long period of years, it was deemed advisable to use the combined name and to continue with the present Directors and Officers, which would give us the advantage of their many years of experience and help in maintaining contact with customers.

### **“Questions you may ask”<sup>117</sup> (February, 1955)**

The Bank of Toronto and The Dominion Bank are now *one* – The Toronto-Dominion Bank! With a network of 452 branches, operated by 5,600 employees; Toronto-Dominion offers Canadians outstanding banking service. With offices in New York and London, plus world-wide connections, the bank has excellent overseas banking facilities. With assets of over one billion one hundred million dollars, and more than one billion dollars in deposits, Toronto-Dominion ranks as one of Canada’s large banks, serving a million Canadians.

Many customers may be wondering how the amalgamation will affect their connections with the individual institutions. We hope the following may be helpful.

*Do I continue to use my same check-book, pass-book and other bank forms?*

Yes, for the time being. New check-books, pass-books and other bank forms with The Toronto-Dominion Bank’s imprint will be introduced later.

*Will checks made out on Bank of Toronto or Dominion Bank check forms continue to be valid?*

Yes.

*Will my savings account retain the same number?*

Yes.

*Will my arrangements for business loans and credit facilities continue?*

Yes.

*Are the personnel of my present branch likely to change?*

The amalgamation will not involve any change in policy with respect to staff movement.

The manager of your local branch of the Toronto-Dominion Bank will be happy to give you further information.

The TORONTO DOMINION BANK  
The Best in Banking Service

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<sup>117</sup> From Toronto Dominion Bank. (1955, February 8). Questions you may ask about the Toronto Dominion Bank [Advertisement]. *Regina Leader-Post*, p. 13.

## “First new branch of the Toronto Dominion Bank”<sup>118</sup> (February, 1955)

[The] first new branch of the Toronto Dominion Bank to be opened in Canada, the Albert Street and Fifteenth Avenue branch of the bank, will be officially opened in Regina Saturday. The new branch is located at 244 Albert Street.

The event follows 19 days after the amalgamation of the Bank of Toronto and The Dominion Bank into the Toronto Dominion Bank. The move is in line with public statements made during recent months, when officials of both former banks stated one of their immediate objectives, following amalgamation, would be expansion of the branch network in western Canada and the Maritimes.

The branch will be officially opened by Mayor Leslie H. Hammond. Taking part in the ceremony will be A. C. Ashforth and A. T. Lambert of Toronto, president and assistant manager respectively of the bank. S. C. Cook, assistant general manager of Winnipeg, will also be on hand, and M. A. MacPherson, Q.C., of Regina, a director of the bank. The opening will take the form of an “open house” beginning at 2 p.m. for the general public and Regina businessmen. The branch will stay open to the public for inspection until 4 p.m.

John H. Conde, who came to Regina from one of the bank’s Calgary branches, has been appointed manager of the new branch. Mr. Conde, who joined the bank at Winnipeg in 1928, has served entirely in western Canada. He had been assistant manager at a Calgary branch for the past three years. During the Second World War, he served overseas with the Queen’s Own Cameron Highlanders from 1942 to 1946 and received the Croix de Guerre.

Although the opening and reception are scheduled for Saturday, the bank will not be in actual operation until 10 a.m. Monday.

The first branch to be opened since amalgamation, the Albert Street and Fifteenth Avenue branch is the 455th in the Toronto Dominion organization. The bank is Canada’s fourth largest, with assets over \$1,100,000,000, and the branch system stretches from Halifax to Victoria.

The amalgamation brought together two institutions which grew to prominence on their own efforts, neither having ever taken over or merged with another bank. The Bank of Toronto was awarded its charter in 1855 and opened for business in 1856. The Dominion Bank was incorporated in 1869 and began operations in 1871.

Previous bank fusions in Canada, totaling 12 between 1917 and 1931, were all by way of purchase and sale. The Toronto Dominion was brought into existence by a process of amalgamation made possible by the 1954 revision of the Bank Act.

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<sup>118</sup> From New bank branch to open Saturday. (1955, February 18). *The Leader-Post* (Regina), p. 18.

