Gentlemen Bankers, Politicians and Bureaucrats:
The History of the Canadian Bankers Association,
1891 - 1924.

by

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Abstract

This is a history of the Canadian Bankers Association, a Canadian trade association unlike any other. Its origins are linked to deficiencies in Canada's Bank Act, 1871 and policies distorting the federal government's ability to respond to demands for assistance from weak banks and their victims - depositors, note holders and investors. Bank failures in the 1870s and 1880s added weight to calls for safer banks and more government regulation, pressure many bankers feared would cause reforms undermining the flexibility the Bank Act allowed them to exercise in their day to day business. A small number of prominent bankers avoided this danger by proposing a fund all banks would contribute for the protection of note holders. They also suggested a bankers' association to guard the interests of the fund's contributors and ultimately the public. When bankers launched their organization, it had specific, yet unwritten, obligations to the federal government. It was supposed to make banking safer and, under pressure from the finance department, limit competition for deposits, a business the government was involved in through its Post Office and Dominion Savings Banks. This thesis will trace the role of the CBA between 1891 and 1924 and show it was anything but a "cozy cartel," as some scholars have alleged. Competition and rivalry divided Canadian bankers and produced a feckless trade association that could do little to meet calls from governments and those that elected them for safer banks. For Canadian bankers and their association, failure soured relations with politicians and sowed the seeds of public cynicism, leaving a legacy that has shaped the way Canadian governments make bank policy.
Acknowledgements

In the course of my academic career and writing this thesis I have accumulated many debts. Several open fellowships awarded by the University of Toronto and funding from the Associates of the University of Toronto helped finance research costs. Archivists and librarians have been generous with their time and patience, particularly the CBA's Nathan Loepke and Scotiabank's Matt Szybalski. Helen Sinclair, former president of the CBA, opened the CBA's archives and allowed this thesis to be written. The Royal Bank's Charles Coffee offered timely encouragement and I am especially grateful to Scotiabank's Carolyn Reynolds and Galal Ayas who trained me in the art of retail banking. John McKay, MP, and Bob Loptson deserve special thanks for exposing me to the practical side of politics. On my list of creditors there are many scholars who have given more than I can repay. William Dick invested many hours helping me as an undergraduate and created new opportunities for me. Arthur Sheps, Modris Eksteins, and Trevor Lloyd helped me make the most of those opportunities and made me a better scholar in the process. Conversations with Craig Brown improved this thesis and will be remembered with great fondness. I could not have hoped for a better supervisor than Michael Bliss who remembers what it is like to be a graduate student. He quietly suffered the early stages of this thesis as I grappled with a very complex subject, read my chapters quickly and asked difficult questions without ever casting doubt on my ability to answer them. Jack Carr, Robert Bothwell and Duncan McDowall offered important suggestions and made the defence of my thesis a pleasure. Those who pay the highest price during the course of writing a doctoral thesis is often the candidate's family. My wife, Sandra, has endured untold hours of conversations about banking, read my chapters and never once complained. Linde and Ava Buck made the more difficult times bearable by allowing Sandra and I to escape to their country home in Bavaria. My mother, Charlotte, offered unconditional support and showed great patience. This thesis is dedicated to my grandfather, James Foy Ewart, who never lived to read it but whose love for learning inspired it.
## Abbreviations

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<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>CAR</td>
<td>Canadian Annual Review</td>
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<td>CBA</td>
<td>Canadian Bankers Association</td>
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<td>CBAA</td>
<td>Canadian Bankers Association Archives</td>
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<td>CIBCA</td>
<td>Canadian Imperial Bank of Commerce Archives</td>
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<tr>
<td>DCB</td>
<td>Dictionary of Canadian Biography</td>
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<tr>
<td>EA</td>
<td>Edmonton Archives</td>
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<tr>
<td>FCA</td>
<td>First Chicago Archives</td>
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<tr>
<td>FRBL</td>
<td>Fisher Rare Book Library, University of Toronto</td>
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<tr>
<td>IMB</td>
<td>Imperial Munitions Board</td>
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<tr>
<td>JCBA</td>
<td>Journal of the Canadian Bankers Association</td>
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<td>MT</td>
<td>Monetary Times</td>
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<td>NA</td>
<td>National Archives Canada</td>
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<td>OA</td>
<td>Ontario Archives</td>
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<td>PANS</td>
<td>Public Archives of Nova Scotia</td>
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<tr>
<td>RBCA</td>
<td>Royal Bank Corporate Archives</td>
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<tr>
<td>SGA</td>
<td>Scotiabank Group Archives</td>
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Who is more contemptible than he who scorns knowledge of himself?
John of Salisbury.

Preface

August 13, 1910 began like any other summer’s day in Camrose. By noon some were saying the day had brought “calamity.” Frank Pike, the popular branch manager of the Merchants Bank of Canada, was heading to Saskatoon. Residents in the Alberta town feared they could not spare their pioneer banker’s “healthy optimism.” Pike had done much for the people of Camrose. He used the flexibility of the banking system to their advantage, helped establish a branch of the Canadian Club, organised the town’s Board of Trade and was the “inspiration” behind the Agricultural Society. Laying on Stoney Creek’s grassy slope in 1905, the Newfoundland born banker watched workers build the bridge that the first train to Camrose would cross and mused that the little hamlet would one day be an important place. The Merchants reaped large dividends from his enthusiasm. “Our loyalty to your institution,” wrote customers hoping Pike would stay, “is inseparably wrapped up in our personal loyalty to yourself, remembering, as we do, the splendid relations that for the past five years have resulted in such mutual advantage.” Pike’s staff had already reconciled themselves to his departure, issuing their manager and his wife a Letter of Credit “to the extent of one thousand kind regards, one million fragrant reminiscences and innumerable sincere wishes....” A town’s gratitude was not easily won in 1910. In the years that followed all

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1 Alberta Archives, Frank Pike Papers, Accession No. 88 - 480/1: Letter to Pike, 13 August 1910; Also see report “A Pioneer Banker,” 23 November 1922.
bankers, including Pike, found such praise increasingly elusive.

The Frank Pikes of Canada and the banking system they gave meaning to have faded into history without much fanfare. They are part of a forgotten episode in the evolution of Canadian finance which brought tremendous change to the business of banking and the perceptions Canadians and their politicians have about bankers and the institutions they manage. Most bankers and those they employ appear indifferent to banking's past and the lessons it holds. The result, in part, is that Canadian banking historiography is still in its infancy and those whose business it is to understand and explain banking's role in Canada have only a limited sense of how banks went from being perceived as partners in Canada's development after Confederation to being perceived by some as near enemies of the state. In comparison to its counterparts in America, France and Britain, Canada's banking historiography is meagre. Banks that unnecessarily restrict access to primary material have not helped, making banking history an arduous exercise for scholars while allowing currency to theories that seem grounded in the personal wisdom of their authors rather than empirical evidence.²

The most thorough historical studies of Canada's early banking system are now dated. The first, R.M. Breckenridge's 1895 doctoral thesis for Columbia University, was largely written as an "instructive contrast" for American policy makers and bankers intent on reforming their financial system. The other, three series of articles written by the political economist Adam Shortt between 1896 and 1905, and published by the Journal of the Canadian Bankers Association, corrects some of Breckenridge's errors and better situates the evolution of the country's banking system in the context of Canadian political and economic development. Both Breckenridge and Shortt detail the principles of Canadian banking but whether those principles mirrored practice has not been asked by succeeding generations of scholars. When students and researchers turn their minds to the historical roots of banking issues in Canada, they have little material to work with, a problem evident in a recent study of professionals working in public relations for the banks. It concludes that banking "communicators

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4 These essays were finally assembled in one publication in the 1980s by the CBA under the title Adam Shortt's History of Canadian Currency and Banking, 1600 - 1880 (Toronto: Canadian Bankers Association, 1987).

operate in a complex and competitive environment* and avoids any discussion of why "banking communicators" are consistently ineffective.8

The most significant contribution to the historiography in recent years is Duncan McDowall's history of the Royal Bank. By tracing the growth and development of Canada's largest bank, McDowall offers a business and social history of banking that breathes life into the people, places and events that helped make the Royal Bank what it is today. McDowall's study stands very much alone in comparison to that of other Canadian banks. Merrill Denison's two volume history of the Bank of Montreal, published in the 1960s, is perhaps the most beautifully illustrated of Canada's bank histories and it is useful. But Denison was not as versed in banking as he might have been and certainly missed much of the political drama that colours the Montreal bank's past and glosses over the competitive drive, particularly after the 1880s, that characterized the Bank of Montreal and its dealings with rivals.7 The Canadian Imperial Bank of Commerce is a bank with a story as rich as the Royal's, but it is submerged in three dense volumes written more than half a century ago and was

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8 Marie Kathleen Weeren's "Media Relations Perceptions and Practices of Canadian Banking Communicators," (Carleton University: MJ Thesis, 1998), is a study that offers no historical context and shows that many who work in the banks' public affairs departments operate in a historical vacuum as well. Understanding how to relate to Canadians requires, in part, a better appreciation of the social and political role banks have played in Canada and how that role has evolved and changed. Simply knowing "how the media works and how to make it work" has proven insufficient and costly as bankers have watched again and again the right to sell insurance and auto leasing through their retail networks slip away for reasons that have more to do with politicians' fears about voter backlash than about concern for consumers.

recently updated in a thin, uninspired volume by Arnold Edinborough. Scotiabank's history, published in the early 1980s, fares better than the Commerce's and like Denison's work is useful, but it skips through eras, events and characters creating a fragmented portrait of the bank's past and an unsatisfactory explanation of how a Halifax based bank reached out to Canadians in distant parts of the country and successfully competed against well established rivals. Perhaps there is no greater need for new research than at the Toronto-Dominion Bank. Its history, published forty-two years ago, better traces the history of business in Canada than it does the subject of the author's labours, a reflection no doubt of quickly revising the manuscript after the amalgamation of the Bank of Toronto and the Dominion Bank in the early 1950s. The Dominion Bank in particular, and its relationship with the brokerage firm Osler, Hammond and Nanton, has a story to tell about financing the development of Canada's west that is worthy of a book on its own and may well shed light on interesting parallels between the Toronto-Dominion Bank today and its stellar record in the brokerage business.

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In 1914 Gustavus Myers argued that "nowhere in the world can be found so intensive a degree of close organization as among the bank interests in Canada." When the New York Times reviewed Myers's work, it commented that his "facts are not denied, but his inferences from them will not be admitted generally." At the heart of Myers's claim is the Canadian Bankers Association which emerged in 1891. Bankers were relative latecomers to the association movement in Canada. Montreal grocers, cotton manufacturers, iron founders, biscuit and confectionary makers and fruit and vegetable packers had all formed trade associations in the 1880s and engaged in price fixing arrangements with various degrees of success. Bankers, it has been assumed, organized their association for much the same reason as other businessmen, only bankers, according to Myers, succeeded better than most. This argument has survived into the present and appears in academic works such as R.T. Naylor's recently republished history of Canadian business and books produced for popular consumption, such as Walter Stewart's Bank Heist. Canada's banks are seen by

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13 The "Canadian Bankers Association" is sometimes written with an apostrophe and sometimes without. The same is true in the case of banks with names ending in sibilants. For the sake of consistency, I have dropped the apostrophe in these instances throughout the text.


many as a "cozy cartel," a perception that has dogged bankers since the 1920s, distorted the public's understanding of their banks and made banking reform an unpredictable political exercise. That Myers's accusation finds resonance today is not testimony to its merit as much as a commentary on the state of Canadian banking historiography. What follows is a study of the CBA that challenges the myth Myers and his successors have propagated by situating the evolution of Canada's banking system in the context of the country's diversity as well as the divisive reality of competition.
The banks trust the people, the people trust the banks, and the Government wisely, most of us think, grants every reasonable privilege to ensure the stability of the banks, and thereby to promote the prosperity of the Country.¹⁶

John Knight, Secretary, Canadian Bankers Association, 1906.

'They (the bank chairman) are roundly hated in the caucus,' Trade Minister Roy MacLaren says. 'There's nothing that brings the caucus on its feet cheering like a good attack on the banks.' MacLaren says the feeling in the Liberal caucus is, 'Who are those sons of bitches to be telling us how to run the country when they're hauling in so much money?'¹⁷


Introduction

This is a history about what some economists call a “banking club.” Its purpose is to explain why the CBA was founded in 1891 and to explore its role and influence within the banking system to 1924 when the office of the Inspector General of Banks was created. It taps a rich seam of primary documents, mined from federal finance department records, the papers of finance ministers, prime ministers, provincial archives, bank archives and the CBA's archives, the last of which were unconditionally opened for the purpose of this study. From these sources comes a history of the CBA

¹⁶ John Knight, Speech to the American Bankers’ Association Convention, quoted in the Mail and Empire, 20 October 1906.

and, by extension, Canadian banking, that sheds new light on banking practice during the period studied. When the conflict between practice and principles laid down in Canada's Bank Acts was made painfully obvious following bank failures, Canadians took exception. This ultimately led to the CBA's founding under circumstances and with unwritten obligations to the federal government that distinguished the bankers' association from its counterparts in other fields of business. Pressure for a safer banking system encouraged a few prominent bankers to use the CBA to try and rein in their imprudent rivals and limit competition, at the finance department's behest, for the sake of stability and peace with the country's political masters. This thesis will show that they failed. The price paid was strained relations with politicians and Canadians themselves who soon forgot how well Canada's banks served the macroeconomic needs of the country's evolving economy. While the focus of this thesis is the CBA, it is offered as a fresh contribution to the political and social history of Canadian banking and the forces that shaped it.

Six chapters and a conclusion detail the founding of the CBA along with its role and influence in the banking system between 1891 and 1924. There is also an epilogue in which bankers' struggles to redefine the role of the CBA and their eventual decision to try and make it into a public relations vehicle are briefly discussed.

The CBA emerged as an answer to demands for a safer banking system that dated from well before Confederation.18 Accordingly, chapter one begins at

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18 The most concise discussion of the pre-confederation banking debates is found in Adam Shortt, "Currency and Banking, 1840 - 1867," in E.P. Neufeld, Money and Banking in Canada (Toronto: McClelland and Stewart, 1964).
Confederation when Sir John A. Macdonald and others faced the formidable task of devising a national banking system for a new country with real financial worries. Canadians wanted a banking system that offered better security to depositors and note holders. Macdonald's government needed economy. Chapter one shows that the Bank Act that was said to answer these demands in fact answered only one - the government's. Canada's third finance minister, Sir Francis Hincks, successfully designed banking legislation that distanced Ottawa from any financial responsibility for the country's banking system. Canadians, however, would not stop calling for improved security. By the end of the 1880s, Macdonald felt those demands could not be ignored. Bankers feared his answer to calls for reform might endanger the flexibility of the Bank Act which they relied on to grow with the economy and compete against rivals. Some bankers suggested to Macdonald that better security could be found in banks guaranteeing each others' notes and working in cooperation. The prime minister and his government, troubled once again by financial difficulties, accepted the proposal and reflected the greater tolerance in Canada, in contrast to the United States, for business associations that purported to limit competition for stability's sake. The CBA, much like Canada itself, was the product of pragmatism and compromise.

