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Douglas O. Baldwin

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DOUGLAS O. BALDWIN

The Growth and Decline of the Charlottetown Banks, 1854-1906

EARLY IN 1874 A PRINCE EDWARD ISLAND newspaper declared banking to be "the breath of life to commerce". The condition of financial institutions, stated the *Daily Examiner*, "as surely indicates the health of the commercial body to the financier, as the pulsations at the wrist of his patient indicate the health of the physical man to his medical adviser".[1] In that year, Charlottetown was served by three local banks administered by the local business elite. The first Island bank had been incorporated in 1856. The last local bank was amalgamated with the Canadian Bank of Commerce in 1906. A study of the economic policies of these institutions and the reasons for the demise of local banking sheds light on the role of indigenous entrepreneurs in promoting economic growth on Prince Edward Island in this period.

Currency shortages were common complaints in all young colonies where imports generally exceeded exports. The unsatisfactory state of local currencies and the need for a dependable source of credit spurred the establishment of local banks in early 19th-century North America.[2] These factors also prevailed in Prince Edward Island, where the chronic shortage of an adequate medium of exchange particularly hindered trade. As rapidly as Island agricultural produce, timber, and ships earned needed cash, imported manufactured and consumer goods drained the colony of its specie. In 1813 for example, Governor Charles Smith deemed the want of specie one of the colony's most prominent economic evils. Forty years later, Lieutenant-Governor Alexander Bannerman complained that much of the Island's trade was confined to truck and barter due to the lack of circulating medium.[3] Without a bank to issue bills of exchange or bank drafts, Island importers had to pay cash for their goods. The resulting

I am indebted to Dr. Ronald Rudin for his insightful comments on the first draft of this paper, and to Dr. Thomas Spira for his usual painstaking assistance.

1 *Daily Examiner* (Charlottetown), 9 March 1874.

2 Bray Hammond, "Long and Short Term Credit in Early American Banking", *Quarterly Journal of Economics*, XL, 1 (November 1934), p. 82; H.C. Pentland, "The Role of Capital in Canadian Economic Development Before 1875", *Canadian Journal of Economics and Political Science*, XXVI, 4 (1950), p. 472; E.P. Neufeld, *The Financial System of Canada: Its Growth and Development* (Toronto, 1972), p. 72.

3 Prince Edward Island, *Journal of the Legislative Council*, 1853, Appendix I; Earle K. Kennedy, *The Prince Edward Island Holey Dollar* (Summerside, 1976), p. 8. Also see complaints by Lieutenant-Governor Edmund Fanning in 1790, quoted in Prince Edward Island, *Journal of the Legislative Assembly*, 1847, Appendix E; A.B. McCullough, *Money and Exchange in Canada to 1900* (Toronto, 1984), p. 189.

dearth of specie not only retarded trade, but also prevented individuals from carrying on daily transactions.[4]

Cash shortages also adversely affected the colonial treasury. A large portion of the Island's revenue consisted of custom duties, but since business was chiefly conducted by credit, the government had to grant merchants three to 12 months credit on their dutiable goods. This delay in revenue receipts exacerbated the government's annual deficit, and led to the issue of treasury warrants at irregular intervals.[5] Unfortunately, Nova Scotia merchants purchased them at reduced rates, and then used the warrants to acquire Island grain and produce at a virtual discount. Thus in 1836 the Colonial Secretary stated that the warrants had "a direct tendency to banish specie from the Island".[6] Treasury notes had similarly deleterious consequences. First issued by the government in 1791 to help finance the budget deficit and to facilitate small retail transactions, the notes circulated in units as small as one shilling and were legal tender for all public transactions. At first, the notes greased the wheels of commerce, but ultimately they depreciated the value of the Island's currency and led to inflation. Additionally, according to the British Treasury, the government's decision to issue notes and warrants prevented the creation of private banking institutions, for the issuance of notes usually constituted a bank's most profitable function. The Imperial government thus pressured the colony to restrict its paper currency.[7]

The scarcity of specie prompted numerous public and private experiments and the Island soon became a fertile field for various types of currency. Spanish dollars and British coinage were the only legal specie on the Island, but by common consent the public accepted American, Spanish, Mexican, Peruvian, Central American, French, Dutch, and Irish coins.[8] The Spanish silver dollar circulated as one of the most common coins on Prince Edward Island. However, it had a greater value in Halifax than in the debtor region of Charlottetown, and tended to move to the mainland. To prevent this loss, and to augment the amount of currency in circulation, Governor Smith ordered the centres punched out of 1,000 Spanish silver dollars in 1813, to make them unacceptable else-

4 *Morning News and Semi-Weekly Advertiser* (Charlottetown), 13 December 1843, 13 December 1845.

5 *Assembly Journal*, 1853, Appendix 1; to Herman Merivale, 13 January 1854, Adam Shortt Papers, Public Archives of Canada [PAC]; *Assembly Journal*, 1847, Appendix E. Nova Scotia issued treasury bills in 1766, and New Brunswick followed in 1808.

6 *Assembly Journal*, 1847, Appendix E.

7 The Atlantic colonies used Halifax currency for record keeping. In 1848 the conversion rate to £100 British sterling was £111 in New Brunswick, £125 in Nova Scotia, and £150 in Prince Edward Island: A.B. McCullough, "Currency Conversion in British North America and the United States, 1760-1900", *Archivaria*, XVI (Summer 1983), p. 84; *Council Journal*, 1853, Appendix No. 1, 2, *Assembly Journal*, 1848, Appendix A; *The Nova Scotian* (Halifax), 1 October 1835; James Wilson to Herman Merivale, 13 January 1854, Shortt Papers, PAC.

8 *Assembly Journal*, 1847, Appendix E; Colonial Office Blue Books, 1835-1856, Acc. 1510, Public Archives of Prince Edward Island [PAPEI].

where. The outer ring, termed the "holey dollar", was valued at five shillings, whereas the centre piece passed for one shilling. Unfortunately, the punch was too large, and the centre pieces were worth more than one shilling. Other suggestions included making local produce such as fish, grain, and lumber legal tender, and using copper coins or light tokens minted in Great Britain.[9]

Several merchants issued their own promissory notes in lieu of currency. The prospect of proliferating private notes alarmed local merchants, who feared that the promissory notes might prove worthless or precipitate further devaluations of Island currency. Thus in 1836 "An Act to restrain the Issue of certain Promissory Notes" legalized the notes and enabled their bearers to sue the issuer in case of non-payment. This regulation restrained the issuance of private notes, and encouraged people to accept those promissory notes that were issued. Three years later, the Legislative Council defeated a bill to prohibit all private notes, believing the Assembly was trying to undermine Samuel Cunard, a large absentee landowner whose notes circulated widely on the Island.[10]

The bewildering array of coins on the Island further complicated the monetary situation. The Imperial Parliament several times broached the idea of developing a common monetary system for British North America, but its plans always foundered on colonial jealousies, the problem of discharging existing debts, and the competition between British Sterling and the American dollar.[11] Lacking a fixed exchange rate, local traders and foreign merchants viewed the chances of the colony's future economic development pessimistically. An obvious solution was to create a local banking system. "To the Commercial Community", the British Treasury wrote in 1854, "such an Establishment would be of indescribable advantage, not only in performing all the functions of Banking...but also in furnishing the means of making remittances and conducting their foreign Exchanges, the want of all of which they now feel so much: and for which they have only to blame the tampering of the Government with the circulation".[12]

Prior to the advent of banks, the merchants acted as bankers for each other by providing credit and discounting each others' paper. As most businesses were

9 New South Wales, Jamaica, Barbados, and several other British colonies also punched out the centres of different coins to provide a greater supply of currency. See Victor Ross, *The History of the Canadian Bank of Commerce* (Toronto, 1920), Vol. 1, pp. 425-36; H.H. Binhammer, *Money, Banking and the Canadian Financial System* (Toronto, 1972), p. 33; J. Richard Becker, *The Decimal Currency of Nova Scotia, New Brunswick and Prince Edward Island* (Massachusetts, 1978), p. 47; Kennedy, *The Holey Dollar*, p. 11; McCullough, *Money and Exchange*, p. 188.