## The Author's Obituary: O. D. Skelton (1878 – 1941)<sup>119</sup>

Dr. Oscar D. Skelton, 62, described by Prime Minister Mackenzie King as the “most revered and esteemed man in the civil service in Canada,” will be buried at Pakenham, Ont., on Thursday [January 30, 1941].

After 15 years as permanent head of the Department of External Affairs through which Canada's diplomatic service functions, Dr. Skelton died suddenly yesterday as he drove back to his office for lunch.

As a close adviser of the Prime Minister, his work won him the respect of both Prime Minister Mackenzie King and Rt. Hon. R. B. Bennett, Prime Minister from 1930 to 1935. His work required him to be in constant touch with international affairs and to guide Canada's dealings with other nations, both within and outside the Empire.

Last night Dr. King said Dr. Skelton's record of public service is, “in large part, the history of the development of Canada's international position in that period of time.”

“The gratitude of his fellow citizens will record and remember his great services to the land he loved,” the Prime Minister's tribute said. [...]

### NATIVE OF ORANGEVILLE

A native of Orangeville, Ont., Dr. Skelton had a brilliant record as a student at Queen's University where he later became professor of political science and dean of arts.

He was the author of several books including the “Life and Letters of Sir Wilfrid Laurier,” which is the standard biography of the former Prime Minister.

Dr. Skelton died at the wheel of his motor car at an Ottawa street intersection. Often described as the most modest man in the Government service, he was recognized as the closest confidant of successive Prime Ministers.

### IMPROVED U. S. RELATIONS

Dr. Skelton is credited with having done most of the drafting of the report following Imperial Conference which led to the Statute of Westminster.<sup>120</sup> He shares credit with Prime Minister Mackenzie King for the increasingly good relations with the United States which led to the Ogdensburg Agreement.<sup>121</sup>

His complete detachment from party politics was shown by the fact that former Prime Minister Bennett relied on his judgment and advice just as closely as did Mr. King. Governments changed, but the policy of Dr. Skelton's department continued along the line the Under-Secretary had visualized.

Mr. King selected the brilliant professor of political and economic sciences at Queen's University to succeed Sir Joseph Pope as the permanent head of External Affairs. Mr. Bennett would like to have marked his appreciation of Dr. Skelton's work

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<sup>119</sup> From Dr. O. D. Skelton Leading Figure in Civil Service of Dominion for 15 Years. (1941, January 29). *The Daily Sun* (Owen Sound), p. 11.

<sup>120</sup> This 1931 statute gave Canada increased sovereignty, and control over its foreign policy.

<sup>121</sup> A 1940 agreement for mutual defense between the United States and Canada.

with a knighthood. As a man who preferred to carry his own ashes and drive his own car and wear battered and slouch hats, Dr. Skelton declined the honor.

He did accept, however, the Imperial Service Order, an honor awarded only to civil servants for long and distinguished service.

#### WORK WAS HIS LIFE

Dr. Skelton's work was his life. He frankly disliked social functions, though in most capitals the position he occupied would lead to the maximum number of State receptions. The Under Secretary's dislike of formal affairs had led to fewer diplomatic functions in Ottawa than probably any other national capital. He had the academic disregard of clothes. He enjoyed the joke a few years ago when a head waiter in London turned him and a Canadian newspaperman gently aside from the entrance to the main dining room. They had a comfortable meal in the basement.

#### BOOK IN LENIN'S TOMB

His first book – "Socialism: A Critical Analysis,"<sup>122</sup> is the only volume on socialism placed in Lenin's Moscow tomb. It is now a rare volume.<sup>123</sup> There isn't a copy in the Parliamentary Library. Dr. Skelton himself did not have a copy. The book was an attack on the whole philosophy of socialism.

Mrs. Skelton, the former Isabel Murphy, is also a writer and student of Canadian history. She is the author of a work on Thomas D'Arcy McGee,<sup>124</sup> the assassinated Irish-Canadian Father of Confederation.

Two sons, Alexander of Ottawa and Herbert of Montreal, and a daughter, Miss Sheila Skelton, of Toronto, survive.

