

THE EARLY HISTORY OF BANKING IN NEW BRUNSWICK: 1820-1971

by

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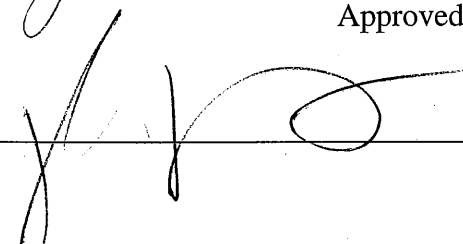
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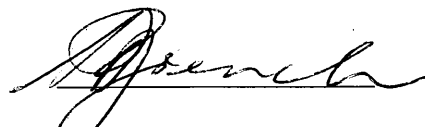


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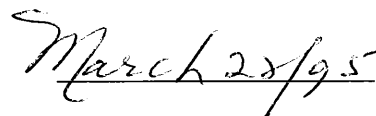
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ABSTRACT

This thesis summarizes and examines the history of banking in New Brunswick over the period 1820 to 1871. Colonial economic development depended on sound financial intermediation. In New Brunswick, banking was the main provider of this service. This subject has been given only cursory treatment by other scholars. Their work serves only as a starting point for discussion of the facts collected and data analyzed.

The banks of New Brunswick endured several shocks during their inception and development. The qualitative effects of these disturbances were assessed from evidence in the legislative records of the Provincial Archives of New Brunswick. Regular bank statements were collated and formed into relevant indicators of bank security and management. The quantitative effects of these disturbances were analyzed for stationarity and compared between institutions.

It was found that bank managers pursued consistent management over the period of study. The results do not show that banks were subject to little variability in health and security. Rather, bankers allowed the random dictates of the commercial community to guide their institutions. The different economic environments of various communities in New Brunswick affected banks in different ways. Banks which operated within more conservative parameters seemed to prosper. Those which demonstrated the practice of riskier management eventually failed.

CHAPTER 1 - INTRODUCTION

Financial intermediation plays an important role in the growth and development of an economy. The character and strength of financial institutions affects capital movement, project investment and industrial growth. In the Canadian colonial context, the most basic form of financial intermediation was banking. The establishment of banking in colonial New Brunswick exemplifies the conditions which make or break successful economic development. There has, however, been little study of the nature of New Brunswick banking practices; and this is a grievous oversight of scholars. The banking establishments of colonial New Brunswick failed to survive into the late twentieth century, but it is essential to examine the nature of New Brunswick banking practices to better understand the economic growth and development of the colonial economy.

The early records of New Brunswick banks include annual and semi-annual statements of the banks to the Legislature. These early records provide evidence of the character of banking practices. The statements can be used to assess the security and management of the New Brunswick banking establishment. Furthermore, the records of the banks from different areas of the colony reflect the relative economic strengths of regions within New Brunswick.

New Brunswick banking practice and establishment appears to follow a different course from that of other colonies or nations. In this context, it becomes especially important to study these unique practices in order to determine their effects on the distinctive growth of colonial New Brunswick.

The study will rely primarily on the legislative records of the New Brunswick Legislature. There has been very little study of New Brunswick banking as an institution. There has been some study of banking development and practice in other areas and at other

times. But this literature tends to focus on specific institutions or on the broad national implications of banking practice.

Studies of United States banking history focus on the different structures of banking in different regions of the nation. These studies have little direct impact on the nature of banking in New Brunswick, but they do highlight key features of banking practice and theory accepted in the nineteenth century. Studies in American banking history focus primarily on the reserve system and its implications on democratic representation. More importantly, the studies of individual state banking legislations illustrate the sentiments of colonial citizens (i.e., North American frontier people and settlers) about banking.

Much of the literature on British North American banking practices focusses on financial intermediation in the central regions, Upper and Lower Canada. Also, studies of early Canadian banking tend to examine specific institutions. In fact, many of these studies were commissioned by modern chartered banks as public relations tools. Their objectivity is, therefore, questionable.

The sparse information on banking practices in colonial Maritimes and specifically in colonial New Brunswick is unfortunate. However, the studies of other banking practices can serve as useful analogies to the New Brunswick experience. Other regions' banking practices evince the zeitgeist of not only academics and professionals, but also of the common people of the time. Such information can be used to draw analogies to the case of colonial New Brunswick. The examples illustrated in these works will shed some light on the New Brunswick banking experience.

This study will follow the progress of New Brunswick banking institutions from their incorporations to the end of colonial bank legislation. The New Brunswick Provincial Legislature presided over many acts of incorporation, modifications to incorporation and regulatory measures which dictated the character of the New Brunswick banking establishment.

The records of New Brunswick banks will be used to analyze the key relationships between legislation and practice of financial intermediation. Such data as note issues, capital stock, loans and deposits will aid this analysis. These measures indicate the particular strengths of New Brunswick banking. These can be used to measure the ability of banks to keep a stable and reliable (and above all, profitable) economic environment conducive to economic growth and development. Furthermore, in combination with the legislated requirements, bank statements bear out the efficiency of banks in using their resources to the limit.

Early records of bank operation and legislation reflect New Brunswick's estimation of safe financial intermediation. The records and directives of the Colonial Office on the subject of banking serve to indicate the estimation of safe intermediation from the perspective of a colonial administrator. Thus, the records of the Provincial Legislature will describe the confidence of two paramount players, the colonial legislator and the colonial administrator, in the banking establishments of New Brunswick.

The Provincial Archives of New Brunswick house the original sources on New Brunswick banking history. This study will use the records from 1820, the establishment of the Bank of New Brunswick, to 1871, when banking regulation came under the federal purview with the Bank Act. The records of six major banks have been collected and collated for

analysis. These banks represent those which were strong enough to submit statements on regular intervals and over a significant period of time.

Banking practices of nineteenth-century New Brunswickers are not easily accessible to the late twentieth-century scholar. Any specific records that still exist (executive minutes, ledgers) are in the hands of existing commercial banks. These records are still kept confidential. However, the evidence left in bank statements of the Legislature, in combination with the various regulatory acts, allows for study of early banking in New Brunswick.

Several questions must be answered in the study of colonial New Brunswick banks. Did they operate safely? Were deviations from the limits caused by structural weakness or by exogenous and transitory factors? What purpose did the banks serve? Do the statements demonstrate a fulfillment of this purpose?

Using the collected banks statements, processed through appropriate statistical measures, the above questions will be answered. The analysis will focus on the stationary nature of several ratios. Once the nature of colonial banking is assessed then we can hypothesize about its role in the economic growth and development of New Brunswick.

This thesis will summarize relevant literature and draw analogies to the New Brunswick case. It will focus on the experiences of other peoples and other legislatures to determine the character of the New Brunswick experience. This thesis will then survey the acts of incorporation of the banks under study and of the banks whose incorporations failed to pass or failed to take hold. Further, the regulations set out by both the colonial office and the New Brunswick legislature for all banks in the colony will be examined. In addition, this thesis will examine bank statements to determine how banks operated within their communities. Once the

facts have been established about New Brunswick banks, conclusions about their overall nature will be drawn.

CHAPTER 2 - DEVELOPMENT OF BANKING IN NORTH AMERICA SURVEY OF LITERATURE AND ANALYTICAL METHODS

The history of Canadian banking has a surprisingly small literature. Many of the resources still in use are very old. Although, there is some research on Maritime banks, the discussion of the formation of British North American banking is coloured by a central Canadian bias. However, the study of central Canadian banking development is instructive of the nature of banks in New Brunswick. This chapter will highlight some of the literature on banking in Canada. The literature suggests several influential streams of thought and debate in nineteenth-century banking, and some of these questions will be addressed in this chapter. The history of Canadian banking is linked with the economic life of the colony. The relevant financial events of the period are highlighted and summarized in this chapter.

The study of Canadian banking history has been dominated by the works of Breckenridge, Neufeld and McIvor.¹ Their works outlined the formation and development of money and banking in Canada from the first settlements to their own times. Each had a different interpretation of the formative influences of Canadian banking. The real debate, which has occupied many scholars is whether Canadian banks were influenced by American, Scottish or British traditions. Once the nature of their heritage is established, the performance of Canadian banks can be better assessed.

In his collection, Money and Banking in Canada, E. P. Neufeld demonstrated a bias towards the American influence. In an anonymous article reprinted in that text, it

¹ E.P. Neufeld, ed., Money and Banking in Canada, (Toronto: McClelland and Stewart, 1964); Roeliff Morton Breckenridge, The Canadian Banking System, (Baltimore: American Economic Association, 1895); R. Craig McIvor, Canadian Monetary, Banking and Fiscal Development, (Toronto: MacMillan, 1961).

appears that the Bank of New Brunswick enjoyed a much smoother passage of its act of incorporation than did other banks in British North America.² The political powers of New Brunswick were quite willing to accept the establishment of a bank in Saint John. This bank was to be run by and for the Loyalist merchants of the community. Since Saint John merchants made up a significant portion of the government of New Brunswick, the incorporation act enjoyed wide legislative support.³

One of the most prolific early writers on the subject of Canadian banking was Adam Shortt. His volumes from the turn of the century are still quoted as a major resource on the history of Canadian banking. Shortt asserted that the Canadian banking system had few roots in Scotland, as many writers propose, but many in America.⁴

The main reasons for the common view that Scottish banking influenced Canadian banking was the success of branch operations in both countries and the large presence of Scottish immigrants, or Canadians of Scottish heritage, in the banking system. Scottish banking, praised by Adam Smith, had suffered from instability during the first few years of the nineteenth century. It was at this time that the Canadian conception of banking was developed. Seeing the instability of the Scottish system, Canadians evidently sought another model for the development of their banks. Shortt pointed to the similarity of incorporation acts in the United States and Canada as confirmation that the Canadian banking system grew out of that of America.⁵

² "Canada's First Chartered Bank," in ed. E.P. Neufeld, Money and Banking in Canada, (Toronto: McClelland and Stewart, 1964) 47.

³ "Canada's First Chartered Bank," 47.

⁴ Adam Shortt, "The Origin of the Canadian Banking System," in ed. E.P. Neufeld, Money and Banking in Canada, (Toronto: McClelland and Stewart, 1964) 77.

⁵ Shortt, The Origin of the Canadian Banking System, 79.

Most of Shortt's theories were based on evidence from Central Canada, but he mentioned that they applied equally to the Maritime context. Bray Hammond, another bank historian, agreed with this point of view. The early banks of New Brunswick and Nova Scotia drew their charters from those obtained in Massachusetts or Philadelphia.⁶ The most obvious connection between New Brunswick banks and their New England forbearers was the presence of double liability. That is, all shareholders were responsible for the corporation in the amount of their equity already paid in plus the same amount again.⁷ This early form of bank insurance had been common in both Massachusetts and Maine. By 1840, it was required of all banks in New Brunswick. It is likely that this contributed to the conservative management of New Brunswick banks.

The importance of the New England influence in New Brunswick banking follows from intuition. New Brunswick enjoyed a swift coastal trade with New England throughout the early nineteenth century.⁸ The majority of the population were Loyalists - displaced Americans. The commercial and cultural connections with the States were strong and answered many questions on the development of banking in New Brunswick. But the course of American banking development was not always to play such an important role in early Canadian banking.

The work of Roeliff Breckenridge is the most comprehensive history of early Canadian banking. His work concentrated primarily on central Canadian banking

⁶ Bray Hammond, *Banks and Politics in America - from the Revolution to the Civil War*, (Princeton: Princeton U P, 1957) 656.

⁷ Ralph W. Marquis and Frank P. Smith, "Double Liability for Bank Stock," *American Economic Review*, 27(3), September, 1937, 492.

⁸ W.T. Easterbrook and Hugh G.J. Aitken, *Canadian Economic History*, (Toronto: MacMillan, 1956) 228.

developments. In his attention to detail, however, he included a short chapter on the development of banking in New Brunswick. This was nothing more than a summary of the acts of incorporation of four banks.⁹ Here, he observes that the Central Bank of New Brunswick's act of incorporation of 1834 embodied almost all banking regulations which would apply in New Brunswick for the period.¹⁰

In spite of its brevity (four pages), the Breckenridge work is the most lengthy treatise on early New Brunswick banking. Most other authors prioritized central Canadian banking above Maritime banking. What little attention is paid to Maritime banking is devoted to the study of banking in Nova Scotia.

R. Craig McIvor devoted a small part of his Canadian Monetary, Banking and Fiscal Development to the study of early New Brunswick banking. He argued that the success of the Bank of New Brunswick prompted competition from other merchant groups.¹¹ The simple nature of the New Brunswick economy required only the local banking structure that had grown from the influence of the early nineteenth-century American banks. As New Brunswick economic activity stagnated in the same pattern as the outside world progressed, so, too the New Brunswick banking community.¹²

One of the best treatments of early Maritime banking is Douglas Baldwin's study of the banks of Prince Edward Island.¹³ In this article, several key assumptions were made about the banks of Prince Edward Island. These assumptions reveal aspects of

⁹ Breckenridge, 200.

¹⁰ Breckenridge, 201.

¹¹ McIvor, 55.

¹² McIvor, 57.

¹³ Douglas O. Baldwin, "The Growth and Decline of the Charlottetown Banks, 1854-1906," Acadiensis, Spring, 1986, 15(2).

Maritime economic history and specifically, Maritime financial history. Baldwin determined that the condition of financial institutions of a colony were indicative of economic conditions.¹⁴ This should follow from intuition, but it is an important assumption for all bank histories.

It is important to observe that the conditions which had led to bank establishments in other colonies, did not bring bank development on Prince Edward Island. The most pressing needs of the Island commercial community were for a sound circulating medium and for a consistent source of commercial discounts.¹⁵ These needs were expressed throughout New Brunswick every time a bank was established or examined.

Prince Edward Island and New Brunswick shared similar economic circumstances. Although the Island's main source of industry and trade was agriculture and New Brunswick's was timber, both economies were characterized by a high volume of trade and a strong local demand for imports.¹⁶ It was felt that the establishment of a bank would not only assist the colony by providing a sound medium of circulation to stem the trade-induced outflow of specie, but would allow local exporters more flexibility in trade by providing a ready source of commercial discounts. Many of these sentiments were expressed in the early documents on banking in New Brunswick.

Angela Redish argued that the establishment of banks in the British North American colonies was not necessarily the result of a lack of circulating medium. Rather, the quality of specie which made its way into the hands of colonial merchants was poor,

¹⁴ Baldwin, 28.

¹⁵ Baldwin, 31.

¹⁶ Baldwin, 28.

and that the supply of hard currency lagged behind its demand.¹⁷ Nevertheless, the inadequacy, qualitative or quantitative, of circulating exchange prompted the establishment of banks in British North America.

As in New Brunswick, the Prince Edward Island government readily accepted the incorporation of its first bank. The incorporation of a second bank, however, proved to be the subject of some controversy.¹⁸ Prince Edward Island also drew on its continental neighbour for the substance of its incorporation acts. Because of their similar incorporations and influences, the banks of Prince Edward Island, as will be seen with in the banks of New Brunswick, suffered instability in the winds of trade. As the trading economy boomed, Island banks increased discounts to speculative proportions. This contributed to over-extension of economic activity. Under commercial stress, banks curtailed discounts sharply, prolonging economic difficulty.¹⁹ Nevertheless, Baldwin argued that the local character of Island banks was good for economic development. The same may, therefore, be said of the local banking structures of New Brunswick.²⁰

One of Baldwin's chief resources in support of a system of local banks was R. T. Naylor. Naylor's The History of Canadian Business, gave much attention to the nature of early Canadian banking. He argued that the Maritime and Central Canadian banks, which had relied on the same American influences during their formation, developed along different paths.

¹⁷ Angela Redish, "Why Was Specie Scarce in Colonial Economies? An Analysis of the Canadian Currency, 1796-1830," Journal of Economic History, 44(3), September, 1984, 727.

¹⁸ Baldwin, 36.

¹⁹ Baldwin, 38.

²⁰ Baldwin, 48.

The bulk of the banks that collapsed overextended themselves in mercantile loans and discounts and manipulations with their call loans, and hence conformed to the principles of the banking school on which the Canadian system was predicated...none of the central Canadian or Halifax commercial banks transgressed the precepts of orthodoxy in terms of type of business...But with the "French banks" in small Quebec centres and the little non-Halifax Maritime banks and those in the West, it was a different story. They were local banks, and closely connected with local industrial capital formation...they left in their wake a real contribution to their localities' industrial growth.²¹

Naylor's argument held that the Canadian banks developed along more centralized administration while Maritime banks preserved their local character. This is an important observation in the study of New Brunswick banking. New Brunswick banks started with a local character and maintained it while their central Canadian counterparts acquired a different character.

Naylor proposed that the major influences on Canadian banking were neither Scottish (though Scots dominated the Boards of many Canadian banks) nor American (though early incorporation acts were based on American precedents). Rather, Naylor argued that the British tradition of banking formed the basis of colonial banks.²² Early Canadian financial development was dominated by British imperial policy. Therefore, British North American bankers followed the same patterns as British financial institutions. British North American banks had no reserve requirements, like their American counterparts and they took a much less active role in the monetary health of the community.²³ The passivity of Canadian banks in monetary issues manifested itself in

²¹ R.T. Naylor, The History of Canadian Business, Vol. 1, (Toronto: James Lorimer & Company, 1975) 150.

²² Naylor, 66.

²³ Naylor, 71.

their reliance on short-term commercial issues as the basis of loans. This was the style of British banks.²⁴

Unlike American banks, the needs of agriculturalists were never important to the British North American bankers. In particular, New Brunswick banks did not concern themselves with the Province's relatively small agricultural interests.²⁵ The needs of the commercial community for discounts thus dictated early bank management in British North America. This is further evidence of the influence of the British tradition.²⁶

The initial role of New Brunswick banks was to stabilize currency and provide loans for commerce. They were thus the product of a shortage of funds for commercial use, rather than of a surplus of funds available for investment.²⁷ The idea of deposit functions did not really take hold until the late 1830s. This represents a further break from American bankers who argued more and more that deposits were the most important component of the money supply.²⁸ In fact, the original reasons for banking establishments seemed to dominate in New Brunswick throughout the mid nineteenth century.

Many scholars have said that the Canadian banking system consistently favoured short term over long term credit. The hesitancy to support farm investment was only one manifestation of this philosophy. William Marr and Donald Paterson asserted that this tendency to avoid long term capital was mitigated by the eagerness of governments to

²⁴ Naylor, 79.

²⁵ W.T. Easterbrook, Farm Credit in Canada, (Toronto: U of Toronto P, 1938) 16.

²⁶ Naylor, 77.

²⁷ H.C. Pentland, "The Role of Capital in Canadian Economic Development Before 1875," Canadian Journal of Economics and Political Science, 26(4), November, 1950, 472.

²⁸ Lloyd W. Mints, A History of Banking Theory In Great Britain and the United States, (Chicago: U of Chicago P, 1945) 127.

undertake long term investments.²⁹ Early American banks also tended to prefer shorter credit positions. This reflected the importance accorded to the monetary functions served by early American banks.³⁰ Under the Jackson administration, as agricultural interests grew in power, this trend changed. By the late 1840s only the New Orleans system had avoided taking a longer credit position.³¹ The tendency for banks to take a longer position in credit provision never materialized in New Brunswick banking. This may be seen as the result of a high trade volume economy, like that of New Orleans.

From 1820 through 1871, New Brunswick banks did not appear to swerve from this course of operation. Herein lies the difference of New Brunswick banks from other institutions in North America. New Brunswick banks maintained the same parochial viewpoint that they always had, while Canadian banks, over their first 50 years, evolved with advanced central controls. Canadian bankers appear to have made much greater use of the money markets of New York and London than did New Brunswick bankers.³² At the same time, the direction of Canadian banks fell more into the hands of oligarchies. New Brunswick banks stayed under the direction of less organized groups of local merchants.³³ This resulted in a more influential position for Canadian banks than for New Brunswick banks, but not necessarily a better one for their respective Provinces.

Naylor's assertion that non-Halifax Maritime banks developed differently from central Canadian banks combines well with Hammond's proposition about Canadian

²⁹ William L. Marr and Donald G. Paterson, Canada: An Economic History, (Toronto: MacMillan, 1980) 251.

³⁰ Bray Hammond, "Long and Short Term Credit in Early American Banking," Quarterly Journal of Economics, 40(1), November, 1934, 80.

³¹ Hammond, "Long and Short Term Credit in Early American Banking," 79.

³² Hammond, Banks and Politics in America, 668; McIvor, 28.

³³ Hammond, Banks and Politics in America, 637.

versus American banking. Hammond saw the obvious links between American and Canadian banking through the 1820s and 1830s, but described a different development path after the arrival of the Jacksonians and the specie crisis of 1837.³⁴

America moved to a much different system of banks by the 1840s. After the specie crisis of 1837, and the eventual elimination of the Second Bank of the United States, the American administration sought a freer system of banking. Attempts were made to loosen the restrictions on opening a bank in several states.³⁵ At the same time, there were few changes to the structure of Canadian, and especially New Brunswick banks. Thus, the Canadian system lost its ancestral influence and sought another one in the British banking establishment. The Canadian banking establishment was soon to pursue new tools on its own.

In 1850, the Canadian Legislature passed a free banking act. This never proved to be a successful system because of the inability of Canadian bankers to access an adequate bond portfolio. Such instruments were used as a liquid reserve system under the American free banking system.³⁶ At this time, though, the New Brunswick Legislature made no significant changes to its banking regulations.

In the late 1830s and early 1840s Canada, and to a small extent New Brunswick saw the emergence of the Bank of British North America. This institution was introduced to the colonies along Scottish banking principles.³⁷ The heritage of this institution was the

³⁴ Hammond, Banks and Politics in America, 662.

³⁵ Hammond, Banks and Politics in America, 662.

³⁶ Hammond, Banks and Politics in America, 668.

³⁷ McIvor, 38.

general acceptance of branch banks in Canada. The proliferation of branch banks did not, however, extend to the Maritimes until much later.

The function of the New Brunswick banking system takes new importance because of its consistency. From 1820 to 1871, there were few changes to the nature of banking in New Brunswick. Therefore, the early banks of New Brunswick warrant study as the last conservators of the American principles which first influenced Canadian banks. As the world economy changed, it appeared that the New Brunswick banking system did little to change with it.

The banking establishment of New Brunswick was faced with many challenges from 1820 to 1871. The literature on banking in Canada highlights a few major events which affected the banks of New Brunswick. The first of these occurrences was the specie crisis of 1837. This was the result of a contraction in the British market, which affected the United States through the sharp decline of trade in raw materials. Once the United States felt the effects of a decline in raw materials industries, commercial discounts were curtailed and the flow of specie slowed. Since most of British North American specie came from the United States, the suspension of American specie payments forced the suspension of Canadian specie payments.³⁸ Once the trend for suspension was set by the respected Bank of Montreal, all banks, including those in New Brunswick had to adhere, lest they be stripped of all specie.

³⁸ Adam Shortt, "Commercial Crisis of 1837-38," in ed. E.P. Neufeld, Money and Banking in Canada, (Toronto: McClelland and Stewart, 1964) 91-92.

The specie crisis of 1837 had two great ramifications. It demonstrated that any over issue of notes by a chartered bank could be disastrous for the interested parties.³⁹ It also led to a painful readjustment period throughout the early 1840s which affected all banks in North America. As specie payments resumed, risk-averse citizens were quick to seek the security of gold. This led to a lengthy period of recovery during the 1840s.

There was a much smaller commercial crisis in Quebec and the United States during 1849-50.⁴⁰ The literature on this event is sparse and makes no reference to effects outside of Quebec and the United States. The health of the New Brunswick financial community is better assessed from other documents.

Throughout the 1850s there was rapid expansion of trade and commerce in both the United States and in Canada. This expansion, brought partially by the Reciprocity Treaty between Canada and the United States,⁴¹ fuelled a speculative rush of investment in short term commercial paper.⁴² While this crisis swept over the States,

The banks of Canada also passed through the 1857 crisis with little scathe, though under severe pressure from it. Canadian banks were generally good. The American banking system, though excellent in numerous spots, had too many weak concerns...American banks were also too numerous for reasonable agreement on important questions. The Canadian banks, like those of New Orleans, could act readily and sensibly in concert...⁴³

Thus, study of New Brunswick banking should reflect the relative security offered by the banks during the crisis of 1857.

³⁹ McIvor, 29.

⁴⁰ Adam Shortt, "Currency and Banking 1840-1864," in ed. E.P. Neufeld, Money and Banking in Canada, (Toronto: McClelland and Stewart, 1964) 133.

⁴¹ Easterbrook and Aitken, 240.

⁴² Hammond, Banks and Politics in America, 709.

⁴³ Hammond, Banks and Politics in America, 712-713.

The different sources summarized here used many different methods to examine banking in various parts of North America during the nineteenth century. Their tools can serve as an effective basis for the development of a series of indicators of bank security and management style. Baldwin used a loan-deposit ratio in his analysis of Prince Edward Island banks. This tool was introduced by James Frost, in a study of the movement of loaned funds between regions.⁴⁴ The ratio of loans to deposits, they asserted, can be used to assess whether moneys created by a bank were put into use within a certain region, or whether they were drained away to other areas.

This method was criticized and modified by Neil Quigley, Ian Drummond and Lewis Evans in their re-assessment of regional fund movements.⁴⁵ They asserted that there is no necessity that funds loaned must end up within a specific region. The ultimate decision of who received loaned funds was that of bank managers. The funds loaned may not have found their way directly to the hands of local entrepreneurs. The management of a bank did what was most profitable for the shareholder. If this involved sending capital abroad, then it was the best decision and would pay appropriate dividends to the shareholders, many of whom were locals in the New Brunswick context.⁴⁶ The usefulness of the analysis of loan to deposit ratios comes when one considers that these indicate the nature of movements of created money, both principal and derivative, between regions.

⁴⁴ James Frost, "The 'Nationalization' of the Bank of Nova Scotia, 1880-1910," in ed. Tom Traves, Essays in Canadian Business History, (Toronto: McClelland and Stewart, 1984) 100-103.

⁴⁵ Neil C. Quigley, Ian M. Drummond and Lewis T. Evans, "Regional Transfers of Funds through the Canadian Banking System and Maritime Economic Development, 1895-1935," in ed. Kris Inwood, Farm Factory and Fortune: New Studies in the Economic History of the Maritime Provinces, (Fredericton: Acadiensis Press, 1993) 230.

⁴⁶ Quigley, Drummond and Evans, 233-234.

E. P. Neufeld used another ratio analysis in his general work, The Financial System of Canada.⁴⁷ He compared the proportion of certain key liabilities to the overall levels of liabilities of early Canadian banks. This provides an indication of the relative security of the banks. Bray Hammond used ratios of specie to key liabilities to determine the security of early American banks and assessed bank security based on the reserves of specie for deposits and notes in circulation.⁴⁸ This reflected the American view that both forms of money were equally important. In the New Brunswick context, it may be more instructive to examine each specie reserve ratio separately, to reflect the different value attached to money as currency and money as deposits.

The works of other authors give a rough indication to where banks in New Brunswick could trace their origins. While few authors have given New Brunswick banking the direct treatment it deserves, the methods and background information provided in their works will be invaluable in this investigation.

⁴⁷ E.P. Neufeld, The Financial System of Canada - Its Growth and Development, (Toronto: MacMillan, 1972) 85.

⁴⁸ Hammond, Banks and Politics in America, 716.