10 *Haszard's Gazette* (Charlottetown), 29 March 1854; *Royal Gazette* (Charlottetown), 12, 16 April 1836; McCullough, *Money and Exchange*, p. 199.

11 All the British North American colonies experienced devaluation of their notes; Prince Edward Island, however, was the hardest hit. Between 1829 and 1836, for instance, Island currency was devalued at 38½ per cent: *Assembly Journal*, 1847, Appendix E; *Council Journal*, 1853, Appendix 1.

12 J. Wilson to H. Merivale, 13 January 1854, Shortt Papers, PAC.

either self-financed or family-owned, expansion proceeded from retained savings. As the economy expanded, however, the demand for capital often outstripped individual resources, and borrowers had to find willing lenders. Wealthy shipowners such as James Peake might await the construction and sale of a ship before demanding repayment. Yet losses from endorsing personal notes could end in bankruptcy, as was the case with Charlottetown auctioneer William Dodd.[13] The chronic shortage of funds, and the high risk of the expanding shipbuilding industry, meant that many loans were contracted at usurious rates. "Those of us who are in trade", stated Charlottetown merchant and shipowner W.W. Lord, "know the value of it [bank loans], and if we cannot be accommodated by a bank, we must go to a private individual for it, and if he is not a particular friend, the probability is you will get pretty closely shaved".[14] Wholesalers and retailers normally granted their customers from three to six months' credit, but if these merchants (especially the wholesalers) had to wait until the loan matured, a considerable part of their capital would be tied up in unproductive uses. The merchants needed a regularly available supply of working capital to finance the purchase of imported cargoes, to transport goods from producers to consumers, and to hold inventories until they were sold. By discounting promissory notes, a bank would enable businessmen to bridge the time between sale and maturation.[15]

Unlike the experience of the other Maritime colonies, these currency problems did not immediately lead to the creation of a provincial bank in Prince Edward Island. By the 1850s time was ripe for the establishment of a bank in that colony. The Crimean War had created a demand for North American agricultural produce, and the signing of the Reciprocity Treaty with the United States in 1854 provided a market for Island fish and other natural resources. Shipbuilding was also on the rise: more than 900 vessels were constructed on the Island during the decade, and the local fleet increased from 192 vessels in 1840 to 309 vessels in 1855.[16] This prosperity was reflected in the rapid growth in population from 32,300 people in 1833 to 71,500 people in 1855. The emergence of a domestic entrepreneurial class that required large amounts of capital and readily available accommodation, made banking facilities a necessity. As part-time shipowner W.W. Lord asserted in the House of Assembly, "every man in business feels the inconvenience and annoyance to which the community is subjected

13 Peake to Moore, 30 December 1856, Peake-Brecken Papers, Acc. 2881, PAPEI; Dun and Bradstreet, 1858, p. 386, Baker Library, Harvard University (courtesy of Dr. Peter Rider, National Museum of Man, Ottawa).

14 *Prince Edward Island Parliamentary Reporter*, 1857, p. 44.

15 "Despatches from U.S. Consuls in Charlottetown", 15 June 1883, Acc. 3024, PAPEI; *Parliamentary Reporter*, 1867, p. 21; H.M.P. Eckardt, *Manual of Canadian Banking* (Toronto, 1909), p. 59.

16 *Haszard's Gazette*, 19 September 1855; Lewis R. Fischer, "The Port of Prince Edward Island, 1840-1899: A Preliminary Analysis", in K. Matthews and G. Panting, eds., *Ships and Shipbuilding in the North Atlantic Region* (St. John's, 1978), pp. 53, 62.

for want of a bank".[17] The situation was so severe that the funds gathered in the Island Patriotic Fund for the Crimean War lay idle for the want of reliable drafts.[18]

In the spring of 1854, James Peake and eight other prominent merchants and shipowners sponsored a private bill in the Legislative Assembly to incorporate a joint-stock banking company. Although the local "Family Compact" had drafted the bill, both political parties supported it, and the Assembly waived the normal private incorporation fee inasmuch as the bank would "promote the interests of all classes".[19] Several of its provisions, however, sparked considerable discussion. Some rural representatives feared that the bank would monopolize the money market and charge whatever interest rates it pleased. The prospect of having the Island's monetary system controlled by a few Charlottetown merchants was also unsatisfactory. Representatives of both Houses met several times before an acceptable compromise was reached. The cost of each share was reduced from £30 to £10 to allow men of relatively limited means to invest in the bank and to make the institution less liable to a run in hard times. The number of directors was increased from four to seven, the government was granted authority to inspect the bank's books, and shareholders became liable for double their share holdings.[20] On 1 May 1854, the Bank of Prince Edward Island Act passed the legislature and was sent to Great Britain.

Unfortunately, in drafting the bill the colonial politicians had ignored the Imperial government's regulations for chartered banks, especially those concerning shareholders' obligations and liabilities. The British Treasury carefully perused the bill, objected to approximately three-quarters of it, and as the bank would "have a great effect upon the future trade of the colony", refused to grant royal assent.[21] When the Treasury transmitted its detailed regulations and conditions for incorporating colonial banking companies, Island politicians swallowed their pride and revised the bank bill accordingly. Once again the British Treasury objected — this time to some ambiguous phraseology regarding limitations on real estate holdings — and the incorporation of the Bank of Prince Edward Island was further delayed until 14 April 1856. After one-half of the bank's capital was paid up, the Bank of Prince Edward Island opened its doors four months later.[22]

The first directors were drawn from the ranks of the Island's Family Com-

17 *Assembly Journal*, 16 February 1855; see also *Parliamentary Reporter*, 1857, p. 45; *P.E.I. Debates and Proceedings of the House of Assembly*, 1857, pp. 40-44.

18 *Haszard's Gazette*, 14 April 1855.

19 *Assembly Journal*, 1855.

20 *Assembly Journal*, 1855, Appendix J; *Haszard's Gazette*, 14 April 1855. For a detailed examination of the Bank of P.E.I., see Doug Baldwin and Helen Gill, "The Island's First Bank", *The Island Magazine*, No. 14 (Fall/Winter, 1983), pp. 8-13.