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<sup>122</sup> Skelton, O.D. (1911). *Socialism: A Critical Analysis*. Boston, New York and Cambridge.: Houghton Mifflin Company and The Riverside Press:

<sup>123</sup> As of 2022, reprints and free electronic versions are widely available.

<sup>124</sup> Thomas D'Arcy McGee (1825 – 1868) was a Member for Parliament for Montreal West from September, 1867 until his death in April. 1868 at the hands of a Fenian gunman. The Fenians worked toward the creation of an independent Republic of Ireland.

## Appendix: The Powers and Business of Canadian Banks<sup>125</sup>

One of the most popular topics of serious conversation in the West today is the banking system of Canada. Many people in British Columbia are of the opinion that this province is suffering through the policy adopted by the Canadian banks in certain particulars, and perhaps they are right. It is not the object, however, of this article to deal with that phase of the question, but rather to give a rough summary of the workings of a bank under the Canadian banking laws.

Banking in Canada is done upon the plan commonly called the branch bank system, installed on the theory that, having the ready money of the country in the hands of a few large banks with branches scattered over the country, money could be rushed to any point where the deposits did not equal the demands for loans. Branch banks are more separate offices of the principal bank, and are distinct from agencies, the main difference being that agencies collect a commission upon the amounts collected or cashed for their principal while branch banks charge nothing against the branch sending them a collection, their expenses being borne by the bank as a whole. Accounts kept at the different branches of a bank may be consolidated and a sum payable at a branch may be paid by the head office although for the purposes of notice of dishonor and payment of a cheque branches are treated as distinct banks.

The Act under which Canadian banks are now working was consolidated and altered in 1906, and is known as Chapter 29 of the Revised Statutes of Canada, 1906, shortly cited as the Bank Act. This Act is practically the result of the development of the banking statutes of Upper and Lower Canada. Since Confederation, 1867, the Parliament of Canada has had sole power to grant bank charters, and the banks previously organized, as their charters expired, have been renewed by the Dominion government. The only Canadian bank now existing which is not wholly subject to the Bank Act is the Bank of British North America, incorporated by royal charter, with its head office in London, and having a corporate existence independent of the Act. The sections which do not apply to that bank are specified in the Act.

A “bank” may be defined as a corporation which in the ordinary course of its business receives money, which it repays by honoring the cheques of the persons from or on whose account it receives the money, and a ‘customer’ as one who has an account with a bank. Private persons or corporations may engage in the business of banking provided they do not use in their business or sign the words, “bank,” “banking company,” “banking house,” “banking institution” or similar phrases. They are also prohibited from using paper currency.

The organization of a bank in Canada is not complicated or difficult provided you have sufficient money or can raise it. Those who intend forming such an institution first elect provisional directors (not less than five or more than ten) to look after the opening of stock books, and the obtaining of subscriptions and payments

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<sup>125</sup> This article was transcribed from John Edouard. (1910, August 21). The Powers and Business of Canadian Banks. *The Victoria Colonist*, p. 26 and John Edouard. (1910, October 9). A Criticism of the Canadian Banking System. *The Victoria Daily Colonist*, p. 26. “John Edouard” is pseudonym for John Edward Sears (1889 – 1950), a BC lawyer.

thereon sufficient to comply with the act, which requires that the subscription must amount to at least \$500,000, with not less than \$250,000 paid up and handed over to the Minister of Finance. As soon as this has been done, the provisional directors call a meeting of the stock subscribers to elect directors for the ensuing year, and the functions of the provisional directors then cease, as they are merely the active organizers of the corporation. Within a year following the bank must apply to the Treasury Board of the Dominion for a certificate to do business. The charters of Canadian Banks all expire at the same time, no matter when the bank was formed, and they must be renewed every ten years, the next renewal taking place in 1911.

The bona fide subscription of \$500,000 of capital and the payment of \$250,000 thereof to the Minister of Finance are two of the conditions precedent to a new bank's commencing business. Its object is to obtain a safe minimum of subscribed and paid-up capital as evidence of good faith, and acts as a deterrent to the formation of small, weak banks. Upon the issue of the certificate from the Treasury Board the minister repays to the bank the amount deposited with him, without interest, after deducting the sum of \$5,000, which is retained as a security for the notes issued by the bank. The whole amount is returned if no certificate is issued.