CHAPTER 3 - THE BANKS OF NEW BRUNSWICK SUMMARY OF ARCHIVAL RECORDS

Before analyzing the respective banks' stability and safety, it is important to present a brief history of each bank. The Provincial Archives of New Brunswick was the major source for these histories. While most of their records were legislative in nature (bills, petitions, reports) some of the information was derived from important private sources and newspapers.

Over the five decades being studied, the New Brunswick Legislature received numerous petitions. These petitions addressed a wide range of subjects; some specific, some very general. Each case helps to reveal the sentiments of the New Brunswick community on issues of banking and finance. The records describe more than the chartered bank histories as throughout the period of study, many banks were proposed that never opened. The latter group either did not receive Royal or Legislative assent, or they did not accumulate enough start-up capital to commence operations, as prescribed under their charters.

The opinions and directives of the Colonial Office formed an important part of the early philosophy of New Brunswick banking and can be summarized as follows: the financial health of the colonies played a key role in the overall economic policy of the empire and without a sound system of financial intermediation, colonies did not mature economically. Economic development was paramount for England to successfully use its colonies.

The New Brunswick Legislature itself passed regulations for banks in general. However, some aspects of banking regulation were not included in each of the

incorporation acts. The New Brunswick House of Assembly met the changing demands of the community with several motions passed which regulated financial tools such as: interest, bills of exchange and general banking practices.

Chartered bank histories are essential to the study of local banking in New Brunswick. The local bank system will be assessed by the stability of six indicators which will be taken as a quantitative indication of bank stability and tested in the ensuing chapters. Certain events and crises characterized the operation of each bank. These events are revealed either through legislation or communication with the Legislature. The demands of the Colonial Office, for example, often reflected the British perception of the financial and economic health of the Province. Petitions from a specific community exposed the ability of the banking system to meet its clients' needs. For the analysis of the stability indicators, it is important to know what shocks to the system were present and how their effects were felt. There is no easy way to estimate the specific effects of such shocks, but their impact can be acknowledged in the final analysis.

The presentation of these histories poses some problems, with the most obvious being the lack of resources. Although the Provincial Archives of New Brunswick have extensive collections of colonial legislative history, there are few primary or secondary sources outside of the House of Assembly. These descriptions are not a full history of banks in New Brunswick, and will merely highlight problems that may be encountered in the data analysis.

It will be difficult to present each bank history without some degree of repetition. The banks of New Brunswick did not act in a vacuum. Often, there was interaction

between two or more institutions. Such interaction revealed many important characteristics of the banks. Each history, for ease of exposition, will be treated separately. Each interaction will be told from two different perspectives. The banks' histories will be presented in order of incorporation. The records of the New Brunswick Legislature and of the Colonial Office are summarized afterward.

Bank of New Brunswick

Prior to the establishment of the Bank of New Brunswick in 1820, the colony had been enjoying strong economic activity.⁴⁹ The West Indies trade, although in decline, was still thriving. Agricultural interests were forgotten in the rush to exploit New Brunswick's timber stands. The timber trade itself grew quickly under a British tariff on Baltic lumber.⁵⁰ The economy boomed with trade, both imports and exports. These trades drained currency from the colony and prompted prominent lumber merchants of Saint John to petition in 1820 for the establishment of a bank.⁵¹

The first purpose of banking in New Brunswick was the provision of a circulating medium of exchange. Banks served this purpose through issue of notes backed partially by specie. Until 1820, there was no such ready source of currency in New Brunswick. Any currency which did flow in as a result of the timber trade was bound to flow out again due to the poor agricultural development. Swift staples trade requires the support of a strong circulating medium.

⁴⁹ W.S. MacNutt, *New Brunswick, A History: 1784-1867*. (Toronto: MacMillan, 1963) 176.

⁵⁰ MacNutt 177-178.

⁵¹ Naylor, 69.

The Act of Incorporation of the Bank of New Brunswick reflected both the Scottish and the American heritage that were so important to New Brunswick.⁵² The preamble exposed the primary reason for incorporation of the bank:

Whereas it is thought that the establishment of a Bank at the City of Saint John would promote the interests of the Province by increasing the means of circulation...⁵³

The actual text of the Act revealed the sentiment of Legislators on the nature of bank incorporations.

The Act gave the Bank privileges of incorporation. It could own and possess, sue and be sued, assign and transfer, etc. under the common seal of the corporation of the Bank of New Brunswick.⁵⁴ The initial capital stock of the bank was £50,000; one half to be paid in by 1 September, 1820, the rest by 1 September, 1821. The capital stock had to be paid up in gold and silver coins which passed in New Brunswick. After £15,000 had been paid up, the Bank of New Brunswick could commence discounting and note issue operations. There were limits imposed on the number of shares one could hold (especially after the initial sale of the shares). Once 300 shares were subscribed, there was to be a General Meeting of the shareholders to select 13 Directors and a President of the Bank.⁵⁵

The Bank of New Brunswick was limited to £3,000 land holdings for the purposes of conducting the affairs of the Bank. However, it could possess as much as it pleased by mortgage in payment for debts. The Bank could not, however, provide mortgage loans. In addition to holding mortgages in payment of debt, the Bank could also deal in specie,

⁵² "Canada's First Chartered Bank," 48.

⁵³ New Brunswick, Journal of the House of Assembly, 60 Geo. III cap. 13, 1820.

⁵⁴ 60 Geo. III cap.13

⁵⁵ 60 Geo. III cap.13

bills of exchange and the sale of goods or stock, "really and truly pledged for money lent, and not redeemed in due time..."⁵⁶

The Bank's property and assets were the only items liable for the debts of the corporation. These debts were not to exceed twice the paid up capital of the corporation. Any excess over this level (beyond the amount covered by the property and assets of the Bank) applied to the personal assets of the Directors who managed to put the Bank in such a situation. Any profits, premiums, interest and rents of the Bank could be used to pay out dividends on a semi-annual basis.⁵⁷

The Bank of New Brunswick was the first such institution incorporated in British North America. Cautious Saint John investors were not inclined to purchase shares in the new establishment. While those who were most committed to the idea of a bank in New Brunswick did take stock, many were reluctant. The Bank was unable to meet the capital subscription requirements of the Act of Incorporation. On 26 February, 1821, the Legislature passed an amendment to the Act of Incorporation of the Bank of New Brunswick, reducing its authorized capital to £30,000. This amount was more than half paid up already. Any further subscription would require immediate payment.⁵⁸ Thus, the initial enthusiasm for the Bank did not match the anticipated need for circulating currency, loans for trade and deposit services.

The first dividend publicly declared appeared in the New Brunswick Courier on 4 October, 1823.⁵⁹ Throughout the 1820s, the Bank declared dividends of between four

⁵⁶ 60 Geo. III cap.13

⁵⁷ 60 Geo. III cap.13

⁵⁸ New Brunswick, Journal of the House of Assembly, 1 Geo. IV cap.32, 1821.

⁵⁹ New Brunswick Courier, 4 October, 1823, 1.

and seven percent. The Bank proved profitable from its inception. By 1825, local confidence in the Bank had developed to the point that an application was made to the Legislature to increase the authorized capital to the level originally prescribed in the Act of incorporation (£50,000).⁶⁰ A total of 400 shares of £50 each were to be sold at a well-publicized open auction. The premiums from the shares were to be distributed equally over all stockholders. The limits on total stocks held by one individual set out in the incorporation still applied.

The petition for the capital stock increase revealed to what extent the community of Saint John had confidence in the concept of banks. Some members of the community felt that the Bank of New Brunswick did not possess adequate capital for the demands of trade of the province. In 1825, an application for a new banking establishment was received by the Legislature. The management of the Bank of New Brunswick felt that its establishment had been managed under the "principle of sound discretion and has been of eminent benefit to the country at large." A new banking house might be tempted to issue "extensive and unwarranted credits."⁶¹ Saint John needed additional banking capital. If placed under the management of a new bank, inexperienced hands could cause ruin. If placed under the experienced management of the Bank of New Brunswick, the reputation and wisdom of the management would see safe use of the new capital. The members of the House agreed with the Bank's perspective and the additional capital was effected through an increase in the existing Bank's capital, rather than with the creation of a new bank.

⁶⁰ New Brunswick, *Journal of the House of Assembly*, 5 Geo. IV cap.16, 1825.

⁶¹ Bank of New Brunswick to the New Brunswick House of Assembly, 16 February, 1825, PANB.

The Bank started operation under the new capital sold in April, 1825.⁶² Having granted a favour to the Bank, the Province later came asking a favour of its own. Here the Bank demonstrated a usefulness not anticipated in the debate for incorporation. In June, 1826, the Bank agreed to accept a large deposit from the Provincial government. This money was, however, subject to a three month notice requirement for withdrawals of over £5,000.⁶³ This government deposit would have significant implications later.

In the autumn of 1826, the Bank received a request from the Lieutenant Governor.

Because of

great pressure in the money market...[and the] embarrassed state of mercantile concerns of the Province...distress would result from enforcement of payment of the Whole Amount of Bonds in the Treasury now actually due for duties...⁶⁴

The Provincial Treasurer did not have sufficient resources to pay the Warrants necessary for operation of 1826. The Bank agreed to discount £10,000 from the government deposits, free of premium. The Treasury was to pay this amount back when the money market had settled and the government had started receiving surplus income again.⁶⁵

By 1829, the government had not yet repaid the Bank. Between October, 1826 and June, 1827, the bank advanced £8,212.2.11 in warrants to the government. This allowed for the continuation of all public works and for relief from the Miramichi fire of 1825.⁶⁶ The Bank correctly observed that these advances saved the Province much distress. The Treasurer paid most of the initial warrants (save £600) back by 1828.

⁶² New Brunswick Courier, 9 April, 1825, 3.

⁶³ Bank of New Brunswick to the Lieutenant Governor, 12 June, 1826, PANB.

⁶⁴ Lieutenant Governor to Bank of New Brunswick, 7 October, 1826, PANB.

⁶⁵ Lieutenant Governor to Bank of New Brunswick, 7 October, 1826, PANB.

⁶⁶ Bank of New Brunswick to Lieutenant Governor, February, 1829, PANB.

However, the advances continued and by September, 1828, the government had advances outstanding amounting to £7,387.10.0.⁶⁷ These premium-free advances affected the business of the Bank. To recoup some of its losses, the Bank started to charge interest on further advances. The Bank estimated its losses at £656.14.8. Upon demand for repayment of the whole amount of the advances, the House responded that the Bank "had the use of the Crown Deposit or Casual Revenue lodged there."⁶⁸ The Bank responded that this was 'dead money', useless for supporting discounts and loans. The convenience afforded to the government by the Bank had hurt the Bank's operations for the later 1820s.

In the early 1830s, the need for further banking capital in Saint John was recognized again. Parties opposed to the local monopoly of the Bank of New Brunswick sought a charter for a Commercial Bank of New Brunswick in 1832. In a lengthy petition from the Bank of New Brunswick, the older members of the Saint John banking community extolled their own virtues and attempted to rebut the claims that another bank would benefit the commercial community.⁶⁹

By the time the Bank of New Brunswick's petition reached the Legislature, the Act of Incorporation of the Commercial Bank of New Brunswick had been passed in the House of Assembly. It had been argued that the Bank of New Brunswick was not sufficient to meet the need of the commercial community. The Bank argued that its history of discretion and stability through risky times had earned it a reputation of quality

⁶⁷ Bank of New Brunswick to Lieutenant Governor, February, 1829, PANB.

⁶⁸ Bank of New Brunswick to Lieutenant Governor, February, 1829, PANB.

⁶⁹ Bank of New Brunswick to New Brunswick Legislative Council, 25 January, 1825, PANB.

management and open ownership.⁷⁰ In its first ten years of operation, the Bank served the trading community of the entire Province well. The Bank had been of much credit to the entire Province, it had paid strong dividends,

...[and had] stood the test of a season of unexampled difficulty and embarrassment...[yet] so great a portion of the circulating medium of the country and which in the hands of every one should be presumed free from suspicion.⁷¹

The benefits to the Province (and to the government) of the Bank were obvious. There was no need to take the risk of establishing a new bank so long as the Bank of New Brunswick continued its impeccable operation.

The Bank was willing to go so far as to encourage the use of one of the clauses of incorporation to prove its point. It was specified that a Joint Committee of the House could be struck to examine the books of the Bank. The Bank asked that, before any new banking houses were established in Saint John, that this Joint Committee report on the quality of banking in that city over the previous 10 years.⁷² This report would show the sterling quality of the Bank's operation.

...without such inquiry, Your Honourable Body it is apprehended, will be able to form but a very erroneous opinion from the exaggerated statements of ill-informed or interested individuals.⁷³

The Legislature should have knowledge of the current banking operations before making decisions about future ones.

The Bank of New Brunswick argued that if banking capital in Saint John was insufficient, then the obvious solution to the deficiency was to grant additional capital to

⁷⁰ Bank of New Brunswick to New Brunswick Legislative Council, 25 January, 1825, PANB.

⁷¹ Bank of New Brunswick to New Brunswick Legislative Council, 25 January, 1825, PANB.

⁷² Bank of New Brunswick to New Brunswick Legislative Council, 25 January, 1825, PANB.

⁷³ Bank of New Brunswick to New Brunswick Legislative Council, 25 January, 1825, PANB.

the Bank of New Brunswick, rather than to a new bank. To this end, the Bank of New Brunswick petitioned for an increase in capital to £75,000, with the option of a further increase to £100,000 and argued as follows.

...while operations of commerce require a sufficiency of Banking Capital, it is necessary to guard against the very serious evil that would arise from too great facility being afforded to speculators possessed of little or no capital of their own...instead, increases in Banking Capital are best effected by the augmentation of the Capital of the Bank of New Brunswick.⁷⁴

They estimated that discounts, even with two banks in operation, would not exceed those presently offered by the Bank of New Brunswick alone. Any increase in discounts would be made under enormous risk and would lead to "ruin to many industries and enterprising individuals." The Bank even threatened that competition would mean that persons indebted to both banks would have their debts with the Bank of New Brunswick called in.⁷⁵

Under these threats, the Legislative Council did not pass the Act of Incorporation of the Commercial Bank of New Brunswick. The capital stock of the Bank of New Brunswick remained at £50,000. A Joint Committee of the House was struck to examine the books of the Bank of New Brunswick and of the Charlotte County Bank (established in 1825). In the 1833 session of the House of Assembly, "A Bill to provide for the further increase of the Capital Stock of the Bank of New Brunswick and to amend and continue the act of incorporation of the said Bank" was introduced.⁷⁶ This act would have increased the Capital stock of the Bank of New Brunswick to £75,000, with the new shares to be sold at public auction. The charter of the Bank was also extended from its

⁷⁴ Bank of New Brunswick to New Brunswick Legislative Council, 25 January, 1825, PANB.

⁷⁵ Bank of New Brunswick to New Brunswick Legislative Council, 25 January, 1825, PANB.

⁷⁶ New Brunswick, Journal of the House of Assembly, 1833.

limit of 1840 to 1860. The act also introduced for the Bank the concept of double liability for stockholders, to assure the community of the safe management of the Bank. The most interesting clause in the act was a stipulation that it could only be passed in conjunction with the act to incorporate the Commercial Bank of New Brunswick (reintroduced in 1833).⁷⁷ Thus, the passage of both acts would have meant an increase in the banking capital in Saint John of £100,000. With this caveat, neither act passed.⁷⁸

In early 1834, with still no resolution to the lack of banking capital in Saint John, the Bank of New Brunswick again petitioned for an increase in its capital stock. A letter from an anonymous Saint John merchant in the New Brunswick Courier stated that more banking capital was needed to support further note issue and to increase to volume of discounts. The crisis had grown so severe that some commercial paper was being discounted at a rate of 48%.⁷⁹

In their petition to the Legislature, the Bank of New Brunswick cited the report of the Joint Committee of the Legislature which observed that

...directors had upwards of 42% of the capital, their liabilities as Promissors are not eleven percent of the debts due to the Bank and from a general inspection of the discount sheets and the book for the last few years the committee are of the opinion that the institution has been conducted in a sound, discreet and impartial manner, and that every convenience has been afforded to the public consistently with the means in its power and a due regard to the interest of the stockholders.⁸⁰

The Bank was justified in its statement that it had been run on sound and fair banking practices. Over the its entire operation, the Bank had lost £40 on bad debts. The report

⁷⁷ New Brunswick, Journal of the House of Assembly, 1833.

⁷⁸ New Brunswick Courier, 21 December, 1833, 1.

⁷⁹ New Brunswick Courier, 8 February, 1834, 1.

⁸⁰ Quoted in Bank of New Brunswick to the New Brunswick House of Assembly, 4 February, 1834.

observed that the Bank of New Brunswick's discounts had grown to a dangerous proportion of its total debts during the early 1830s, but that this problem had been resolved by 1834.⁸¹ The Bank of New Brunswick was a safe financial institution. A group of 73 Saint John merchants echoed these claims and argued that the safest way to augment the capital of the community was through the Bank of New Brunswick. They referred to the report of the Joint Committee as evidence of the prudent management of the existing institution. Competition among banks could be ruinous for the Province.⁸² Based on these arguments, the Commercial Bank of New Brunswick Incorporation again did not pass the Legislature.

The Bank of New Brunswick had won its fight in the Legislature to keep the Commercial Bank of New Brunswick from being incorporated. But, the Commercial Bank, recognizing that power over the Legislature came from England, made a successful petition to be granted incorporation by Letters Patent.⁸³ The Commercial Bank started operation in 1834.

In 1836, even after the Commercial Bank started operations, the city of Saint John was short of banking capital. The New Brunswick Legislature finally agreed to the capital increase for the Bank of New Brunswick. The bank had asked for this increase three times before, and each time, it had been denied. The bank in a short petition, asked the Members of the House to refer to the three previous requests for capital increase (1833-1835). These all clearly stated the reasons for the requested capital increase. The

⁸¹ New Brunswick, "Report of the Joint Committee to examine the Bank of New Brunswick and the Charlotte County Bank," Journal of the House of Assembly, 18 February, 1835.

⁸² Saint John merchants to the New Brunswick House of Assembly, 4 February, 1834, PANB.

⁸³ New Brunswick, Journal of the House of Assembly, 1853.

Legislature accorded the wishes of the Bank of New Brunswick and gave it the power to increase its capital stock, in increments of £12,500, to a maximum of £100,000. The shares were to be sold at public auction, with the premiums earned (to a maximum of 10%) to be distributed equally over all shares. The act also increased the life of the Bank of New Brunswick charter to 1860.⁸⁴

Immediately after the increase to the capital and charter of the Bank of New Brunswick was granted, the specie crises of 1837 loomed over the entire colony. In an undated secret letter from a member of the Board of Directors of the Saint John Chamber of Commerce, a plea for quick action was made.⁸⁵ The fear that the Bank of England would suspend specie, which had been discussed in American journals, was not widely discussed in the Provinces. Although this ignorance prevented a bank panic, it was essential that something be done to avoid disaster in New Brunswick.⁸⁶

If the Bank of England suspended specie payments, the New Brunswick banking community could expect a run. The high premium on specie would result in a sharp depreciation on bills of exchange. The banks would be hard pressed for sources of specie. At the time, New Brunswick relied heavily on the United States for its circulating metal. If banks in the United States suspended specie payments, then the New Brunswick banks would be forced to completely curtail discounts. The letter advised the Lieutenant Governor that any suspension of specie payments in the United States must be met with Orders-in-Council effecting the same change for New Brunswick.⁸⁷ At the same time,

⁸⁴ New Brunswick, *Journal of the House of Assembly*, 6 Wil. IV cap.57, 1837.

⁸⁵ John Robinson to Lieutenant Governor, 17 November, 183-, PANB.

⁸⁶ Robinson to Lieutenant Governor.

⁸⁷ Robinson to Lieutenant Governor.

limits should be put on the volume of bank note issues permitted. Otherwise, banks might be tempted by the non-redemption Orders to over-issue currency.

The New Brunswick government did suspend specie in July 1837, by Orders-in-Council.⁸⁸ The suspension of specie was supported by the discretion of the Lieutenant Governor who, with appropriate public notice, allowed banks to suspend specie payments without risk of losing their charters.⁸⁹ Under most bank incorporations, suspension of specie redemption beyond a certain time limit automatically repealed the charter. The specie crisis had drastic effects on the Bank of New Brunswick. The Bank of New Brunswick sharply curtailed its note issues from £80,654.5.0 to £16,129 between 1836 and 1837.⁹⁰ This measure was brought about by the sharp reduction in the Bank's specie on hand.

The specie crisis also had a severe impact on the recently established City Bank of Saint John. This bank had received incorporation in the 1836 session of the New Brunswick Legislature.⁹¹ After three years in operation, however, the City Bank, fearing the impending run on specie, and having received an offer of a capital purchase from the Bank of New Brunswick, voted to ask for amalgamation. On 14 March, the City Bank passed a resolution at a General Meeting and subsequently petitioned the Legislature for permission to accept the Bank of New Brunswick's offer of merger.⁹² The Legislature granted the wish of the City Bank and passed an act to unite the two banks.⁹³ By a 75

⁸⁸ New Brunswick, Journal of the House of Assembly, 1838.

⁸⁹ New Brunswick, Journal of the House of Assembly, 14 March, 1839.

⁹⁰ New Brunswick, Journal of the House of Assembly, Appendices 1,7, 1837, 1838.

⁹¹ New Brunswick, Journal of the House of Assembly, 6 Wil. IV cap.56, 1836.

⁹² City Bank of Saint John to House of Assembly, 16 March, 1839.

⁹³ New Brunswick, Journal of the House of Assembly, 2 Vic. cap.25, 1839.

percent majority, the City Bank stockholders were permitted to unite their capital stock with that of another chartered bank. The new bank would assume all the assets and liabilities of the City Bank and would be subject the rules specified by the act of incorporation of the existing bank.

With the vote of the City Bank of Saint John General Meeting of the stockholders, the Bank of New Brunswick doubled its capital stock from £50,000 to £100,000. Thus, the Bank of New Brunswick, via an indirect route, took advantage of the capital increase it had been granted in 1836. The infusion of capital and of assets was necessary for the Bank of New Brunswick. The Bank was suffering greatly from a run on specie and the metal from the City Bank was essential for continued operation.⁹⁴ The new resources of the Bank of New Brunswick saved it from a complete evaporation of specie. But it would take some time before the Bank of New Brunswick regained its healthy pre-1837 position.

The hard times endured by the Bank of New Brunswick provoked bitter competition between rival banks. In 1839, having given the Treasury a credit of £10,000 to pay off the Crown debt, the Bank demanded that the government call in the debts owed by both the Commercial and Central Banks of New Brunswick.⁹⁵ These debts were to be in Provincial coffers by the end of 1839 and subsequently paid to the Bank of New Brunswick. The government had shown leniency to the Central Bank of New Brunswick, which did not have the resources to meet its obligation to the Crown. The Bank of New Brunswick remonstrated the government for such leniency for a competitor and requested that the debt be repaid immediately.⁹⁶

⁹⁴ New Brunswick, *Journal of the House of Assembly*, Appendix 1, 1840.

⁹⁵ Bank of New Brunswick to the Provincial Treasurer, 2 January, 1840, PANB.

⁹⁶ Bank of New Brunswick to the Provincial Treasurer, 1840.

In the 1840s the bank continued to serve the Provincial Treasurer by discounting the value of public debt in 1843 and in 1844.⁹⁷ By 1846, the Province had once again grown remiss in its repayment of the Bank's advance. The Treasurer, who stored the Crown surplus in a deposit with the Bank of New Brunswick, demanded interest on the funds. Yet he forbade their use for normal banking purposes and still refused to pay back the outstanding loans.⁹⁸

Having stabilized itself during the 1840s, the Bank started to grow in the 1850s. In fact, the progress of the Bank allowed it to once again petition for an increase in the capital stock. A petition of 18 February, 1854, asked, "In consequence of the very great increase of mercantile business in the City of Saint John and throughout the Province..."⁹⁹ that the capital stock of the Bank of New Brunswick be authorized to increase to £100,000. Seeing the great increase in trade of the Province, especially with the new trade agreement with the United States, the Legislature passed a bill increasing the capital stock of the Bank of New Brunswick in blocks of £25,000, up to £200,000.¹⁰⁰

The Bank only took advantage of £50,000 in increased capital by 1858.¹⁰¹ By 1859, the opportunity for further increase in the capital stock of the Bank had passed. The Bank of New Brunswick continued to operate on £150,000 capital throughout the 1860s. By 1867, immediately prior to the establishment of the new Dominion, the residents of Saint John demanded a further increase in the banking capital of the city. The

⁹⁷ Bank of New Brunswick to the Provincial Treasurer, 6 March, 1843; 25 January, 1844; 27 February, 1844, PANB.

⁹⁸ Bank of New Brunswick to the Provincial Treasurer, 13 February, 1846, PANB.

⁹⁹ Bank of New Brunswick to the New Brunswick House of Assembly, 18 February, 1854, PANB.

¹⁰⁰ New Brunswick, *Journal of the House of Assembly*, 17 Vic. cap.12, 1854.

¹⁰¹ New Brunswick, *Journal of the House of Assembly*, Appendix, 1859.

Bank of New Brunswick had become at this time the largest financial intermediary incorporated in the Province. Still, the residents of Saint John demanded more circulating medium and in 1867 they requested that the Legislature approve a capital increase of \$500,000 or \$1,000,000 for the Bank of New Brunswick.¹⁰²

The Bank of New Brunswick continued its operations beyond the scope of this study until it was amalgamated into the Bank of Nova Scotia in 1913.¹⁰³

Charlotte County Bank

In 1826, the New Brunswick Legislature responded to the demands of Charlotte County residents for the incorporation of a bank in that district. Because of the booming lumber industry and the steady coastal trade, the region was short of circulating medium and of loanable funds. The Bank of New Brunswick, established earlier at Saint John, did not provide enough capital for these functions to be carried at such a remote location.

By an act of the Legislature, the Charlotte County Bank was established with a capital of £15,000. One half of the capital allocation was to be paid up by 1 October, 1826. The debts of the Charlotte County Bank were not to exceed twice the paid up capital. It would be located at Saint Andrews in Charlotte County. The charter was to remain in effect until 1845.¹⁰⁴

The Charlotte County Bank was examined under the auspices of the Joint Committee struck following demands made by the Bank of New Brunswick. The

¹⁰² Saint John residents (47) to New Brunswick House of Assembly, 30 May, 1867, PANB. The unit of account had changed, in 1861, to dollars at the going rate of exchange. The capital of the Bank of New Brunswick was changed from £150,000 to \$600,000.

¹⁰³ Bank of New Brunswick and Bank of Nova Scotia, Agreement, 1913.

¹⁰⁴ New Brunswick, Journal of the House of Assembly, 6 Geo. IV cap.12, 1826.

Committee reported, in 1835, that the Charlotte County Bank had been operating under safe practices for almost ten years.¹⁰⁵ However, the reports of the Charlotte County Bank to the Legislature were unclear. In their reports, which were not consistent over the years, the Charlotte County Bank management never isolated 'capital' in their statements. Their liabilities comprised of large items entitled 'due otherwise'.¹⁰⁶ These breakdowns do not give an accurate enough picture of the state of the Charlotte County Bank for the purposes of this study. Therefore, the Charlotte County Bank statements are not included in this study, but the nature of banking in Charlotte County will be surmised from the reports of the Saint Stephen's Bank.