Chapter two documents the mistrust that undermined the effectiveness of the CBA during the 1890s. The Association's members proved largely unable to cooperate among themselves, make banking safer, and eliminate what was referred to as "ruinous competition." Their failure was not only a disappointment to some bankers. The deputy minister of finance, John Mortimer Courtney, was also an enthusiast of
cooperation and expected better results after he asked bankers to limit competition for deposits. The government, through its Post Office Savings Banks and the Dominion Government Savings Banks, was in the banking business as well, and Courtney wanted to reduce the government's interest expense and protect its deposits from banks hungry for people's savings and willing to pay more than the government could afford to. The CBA's inability to make banking safer and limit "ruinous competition" was blamed on the organization's lack of power. By the end of the 1890s the CBA was preparing to incorporate, raising expectations among some of its members, the finance department and the public that the CBA would soon be able to do what it had failed to during its first decade of operations.

Incorporation gave the CBA the chance at a new beginning. So did the new enthusiasm that the Bank of Montreal showed for the Association. Chapter three explores the expectations raised by incorporation and why the CBA was still unable to stop bank failures and reduce rivalries. The culprit was not the Association's lack of power. Fecklessness proved merely a symptom of the real trouble - intense competition. In an environment that brought extensive economic and social change to Canada, the CBA's members were going through an important transition. Genuine national banks were beginning to emerge, the race to new frontiers was on and the search for the revenues to support expansion thwarted any hopes that the Association's members would allow the CBA such authority that could impede their efforts to grow. Mergers and more bank failures reduced the number of banks and raised the ire of politicians as well as a suspicious public influenced by the Social
Gospel and American Progressivism which objected to the influence of business on the political process. By 1911 the CBA had proved a disappointment and made new enemies for its members at Ottawa where politicians had to manage the political fallout after the CBA's failure to deliver a safer banking system to Canadians.

During the two decades after the CBA's launch, banking became increasingly politicized. The 1911 federal election, while dominated by the reciprocity debate, made it clear to Liberals and Tories alike that depending on bankers and their association to take care of the banking system could cost them votes. Chapter four explores the aftermath between 1911 and 1914 through the relationship between Thomas White, the strongest minister of finance since Confederation, and the CBA. White ushered through the revision of the Bank Act in 1913 and faced a crisis in 1914 when Canada went to war. In 1913 the Association and its members were unprepared for the wave of harsh criticism during the revision of the Bank Act and responded by taking a new interest in what their organization was doing. When financial crisis took hold of Canada in the summer of 1914 as Europe prepared to go to war, White called on a few trusted bankers to form an advisory committee to help the government through its problems. The minister did not believe the CBA itself was capable of the job. Most prominent bankers did not think it was either.

War transformed both the banks and their association. Financing Canada's military machine forced the federal government to eventually ask all Canadians to lend their personal savings to the government by purchasing Victory Bonds, the sale and administration of which were labour intensive and costly to manage because they were
sold in small denominations for people with little money. To ensure the success of the Victory Bond program, the CBA had to change. Chapter five explores how the Association adjusted and in what ways it remained the same. The arrival of Henry Taylor Ross, who left his job at the finance department to work for the CBA in 1916, was the crucial first step. Ross professionalized the administration of the Association, turning it into a full-time, full-service body with a functional bureaucracy. The result was an association with more credibility that stemmed from its ability to better implement finance department policy through the Association's members and sell Victory Bonds at their branches. Ross was joined at the Association by the Royal Bank's Edson Pease who was one of the very few bankers White turned to for help. Pease tried to use the CBA to reform Canada's banking system, anticipating a post-war period of "readjustment" that he feared would prove very dangerous for many of the country's banks. He also wanted to break the close ties between the government and its banker, the Bank of Montreal, which had held the government's account prior to Confederation. Better managed and more dependable, the CBA nonetheless entered the post-war period hobbled by mistrust, dissension and the return of intensive competition.

Chapter six of this thesis explores a period in Canadian banking history that brought dramatic change. From 1919 to 1924 a number of prominent Canadian banks disappeared. Mergers took some, failures took others. Almost as soon as the fighting in Europe stopped in November 1918, Canada's banks picked up where they had left off in 1912 and began opening new branches in quick succession. Customer service
suffered when they found it very difficult to attract and retain capable bankers to work in their new branches. On the prairies the fall in wheat prices brought ruin to many and drew the Manitoba government and the banks into a political quagmire the CBA could do little to remedy. When the Merchants Bank of Canada, one of the largest banks in the country, faltered under the weight of bad loans and false reporting, bankers and their association were thrown into the national spotlight in front of voters who had little sympathy for businessmen who stayed at home during the war and seemed to get rich while others died on the fields of France and Belgium. The final blow came in 1923 when the Home Bank failed. It affected mostly working people with little money. Canadians wanted a different kind of banking system. The CBA had failed to make banking safer for Canadians. It ultimately failed to preserve the flexibility of the Bank Act that meant so much to bankers. When the Office of the Inspector General of Banks was established in 1924, the nature of banking in Canada changed, the professional identity bankers had cultivated for decades, and that Frank Pike personified, was badly damaged and the CBA itself was left to search for a new role.
At two in the morning on October 22, 1867, Sir Alexander Galt awoke to a message from the prime minister: "Council met and considered your telegrams. Information as to condition of Bank, character of security offered, and reasons why other banks declined to help, insufficient to warrant any action by Government." The Kingston-based Commercial Bank suspended payment that morning and a betrayed finance minister prepared his resignation. Sir John A. Macdonald's contentious decision pitted national economic interests against business and social concerns in Ontario. Some provincial newspapers mistakenly read the policy as a conspiracy favouring the Bank of Montreal and commercial interests in Lower Canada. It was, more properly, a decision influenced by a new country's troubled finances. Canada was not in the business of

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20 Macdonald was a director of the Commercial Bank and owed it upwards of $80,000, monies he would have to pay if the bank failed and was liquidated. His decision not to support the Commercial's bid for public monies contradicted his own self-interest. Macdonald's debt is reported in Donald Creighton, *The Old Chieftain*
saving weak banks. That, said the prime minister in the first session of the first Parliament, was the "primary duty of the Banks themselves," a principle successive governments learned to embrace. Galt and a good many others disagreed, launching a struggle to define Ottawa's role in the banking system that would continue for generations.

This thesis is about a by-product of that struggle - the Canadian Bankers Association. Histories of Canadian banking say little about the CBA and depict the Bank Act, 1871 as a reflection of banking principles as practised in cities, towns and rural areas. This chapter, and indeed this thesis, will argue the Bank Act was a political rather than a practical treatise on banking, adorned with lofty goals but tailored to an economic philosophy distancing Ottawa from financial responsibility for Canada's banking system. Successive governments faced social and political pressure to narrow it alongside fiscal demands to maintain it. The Act's genius was heeding the difficulties inherent in regulating banking from the centre of a new country comprised of distant regions and disparate economies. The principles of Canadian banking were allowed to unfold in the head offices and branches of chartered banks where officials applied or dismissed the Bank Act according to competitive pressures and their taste for prudence. Such flexibility was as much a strength as a weakness, producing


21 House of Commons, Debates, 12 December 1867, p. 262.

innovation but doing little to prevent costly and disruptive bank failures. If the government was not in the business of rescuing troubled banks, it had to be in, or at least seen to be in, the business of protecting Canadians from the fraud and folly that caused them. Squaring economy with safety became the imperative driving banking legislation in 1869. Sir John Rose’s response to this exigency failed. Sir Francis Hincks’s did not. The political success of his Bank Act and its practical shortfalls led to the CBA’s founding in 1891 and expectations that bankers would solve the political problems that flowed from the Bank Act’s deficiencies.

Crowds that gathered on a sunny afternoon to witness the opening of Canada’s first federal Parliament returned home to news that the finance minister, Sir Alexander Galt, had resigned. As soon as Parliamentarians took their seats the following day, questions about his departure and the Commercial Bank’s suspension were aired and calls for better safety were heard. The “politics of banking” in the Dominion of Canada had begun. A little more than two weeks later, Sir John Rose, a politically untested Quebec MP and a director of the Bank of Montreal, succeeded Galt. His ties to Lower Canada and its great bank may have “made him a natural choice,” but it fuelled speculation about the Bank of Montreal’s power after the Commercial’s suspension.

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suspension. Rose was reputedly a "sound money man par excellence, [and]... constant champion of the interests of Montreal and Lower Canada."25 When he submitted his banking legislation in 1869, many believed the Montreal he "championed" was the Bank of Montreal.

Rose argued the legislation was inspired by the "sole desire to provide for the public a sound and healthy banking system."26 His commitment was genuine but ill-judged. When he questioned bankers and boards of trade "nearly all favoured a closer supervision of the banks."27 And yet, Rose's singular concern for safety proved unpalatable to most businessmen and bankers. Banks were going to lose the profitable right to issue their own notes for safety's sake, leaving merchants, farmers and shippers to worry their credits would be curtailed. The finance minister wanted a uniform national currency, secured by interest bearing government bonds and branch banking converted to the unit banking model that prevailed south of the line. This, he thought, would ensure the value of the country's currency and bring commercial stability. Banks would also have to maintain a reserve of 20 per cent of secured notes in circulation, and one-seventh of deposits at call. As a further precaution, Rose suggested designating notes the first charge on the assets of a bank's estate and non-


27 Longley, p. 364. Also see Adam Shortt, "Government versus Bank Circulation," in Adam Shortt's History of Canadian Currency and Banking, 1600 - 1880 (Toronto: Canadian Bankers' Association, 1987).
interest bearing current account deposits the second. To the largest bank in North America, the Bank of Montreal, Rose's plan affirmed its dominance and found hearty support. Among other bankers who practised on Montreal's St. James Street and throughout the new Dominion, the response was quite different.

The finance minister's proposals left little room to accommodate regional anxieties in the wake of Confederation and angered bankers who said they "disassociated the subject of circulation entirely from the movements and requirements of trade." Critics in the Toronto press linked their opposition to broader national concerns, arguing that it did not "meet the special wants of the separate Provinces of the Dominion." They appeared to be right. Quebec City's Board of Trade objected to the government obtaining "control of the entire currency...." In Fredericton the Bank of New Brunswick rallied opposition among merchants and others. Halifax's bankers resented the doubt cast over Nova Scotia's banks, ignoring thirty years without "the failure of any bank, nor suspension of specie payments." The Board of Trade of London unanimously rejected Rose's plan. Toronto's Board of Trade tempered its criticism, but felt compelled to say that measures affecting the currency were seriously detrimental to the Province of Ontario, inasmuch as it would deprive the Banks of the power of expansion which, exercised under proper conditions and limitations, is calculated so effectively to advance...the well-being and progress of the

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26 George Hague, "The Banking of Canada as connected with its Trade and Commerce," 31 March 1897. Robarts Library, University of Toronto.

27 Toronto Daily Telegraph, 4 June 1869.
When introduced in the House of Commons on June 1, 1869, Rose's legislation was attacked by members of the government as well as the Opposition. Macdonald, recognizing a potential crisis in the making, put his friendship with Rose aside and withdrew the legislation.\textsuperscript{31}

Rose's credibility was lost and he soon resigned, leaving Canada for a less taxing career in finance and diplomacy in London, England. Macdonald faced a conundrum: he needed a safer banking system that left the banks to issue their own notes and at the same time guard the treasury from unwanted calls for assistance. He saw the solution to his dilemma in Sir Francis Hincks, whose appointment as finance minister in November 1869 "created a tempest in the party tea-cup."\textsuperscript{32} Hincks was an old Reformer, experienced in banking and public finance, whose decade-long absence from Canada followed his association with questionable land, municipal bond and railway stock dealings, political baggage that roused antagonism in the Liberal press,

\textsuperscript{30} Daily Morning News, (St. John, New Brunswick) 29 May 1869; Toronto Daily Telegraph, 26 May 1869; MT, 13 May 1869; Daily Advertiser, (London, Ontario), 1 June 1869; MT, 3 June 1869.

\textsuperscript{31} On the Government's attempt to contain the political fallout see The Daily News (Kingston, Ontario) 29 May 1869 and 2 June 1869; on the opposition see "The Discussion of the Government Banking Scheme," in The Toronto Daily Telegraph, 3 June 1869 and the MT, 13 May 1869.

the Opposition benches and among some government members. Macdonald dismissed allegations against Hincks as unsubstantiated and assured Richard Cartwright

that Hincks' course on the banking and currency questions will meet with the approbation of Western Canada. While he sees much to admire in Rose's scheme, he is not committed at all to its details, and can modify the measure in such a way as to give the country the same amount of security, and, at the same time, not hamper the banking institutions.

Cartwright, most bankers, businessmen and even some Conservatives were not as convinced. Hincks had supported a government currency before and the Conservative press had to be mobilized to assure all that "Hincks would legislate fairly for all parts of the Dominion."

Rose's departure in 1869 and the turmoil around Hincks's appointment raised legitimate concerns about the government's ability to hold together and manage the banking question. Much of its credibility now rested with Hincks who the Liberal press portrayed as a "resuscitated mummy." His return was problematic but ultimately a

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36 Globe, 28 October 1869, quoted in Ibid.
political success as far as banking was concerned. Hincks quickly undertook careful interviews with concerned interests and found widespread contempt for the Bank of Montreal and its privileges as the government's banker.\(^7\) Not even the retirement of the Bank of Montreal's choleric general manager, E.H. King, mitigated the animosity. Disdain for the Montreal bank gave Hincks and Macdonald access to some much needed political capital at the big bank's expense. More importantly, the finance minister realised most bankers wanted more flexibility than Rose offered and would oppose measures curbing future expansion plans and their ability to grow with their customers.

The balancing act began in early 1870 with the Throne Speech. Canadians were assured that

> A measure intended to secure safety to the community, without interfering with the legitimate operations of the Banks will be submitted for your consideration, and will, we trust, be found calculated to place these important interests upon a sound and stable basis.\(^8\)

When Hincks later introduced his legislation he scored political points by ending the Bank of Montreal's privilege of issuing and redeeming government notes, the commission it afforded and its monopoly over the Dominion's foreign exchange needs.\(^9\) Rather than a victory for Toronto over the more economically developed

\(^7\) Animosity towards the Bank of Montreal is well documented in D.C. Masters, The Rise of Toronto, 1850 - 1890 (Toronto: UTP, 1947), pp. 115 - 123.

\(^8\) House of Commons, Debates, "Throne Speech," 15 February 1870.