This \$5,000 goes into what is known as the Bank Circulation Redemption Fund, established for the payment of the notes of any insolvent bank with interest at 5 per cent every annum from the day of suspension until such payment.

The fund scheme is shortly this: Upon the formation of a new bank, \$5,000 is retained for the fund, and a readjustment is made as soon as possible after the 30<sup>th</sup> of June in each year in such a way as to make the amount paid into the fund by a bank equal to 5 per cent of its average note circulation for the year previous, or, in the case of a new bank, up to the time of adjustment. If a bank becomes insolvent the payments made from the fund are made without regard to the amount contributed by the bank; but any amount paid out of the fund in excess of the amount contributed bears interest at 3 per cent, payable out of the insolvent bank's assets. Outstanding notes of an insolvent bank bear interest at 3 per cent per annum.

Bank notes, which we (if we can) handle every day, are lawfully issued by a bank up to the amount of its unimpaired paid up capital. That is, if a bank has an unimpaired paid up capital of \$500,000 it can get the use of an added \$500,000 without cost by issuing bank notes. This applies to all Canadian banks except the Bank of B. N. A., which can only issue notes up to 75 per cent of its paid up capital. It is provided, however, that a bank shall not issue or re-issue notes during a period of suspension of payment of its liabilities, or without the authority of the curator or Treasury Board after the ceasing of the suspension, and at no time are notes to be issued for a less sum than five dollars or a sum which is not a multiple of five dollars.

Likewise it is forbidden to pledge, assign or hypothecate its notes, and no advance or loan made on such security is recoverable from the bank or its assets, though should they come into the possession of an innocent holder, he could enforce payment by the bank, and if it proved insolvent, claim against its assets and the Circulation Redemption Fund.



After a bank has issued notes it must make arrangements for their circulation at par in every part of Canada, and towards this purpose the bank must establish agencies for their redemption and payment at the cities of Toronto, Montreal, Halifax, St. John, Winnipeg, Victoria and Charlottetown, and at such other places as are, from time to time, designated by the Treasury Board. Up to the present no other places have been designated by the Board, as Canadian banks redeem each others' notes at par anywhere, though legally speaking they are only compelled to accept legal tender and their own notes in payment of a debt. The section of the Act compelling the banks to guarantee a par redemption was passed in 1890, as it ha[d] become the practice to pay notes at a discount when they were circulating at a distance from the office where they were issued. A person receiving money from a bank may demand Dominion notes up to the sum of one hundred dollars, and no payment out of a bank, whether in Dominion or bank notes is to be made in bills that are torn or partially defaced by excessive handling.

Each Canadian bank note before being put in circulation must be signed by the person authorized by the directors to do so, and these persons are limited to the cashier, assistant cashier, or officer of the bank or any director not being the president or vice-president. The signature may be made by machinery, if at least one signature to each bill is in the actual handwriting of a person authorized to sign. It sometimes happens that a counterfeit bill is presented to a bank official, and it is then his duty to stamp the bill with the word "counterfeit," "altered" or "worthless": but should he happen to wrongfully so mark it, he must redeem it at its face value.

The purposes of a bank are, primarily, to provide a safe place for the public to keep its money and other valuables, to lend its own money and that of others deposited with it (if not specially deposited) at a profit, to act as agent for the remission and collection of money, and to provide a convenient currency in the shape of bank notes. These purposes can, perhaps, best be stated by setting out the section of the Bank Act, which reads as follows:

"The bank may—

- (a) open branches, agencies and offices;
- (b) engage in and carry on business as a dealer in gold and silver coin and bullion;
- (c) Deal in, discount and lend money and make advances upon the security of, and take as collateral security for any loan made by it, bills of exchange, promissory notes and other negotiable securities, or the stocks, 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
- (d) engage in and carry on such business generally as appertains to the business of banking.