21 Sir Charles E. Trevelyan to H. Merivale, 8 January 1855, quoted in *Assembly Journal*, 1855, Appendix J.

22 "Bank of Prince Edward Island Minute Book", 17 March, 12 May 1856, PAPEI.

pact, and the bank's shareholders represented a "who's who" of the Island's economic and political elite. The Dun and Bradstreet records of five of the bank's early directors suggest the economic standing of the institution's executive:

> James Peake: Wealthiest merchant here. Stands far ahead of any of our merchants. Estimated worth £100,000. One of the Island's largest shipowners. Treasurer Charlottetown Gas and Light Company.
>
> Richard Heartz: Wholesaler and tanner. Becoming one of our first men of wealth. A man of extensive means. Estimated worth £30,000 to £40,000.
>
> Daniel Davies: Part-time shipowner, insurance agent, President of Steam Navigation Company, and director of Charlottetown Gas and Light Company. Our first retailer. Holds $2,000 in real estate.
>
> Henry Haszard: Part-time shipowner, wholesaler, general merchant. Large real estate investments and grain shipments to Great Britain. Estimated worth $20 to $30 thousand.
>
> Daniel Brenan: Leading merchant. Part-time shipowner, retail merchant, land surveyor. President Charlottetown Gas and Light Company.[23]

Not one of the 116 individuals who purchased the 3,000 shares was a labourer. Four per cent were tradesmen, and ten per cent were farmers. More than half the shareholders were Charlottetonians. These proportions remained constant for the life of the bank.[24] The Bank of Prince Edward Island was a rapid success. In the first year of operation, notes in circulation rose from £9,000 to £38,000, and total assets more than doubled from £30,700 to £72,100. Thanks to an active discounting market, the bank made a £2,400 profit, and in June 1857 declared an 8 per cent dividend. The drop in out-of-province bank notes from £135,000 in 1856 to £22,500 two years later, also illustrates the public's acceptance of this institution.[25]

The bank's success was closely related to its discounting and exchange services, operations dependent upon the Island's exporting market. The colony's shipbuilding and agricultural industries relied heavily upon the British and American markets. Late in 1857, however, crop failures abroad created an economic recession that rapidly enveloped first Britain, then the United States, and finally British North America. Emulating other Canadian lending institutions, the Bank of P.E.I. restricted discounting to its best customers in order to

23 Dun and Bradstreet, various files, 1854-1863.

24 Share List, May 1856, Bank of P.E.I. Minute Book, PAPEI; *Haszard's Gazette*, 14 April 1855.

25 Bank of P.E.I. Minute Book, 1857; McCullough, *Money and Exchange*, p. 203.

prevent cash outlays from exceeding incoming currency.[26] Although the discount rate rose from 7½ to 9 per cent, the increase in foreign remittances further drained the bank's specie supply. When local weather conditions prevented farmers from bringing their produce to market, and the shipping and timber trades hit bottom, many borrowers declared bankruptcy. Monthly profits, which had never dipped below £370, declined to £133 in December 1857, whereupon the Bank of P.E.I. closed its doors.[27]

The bank's misfortune could also be attributed to poor management, or to what James Peake identified as "incautious proceedings".[28] Unknown to the other directors, Ralph Brecken, the bank's president, and William Cundall, the cashier, had loaned more than double the bank's capital to one London shipbuilding company with only its unfinished vessels as security.[29] When this firm failed, the bank discovered it was overextended. The news shocked the Island business community. James Peake, for example, had considered the Bank of P.E.I. the "safest in America", while H.J. Cundall, the cashier's son, had written to friends in November 1857 that he would be glad to possess more than his 40 shares in the bank, so highly were they rated on the market.[30]

At the news of the bank's troubles, depositors rushed to withdraw their money; those holding bank notes sought to convert them into specie, and merchants refused to accept the bank's currency. To protect their dwindling specie reserve, the bank's directors requested government permission to suspend specie payment until the panic subsided. Although the treasury refused this request, it agreed to bolster sagging public confidence in the bank by continuing to accept bank notes in payment for customs duties and other obligations. As the run on the bank continued unabated, the directors resorted to its charter, which allowed suspension for up to three months. All financial transactions were suspended.[31] During the winter, James Peake helped the bank reorganize its finances. He loaned the directors £500 and promised an additional £3500 within six months. In addition, Peake persuaded several London banks to loan needed specie to the bank. Although some shareholders remained dispirited and wished to wind up the bank's affairs, the annual stockholders' meeting in March 1858 decided to re-open in view of the institution's "vital importance to this community and the Island at large".[32] William Cundall remained as cashier, but the president, Ralph Brecken, stepped down. Daniel Hodgson, one of the bank's

26 Brecken to Peake, 7 September 1857, Peake-Brecken Papers, PAPEI.

27 Bank of P.E.I. Minute Book, 1858; *Examiner*, 30 November 1857.

28 Peake to Moore, 30 December 1857, Peake-Brecken Papers, PAPEI.

29 Peake to Moore, 10 December 1857, Item 882, *ibid.*; *The Monetary Times and Trade Review - Insurance Chronicle* (Montreal), 18 October 1878.

30 Peake to Moore, 30 December 1857, Peake-Brecken Papers, PAPEI; Cundall to J.H., 30 November 1857, H.J. Cundall Papers, PAPEI.

31 *The People's Journal* (Charlottetown), 12 December 1857; *Examiner*, 18 January 1858; Prince Edward Island Executive Council Minutes, 8 December 1857, M566, PAPEI.

32 Bank of P.E.I. Minute Book, 2 March 1858.

directors, who felt personally disgraced by the bank's problems and was ashamed to be seen on the streets, declined re-election.[33]

The succeeding year witnessed cautious retrenchment. The bank reduced loans from 90 to 60 days, contracted remittances, and sold the land and ships acquired from the bank's defaulters. That fall, good harvests and a ready American export market brought improved financial conditions, and the Bank of P.E.I. declared an eight per cent dividend. Dun and Bradstreet's rating improved from "perfectly safe" to "good and strong", and H.J. Cundall purchased an additional £400 in bank stock and advised a London widow to do the same.[34] In 1860 the bank resumed dividend payments.

This renewed success reflected the Island's general prosperity. An expanding population, good local harvests, and excellent United States markets stimulated agriculture, fishing, and shipbuilding. The chance to emulate the success of the Bank of Prince Edward Island, and the need to accommodate the expanding economy more efficiently, prompted the creation of four additional banks between 1862 and 1871. This expansion coincided with the general banking boom in British North America, where the number of banks proliferated from 29 in 1863 to 51 in 1874.[35]

In 1862 Father Georges-Antoine Belcourt established the Farmers' Bank of Rustico to serve the needs of the Acadian population in the area. The purpose of this cooperative institution, as outlined in the *Vindicator*, was "to afford those farmers, who are in backward circumstances, the opportunity of procuring seed-grain, etc., at a more moderate rate than that at which they were heretofore obliged to buy them, as well as to enable those who have any money to spare to invest their savings in a profitable manner".[36] Despite trepidations concerning its diminutive size and capitalization (£1,200 compared to £30,000 for the Bank of P.E.I.), the Farmers' Bank was incorporated with little opposition.[37]

The establishment of another bank in Charlottetown two years later, however, met considerable resistance from the directors and shareholders of the Bank of P.E.I. The promoters of the Union Bank declared that another financial institution was needed to cater to the needs of the expanding economy. The *Charlottetown Examiner* agreed, noting that increased population and growing agricultural exports "have rendered further banking operations in this Island

33 Item 882, 10 December 1857, Peake-Brecken Papers, PAPEI.

34 Bank of P.E.I. Minute Book, March 1859; Cundall to Mrs. E. Hodges, 7 December 1858, Cundall Papers; Dun and Bradstreet, file # 123, p. 368.

35 Neufeld, *The Financial System of Canada*, p. 78.

36 *The Vindicator* (Charlottetown), 12 June 1862.

