

The Provincial Treasury as a Savings Bank

By John T. Croteau

It hardly seems possible that a governmental financial bureau, handling thousands of dollars annually, could continue in existence for more than forty years without attracting any notice outside of the immediate locality concerned. Yet such seems to be the case with the savings bank function of the Provincial Treasury of Prince Edward Island. Neither *The Canada Year Book*, nor the *Report of the Royal Commission on Banking and Currency in Canada* in 1933, nor a standard work on the Canadian banking system give the slightest reference to this activity of the Provincial Treasury.⁽¹⁾ Even within the Province, if one can judge from casual conversations, the fact that the Provincial Treasury receives short term loans from individuals does not seem to be very generally known. Moreover, on December 31, 1934, only two hundred and forty-four depositors were availing themselves of this service of the Treasury. The amount held on deposit, however, was relatively large, amounting to about \$400,000, or an average holding of around \$1600.⁽²⁾ This lack of knowledge is strange because the amount held by the Provincial Treasury in this account is published annually in the *Public Accounts* of the Province.

(1). These three works mention similar institutions existing in Ontario, Alberta, and Manitoba, the latter, however, being taken over by the chartered banks in 1932. *The Canada Year Book*, 1933, p. 914; *Report of the Royal Commission on Banking and Currency in Canada*, 1933, p. 25; Beckhart, B. H., *The Banking System of Canada*, p. 318-319, Henry Holt and Company, N. Y., 1929. Reprinted from Willis and Beckhart, *Foreign Banking Systems*.

(2). I am indebted to Mr. H. R. Stewart, Deputy Provincial Treasurer, for most of the factual information contained in this paper. All opinions, however, are my own.

The Act permitting the government of Prince Edward Island to receive temporary loans was passed in 1894.⁽³⁾ The provisions of this act merely authorized the government to make loans "on call, or upon such other short time not exceeding three years as the Governor in Council may from time to time determine." A limit of \$100,000 was placed upon the total amount that could be received under the terms of this act and the interest rate was not to exceed four per cent per annum. An influx of funds, however, necessitated an amendment, passed in 1896, extending the maximum limit to \$175,000.⁽⁴⁾ As shown in the table, loans fluctuated around this limit for a number of years.

Savings Deposits in the Provincial Treasury
of Prince Edward Island, 1894-1933.^(*)

Year	Amount	Year	Amount
1894	37,133	1914	89,969
1895	116,622	1915	112,052
1896	177,283	1916	80,504
1897	174,102	1917	73,622
1898	159,886	1918	91,340
1899	160,465	1919	135,367
1900	172,539	1920	171,223
1901	176,998	1921	172,662
1902	174,247	1922	358,761
1903	187,858	1923	479,077
1904	175,406	1924	349,034
1905	256,950	1925	316,560
1906	465,984	1926	343,953
1907	474,069	1927	398,360
1908	463,016	1928	442,149
1909	75,814	1929	344,642
1910	70,135	1930	363,745
1911	83,906	1931	308,484
1912	73,829	1932	302,460
1913	99,230	1933	370,783

(*) Source: *Annual Reports of the Provincial Auditor on the Public Accounts of the Province of Prince Edward Island, 1894-1933.*

(3). 57th Victoria, Cap. 6.

(4). 59th Victoria, Cap. 2.

From 1905 to 1907, the amount held in this account rose sharply, and in 1906 the law was again amended, raising the maximum limit which might be accepted to \$500,000.⁽⁵⁾

The wild speculation in foxes, however, seriously affected this department. In 1908 there was a drop of about \$13,000, and in 1909, all but \$75,800 was withdrawn from the Treasury. Thereafter until the end of the War, these deposits fluctuated between \$70,000 and \$100,000, rising above that sum only in 1915. In 1918, to attract deposits, the act was again amended, permitting an interest rate as high as five per cent to be paid on these loans.⁽⁶⁾ After the passage of this amendment, funds began to flow into the Treasury, and in 1923 it looked as if the \$500,000 maximum would soon be reached. Accordingly, in 1924, the last revision of this act was made.⁽⁷⁾ This repealed all of the former acts, but made no change other than to raise to \$750,000 the maximum limit which could be received in this type of loan. This limit was never approached, however, as during the decade after 1924, total deposits fluctuated between \$300,000 and \$400,000, reaching a high of \$442,000 in 1928. Due to the method of keeping accounts, it is impossible to secure statistics of depositors for other than the current year.