There were two significant occurrences in the history of the Charlotte County Bank. Both were apparent attempts to wind up the affairs of the Bank. First, in 1836, the Board of Directors struck a committee to meet with a Mr. Carter to discuss a possible merger with the Bank of British North America.¹⁰⁷ The Charlotte County Bank would become a branch of the Montreal-based bank. The Bank of British North America offered 200 shares of £50 each to the shareholder of the Charlotte County Bank to surrender their charter. This was proposed at a general meeting of the shareholders who voted 47 to 38 in favour of the deal.¹⁰⁸

The deal apparently fell through, however, because the Charlotte County Bank continued to periodically submit returns to the Legislature. In 1838 and again in 1841, the bank petitioned to have their capital increased to £40,000, "to give increased facility to

¹⁰⁵ "Report of the Joint Committee to examine the Bank of New Brunswick and the Charlotte County Bank," 1835.

¹⁰⁶ New Brunswick, *Journal of the House of Assembly*, Appendix, various years.

¹⁰⁷ Charlotte County Bank Minutes, 27 October, 1836, PANB.

¹⁰⁸ Charlotte County Bank Minutes, 27 October, 1836.

trade,” and to have their charter extended to 1870.¹⁰⁹ This request was eventually granted in an act that included a double liability clause for Charlotte County Bank stockholders.¹¹⁰

It may be that the majority obtained in the 1836 vote was not substantial enough to permit the Charlotte Bank to close its doors, or to transfer its assets and liabilities. It may also have been that the New Brunswick legislature forbade the transfer of the Charlotte Bank to a bank chartered outside New Brunswick. Both were stipulations of the merger act between the City Bank of Saint John and the Bank of New Brunswick.

The next significant correspondence from the Charlotte County Bank pertained to the winding up of its affairs in the early 1860s. In 1863, several stockholders petitioned the Legislature for relief from what they perceived to be the poor practices of the Charlotte Bank.¹¹¹ They claimed no general meetings were held, no directors appointed and neither dividends nor statements received. The eight signatories held 89 shares, representing £4,450 worth of the capital of the bank. They asked the Legislature to appoint a Commissioner to examine the state of the Charlotte Bank.

The demands of the stockholders were met with a letter from the President and Acting Directors of the Charlotte County Bank. They claimed that they were in the process of winding up the affairs of the Bank, whose charter would expire in 1870.¹¹² The Charlotte Bank had suffered heavy losses in the mercantile failures of 1857. In 1859, it was necessary to close the bank. The stockholders were advised of the bank's activity

¹⁰⁹ Charlotte County Bank to the New Brunswick House of Assembly, 16 January, 1838, 21 January, 1841, PANB.

¹¹⁰ New Brunswick, *Journal of the House of Assembly*, 19 January, 1838, passed as 7 Vic. cap.14, 1844.

¹¹¹ Charlotte County Bank stockholders to New Brunswick House of Assembly, 28 February, 1863, PANB.

¹¹² President and Acting Directors of the Charlotte County Bank to the New Brunswick House of Assembly, 11 March, 1863, PANB.

up to its closure in May, 1860 and were kept aware of the status of the winding up. The management was not guilty of any misconduct, given the circumstances.

if the incurring of heavy losses owing to the unprecedented commercial failures before alluded to [of 1857] is a proof of erratic proceedings or of mismanagement, neglect, and impropriety on the part of the Directors, your petitioners have the satisfaction of knowing that their case is not a singular one and that few Banks, wither in this or the Northern Country can escape being liable to a similar charge.¹¹³

The acting management had succeeded in settling most of the bank's debts and would not object to the appointment of new directors to continue the task. It is important to note here that the events of 1857 had such an impact that it forced the closing of a bank which had been in operation since 1826.

Commercial Bank of New Brunswick

In the early 1830s the growth of mercantile interests of New Brunswick warranted greater banking capital in Saint John. The Bank of New Brunswick felt that expanded bank capital would be best effected through augmentation of the capital of the existing institution. Other interests in the city did not, however, see this as a benefit. The Bank of New Brunswick showed signs of the American influence on colonial banking. At the time, many thought that the Scottish practice of banking was more conducive to mercantile concerns.

In 1833, members of the Saint John merchant class arranged a public meeting to discuss the establishment of a new bank.¹¹⁴ This group decided to make application to the

¹¹³ President and Acting Directors of the Charlotte County Bank to the New Brunswick House of Assembly, 11 March, 1863.

¹¹⁴ New Brunswick Courier, 9 March, 1833, 1.

House of Assembly for a new bank and in a petition dated 7 May, 1833, the case was put for a Commercial Bank of New Brunswick. This petition supported a bill which had already been passed in the House of Assembly to incorporate the Commercial Bank. The bill had been passed during the 1832 session of the House, but was thrown out of the Legislative Council.

The petition observed that the establishment of two banks in the Province during the 1820s had been of great benefit to the mercantile community. They were conducive of business and had paid healthy dividends of four to six percent semi-annually.¹¹⁵ But they also observed that the large increases in currency required by the community outstripped the existing capital of the two banks. The discounts demanded were greater than can be handled by the Bank of New Brunswick and the Charlotte County Bank. In particular, since the previous session of the House, great commercial distress had arisen because of the inadequacy of the banks to meet the demands for discounting paper. Furthermore, the conduct of the Bank of New Brunswick made it necessary that, not only there should be more banking capital in Saint John, but that this capital should be placed in the hands of a competing bank.¹¹⁶

The state of the New Brunswick economy is well-summarized in a statement attached to the second draft charter for the Commercial Bank of New Brunswick.

New Brunswick abounds with Coals and other Minerals, the extensive forests are stocked with valuable Timber, and the Fisheries on its coasts must always be a productive source of wealth. It possesses great facilities and advantages for Ship Building and this branch of business has of late been extensively and profitably pursued and promises to be of permanent duration. It is intersected in every direction by navigable Rivers and Stream, advantageous for the transport of its several products, and

¹¹⁵ Saint John residents to the New Brunswick House of Assembly, 7 May, 1833, PANB.

¹¹⁶ Saint John residents to the New Brunswick House of Assembly, 7 May, 1833.

furnishing sites for innumerable Water-Mills. The banks of these rivers are mostly lined with rich alluvial tracts which, as well as the whole interior of the Province, are well adapted for agricultural pursuits.¹¹⁷

This statement summarizes the needs of the Province's mercantile community and it later goes on to say that the banking capital provided by the two existing banks had been of great benefit, but that more capital was essential.

That this amount of Banking Capital is quite inadequate to the business of Saint John alone may be proved by the fact that over 30,000 Tons of Shipping employed in the Foreign Trade are owned by resident merchants, and a very great number of small Vessels are also owned and employed in the extensive Fisheries and Coasting Trade.¹¹⁸

The need for banking capital in Saint John appeared to be inextricably linked to the volume of trade in the city.

So confident were these merchants, that they traveled to the United States to seek subscriptions for the non-existent bank. In one trip to New York and Philadelphia, a Mr. Kinnear obtained commitment for £21,500 in subscriptions.¹¹⁹ In a statement submitted with the 1832 draft of the Commercial Bank charter, the petitioners argued,

In offering this Charter to the notice of persons resident abroad and soliciting Subscriptions for stock the Committee [for obtaining a Charter for the Commercial Bank] think it need not be a matter of surprise that in a new Country, where Capital is very fully employed in trade, foreign aid should be asked for the purposes of Banking...¹²⁰

The Committee had already used progressive measures to assure the establishment of their bank. Such a break from the established thought on New Brunswick banking would carry

¹¹⁷ Commercial Bank of New Brunswick draft charter, 1833, PANB.

¹¹⁸ Commercial Bank of New Brunswick draft charter, 1833, PANB.

¹¹⁹ New Brunswick Courier, 9 March, 1833, 1.

¹²⁰ Saint John residents to the New Brunswick House of Assembly, 7 May, 1833.

through the acquisition of the charter and for the operation of the Commercial Bank throughout its history.

In 1833, the Commercial Bank incorporation bill was passed through the House of Assembly and was again thrown out by the Legislative Council.

The influence exercised by the Bank of New Brunswick against the just and honourable Competition desired; has been of such a nature as to give your petitioners reason to believe that they have been deprived of so useful and beneficial an institution as another Bank in a Great Measure through their exertions.¹²¹

The efforts of the Bank of New Brunswick to prevent competition might have served as an effective legislative deterrent for years to come. But the efforts of the Commercial Bank supporters went beyond the New Brunswick Legislature.

Your petitioners have with the most unfeigned humility determined to lay their case at the feet of the Royal Throne beseeching Your Majesty Most Graciously to grant them a Royal Charter for the establishment of a Commercial Bank.¹²²

The Saint John merchants resorted again to outside means to obtain a charter for a competing bank.

Support for the Commercial Bank was not limited to Saint John residents. Before the 1834 session of the House, several petitions were submitted calling not only for denial of the capital stock increase sought by the Bank of New Brunswick but also for the establishment of a new bank. In a petition dated January, 1834, Saint John residents made such an argument. A total of 395 people cited the embarrassment to the community caused by a lack of adequate circulating medium for the increasing trade of the Province. Furthermore, they pointed to the monopoly power of the Bank of New Brunswick as a

¹²¹ Saint John residents to the New Brunswick House of Assembly, 7 May, 1833.

¹²² Saint John residents to the New Brunswick House of Assembly, 7 May, 1833.

hindrance to industry. The prejudiced actions of the Bank of New Brunswick caused a depreciation of export prices and a very high discount rate for bills of exchange.

Extension of the capital of the Bank of New Brunswick would only worsen the situation.

A new bank was needed, established under the same conditions as the Bank of New Brunswick. With two banks competing at an equal level, the Saint John mercantile community, and hence the Province could benefit.¹²³

In a petition of 10 February, 1834, a group of Saint Andrew's and Charlotte County merchants demanded a new bank at Saint John. The increase in circulating notes would aid the County's commercial and agricultural interests. Many such interests were "...unable to compete with their western neighbors whose yields such boundless facility to trade to relieve them and the whole province."¹²⁴ A similar petition from 80 Westmoreland County merchants also pointed out that an increase of the capital stock of the Bank of New Brunswick would alleviate these problems to a certain degree. But the previous 13 years experience had shown that the extent of power of the Bank of New Brunswick had already stifled trade.¹²⁵

A petition from 450 York County residents called for the incorporation of the Commercial Bank of New Brunswick because of the benefits it would bring to the interior of the Province. Agricultural interests suffered as much as mercantile interests because of the lack of circulating medium and loanable funds.

...that your Petitioners would most respectfully draw the attentions of your Excellency and your Houses to the system so successfully practised in Scotland of keeping cash accounts and the payment of a reasonable interest

¹²³ Saint John residents to the New Brunswick House of Assembly, January, 1834, PANB.

¹²⁴ Charlotte County residents to the New Brunswick House of Assembly, 10 February, 1834, PANB.

¹²⁵ Westmoreland County residents to the New Brunswick House of Assembly, 13 February, 1834, PANB.

on deposits as eminently adapted to the situation and requirements of the province...[it has been] of incalculable good.¹²⁶

This petition was circulated and signed by 40 residents of Sunbury County.¹²⁷ These documents referred directly to the advantages of the Scottish system of banking professed by the Committee for the Commercial Bank. The extent to which the Commercial Bank followed the Scottish model, or was able to follow the Scottish model, is unclear.

The residents of Carleton County (220) demanded that not only a new bank should be established, but that it should also have the power to open a branch at Fredericton. This would better promote the agricultural and lumbering interests of the interior, while providing the circulating medium needed to support the growing population and industry. Without a new bank, the value of farm estates along the Saint John River could depreciate. While praising Scottish banking practices and lauding their applicability to the colony, they also observed, "the inhabitants of Maine have upwards of twenty banks to resort to."¹²⁸ To help the residents of interior New Brunswick, a new bank was needed to compete on an equal footing with the Bank of New Brunswick.

The New Brunswick House of Assembly heard the voices of 1,200 residents in favour of the establishment of the Commercial Bank of New Brunswick. Nevertheless, the Commercial Bank finally had to seek its charter from the Throne itself. In 4 Wil. IV, by Royal Charter of 16 August, 1834, the Commercial Bank of New Brunswick was established at Saint John.

¹²⁶ York County residents to the New Brunswick House of Assembly, 13 February, 1834, PANB.

¹²⁷ Sunbury County residents to the New Brunswick House of Assembly, 13 February, 1834, PANB.

¹²⁸ Carleton County residents to the New Brunswick House of Assembly, 13 February, 1834, PANB.

The actual charter of the Commercial Bank resembled that of the other two banks. There were provisions for branches to be set up within the Province. The double liability clause was specified in the legislation. Originally, the Committee for establishment had asked that debts (less deposits) not exceed thrice paid up capital. The legislation specified that these debts could not exceed twice paid up capital. The initial draft of the charter authorized a capital stock of £60,000. By the time the Commercial Bank received its letters patent, the capital stock was authorized to £150,000. The final charter even authorized, on approval of the shareholders, an increase in capital to £300,000. The banking house was to be held at Saint John, with permission to establish branches within the Province.¹²⁹

The capital stock of the Commercial Bank was paid up by 1835.¹³⁰ The Commercial Bank immediately sought to make its presence known in the Province by taking a large deposit from the Crown. Unlike the Bank of New Brunswick, the Commercial Bank offered a rate of interest of three percent per annum on a £20,000 deposit. The Commercial Bank even apologized for not offering a higher rate; conditions in the London market had prevented it.¹³¹ The Scottish principle of banking reflected in the willingness to offer interest on deposits. The Commercial Bank again showed its progressive nature.

By 1838, the Commercial Bank felt that it had earned sufficient confidence to petition for an increase in its capital stock. This power had been granted to the bank's

¹²⁹ Draft charters, Commercial Bank of New Brunswick, 1832, 1833, PANB. The 1833 charter appeared to form the letters patent under the Great Seal of New Brunswick, 16 August, 1834.

¹³⁰ Commercial Bank of New Brunswick to Provincial Secretary, 1835, PANB.

¹³¹ Commercial Bank of New Brunswick to Provincial Treasurer, 5 November, 1835, PANB.

stockholders by 4 Wil IV., Royal Charter of 16 August, 1834. At a general meeting on 15 November, 1838, the stockholders voted unanimously to increase their capital stock to £300,000.¹³² This wish was communicated to the Province.

The Commercial Bank could not have chosen a less opportune time to seek capital subscriptions in New Brunswick. At the time, the Province was in crisis over a drain of specie. The bank could not have hoped to bring £150,000 into its vaults, either from within New Brunswick or from without. Specie was in very short supply and not readily available for investment in a new colonial bank. By 3 October, 1840, the Commercial Bank had paid up capital of £169,693.¹³³ This was the highest level that it attained. By 1846, the shares of capital approved of in 1838 had been repurchased by the bank.¹³⁴

During this period, the Commercial Bank suffered from the conditions in the money market. However, the infusion of new capital may have saved the Bank from greater embarrassment. Just as with the Bank of New Brunswick, the Commercial Bank saw a drain in its specie reserves in the early 1840s.¹³⁵ The bank was supported initially by the capital inflow; but when it could not acquire the full amount of £300,000 in specie, it had to repay the capital additional subscriptions obtained over the initial amount of £150,000.¹³⁶ This put pressure on the bank's specie reserves.

In 1839, the Commercial Bank of New Brunswick obtained the assets of the Bank of Fredericton. This bank had been established privately, by Articles of Association, in

¹³² Commercial Bank of New Brunswick to Provincial Secretary, 20 November, 1838, PANB.

¹³³ New Brunswick, *Journal of the House of Assembly*, Appendix, 1840.

¹³⁴ New Brunswick, *Journal of the House of Assembly*, Appendix, 1846.

¹³⁵ New Brunswick, *Journal of the House of Assembly*, Appendix, various years.

¹³⁶ Draft charter, Commercial Bank of New Brunswick, 1833, PANB.

1836.¹³⁷ It later applied to the Legislature for a proper charter, and was even supported by the petitions of 326 Fredericton inhabitants.¹³⁸ They claimed that the bank had already been operating successfully without a charter and without any embarrassment to the commercial community of the interior. How wrong they were. The Bank of Fredericton had already issued over £30,000 in notes by the time the specie crisis hit. It was then made known that little of the bank's £30,000 capital subscriptions had been paid up. When the Central Bank, the Commercial Bank and the Bank of British North America demanded specie payment on Bank of Fredericton notes, the Bank shut its doors. It was agreed to transfer the assets and obligations (including notes) of the Bank of Fredericton to the Commercial Bank of New Brunswick. The Fredericton banking house thus became a branch of the Commercial Bank.¹³⁹

This was the first direct reference to a New Brunswick bank establishing a branch in the Province. However, the Commercial Bank was an institution ahead of its time. The concept of branch banking would not overtake the popularity of local banks until well after Confederation. At the time of its winding up, the Commercial Bank of New Brunswick also maintained branches at Woodstock and at Miramichi.¹⁴⁰

The Commercial Bank of New Brunswick appeared to conduct its affairs without much communication with the Provincial Legislature. The only anomaly during the operation of the bank is the lack of a return for the year 1853. Missing data is not entirely unusual in this study but 1853 appeared to have brought significant changes for the

¹³⁷ Bank of Fredericton minutes, 19 September, 1836, PANB.

¹³⁸ Fredericton inhabitants to the New Brunswick House of Assembly, 31 October, 1836, PANB.

¹³⁹ Bank of Fredericton minutes, 21 January, 1839, PANB.

¹⁴⁰ Naylor, 120.

Commercial Bank. From 1852 to 1854, the note issues of the bank rose from £126,091 to £304,250. The volume of notes and bills discounted rose from £258,326 to £441,074.¹⁴¹ Some shock occurred in the amount of notes discounted, paid for through a large increase in the volume of notes circulating. This shock may have been the result of the Reciprocity agreement with the United States. The volume of trade increased significantly during this period. But an increase in trade does not explain the absence of bank statements submitted to the Legislature over this time.

The high volume of trade, seen through increased discounting of notes, continued until the crisis of 1857. After the crisis of 1857, the volume of notes discounted fell off, and the bank suffered a drain on its specie reserves.¹⁴² The Commercial Bank continued to suffer from these reverses throughout the 1860s until the bank finally was forced to wind up its affairs in 1868. In 1865, the bank requested the power to reduce its Board of Directors to five members. In addition, a general meeting approved a request to declare its dividend on only £120,000 worth of its capital.¹⁴³ The bank finally closed its doors on 10 November, 1868.

Central Bank of New Brunswick

The petition of Carleton County residents for the incorporation of the Commercial Bank of New Brunswick highlighted the needs of residents of the interior for banking

¹⁴¹ New Brunswick, Journal of the House of Assembly, Appendix, various years.

¹⁴² New Brunswick, Journal of the House of Assembly, Appendix, various years.

¹⁴³ Commercial Bank of New Brunswick to House of Assembly, 28 April, 1865, PANB.

The request is slightly unusual because the unit of account, even in the bank's returns, was dollars.

capital and circulating medium. This problem was addressed by the establishment of the Central Bank of New Brunswick in 1834.

In an act passed in 1834, the Central Bank was incorporated with an authorized capital of £15,000. The stockholders were subject to double liability on their shares. The debts of the bank were not to exceed twice the paid up capital stock. The Central Bank was to be established at Fredericton, to meet the needs of the interior trade and industry of New Brunswick.¹⁴⁴

The Central Bank of New Brunswick started its operations in 1835 and performed well in its first years. The bank applied in 1836 to have its capital increased from £15,000 to £35,000. The stockholders also requested permission to have the power to increase their capital stock to £50,000.¹⁴⁵ In a petition to the Legislature, a group of Fredericton merchants supported the request of the Central Bank stockholders for a capital increase. The Central Bank's operation was a boon to the surrounding economy because of the large quantity of impartial discounts and high quality currency.¹⁴⁶

During the specie crisis of 1837, the Central Bank suffered as did all other banks in the Province. The Directors of the bank were the first and loudest petitioners for a complete amalgamation of the banking system in New Brunswick. The stockholders of the bank said, in a petition to the Legislature that they

are persuaded that much of the present acknowledged derangement in monetary affairs would be removed by consolidating in one general substitution with an increased Capital, a number of the Banks at this time established.¹⁴⁷

¹⁴⁴ New Brunswick, *Journal of the House of Assembly*, 4 Wil. IV cap.44, 1834.

¹⁴⁵ Central Bank of New Brunswick to the New Brunswick House of Assembly, 3 February, 1836, PANB.

¹⁴⁶ Fredericton Merchants and Traders to the New Brunswick House of Assembly, 26 January, 1836, PANB.

¹⁴⁷ Central Bank of New Brunswick to the New Brunswick House of Assembly, 9 March, 1839, PANB.

The Central Bank's eagerness to resolve the currency crisis through such radical means was not matched by other banks in the Province. In fact, this petition in favour of bank amalgamation was the only one received by the Legislature.

The Central Bank statements reflect the damage that it endured as a result of the drain of specie throughout the 1830s and 1840s, but the bank appeared to have suffered no more or less than other banks in the Province.¹⁴⁸ The largest loss it suffered was on the Tobique Mill Company. Usually, such proceedings were discussed only in minute books. The Central Bank negotiated over £12,000 in notes and acceptances to American investors, who were unable to meet roughly £4,000 of this amount. The bank survived this crisis by selling off the assets of the Tobique Mill Company.¹⁴⁹ This example shows the nature and degree of bank activities in the Province. A loan of £12,000 represented almost 12% of the Central Bank's loans; this was to a single group!

The next shock in the financial system of New Brunswick was the 1857 crisis. This crisis, compounded with several unfortunate coincidences eventually forced the closure of the Central Bank of New Brunswick and had a devastating impact on the financial life of the entire Province.

For the Central Bank, the trading crisis of 1856-7 was compounded by the perpetration of a robbery in June, 1856.¹⁵⁰ In addition, the Crown gave notice that it would require payment on the Civil List funds deposited with the bank. This amounted to roughly £8,000, to be provided by the bank before 1 May, 1857.¹⁵¹

¹⁴⁸ New Brunswick, *Journal of the House of Assembly*, Appendix, various years.

¹⁴⁹ Central Bank of New Brunswick to the New Brunswick House of Assembly, 6 February, 1841, PANB.

¹⁵⁰ Central Bank of New Brunswick to Provincial Treasurer, 7 January, 1859, PANB.

¹⁵¹ Provincial Treasurer to Central Bank of New Brunswick, 1 November, 1856, PANB.

...but it was found that the Financial crisis which had more or less affected all the Banks in the neighbouring Republic had to a certain extent crippled the resources of the Bank.¹⁵²

It was agreed that the government could afford to wait on the return of the Civil List funds to prevent the embarrassment of the Directors of the Bank. The Central Bank was given additional time to pay the Civil List funds back into the Treasury, provided interest was accumulating on the deposit.¹⁵³

The woes of the Central bank did not end there.

...the autumn of 1856 was a period of unparalleled commercial distress, numerous and extensive failures took place both in Great Britain and the United States and the business of the country was completely frustrated by the depreciation of property and the general distress which followed. The Central Bank suffered more severely in consequence of these reverses than any other Banking institution in this Province...The failure of a House in Liverpool largely connected with the trade of the Northern part of the Province and whose acceptances to a large amount were held by the Bank caused a serious derangement in its operation.¹⁵⁴

So serious was this derangement in operations that the bank was forced to suspend specie payments on 30 November, 1857. By 1859, the bank had still not paid back the government's deposit which had grown, with interest, to £11,000. The Central Bank made every effort to avoid calling debts of already strained merchants. By 1859, the Bank had managed to raised £30,000 without compelling its debtors to make "ruinous sacrifice."¹⁵⁵

Aggravated by the Central Bank's refusal to pay its Civil List funds (even though they were offered a rate of interest of 6%) and by the bank's suspension of specie

¹⁵² Provincial Treasurer to Central Bank of New Brunswick, 7 January, 1859, PANB.

¹⁵³ Central Bank of New Brunswick to Provincial Treasurer, January, 1859, PANB.

¹⁵⁴ Central Bank of New Brunswick to Provincial Treasurer, January, 1859, PANB.

¹⁵⁵ Central Bank of New Brunswick to Provincial Treasurer, January, 1859, PANB.

payments, the government refused to accept the notes of the Central Bank. The Legislature felt that the Central Bank had been accorded significant advantages by the presence of the Civil List fund account.¹⁵⁶ Thus the government brought further misery on the Central Bank by not accepting notes which were not redeemable in specie (i.e.: Central Bank notes). This decision was not, however, without some dispute.

As a large portion of the Revenue of the Province is paid in these notes - the officer who collect that Revenue should, in my opinion be instructed not to receive them...My personal feelings are altogether towards the Bank for it has fought through many difficulties and sustained the Lumbering interests of the Saint John River population when the other Banks refused such support.¹⁵⁷

The government's decision to refuse Central Bank notes was not the institution's final torture.

In early 1861, the Central Bank suffered a blow from within. One of the Directors, John McIntosh, had run up debts of 'some \$30,000 or \$40,000' which he had to transfer to a trustee. The event was ruinous to the bank (and to Mr. McIntosh). By the time an act of the Legislature mercifully ended the charter of the Central Bank, it had endured much.¹⁵⁸ In the five year period 1856-1861, a time of great commercial distress, the Central bank was robbed, ordered to repay a deposit of £11,000, drained of its specie reserves, forced to collect most of its debts and taken for \$30,000 by one of its own directors!

Saint Stephen's Bank

¹⁵⁶ Provincial Treasurer to Central Bank of New Brunswick, 17 February, 1859, PANB.

¹⁵⁷ Provincial Treasurer to Central Bank of New Brunswick, 6 December, 1861, PANB.

¹⁵⁸ New Brunswick, Journal of the House of Assembly, 31 Vic. cap.56, 1868.

In 1836, the Legislature received a petition from 56 residents of Charlotte County.

They complained that there was inadequate banking capital in their region to meet the needs of lumber development along the Saint Croix River. The Charlotte County Bank, operating in nearby Saint Andrew's had limited capital and means

...no reliance whatever can be placed upon any Bank in our vicinity for the raising of funds to meet the exigencies of business, although paper of unquestionable credit should be offered.¹⁵⁹

These merchants pointed to the community of Calais, Maine, where the Calais Bank provided services which should have been available to Saint Stephen's residents. They wanted access to discounting of drafts and bills of exchange.¹⁶⁰

Seeing the inadequacy of the Charlotte County Bank to meet the needs of this growing community, the Legislature passed an act to incorporate the Saint Stephen's Bank. It was given a capital authorization of £25,000, which was required to be fully paid up within two years. It had double liability provisions and had a debt limit of twice the paid up capital stock. As requested, the bank was to be located at Saint Stephen.¹⁶¹

The initial investors chose a poor time to establish a bank and to start a movement for capital subscriptions. By the time the act had passed the legislature, the specie panic was beginning to creep into the New Brunswick merchant community. No one was willing to purchase shares in a bank that was likely to face a run as soon as its operations started.

That from the extreme pressure of the times, the low price of staple articles of exportation and the great difficulty of converting into money, added to the general suspension of specie payments by the Banks, it would operate

¹⁵⁹ Charlotte County Merchants to the New Brunswick House of Assembly, 21 January, 1836, PANB.

¹⁶⁰ Charlotte County Merchants to the New Brunswick House of Assembly, 21 January, 1836, PANB.