\(^9\) Adam Shortt, "The Banking System of Canada," in Canada and Its Provinces: A History of the Canadian People and Their Institutions by One Hundred Associates,
Montreal, Hincks's Act was seen across the country as a strike against the big Montreal bank.40 Lending this perception credence was the minister's support for branch banking and his proposal for a partial government monopoly over the country's circulation, leaving to the chartered banks the right to issue notes of $4 or more. A concurrent circulation shared by the banks and the federal government added new funds to the Dominion's treasury but not as much as a total monopoly would have. Hincks subsequently sought monies lost to this concession by turning to the Post Office Savings Banks launched in 1867 and Government Savings Banks which Ottawa took over from the provinces and began expanding in 1871. Bankers could still issue their own notes, but would face stiff competition for deposits from the government, especially in the Maritimes.41

The minister's play on safety concerns proved masterful. He argued that troubles at the Bank of Upper Canada, which failed in 1866, were prolonged by its

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"Masters argues that the Act was the product of a struggle between Montreal and Toronto, a position that ignores the opposition to Rose's legislation in centres across the country, including Montreal itself where bankers who competed with the Bank of Montreal lined up with bankers from Toronto, Halifax, Quebec City and other parts in opposition to Rose. Masters, The Rise of Toronto, p. 121.

"Dan Bunbury, "The Public Purse and State Finance: Government Savings Banks in the Era of Nation Building, 1867-1900," in CHR, V. 74, No. 4 (December 1997). Bunbury documents banker's frustration with the government's competition for deposits and why the government was unwilling to give up the battle. What he does not do is link the expansion of the Government Savings Banks, which began in 1871, with the compromise to issue a concurrent circulation, which cost the federal treasury dearly."
large real estate holdings and insufficient enforcement of shareholders' double liability. Hincks asked Members of the Commons if they could "imagine that there is any probability of a worse failure taking place than that of the Bank of Upper Canada." To have said "yes" would have shaken confidence in the country's banks. The Bank Act, 1870 was promoted as the answer to safety lapses exposed by the Bank of Upper Canada and other banking failures. Time would show it was nothing of the kind. The Act provided that no "division of profits by way of dividend or bonus shall exceed 8 per cent per annum until the rest or reserve fund, after deducting all bad and doubtful debts, shall equal 20 per cent of the paid up capital stock." But a bad debt was never defined; nor did the Act create a mechanism to verify reserves or indeed impose them. The Bank Act's stipulation that usually "half, and not less than one third of the cash reserve shall be in Dominion notes" was a principle bankers could follow or disregard without consequence. Indeed, the deputy minister of finance told Macdonald some years later "that although reserves are mentioned, implying that a reserve must be kept, a bank would not be breaking the law if it had no reserve at all, or if its reserves amounted to but fifty cents, consisting of a shin-plaster and twenty-five cents in

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2 House of Commons, Debates, 1 March 1870.
3 An excellent analysis of the Bank of Upper Canada is found in Peter Baskerville, (ed.), The Bank of Upper Canada: a Collection of Documents (Toronto: Carleton University Press, 1987). No mention is made, however, of the lasting impact the bank's failure had on Canada's banking system.
5 Ibid.
Double liability was imposed on bank shareholders but no one asked if it was politic to bankrupt one creditor to save another from a similar fate. Bank notes could only be issued to the amount of a bank's capital, a measure that depended on bankers themselves. To ensure a large asset base, chartered banks were required to have *bona fide* $100,000 paid up and a total of $500,000 subscribed capital, a useful measure had steps been taken specifying "the nature of evidence to be furnished...."\(^{47}\)

Making all these safeguards believable were unverified Bank Returns the finance department published in the *Canada Gazette*. Their accuracy was only ascertained "after an investigation of the affairs of the Bank and in that case...the guilty parties are generally out of reach before the false character of the return is discovered."\(^{48}\)

Hincks's Act called on bankers to exercise good faith.\(^{49}\) If they did not, the decision to review the Bank Act along with bank charters decennially presented the government with an opportunity to respond.

The Bank Act, 1870 its provisions extended and consolidated in the Bank Act, 1871 granted chartered banks the authority to take deposits, make loans, provide

\(^{46}\) NA FD RG19, V. 3196 File 12109: John Mortimer Courtney, "Memo Re Reserves," November, 1890.


\(^{49}\) Relying on Bank Returns printed in the *Canada Gazette* before the Inspector General of Banks was created in 1924 is a risky business. Returns were unverified and there were no standard definitions used among the banks to define items recorded in the Returns.
currency exchange, and deal in coin and gold bullion as well as negotiable securities. Bankers could collateralize advances using bonds, stocks, debentures, goods or goods in the process of manufacture. They were not, however, permitted to loan against their own stock, a provision some followed and others ignored. The most important security was still personal guarantees from clients. Bad real estate loans that helped bring down the Bank of Upper Canada were cited as good reason to bar mortgages, but banks could still advance on promissory notes and collateralize real estate pledged by customers. Borrowers' concerns about excessive rates were addressed using a politically popular but practically specious clause capping rates at a maximum of 7 per cent, a provision with a sufficient loophole to suggest Hincks was not serious about its enforcement.

Bankers largely endorsed the principles enshrined in the Bank Act but what was good on paper and what some thought was good for business were not necessarily


51 Banks skirted the provision by discounting loans. For example, a farmer granted a loan for $1,000 at a rate of 9 per cent would receive $1,000 less $90 for interest. The farmer signed a promise to pay for $1000 and was legally bound to do so. If a bank advanced a farmer $1000 and had a farmer sign a promise to pay the principal amount plus interest of 9 per cent, the bank could not legally collect the 9 per cent if the borrower wished to dispute it. Consequently, when banks gave loans they generally deducted the interest from the principal. See Neufeld, p. 105.
synonymous. For Canadians, including Macdonald, the Bank Act promised safeguards against failures like the one suffered by the Bank of Upper Canada.\textsuperscript{52} Failure upon failure proved its promise illusory. The Bank Act was regulation without responsibility, distancing the federal government in law from any financial obligations. But it was not, as one economist argues, "explicitly designed to prevent the public from thinking the government was responsible for...the commercial administration of the banks...."\textsuperscript{53}

Speeches in the Commons, the provision limiting loan rates to 7 per cent and measures that seemed to dictate reserves, capital requirements and the amount of notes banks could issue suggested the very opposite. Indeed, the Bank Act's political success was grounded in the perception of greater supervision, an impression that proved as much an ideal to governments as the Bank Act was for some bankers.

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Hincks entered office as the country's first economic boom gained momentum.

Confederation had promised much, including prosperity. Three million square miles of new territory inspired long awaited optimism in the future of Canadian and Maritime society. Canada was a new country dependent on a new technology, railways - a modern transportation and communication system promising to pierce the vast wilderness that opportunity and fortune would populate. By the end of July 1871, the

\textsuperscript{52} Macdonald seems to have discovered the weaknesses in the Act as time passed and bank failures occurred. The deputy minister of finance, John Mortimer Courtney, was the bearer of the bad news.

Dominion's offer of a transcontinental railway helped induce British Columbia to join Confederation. Two years later Canadian prosperity along with the prospect of no tax increases persuaded Prince Edward Islanders to throw their lot in as well. Bankers at Canada's twenty-six chartered banks, with a little less than 130 branches between them, danced to the drumbeat of Confederation. New bankers joined the financial frolic. Applications for charters began appearing in Ottawa in 1868 and by June 1874, twenty-eight had been successful. At the end of 1874 Canada had nineteen new banks in operation. Just as new banks were combing the market for investors, so were older rivals who added $34 million to their capital. A little more than seven years after Confederation, bank liabilities had nearly tripled from $44.5 million to $126 million, while total assets climbed from $80 million to more than $200 million. Exports, imports and government revenues thrived. Macdonald's "experiment" seemed to be working better than most imagined and the banking system appeared to be all that it should be in a young and growing country. When financial panic rolled over the United

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54 Graham D. Taylor and Peter A. Baskerville argue the Bank Act, 1871 "set substantial capital reserve requirements" which reduced competition. The Act, in fact, required no capital reserves whatsoever. What it did call for and what Taylor and Baskerville are possibly referring to, is a starting capital of $100,000, paid up and $500,000 subscribed. Judging by the number of banks launched by 1874, the capital existing banks raised, and that no steps were taken to verify a bank's capital, the Act's capital "requirements" seem meagre rather than substantial. Moreover, the Act imposed nothing on private bankers who successfully competed with the chartered banks through the 1870s and 1880s. Thus, the idea that "capital reserve requirements" reduced competition is dubious at best. Graham D. Taylor and Peter A. Baskerville, A Concise History of Business in Canada (Toronto: Oxford University Press, 1994), p. 250.

55 Breckenridge, History of Banking in Canada, pp. 112-113.
States in 1873, Canada's banks held their ground.

A year later, they began to retrench. As 1875 unfolded, the optimism Confederation inspired withered under a stagnating economy that exposed the Bank Act's shortfalls to many Canadians.

Canada's first post-Bank Act failure occurred in New Brunswick where the small Bank of Acadia collapsed in April 1873 after a few months in business. Its total liabilities amounted to only $106,914, but depositors and note holders lost 80¢ on the dollar. While having no national resonance, the Bank of Acadia wreck was a harbinger of things to come. Canada's worsening economic conditions after 1874 raised bankruptcies to new highs and cut into the banks' liquidity. Many wrote off millions during these years; some found it more expedient to wait for the return of better times. Four more banks failed during 1879 alone. The small New Brunswick based Westmoreland Bank was the first to go, followed by Nova Scotia's Bank of Liverpool. Quebec's Consolidated Bank was next but the worst was the last - Montreal's Mechanics Bank. It had first suspended payment for ninety days in 1875, wrote off 60 per cent of its capital and was helped to its feet by new investors. To survive, its management made ample use of the Bank Act's blind spots, issuing bank notes and keeping them in circulation "by improper and illegal means." When the end finally came in August 1879, the fate of its note holders and depositors had political implications. Liquidators imposed double liability provisions on shareholders, but many claimed to be insolvent and unable to pay. Those who paid up were unable to save the

\[56 \text{ Ibid., p. 116.}\]
bank's depositors and note holders from loss. When the sorry saga concluded, the total public loss was in the vicinity of $250,000, the majority absorbed by depositors and note holders who received 57.5¢ on the dollar. The Mechanics Bank failure became a sensation because so "many of its obligations were in the form of notes held by those who could ill-afford to lose, demonstrating possibilities that aroused general indignation and concern."\(^{57}\) Its collapse set the stage for the 1880 revision of the Bank Act and raised questions about the country's currency and the feasibility of government bank inspection.

When the first revision of the Act came under consideration, Sir John A. Macdonald was again prime minister, having recovered from the Pacific Scandal which Alexander Mackenzie's Liberals rode to power in 1874. Macdonald's Tories built their political come-back around their new National Policy and blamed Liberals for the country's poor economic showing after 1874. The finance minister in the third Macdonald government was the one time "pill-seller" and controversial New Brunswick politician Sir Leonard Tilley, a father of Confederation who was arguably the architect of Macdonald's National Policy.\(^{58}\) While Tilley and Macdonald stood shoulder to shoulder on trade, they were far apart on what to do with a faltering bank. Tilley advocated an activist role for Ottawa, believing it was in the public interest to prop banks up, a view that probably reflects Tilley's 1857 experience as New Brunswick's

\(^{57}\) Ibid., p. 117.

\(^{58}\) Wallace, pp. 1051 - 1059.
provincial secretary when a bank failure endangered the province's financial health. Macdonald, it seems, was willing to defer to his minister when smaller banks were in need of help as long as larger banks, such as the Merchants Bank of Canada, which was bailed out by the Commerce and the Bank of Montreal in the late 1870s, did not expect assistance as well.60

In March 1880, Tilley met with twenty-nine bankers to discuss changes to the country's banking laws at a time when there was "great uncertainty as to the soundness of the banking system...."61 He told them that the Tories "were desirous of making the currency issued by the Banks secure, and that they also considered that a portion of the profit derived from the circulation of notes should accrue to the Government."62 George Hague, who managed the Merchants Bank and was a religious man like Tilley, seems to have been closer to the minister than other bankers and came prepared for his demands. With the aid of a former Bank of Toronto colleague, Hague gave the minister a response fitted to his needs. To secure the circulation, bankers were

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59 ibid., p. 1053.

60 The Dominion government lent money to the Consolidated Bank before it suspended payment in 1879. In 1882, when the Ontario Bank ran into trouble, Tilley also authorized an advance from the government's coffers to tide the bank over. The Ontario paid its loan back without delay. The Consolidated went into liquidation but had the resources to meet all its obligations, including the one it owed the federal government. House of Commons, Debates, 23 January 1884.


62 CBAA 87-505-02: "Private and Confidential," Report of the Meeting of Bank Representatives, held at Ottawa, Thursday, 18 March, 1880, and following day.
prepared to make notes the first charge on all bank assets in the case of failure and to
"relinquish to the benefit of the Government all that portion of their circulation
consisting of notes under the denomination of five dollars...." However, bankers
wanted their charters renewed for a much longer period than ten years, citing "the
inexpediency of frequent changes...." Moreover, the delegation of bankers pressed
"upon the Government the urgent necessity of the rate of interest on deposits in the
Post Office and Government Savings Banks being reduced to 3 per cent." When
bankers met with Tilley after he presented their suggestions to the government, the
minister indicated he could not reduce interest rates at Post Office or Government
Savings Banks nor countenance renewing charters for longer than ten years. In
addition, the government wanted to weigh other changes to the country’s banking
legislation and asked bankers to consider "the expediency and practicability of a
Government inspection of Banks...."63

Bankers argued safety concerns could be met by a compulsory shareholders’
audit. If Tilley wanted inspection, however, the banks would submit to it.64 While
making these concessions, they again lobbied for perpetual charters and "failing that,
charters with a twenty-five year duration." For reasons that are unclear, Tilley did not
press bank inspection, a decision that drove a wedge between banks and insurance
companies who had reserves imposed on them as well as inspection through the
Superintendent of Insurance, a government office connected to the finance department

63 Ibid.
64 Ibid.
that was established in 1875 by Mackenzie's Liberal government. Tilley was content to make bank notes the first charge on assets. Time would show this too was insufficient protection. Bankers left Ottawa sensing they had avoided unwanted change, a feeling of a job well done that may have inspired the Molsons Bank's Francis Wolferstan-Thomas to suggest they would do well to form a national bankers' association.

The 1880s began with an economic bang and ended with more chartered banks facing troubled times. Expansion coincided with Macdonald's triumph at the polls. Optimism was again alive and well. Western migration increased, pushing Winnipeg land values beyond those in Toronto and Montreal. Banks enjoyed growth not seen for a decade. Managers and clerks welcomed the return of good times and some allowed themselves to be swept up in visions of what the North-West could be. Winnipeg witnessed a banking boom as chartered banks, like The Bank of Nova Scotia, ventured to the city

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66 The Government established a system of regulation requiring insurance companies to obtain a license from the Federal Government to do business and, in exchange for that license, compelled them to deposit fifty thousand dollars with the Receiver General for each type of coverage they offered. Inspection of insurance companies was not what it should have been until William Fitzgerald was appointed Superintendent of Insurance in 1885. NA FD RG19, E2 V. 2802: Courtney, "Memorandum Respecting Mr. Fitzgerald," 11 February 1888.