2. Except as authorized by this Act, the bank shall not, either directly or indirectly,

(a) deal in the buying or selling, or bartering of goods, wares and merchandise, or engage or be engaged in any trade or business whatsoever;

(b) purchase, or deal in, or lend money, or make advances against the security or pledge of any share of its own capital stock, or of the capital stock of any bank; or

(c) lend money or make advances upon the security, mortgage or hypothecation of any lands, tenements or immovable property, or of any ships or other vessels, or upon the security of any goods, wares and merchandise.”

Subsection (c) of part 2, prohibiting the lending of money upon land, etc., will cause rather a surprise to the man on the street, for which it is a common idea that in the lending of money upon lands a bank makes most of its profits. This provision was made to prevent the locking up of the assets of a bank and making them unavailable either for mercantile purposes or for the purposes of meeting claims of depositors and of redeeming notes. It does not, however, trouble the banks very much, for, though a bank is prohibited from originally taking a mortgage upon real or personal property, there is nothing to prevent it taking a mortgage by way of additional security for debts contracted in the ordinary course of its business, as the objection of tying up capital does not apply when a loan has already been made. Often a mortgage is taken contemporaneously with the discounting of a bill or note, and in such case it would be a question of fact for the judge or jury to determine whether the note was given solely as a blind to cover the illegal transaction of taking a mortgage. A bank is allowed only to hold real estate for the purpose of its business and to purchase property, real or personal, offered for sale, (a) under execution, or in insolvency, or under the order of a decree of court, as belonging to any debtor of the bank; (b) by a mortgage having priority over a mortgage held by the bank; or (c) by the bank under a power of sale given to it for that purpose. Property thus acquired and not required for the bank's business cannot be held longer than seven years, which period may be extended to twelve years by the Treasury Board, and if not then sold it is liable to forfeiture to the Crown.

Normally a bank is the debtor of its customer, and must discharge its indebtedness by honoring its customers' checks. This necessitates the acting as collecting agent of its customer, and a bank must collect the check and orders delivered by the customer to be credited to his account, and in doing so it must use due diligence in collection, for if a customer loses through the fault of a bank, as by failing to present a bill for acceptance where acceptance is necessary, it is liable for all loss suffered by the customer. It is different in the case of a bill of exchange made payable at a bank and accepted by a customer, as the bank is not bound to pay the bill, though it generally does so to the extent of the customer's balance or to the amount agreed upon between them. Circumstances again change where money is paid to a bank with its assent to meet a bill. In such a case, if payment is refused, the holder may sue the bank for damages. A bank undertaking to collect an accepted bill must not part with it or permit it to be tampered with until paid, or if a conditional payment is made, until the condition has been accepted by the principal.

The greatest profit in banking comes through the lending of money in the form of allowing overdrafts on current accounts and in discounting bills and notes. The

money which a bank has available for this lending is made up of the cash paid up on subscribed notes and the borrowed capital made up of the notes in circulation, the deposits of customers, and the money received for drafts, letters of credit, etc., which are to be paid at a future time. Thus the difference between the amount a bank earns on its capital, its exchange and collection charges, charges for keeping accounts and for acting as depository of valuables; and the amount it pays to its depositors, expenses of the bank and deductions for bad debts, form its profits out of which to pay dividends and bonuses and create a rest or reserve fund for contingencies.

The interest which a bank may stipulate for is limited by the Act to 7% per annum. Always looking for profits, the banks soon found that there was no law in force rendering them liable to incur any penalty for forfeiture for usury, and that they could therefore, notwithstanding the Act, stipulate for any rate of interest or discount they chose without invalidating the contract of loan or pledge. The only consolation left a borrower is that should he compel his bank to sue for interest, such bank cannot recover more than 7% and even when the bank retains or debits his account with interest in excess of 7%, he is entitled to recover the excess so long as it was not paid voluntarily by him.

In addition to discount a bank may retain the following collection or agency charges on negotiable paper to run

- (a) for less than thirty days, one-eighth of one per centum;
- (b) for thirty days or over but less than sixty days, one-fourth of one per centum;
- (c) for sixty days or over but less than ninety days, three-eighths of one per centum; and
- (d) for ninety days or over, one-half of one per centum.

A bank is not entitled to charge any discount or commission for cashing an official check of the Government of Canada or of any of its departments, whether drawn on the bank cashing the check or on any other bank.