¹⁶¹ New Brunswick, Journal of the House of Assembly, 6 Wil. 4 cap.32, 1836.

ruinously to the community...to call in the rest of the stock or at least the whole of it.¹⁶²

The bank was granted extra time to fulfill its subscription of capital shares. The full £25,000 was subscribed by July, 1840.¹⁶³

Beyond its initial troubles, the Saint Stephen's Bank operated smoothly through the period of study and into the twentieth century. In 1853, with the increase in trade of the Province, the bank petitioned for, and was granted, an increase in authorized capital stock to £37,500, then to £50,000.¹⁶⁴ The bank operated quietly over the period of study.

Westmoreland Bank and People's Bank of New Brunswick

With the growing trade brought about by the Reciprocity Treaty, it was felt that Southeastern New Brunswick required a bank. The preamble to the Westmoreland Bank incorporation act stated that "the establishment of a Bank at Moncton would promote New Brunswick through better means of circulation."¹⁶⁵ Thus, in 1854, the Westmoreland Bank was incorporated in Moncton with a capital of £25,000 and the standard banking regulations.¹⁶⁶ The bank opened its doors in 1855, just prior to the crisis of 1857; and having started at an inopportune time, the Westmoreland Bank remained in operation for only eleven years.¹⁶⁷

With the closure of the Central Bank of New Brunswick in 1861, the need for banking capital in the interior arose again. In an act of the Legislature of 1864, the

¹⁶² Saint Stephen's Bank to the New Brunswick House of Assembly, 7 July, 1837, PANB.

¹⁶³ New Brunswick, Journal of the House of Assembly, Appendix, 1841.

¹⁶⁴ New Brunswick, Journal of the House of Assembly, 16 Vic. cap.52, 1853.

¹⁶⁵ New Brunswick, Journal of the House of Assembly, 17 Vic. cap.1, 1854.

¹⁶⁶ 17 Vic. cap.1

¹⁶⁷ New Brunswick, Journal of the House of Assembly, Appendix, various years.

With the closure of the Central Bank of New Brunswick in 1861, the need for banking capital in the interior arose again. In an act of the Legislature of 1864, the People's Bank of New Brunswick was incorporated at Fredericton with standard privileges and rules, and a capital stock of \$60,000 (extendible to \$120,000).¹⁶⁸ The People's Bank fulfilled its capital subscription by 1866, then further increased it to \$86,400 by 1871. The People's Bank was one of three New Brunswick banks that continued operation through Confederation and the First Bank Act.

Failed Bank Incorporations

In addition to the banks previously identified, there were several attempts to incorporate other banks which failed to materialize. These are summarized below in Table 3-1. Given whatever reasons they failed, each of the acts indicated that various communities perceived a strong need for banking facilities.

¹⁶⁸ New Brunswick, Journal of the House of Assembly, 27 Vic. cap.32, 1864.

Table 3-1 - Failed Bank Incorporations

Bank name	Date of act of incorporation	Authorized capital	Location
Saint George's Bank	1837	£25,000	Saint George (Magaguadavic)
Miramichi Bank	1838	£35,000	Chatham
Shediac Bank	1856	£15,000	Shediac
Miramichi Bank	1857	£20,000	Chatham
Miramichi Bank	1861	\$80,000	Chatham
Northern Bank	1866	\$80,000	Chatham
Woodstock Bank	1865	\$60,000	Woodstock
Albert Bank	1867	\$100,000	Albert County
Eastern Bank of New Brunswick	1867	\$200,000	Westmoreland County
Merchants Bank of New Brunswick	1867	\$500,000	Saint John

Source: New Brunswick, Journal of the House of Assembly, various acts.

The first of the failed banks, the Saint George's Bank, was incorporated in response to a petition of the residents of Saint George, on the Magaguadavic River. In their petition, the 104 residents observed the great increase in timber and manufacturing industries on the Magaguadavic. The swift business created by an annual haul of lumber of 20,000,000 feet required a large floating capital. The incorporation of a new bank, the residents espied, would facilitate the growth and development of the region.¹⁶⁹ The new bank was given incorporation with £25,000 authorized capital and the standard banking rules. But the Saint George's Bank did not meet the approval of the Colonial Office and was never established.¹⁷⁰

At the same time, a group of residents of the Northern part of the Province petitioned the Legislature for a bank to serve the needs of the Miramichi community. This

¹⁶⁹ Saint George merchants to the House of Assembly, 14 January, 1837, PANB.

¹⁷⁰ Colonial Secretary to Lieutenant Governor, 17 August, 1838, PANB.

region included the counties of Northumberland, Kent and Gloucester. The circulating medium in the Miramichi region was insufficient for the volume of timber trade and enterprise. The 95 petitioners wished to participate in the profits to be gained from circulation of bank paper. They chose Chatham as the desired site because of its central position in the region.¹⁷¹ A group of 23 Restigouche residents also supported the demand for a Miramichi Bank - in spite of its inconvenient location.¹⁷²

The House of Assembly again granted the wishes of a lumber trading community and passed the incorporation of the Miramichi Bank in 1838. The Bank had a capital of £35,000, with standard banking rules. It was to be located at Chatham. The legislation also included a clause that Royal Assent was required before interests could act upon it.¹⁷³

Under the panicked conditions in the colony and in Great Britain, it failed to receive Royal Assent. Lord Glenelg, the Colonial Secretary, criticized the absence of several key clauses in the act of incorporation.¹⁷⁴ Royal Assent was not given and no attempt was made to amend the act of incorporation. No local bank was made available to the residents and merchants of the Miramichi.

Following the crisis of 1837, and the recovery therefrom in the 1840s, the next bank incorporation attempted was the Shediac Bank of 1856. The legislature passed an act incorporating the Shediac Bank with a capital of £15,000 and the standard banking rules.¹⁷⁵ However, the Shediac Bank attempted to subscribe its capital in the atmosphere

¹⁷¹ Miramichi residents to the House of Assembly, 15 January, 1838, PANB.

¹⁷² Restigouche residents to the House of Assembly, 17 January, 1838, PANB.

¹⁷³ New Brunswick, Journal of the House of Assembly, 26 January, 1838.

¹⁷⁴ Colonial Secretary to Lieutenant Governor, 3 January, 1839, PANB.

¹⁷⁵ New Brunswick, Journal of the House of Assembly, 19 Vic. cap.66, 1856.

of financial crisis. The Legislature allowed two extra years for the bank to subscribe its capital. But the Shediac Bank never came into existence.

The later 1850s saw another attempt to establish a bank for the Miramichi community. In 1857, the act of incorporation of the second Miramichi Bank claimed that the establishment of a Bank of Chatham would increase circulation in the region.¹⁷⁶ The capital of the bank was to be £20,000. This bank apparently failed to acquire the necessary capital. Four years later, the same bill was passed by the Legislature.¹⁷⁷ The accompanying petition from 20 Northumberland County residents explained that the previous act had lapsed because the capital payment could not be raised. The residents were confident that this time the bank would meet its obligations because they had already prepared a list of confirmed stockholders.¹⁷⁸ Yet again, not enough investors wanted to participate in a Miramichi Bank. In 1866, another act passed, identical to the first two, save that the title had been changed to the Northern Bank.¹⁷⁹ The change of title did not fool investors, however, and the bank had to have the time limits extended on its capital subscription deadlines. The Northern Bank never opened its doors.

The failure of the Miramichi community to establish a bank is a curiosity. There appeared to have been as much industry and commerce there as there had been in other parts of the Province. The Commercial Bank had a small operation there, but it seemed that New Brunswickers favoured local banking establishment. Yet, four attempts at incorporating some sort of Miramichi Bank failed. This raises several questions about the

¹⁷⁶ New Brunswick, Journal of the House of Assembly, 20 Vic. cap.28, 1857.

¹⁷⁷ New Brunswick, Journal of the House of Assembly, 24 Vic. cap.51, 1861.

¹⁷⁸ Northumberland County residents to the House of Assembly, 1 March, 1861, PANB.

¹⁷⁹ New Brunswick, Journal of the House of Assembly, 29 Vic. cap.23, 1866.

nature of entrepreneurs and investors in the region. Were they afraid of a financial institution? Was there simply too little investment capital present to support a bank? Did the interests forming the bank not have the confidence of the community? Did the other financial institutions of the Province provide sufficient service to the area? These questions warrant further study.

In 1865, a group of Carleton County inhabitants felt that the presence of a bank in their region would promote the interest of the country by increasing the notes in circulation. Since many of them had expressed interest in taking stock in the Woodstock Bank, they applied to the Legislature for a charter.¹⁸⁰ Such an act was passed in the Legislature, allowing a capital of \$60,000.¹⁸¹ The Act was referred to the Lords of Trade by the Colonial Secretary. Both objected to the absence of a clause forbidding the issue of promissory notes with no special security for convertibility. Their objections, they pointed out, did not constitute an official denial of the acts, but rather a suggestion for change.¹⁸² Regardless, the Woodstock Bank never commenced operations.

After the failure of the Westmoreland Bank, commercial interests immediately called for the establishment of a new bank in Southeastern New Brunswick. The Legislature responded with the passage of incorporation of two new banks. The Albert Bank and the Eastern Bank of New Brunswick both received legislative approval in 1867. The Albert Bank was to have a capital of \$100,000 and was to be located anywhere in Albert County.¹⁸³ The Eastern Bank of New Brunswick was granted a capital of

¹⁸⁰ Carleton County inhabitants to the House of Assembly, May, 1865, PANB.

¹⁸¹ New Brunswick, Journal of the House of Assembly, 28 Vic. cap.23, 1865.

¹⁸² Colonial Secretary to Lieutenant Governor, 4 November, 1865, PANB.

¹⁸³ New Brunswick, Journal of the House of Assembly, 30 Vic. cap.36, 1867.

\$200,000 and was to be established in Westmoreland County.¹⁸⁴ Neither bank had secured its capital within the set time limit for capital subscriptions.

At the same time that the Albert and Eastern Banks tried to replace the Westmoreland Bank in Eastern New Brunswick, the Merchants Bank attempted to fill the imminent space to be left by the failing Commercial Bank of New Brunswick. The Merchants' Bank was incorporated in Saint John with a rather ambitious capital of \$500,000.¹⁸⁵ The Merchants' Bank of New Brunswick was never heard from again.

Throughout the history of New Brunswick banking legislation, one can observe the trend for banks to be established in all parts of the colony. At the time, there was no tendency to establish branches of existing banks. It was felt that local interests could better handle the needs of the trading community. Thus, as trade increased in areas not served by a local bank, the community petitioned the Legislature for an incorporation act, regardless of whether the interest existed to purchase the capital or not. This highlights the parochial nature of New Brunswick banking. It was not sufficient to have a bank in the community; that bank had to be formed and run by the community. This represented a departure from the developing concept of Canadian banking. New Brunswick appeared to have had closer ties with the American style of unit banking.

The New Brunswick Legislature - on Banking

The establishment of banks in New Brunswick did not at first motivate the setting of common regulation for financial intermediation. The 1820s saw the establishment of

¹⁸⁴ New Brunswick, Journal of the House of Assembly, 30 Vic. cap.68, 1867.

¹⁸⁵ New Brunswick, Journal of the House of Assembly, 30 Vic. cap.50, 1867.

two banks, each with little debate. Serious debate over the role of the Legislature in banking legislation started with the controversy over the establishment of the Commercial Bank of New Brunswick.

In the 1833 Session of the House, a Bill to regulate Banks and Banking in the Province was introduced. Although it was postponed and eventually abandoned, it is important because it was the first attempt to set out common rules for banks in New Brunswick. Banks were to have common corporate privileges. They had to have sureties on discounts. Interested parties (stockholders or directors) could not abuse their positions to obtain easier credit from a bank. A bank had to have 1/2 of its capital paid up and inspected by a certain time after incorporation. Banks could issue notes only up to the value of 50% of paid up capital. A bank's debts were limited to twice the value of paid up capital. Banks could deal only in specie, bills of exchange, notes, and goods and stock pledged for money lent and not redeemed. Banks were to pay annually a 1% tax on their capital stock. Interest was limited to 6% per annum and interest could not be offered on bank notes.¹⁸⁶ Many of these regulations found their way into either bank incorporations or later bank legislation. Among the more interesting propositions were the limit of note circulation to the amount of 50% of the paid up capital and the 6% interest cap. The limit on note circulation was never re-introduced in different legislation but the interest cap was passed later.

In later regulation, the New Brunswick legislature prevented the issue and circulation of private notes. The act specified that circulation was forbidden for private bills, orders and checks other than foreign or inland bills of exchange and chartered bank

¹⁸⁶ New Brunswick, Journal of the House of Assembly, 9 February, 1833.

notes.¹⁸⁷ This regulation was backed by a fine of £5 for anyone passing such private notes. In 1837, the legislature passed an act to limit banks from printing notes under £1, save for notes of 5, 10 and 15 shillings.¹⁸⁸ This legislation reflected the wishes of the Colonial Office.¹⁸⁹ The New Brunswick legislature took until 1859 to limit the interest payable on any contract. In a Bill relating to interest and usury, the House limited the amount of interest payable to 6% per annum. Any excess over this amount was to be taken out of the amount due.¹⁹⁰

In the late 1850s, a Joint Committee to Examine Currency was struck to examine possible sources of the distress of 1856. Their report to the Legislature was the following:

Table 3-2 - Currency circulating in New Brunswick

Year	Amt (£000)	1849	142.441
1840	350	1850	156.379
1841	351	1851	200
1842	110	1852	330
1843	72	1853	400
1844	80	1854	645
1845	225	1855	430
1846	244	1856	350
1847	186.618	1857	341
1848	157.750	1858	236

Source: New Brunswick, "Report of the Joint Committee to examine currency," Journal of the House of Assembly, 1859.

The Committee found that specie over this period formed, on average, one-seventh of the total currency in circulation. Furthermore, they asserted that such extreme contractions and drains as were seen in the early 1840s and late 1850s were dangerous to the

¹⁸⁷ New Brunswick, Journal of the House of Assembly, 8 Wil. IV cap.6, 1836.

¹⁸⁸ New Brunswick, Journal of the House of Assembly, 1 Vic. cap.18.

¹⁸⁹ Colonial Secretary to Lieutenant Governor, 26 July, 1838, PANB.

¹⁹⁰ New Brunswick, Journal of the House of Assembly, 22 Vic. cap.21, 1859.

Province. The Committee recommended that all banks in the Province be forced to make monthly returns of their status. These returns should be published every month to allow merchants to react to movements in the volume of currency in the Province.¹⁹¹

The Committee also warned that the currency of the Province depended too much on foreign trade. If exports rose, then prices rose, circulation rose, then imports rose. With the rise in imports, the volume of bills of exchange rose, depleting the supply of specie and thus draining the banking system of currency. This pattern was said to affect both domestic and trading industries.¹⁹²

The dangers of this price-specie flow were obvious. Yet colonial administrators encouraged the maintenance of the Provincial circulation strictly through the private banks. The Treasury Board asserted,

...of whatever the circulating medium is composed, it is passing in a constant current into and out of the Banks and which have, therefore an opportunity, from the very nature of their trade, of oppressing one description of note, and of giving circulation to another which is more profitable to them.¹⁹³

Because of the profit motive, banks would maintain the discipline required to manage a currency. Governments are not capable of such discipline.¹⁹⁴ The difference of opinion of the Committee to examine currency and the Home Office is indicative of the different nature and influence of Provincial versus British financial theory.

¹⁹¹ New Brunswick, "Report of the Joint Committee to examine currency," Journal of the House of Assembly, 1859.

¹⁹² New Brunswick, "Report of the Joint Committee to examine currency," Journal of the House of Assembly, 1859.

¹⁹³ Treasury Board to Lieutenant Governor of Newfoundland, 17 April, 1857, PANB.

¹⁹⁴ Treasury Board to Lieutenant Governor of Newfoundland, 30 May, 1856, PANB.

Banking Practice in New Brunswick - a Proposal

During the specie crisis of 1837, it became apparent that the New Brunswick government had not paid close enough attention to the regulation of banks in the Province. The theoretical trend of the time was the application of Scottish banking principles to all colonies. Several proposals arose in the wake of the specie crisis that reflected this thought.

In 1839, the Bank of British North America wrote the New Brunswick House of Assembly, arguing for a change to the banking practices of the Province. The cause of the recent crisis had been internal.

...much difficulty or embarrassment in monetary affairs of the Province...[have] been brought in principally by the chartering of too great a number of banks a large portion of the paid in capital of every new Bank was, I believe made in paper of the Bank or Banks then in operation - and that being the case, those institutions were compelled to control their discounts, and prepare to meet the demand of the New Bank, and in the meantime the public suffered...¹⁹⁵

The Bank of British North America was established at Montreal for the expressed purpose of bringing the Scottish system of banking to all the colonies. The obviously misinformed view of the bank shows the different assumptions made by bankers in different parts of the colonies.

The acts of incorporation of New Brunswick banks made clear that capital stocks were to be paid in specie and inspected by an appointed Commissioner before they were banked on. It is reasonable to expect that this might have been the case. Much of the circulating currency of the Province was chartered bank notes. However, the only case where embarrassment over the form of payment of the capital stock was in the case of the

¹⁹⁵ Bank of British North America to the New Brunswick House of Assembly, 28 February, 1839, PANB.

Bank of Fredericton. The Bank of British North America criticized the banking community of New Brunswick unnecessarily.

The letter went on to prescribe the solution to the Province's banking ailments,

...[the] Scotch system of Banking would be the best; money loans made on the Scotch system if Banking would be obtained only upon the very best security, thereby placing the money in proper hands and the time usually granted to borrowers being one year would afford them opportunity of using such money to advantage...¹⁹⁶

There appeared to be no impropriety on the part of most banks in New Brunswick during the 1820s and 1830s, yet the advocates of the new Scottish system claimed that New Brunswick bankers had loaned on questionable security and for durations insufficient to serve the needs of merchants. These criticisms appear unfounded and reflect further the inapplicability of Scottish banking to the American-influenced New Brunswick community.

The Bank of British North America argued that the banks of New Brunswick, because of their heavy reliance on trade as a source of specie, had limited the circulation in the Province.

It is quite evident that any one Bank in the Province constantly selling Exchange on Different parts of the world must receive in payment for those Drafts a large proportion of other Bank paper and thereby prevent its free circulation...A Bank dealing principally in Bills of Exchange I conceive can have very little influence on the money market; but Banks that are Discounted largely have, and may bring down Exchange whenever they please, by curtailing their discounts, but there would never be any occasion for that if all the present banks would make arrangements to draw on England...¹⁹⁷

¹⁹⁶ Bank of British North America to the New Brunswick House of Assembly, 28 February, 1839, PANB.

¹⁹⁷ Bank of British North America to the New Brunswick House of Assembly, 28 February, 1839, PANB.

Thus the argument was made that the New Brunswick banks relied too heavily on foreign sources of specie to discount local bills. If the situation were reversed, then banks would have much greater power over the circulating medium. The discounting practices of the New Brunswick banks thus aggravated the specie crisis of 1837.

The Bank of British North America proposed that it should become the only bank in the Province. It would maintain branches in key areas - Saint John, Fredericton, Saint Andrews and Miramichi. Other banks would or at least should be driven from business

I do think it desirable to exclude the principals of competition in Banking privileges in a new Country. This competition in any other branch of business is desirable but that of Banking should be kept as free from fluctuation as possible to make it useful to the Country...and I see in no way it can be done but by putting the Banking business of the Province under the management of one institution possessing a large Capital...¹⁹⁸

The stability of the banks will be discussed in chapter 4. Here, the Bank of British North America asserted that a monopoly bank, established under the Scottish system would bring greater commercial stability than had been experienced under the imprudent management of the current banking establishment. The truth of these statements is questionable, but the bank did have its supporters.

A total of 151 people signed petitions to the legislature calling for an act to pass to grant the Bank of British North America the privileges of corporation in New Brunswick.

They felt that, even without the revocation of the other charters, the Montreal bank could assume leadership and dominance over the commercial community.¹⁹⁹ The wisdom of this, they expressed, was just as had been stated in the letter from the bank itself. The

¹⁹⁸ Bank of British North America to the New Brunswick House of Assembly, 28 February, 1839, PANB.

¹⁹⁹ Kent, York, Northumberland, Gloucester County, Saint Andrew's and Saint John residents to the New Brunswick House of Assembly, 23 December, 1836, PANB.

bank did receive corporate powers, as it had requested.²⁰⁰ But the bank never was granted the monopoly status it claimed was necessary to introduce Scottish banking to New Brunswick. The Bank of British North America was never the saviour of New Brunswick commerce.

In 1839, at the height of the specie crisis, the directors of the New Brunswick banks met to consider possible solutions to their current woes and potential measures to avoid future distress. They resolved to ask for a complete amalgamation of the New Brunswick banks into one large institution with branches across the Province. It was to be entitled the Provincial Bank of New Brunswick. A bill was introduced to the House to effect such a change.

whereas: it has been satisfactorily ascertained that the establishment of numerous Banks of issue in this province has not tended to the advancement of its prosperity and whereas it is now believed that the general Interest of the Country would be promoted by a Consolidation of so many of the Banks as may incline to unite into one Institution with a sufficiently extended Capital under proper regulations and restrictions...²⁰¹

The new institution would have a capital of £135,000, expandable up to £500,000. The main office would be at Saint John and all other current chartered banks would become branches. Each branch would issue and redeem its own notes. The main office and each branch bank would follow the management of a board of directors. The supreme management of the bank would be the responsibility of the Committee of Direction.²⁰² The rest of the act outlined the standard rules and regulations for banks in New Brunswick.

²⁰⁰ New Brunswick, *Journal of the House of Assembly*, 19 July, 1837.

²⁰¹ New Brunswick, *Journal of the House of Assembly*, 15 March, 1839.

²⁰² New Brunswick, *Journal of the House of Assembly*, 15 March, 1839.

The incorporation was a radical suggestion. In fact, it required the approval of 75% of the stockholders of each bank to go into effect. It also required Royal Assent before it could be acted upon.²⁰³ This assent was never given.

[The act] purports to provide for the general regulation and encouragement of all matter connected with the proceedings of the Corporation, and the management of its Banking transactions...other Banking establishments applying for corporate powers or privileges should conform, with a view to the security of the Communities in which their transactions are carried on.²⁰⁴

The Colonial Office correctly observed that the character of New Brunswick banking was of a local nature. The application of Scottish banking principles would not be justified. It was the local community that had been and should continue to be served by the banks. Outside, even if only from Saint John, management could be "problematical". The safest course for New Brunswick banking was to continue as it always had and to recover as best as possible from the events of 1837-1839.

²⁰³ New Brunswick, Journal of the House of Assembly, 15 March, 1839.

²⁰⁴ Colonial Secretary to Lieutenant Governor, 14 February, 1840, PANB.

CHAPTER 4 - MODEL AND METHODOLOGY

One of the requirements of every bank charter in New Brunswick was that each institution provide a statement to the Legislature of its affairs. Some banks provided annual statements, others reported semi-annually and the Central Bank of New Brunswick reported three times each year. These statements will form the basis of a series of tests on security of the New Brunswick banking system. The results of the tests will be used to draw conclusions about the nature of bank management in the Province.

The statements themselves were a brief summary of the actual status of each bank. Most of the banks provided consistent returns over their entire existence. However, there are some gaps in the information, particularly when banks accommodated shocks in the financial system. The statements were intended for use by the general public to assess the health of the New Brunswick financial structure. They are, by no means, a complete survey of the operations of each bank, but their contents can be used to analyze key ratios. The ratios will be constructed from bank statements using capital stocks, deposits, notes in circulation and loans made. The ratios describe important relationships that would have been controlled by bank managers. The consistency of bank policy was important to the economic development of New Brunswick. The ratios will also be used to assess how each bank weathered the crises that prevailed over the period of study.

The data from the statements will be merged to provide a picture of the entire banking system over the period of study. For the development of the entire Province, the banking structure had to be sound. Since banks did not provide returns to the Legislature at consistent intervals, the average annual figures will be aggregated to study the entire the

banking system. It is particularly important to see how banks as a whole reacted to financial disturbances because the banking structure was integral to the financial health of the colony. The banking system as a whole is appraised for security as if it were an individual bank.

The methods used in this analysis will include and expand upon those developed by other scholars. Business historians used certain ratios to study banking in other locations and during other time periods. But the business historians did not fully analyze the nature of each bank. This study will start from the ratios analyzed by the other scholars and develop others to provide a fuller picture of the security of banking in New Brunswick.

The visual inspections of business historians do not constitute a complete statistical analysis of banking practices. A complete study of banking practices in New Brunswick would require full account statements, both stocks and flows, of each bank. It would be essential to study discounting and loaning practices on a day to day basis. This information is inaccessible and well beyond the scope of this study.

Variables to be Examined

The study of public statements allows criticism on the stability of individual banks and of the overall system. For this analysis, key assets will be compared with key liabilities of the banks and of the entire system. This section will outline the ratios to be used.

Frost, Baldwin and Quigley use a ratio of loans to deposits to analyze the movement of capital into and out of a region.²⁰⁵ Their analysis satisfied their purposes,

²⁰⁵ Frost, 100; Baldwin, 49; Quigley, Dummond and Evans, 233-234.

but more information is needed. Seven ratios will be studied to determine the nature of early banks in New Brunswick. Bank operation in the face of different commercial conditions will be used as a proxy for overall stability of the banks. Each bank will be assessed its own to determine how it, and the region it served, weathered economic conditions. The aggregation of the entire system's statements will reveal the facility with which the entire system dealt with disturbances.

Frost's loans to deposits ratio can be used here on both an individual bank basis and on the a system-wide basis. On a system-wide basis, as Quigley et al. suggest, the ratio can be used to determine the degree to which funds left the system after they were loaned out. In the analysis of individual banks, this ratio can be used to measure to what extent bank's loans left the immediate community which it served. This assessment is important because of the local character of New Brunswick banking.

If the loans to deposits ratio for a bank is less than one, it could be argued that funds loaned from the bank did not find their way into the hands of local merchants and tradesmen. The spin-offs from the loans were outside of the immediate region served by the bank. If, on the other had, the loans to deposits ratio exceeds one, then loans made in other areas (within and without) the Province found their way into the community served by the bank. A widely fluctuating loan-deposit ratio is indicative of a broad variation in the economic activity of the region. A stationary loan-deposit ratio series means that the changes in loan-deposit levels were caused by exogenous shocks to the system. The local banking establishment had no special plans for local economic interests. Any trends in the

loan-deposit ratios over time would indicate a long term shift in the economic strength of the community.

The loan-deposit ratio relies on a questionable assumption. It is certainly the case that most loans today are effected through a new deposit. However, this assumption may not be true of the early nineteenth century. It is also a possibility that if the loan-deposit ratio at a given time is less than one, the bank's community could be enjoying a higher circulation of bank notes. There is no evidence either way that nineteenth-century merchants took their loans in one form or another. This caveat weakens the strength of the loan-deposit model. Following similar logic, the ratio of loans to the sum of circulating currency and deposits will be used. This may indicate how any money created by a bank's loans moves through the region.

The same rules that apply to the individual bank loan-deposit ratios should apply to the system-wide loan-deposit (loan-deposit plus currency) ratio. In this case, the outcome of the study relates to the entire banking system of the Province. If loans exceed deposits in the entire Province, then funds left the Province. The historical evidence indicates that it is likely that many of the loaned funds left the Province given the high volume of trade.