37 Acadian farmers, who previously had paid 20 per cent interest rates to money lenders, could now borrow at 7 to 8 per cent. Within three years the bank returned a 10 per cent dividend: J.T. Croteau, "The Farmers' Bank of Rustico: An Early People's Bank", *Dalhousie Review*, XXXVI, 2 (Summer 1956), pp. 144-55; "The Farmers' Bank of Rustico: An Episode in Acadian History", *The Island Magazine*, No. 4 (Spring-Summer 1978), pp. 3-8.

absolutely necessary".[38] The *Islander* also believed that responsibility for the Island's monetary system exceeded the capacity of a bank with a paid-up capital of only £30,000, and suggested that the colony's fiscal responsibility be divided between two banks.[39] Perhaps the real motive behind the decision to create a second bank in Charlottetown was the proclivity of bank directors to promote their own and their friends' business ventures.[40] The Bank of P.E.I. was supported by "all the monied men in the country" and run by the leading businessmen in the capital.[41] These, and other directors of the Old Bank, as it was now called, sometimes stood accused of favouring the bank's shareholders, and refusing to discount bills held by those residing outside the capital — thus forcing them into using the services of private discounters at exorbitant interest rates.[42] Prior to 1865, more than half the Old Bank's directors were shipbuilders, and since this industry required sizable capital, the bank could not accommodate everyone. Certainly, its monopolization by a select group of businessmen posed a major source of concern for many Island merchants, and no doubt fathered the 1864 bill to incorporate the Union Bank. Indeed, the Union Bank subsequently conducted more of its business in the countryside than did the Bank of P.E.I. Most of the new bank's directors were hardware and dry goods merchants, while fewer than one-third were shipbuilders.

The directors of the Old Bank were determined to monopolize the Charlottetown money market. Shortly after the Union Bank's petition appeared before the Legislature, the Bank of P.E.I. requested the government to double its capital stock to £60,000. The bank's charter empowered the institution to increase its stock by a majority vote of its shareholders within seven years of incorporation. This period had lapsed, and at the annual general meeting earlier that year the issue of expanding the bank's capital had not been broached. The Union Bank's petition, however, now had the directors hurrying to obtain the necessary votes to petition the government for an additional £30,000 capitalization.[43] The Old Bank obviously believed that the monied class in Charlottetown would more likely invest in an established institution that had paid a 15 per cent dividend the previous year, than risk its investment in a new bank that might take several years to realize a profit.[44] Despite the opposition of several poltiicians with shares in the Old Bank, the Legislature perceived the need for an additional bank, and rejected the Bank of P.E.I.'s request. The Union Bank opened for business in

38 *Examiner*, 4 May 1863.

39 *The Islander*, 12 June 1863.

40 *Ross Weekly* (Charlottetown), 10 November 1864; R.T. Naylor, *The History of Canadian Business, 1867-1914* (Toronto, 1975), Vol. I, p. 120.

41 Peake to Brecken, 23 March 1857, Peake-Brecken Papers; *Examiner*, 1 March 1858; Prince Edward Island, *Debates and Proceedings of the Legislative Council*, 1863, pp. 46-48.

42 *Legislative Council Debates*, 1863, p. 47; *Islander*, 12 June 1863; *Parliamentary Reporter*, 1857, pp. 44-45.

43 Bank of P.E.I. Minute Book, March 1863.

44 *Legislative Council Debates*, 1863, p. 48.

1864.

Two years later, as the Island continued to prosper, additional banks became incorporated in Summerside, Souris, and Alberton, although only the Summerside bank came to fruition. Summerside had emerged in the 1850s as the second largest town in the colony, and the most important commercial centre for the western half of the Island. Charlottetown was too distant for day-to-day financial transactions. In addition, local pride, and suspicions that the directors of the two Charlottetown banks catered particularly to the merchants of the capital city, made a local bank desirable. The long list of prominent Summerside merchants and shipowners who supported the bill reflected the expected commercial benefits of the bank.[45] In 1871 Prince Edward Island was still riding the crest of world-wide prosperity, augmented by the construction of a railway across the Island, and the fifth and final local bank opened its doors. As the preamble to the incorporating act for the Merchants Bank of Prince Edward Island explained, "the increasing trade and wealth of this Island necessitate the establishment of an additional Bank at Charlottetown".[46] The Merchants Bank charter resembled the other Charlottetown banks in everything but liability, which was set at triple rather than the normal double liability.

The Island banks' powers and liabilities resembled the charters of other British North American banks, which meant that they reflected the mother country's banking practices and the dictates of the British Treasury and Board of Trade. The charters included clauses protecting the public against questionable banking practices and preventing power from accumulating in a few hands. The paid-up capital, for example, was divided into shares of £10 each to "accommodate men of small means".[47] No individual could purchase more than 40 shares until the offer had been in effect for three months, and at no time was any person to own more than 20 per cent of any bank's stock. Additionally, the charters limited shareholders' voting power by allotting votes in a ratio that decreased the influence of large shareholders and set an individual's maximum number of votes at 15. To encourage careful management, stockholders were liable for double their investment, and if the bank collapsed, the shareholders might lose their initial payment, plus an amount equivalent to the price they had paid for their stock. The 7 elected directors of each bank were not eligible to serve on the board of another bank. Debts (excluding deposits) were not to exceed three times the paid-up capital, and if specie payments were suspended more than 90 days the bank forfeited its privileges. Finally, due probably to the public's fear of the influence of an all-powerful financial institution, the government limited each charter to 21 years.[48]

45 The list included Robert and James Holman, John Lefurgey, James Yeo, James Muirhead, David Rogers, and Charles Green.

46 *Statutes of Prince Edward Island*, 1871, Cap. 71, p. 76.

47 *Haszard's Gazette*, 14 April 1855.

48 See R.C.B. Risk, "The Nineteenth-Century Foundations of the Business Corporation in Ontario", *University of Toronto Law Journal*, XXIII (1973), p. 283.

The Island banks wielded political as well as economic power in the community. An analysis of the personnel of the Bank of P.E.I.'s board of directors between 1856 and 1881 reveals that at one time or another, 40 per cent served as justices of the peace, 25 per cent were elected to the provincial government, and two directors officiated as mayors of Charlottetown. Although the Union Bank's directors were not nearly so prominent in public affairs, they were not without some influence. During the Confederation debates in 1872-1873, for instance, the president of the Union Bank, unable to sell the colony's railway debentures in Britain, met with the Executive Council, and, according to F.W.P. Bolger, the pressure of this official and other Island bankers was important in convincing the government to re-open negotiations with Canada.[49] The Merchants Bank was even more influential. One-fifth of its 36 directors were elected to municipal office, and one-third sat in the Legislature. This included Premiers L.C. Owen (1873-1876), L.H. Davies (1876-1879), Donald Farquharson (1898-1901), J.H. Peters (1901-1908) and F.L. Haszard (1908).

As Table One illustrates, the 1860s and early 1870s were profitable years for the Island banks, and these institutions generally applauded themselves for their thrifty, conservative fiscal policies. Unfortunately, 19th-century banking practices often accentuated the ups and downs of economies based upon staple exports. When the demand for Island produce in foreign markets declined, the banks responded by restricting loans. This fiscal conservatism merely triggered another downturn, which made it more difficult to reverse the trend. When times were good, credit was so readily available that speculation became the order of the day.[50] In addition, all three Charlottetown banks hesitated to lend small sums to everyone who desired money, even if the loans were well-secured. The 1870 minute book of the Old Bank, for example, noted that since the institution had made large advances to several wholesalers, it had limited loans to the "general public". These problems were partly overcome when the Union Bank established branches in Summerside and Alberton in 1899, and in Montague in 1897, and the Merchants Bank decided to open an office in the shipbuilding centre of Georgetown in 1875.

In his controversial work on Canadian business, R.T. Naylor has argued that by favouring short-term loans over long-term credit, and by refusing to finance manufacturing industries, Central Canadian banks seriously retarded Canadian economic growth. Non-Halifax based Maritime banks, however, did not conform to these practices. Dominated by local entrepreneurs, Naylor wrote, these banks actively promoted both commercial and industrial development.[51] The evidence available on Prince Edward Island banking tends to support Naylor's latter assertion.

On the Bank of Prince Edward Island's 25th anniversary in 1881, the direc-

49 F.W.P. Bolger, *Canada's Smallest Province* (Charlottetown, 1973), p. 208.

50 "Despatches from U.S. Consuls", 15 June 1883, PAPEI; *Examiner*, 13 September 1883.