69 Breckenridge, The History of Banking in Canada, p. 110.
and put their shingle atop clapboard branches. By 1884 all that had changed as the economy slumped again. Looking south to a seemingly golden republic, the Scottish born cashier of The Bank of Nova Scotia, Thomas Fyshe, marvelled that "half the [Canadian] population can be induced to stay home." Tens of thousands did not stay at home. Fyshe, along with most other Canadians, found the country's progress and opportunities wanting. A strong Liberal, Fyshe blamed Canada's economic woes on "government by the quacks."70

Tilley's banking troubles proved largely his own making and undoubtedly confirmed Fyshe's view of the Conservative government. In the spring of 1883 the finance minister authorized the deposit of $200,000 in government monies to the ailing Exchange Bank of Montreal after its president had tapped rival banks for all he could. No investigation of the bank's affairs was undertaken and a second advance of $100,000 was made on the surety of one of the bank's directors, the Conservative Senator, A.W. Ogilvie. By September the bank had failed and the scandal was exposed. The Exchange Bank's manager, Thomas Craig, had his hand in the till for nearly $250,000, money he used to inflate the bank's stock and build a $55,000 home for his wife.71 When it was all over, depositors and note holders recovered 66.5¢ on the dollar, losing almost $750,000. Adding to the scandal's dimension was Ogilvie who


70 Ibid., Thomas Fyshe to John Paton, 6 May 1885, p. 355.

71 MT, 7 December 1883.
could not make good on the full amount he guaranteed.\textsuperscript{72} Tilley later explained that the bank’s president arrived at his doorstep one April morning predicting a banking crisis in Montreal and across the Dominion unless public confidence in his little bank was bolstered by a government deposit.\textsuperscript{73} An apparently credulous Tilley sent his deputy minister, John Mortimer Courtney, to Montreal and claimed Courtney saw no danger in making the advance.\textsuperscript{74} To Sir Richard Cartwright and the Liberals, the fact that three Tory Senators were involved with the Mechanics offered a better explanation than Tilley’s, which the former Liberal finance minister considered “astonishing.” It proved, in fact, profoundly impolitic.

John Mortimer Courtney was a deputy minister unlike any other.\textsuperscript{75} Promoted to the job in 1878 when Cartwright was the finance minister, Courtney offered much more than administrative expertise. Canada’s second and longest serving deputy minister of finance, who eventually retired in 1906, provided a critical link between the Dominion and British capital. At thirty-one, he arrived in Canada at the invitation of Sir John Rose, then minister of finance, and was given the position of chief clerk and assistant secretary to the Treasury Board. A native of Penzance, England, he grew up with his siblings above the small Bolithos’ Bank that his father managed. After completing

\begin{itemize}
\item \textsuperscript{72} PANS, William Stevens Fielding Papers MGII, V 431: Fielding to Courtney, 11 January 1899.
\item \textsuperscript{73} House of Commons, Debates, 7 February 1884.
\item \textsuperscript{74} Ibid.
\end{itemize}
private schooling and gaining practical banking experience at the Bolithos, Courtney joined the Agra Bank and ventured to India and then Australia, making a good name for himself among colonial officials who brought him to the attention of Rose. During his time with the Agra, he likely made important contacts with one of the bank’s largest partners, Glyn, Mills, a private banking firm that served the Agra, the Canadian Pacific Railway and managed the Dominion government’s account in London, England. More important was the deputy minister’s older brother, Leonard Courtney, one-time under-secretary of state for the Home Office, financial secretary to the Treasury and a future speaker of Britain’s House of Commons destined for the House of Lords. Leonard entered the most influential political and financial circles in Britain, opening windows onto a world for his brother that were tremendously important to Canada.

Tilley’s great mistake, apart from advancing sums to the Exchange Bank, was his Commons’ statement that Courtney had approved the transactions, an accusation the deputy minister denied through the kind offices of his good friend, Sir Richard Cartwright. As minister of finance in the Mackenzie government, Cartwright had grown close to Courtney and promoted him to deputy minister. In the House, Cartwright


78 A testament to their friendship is found in the foreword to Cartwright’s reminiscences. Sir Richard Cartwright, Reminiscences (Toronto: William Biggs, 1912).
spoke of the deputy's efficiency and excellence as a government officer and used department correspondence to show Courtney brought the Exchange Bank's doubtful position to the minister's attention. Cartwright also pointed out that when Courtney was sent to Montreal he had no authority to investigate the bank's affairs, information Courtney probably passed on to Cartwright. From the Opposition benches, Courtney's position became clear: he had never reported to the minister that the Exchange Bank was a safe risk. The whole affair reaffirmed Macdonald's view that the government should not be in the business of saving weak banks of any size. On the floor of the Commons, Tilley maintained Courtney sanctioned the deposits, but in Parliament's back-rooms Macdonald saw it very differently. The government quietly passed an Order-in-Council restricting government business to those banks the finance department approved, essentially giving Courtney the power to decide which banks would receive government funds. Macdonald re-asserted his 1869 policy decision and Courtney now enforced it.

As the 1880s progressed, the deputy minister's influence with the prime minister and the Opposition Liberals continued to grow. Banking was all but Courtney's responsibility and he put a swift end to the Bank of Montreal's heavy handed treatment

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79 House of Commons, Debates, 7 February 1884.

80 Ibid.

of the government’s account. In the 1860s, the Bank of Montreal could demand “without mercy such rates of exchange and such profits as no second or third rate customer of a bank...would think of submitting to.”

Courtney insisted on better terms from the Montreal bank and put relations between the Dominion and the bank on a more professional footing. There is, perhaps, no better example of this than one instance involving Tilley himself, who deposited a cheque from the Dominion government into his Bank of New Brunswick account. The New Brunswick bank was then forced to pay a charge by the Bank of Montreal to negotiate it. The Montreal bank’s manager in Fredericton was assured by a superior that there “is not the slightest reason unless it is your pleasure for cashing these things for the Bank of New Brunswick or any other bank.” The foolish manager told the New Brunswick bank this and soon Courtney was in receipt of the message. He wrote a scathing letter to the Ottawa manager of the Bank of Montreal:

I am very sure that no other account would be treated in such a manner. In the first place you call the Government vouchers these things. I can hardly think that this is the ordinary business appellation given to cheques and orders of the Banks’ other customers. The whole thing carries out what has been my opinion for some time that your Bank treats the Government account with the most utter indifference and that anybody can be put in charge of it.

Courtney would not tolerate poor service nor countenance any pretensions Bank of

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82 George Hague, “The Late Mr. E.H. King” in JCBA V. IV, 1896-1897, p. 22.

83 NA FD RG19, E2, V. 2809 Courtney to the Manager of the Bank of Montreal, Ottawa, 15 April 1890.
Montreal general managers might have to be *ex-officio* finance minister. That, in effect, was his job.

With influence came some responsibilities Courtney found taxing, especially incessant demands to arbitrate disputes between rival banks in the absence of any national banking conventions governing cheque clearings and note redemptions. When the Bank of Montreal, for example, refused to negotiate without charge a Dominion government cheque covering the Prince Edward Island canal subsidy, the Merchants Bank complained bitterly to the deputy minister. Courtney, in turn, sent a stern warning to the Bank of Montreal, declaring its conduct “very annoying and impolitic, and if it is preserved I shall have to deplete the balances of the Bank of Montreal in order to build up funds at other points….”

Courtney did not hide his views from bankers nor his political masters. The deputy minister made it a policy never to vote in any Dominion elections, but he was certainly willing to advise his friends, mostly Liberals, and tell Macdonald what the country’s fiscal policy should be. He kept

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Duncan McDowall argues that the Bank of Montreal’s general managers acted as *ex officio* finance ministers and while there is grounds supporting this claim if applied to E.H. King, the evidence after the appointment of Courtney in 1878 suggests the Bank of Montreal’s influence began to be curtailed. By the late 1880s, Courtney reported directly to the Prime Minister and not the Minister of Finance, Charles Tupper and later George Foster. McDowall, p. 53. Courtney-Oliver Family Papers, Special Collections Library, Duke University. See correspondence, John Mortimer Courtney and Sir John A. Macdonald. Also, NA FD RG19, E2, V. 2802-2804.

NA FD RG19, E2, V. 2808: Courtney to W.J. Buchanan, 11 January 1890.

Courtney gave very specific instruction to Macdonald about how the country’s fiscal policy should be administered and his advice, it seems, was accepted for the most part. The deputy minister also gained by Macdonald’s patronage chest, another sign of his close ties and influence with the prime minister. NA, Sir John A. Macdonald
Cartwright well informed and cautioned the former finance minister in the run up to the 1887 election that some bankers would only support the Liberals if the party gave explicit assurances that "vested interests will be treated with the utmost scrupulous care." Courtney freely admitted his own stakes in the political battles between Tories and Liberals, privately conceding that should the Tories win the 1887 election and Sir Charles Tupper be made finance minister, it would cause "a cessation of my connexion with the Department." The Tories realised another electoral triumph and Macdonald persuaded Courtney to stay despite Tupper's appointment, a gesture, in part, to "combat the secessionist cry raised by William Stevens Fielding in Nova Scotia...."

Macdonald's Tories faced another term and more evidence that Hincks's 1871 banking legislation fell short of the mark on safety. On March 8, 1887, the New Brunswick-based Maritime Bank suspended payment. The first sign of trouble appeared that morning in St. John and Fredericton where bank officials were seen briskly moving "to and fro from each other's offices." More ominous was the appearance of the cashier and inspector from the Merchants Bank of Halifax who showed up for "some of the papers."


OA Cartwright Family Papers, Mu 510. Marked "Private," Courtney to Cartwright, October 25, 1886.

Ibid., Courtney to Cartwright, October 23, 1886.


The Capital, (Fredericton, NB) 12 March 1887.
business crumbs that had fallen from the table of the Maritime... Their arrival suggested the Maritime was closed for good, and indeed it was. People "checked their wallets, businessmen their cash boxes," borrowers their demand notes and depositors their savings books in anticipation of the worst.

This was not first time the three branch Maritime Bank, with a paid up capital of $321,000, had suspended payment. Thomas Maclellan, a private banker, had taken its helm after its first brush with disaster and convinced many in St. John and Fredericton that the bank was in good order. Depositors were certainly satisfied with Maclellan who saw to it that the bank paid a very competitive 5 per cent for their money, an offer that attracted business from a wide range of customers, including labourers, trustees and municipal officials. Maclellan was willing to pay dearly for deposits to bolster the bank's liquidity and offset loans that locked up the bank's funds, especially a large loan to the lumber firm, S. Schofield and Co. When it failed, Maclellan's charade ended.

As news spread about the Maritime Bank and its connection to Schofield, people began calculating how much they stood to lose. At St. John, City Hall officials feared the water and sewage commissioners, the school trustees, the alms house commissioner

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91 Ibid.
92 Ibid.
93 MT 11 March 1887.
94 The Evening Telegram (Toronto), 9 March 1887.
95 MT, 18 March 1887.
96 Wilfred Harrison argues that the Maritime was a victim of New Brunswick's timber trade. It was, more properly, a casualty of bad management. Harrison, p. 1.
and municipality of the city and county would lose $100,000. By the time the Maritime's assets were liquidated, depositors recovered a little more than 10 per cent of their savings, losing close to $1 million. Note holders who did not sell their Maritime notes at a discount to speculators and could wait for the liquidation to proceed, eventually received 100¢ on the dollar. The failure of the Maritime reached into every corner of New Brunswick, just as the bank itself had done using its "dashing, flourishing, and what people called an enterprising style of business." Part of that "enterprising style" was taking advantage of the Bank Act’s practical weaknesses to stay in business when it should have closed.

The Bank Act’s shortfalls were not only exploited by small banks during trying times. They also served larger institutions dealing with their own dilemmas. One such institution was the Canadian Bank of Commerce. From its inception in 1867, it profited from good relations with businessmen in Ontario and played up its image as Ontario's answer to the Bank of Montreal which made enemies in the early 1860s when it curtailed loans in Canada West. A combination of misguided but good intentions and imprudence had lumbered the Commerce with many bad loans by 1885. The early 1880s' economic reprieve eased the problem only to have it return when the economy slowed again in 1883. Walter Anderson, the Commerce's general manager, loosened

"The Capital, 12 March 1887.

* NA FD RG19, V. 3485, File "Defunct Banks." See "Return Showing The Number of Chartered Banks That Have Gone Into Liquidation Since 1867."

"MT 18 March 1887."
the reins on bank credit when optimism returned in the early 1880s, financing speculators behind Winnipeg’s land boom as well as timber companies that lost their markets when the good times disappeared. By 1885 Anderson had reduced the bank’s reported assets from roughly $26 million to $22 million, an estimation of losses that proved far too sanguine. He was later accused of carrying items on the books “at a valuation which no practical man of business would have suffered in his own affairs.” The founder and president of the Commerce, William McMaster, took matters into his own hands and initiated a reorganization of the Commerce’s management. He persuaded George Cox to join the bank’s board of directors along with Henry Darling, two prominent businessmen who brought ability, new business networks and reputations that inspired confidence.

The most important change for the Commerce followed Anderson’s resignation after he was persuaded to accept the job of Ontario’s deputy provincial treasurer. His successor undertook what the Monetary Times called the “heroic treatment of certain of the bank’s assets which had more than once been the subject of animated debate amongst the directors.” The job fell to thirty-eight year old Byron Edmund Walker whose formal schooling ended at thirteen but who continued a lifelong journey informally studying literature, finance and science, making him one of the most able men at the Commerce. He took hold of the bank in October 1886, when the bank had

100 Ross, A History of the Canadian Bank of Commerce V. II, p. 95.
101 MT, 8 July 1887.
102 Ibid.
thirty-one Ontario branches, one branch in Montreal and an office in New York City.

Walker, along with J.H. Plummer, an experienced banker who returned to the Commerce at Walker's request, spent months reviewing its assets. When they finished, Walker told the Board that

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\text{The present task has been rendered more than usually difficult by the fact that our opinion of some of the bank’s assets differs very materially from that of my predecessor. Whenever the element of doubt fully enters into an asset, the basis for valuing the asset should be one which leaves out of sight all sources of recovery which are merely conjectural.}^{103}
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Walker's revision of the Commerce's financial statement was enlightening. To bad and doubtful debts he appropriated $930,543, nearly one-sixth of the Commerce's paid up capital.\(^{104}\) In addition, another $455,490 was set aside for estimated losses on accounts in liquidation and doubtful debts Anderson had carried as current. To meet these exigencies the reserve fund was reduced from $1.6 million to $500,000. Walker was praised by the same financial press that questioned his predecessor's Returns to the government. The editor of the Monetary Times reflected on Walker's Bank Return and observed that "if the present one exhibits the real and true position of things, those previous ones must have been illusory to a very large degree."\(^{105}\)

Walker's legacy was to show just how well a bank could be managed by a

\[\text{\textsuperscript{103} Ross, p. 103.}\]
\[\text{\textsuperscript{104} Ibid.}\]
\[\text{\textsuperscript{105} MT, 8 July 1887.}\]
brilliant banker using the flexibility Hincks's Act offered. Others left less endearing vestiges that gave Macdonald cause to consider dramatic changes to Canada's banking system by the end of 1887. In August the five branch Bank of London in Canada held its annual meeting amidst an upbeat atmosphere - a mood defying an ongoing struggle to retain deposits. The bank had a capital of $241,101 and did a good business at its Petrolia, Ontario branch. Its president, Henry Taylor, who was also general manager of the ill-fated Ontario Investment Association, arrived at the meeting prepared to take his share in the bank's presumed prosperity. As the meeting progressed, a shareholder proposed that Taylor be awarded a $10,000 cash bonus in return for his four years of work without pay. Against the loud protests of another shareholder, "the cool and smiling president...had proxies enough to vote himself the $10,000 and then proceeded to do so, with grateful thanks." Within two weeks the Bank of London in Canada had to close its doors, its president was missing and one of its branch managers fled to the United States with $2,500 of the bank's money.