In almost every bank charter, the preamble stated that the establishment of a bank in a region would be beneficial because of increased circulation. Therefore, to analyze the stability of the banks, it is crucial to examine the volume of notes in circulation. The issue of notes was one of the most profitable function that early banks enjoyed. In a Province where trade dictated the economic conditions, it is essential to analyze the volume of notes. Because of New Brunswick's relative isolation from major money markets, most

banks maintained a significant proportion of their reserves in specie. Liquid instruments were not really an option as bank reserves because geography prevented quick redemption. The stability of note issues can be assessed by studying the amount of specie reserves backing the notes. Specie was required to redeem notes, if demanded, and in times of crisis, this redemption abounded. Therefore, the ratio of specie to notes issued can serve as a proxy for the readiness of the banking community (individually or collectively) to redeem notes in circulation.

The ability of banks to redeem notes is an important indicator of their stability. During the many crises that hit the New Brunswick economy, the banks were called upon to provide specie. It was the opinion of the day that the only truly secure currencies were gold and silver. Individual banks which over-issued notes were liable to runs and panics. If banks were not prepared to call in enough liquid loans, runs could lead to insolvency. A system that over-issued notes was liable to complete collapse under a financial crisis. A total failure of the banking system would have meant a large decrease in the currency circulating in the entire Province. The ratio of specie to deposits reflects the safety of the circulating medium, for an institution and for the system.

Specie was sometimes demanded in payment for deposits owed to individuals. In the same way that notes formed a significant proportion of the wealth of the colony, deposits were a component of the Province's wealth. Financial scares caused declines in deposits. Some depositors withdrew their accounts in specie. For this reason, the bank had to maintain sufficient specie reserves to meet not only the needs of note redemption, but deposit withdrawals as well. Therefore, following the same logic as was used to

formulate the specie to notes ratio, the ratio of specie to deposits is an essential factor in bank stability.

Banks made profits by loaning funds. Profitability of this function hinged on the capacity of banks to create money. This money was created either as a deposit or through issue of bank notes. Therefore, a bank's ability to participate in profitable loan functions depended on its capacity to pay back in specie, when requested, the moneys created. The volume of specie that a bank maintained in its vaults was the basis for the creation of money and in turn the basis for supporting the bank's loans.

The specie to deposit and specie to notes ratios thus suggest the implicit character of management. The ability of a bank to support currency issue and deposits indicated not only the security of the bank itself, but the nature of the policy which guided it. The more money that was created based on a given amount of specie, the more profitable the bank was. Ultimately, the amount of money created, whether through notes or deposits, is reflective of the amount of loans the bank will support. Loans are supported, because of the redeemability of notes and deposits, by the specie reserves of a bank. Therefore, the more loans a bank creates, the greater its risk of being drained of specie. By collecting interest on loans made to merchants and traders, the bank earned profits on the interest free (or lower-interest) liabilities of deposits or notes. Thus, the more loans a bank made, the greater its profitability.

The ratio of specie to loans indicates a very important aspect of bank management. The willingness of a bank to assume the risk of creating money, through loans, on a given amount of specie is a measure of the prudence of the management. The tradeoff of bank

security and profitability is essential to understanding the nature and practice of banking in New Brunswick. The ratio of specie to loans will be studied to assess not only whether it was subject to external influences of trade and commerce, but also how each bank compared in management style.

Finally, the capitalization of each bank is an important part of its overall security. If the shareholders' equity was insufficient to see the bank weather hard times, then there was risk of insolvency. The capital-asset ratio of each bank will be used to evaluate the ability of each bank to meet the needs of the commercial community. One of the common arguments for a new bank, or for a capital extension was the inadequacy of capital to meet the needs of commerce. The presence of capital means that there is a safe reserve upon which it can rely should there be a panic.

A modification of the capital-asset ratio allows for study of the efficiency of the banks and of the banking system. In all bank charters, it was specified that the amount of debts (less deposits) of the corporation was not to exceed twice paid up capital stock. Thus, the ratio of capital to debts will allow the analysis of not only the stability, but the efficiency of banks in meeting the community's needs. The closer this ratio was to $\frac{1}{2}$, the better a bank was at accommodating the commercial interests of the country.

Each of these variables will be calculated for each bank over the period of study. The banks included in the survey are: the Bank of New Brunswick, the Commercial Bank of New Brunswick, the Central Bank of New Brunswick, the Saint Stephen's Bank, the Westmoreland Bank and the People's Bank of New Brunswick. Because of the relatively small data set (about 10 years each), the Westmoreland Bank and the People's Bank of

New Brunswick will be used only in the calculation of the aggregate measures. The Charlotte Bank will not be included in the study because of its irregular reporting procedures. This will not drastically affect the results because it was a small bank (its assets never exceeded £40,000) and because the study includes data from another bank in the Charlotte County region (the Saint Stephen's Bank).

It has been observed that there are a few points of time where economic conditions made the operation of a stable banking system difficult. The crises of 1837 and 1856 appear to have been the most severe disturbances. In addition, the Bank of New Brunswick may have suffered from commercial distress of 1826. Each shock may have caused long term shifts in the banking ratios. Also, there appeared to be high growth of economic activity, and hence the demands on the banking system in 1853-1854 with the signing of the Reciprocity Treaty with the United States. The booms and busts endured by the New Brunswick economy are not studied in detail here. The analysis identifies the reaction of banks to these shocks; which disturbances may have affected the banking ratios by altering: notes in circulation, specie reserves, deposit levels and loans made.

Proposed Analysis

Over the period of study, the ratios will be analyzed by inspection and by using a unit root test. The visual analysis of such ratios was used by both Naylor and Baldwin in their studies. The unit root test will be used to establish whether the ratios were stationary or not. Stationarity refers to difference stationarity, or trend stationarity. Difference stationarity implies that the variability of a series is caused by external shocks alone.

$$y_t = y_{t-1} + \varepsilon_t \quad 206$$

The effects of exogenous shocks (seen in ε_t , a white noise random variable) are permanent in the series. Anything that counteracts initial shocks to the ratios will also have to be exogenous to the system. The ratios will not correct themselves. This follows from economic intuition. If the shock does not correct itself outside of the ratio series, then it is likely that whatever disturbance existed in the economy in the first place will continue to affect the bank ratios.

It is also possible that the ratios follow a trend stationary pattern. This can be assessed through testing procedures. If a ratio follows a trend stationary pattern, then the conclusion of stability of the bank or of the system is slightly weaker. Changes in the ratios would then reflect not only a random walk from the error terms, but would reflect a long term trend movement of the banking establishment. Trend stationarity could indicate changes in management over time or long run changes in the economic conditions of the Province.

The stationarity of the ratio series will indicate whether the ratios followed a random walk. If this is the case, then the variables in question will be subject primarily to outside pressures. If the ratios are subject only to outside pressures, then the data indicates that any instability was caused by exogenous disturbance rather than imprudent management. If on the other hand, it is observed that the ratios are not stationary, then there must be some trend underlying either money market conditions or banking practices themselves. The causes of instability would require further study of economic conditions

²⁰⁶ G.S. Maddala, Introduction to Econometrics, (New York: MacMillan, 1992) 581.

and banking practices. In particular, changes in the ratio levels could be potentially caused by the banking system itself.

The stationary qualities of the ratio series will be tested using a Dickey-Fuller unit root test. In this test, it is assessed whether the series are difference stationary processes, trend stationary processes or neither. If the Dickey-Fuller test is applied here, it uses the following hypotheses:

Ho: series in non-stationary versus Ha: series is stationary

The test statistic is calculated for each series and compared to a critical value, which is based on the estimated distribution of the error terms. The decision rule for stationarity is: if the absolute value of the test statistic found in less than that of the critical value, then the decision is to fail to reject Ho and conclude that the series could indeed be non-stationary.

If we conclude from the Dickey-Fuller tests that a series is stationary, then we can say that it follows the model:

$$y_t = \beta_0 + \beta_1 t + u_t \quad \text{where } u_t = \alpha u_{t-1} + \varepsilon_t$$

The reduced form of this model is:

$$y_t = \gamma + \delta t + \alpha y_{t-1} + \varepsilon_t$$

If the estimate of α is less than one, then the Dickey-Fuller test results in the conclusion that the ratio series follows a random walk. It is also important to assess that the estimate of γ is non-zero. That means that the series follows a random walk with a drift.²⁰⁷ It is

²⁰⁷ Suresh K. Ghosh, Econometrics Theory and Applications, (Englewood Cliffs: Prentice-Hall, 1991) 531.

likely that most stationary processes here will contain a drift. This follows also from economic logic. For example, it can not be argued that the value of loans to deposits will have a random walk about zero. There will always be some positive relationship present. Therefore, in the Dickey-fuller tests performed, it is important to include an intercept parameter (γ) in all the estimations. The estimate of δ will determine whether the ratios follow a trend over the time period studied. If this is the case, then we conclude that the ratio follows a trend stationary pattern (likely with a drift).

These tests are not powerful. Their advancement over previous discussions of bank stability and performance is that they allow the conclusion that the ratios may have followed random walks. This is not a confirmation of any sort, but it does refine slightly the discussion of banking structures in New Brunswick.

To summarize, the tests performed on the data will indicate the stationarity of the series. If the data proves to be difference-stationary, then the random walk with a drift model for the data applies best. This indicates that the effects of shocks to the system are permanent. Even if it is found that the series are trend stationary, this still indicates that the banking structure was not responsible for variability in its operations. Exogenous disturbances were the main source of changes in the ratio levels. Permanent exogenous shocks reflect the fact that the banking structure itself operated on an even keel. The results of these tests may answer questions about the banking system's role in economic development of New Brunswick.

CHAPTER 5 - RESULTS AND DISCUSSION

The data collected from four banks was tested along the outlined procedures. The ratios were constructed from the statements to the Legislature from the Bank of New Brunswick the Central Bank of New Brunswick, the Commercial Bank of New Brunswick and the Saint Stephen's Bank. This data, along with that collected from the Westmoreland Bank and the People's Bank of New Brunswick statements was used to form the aggregated ratios of New Brunswick banking. Once the data had been put in ratio form, it was subjected to a series of tests.

The unit root tests indicate whether a ratio series is likely to be stationary or not. The best model for each ratio series was determined, based on the stationarity of the series and based on whether it included a drift (a non-zero intercept) and/or a trend. Once the trend, difference, or non stationarity of a series was determined, it was compared with its complement from other banks. The information about the series and the comparisons throughout the system will be used to estimate the character of each bank and of the banking system as a whole.

Capital ratios

The capital ratios of the banks, the capital-asset ratio and the capital to debts (less deposits) ratio, were tested for stationarity and compared between banks. It was found that the capital-asset ratio of the overall banking system was stationary over the period of study. It had a significant intercept. This indicates that it is likely that the capital-asset ratio of the banking system in New Brunswick followed a random walk with a drift. The

Bank of New Brunswick's capital-asset ratio appeared to follow a random walk with a drift. The Saint Stephen's Bank followed a random walk with a drift and a trend. The Central Bank of New Brunswick and the Commercial Bank of New Brunswick showed no evidence of stationarity in their capital-asset series.

The stationarity of the capital-asset ratio series for the Bank of New Brunswick and for the Saint Stephen's Bank may indicate important characteristics of each bank. The stationarity of a capital-asset series means that the management of the bank obeyed the needs of the community. Banking capital rarely changed over the period of study. Therefore, the real variable in capital-asset ratio is asset levels. This would be dictated by the bank's desire to create loans based on a given amount of shareholder equity. Stationarity in asset levels indicates that exogenous shocks determined the level of assets which the banks held.

The Bank of New Brunswick followed a stationary pattern in its capital-asset ratio. This indicates that the bank met the needs of the Saint John commercial community without interference. The series followed no specific pattern which can be determined, other than around a positive ratio level. The Saint Stephen's Bank had a random walk around some trend in the data. This trend, in figure 5-1, appeared to be downward sloping. Thus, the Saint Stephen's Bank management allowed the commercial needs of the community to dictate the capital-asset ratio. But over time, the Saint Stephen's bank expanded its assets to a greater multiple of its capital.

The Central and Commercial Banks appeared to have non-stationary capital-asset ratio series. It is possible that the management of these banks were more determined in

the amount of assets each would maintain. Thus, they did not randomly follow the commercial needs of their respective communities, but rather operated within the guidelines of a planned asset level.

The overall picture of the relationship between capital and assets in early New Brunswick banking appears to be stationary. That is, the banking community did not conspire to operate at a specific level of assets throughout the period of study. The needs of the community as a whole were accommodated by the banking system, their random fluctuations dictated the capital-asset ratio for the Province.

Figures 5-1 through 5-4 allow for a rough comparison of the relative levels of capital to assets maintained by the banks. They show that, based on the average figure, the Bank of New Brunswick maintained a relatively higher capital-asset ratio. The Commercial Bank of New Brunswick and the Saint Stephen's Bank operated on capital-asset ratios roughly around the average level. After 1860, the Saint Stephen's Bank held a much higher capital-asset ratio, vis-à-vis the system average. Throughout the entire period, the Central Bank of New Brunswick maintained a much lower capital-asset ratio than all the other banks. This indicates that it is possible that the Central Bank pursued a much higher level of assets through riskier management than the other banks. The Bank of New Brunswick pursued a more conservative course by maintaining a higher capital-asset ratio.

All of the banks appeared to follow roughly the same pattern of shocks in their capital-asset levels. In the early 1840s, when specie redemption became mandatory again, the banks all saw sharp declines in their assets as they were pressured to provide

specie payments for notes. Also, in the early 1850s the capital-asset ratios of the banks fell sharply, as the higher volume of trade brought about under Reciprocity was accommodated with greater discounts on commercial paper. This decline was quickly reversed as the crisis of 1856/7 again put pressure on the bank's specie reserves.

In the acts of incorporation, a different ratio was used as a measure of bank security. The ratio of capital to total liabilities, less deposits, (herein: the capital-debt ratio) was the legislative benchmark for bank security. This ratio was measured and tested for stationarity for each of the banks and for the system as a whole. The results of these tests are similar to those for the capital-asset ratios.

It was found that the capital-debt ratio for the entire system was stationary over the period of study. The capital-debt ratio of the system followed a random walk with a drift. Like the capital-asset ratio, this indicates that the bank's management accommodated the random demands of the commercial community based on a given amount of banking capital. There was no overall tendency of management to follow a set capital-debt relationship.

The Bank of New Brunswick and the Central Bank of New Brunswick appeared to have non-stationary capital-debt ratios. This indicates that there was some pattern of management in these values. The non-stationarity of the capital-debt ratio of the Central Bank of New Brunswick does not allow us to draw any significant conclusions. It still appeared to follow a set course over the period of study. But the non-stationarity of the capital-debt ratio of the Bank of New Brunswick is intriguing, given the stationarity of its capital-asset ratio. One may infer from this that the management of the Bank of New

Brunswick allowed more flexibility in its asset levels, but that it was not so flexible in its liabilities less deposits. The difference here is the exclusion of deposits from total liabilities. Therefore, one may conclude that the Bank of New Brunswick carefully managed its assets, but allowed its deposit levels to fluctuate freely. The needs of the Saint John commercial community were met through a variable deposit level.

The Saint Stephen's Bank exhibited a stationary capital-debt ratio. The Saint Stephen's Bank capital-debt ratio, like its capital-asset ratio, appeared to follow a random walk around a trend. Figure 5-8 shows that this trend may have been downward sloping. This is consistent with the previous conclusions. The management of the Saint Stephen's Bank guided their institution gradually to a lower ratio of capital holdings. This indicates that, while the demands of the commercial community dictated the security of the bank to a certain degree, there was a long-run tendency to increase the banks' holdings relative to shareholder equity.

The stationarity of the Commercial Bank capital-debt ratio represents the opposite situation from the Bank of New Brunswick. The Commercial Bank did not appear to have a stationary capital-asset ratio, but its capital-debt ratio appeared to follow a random walk with a drift. Thus, while the Commercial Bank followed an intentional pattern in the management of assets over capital, its direction of liabilities less deposits was not so carefully guided. One may conclude that the Commercial Bank's careful management of assets was reflective of careful management of deposit levels.

Figures 5-5 through 5-8 show the capital-debt ratios for each bank as compared with the average. These figures indicate that the capital-debt ratios were subject to almost

the exact same shocks as the capital-asset ratios. It is evident that the Bank of New Brunswick maintained a consistently higher capital-debt ratio than the other banks. The Commercial Bank operated at a moderate level of capital-debt holdings. The Saint Stephen's Bank, for the most part, maintained a lower capital-debt ratio than the first two banks. The Central Bank of New Brunswick had a significantly lower capital-debt ratio than all of the other banks and it could be concluded that the Central Bank again operated on more liberal levels of risk as compared with the more conservative Bank of New Brunswick.

The capital-debt ratio is of particular importance because it was mentioned in bank incorporation acts that each bank was to operate within certain bounds. The amount of debts of the corporation, less deposits, were not to exceed twice the paid up capital. In this context, the capital stock was supposed to equal at least one half the debts of the corporation. As the figures show, this level was not always maintained by the banks. Throughout its early years, and again during the growth following Reciprocity, the Bank of New Brunswick operated with a capital stock of less than one half its debts less deposits. Save for a few years during the 1840s, following the specie crisis of 1837, the Central Bank of New Brunswick never maintained the legislated quantity of capital stock. The Commercial Bank, except during the post-Reciprocity shock, always maintained sufficient capital-debt levels. The widely fluctuating capital-debt ratio of the Saint Stephen's Bank only prevailed within the legislated limits during the early 1840s, the late 1850s, the early 1860s and the late 1860s.

All of the banks of New Brunswick broke the legislated limits set out by their charters. It may have made sense for them to do so, given the economic conditions that prevailed. However, this indicates that the New Brunswick government did not carefully monitor and enforce its own regulations. Had this been done, banks may have more carefully managed their liability levels. This risky activity may have allowed the banks to enjoy more profits than was otherwise specified by the government as safe.

Loan ratios

The loan-deposit ratio analysis leads to conclusions about the movement of financial capital within and away from New Brunswick. It was found that, over the period of study, the loan-deposit ratio for 3 of the 4 banks and of the entire system was stationary. Only the Commercial Bank did not appear to have a stationary loan-deposit relationship. This measure has important implications regarding the security of the banks and for the economic development of New Brunswick.

The stationarity of the loan-deposit ratio indicates a few things about the banks of New Brunswick. Loans made and placed in deposit form circulated on a random path over the time period. No planned policy guided how the banks' funds moved within the Province. It was considerably outside the purview of bank managers to dictate where loaned funds were placed. Loaned funds were spent on various projects and developments. With the high volume of trade in New Brunswick, it is likely that these funds escaped the region in which they originated, if not the Province itself.

The non-stationarity of the Commercial Bank loan-deposit ratio does not necessarily indicate a set management on the part of the bank. As with the non-stationary ratios observed, the bank did not have control over where the moneys it loaned were spent. However, a non-stationary loan-deposit ratio may indicate that the commercial community underwent changes over the period of study which altered the flow of loaned funds from the bank. Ignoring the shock of the early 1840s, figure 5-11 shows that Commercial Bank loans, as time progressed, tended to be more absorbed in Commercial Bank deposits. This may have reflected the will of local merchants and tradesmen. Their preference for the Commercial Bank as a deposit institution may have been the cause of the observed non-stationary pattern.

The evidence in figures 5-9 through 5-12 indicate that the loan-deposit ratio stood at different levels for different institutions. For the purposes of this study, it is more informative to examine the actual level of the ratios, rather than their course over time. The Bank of New Brunswick experienced a highly variable loan-deposit ratio over the first 3 decades of operation. This level was quite high at some points, especially during the crises of 1826 and 1837. By the 1860s, as many banks closed, the Bank of New Brunswick enjoyed a greater position as a sound bank in the area. A greater proportion of its own and other banks' loans found their way into the deposits of the Bank of New Brunswick, and the loan-deposit ratio declined.

The Central Bank appeared to have a much lower loan-deposit ratio than all of the other banks during this period. The level of loans-deposits appeared to follow an upward trend, with slight random variation. This indicates that the bank took advantage of its

position as the only financial intermediary in the relatively prosperous interior region. Only as the bank continued its risky operation through the turbulent 1850s did the Central Bank finally observe a greater drain of its loaned funds from the region.

The Saint Stephen's Bank had a widely fluctuating loan-deposit ratio. It exhibited no trend and appeared to be significantly higher than that of all banks. This may indicate that the relatively small commercial community of Saint Stephen did not attract many loaned funds from other parts of the Province or from other countries. Those funds which it loaned out itself were drawn away from the local area. As a result, the loans supplied by the Saint Stephen's Bank were not multiplied in the immediate region of Saint Stephen. Therefore, the benefit of the money created by the local bank did not assist the local community. This may have been a hindrance to the development of the region. It is not, however, the fault of the bank that this occurred. Rather, the economic conditions of the local community limited the usefulness of money creation.

The figures showing the loan-deposit ratio follow different patterns of disturbance. This may be due to the different economic characteristics of the regions served by the banks under study. It is difficult to determine which shocks affected the Saint Stephen's Bank. The wild fluctuations in loan-deposit levels indicates that the bank's loaned funds did not make their way into the local community. The only obvious shock to the data came with the 1856 financial crisis. At this time, there appeared to be a large jump in the loan-deposit ratio as many panicking merchants withdrew their deposits for more secure specie. The Bank of New Brunswick and the Commercial Bank did not appear to suffer from as great a withdrawal of funds during this crisis of 1856. They withstood great

increases in the loan-deposit ratio during the early 1840s with the recovery from the 1837 specie crisis. The Central Bank appeared to suffer from almost no shocks in its loan-deposit levels throughout the period of study.

It is interesting to observe here that the difference observed in the loan-deposit movements during the various crises was different for all three regions studied. The flow of loaned funds in the Saint John region was particularly affected in the early 1840s. Saint Stephen suffered most during the crisis of 1856. The interior region was never severely affected by either crisis. This may allow for further study of the nature of the economy in each of these regions to answer questions about their resiliency to economic distress and their interaction with local banking.

Throughout the period of study, it was evident that the loan-deposit ratio exceeded one. This indicates that the banking community's money creation may not have taken the form of deposits, as one might expect of modern banks. To better assess how the money created by the loaning process moved, one can examine the ratio of loans to deposits plus currency circulating. This allows the avoidance of the tricky question of whether banks created money through notes, rather than through deposits. If a bank's loans exceed the amount of deposits plus circulating currency, then the money created, no matter what form it took, left the region.

Figures 5-13 through 5-16 show that during most of the period of study, the loan-deposit plus currency ratio exceeded one. This indicates that the money created by the banks through loans escaped not only the local area, but the Province itself. One may conclude that the high volume of trade which characterized the New Brunswick economy

drained it of the moneys created by financial intermediation. Banking in New Brunswick thus did not have as great benefits as it might otherwise have had, if money created stayed and was utilized within the Province's economy.

Specie reserve ratios

One of the most important assets of a bank was its specie reserves. Specie formed the foundation on which many of a bank's other assets stood. The level of specie reserves for various assets indicates the tenor of bank management. The greater the risk a bank is willing to take by maintaining lower specie reserves for essential assets, the greater is its chance for profitability.

The deposit function of financial intermediaries is one of the important services provided to the community. At times, banks were often called upon to provide specie in payment for deposits. Deposits were also an important tool for the creation of money. The ratio of specie to deposits indicates not only the degree of security of banks to the community, but the bank management's willingness to assume risk in return for the potential profits garnered by the creation of money.

The specie-deposit ratio of the banks all followed stationary paths. The Bank of New Brunswick, the Commercial Bank and the Central Bank all exhibited random walks around some trend. The aggregated specie-deposit ratio for the entire banking community also showed a random walk around a trend. The Saint Stephen's Bank appeared to follow a random walk with a drift, but without a trend. This information reveals important characteristics of bank security in New Brunswick.

The Bank of New Brunswick, the Commercial Bank and the Central Bank all showed random walks around a downward trend in the data. The Saint Stephen's Bank also appeared to adhere to a random walk in its specie-deposit reserves, but this random walk was constant over time. A random walk in the specie-deposit reserve ratio indicates that the bank exercised little control over the level of deposits it maintained with its given specie. Again, the local banking structure accommodated the erratic wishes of the commercial community without interference.

Figures 5-17 through 5-20 show the relative levels of specie-deposit reserves over the period under study. While the Bank of New Brunswick maintained relatively higher specie reserves and the Central Bank relatively lower reserves, both had a tendency to decline over the period of study. The Central Bank did not appear to suffer from the effects of the crisis of 1837 as much as did the other banks. The Saint Stephen's Bank was the only one that had a noticeable response to the financial crisis of 1856.

The nature of specie-deposit reserves indicates both bank management policy and New Brunswick commercial security. The evidence that three banks gradually lowered their specie-deposit reserves over the course of time may be taken as an indication of more confident bank management. Over time, these banks were willing to support more deposits (and possibly more money created) on a given amount of specie. The fact that this decline followed a random walk indicates that there was no great shock to the commercial community from a sharp decline in specie reserves. The specie-deposit ratio evidence points to a stable and increasingly more confident banking system in New Brunswick.

In the eyes of the commercial community of colonial New Brunswick, the most important function of banks was to provide a circulating currency. A sound and sufficient circulating medium is essential for economic growth and development. New Brunswick bank issues had to be backed by specie reserves. Furthermore, it is possible that much of the money created through the lending function took the form of circulating currency. Therefore, the security of the New Brunswick commercial community depended heavily on the extent to which bank managers were willing to accommodate the needs of the community for notes, given their specie reserves. The specie-note ratio parallels the specie-deposit ratio. It indicates the soundness of the New Brunswick banking community and the risk that bank managers were willing to assume to create money, earn profits and serve the community.

The specie-note reserves of the banks all appear to follow random walks. The Central Bank and the Saint Stephen's Bank followed random walk with a downward trend, while the Bank of New Brunswick and the Commercial Bank followed a random walk around a constant drift. The aggregate measure of specie-note reserves also followed a random walk around a downward trend.

The stationarity of the specie-note reserves indicates that the banking community did not manipulate the currency issues. The needs of the commercial community dictated the level of note issues. The banking establishment accommodated these wishes with a consistent eye to the security of specie reserves. The downward trend of specie-note reserves indicates that bank managers were willing to assume a greater risk to enjoy the profits of the creation of money through note issue.

Figures 5-21 through 5-24 show that every bank in the community suffered from the crisis and recovery of 1837. All saw sharp increases in their specie-note reserve in the early 1840s as many notes were turned in for redemption. None of the banks appeared to have suffered adverse effects on the specie-note ratio during the crisis of 1856. The fact that banks managed to retain relatively high specie-note reserves at these times is a testament to the security of banks in New Brunswick. From the figures, it appears that the Bank of New Brunswick maintained significantly higher specie-note reserves while the Central Bank maintained much lower reserves. The Saint Stephen's Bank and the Commercial Bank maintained relatively moderate specie-note reserves. As other evidence has shown, the Central Bank took a much riskier position while the Bank of New Brunswick followed a more conservative course.

The incentive for banks to form and operate is the profits to be gained from the creation of money. The specie-backed ability of banks to create money in two forms has been discussed. The specie-loan ratio is an indirect, but more revealing way of assessing a bank's management. Ultimately, the true indication of a bank's managerial tenor is the amount of loans they are willing to create based on their specie reserves. No matter which form of money the bank creates (deposits or notes) the loans it grants are the indication of the bank's confidence in its own ability to accommodate the commercial community.