51 Naylor, *The History of Canadian Business*, Vol. I, pp. 110, 118, 125.

tors reported proudly that the bank had been "instrumental in...advancing the commercial and industrial interests, and developing the resources of the Province at large".[52] In the absence of records of who applied for loans and who were rejected, the precise lending practices of Island banks are difficult to determine. The documents generated by the liquidation of the Bank of Prince Edward Island between 1882 and 1887, however, provide an insight into the policies of the oldest Charlottetown bank.[53] When the bank suspended specie payments, it had 410 depositors. Of this number, 50 lived out-of-province and were owed three per cent of the bank's total debt. Fifty-seven per cent of the debt was payable to 120 Charlottetown residents, and the remaining 40 per cent was owed to 250 people widely scattered throughout the province. The large number of depositors from outside the capital suggests that the bank's influence extended throughout the Island.

The bank's investments included many industrial and commercial enterprises. In the 1879 annual report, the directors acknowledged shipbuilding to be the Island's "great branch of trade". It was therefore to be expected that the bank's largest accounts were with such wealthy shipbuilders and owners as J.C. Pope, the Peake brothers, the McDonald brothers, William Welsh, and Daniel Davies. At a number of mortgage sales, the liquidators disposed of five fishing boats, three barques, two brigantines, one brig, and one schooner. The banks also dispensed sizable loans to wholesalers and shippers dealing in agricultural produce and canned goods destined for Great Britain and the West Indies, as well as to local grocers, lawyers, druggists, and hardware merchants. Additionally, the bank held land mortgages in at least one-third of the townships in the province, and had issued a large number of loans to numerous industrial firms throughout the Maritimes, including the Steam Navigation Company, a brewery, and the Acadia Coal Company. Shedd and Moore's new starch factory held one of the largest overdrafts. In fact, when the province's first two starch factories began operations in 1881, the Old Bank had extended credit to both of them, despite warnings from some quarters of their speculative nature.[54] Lobster canning factories also benefitted by the bank's lending policies. Five canning factories owed money to the Old Bank - one more than $100,000. If the Bank of Prince Edward Island was representative, then Island banks invested widely and assisted all sectors of the province's economy.

Despite the promising auguries of the 1860s and the early 1870s, between 1878 and 1883 one Charlottetown bank liquidated, another amalgamated with the Bank of Nova Scotia, and a third institution nearly failed on two occasions. The same world economic conditions that had spurred the growth of local banking now hastened its decline. In 1873 a severe commercial depression engulfed Great Britain and the United States, reaching Central Canada that same year, and ex-

52 Bank of P.E.I. Minute Book, 1 March 1881.

53 Insolvency Minute Book, Series A, vol. 1, 1882, PAPEI; see also *Saint John Globe*, 3 December 1881, for a list of the bank's creditors.

54 *Patriot* (Charlottetown), 26 January 1882; *Monetary Times* (Montreal), 27 May 1881.

Table One

The Growth of Charlottetown's Banking Institutions, 1856-1882

	Bank of P.E.I.			Union Bank			Merchants Bank		
Year	Notes in Circulation	Dividends %	Total Assets	Notes in Circulation	Dividends %	Total Assets	Notes in Circulation	Dividends %	Total Assets
1856	£ 9,000	-	£ 31,000						
1857	£ 39,000	-	£ 72,000						
1858	£ 33,000	8	£ 70,000						
1859	£ 34,000	-	£ 77,000						
1860	£ 43,000	5	£ 90,000						
1861	£ 44,000	8	£ 97,000						
1862	£ 41,000	10	£ 90,000						
1863	£ 51,000	10	£112,000						
1864	£ 63,000	8½	£138,000						
1865	£ 36,000	16	£109,000	£ 26,000	15	£ 70,000			
1866	£ 33,000	15	£114,000	£ 28,000	10	£ 90,000			
1867	£ 25,000	15	£ 99,000	NA	NA	£ 88,000			
1868	£ 32,000	15	£111,000	£ 28,000	10	£ 88,000			
1869	£ 33,000	15	£114,000	£ 28,000	5	£ 93,000			
1970	£ 32,000	15	£127,000	£ 39,000	5	£ 109,000			
1871	£ 55,000	15	£163,000	£ 51,000	5	£ 129,000			
1873*	$ 93,000	15	$368,000	$196,000	5	$ 407,000	$100,000	10	$241,000

1874	$134,000	14	$637,000	$217,000	10	$ 490,000	$150,000	10	$522,000
1875	$154,000	14	$723,000	$237,000	10	$ 624,000	$245,000	20	$599,000
1876	$133,000	10	$674,000	$163,000	10	$ 504,000	$201,000	20	$642,000
1877	$120,000	10	$687,000	NA	NA	NA	$237,000	10	$722,000
1878	$100,000	10	$655,000	$234,000	-	$ 875,000	$203,000	5	$649,000
1879	$161,000	10	$658,000	NA	NA	NA	$ 71,000	-	$405,000
1880	$177,000	10	$701,000	NA	NA	NA	$ 65,000	-	$309,000
1881	$196,000	8	$835,000	NA	NA	NA	$ 86,000	-	$337,000
1882				$334,000	-	$1,047,000	$154,000	-	$460,000

Sources: Victor Ross, *The History of the Canadian Bank of Commerce* (Toronto, 1920), Vol. 1, p. 492; Minute Books, Bank of Prince Edward Island, Public Archives of Prince Edward Island; P.E.I., *Journals of the Legislative Assembly*, 1865-1882.

*Prince Edward Island switched to decimal currency between December 1871 and February 1872; $486.66 equalled £100 sterling, or £150 P.E.I.

tending to the Maritimes in 1875. Prince Edward Island escaped the first years of the depression thanks to the continuing demand for grain in Europe and the infusion of Dominion funds resulting from the Island's entry into Confederation in 1873. By 1878, however, shipbuilding declined, and the depression was causing great losses and some major failures amongst the Island mercantile community.

The first bank to feel the crunch, the Merchants Bank, might have escaped relatively unscathed from the depression had the directors followed sound banking practices. The board allowed one of the directors, J.F. Robertson, to advance most of the bank's resources to the shipbuilding firm of James Duncan and Company, of which he was a managing partner. This was an unwise financial decision, and in the midst of a severe depression, it was suicidal. The firm began experiencing trouble when Robertson ignored the advice of the company's agent in England and continued to promote business while relying on the Merchants Bank to cover the company's loans. The directors failed to recognize the firm's problems until several British banks refused their drafts. As the *Monetary Times* concluded, the directors were "culpable in permitting one of their number, who, although clever, is a bold and self-willed man, to have all the money desired by the firm of which he was a ruling spirit to lock up in ships".[55] When the business community learned of the Duncan Company's failure, many of the bank's wealthier depositors immediately withdrew their funds, and on 10 October 1878, the Merchants Bank suspended operations to protect its dwindling specie supply. Since March of that year, deposits had fallen from $247,000 to $59,000, and total assets had declined from $650,000 to $420,000.[56] Matters further deteriorated when one of Duncan's creditors fled the Island late at night, absconding with several securities on which the bank had first lien.

Two months later the bank reopened its doors, thanks to the assistance of the other Charlottetown banks. The Union Bank transferred its City of Charlottetown account to the Merchants Bank, and the Bank of Prince Edward Island purchased 300 shares in the Merchants Bank. Also, the directors and shareholders of the Merchants Bank contributed an additional $85,000 to the bank coffers. Its financial position, however, remained precarious. Two directors, including J.F. Robertson, were not re-elected at the annual shareholders' meeting, and two others resigned immediately after being re-elected. The next year, the courts settled the Duncan estate at 32 cents per dollar, a loss for the bank of more than $150,000, or slightly more than the Merchant Bank's entire capital. To meet this crisis, the bank cut salaries in half, and realized a slight profit in 1881.[57]

Just when it seemed the Merchants Bank was on the road to recovery, the

55 *Monetary Times*, 18, 25 October 1878.