106 Ibid., 26 August 1887.
108 The Ontario Investment Association was a mortgage loan company that was investigated by a committee of its own shareholders just weeks before the Bank of London collapsed. It boasted about a rest fund of half a million dollars that did not exist. Taylor was playing a confidence game rather than managing the company. It faltered under the weight of bad loans.
109 MT, 26 August 1887.
110 Ibid.
111 Ibid.
Taylor had been using deposits from the Bank of London in Canada to finance mortgages and other loans through the Ontario Investment Association which collapsed under the weight of bad debts, bringing its banker down at the same time. The financial press asked how "so many shrewd and substantial men, in London especially, aware as they must have been, of Henry Taylor’s career, and of his scarcely-concealed contempt for commercial morality... trusted him as they did..." The more important question was how the country’s banking legislation allowed Taylor to perpetrate fraud "with an aplomb and a dash that would have imposed upon an inspector of police." Autum failed to cool what was turning into another test of Canada’s banking system. The boom-bust economy was not kind to bankers. Capital write-offs highlighted their mistakes while loud complaints about competition signalled their frustration with falling revenues. "Ruinous competition" proved easy to lament but difficult to suppress. In 1886 Toronto bankers recognized greater efficiencies could

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112 MT, 26 August 1887.

113 Ibid.

114 Between 1882 and 1888, six banks collectively wrote-off $4.1 million in capital, close to 40 per cent of their combined capital. Breckenridge, The Canadian Banking System, 1817 - 1890, p. 461.

115 R.T. Naylor argues a banking cartel existed setting rates of interest paid on deposits during this period. McDowall suggests a "modicum of cooperation" was necessary and that interest rates were "generally set as a result of a loose consensus." There is little evidence supporting this. A survey of interest paid on deposits in the country’s major centres shows rates varied across the country, with large banks paying more in some centres and small banks in others. In Halifax local banks paid 4 per cent for deposits against the 3 to 3.5 per cent paid by the Bank of Montreal. In Saint John all the Halifax based banks paid 4 per cent while the Bank of New Brunswick could only afford 3. In Winnipeg, top rates were paid by all the banks. Branch managers had
be created by establishing a uniform system of endorsements and founded a Bankers' Section connected with the Toronto Board of Trade in aid of the cause. When they sat down to the task, however, they were not "able to make arrangements with any leading Banks...." Building common ground and addressing "ruinous competition" were tasks bankers conveniently avoided as long as the blame for taking competition to unhealthy extremes could be laid on the doorstep of the Government's Savings and Post Office Banks which paid 4 per cent for deposits, a rate Courtney disapproved of but that was as much a political matter as it was an economic one. Making cooperation all the more difficult was the Bank of Montreal's own sense of corporate identity that reinforced its position as the largest Canadian bank and weakened any sense of fraternity with others. This hampered finance department efforts in 1885 to raise funds in New York using the Bank of British North America, the Merchants Bank of Canada and the Montreal bank. The Bank of Montreal's President, Charles Smithers, took umbrage at Courtney refusing him a private meeting and told the deputy minister that "nothing could be gained by associating the other banks with us." 

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116 NA Toronto Board of Trade Papers, MG28, III, 56 V. 153: Bankers Section Minutes, 3 March 1886 - 10 February 1908, p. 27.

117 The high rate paid for deposits was rationalized by the belief that it encourage thrift among working people. See Bunbury.

118 Ibid., Bank of Montreal Collection, Reel C-735. Charles Smithers to Courtney, 16 March 1885.
Rather than cooperate in the 1880s, bankers' rivalries intensified. In his annual report, the Kingston, Ontario manager of the Bank of British North America confessed that "in many parts of Canada bankers appear to have made up their minds to retain their clients at the cost of concessions not thought of until late years."119 The burden of such concessions grew especially heavy in 1887 as the economic depression worsened. In June, George Hague told the Monetary Times that "we are now in a period of keen competition in banking, that much is done for nothing and that profits generally are cut down to a finer point than are reasonable."120 By October a letter appeared in the same paper calling for a national bankers' association to bring an end to the damaging state of competition.121 At the start of November Courtney warned Macdonald that the "Banks are universally hard up" and told him that managers arrived at his office hoping to exchange dollars for sterling and "greedily looking that the [government] cheques should be delivered before eleven o'clock in the morning...."122 This did not bode well for banks that found it difficult to maintain their liquidity. For the Dominion government, troubled times made problematic its policy of relying on bankers to rescue struggling competitors from disaster. By the middle of November the strain proved too much for the mismanaged Central Bank of Canada.

120 MT, 17 June 1887.
121 Ibis, 28 October 1887.
Launched in 1884, the Central Bank had $500,000 in capital and was headquartered in Toronto, with offices in Brampton, Durham, Guelph, Port Perry, Richmond Hill, Sault St. Marie, Chicago, New York and London, England. Its reputation for doing "a remarkably large business" belied its sizeable loans to a handful of firms using questionable collateral. In the days before it suspended payment, officials from the Central went to Montreal hoping to persuade financiers to give their bank much needed assistance. Their aspirations went unfulfilled. Not wanting to return empty handed, they apparently gave a Montreal broker $40,000 in Central Bank notes with instructions to exchange them for others belonging to Montreal banks, notes that could be taken back to Toronto and used to pay debts owed Toronto bankers who doubted the value of the Central's. On November 16, A.A. Allen, the general manager of the Central Bank, turned to Toronto bankers for one last ditch attempt to come up with $200,000, the sum he needed to keep the bank open. No one answered his call. He subsequently announced the bank had suspended payment and began a public relations campaign that portrayed the Central's difficulties as temporary, a line of argument Toronto's Evening Telegram took at face value. Allen confidently told depositors the "bank was good to meet all its obligations" and bought enough time to prepare his get-away south of the line. When news spread that Allen had vanished, a near panic ensued in Toronto and other centres where the Central had

123 The Evening Telegram, 16 November 1887.

124 Ibid.

125 Ibid.
branches.

Depositors at the Central fared better than the Maritime's and the liquidators redeemed 100 per cent of the Central's notes after a considerable amount of time. And yet, the full redemption of its notes is deceptive. Many sold them at a heavy loss to speculators who had the time to wait for the bank's liquidation and the mettle to gamble that the Central's assets would prove sufficient. Those most affected by the Central affair were Ontario's small banks which had to endure the consequences of the sudden want of confidence in the banking system. Some, said one report, were left tottering.126

At the finance department Courtney was busy trying to steady those in the most danger, especially the seventeen branch Traders Bank of Canada. With a capital of $500,000, the Traders suffered a steady run that began in August and was aggravated by the Central Bank's suspension. By December its deposits had fallen from $1.2 million to $697,000. Courtney disliked the Traders Bank and believed that it paid "abnormal rates" to attract deposits and accepted business that "no other bank would take up."127 If the Traders general manager, Henry Strathy, expected help from Ottawa, Courtney ensured his hopes went unrealized. Strathy was compelled to rely on the assistance other banks could provide. In this case, bankers from stronger institutions reluctantly came to the rescue. They were, explained Courtney to Macdonald, "anxious

126 Ibid., 18 November 1887.

127 NA FD RG19, E2 V. 2803: "Memorandum respecting the condition of certain banks," Courtney to George E. Foster, 28 November 1888.
to avert a disaster like that caused by the failure of the Central Bank.\textsuperscript{128}

When banks had run into trouble in the late 1870s, Tilley had been prepared to assist them. But the Exchange Bank of Montreal crisis reinforced Macdonald's view that such a policy was misguided. Still, bank failures and the trouble that followed them could not go unanswered and the series of failures in 1887 generated public pressure for change. Moreover, Courtney's concerns about the solvency of many smaller banks added momentum within the government to find out what was wrong with the banking system and to fix it. Macdonald and his cabinet turned this pressure back on the banks which were asked to make the banking system work or face reforms removing some of the flexibility won in Hincks's Bank Act. The Traders Bank survived in part because others came to its aid, but its rescuers were not as willing to assist weak rivals whose managers were considered villains. This left a bank like the Central to crash regardless of Macdonald's desire to see banks take care of their own. They also opposed rescuing banks managed with a reckless disregard for their shareholders' interests and that of the banking industry as a whole. The Traders escaped such resistance but another institution, the Federal Bank of Canada, did not.

The Federal Bank had $1.25 million in capital, making it larger than the Central and the Traders, but still very much a small bank in the eyes of the public and other bankers.\textsuperscript{129} Opened in 1874, the Federal was marred by its suspension ten years later

\textsuperscript{128} Ibid., V. 2805: Courtney to Tupper, 3 May 1888.

\textsuperscript{129} Naylor mistakenly argues the Federal Bank had a paid-up capital of $3 million dollars and, as a "large bank," disproves the theory that small banks were more unstable than the larger concerns. The runs that Ontario banks experienced after the
and the business practices that led to it. Some branch managers, doubtful of the Federal's solvency, refused to accept its notes in late 1887. Those doubts extended to brokers. Its "stock was...raided by margin dealers and slandered by bucket-shop wires, and it almost looked as if the bank was to be defamed out of existence." In 1884 bankers had come to the aid of the Federal; in 1887 they felt compelled to do the same but this time they were determined to see it closed. The bank was operated at a loss, driving down the revenues of rivals in the process. One competing banker from Kingston's Bank of British North America complained the Federal was allowing interest on current accounts "at rates varying with the demands of their customers, severely handicapping other Banks in their endeavour to retain accounts." Kingston merchants were quick to take advantage of the Federal's offers to the despair of other bankers trying to sustain revenues. The British Bank's manager warned his employer that "very little improvement may be looked for until the Federal Bank either withdraws from Kingston, or naturally alters its present mode of conducting business." By late January 1888, the Federal Bank was put into liquidation after Ontario banks advanced

Central's failure were among the smaller institutions and the Federal was recognized by the public as a small bank. Naylor's argument that the larger banks were as unstable as smaller ones is more fiction than fact. Large banks could better absorb mistakes than smaller rivals and the public knew it. Naylor, p. 143. For the paid up capital of the Federal see MT 22 July 1887; NA FD RG19, V. 3485: "Return Showing the Number of Chartered Banks that Have Gone into Liquidation Since 1867."

130 MT 13 April 1888.


132 Ibid.
it $1.7 million. Courtney told the finance minister that the "banks have agreed to retain the circulation and the deposits, so the public will not be embarrassed."133 Ontario banks had taken an important and new step. Courtney estimated that after the liquidation was completed, bankers would recover little more than 50 or 60¢ on the dollar. Banks, in Ontario at least, were willing to pay for the good will of the government and the public by accepting a share in the responsibility for a banking system designed after bankers rejected Rose's 1869 scheme.

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Despite the actions of Ontario banks, Macdonald believed it was time to consider formal changes to the banking system to guard against future failures and the commercial disruption that followed them. He turned to Courtney whom he asked to undertake a discrete examination of the country's banking legislation. Throughout January 1888, the deputy minister carefully reviewed the Bank Act, considered ways to improve safety for depositors and contemplated how to end the troubles associated with the country's concurrent circulation. If he had any doubts that reform was needed, they were erased by ongoing demands from weak banks for assistance. The Oshawa-based Western Bank of Canada was particularly insistent on a government deposit and used Conservative cabinet minister Mackenzie Bowell to pressure the deputy minister. Courtney did not oblige Bowell who was told

I should have to repeat it again it if was brought formally before us: one bank of all the English banks at the time of the last published statement

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133 NA FD RG19, E2 V. 2802: Courtney to Sir Charles Tupper, 28 January 1888.
held the smallest percentage of total reserves against circulation and deposits - only about 6 per cent. I have no belief in the institution, and looking at the concerted efforts to procure the Government account it appears to me that in all probability it is insolvent.\textsuperscript{134}

Here, in essence, was the problem Courtney wanted fixed. Banks like the Western, which he suspected were insolvent, could operate with impunity, putting depositors' money and note holders at risk.

Before drafting his recommendations, Courtney discussed them with his friend and Superintendent of Insurance, William Fitzgerald. The Dominion's regulation of the Canadian insurance industry was a model Fitzgerald thought suitable to banking. He believed Courtney would do well to impose fixed reserves, appoint government inspectors and compel a compulsory audit of bank affairs.\textsuperscript{135} While opposed to government inspection, fearing it might burden the federal treasury with expensive demands should a bank fail, Courtney thought Fitzgerald's other two ideas were worthy of inclusion in his report to Macdonald. In twenty-two pages, he proposed sweeping changes to Canada's banking system and presented them to the prime minister in early February. He argued that the process used to grant bank charters was flawed and applicants should prove they had the capital they claimed to have, a step that would eliminate deceiving the government "by payment of a commission" to a friendly bank

\textsuperscript{134} \textit{Ibid.}, Courtney to Mackenzie Bowell, 22 February 1888.

\textsuperscript{135} \textit{Ibid.}, V. 3196, File 12109: William Fitzgerald to Courtney, 12 January 1888.
supplying applicants with false evidence.\textsuperscript{136} Applications, Courtney thought, should be processed through the Treasury Board rather than the Sub-Committee on Banking and Commerce where he said they received a "perfunctory examination." The deputy minister also took aim at banks manipulating their share price through large block trades the finance department had no way of tracing. To better protect depositors, Macdonald also heard that more detailed Bank Returns, supported by independent shareholder audits, were required. But the key to safety, argued Courtney, was fixed reserves and withdrawing the banks' right of issue. Bank failures disrupted commerce and losses to depositors were becoming too common. He advised Macdonald to impose fixed reserves of 15 per cent on all banks, saying the "cash reserves held by [them] are as a rule lower than safety demands...."\textsuperscript{137} Like the man who hired him, Sir John Rose, Courtney's report demonstrated that he too was a "hard money" advocate who pushed safety to the top of his agenda in the aftermath of banking troubles. His message to the prime minister was clear: the Canadian banking "system is bad and that a system similar to that of England or the United States should be adopted."\textsuperscript{138}

Macdonald was not ready to accept Courtney's conclusion, remembering, no doubt, the struggle after Rose's similar proposals, but he was interested in the response such recommendations would generate in 1888, nearly two decades after

\textsuperscript{136} Ibid., "Memorandum on the Banking Act," Courtney to Macdonald, 10 February 1888.

\textsuperscript{137} Ibid.