In all of the banks studied, and for the system as a whole, the specie-loan ratio was found to be stationary throughout the period of study. The stationarity of the series indicates that the banks accommodated the needs of the community for money creation

and loans without a set direction. This is an indication of consistent policy throughout the time period.

All of the series, save that of the Commercial Bank, exhibited a downward trend in their random walks. This trend is very indicative of the nature of bank management in early New Brunswick. As time progressed, the banks grew more confident in their abilities to support the creation of money based on a given amount of capital. The greater the loans issued, based on a set specie level, the greater the potential profits. The Commercial Bank may not have exhibited this trend because it seemed to operate at a lower specie-loan ratio from its inception.

The Bank of New Brunswick again distinguished itself from other banks in the Province by operating at a significantly higher level of specie-loan reserves. Figures 5-25 through 5-28 also show that the Central Bank, as per usual, operated at a much lower specie-loan backing throughout its operation. Both the Commercial Bank and the Saint Stephen's Bank loaned out at relatively moderate levels, given their specie reserves. The Commercial Bank did start its operations with a much lower level of specie reserves for the amount of loans it had, suggesting an immediate tendency to seek higher profits.

CHAPTER 6 - CONCLUSIONS

The results of this study do not provide a full picture of the character of early banking in New Brunswick. This would require study of the economic and financial history of New Brunswick which is currently unavailable. However, this study does allow for some revelation about the character of banks themselves. To assess the course of New Brunswick development, one must determine how banks participated in the community and how they were managed. The character of the management of a bank dictated how and how well it served the commercial community. The security of the bank indicates how it interacted with the New Brunswick economy. In the analysis of the key ratios, certain trends became apparent. These trends will allow for a better understanding of the nature of early New Brunswick banks, and this understanding will contribute to further study of New Brunswick economic history.

The management character of each bank is estimable from the results of the statistical analysis. Because of its higher capital and specie levels with respect to key assets and liabilities, one can conclude that the Bank of New Brunswick operated on more conservative principles than did the other banks. At the opposite end of the spectrum, the Central Bank of New Brunswick, with substantially lower reserves in all areas, appeared to be guided by less restrictive management. The Commercial Bank of New Brunswick and the Saint Stephen's Bank appeared to have followed moderate courses compared to their counterparts, as indicated in the preceding sentences.

The differences observed in the ratios for the four banks may reflect one of two characteristics of banking in New Brunswick. It is possible that there were different

management styles. For example, the Central Bank may have been governed by more profit-oriented, risk-accepting directors while the Bank of New Brunswick was run by cautious, security-conscious managers. Theory suggests that there is a trade-off between security and profits. This may have been reflected in the different management styles of the two banks. The Bank of New Brunswick, however, appears to have been operated on better principles. The Central Bank's riskier position did not bear the advantage of enough profits to avoid its eventual closure in 1861. The extended life of the Bank of New Brunswick is evidence of a more successful operation. Prudence was preferred to profit.

It is also possible, however, that management styles reflected the different regional economies within the Province. Most of the banks of New Brunswick operated as unit banks. The overwhelming evidence of randomness in key banking indicators leads to the conclusion that the local economy had a large influence on how New Brunswick banks operated. It is reasonable to assume that the diversity of economic agents dictated the status of local economies and in turn the banks which served them.

The influence of the local economic environment in the determination of bank policy speaks volumes on the underlying philosophy of banking in New Brunswick. The winds of trade and commerce set the tone for bank managers. Essentially, the strength of the economy would automatically set the appropriate levels of bank ratios. This may have been an early example of the commercial loan theory in practice. Although there is no information about exactly what form the loans of the banks of New Brunswick took, it is apparent that the patterns of the primary functions of the banks (including loans) were

determined by the random desires of the community. The commercial loan theory extends to cover the volume of loans, and in turn the volume of money created within the New Brunswick economy. This crude influence dominated because there was little else (organized financial or commodity markets, for example) by which to judge the needs of the community.

The Central Bank may have been forced to take a riskier position because of the demands of the interior economy. The exigencies of agricultural and timber interests may have meant that a larger circulating medium was necessary for the capital and specie reserves than was required of other, less isolated institutions. The Central Bank and the Provincial government shared the same locale and this led to a large number of Central Bank notes in the Provincial coffers. This may have put additional pressure on the Central Bank to issue more notes than its specie would have otherwise supported.

The Saint Stephen's Bank, too, may have had much of its policy dictated by the local community. Lumber and trading interests may have caused the high variability in the various ratios observed. The presence of a second bank, the Charlotte County Bank (whatever form it took) may have affected the Saint Stephen's Bank ratios. Competition of two banks within the relatively small community of Charlotte County may have had a different effect on both institutions.

The operation of the Bank of New Brunswick and the Commercial Bank was dictated by the economic life of Saint John. The differences observed between these two banks must have, to a large degree, reflected different management styles. The Bank of New Brunswick was founded on principles that more closely reflect the American

tradition of banking. The Commercial Bank, in its own estimation, was more influenced by Scottish principles.

The different traditions of banking exemplified by the Bank of New Brunswick and by the Commercial Bank manifested themselves in several ways. The Bank of New Brunswick operated with only one office, at Saint John. The Commercial Bank had at least one branch at Fredericton. The Bank of New Brunswick allowed its deposit levels to fluctuate as the demands of the commercial community required. The Commercial Bank took a greater hand in the management of its deposit levels. The Bank of New Brunswick maintained higher reserves on almost all key liabilities and assets. Ultimately, the adoption of one style as superior for the New Brunswick financial context can be based on the success in survival. Despite its larger capital, the Commercial Bank failed in 1868. Again the more conservative, American-influenced Bank of New Brunswick continued operation after its competitors failed.

While the study of varying ratio levels implies certain characteristics of New Brunswick banks, they are not the final indication of success and security. These qualities are portrayed in the survival throughout the nineteenth century. The Bank of New Brunswick, started in 1820, was merged into the Bank of Nova Scotia in 1913. The Saint Stephen's Bank, chartered in 1836, failed in 1910. The Commercial Bank of New Brunswick, after its turbulent incorporation by letters patent, lasted until 1868. The Central Bank of New Brunswick, also chartered in 1834, failed in 1861.

In studying New Brunswick economic history, it is essential to understand the financial practices that prevailed at the time. This paper has summarized and analyzed the

nature and practice of banking in early New Brunswick. It has been found that the more localized, conservative, American-influenced Bank of New Brunswick enjoyed a longer life in the community. It was likely that this system was better suited to the fast-trade economy of colonial New Brunswick. It was found that many of the essential indicators of bank security and management were subject to the whims of local economic condition. Further study of New Brunswick economic history should accord greater attention to the influence of the local community in dictating the Province's financial and hence economic health.

APPENDIX 1 - FIGURES USED IN DISCUSSION

Key to Figures

The figures (5-1 through 5-28) discussed in chapter 5 are presented here. They use the system of abbreviations that follows. The ratio presented in a figure is identified by the first part of the series name. The institution under study is identified by the last letter of the series name.

caplas-	is the ratio of capital to assets for a given bank
capdeb-	is the ratio of capital to liabilities, less deposits for a given bank
Indep-	is the ratio of loans to deposits for a given bank
Indn-	is the ratio of loans to deposits plus notes in circulation for a given bank
specbil-	is the ratio of specie to notes in circulation for a given bank
specdep-	is the ratio of specie to deposits for a given bank ,
specln-	is the ratio of specie to loans for a given bank
-a	means that the series presents the aggregated information for the system
-b	means that the series presents the information for the Bank of New Brunswick
-e	means that the series presents the information for the Central Bank of New Brunswick
-o	means that the series presents the information for the Commercial Bank of New Brunswick
-s	means that the series presents the information for the Saint Stephen's Bank

Source: New Brunswick, Journal of the House of Assembly, Appendix, various issues.