56 Ross, *The Canadian Bank of Commerce*, pp. 127, 492.

57 *Ibid.*, pp. 142, 143; *Charlottetown City Council Minutes*, 7 October 1878, Vol. 6, PAPEI; *Examiner*, 24 October 1878.

Bank of Prince Edward Island failed. The depression of the 1870s had also affected the Old Bank. Gross profits, which had not dipped below $40,000 from 1875 through 1878, fell to $23,000 in 1879 and to $17,000 the next year. Deposits declined, the discount department was inactive, and the value of real estate held by the bank as security depreciated.[58] The directors thus cautioned the cashier to limit future loans and to carefully check the customers' securities. Despite these problems, the Bank of Prince Edward Island was generally considered the safest investment on the Island. The business community was thus shocked when the bank suspended specie payments on 28 November 1881.

The first hint of trouble appeared when the cashier, Joseph Brecken, departed for Saint John, New Brunswick, on 21 November and failed to return to work the following Monday. As Brecken explained to his wife:

> I know what people will say about me. I deserve it all and plead guilty. Where customers got the thin of the wedge in, I had to go on advancing in order...to get the whole monies due the bank back without loss. This every person promised to do. I had to keep these facts from the directors or I would have been dismissed from the bank. I therefore commenced my downward course by telling lies and ended by making false accounts.[59]

A subsequent audit discovered that the bank had lost almost $300,000, with one outstanding account still to be calculated. For more than a year the cashier had deliberately deceived the directors. He had granted loans to customers whom the directors considered untrustworthy, recording these transactions in a secret bill book while continuing to take the regular bill book to the monthly meetings. After the board of directors had refused a $1,000 loan to Shedd and Moore Lobster Shippers, for example, Brecken granted them $42,000 the very next day. Although the directors had also ordered that John Hughes' liability to the bank should not exceed £4,000, the cashier's secret bill book for 1881 detailed ten entries over three months allocating more than £31,000 to Hughes. At other times, Brecken deceived the directors about a potential borrower's credit to provide him with additional discounting privileges. Each month the cashier presented the bank's overdrafts to the board for inspection, but here again Brecken omitted some names and reduced the apparent debts of others. When Brecken absconded, the bank held approximately $250,000 in 100 overdrafts, of 64 of which the directors knew nothing.[60] The president's announcement that he would soon be checking the books in preparation for a semi-annual dividend distribution sparked the cashier's sudden departure.

Although Brecken had deliberately deceived the board, several out-of-province newspapers placed the bank's failure squarely on the directors' shoulders.

58 Bank of P.E.I. Minute Books, 1878-1881, PAPEI.

59 Insolvency Minute Book, 1882, PAPEI.

60 Examination of J. Longworth and Judge Hensley, 29 September 1882, *ibid.*

As with recent banking scandals in Newark, Boston, Kansas, Toronto, Saint John, and Glasgow, Scotland, the losses were blamed on the directors' "culpable negligence", poor business practices, and the tendency to place too much trust in one person.[61] H.J. Cundall, whose father had been the bank's cashier for 20 years before he died in 1877, wrote to a colleague in Montreal that the bank's failure spoke "little for the intelligence or business capacity of the directors. I had no faith in them myself but the collapse came sooner & was more complete than I anticipated".[62] The board of directors, in general, was not a particularly competent body in financial matters. Only one director knew much about accounting, and Joseph Hensley admitted he did not understand double entry bookkeeping. In addition, despite the worsening recession, the bank had continued distributing its profits in dividends, while allowing its reserves to decline.

In fairness to the board of directors, in the past five years the bank had experienced an unusually rapid turnover in personnel. The death of the bank's cashier, William Cundall, was an important loss. His talents and integrity had contributed greatly to the institution's solid image, and the board had come to rely heavily upon his judgement. When Cundall's son declined the position, the directors appointed the assistant cashier Joseph Brecken, who had been with the bank for six months, following three years experience with the Bank of British North America in Halifax and Saint John. The previous year, Daniel Brenan, the bank's president, and George Moore, who had been the bank's teller since 1856, had also died. Brenan was replaced as president by Judge Joseph Hensley, but in the fall of 1880 Hensley left for England to recover his health and John Longworth became acting president during the bank's crisis.

This last change in leadership was most unfortunate. Hensley had been an extremely conscientious president. Each morning he went to the bank and took care of all foreign correspondence. Following this task, he consulted the Bill of Exchange Book and examined the credit of those who had purchased exchange. If the customer was unknown to the bank, the president telegraphed the Union Bank of London, or consulted the Dun and Wiman *Mercantile Agency Reference Book*. Hensley also checked the Circulation Book each week to ascertain who had overdue drafts, and hastened to initiate their collection. All overdrafts and discounts were laid before the directors at the monthly meeting for inspection and instruction.[63] John Longworth was less diligent than his predecessor. He went to the bank "nearly every morning" to see if he was needed, but left the books to the cashier. Brecken thus carried on the bank's correspondence, prepared the weekly balance sheets, and managed all exchange and fluctuations in circulating notes. The Circulation Book was not kept up after Judge Hensley left

61 *Monetary Times*, 7 December 1881; *Presbyterian Witness* (Charlottetown), 7 December 1881. See also summaries of out-of-province newspaper reports in *Examiner*, 7 December 1881.

62 Cundall to W.C. McDonald, 23 December 1881, Cundall to Mr. Frome, 30 November 1881, Cundall Letterbook, PAPEI.

63 In camera examination of Judge Hensley, Insolvency Minute Book, 1882, PAPEI.

for England.[64] As a result Brecken had been able to falsify the books for more than a year.

The charter of the Bank of Prince Edward Island permitted the directors 90 days' grace before resuming specie payments. Several groups of investigators estimated the bank's losses at $389,500 with one large account in England left to be valued, and the interested parties made plans to raise the necessary money to resume business. On 17 January 1882, most of the bank's creditors argreed to leave their deposits in the bank for three years at four per cent interest. Two weeks later, the directors offered to contribute $75,000, and the shareholders promised to pay $100,000 ($40 per share). These negotiations received general approval from all three levels of government, the other Island banks, and the province's leading businessmen.[65] The bank's future now depended upon the willingness of the shareholders, depositors, and directors to live up to their agreement. By March, the directors had paid $67,000 of the agreed $75,000, and the shareholders had contributed $85,640 of the promised $100,000. The *Daily Patriot* pointed out that these payments "will no doubt entail great hardship upon very many. It will take away the greater part of their incomes from not a few, but it will save the Bank from ruin....The other alternative — liquidation, means not only absolute ruin to many Stockholders, and a loss of at least 50 per-cent to the Bank's creditors, but also general and wide spread loss and disaster to the business of the entire province".[66] However, nothing could be accomplished until the Hughes account in England was settled, and Louis H. Davies, bank director and provincial MLA, travelled to London to handle the account. The bank's statutory period for resumption was nearing its expiration date, and a delegation dispatched to Ottawa arranged a further extension of 90 days. In mid-April, the province was shocked by the news that hitherto undiscovered bank debts required an additional $300,000 to resume business. Before any action could be taken, news arrived from London that Hughes owed the bank $90,000 and had no means to repay it. All hopes of resumption evaporated, bankruptcy was unavoidable, and on 30 May 1882 a petition to wind up the bank was filed in court.