\textsuperscript{138} Ibid.
Rose's scheme had been rejected. Courtney began "intimating to the banks the changes proposed" which, he assured the prime minister, would "bring the matter to public notice and will provoke discussion in the financial and other journals, from which no doubt valuable hints will be received." He probably relied on the Assistant Receiver Generals in Toronto, Montreal and Halifax to quietly communicate plans to bankers and used the financial press in New York City to goad prominent Canadian bankers who were amassing deposits in New York by boasting about the stability of the Canadian banking system. A report in New York City's Bradstreet's prompted a lengthy reply from the Commerce's Walker, who did not sign his name to the letter but who Courtney knew wrote it. Walker was alarmed by a report saying the Canadian government realizes the irreparable injury that has been done to the credit of Canada by the recent exposures of the rottenness of the banking system of the country and intends to take measures to thoroughly remodel the banking system on the basis of the United States national banking system.

He feared American bankers would question their confidence in all Canadian banking institutions and decided to make the case for the country's banking system. The Central Bank, he agreed, was the "most scandalous instance of weak and dishonest

139 Ibid.
140 NA FD RG19, E2 V. 2803: Courtney to Macdonald, 17 April 1888.
management, but by American standards it was a small bank that seemed to warrant little fuss. Walker explained to American readers that the "unusual stability required by the Canadian people in their institutions" meant that failures caused "much sensation and distrust." The Canadian banking system's strength, Walker believed, was well illustrated by the liquidation of the Federal Bank facilitated by well managed banks which saved "perfectly solvent mercantile houses" from bankruptcy and shareholders from paying their double liability. The system's main problem, thought Walker, was dishonest and imprudent bankers who would never be eliminated by simply adopting an American or English banking model.

Courtney's use of New York's financial press caused Canadian bankers to fear changes were imminent. The prospect that cabinet would give up on the concurrent circulation the government and banks shared and endorse a new national currency at bankers' expense was worrisome. Most troubling was the apparent decision to consider reforms while excluding bankers from the process, a situation they considered unfair if not dangerous to the economic well-being of the country. But unbeknownst to anxious bankers was the ongoing turmoil at the finance department where the minister, Sir Charles Tupper, and his deputy rarely spoke. Courtney's influence with the prime

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142 Ibid.
143 Ibid.
145 Ibid.
minister, his sway with the Treasury Board, and his ties to Cartwright, who had crossed
to the Liberals years before, did not endear him to Tupper. The minister let Courtney
examine banking reforms as Macdonald wanted and take steps to prepare the way for
change only to tell him that as finance minister he had no intention to do anything
unless absolutely necessary. Only another banking crisis would move Tupper. The
minister had left his deputy along with the prime minister in an awkward position.
Change would have to be post-poned. The safety of the banking system would depend
for some time longer on bankers informally sharing responsibility for the banking
system's flaws. Courtney told a relieved George Hague that no changes to the banking
system were likely in 1888, but that he and other bankers had better make provision to
take up the Traders' circulation should their loans prove futile.

By May 1888, Tupper decided to resign from the government and return to
England where he assumed his old post as high commissioner to London, a job he did
well and that distanced him from the political struggles in Ottawa. His replacement
gave Macdonald a minister who would not subvert Courtney's attempts to reform the
banking system. Tupper's chosen successor was George Foster, another temperance
advocate from New Brunswick, former classics professor from the University of New
Brunswick, and a junior member of the Conservative cabinet since 1885. After
assuming his post, Foster let bankers know their reprieve was a temporary one and

146 Ibid., V. 2809: Courtney to Foster, 1 April 1890.

147 Ibid., V. 2803: Courtney to Hague, 17 March 1888; also refer Courtney to W.T.
Howland, 17 March 1888; Courtney to Macdonald, 17 April 1888.
they had better develop ways to address the banking system's troubles. With a revision of the Bank Act on the horizon, those bankers who feared ill-advised reforms from the finance department began to consider how problems could be addressed without forcing any fundamental changes to the way Canadian banks did business.

In Toronto, three leading figures from the Bankers' Section of the city's Board of Trade, Walker from the Commerce, the Bank of Toronto's Duncan Coulson, and Daniel Wilkie who managed the Imperial Bank, discussed how to answer the government's concerns. All were respected bankers, although Wilkie tested Courtney's patience with tiresome complaints about rivals. Walker was the more imaginative, however, and understood that bankers would have to meet the government's demand for a reliable currency, an exigency weak banks jeopardized. He drew on his knowledge of American banking history to develop a response. In pre-Civil War New York, bankers had established a Safety Fund to guarantee bank notes. A similar scheme existed in New England where a Bank of Mutual Redemption was created. These models, Walker thought, would be useful to Canada. A bank supported redemption fund could be established and a facility located in the commercial centre of each of the Dominion's provinces, allowing bank notes from all over the country to be redeemed without cost or inconvenience. The sticking point for some Canadian bankers was the demand that they underwrite the value of their competitors' notes, a policy that would please Macdonald but leave shareholders from well-managed banks to absorb the cost of notes issued by weak rivals.

Bradstreet's, 10 March 1888.
Walker found two allies in Montreal, the Merchants' George Hague and the Molsons' Francis Wolferstan-Thomas. Their great challenge was simply bringing the Bank of Montreal to the table with other bankers, a task that proved onerous. Some progress, however, was made by focusing on quite a different concern. Montreal had no clearing house and it was apparent from the example set by Halifax bankers in 1887, who opened their own, that new efficiencies could be found if Montreal had one as well. This was an issue the Bank of Montreal was prepared to discuss and Hague and Wolferstan-Thomas used it to their best advantage. They were able to promote the idea of greater cooperation as they discussed plans for a clearing house. By 1889 Montreal had its own cheque clearing facility and a new enthusiasm for the possible benefits of cooperation. In Toronto, where there was no clearing house, a similar pattern seems to have been followed, giving Walker the opportunity to broach his idea and encourage the need for greater cooperation between bankers to answer both the government's concerns about the Bank Act's flaws and bankers' other problems stemming from "ruinous competition." The meetings that Walker, Coulson and Wilkie arranged in Toronto with Ontario's bankers soon included Hague, Wolferstan-Thomas and other Quebec based bankers. Halifax's and Fredericton's bankers were next to follow. All were forced to begin to cooperate, said Wolferstan-Thomas, by what he called the government's "rod and terror over them." These meetings were, Fyshe recalled, "the first organised attempt to introduce the principle of cooperation into our

They were inspired by fear of government action and not the desire to form a combination, a feature that distinguished the organization bankers would form from many other trade associations in Canada.

As bankers began to work out some means of dealing with weak banks, Courtney grew sympathetic to their concerns about reforming the system in the glow of a crisis. In a memorandum written in November 1889, he commented that it "has only been largely through a series of happy accidents that our several Banking Acts have not been brought in at periods of great depression when it would have been difficult to contend against erroneous ideas." But change, he thought, had to come, especially in regard to Canada's currency. The "majority of the Banks," he observed, "are no doubt in favor of retaining their present note circulation; the problem was that the sentiment of the country is largely in favor of a purely Government Circulation." If Macdonald wanted a compromise, he suggested limiting the amount of circulating notes existing banks could issue to the "utmost limit of their circulation...as given during the three years prior to 1st January, 1890," while prohibiting new banks from obtaining the power to issue circulating notes altogether. Any shortfall in currency would be picked up by the government and as time progressed a Government Circulation could gradually be eased in. Until such time, Courtney believed it essential that the currency

150 NA FD, RG19 V. 492, file 624: Bank Reserves, 22 February 1890.
151 Ibid.
152 Ibid.
153 Ibid.
be made payable at par throughout the Dominion and "that absolute security should be made for the redemption of notes in case of insolvency or failure of the Bank."\textsuperscript{154}

By the end of 1889, bankers across Canada had heard the whispers coming from the finance department that Canada would soon have a national currency and a very different banking system. This undoubtedly made Walker's redemption fund more appealing. But some feared it would not be enough to prevent the government from taking away the banks' right to issue their own notes. George Hague proved the most impatient and pressured the Bank of Ottawa's George Burn to arrange a meeting with Foster as soon as possible.\textsuperscript{155} When Courtney met Burn, the Ottawa banker was told the minister had nothing to say, but would meet bankers if they felt it was necessary.\textsuperscript{156}

On January 25, 1890, Foster met twenty-eight bankers who brought along Zebulon Lash, a former deputy minister of justice and well known corporate lawyer on the payroll of Toronto's Bankers' Section. Hague, for all his enthusiasm, was too ill to attend and Fyshe, for reasons that are unclear, decided not to go. Halifax bankers were represented by the young and ambitious Edson Pease, the Montreal Manager of the Merchants' Bank of Halifax who would distinguish himself in later years as the best banker of his generation. The Bank of Montreal refused to attend.

Bankers asked Conservative Senator J.D. Lewin, president of the Bank of New

\textsuperscript{154} Ibid.

\textsuperscript{155} NA FD RG19, E2, V. 2809: Marked "Private" Courtney to Thomas Fyshe, 6 February 1890.

\textsuperscript{156} Ibid.
Brunswick, to chair the meeting and R.R. Grindley, general manager of the Bank of British North America and Courtney's confidant, to act as secretary. Foster immediately tried to ease fears that changes were contemplated and the bankers' opinions were unwelcome. He assured the delegation that the government wanted to hear bankers' ideas, especially on issues the finance department considered important. Foster began by offering bankers the opportunity to consider an amendment making the Bank Act permanent, a change bankers had long sought but were wary of in an atmosphere coloured by fears of unwanted reform. The minister turned to the currency question and wondered how they might ensure bank notes were paid at par in all parts of the Dominion, an issue that was of much concern to merchants and others who received notes from a bank located in one part of the country only to have their local bank charge them the cost of negotiating them. There was also the question of security, an issue he suggested might be addressed by limiting the circulation banks could issue and imposing a fixed reserve. Finally, he asked bankers what precautionary steps if any should be taken when new banks applied to the government for a charter.157

Wilkie addressed the minister with deference, assuring him that they came without fear of being unfairly or ungenerously dealt with. The banks are the main-stay of the country and any legislation imperilling them, while the country is going ahead, would react on the country in such a way that the effects would be very serious. They know that the Government is a paternal Government and would have no

desire to injure any interest, but to develop all as much as possible, so that in meeting the Minister they had no doubt but that they would be reasonably dealt with.\textsuperscript{158} Bankers were meeting with Foster because they feared, in fact, that they would be anything but generously dealt with in the coming revision of the Bank Act. From diplomacy Wilkie turned to the substance of Foster’s questions and admitted that they were unprepared to speak about limiting the circulation banks could issue, a question, he let the minister know, the banks took seriously.\textsuperscript{159} New banks, the delegation thought, should have $1 million in subscribed capital and $250,000 paid up before having the authority to issue any circulation. Wolferstan-Thomas then addressed the issue of bank notes being paid at par, and recommended changing the Bank Act to compel “banks to make arrangements at the commercial centre of each Province for the redemption of its notes....” The appropriate penalty, he thought, if this was not followed, was the withdrawal of the offending bank’s charter.\textsuperscript{160} It was Walker, however, who led the discussion on security, giving a detailed account of the problems with the American banking system and announcing bankers in Toronto and Montreal had come up with a scheme to meet the want for greater security. “What they proposed was to form a fund to be called the Circulation Security Fund, in the shape of a guarantee from all the banks.”\textsuperscript{161} Critical to the Fund’s acceptance, though, were new

\textsuperscript{158} \textit{Ibid.}

\textsuperscript{159} \textit{Ibid.}

\textsuperscript{160} \textit{Ibid.}

\textsuperscript{161} \textit{Ibid.}
provisions in the Bank Act guarding against poorly managed and weak banks starting up. Walker conceded that "this is why the banks want some restriction placed upon the incorporation of new banks. They did not want to go into the security scheme if a bank like the Central is to be allowed to be incorporated."

Foster seemed open to bankers' suggestions but he made a particular point of pressing the circulation question before he allowed the meeting to end. He bluntly asked them their view of restricting "the maximum circulation of each bank hereafter to the maximum amount it had availed itself of during the past three years, and let the Government take all over and above that amount." Coulson cautioned the minister that bankers had not considered such a change and that it would probably cause "friction between the larger and smaller banks." Paying little heed to Coulson, Foster persisted and finally extracted an answer from Walker who believed it would unfairly punish banks that kept their circulation down while rewarding others that kept theirs near the limit, a veiled suggestion the smaller banks that generally issued more notes in proportion to their paid up capital than larger banks would benefit most. Walker's remarks did not go unchallenged. The general manager of the Banque Jacques Cartier, A.L. DeMartigny, said the measure would hurt rather than reward small banks, arguing that in the instance of his bank it would have to close half of its twelve

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162 Ibid.
163 Ibid.
164 Ibid.
branches that mostly served Quebec agriculturalists.165 Foster let both answers stand without comment. What his persistence did, however, was instill a new chill in bankers.166 They responded after the meeting by turning to their friends in the press, hoping to highlight the dangers of a government currency and bringing pressure to bear on the government that would encourage it to avoid such reforms. Molsons Bank even turned to Goldwin Smith, a noted historian, journalist and annexationist, and republished a year old essay of his on the currency question. In it Smith warned that the government, "by seizing on the circulation of the banks, may earn a little popularity among the State Socialists and the partisans of the Rag Baby...[and] among those who hate the banks and would rejoice in any mischief done to them, simply because they are prosperous institutions by which other people are making money."167

Within three weeks of Foster’s first meeting with bankers, another one was scheduled which would lay out government demands and show where bankers and the government were far apart. To bankers’ relief, limiting circulation was abandoned. Foster accepted Wolferstan-Thomas’s suggestion, an idea originally proposed by Walker, to establish redemption centres in each of the provinces, thus putting an end to bank charges for negotiating out-of-province bank notes. What the minister would not do, however, was withdraw a bank’s charter for failing to make arrangements to clear

165 Ibid.

166 NA FD RG19, E2, V. 2809: Marked “Private” Courtney to Thomas Fyshe, 6 February 1890.

167 Ibid., V. 3196 File 12109: Goldwin Smith,”Bank Circulation.”
bank notes with other institutions. This, he thought, might encourage a combination between banks to "freeze out" a rival and put it out of business. Banks would have to learn to cooperate if this plan was to work and the minister said as much when he reported that the "Government thought it better to lay down in the Act the simple principle that each bank should make its own arrangements for the redemption of its notes." Foster then announced that Walker's redemption fund would be adopted with a few administrative changes. The good news for bankers was over. Safety was clearly a priority the government wanted addressed and Foster declared the government desire to impose a shareholders' audit system that allowed the government to appoint an inspector should one-third of shareholders make application to do so. The president of the Eastern Townships Bank, R.W. Heneker, replied that there "was no demand in the country for the introduction of so dangerous an element." Courtney and Macdonald thought otherwise.

Bankers were then informed about amendments Foster had not previously brought before them. The Montreal Board of Trade had lobbied the government to make changes and force banks to hand their unclaimed deposits and dividends over to the government for safe-keeping after ten years, the government then publishing the


169 NA FD RG19, V. 3196, file 12109: "Banking Legislation: Memorandum Re Second Meeting, Finance Department Ottawa, Tuesday 11th February 1890 & Wednesday 12th February 1890."