Figure 5-1 Capital-asset: Bank of New Brunswick

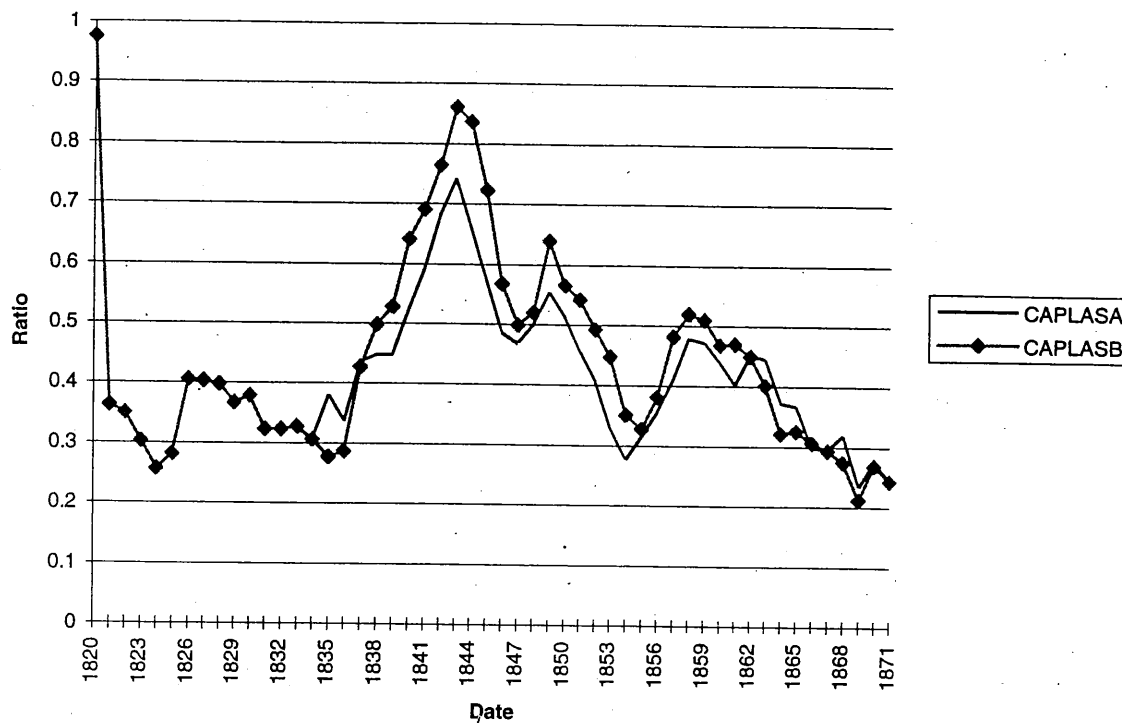


Figure 5-2 Capital-asset: Central Bank

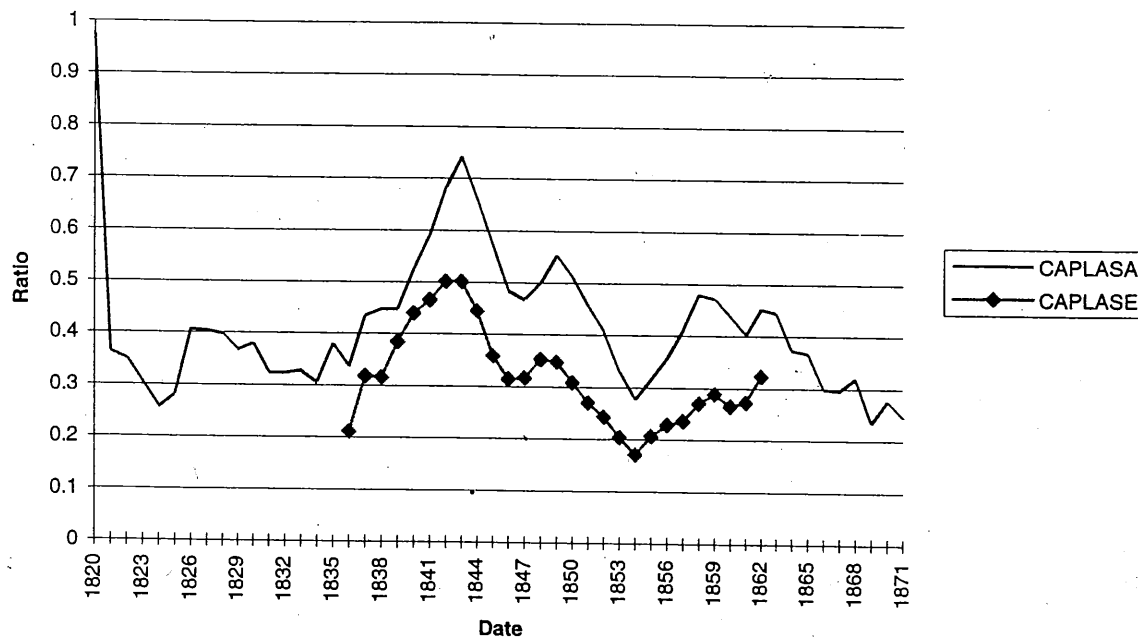


Figure 5-3 Capital-asset: Commercial Bank

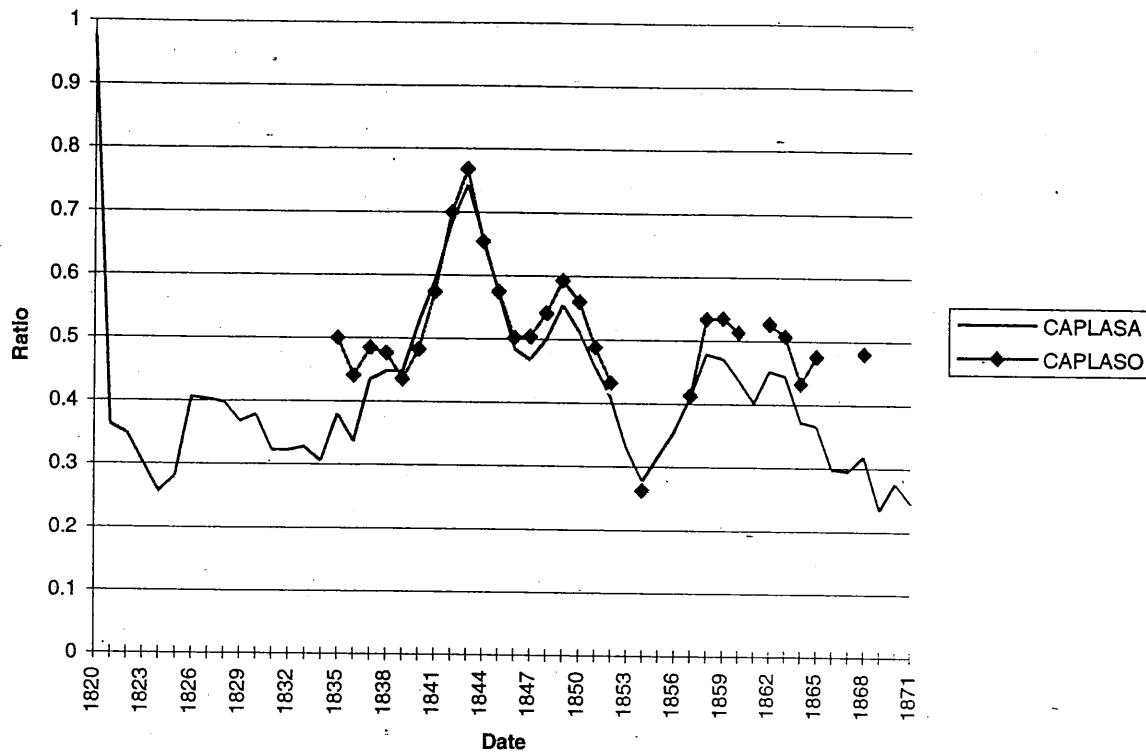


Figure 5-4 Capital-asset: Saint Stephen's Bank

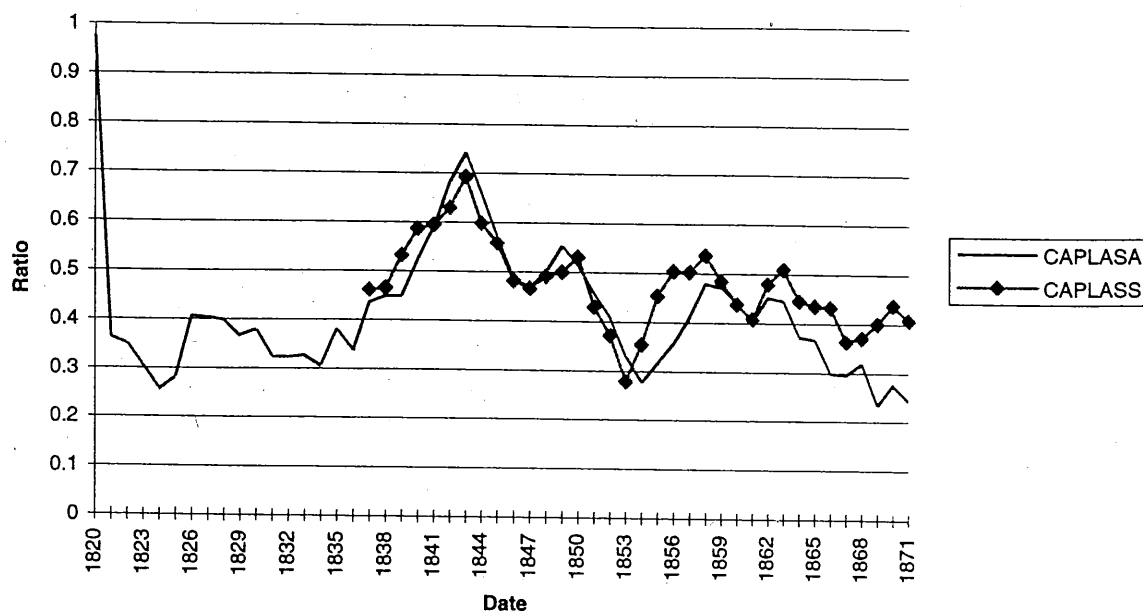


Figure 5-5 Capital-debt: Bank of New Brunswick

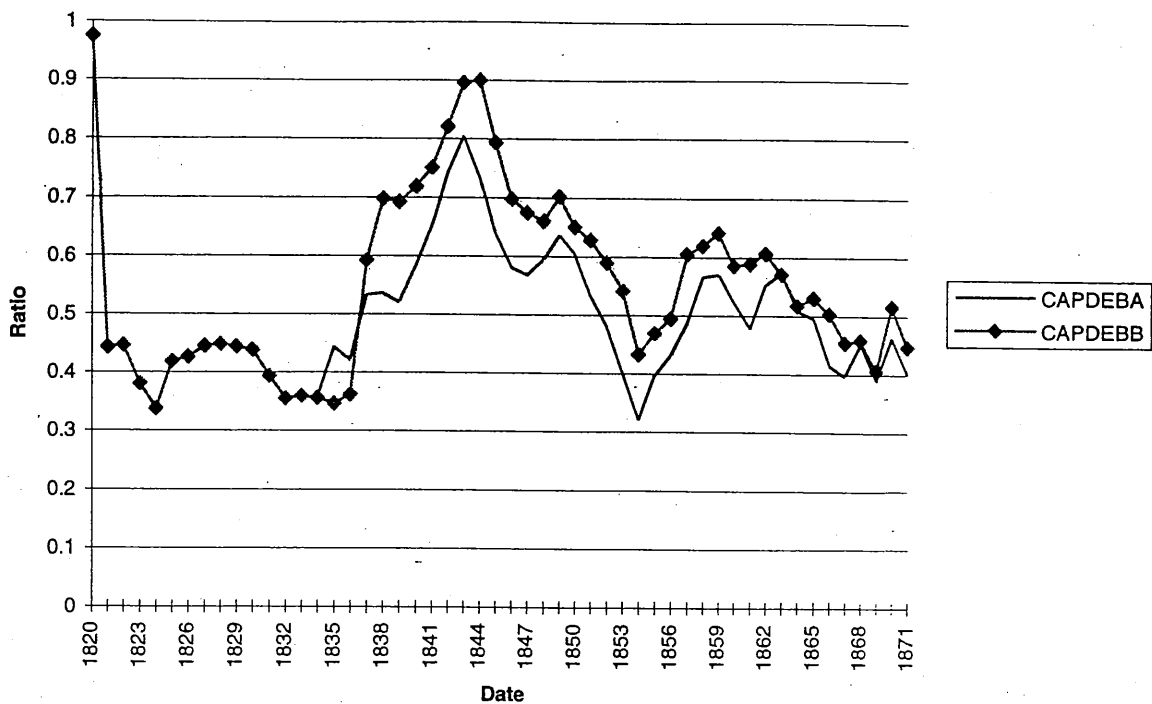


Figure 5-6 Capital-debt: Central Bank

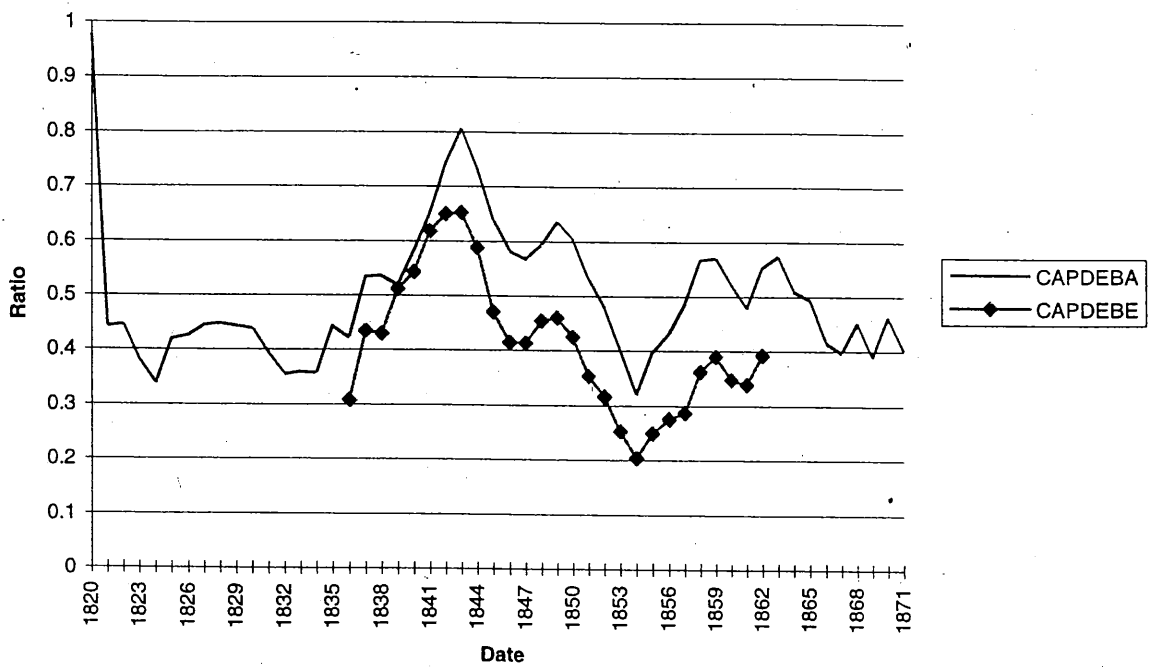


Figure 5-7 Capital-debt: Commercial Bank

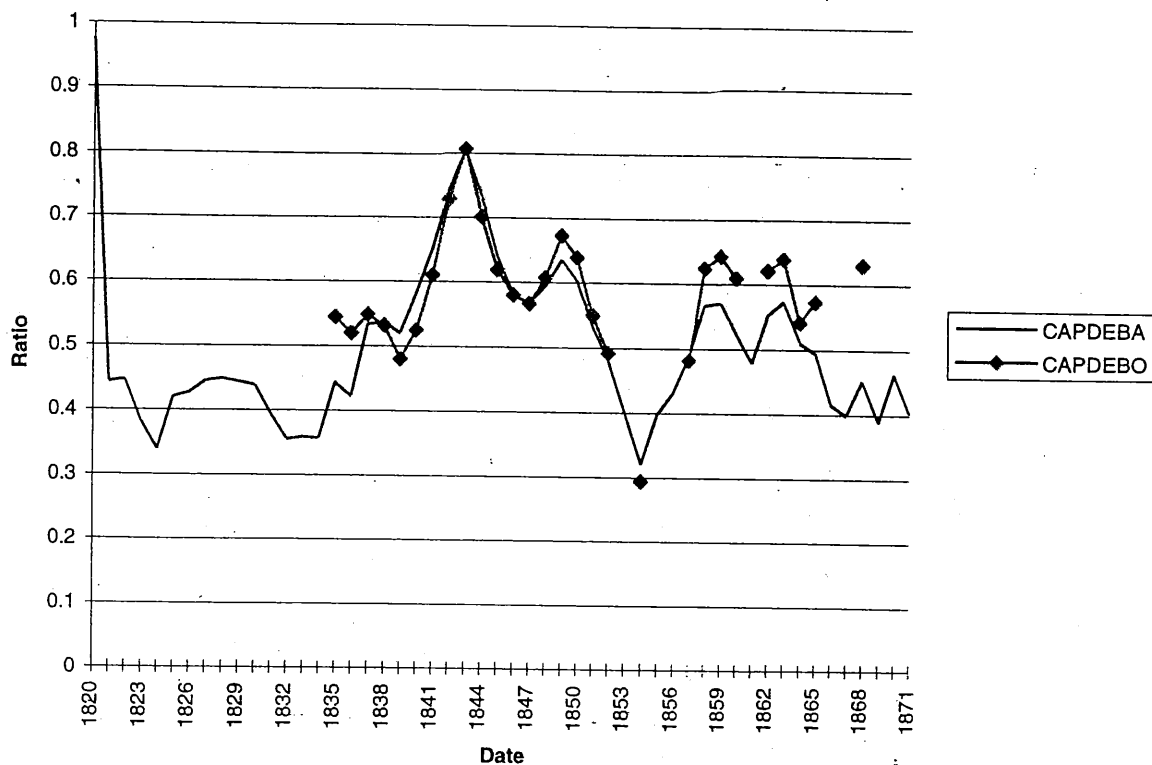


Figure 5-8 Capital-debt: Saint Stephen's Bank

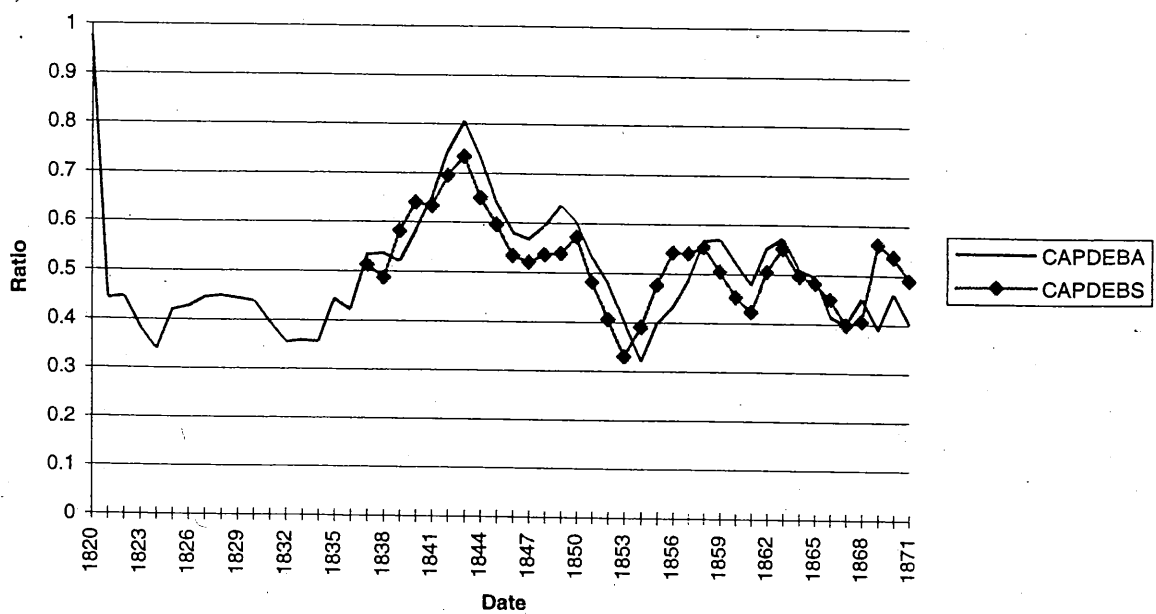


Figure 5-9 Loan-deposit: Bank of New Brunswick

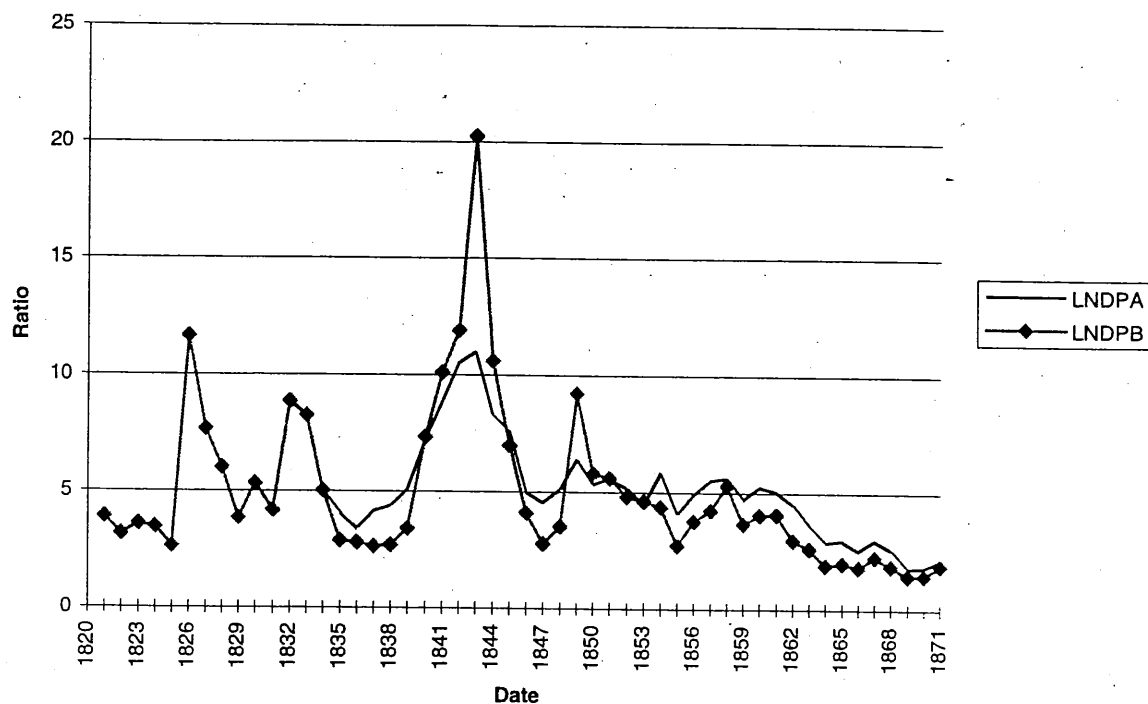


Figure 5-10 Loan-deposit: Central Bank

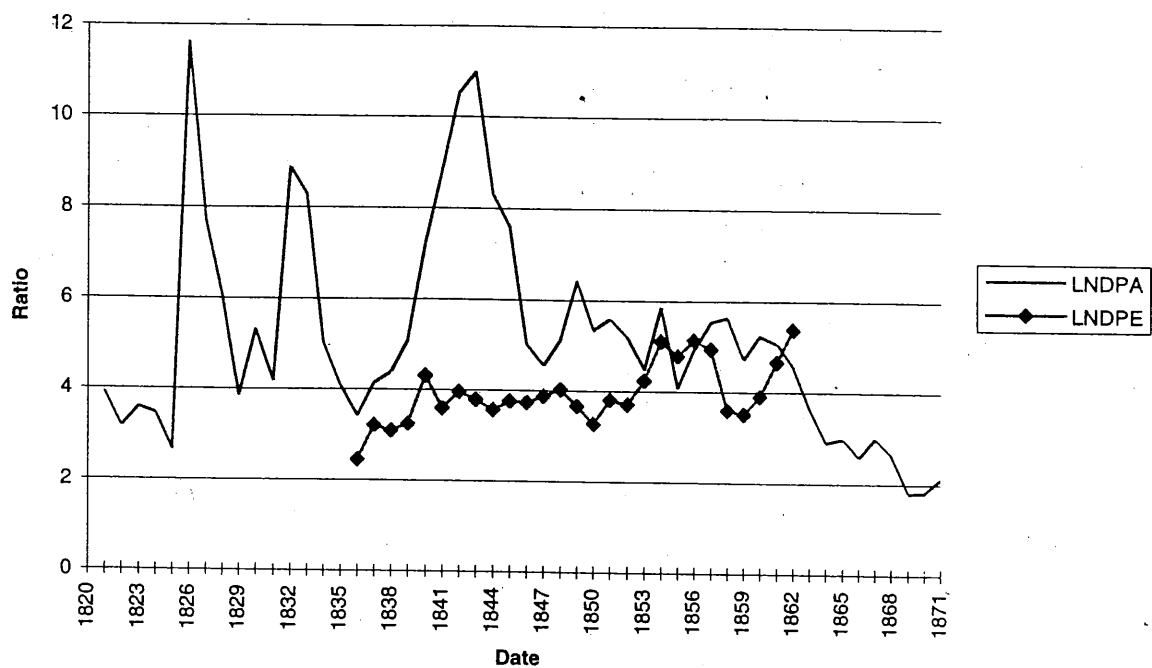


Figure 5-11 Loan-deposit: Commercial Bank

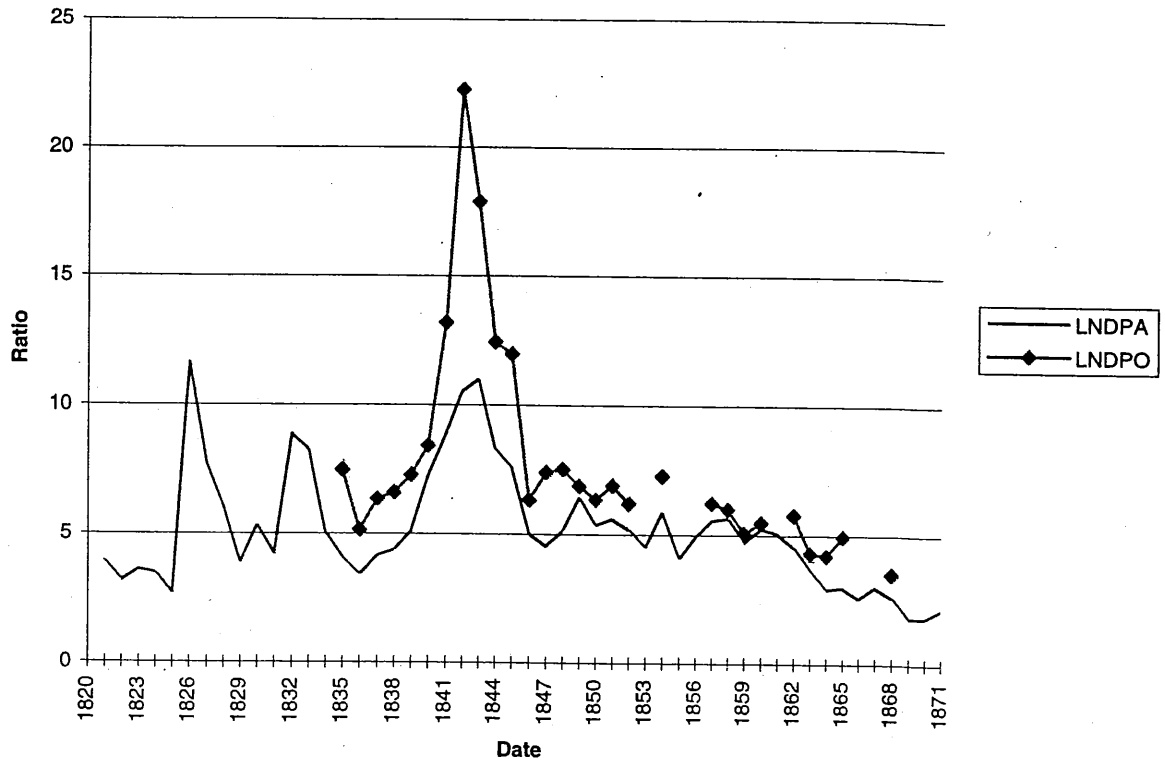


Figure 5-12 Loan-deposit: Saint Stephen's Bank

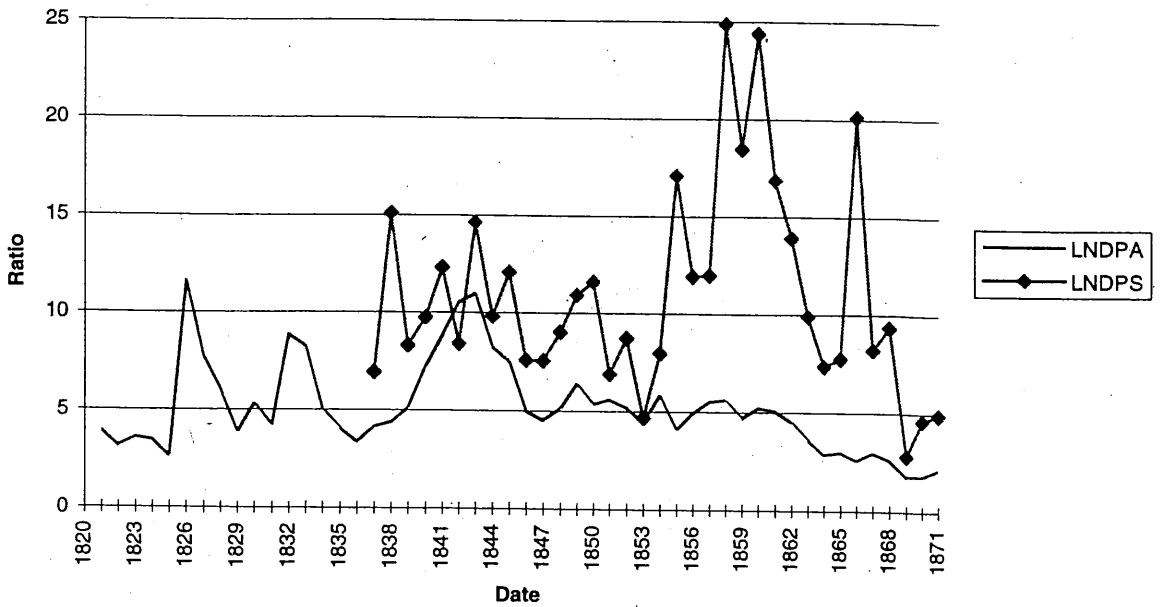


Figure 5-13 Loan-deposit plus notes: Bank of New Brunswick

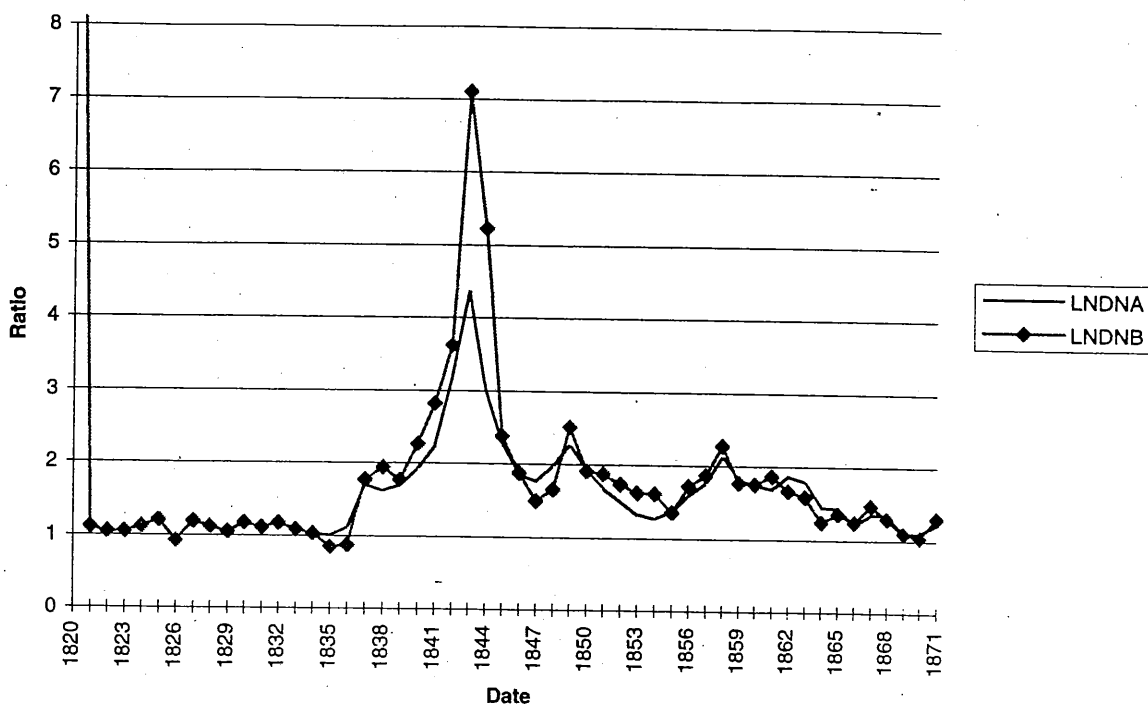


Figure 5-14 Loan-deposit plus currency: Central Bank

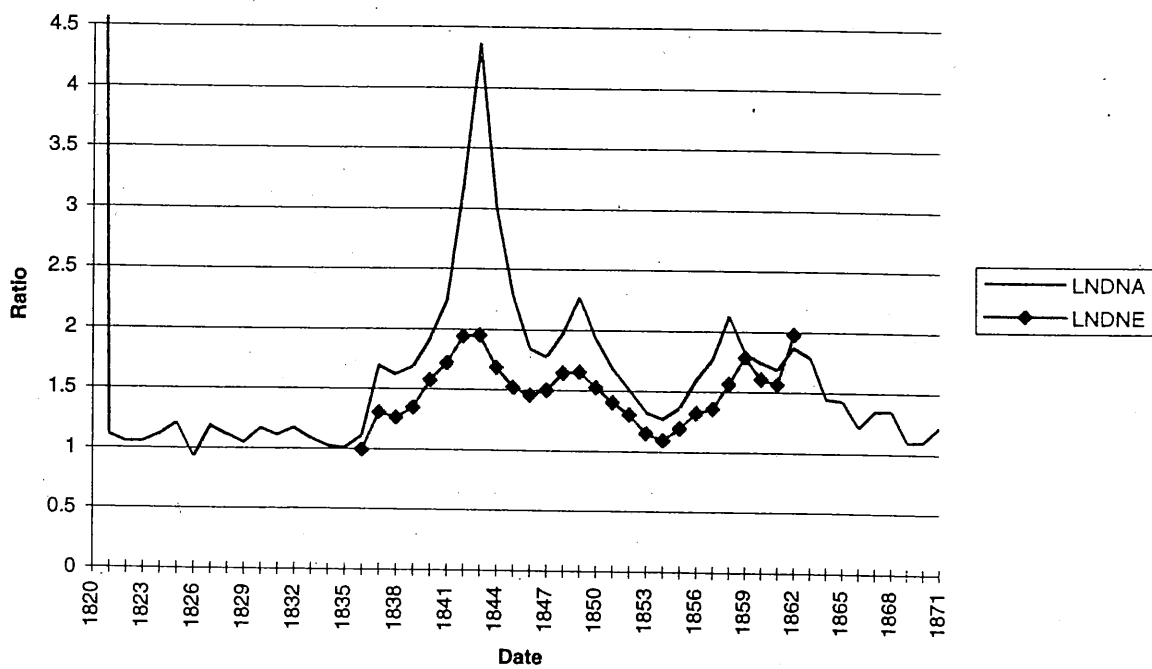


Figure 5-15 Loan-deposit plus currency: Commercial Bank

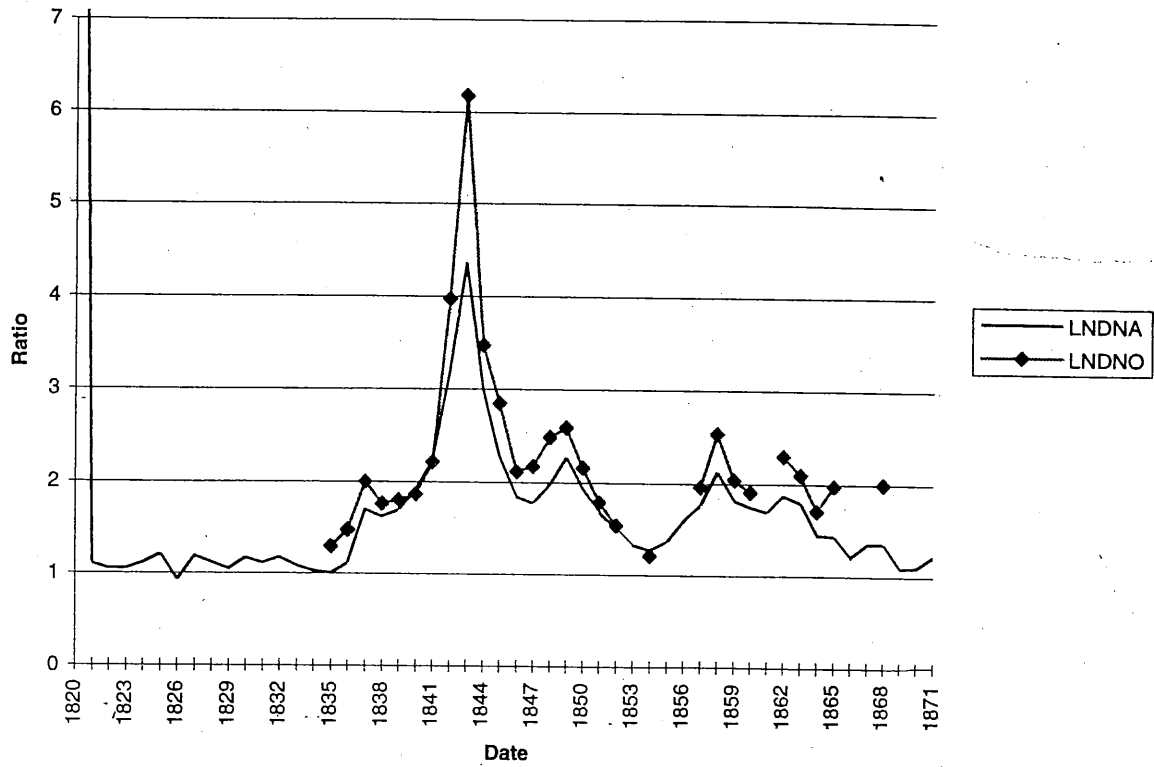


Figure 5-16 Loan-deposit plus currency: Saint Stephen's Bank

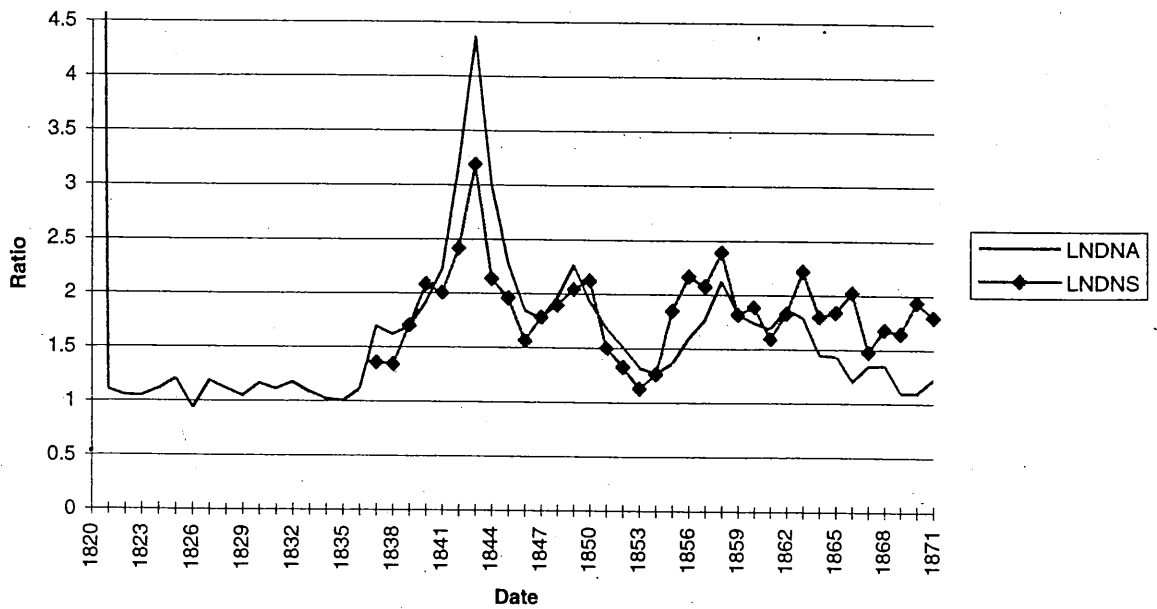


Figure 5-17 Specie-notes: Bank of New Brunswick

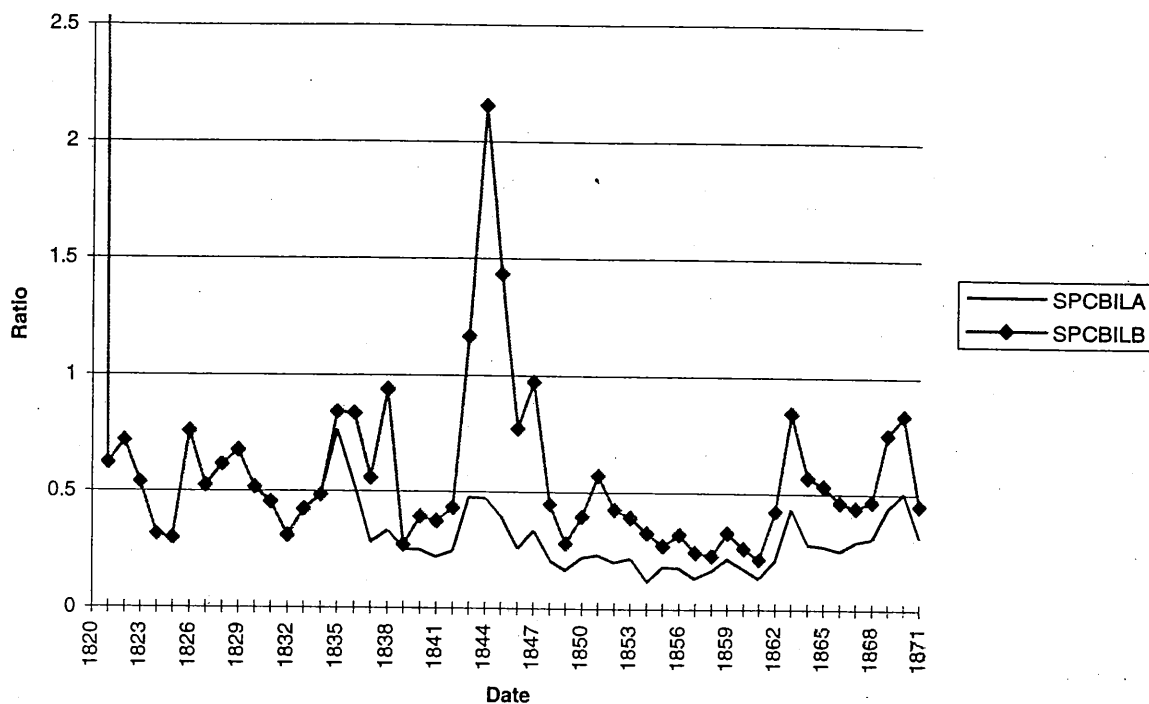


Figure 5-18 Specie-notes: Central Bank

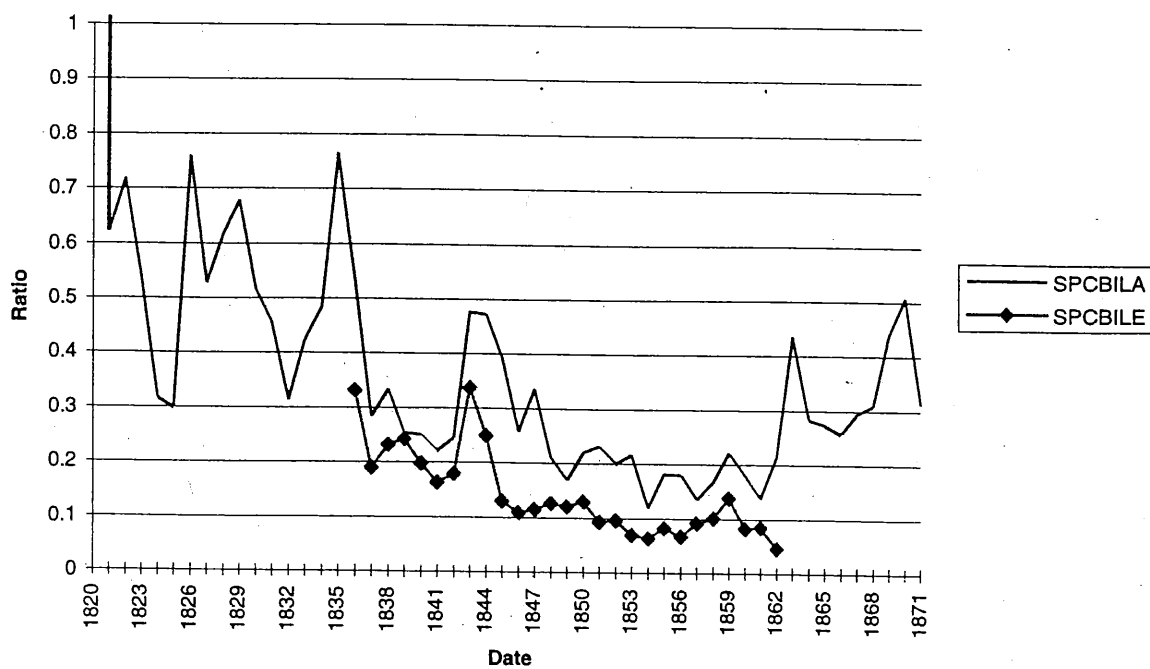


Figure 5-19 Specie-notes: Commercial Bank

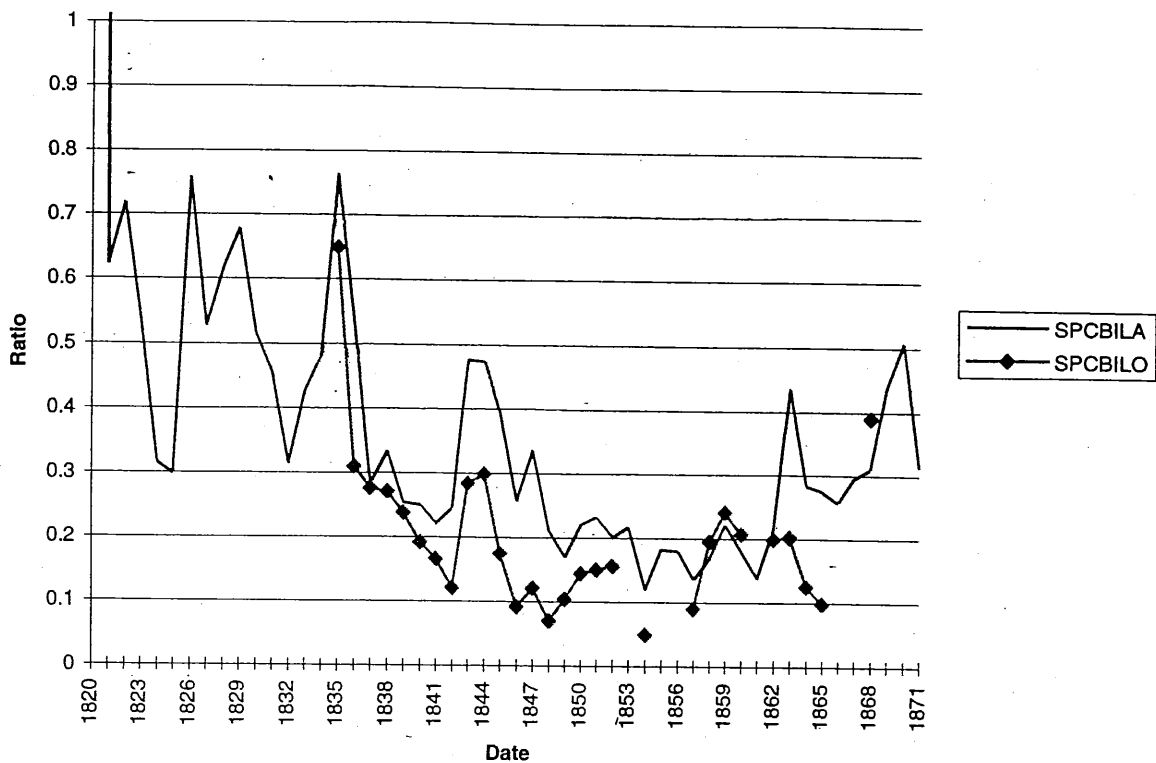


Figure 5-20 Specie-notes: Saint Stephen's Bank

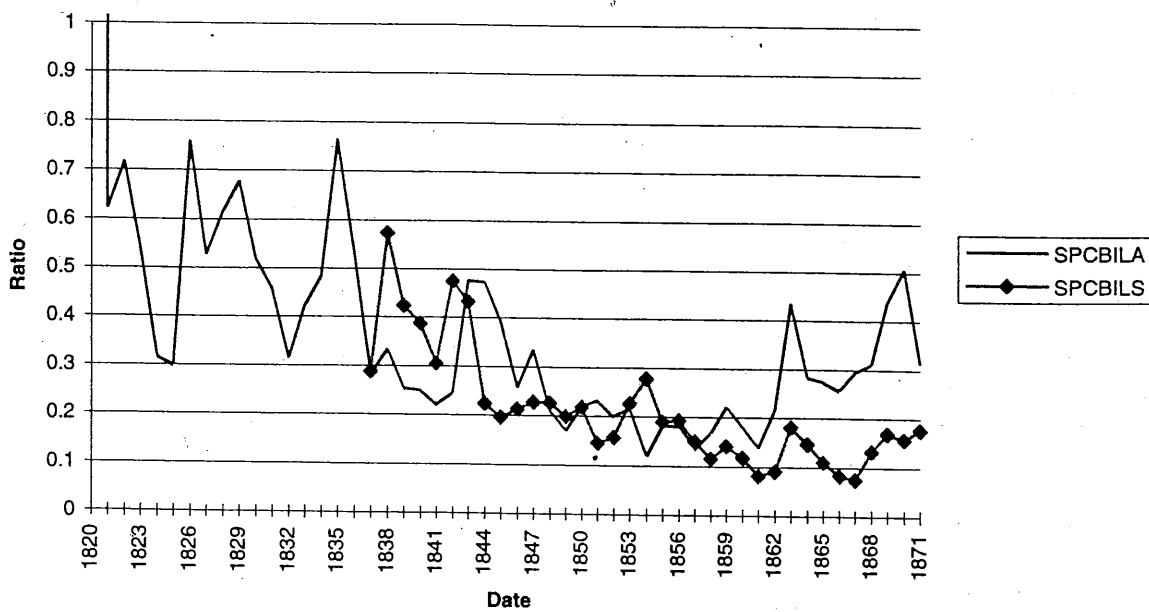


Figure 5-21 Specie-deposit: Bank of New Brunswick

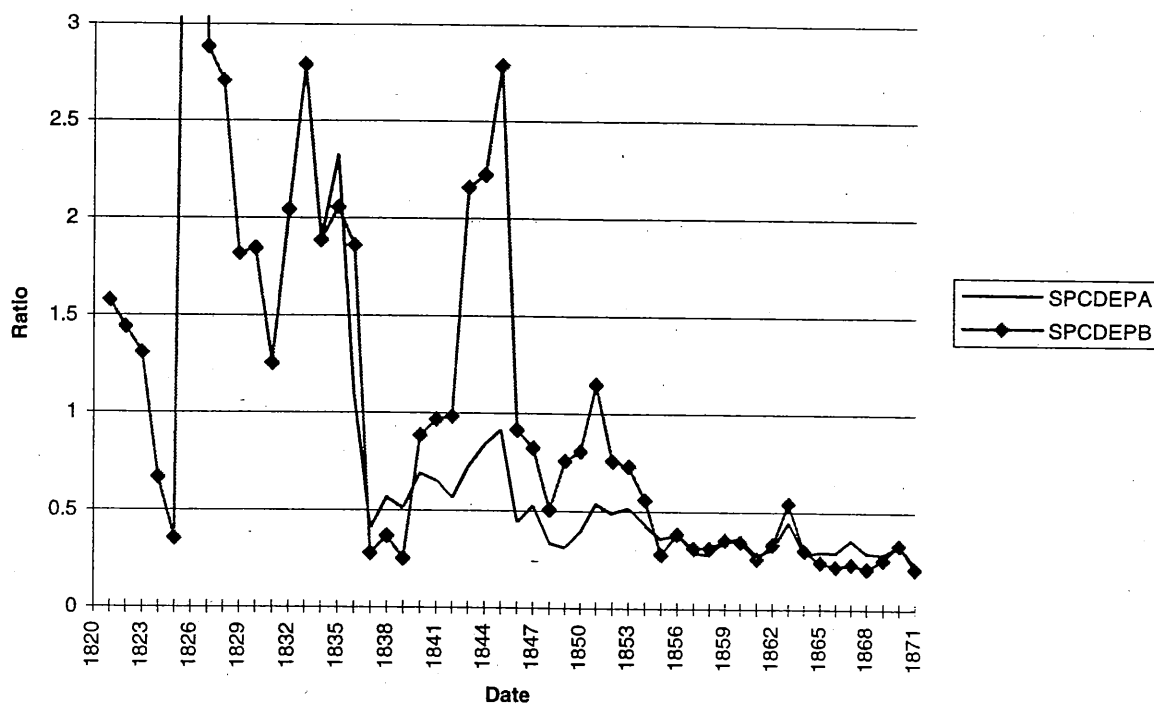