A feature of banking not generally known to the public is the double liability of bank shareholders. When a man pays up a share in an ordinary limited company, his liability ceases, and should the company fail the creditors cannot call upon his private funds for the payment of its debts. The law governing banking is different. In the event of the property and assets of a bank being insufficient to pay its debts and liabilities each shareholder of the bank is liable personally for the deficiency to an amount equal to the par value of the shares held by him in addition to any amount not originally paid up on such shares. Which means that, if a bank fails and has no assets to meet its liabilities, a shareholder, in addition to paying his initial one hundred dollars per share, must pay another one hundred dollars under the "double liability clause".

Another peculiar position arises when the holder of a bill loses it by fire or otherwise, he being entitled to have it redeemed in full by giving indemnity. Redemption of this sort very rarely happens, as it is exceedingly difficult to identify a lost note unless the holder knew the number.

Everybody knows that there is a distinct understanding between the Canadian banks as to the rate of interest to be paid depositors, the lending of money, and other important matters, this understanding being brought about through the Canadian Bankers' Association, composed of representatives from the banks. The Association is incorporated under Dominion charter, and governs what is probably the strongest trust on the American continent, the Canadian Bank Trust. Among other things it establishes and regulates the clearing houses of Canada, supervises the banks, and in any case of bank insolvency appoints a curator to look after its affairs. Having such great powers, it goes ill with a bank that does not fall in line with the opinions of the majority of those composing the Association. The official journal of the banks, the Journal of the Canadian Bankers' Association, is published by the Association.

One of the strongest points in the Canadian banking system is the provision for monthly returns required by the Government from each bank, and one its weakest points is the method of inspection, as the inspector is an officer of the bank and holds his position through the influence of the men who he is supposed to watch. But, as stated before, it is not the purpose of this paper to deal with the advantages or disadvantages of the system: such a discussion will be left to a later article.

#### A CRITICISM OF THE CANADIAN BANKING SYSTEM

The only way to make an article really interesting is to state the truth without garnishment – which is very seldom done, for the opinion of the world is of so much importance that few of us can afford to publish our views in defiance of the prejudices which have become almost second nature. In our public schools, in our Boards of Trade, in our Legislative Chambers, Canadians have been led to understand that any criticism of the methods of banking in this country is unwarranted, and that there is no nation, be it ever so powerful, that can boast of a better monetary system than that of Canada. There are very, very few things in this world, however, that are altogether free from defects, and the method of carrying on banking in Canada is not one of them. Whether the disadvantages outweigh the advantages is a moot point.

As I stated [above,] banking in Canada is done upon the plan commonly called the branch bank system. This system, though it has many good points, is in some particulars one of the worst methods of banking extant. It was installed on the theory that having the ready money of the country in the hands of a few large banks with branches scattered over the Dominion, money could be rushed to any place where the deposits did not equal the demands for loans. But is this theory ever used in practice? Have they ever rushed money from Montreal or Toronto to Victoria, Vancouver, or any other Western community where it is badly needed? No! On the contrary, money is sent from the West to Toronto and Montreal, and most of that not loaned there is passed on to New York for speculative purposes. In fact, as it has many times been stated, the banks of Canada are not a reservoir from which streams of money are dispersed to all parts of the country for the use of the manufacturer, but are suction pipes draining the country of its money and making the few richer and richer.

The working of this system provides that all moneys deposited in a branch and not needed for the use of the till shall be shipped to the head office, and, as in the whole of Canada there are only twenty–nine different banking institutions with about

two thousand three hundred and thirty branches, each one of which has to despatch the money not needed for immediate payments out of the till, to the head office, the method of banking constitutes a tremendous drain on the ready money of the outlying communities. The branch banks in British Columbia number one hundred and fifty one, none of them having their headquarters in the province, the Bank of Vancouver, which recently commenced business, being the only true British Columbia institution.