170 Ibid.
names of those entitled to such monies." Wilkie let his temper have the better of him and declared the proposal "an outrage. That many deposits are made for the purpose of being left for over ten years. People would not put money into the bank if their names are to be published all over the country." Courtney was not convinced. As a banker in Calcutta he had met another financier, Sir James Hogg Weir, who Courtney believed used unclaimed balances to buy a baronetcy. The deputy minister told Wilkie the "money did not belong to the bank, who [sic] were simply holders of it." So adamant was Courtney to see this change through, he later wrote Macdonald and asked him to "pray stick to the principle and do not give in to the Banks." Foster then presented Courtney's other suggested change: the government believed "banks should always hold in legal tenders and specie at least 10% of their total liabilities, including their circulation." A surprised Walker gave an impolitic response, arguing there "was

\begin{footnotes}
\item[171] NA Macdonald Papers, V. 331: Resolution from the Montreal Board of Trade, 10 April 1889.
\item[172] Ibid., FD RG19 V. 3196, file 12109: "Banking Legislation: Memorandum Re Second Meeting, Finance Department Ottawa, Tuesday 11th February 1890 & Wednesday 12th February 1890."
\item[173] Ibid., Macdonald Papers, V. 63: Marked "Private," Courtney to Macdonald, 12 March 1890.
\item[174] Ibid., FD RG19 V. 3196, file 12109: "Banking Legislation: Memorandum Re Second Meeting, Finance Department Ottawa, Tuesday 11th February 1890 & Wednesday 12th February 1890."
\item[175] Ibid., Macdonald Papers, V. 63: Marked "Private," Courtney to Macdonald, 12 March 1890.
\item[176] Ibid., FD RG19, V. 3196, file 12109: "Banking Legislation: Memorandum Re Second Meeting, Finance Department Ottawa, Tuesday 11th February 1890 & Wednesday 12th February 1890," p. 11.
\end{footnotes}
but one way to induce banks to keep better reserves and that was by experience - by weak banks failing and the bankers finding out that they must keep better reserves."177 As far as Courtney and Macdonald were concerned, this was a lesson that some of Canada's banks seemed unwilling to learn, a view shared by bankers such as Coulson and Grindley.178 Fyshe thought little of these proposals and later told Courtney "that if we were to collect a lot of shore fishermen, lumbermen and laborers and that at Ottawa we could not possibly get worse legislation from them than this."179 He and other bankers were not prepared to let such amendments pass without appealing directly to Macdonald and his cabinet.

On February 22, George Hague, Thomas Fyshe, Edmund Walker and, R.W. Heneker made their final appeal to Macdonald and his cabinet. Their main concern was preserving the flexibility inherent in the Bank Act, flexibility they felt was threatened by Courtney's call for fixed reserves the finance minister championed. Hague spoke first and pointed to the American experience with fixed reserves, arguing that in times of economic crisis, American banks operating under fixed reserve laws were placed in an invidious position:

At such times the Banks have had two alternatives before them - either break the law by drawing upon the forbidden reserve, or to close their doors. It hardly need be said that

177 Ibid.

178 Ibid., E2, V. 2809: C.W. Treadwell to Foster, 20 January 1890.

179 SGA Thomas Fyshe Letter Books, Marked "Private" Fyshe to Courtney, 3 April 1890.
they have invariably chosen the former alternative.\textsuperscript{180}

Fyshe was the next to speak and gave what was arguably the most important address. In a Scottish brogue that rang with authority, he rhetorically wondered if it was a good idea "to reduce us to the mean position of feeble imitators of the feeble productions of another country, when we have so much better of our own?"\textsuperscript{181} Macdonald, never a fan of American ways or institutions, may have thought Fyshe had a point. He could not dismiss the banker's concern, however, that in times of economic crisis, when depositors wanted their money and borrowers faced ruin if their loans were called in, banks must not be restricted from reducing their reserves to meet such contingencies and calm financial troubles in the process.\textsuperscript{182}

What Macdonald and others needed to hear, still, was how the government could make the banking system safer without imposing reserves. Fyshe gave an answer designed to Macdonald's specifications:

The true solution of this question of reserves lies in allowing the Banks the utmost possible freedom and, above all, in leaving them free to cooperate with and help each other. The subject cannot be better illustrated than by the old fable of the bundle of sticks. Each stick taken individually, each Bank isolated and tied as is now proposed can be broken without much difficulty, but bind them together and they will be able

\textsuperscript{180} NA FD RG19, V. 492, file 624: Address delivered by George Hague before the Privy Council, 22 February 1890.

\textsuperscript{181} \textit{Ibid.}, "Thomas Fyshe: Argument in Relation to Bank Reserves," Before the Privy Council, 22 February 1890.

\textsuperscript{182} \textit{Ibid.}. 
What would "bind" banks together was a national bankers' association, an organization Walker and others decided to set up and link to his proposed redemption fund to help guard prudent banks against potential losses to weak or criminal rivals. Such an idea did not offend Macdonald and his government, who had shown little concern for the danger trade associations presented consumers.\textsuperscript{184} If the government insisted on fixed reserves, however, Walker warned the cooperation the government lauded would come to nothing. "I will not be contradicted by any banks in Ontario," said Walker, "when I state that had we been working under a legal reserve it would not have been possible for any prudent banker to have promised assistance to the Federal Bank to the extent of one dollar."\textsuperscript{185} Macdonald asked the bankers to put their arguments in writing and adjourned the meeting.\textsuperscript{186}

When the meeting ended the lobbying began. Fixed reserves were cast in the same light by bankers as Rose's national currency had been in 1869 - it was economically dangerous and unwarranted. Wilkie wrote to Macdonald reiterating much of what Hague and Walker had already said. The Imperial Bank, he maintained, "always keeps on hand a larger portion of gold and legal tenders than the proposed

\textsuperscript{183} Ibid.


\textsuperscript{185} NA FD RG19, V. 492, file 624: "Argument of Mr. B.E. Walker Against An Arbitrary Reserve, Before Privy Council, 22 February 1890."

\textsuperscript{186} Ross, p. 115.
fixed reserves but to be tied down to a minimum, in season and out of season, might at anytime paralyse our business, [preventing] us from rendering assistance during a crisis... The prospect of fixed reserves was not on every bankers' mind. G.R. Cockburn, president of the Ontario Bank and a sitting Tory MP elected in Toronto, was very troubled by the proposed shareholders' audit. How he managed it is unclear, but he persuaded enough cabinet members to oppose the measure that it had to be dropped. Courtney presciently "thought there was something wrong with the Ontario Bank bookkeeping to bring out Cockburn in denunciation of the convention." At the Bank of Montreal officials were all in favour of fixed reserves and beside themselves at the possibility that Walker's redemption fund would be created. The Canadian Trade Review said very much what officials at the Montreal Bank were thinking:

There is no good sound fundamental reason or excuse for making note holders secure, rather than any other class of persons, having business relations with banks. From the first, we have been unable to understand upon what principle stock-holders in all the banks are to protect from their natural folly, the imprudent persons who accept as money, paper with which they are unacquainted, or of which there is occasion to be suspicious.189

The Bank of Montreal had spent decades distinguishing itself as Canada's largest and most prestigious corporation. In Ottawa the big bank seemed more isolated now than distinguished.

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188 Ibid., E2, V. 2809: Courtney to C. Campbell, 22 March 1890.

189 The Canadian Trade Review, 2 May 1890.
By the closing weeks of April, Courtney sensed that his proposed reforms had not faired well. Macdonald, confronted once again with difficult economic times, seems to have been persuaded that changes that were least likely to endanger the treasury were those that gave banks a larger measure of collective responsibility for the banking system. The deputy minister did not hide his disappointment when the results became evident, telling a government official that "[w]e ought as well to have asked the Bankers at the first to prepare a Bill." The only solace he found was in less significant changes. Service charges for cashing official government cheques were made illegal, charges that long troubled the deputy minister. Moreover, his suggestion that banks applying for charters do so through the Treasury Board and have $250,000 in paid up capital was accepted by the government. So was the decision to move ahead on unclaimed bank balances. Nevertheless, bankers had saved the flexibility the Bank Act afforded them, using the promise of cooperation and formally insuring the value of the notes all chartered banks issued to the public. The revised Act had no fixed reserves, no national currency nor any audit provisions. What it did offer was a Bank Circulation Redemption Fund that all banks supported by depositing with the finance department an amount equal to 5 per cent of their annual circulation.

Using the revision of the Bank Act, Macdonald had formally imposed a measure of responsibility for the banking system on the banks themselves, fulfilling in part a policy

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180 NA FD RG19, E2, V. 2809: Marked "Private," Courtney to Campbell, 26 April 1890.
he had advocated since the Commercial Bank suspension in 1869. The fund marked a
significant change. "We now practically guarantee the goodness of each others'
notes," said the Standard Bank's J.L. Brodie.\textsuperscript{191} He was right. Bankers were made
more interdependent that they had ever been. The government became the gate-
keeper that was supposed to ensure banks were established by honest individuals with
the means to carry-on a safe business. It was the bankers' job to police those with
charters, guarding the honest and well managed and by extension the public from
losses due to weak or crooked banks. This did not come without consequences.
Brodie observed that "[w]hen large and powerful institutions... consented to this
arrangement they put the smaller banks on honor to do a careful business and avoid
undue expansion and ill-advised risks, thus reversing the old adage and making the
weak protect the strong."\textsuperscript{192}

Bankers who met at Ottawa in February 1890 resolved to organize a national
association. Unfortunately, they left few records documenting this difficult process.
Those most interested in creating a permanent bankers' organization proved to be
Walker, Hague, Fyshe and Wolferstan-Thomas, bankers who shared the common
experience of correcting the errors of careless predecessors who had steered their
banks into harm's way. They stood to lose every time a rival crashed without enough
assets to reimburse note holders. What had been mostly a political concern, bank

\textsuperscript{191} CIBCA, C161.0321, J.L. Brodie quoted in \textit{Proceedings of the Second Annual
Meeting of the Canadian Bankers' Association}, June 1893, p. 4.

\textsuperscript{192} \textit{Ibid.}
failures, was now a problem all banks had to attend to if they wanted to avoid losses through the Redemption Fund and possible legislative changes that would make it more difficult for them to compete. There is no evidence to suggest the CBA was envisioned as a body that would help contain runs by facilitating loans between banks or that it would reduce the transaction costs of inter-bank loans by developing monitoring and lending protocols for its members. It was a pragmatic response that seemed in step with the growing Canadian trade association movement and the best way to try and protect the interests of prudent banks and the public from imprudent financiers. Not all of the country's bankers, however, were as enthusiastic as the four who spearheaded the idea of an association. Officials at the Bank of Montreal, who had opposed the principle of the banks guaranteeing all bank notes, showed no interest in an industry association.

After the revision of the Bank Act in 1890 was complete and the new legislation was in place in 1891, Walker, Hague and Fyshe began organizing the CBA without the help of the Bank of Montreal. Changes to the Bank Act may have led some to believe that small banks had to protect the interests of their larger competitors by being prudent, but few linked prudence to support for a national association, especially one

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199 Different theories about why “banking clubs” are formed is discussed in Kevin Dowd, *Competition and Finance: A Reinterpretation of Financial and Monetary Economics* (London: MacMillan Press, Ltd., 1996), pp. 205 - 208. The CBA's formation seems on the surface to fall within the "Reserve Externality" theory which proposes that "a banking club is needed because banks have insufficient incentive to hold the 'socially optimal' level of reserves." However, the CBA was never given the power to impose reserves nor did bankers at the time of its founding think imposing reserves was a good idea.
dominated by meddlesome bankers who purported to be interested in the greater good. The CBA's authority over members was limited while its responsibility was widened, suggesting the Association was destined to be a service organization. Helping banks train their staff and guard against unwanted legislation was welcomed and possibly gave some bankers who wanted a more powerful association reason for hope, but dressing up the CBA as a service organization did little to weaken resistance to arguments suggesting the association should be empowered to interfere in its members' operations.\textsuperscript{194}

The Canadian Bankers Association did not emerge until December 1891, the year the revised Bank Act was enacted. Delay reflected resistance as well as unforeseen problems. Canada's financial troubles gave importance to the proposed Association its promoters had not considered. Courtney pressed bankers to get on with the job, telling Walker: "Frankly, I despair of doing anything if you Bankers do not agree as to some kind of organization."\textsuperscript{195} The deputy minister wanted more from a bankers' association than first proposed when the the Circulation Redemption Fund was suggested to the government. Courtney and the bankers who led the push for a national organization wanted to expand the body's reach to include regulating its

\textsuperscript{194} James Darroch argues "[t]he bankers realised that it was imperative to shape public policy in ways beneficial to the industry and they established the CBA in 1891 to promote their common interests." Addressing "common interests" was an after thought used to entice the resistant to join. Protecting contributors to the Fund and making banking safer for the public was the driving force behind the CBA's founding. James L. Darroch, "Global Competitiveness and Public Policy: The Case of Canadian Multinational Banks, " Business History V. 34, No 3 (July 1992): p. 156.

\textsuperscript{195} NA FD RG19, E2 V. 2811: Courtney to Walker, 16 July 1891.
members. Bankers were unable to determine how they would govern one another in the interests of the industry and the public. All that they could agree on was what other duties a national bankers' association might perform. In December 1891, representatives from twenty-two of Canada's forty chartered banks met in Montreal and formally established the Canadian Bankers Association. Bankers defined their association as an organization that would

watch proposed legislation and decisions of the Courts in matters relating to banking and to take action thereon; also, to take such action as may be deemed advisable in protecting the interests of Contributories to the Bank Circulation Redemption Fund, and all other matters affecting the interests of chartered banks. 188

On the insistence of Walker and other Toronto bankers, it was given the added responsibility of promoting the "efficiency of bank officers by arranging courses of lectures on commercial law and banking, by discussions on banking questions, by competitive papers and examinations." How the Association would persuade all banks to join, weak institutions to strengthen their positions, and expose crooked banks went unanswered. The new association's future was doubtful. An olive branch was extended to the Bank of Montreal, whose general manager, Edward Clouston, was elected president. Clouston promptly refused the "honour." The Canadian Journal of Commerce commented: "We fear the prospect of the bankers, realising a solidarity of interests, and exchanging confidences, as do the bankers of Great Britain, is not at present hopeful as their own interests and the interest no less of their customers

188 CBAA, Constitution of the Canadian Bankers' Association, 17 December 1891.
demand. Canadian bankers established an association with little power and an unclear purpose. Its practical weakness mirrored Hincks's Bank Act. The difference, however, was the Act's flaws threw unwanted political pressure on the government. The CBA's flaws made the banks themselves the subject of political pressure, an outcome founders overlooked in their haste to skirt unwanted banking reforms.