It is my understanding that the government does not actively seek these deposits. It merely accepts those which are offered. The Province does not wish to get into the banking business on a large scale, for that would necessitate a larger clerical force and involve an increase in other expenses. Under the present arrangement all of this business can easily be handled with the regular force. Such deposits have effected a considerable saving to the Province since the rate paid upon them has been from one to two per cent lower than the interest charged the Province upon bank overdrafts.

Upon making a deposit, the Provincial Treasury issues a receipt which states the rate of interest to be paid, (three per cent after April 1, 1935) and the conditions under which the money is accepted. These conditions are: First, that interest will be allowed as from the date of

(5). 6 Edward VII, Cap. 1.

(6). 8 George V, Cap. 4, sect. 3.

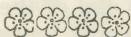
(7). 14 George V. Cap. 6.

deposit, payable annually, provided that the rate of interest may be determined from time to time by the Lieutenant Governor in Council; second, no interest will be paid unless the money remains in the Treasury ninety days; third, the Provincial Treasurer reserves the right to pay off the loan at any time. These deposit receipts must be returned at the end of the year, when the interest is added and a new receipt issued. Failure to return a receipt results in a loss of compound interest. These loans are payable upon demand at the Provincial Treasury.

The local branches of the chartered banks do not look with favor upon this activity of the government. Unfortunately, since the local bank managers decline to divulge the amount of savings deposits held in their institutions, it is impossible to estimate the extent to which the government competes with the banks. It does not seem, however, that the competition can be very great and it seems unlikely that the banks would gain very much if the Province should abandon this activity. Of course, when the Treasury was paying an interest rate of four and one-half per cent and the banks were paying only two and one-half, the threat of competition was greater than at the present when there is only a one per cent differential in interest rates. The many services offered by the banks would seem to more than compensate for this difference and secure for them the bulk of depositors.

The Provincial Treasury appeals rather to those individuals who desire a safe, relatively liquid investment at a fairly attractive rate of interest. In offering such the Provincial Treasury seems to fill a need in the Province, as well as to effect certain economies in its fiscal arrangements. It involves no extra expense to the Province and enables it to secure funds at a lower rate than would be otherwise possible. Possibly the fact that so few depositors hold relatively large sums in the Treasury may contain an element of weakness in the plan, in that attractive opportunities for investment elsewhere, such as appeared in 1908, might induce some of them to withdraw their funds. The logical remedy, therefore, would seem to be for the Treasury to seek to increase the number of depositors and to approach more closely to the \$750,000 limit. A wide circle of depositors would minimize any inconvenience caused by a number of withdrawals. Its long history, however, points to the essential soundness

of the plan. It has successfully passed through booms, wars and periods of depression. Its forty years of service show that it fills a need in the community and that it is economically advantageous to Prince Edward Island.



Spring's Awakening

The sun puts forth its glowing rays,
And melts the snow so deep,
Awakes the flowers, birds, and beasts,
From Winter's yearly sleep.

The little rivulets that flow
Through ditch and wagon track,
Like mighty miniature giants,
All point that Spring is back.

The grass is green, and skies are clear,
The brooks that gurgle by
Rejoice that they are free from ice,
And days of Spring are nigh.

The robin, from the cedar bow,
Is heard with joy anew,
He floods the air from early dawn,
'Till fall of evening dew.

Each budding trunk returns to life,
And sap at last runs free
To feed the hungry foliage,
That clothes both bush and tree.

The plants that spend the dreary months
Beneath the snow and sod,
Uplift their heads to drink the warmth,
And spread their leaves to God.

—Charles McQuaid, '39.