This shipping of the ready money of the country to the several head offices (most of them in Toronto and Montreal) places it under the control of a few Easterners, which accounts for the unreasonable amount of Canadian money loaned to foreign enterprises and speculations. During the great financial stringency of 1908, the Canadian Bank Statement for January, shows that \$38,000,000 was despatched to the aid of Wall Street, thereby working great hardship upon the people of Canada, who were in need of funds. It was during that period that the Canadian Government had to go to the aid of the farmers of the Middle West, lending them money which the banks in the ordinary course of business should have done. In one of the largest cities in British Columbia it was impossible during that stringency to obtain loans from any of the banks, although in the branch of one bank alone certain people, after depositing in the savings department to the limit allowed by the law, had for investment by the bank a further sum aggregating upwards of two-thirds of a million dollars. When corporations and men of integrity and of the highest financial standing applied for loans, they were met by the statement that the manager's power to make loans had been suspended by the head office until further notice. It appears to have been the same with all the banks. Later it was learned that British Columbia money (badly needed locally) was being used in the East.

This banking system which forwards most of the money of the branches to the head office is open to further criticism in that it retards the even development of a country. The only industrial and commercial projects which are in a favorable position to obtain the loans necessary for their institution and development are those situate in or near the headquarters of the banks. The consequence is that in Canada, with a population of six or seven million inhabitants, there are two great cities in or surrounding which is a commercial and industrial population of over one million people, who control the trade and carry on the principal manufactures of the country. This evil of the branch system is further emphasized in Australia, which has also a branch bank system, where, out of a population of a little over four millions of people, more than a million of these are congregated in or about the great cities of Melbourne and Sydney, which have appropriated to themselves a still greater control of the trade and manufactures of that country. In countries not wedded to the branch bank system, as England and the United States, we can find scores of cities of the first rank and innumerable cities numbering their citizens by tens of thousands, situated in all parts of the country, each fostering its appropriate manufacturing firms. This condition of affairs is brought about because each town has its couple of banks, with citizens as officers, all with an interest in their town and anxious to see it flourish. A man applying for a loan is personally known to them, and they wish to help him as

well as make money for themselves. Under the branch bank system as carried on in Canada, the branch manager is only nominally manager, and has no interest in the city wherein the branch is situated, for it generally happens that as soon as he has had time to become well acquainted, the head office transfers him to another city. The branch manager is further crippled by being unable to make a loan of any magnitude without a consultation with the head office in Toronto or Montreal, as the case may be. This means at least a week's delay to Westerners, and there are hundreds of men in Canada who have lost good business opportunities because the head office could not see fit to make a loan on the recommendation of its branch manager, or approved of a loan too late to materially improve the condition of the borrower.

A certain prominent bank manager to whom the above facts were stated, said that it is true that the only businesses having a good opportunity to borrow money from the banks of Canada are those established in or near the cities of the head offices. The people of Vancouver lately recognized this, and as a result the Bank of Vancouver has been incorporated, although Vancouver has branch banks upon nearly every street corner in the business quarter of the city. The only conclusion that can be drawn is that the strong and even development of all parts of a country may be attributed in a great measure to a wise monetary system which retains the surplus wealth of each section of a country for the further development of that section, instead of permitting it to be drained off for the benefit of the older and stronger communities.

Any banking system like the Canadian system must provide for an incorporated central governing board to manage the consolidated banking interests. It is a part of the system. In Canada this body is known as the Canadian Bankers' Association, composed of representatives from each of the twenty-nine banks and duly incorporated by act of parliament. The association draws up a schedule of certain charges to be made by the Canadian banks, thus making competition impossible. To show the close bond in which the Canadian banks are united, I will quote the words of Mr. X, formerly manager of a bank doing business in Dawson City during the Klondike boom:

"During the rush," said this gentleman, "the banks having branches in the Klondike did business at an enormous profit. When I had charge of the Dawson branch orders came from headquarters to charge 32% discount for loans."

"I suppose you didn't do much business at that rate?" said a friend. "A borrower would only need to step across to the —— bank to get a loan at normal rates."

"They could do no better for him at the ——," answered the manager; "we all charged the same rates."