Figure 5-22 Specie-deposit: Central Bank

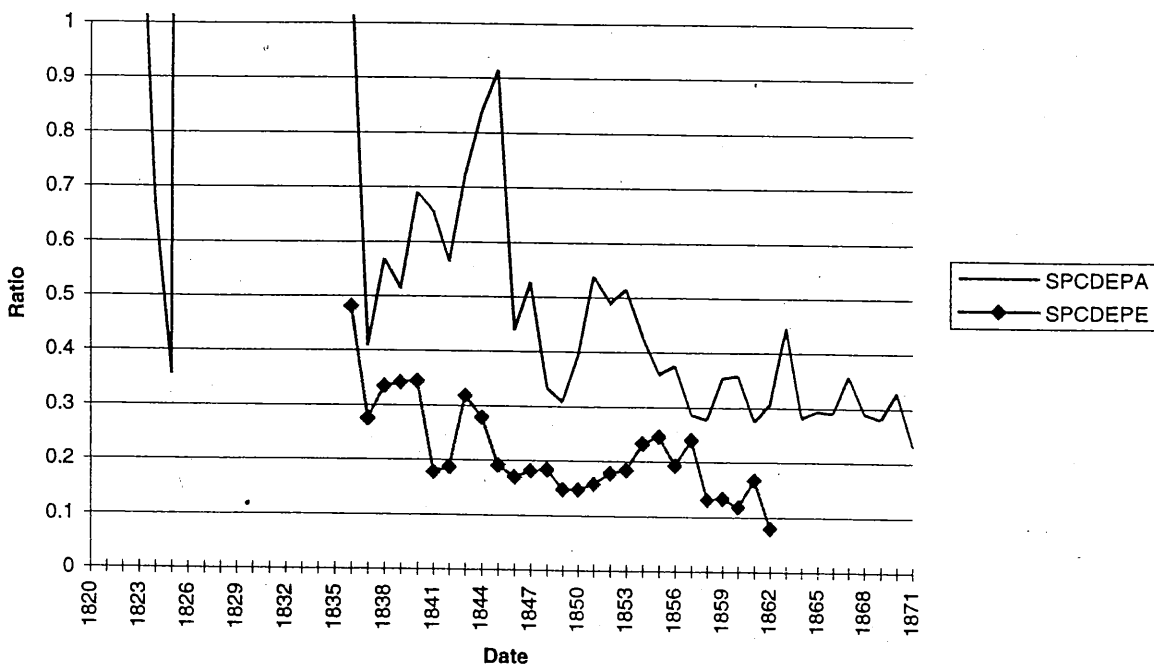


Figure 5-23 Specie-deposit: Commercial Bank

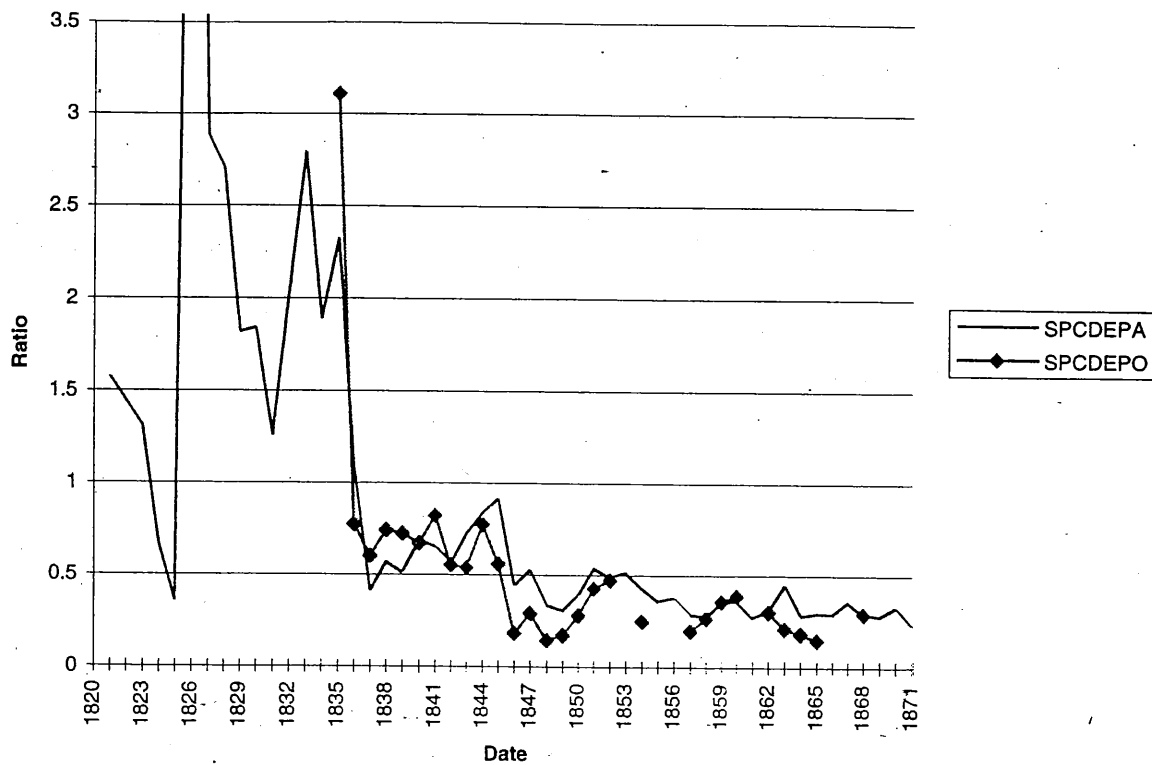


Figure 5-24 Specie-deposit: Saint Stephen's Bank

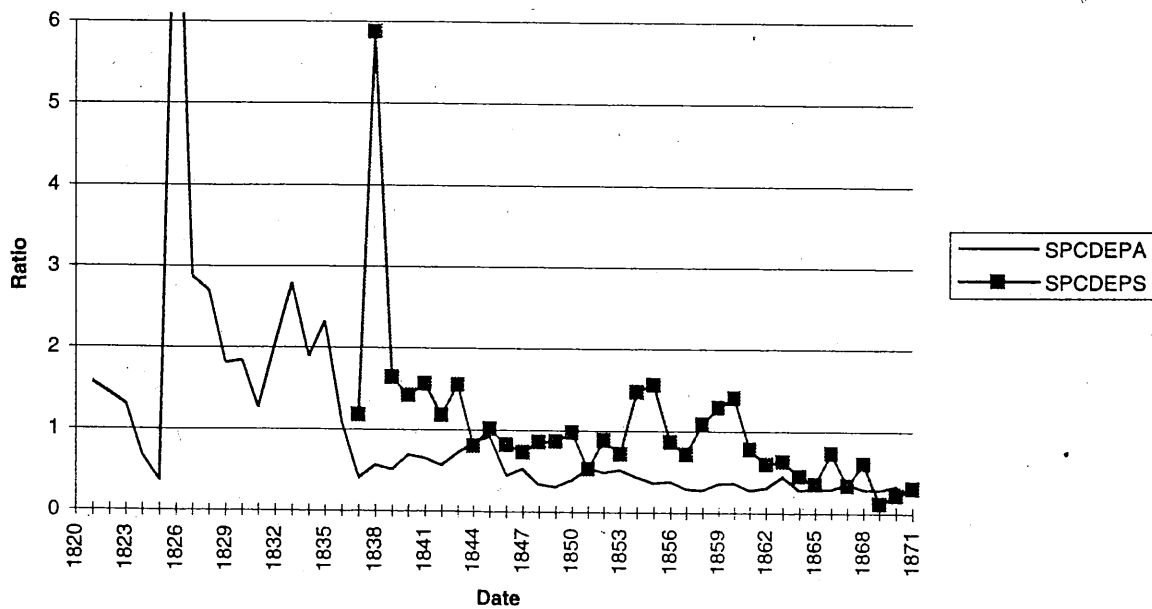


Figure 5-25 Specie-loan: Bank of New Brunswick

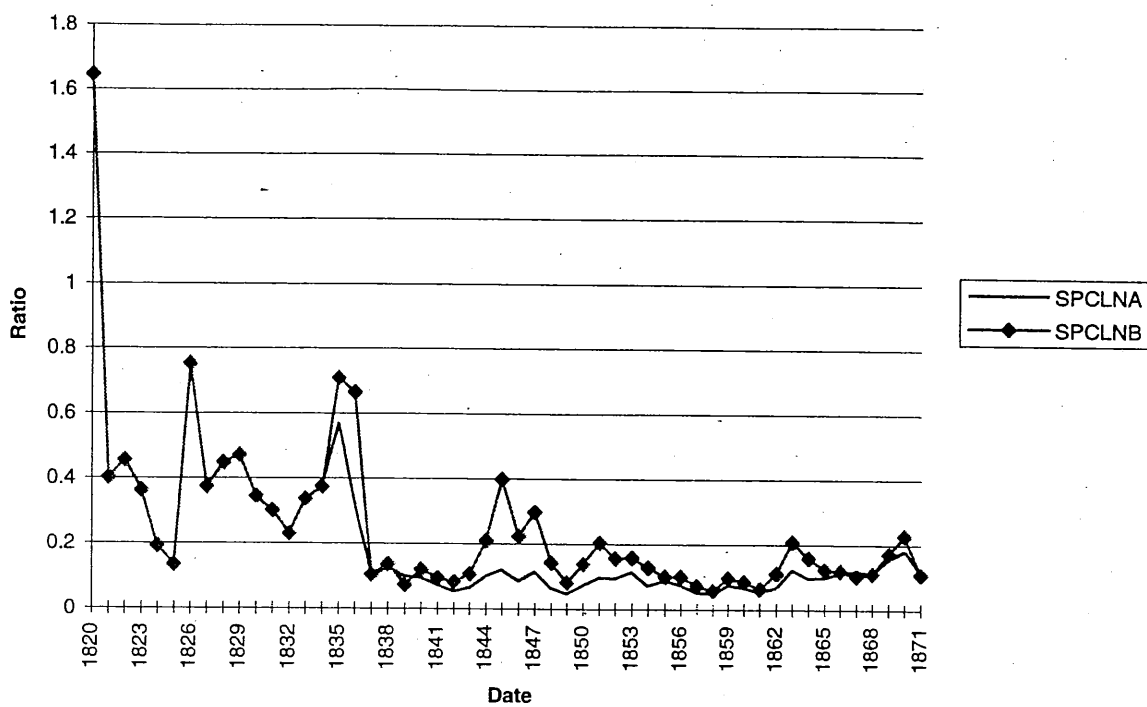


Figure 5-26 Specie-loan: Central Bank

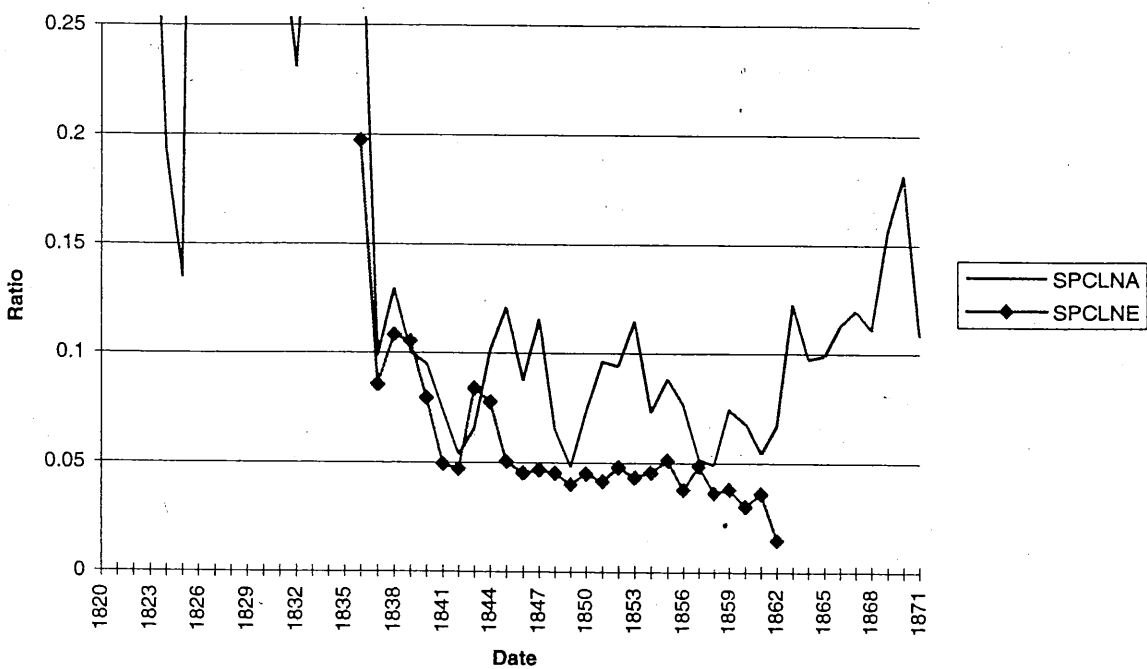


Figure 5-27 Specie-loan: Commercial Bank

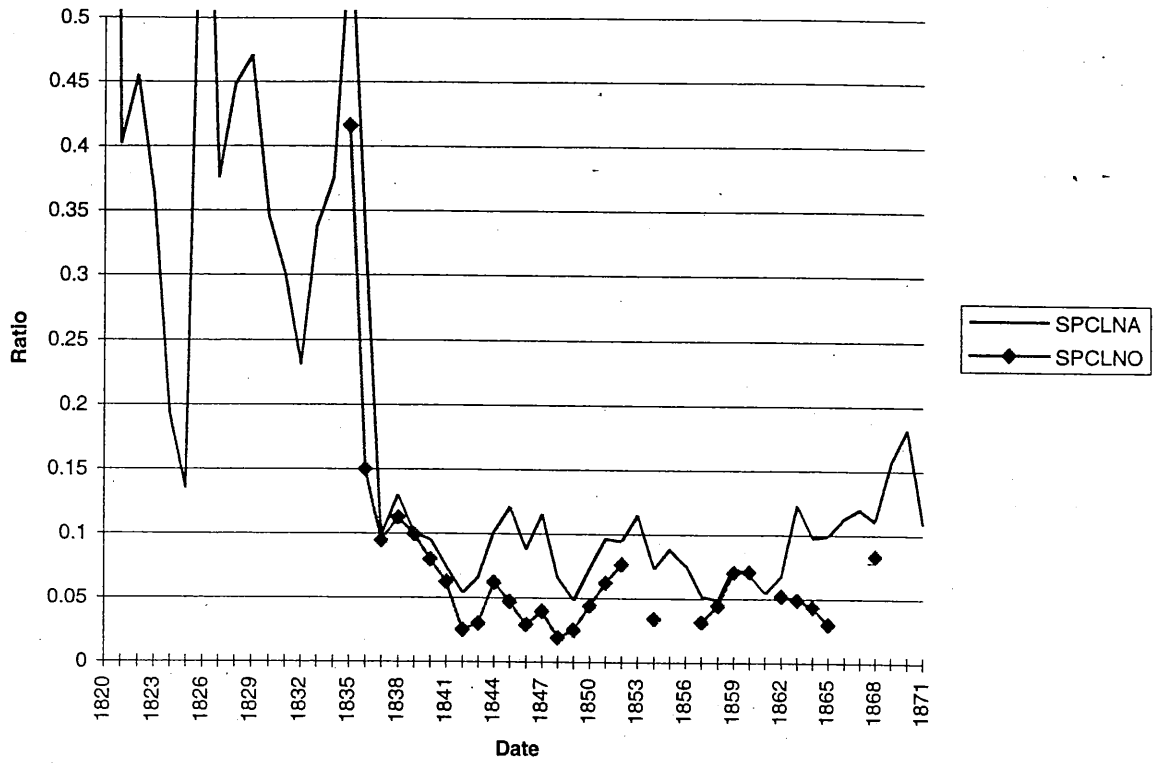
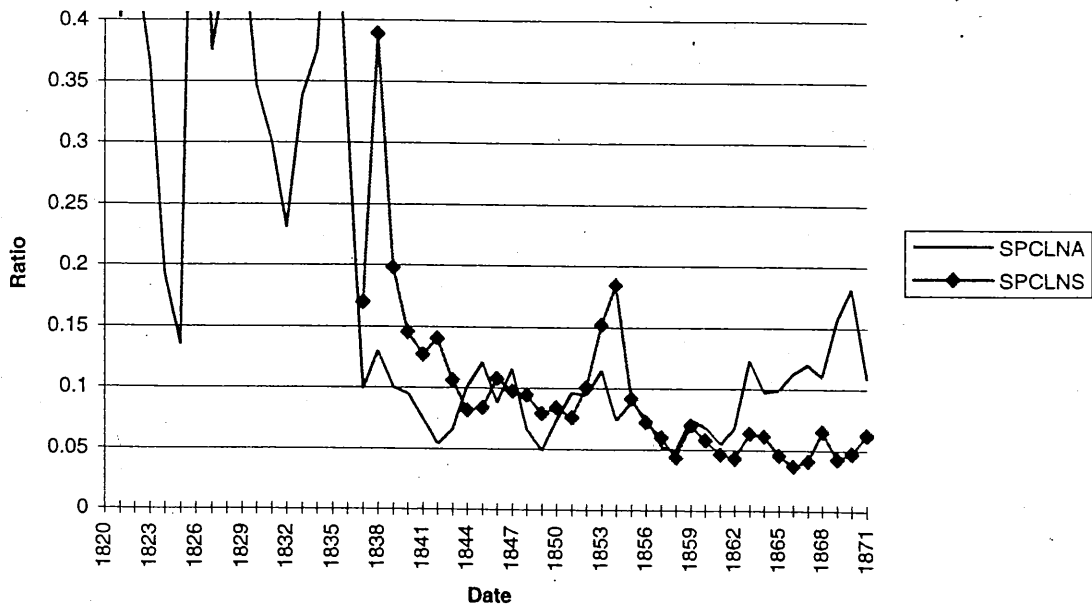


Figure 5-28 Specie-loan: Saint Stephen's Bank



APPENDIX 2 - SUMMARY OF STATIONARY PROCESSES OBSERVED

<i>Ratio series</i>	<i>Dickey-Fuller Statistic</i>	<i>Estimated Critical Value</i>	<i>Type of Stationarity</i>
caplasa	-4.99	-3.56	Intercept only
caplasb	-3.45	-2.91	Intercept only
caplass	-3.51	-3.47	Intercept and trend
capdeba	-14.83	-3.56	Intercept only
capdebo	-3.07	-2.93	Intercept only
capdebs	-3.52	-3.47	Intercept and trend
Indepa	-3.09	-2.92	Intercept only
Indepb	-3.14	-2.91	Intercept only
Indepe	-5.52	-4.08	Intercept and trend
Indeps	-8.17	-3.52	Intercept only
specbila	-179.47	-4.14	Intercept and trend
specbilb	-77.54	-3.56	Intercept only
specbile	-5.48	-4.08	Intercept and trend
specbilo	-5.41	-3.58	Intercept only
specbils	-4.49	-4.09	Intercept and trend
specdepa	-6.14	-4.14	Intercept and trend
specdepb	-6.28	-4.14	Intercept and trend
specdepe	-5.96	-4.08	Intercept and trend
specdepo	-13.7	-4.17	Intercept and trend
specdeps	-7.61	-3.52	Intercept only
speclna	-10.56	-4.14	Intercept and trend
speclnb	-9.81	-4.14	Intercept and trend
speclne	-8.52	-4.08	Intercept and trend
speclno	-11.42	-3.58	Intercept only
speclns	-3.93	-3.47	Intercept and trend

Decision Rule:

If $\text{abs}(\text{D-F}) > \text{abs}(\text{Critical})$,
then reject H_0 and conclude stationarity.

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