The failure of this much-respected bank, which had been considered as solid and respectable as Government House, sent shockwaves through the community. The immediate impact was a loss of confidence in the security of the other banks, which resulted in a brief run on the two remaining Charlottetown institutions. Because the Old Bank was heavily involved in promoting shipbuilding, fishing, breweries, starch and lobster factories, its collapse had a paralyzing effect on trade. Deposits in the government's Savings Bank increased dramatically as the public apparently lost faith in all other banking institutions. This lost

64 In camera examination of J. Longworth, *ibid.*

65 Bank of P.E.I. Minute Book, 19 January 1882; *Examiner*, 17 January 1882; *Patriot*, 2 February 1882.

66 *Ibid.*

trust was also reflected in the declining value of the Union Bank's stock.[67] Although the demise of one bank might have been considered a golden opportunity for the other financial houses to fill the void, it served, instead, to shake Islanders' confidence in the long-term possibilities of small local banks. In addition, the Old Bank was considerably in debt to the other banks which were unable to realize on their claims for several years, and even then, the Bank of Prince Edward Island paid only 60 cents on the dollar.

These problems did not escape the notice of the Bank of Nova Scotia. While the Bank of Prince Edward Island was still exploring the possibility of re-opening, the Nova Scotian directors met in Halifax to consider the benefits of amalgamation with "several small country banks in the lower provinces" which were experiencing difficulties.[68]

It is unclear which institution approached the other, but both sides agreed to amalgamation by mid-1882. From the Bank of Nova Scotia's viewpoint, merger offered definite economic advantages. According to the Halifax press, amalgamation would "place the Bank of N.S. at once in possession of the best business on the Island without cost, and add to the many ties of mutual interest between the two provinces and will make the interests of the business men of the Island lie rather with Nova Scotia than with New Brunswick".[69] Additionally, the Union Bank's provincial charter enabled it to issue bank notes and grant loans up to three times its paid-up capital. As this charter did not expire until 1891, the Bank of Nova Scotia could expand its note issue, previously fixed by Dominion law to the extent of the bank's capital. Although the Union Bank of Prince Edward Island was in sound financial shape, the failure of the Old Bank had apparently convinced the directors of the long-term benefits of a merger with a stronger institution. After a year of negotiations, and the passage of a special Act of Parliament, the two banks amalgamated on 2 October 1883. The amalgamation of the Union Bank with the Bank of Nova Scotia in 1883 evoked the following hopeful comment from the *Examiner*:

> The power of a certain class of *influential* men to extort undue accommodation from the local Boards of Bank Directors will be diminished, and the careful, laborious, prospering small trader will have a better chance to obtain the accommodation he may require when jealous and inimical large traders no longer exercise control at Board of Bank Directors.[70]

The Merchants Bank also suffered from the collapse of the Old Bank. The bank had never recovered from its 1878 losses, and after a brief resurgence in 1881-82, notes, deposits, and loans declined the next year to the level of the dark

67 *Summerside Journal*, 30 March 1882; Cundall Diary, Spring 1882, PAPEI.

68 Report of Annual General Meeting, 15 February 1882, Minute Book, Bank of Nova Scotia Archives, Toronto.

69 *New Era*, 15 September 1883, quoted in the *Patriot*, 19 September 1883.

70 *Examiner*, 13 September 1883.

days of 1878. In May 1883 a committee of influential Charlottetown merchants recommended that the bank discontinue operations, and the directors decided to sell.[71] Negotiations began with five off-Island banks, but the only positive offer came from the Bank of Nova Scotia, which the directors rejected as insufficient. The 1884 annual general meeting replaced all but one of the directors and asked shareholders to donate a sum equal to 40 per cent of their holdings to eliminate the bank's deficits. The new board consisted of prominent Charlottetown importers, retailers, and shipowners, including four previous Union Bank directors. According to Victor Ross, "most of the influential men of the island...both in business and in public office, were interested in the Bank as directors or shareholders, and controlling as they did, a large part of the trade of the island, they turned it into the Merchants Bank".[72]

During the next two decades, the Merchants Bank enjoyed considerable success. By 1905 its assets had risen to more than $2 million, circulating notes increased to $311,000, and dividends had remained at eight per cent from 1888. Branches were established in Souris (1884), Montague Bridge (1897), Summerside (1899), Alberton (1899), and Sydney, Cape Breton (1900). When the Canada Bank Act and the large Central Canadian banks forced the Farmers' Bank of Rustico to liquidate in 1894, and the Bank of Summerside amalgamated with the Bank of New Brunswick in 1901, the Merchants Bank remained the only local bank on the Island. In 1906, however, its shareholders voted to merge with the Canadian Bank of Commerce.

During the previous eight years, the Merchants Bank had lost three presidents and one vice-president to death or retirement. Losses from bad debts had been gradually mounting, and competition from Central Canadian branch banks was increasing. By 1905 the Bank of Nova Scotia, the Union Bank of Halifax, and the Bank of New Brunswick had all established branches in Charlottetown, and the total number of branch banks on the Island had grown from six in 1895 to 14 in 1906. From the Merchants Bank's perspective, amalgamation with the powerful Canadian Bank of Commerce would provide better returns, and would protect its shareholders from drastic shifts in the economy. For the Canadian Bank of Commerce, this was a chance to establish banking facilities in one of the two provinces in which it was not represented. The move to the Island was also part of the bank's expansionist policy in which total branches had grown from 48 in 1900 to 152 in 1906.[73]

Prince Edward Islanders had mixed feelings about branch banking. The *Examiner* had favoured the Union Bank's merger with the Bank of Nova Scotia, but cautioned against permitting non-Islanders to monopolize provincial banking, because "outside interests more powerful than the interests of the Island may, at times, influence the policy they may adopt with reference to our

71 Ross, *The Canadian Bank of Commerce*, p. 145.

72 *Ibid.*, p. 148.

73 *Annual Reports for the City of Charlottetown*, 1889-1906; R.M. Breckenridge, *The Canadian Banking System, 1817-1890* (Toronto, 1894), p. 310; *Canadian Annual Review*, 1906, p. 205.

people".[74] The *Summerside Journal* expressed similar sentiments during the Bank of Prince Edward Island's troubles in 1882. If the Bank of Montreal purchased the Old Bank's charter, the editor wrote, "we should regard it a misfortune for our other banks to be exposed to the operations of so great and soulless a corporation".[75] This attitude was also reflected in the Merchants Bank's 1892 decision to prohibit non-residents from becoming directors.

Yet when the last Island bank merged with the Canadian Bank of Commerce in 1906, the local press hailed the transaction. The *Guardian* hoped the amalgamation would turn "the eyes of the capitalists to this province, and [give] a great stimulus to the much needed development of our rich agricultural resources". The creation of an advisory board of local businessmen with a "large measure of discretion" in conducting the branch's lending policies, probably accounted for these sentiments.[76] These sanguine expectations were never fulfilled. The growth of branch banking resulted in the gradual decline of Prince Edward Island's financial facilities. In 1881, at the height of local banking, each branch served an average of 9,900 Islanders, the highest ratio recorded in Canada. Ten years later, each branch served more than 13,600 individuals. Although the ratio of branches to people improved slightly over the following two decades, Prince Edward Island enjoyed fewer banking services than any province but Quebec.[77]

R.T. Naylor has stated that the extension of the Central Canadian branch banking system into the Maritimes undermined indigenous banks and diverted savings previously used to sustain local development to the continent's more profitable areas.[78] James Frost's examination of the Bank of Nova Scotia's ratio of loans to deposits has substantiated Naylor's thesis for this Halifax bank.[79] The following analysis tends to corroborate these findings in the case of Prince Edward Island.