Here we have clear evidence of the combination which can be effected under the Canadian scheme of banking, and which is making the banks so autocratic, by preventing them from being taught by competition to respect the wants of each

community. The population of Canada has increased enormously during the last ten years, and this should warrant the establishment of more banks; but the Canadian institutions are practically the same in number as they were two decades. Why? As soon as a new bank has developed one of the older and stronger banks absorbs it, and competition is nipped in the bud. This amalgamation, besides lessening competition, means curtailment of banking facilities to the public, for duplication of branches is bound to occur. When the Royal Bank absorbed the Union of Halifax a few months ago, ten branches had to be closed through duplication, and this is bound to cause the lessening of monetary advantages in those places where duplication occurred.

A serious defect in the Canadian Banking Act is the lack of a clause compelling the banks to hand over to the Government all monies which are in the bank to the credit of a customer who has not been heard of, and in respect of whose account transactions have ceased to take place for a period of years, say, ten. Several of the banks have unclaimed deposits, some of which amount to over \$10,000, and have heard nothing of the depositor for ten or twenty years. A few cases have happened where large sums of money have been paid into a bank in one deposit, and the person who made the deposit has entirely disappeared. It is true that there is a clause in the act calling for a yearly return to the Dominion Government, showing all dividends which have remained unpaid for more than five years and all amounts or balances in respect of which no transactions have taken place, or upon which no interest has been paid during the five years prior to the date of such returns; but the act should go further and provide for the paying over to the Government of such moneys for the use of the country, rather than leave it under the control of private corporations. If a claimant appeared for the money the Government could hand it over to him upon satisfactory proof of his right to ownership.

A few words as to inspection: If we look over the history of Canadian bank failures, we find that none of the banks have met with disaster suddenly, but, on the contrary, the process has been gradually brought about by resorting to malpractices in the hope that through some lucky turn enormous profits would be gained. The only safeguard we have against such practices is the provision in the Bank Act providing that information shall be given to the Government by the banks themselves as to the condition of their affairs; experience has shown that in some cases the bank returns have been inaccurate to a startling extent. Outside of these returns there is no method of inspection whereby the interests of Canadian bank shareholders and others interested in such corporations may be efficiently protected, although several times clauses providing for public bank auditors and inspectors have been introduced in the House of Commons. Each time the scheme has been successfully opposed by the bankers on the ground that it would be absolutely impossible for any inspector or auditor to make a reliable estimate of the assets of a bank; they argue that an inspector could not ascertain the real value of the customers' paper discounted by a bank or even trace or count the cash; that an inspection of accounts without a valuation of assets would be worthless, and that it would be impossible for a Government inspector or auditor properly to inspect a Canadian bank on account of its many branches and the multiplicity and variety of the commercial paper in its

assets. Many persons, they say, would make deposits upon the faith of an official report which would be more or less illusory. It is better, in their opinion, to rely on the careful organization of the bank, the vigilance of directors, and the inspection by trained men of its own staff traveling from branch to branch and reporting to the general manager. Why a Government inspector cannot do this they fail to explain.

Mr. McLeod, the general manager of the Bank of Nova Scotia, recently resigned his position in order to work in the public's interest and call attention to the necessity of a system of Government inspection of chartered banks. He has issued a pamphlet treating of banking abuses through lack of inspection, and setting out the procedure whereby he would remedy them. It is submitted, however, that his proposals do not go far enough. His scheme is that a board of fourteen auditors (four of whom shall form a quorum) shall be appointed by the Bankers' Association, and that the board so appointed shall make an annual inspection of each bank, and if, in such audit, the annual statement to the shareholders is found to be a fair and conservative representation of the bank's condition, the chairman of the Board of Auditors is to certify it, and no statement is to be issued without this certificate.

One of the particulars in which Mr. McLeod's scheme falls short is that it does not propose to give the inspectors power to obtain information under oath from the officials of the bank. In England, where, by a statute known as 25–26 Vict., c.89, s. 69, a special system of inspection of limited banking companies is provided for, the provision giving the inspectors power to put the banks' officers upon oath has been found necessary in order to enable them to make their work of inspection thorough and effective.

Above has been set out the impressions of the Canadian banking system gained from the viewpoint of a fault-finder. Perhaps, after all, it is not the system which is at fault, but rather the method of carrying out the system. Perhaps the seeming faults are really blessings in disguise. Perhaps——.