One method of examining the benefits of branch banking in a specific region is to determine the ratio of loans to deposits. When loans at least equal deposits (a ratio of 1.00), the community's savings are being invested locally; but if the ratio declines below 1.00, savings are being diverted from the area. Table Two shows the available loan-deposit ratios for the Union Bank both before and after amalgamation with the Bank of Nova Scotia. Prior to amalgamation, the Union Bank loaned approximately $1.55 to local residents for every $1.00 it received in deposits. After becoming a Bank of Nova Scotia branch, it loaned only 78 cents locally for every dollar deposited. The 22 cents difference, plus the additional

74 *Examiner*, 13 September 1883.

75 *Summerside Journal*, 2 February 1882.

76 *Guardian*, 2 June 1906; *Examiner*, 1 June 1906. The Advisory Board was abolished in 1915.

77 Ron Rudin, "Quebec and the Canadian Banking System, 1871-1921", paper presented at the meetings of the Canadian Historical Association, Vancouver, 1983.

78 Naylor, *History of Canadian Business*, I, pp. 103-4, 118-25.

79 James D. Frost, "The 'Nationalization' of the Bank of Nova Scotia, 1880-1910", *Acadiensis*, XII, 1 (Autumn 1982), pp. 3-38.

Table Two

Ratio of Total Loans to Deposits in the Union Bank/Bank of Nova Scotia

Year	Ratio	Bank
1866	1.83	Union
1874	1.40	Union
1875	1.51	Union
1883	.85	Branch of B.N.S.
1884	1.20	B.N.S.
1885	.89	B.N.S.
1889	.75	B.N.S.
1905	.61	B.N.S.
1910	.36	B.N.S.

Sources: P.E.I., *Journal of the Legislative Council*, 1866-75; J.D. Frost, "'Principles of Interest': The Bank of Nova Scotia and the Industrialization of the Maritimes, 1880-1910", M.A. thesis, Queen's University, 1978, Appendix.

funds generated by the bank's three to one fractional reserve system, floated to areas of superior potential profits. The scattered ratios shown in Table Three represent different banks at various times, and therefore cannot be used as a reliable guide. They do, however, suggest that branch banks did not invest as substantially in Prince Edward Island as did locally-owned institutions. Both Island banks, for example, invested twice as many funds per deposit as did the two externally controlled financial institutions.

The banks did not deny that surplus funds were being transferred from east to west; indeed, they considered it a wise precaution both in terms of business acumen and national prosperity. The General Manager of the Canadian Bank of Commerce argued:

> The Bank of Montreal borrows money from depositors at Halifax and many points in the Maritime Provinces, where the savings largely exceed the new enterprises, and it lends money in Vancouver or in the North-west, where the new enterprises far exceed the people's savings. In what other country is such a splendid development of banking to be seen as that in-

> volved in transferring the idle money of the Atlantic towns and cities to the new centres of enterprise on the Pacific?[80]

It would be pointless to condemn the bank's lending practices for responding to more profitable business opportunities elsewhere. The low Island loan to deposit ratio merely reflected the lesser demand and potential returns for invested funds on the Island than existed elsewhere. These tentative statistics point to the need for further research on how banking policy influenced the Island's economy. To what extent were Island businessmen unable to secure loans at reasonable bank rates in the wake of the outflow of local savings? Did branch banks play a positive or negative role in Prince Edward Island's economy, and how responsive were they to the needs of the province's business community?

When the first bank began operations on Prince Edward Island in 1856, its directors announced that the institution's objectives were to secure a fair return on the stockholders' investments, and "to afford every facility for the development of the commercial and agricultural resources of this Colony".[81] The other two Charlottetown banks emerged for similar reasons. In all three institutions, shareholders had little reason to complain. In a period when interest rates ranged between four and seven per cent, and the banks' discounting rate was seven to eight per cent, the Bank of P.E.I. returned an average of 11 per cent between 1865 and 1877; and despite eight depressed years, the Merchants Bank's dividends averaged over seven per cent. More importantly, the local banks provided a healthier climate for business investments than had existed prior to the 1850s. They regularized the monetary system, retained specie on the Island, and issued up to $700,000 in currency for business transactions. The banks provided a reliable source of credit at reasonable rates, and helped to direct the community's surplus funds into remunerative channels. The steady growth in total assets, deposits, and loans attested to the growing popularity and expanding activities of the three Charlottetown banks. The local financial institutions facilitated the movement of staples to external markets, and loaned substantial sums of money to support shipbuilding, lobster and meat canning, starch manufacturing, electricity generation, and a host of other secondary business enterprises.

The banks also had their flaws. Their policies on credit expansion and contraction were more likely to prolong economic downturns than retard them. Favouritism in the treatment of clients also characterized the early banks. Furthermore the directors' failure to properly oversee the banks' lending and credit activities precipitated several crises that shook the public's confidence, and contributed to the entry and acceptance of outside institutions. Island bank directors became involved in banking for the benefits that would accrue to their businesses, rather than from an interest in banking itself. Few directors had training in accounting, and the cashiers and one or two directors frequently had free

80 Quoted in Canada, *Statistical Year-Book of Canada* (Ottawa, 1894), pp. 644-5.

81 Bank of P.E.I. Minute Book, 3 March 1857, PAPEI.

Table Three

Ratio of Loans to Deposits in Various Island Banks, 1859-1910

	Bank of P.E.I.	Merchants Bank	Bank of N.S. Summerside Branch	Bank of New Brunswick Charlottetown Branch
Year	Ratio	Ratio	Ratio	Ratio
1859	1.84			
1860	3.23			
1873		2.27		
1875		1.53		
1877		1.63		
1879		6.59		
1881		2.04		
1882		1.80		
1883		2.71	1.35	
1884		2.14	1.10	
1885		2.77	1.49	
1886		3.23	2.00	
1887		3.57	1.74	
1888		2.99	1.10	
1889		2.66	.76	
1890		2.76	.70	
1891		2.88	.66	
1892		2.49	.69	
1896		3.05	1.13	
1901		1.59	.32	
1905		1.68	.13	
1906				.79
1907				1.03
1908				.94
1909				1.11
1910				1.07

Sources: Calculated from Bank of P.E.I. Minute Book, 1859-82; Bank of New Brunswick records, Bank of Nova Scotia Archives; Frost, "'Principles of Interest'", Appendix C; Ross, *Bank of Commerce*, Vol. I, p. 492.

rein with the institutions' lending policies. The haphazard use of the banks' funds went unnoticed during the prosperous 1860s and 1870s, but when economic conditions deteriorated, Charlottetown's banks were hard-pressed to remain solvent. The Bank of Prince Edward Island's failure in 1882 alerted the other city banks to the dangers of a fluctuating economy, and the possible benefits of merging with larger institutions. The Union Bank promptly amalgamated with the Bank of Nova Scotia, whereas the Merchants Bank, unable to procure a suitable offer at the time, continued operations until its merger with the Canadian Bank of Commerce in 1906.

This study suggests that banking operations on Prince Edward Island may be divided into two distinct phases, with the depression of 1878 serving as the watershed. During the prosperous 1856-1877 period, when the economy thrived and interest rates remained high, local banking facilities satisfied the needs of the Island business community. The depression of the late 1870s destroyed the local banks' effectiveness and inaugurated the era of branch banking operations. Branch banking fulfilled only one of the Island's two historic fiscal needs. Deposits were more secure than before; but the business community's appetite for operating cash, the Island's other fiscal requirement, could not be satisfied by a banking system that relied on national rather than local profitability criteria. The integration of Prince Edward Island into Canada's national financial system thus dramatizes the need of hinterland regions for banking facilities that can meet the local fiscal demands regardless of the cyclical ups and downs that characterize the state of the larger economy to which they belong.