\footnote{Canadian Journal of Commerce, 25 December 1891.}
Fellowship Is Not Enough:
The Canadian Bankers Association's First Decade,
1891 - 1901
Chapter Two

Canada entered 1891 in fiscal crisis. London's great Barings Bank was over-extended, its potential demise threatening to undo the entire international financial system. British loans to Canada were imperiled and new funds were cut off. Payment on the country's debt, however, would not wait. Money was scarce, debtors feared advances would be called, bankers worried about their liquidity. Courtney worried as well. He warned Macdonald revenues for the year have dropped about $1,250,000 and are still on the decline. To cover the June payments in London it will be necessary within three weeks to remit our agents about $400,000 and at the present moment I don't see how that sum is to be provided for. ¹⁸⁸

Bankers scrambled for cash and raided the most ready supply - deposits at the Post Office and Dominion Government Savings Banks. By May government coffers had been emptied of nearly $6 million.¹⁹⁹ Finance now had its first bitter taste of what bankers termed "ruinous competition." To stem the flow Macdonald suggested higher rates. Courtney advised that "may mean the squeezing out of some of the smaller


¹⁹⁹ Ibid., Courtney to Coulson, 29 May 1891.
banks and lowering the dividends of others. He decided to confer with bankers. The deputy minister asked them to lower deposit rates for the public good, complicating the CBA's organization and weakening arguments favouring a powerful association.

The CBA's first decade was prejudiced by mistrust. Courtney's call to limit competition, press reports saying banking competition was dangerous and arguments that collaboration might secure revenues lost to costly rivalries made talk of bankers' conventions respectable, but still not practical. Scholars who focus on what bankers said rather than what they did confuse the CBA's operating reality. Neil Quigley, for instance, argues that "throughout most of the period from 1890 to 1930 the rate of interest on savings deposits with the banks was highly inflexible and fixed by general agreement within the CBA." This chapter will show bankers concluded a deposit rate

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200 Ibid., Macdonald Papers, V. 207: Courtney to Macdonald, 2 December 1890.

201 Naylor argues without supporting evidence that the CBA was formed especially to fix deposit rates in what he speciously terms an "illegal interest fixing cartel." This is plainly wrong. The Association's original objective was to protect contributors to the Redemption Fund. When fixing deposit rates was introduced by no less than the deputy minister of finance, it dampened the enthusiasm of some bankers who saw folly in such efforts. Naylor, V. 1, pp. 88 - 89. Another scholar who holds a similar and equally untenable view is James L. Darroch who suggests the CBA's founding "could be expected to ensure that all [members] conformed to rules limiting direct competition." James L. Darroch, "Global Competitiveness and Public Policy: the Case of Canadians Multinationals," Business History V. 34, No. 2 (July 1992): p. 156.

202 Neil C. Quigley, "Bank Credit and the Structure of the Canadian Space Economy, 1890-1935," (University of Toronto: PhD Thesis, 1986), p. 76. Quigley expresses "surprise" banks did not show more innovation in their liability instruments, relying on current accounts, savings accounts and deposit certificates. With flexible rates, often determined by branch managers who had much freer rein than Quigley assumes, these liability instruments could be tailored to the times and attract deposit funds. In another example, Naylor relies almost exclusively on reports from the Monetary Times for interest rate information, which is a kin to believing posted rates
agreement so flexible that it was all but impractical during the 1890s. In fact, the first successful agreement was not brokered till the First World War and it broke down by 1920. Many bankers found the market preferable to fickle adversaries who ignored agreements at their pleasure despite gentlemanly pretensions otherwise. Courtney's attempts to reduce deposit rates exposed divisions. For some, it raised the spectre of unwanted and dangerous government intervention; for others, it lent legitimacy to the "flight from competition." Dissension sowed a feckless association unable and unwilling to enforce agreements or subdue those who would run banks into the ground at depositors' and shareholders' expense. Neither bankers, nor their association, could fix the Bank Act's inability to stop failures. When its revision came in 1899, banks were still crashing. Courtney suggested incorporating the CBA and giving it greater say over bankers. Mounting pressure to improve safety, supervise banks, rein in rivalry and maintain the distance separating the government from any financial obligation for the banking system added credence to the deputy's counsel. Ottawa subsequently granted the Association formal responsibilities and new powers that pushed bankers onto the country's political stage.

Battles for deposits intensified as the Barings crisis unfolded, entangling the finance department and every bank in the country in a struggle for cash. Courtney's need for are the only rates available to customers, a view that the evidence completely denies.

funds put Ottawa's demands at odds with its banker, a problem that fueled the frenzy to secure people's savings. Canada's largest bank showed little enthusiasm for battling it out in the retail deposit market until the financial crisis in late 1890. As part of the government's account agreement with the Bank of Montreal, a minimum $1 million was supposed to be kept on deposit at all times. The scarcity of money and the need to cover debt payments compelled Courtney to draw the balance below the million-dollar mark. This forced Edward Clouston, the bank's general manager, to find monies to keep his corporate and other borrowing clients liquid without breaching the reserve his board of directors insisted on. He wrote to Macdonald explaining the Montreal bank's position and beseeched him to borrow in London and restore the $1 million. Courtney said no.204 Clouston had to choose between the bank's reserve, turning good customers away, or entering the fray for deposits. In December 1890, the Bank of Montreal opened savings departments at all its branches and offered depositors 4 percent with no restrictions on deposit amounts, a policy aimed at the Government and Post Office Savings Banks which limited depositors to $300 a year and a maximum deposit of $3000.205

The big bank's arrival in the retail deposit market forced others to raise rates and offset the value customers saw in the Bank of Montreal's size. By January 1891, some


205 Courtney took the lead in making this change. It is discussed in SGA, Fyshe letter book: Fyshe to Sir Charles Tupper, 20 April 1887.
were offering as much as 5 per cent.206 Expecting to profit from higher returns, depositors moved their money out of the Post Office and Government Savings Banks. To meet the withdrawals, Courtney had to borrow from the very banks people were transferring their accounts to. He assured a worried finance minister that it was "hardly possible that present rates offered by the Banks will be maintained for any lengthened period."207 The deputy's confidence was misplaced. With no end in sight, Courtney turned to Clouston and Walker two months later and asked them to persuade bankers to minimize pressure on the government's coffers. Clouston went to Toronto with an offer to reduce the Montreal bank's deposit rates to 3.5 per cent if others followed suit. He found ten Toronto banks agreeable. One prominent banker was not. The Bank of Toronto's Duncan Coulson, a cautious financier with some popular acclaim in Cobourg, Ontario where he had taken on an American prizefighter and won, was not willing to sign onto the pretense his peers seemed so ready to promote. Courtney asked Walker to intervene and assure Coulson the Commerce would indeed lower its deposit rates to 3.5 per cent.208 Coulson was not so credulous and Walker feared pushing the deposit rate question too hard would undermine his attempts to launch Toronto's clearing house. He gave a half-hearted presentation to the Bankers' Section of the Toronto Board of Trade and discovered Coulson had inspired two other bankers to admit their


207 Ibid.

208 Ibid., Marked "Private and Confidential," Courtney to Walker, 30 April 1891.
own reservations about the practicability of such an agreement.\footnote{NA Toronto Board of Trade Papers MG28, III, 56 V. 153: Bankers Section Minutes, 3 March 1886 - 10 February 1908, p. 27; CIBCA, Edmund Walker Minute Book of the Bankers’ Section of the Toronto Board of Trade, 9 January 1890 to 5 November 1897.} Even Clouston had doubts about the Commerce’s intentions, believing Walker might reduce rates to 3.5 per cent in Toronto only to turn around and use the resulting savings to offer a higher rate in Montreal where the Commerce coveted some of his best corporate clients.\footnote{NA Bank of Montreal Collection: Clouston to to Courtney, 9 August 1891.}

Courtney’s options were running out by April and he feared the approach of June when loan payments were due. Canada could theoretically go to the London market but the practical effect on Canadian securities, advised the government’s London agent, would be disastrous.\footnote{Ibid., NA Macdonald Papers, V. 207: Thomas Skinner to Macdonald, 8 April 1891.} Canada was effectively on her own. His faith in bankers all but gone, Courtney turned to Zebulon Lash. The former deputy minister of justice, said Courtney, “understands Ottawa ways and could tell Coulson how seriously his conduct is affecting the situation.”\footnote{Ibid., FD RG19, E2, V. 2812: Courtney to Walker, 27 May 1891.} Courtney did not grasp the extent to which rivalry divided bankers and their struggle to sustain profits and keep clients in funds during the crisis, a time when restricting credit could send an account out the door with all the future revenues it might generate when good times returned. Lash had no effect. The deputy minister of finance now had to make a direct appeal to Coulson himself. After several letters, he wrote Coulson for the last time in late May:
I am more than sorry that I have not had time to run up to Toronto to see you as I am convinced that five minutes conversation would be more effective than a world of correspondence. My position I am afraid has been misunderstood. I did not write as a public servant but as a Canadian. Our situation is this. The Savings Banks under the control of the Government have lost six million dollars of deposits and money has of course to be found elsewhere. The Bank Rate is now 5% and the Government should not, any more than any corporation, pay a greater rate than that which it can procure money. If by easing the rate on Savings Bank deposits to 4% they could find the money required they would not be justified in going to England to borrow at 5%. If the banks reduced to the 3½% no necessity would exist to go to England. All the banks agree to that cause except yourself and it is for you, the oldest and senior general manager, to take the matter into your serious consideration. You need not take the trouble of replying to this letter but I trust, if you do not see your way to fall in line with the rest, that you will give the matter your earnest consideration with the view of reducing the rate of your own accord.213

Coulson was not impressed by the pressure tactics, sharing them with other members of the Bankers' Section in Toronto and going so far as to consider whether or not the finance department could legally require a bank to reduce its deposit rates.214 The deputy minister's demands sent a chill through some banks which feared Walker and other bankers, eager to loosen the Bank of Montreal's grip on the government account,

213 Ibid., Courtney to Coulson, 29 May 1891.

214 NA MG28, III, 56 V. 153, Toronto Board of Trade, Bankers' Section Minutes, 3 March 1886 - 10 February 1908, p. 27; CIBCA, Edmund Walker Minute Book of the Bankers' Section of the Toronto Board of Trade, 9 January 1890 to 5 November 1897.
would do Ottawa's bidding and dictate damaging policies using the proposed bankers' association. Courtney's reprieve came not from Canada's banks but from the market as the troubles caused by the Baring's crisis eased in June, just in time for Canada to return to the London money market without fear of doing untold damage to the country's securities and financial reputation.

Courtney's campaign to restrict competition and the apparent support it garnered from Walker, Hague, Clouston and others confused the image and purpose of the CBA in the midst of its inception. Coulson and his like-minded peers had little appetite for an institute of bankers telling them how to manage their day-to-day operations. Not long after the Association was launched, the Canadian Journal of Commerce unwittingly hit on the compromise struck with bankers like Coulson before the Association could get off the ground. The editor pointed to Section 14 of the CBA's constitution which stipulated: "No resolution passed by the Association, or by the Executive Council, shall be considered as compulsory or as enforcing necessarily any action of any kind upon the banks. This clause is probably," he remarked, "the secret to the whole want of success of the Association." Vague allusions to protecting the Redemption Fund's contributors and servicing bank officers and clerks glossed over the split between those who saw merit in cooperation and those who detected little chance of prospering by it.

While bankers were unsure what their new association would ever accomplish, the financial press welcomed its arrival. The Canadian Journal of Commerce thought

215 Canadian Journal of Commerce, 6 September 1895.
the founding was well-timed considering the ill-effects of banking competition. Such enthusiasm encouraged Hague and Walker who championed cooperation's supposed benefits. Indeed, arguments in the press that the "work of the Bankers Association will be directly conducive to the public interest" suggested a broad social purpose for the CBA. Hague expanded on this theme in his vision of the body. In an address at the bankers' first inaugural banquet, he observed that bad "banking is the bane of any country, its effects are shown by millions being lost to the ruin and misery of many families, and dishonor and distress to others. We have therefore sound reasons for associating together to benefit the great interests in our charge and the country." Hague, a deeply religious man who believed Christian principles had business applications, saw the Association as a force for social good at a time in late Victorian Canada when many English Canadians were searching for a "political economy that would challenge the injustices of the emerging industrial order." The CBA seemed part of that new political economy.

But competition's evils and costs were not only visible through Christian lenses. Taken to extremes, it was considered just bad business. The University of Toronto's

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216 Ibid., 25 December 1891.
217 Ibid., 27 May 1892.
218 Ibid., 3 June 1892.
220 This is discussed in Bliss, "A Living Profit." Competition put pressure on bankers to give in to customer demands for loans that were not properly secured. A case in point occurred in 1887 when The Bank of Nova Scotia's Thomas Fyshe refused
political economist, W.J. Ashley, who was well known to Walker, held that "perpetual competition lacerated the spirit and vulgarised business." The *Canadian Journal of Commerce* championed a similar view and long advocated a national bankers' organization. The *Globe*, worried about more bank failures, warned readers in 1890: "The business of banking is rather overdone in Canada. As in other lines of business there is over-competition in this." The *Monetary Times* made the case even more succinctly in the aftermath of the Banque du Peuple failure in 1895:

banking competition operates in two ways: it not only compels the banks to work for less remuneration, or no remuneration at all - it also compels them to be more easy and less careful in dispensing credit to their customers. They must lend larger amounts, they must give longer time, they must be willing to lend more and more without security, or on security they would not have thought sufficient when competition was less keen. The first consequence of competition, in diminished charges, may be good for the commercial community; but the second, which makes credit much more easily obtained, is certainly bad; that is, bad for the borrower as well as for the lender.

What Canada needed, it seemed, were bankers who would reduce competition and do

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221 Ashley's ties to Walker and the Toronto Bankers' Section are revealed in CIBCA, Edmund Walker's Minute Book of the Bankers' Section of the Toronto Board of Trade, 9 January 1890 and 1 May 1891. Ashley's view of competition is quoted in Bliss, p. 54.

222 *Globe*, 27 June 1890.

223 *MT*, 29 November 1895.
what the Bank Act had not - improve safety. What the country had was an organization equipped to do neither.

Bankers organised their association along familiar lines. Day to day administration was carried out by a full-time secretary-treasurer, a salaried employee hired from a member institution. A president was elected every year to preside over the body and he was assisted by four vice presidents. Policy was to be made through the Association's Executive Council, comprising the president, vice presidents and seven chief executives from the twenty-one chartered banks that founded the CBA. Hague was elected the first president after the Bank of Montreal's Clouston refused the job. The vice presidents were Walker, Fyshe, W.C. Ward from the Bank of British Columbia, and James Stevenson of the Quebec Bank. Offices were established in Montreal and Warwick Chipman was hired as the secretary-treasurer. Its Executive Council comprised R.R. Grindley, general manager of the Bank of British North America, Clouston, Wolferstan-Thomas, George Burn from the Bank of Ottawa, George Schofield who managed the Bank of New Brunswick, William Farwell from the well-run Eastern Townships Bank and J. S. Bousquet of the Banque de Peuple. The officers of

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224 The CBA's organizers managed to interest only twenty-one of Canada's forty chartered banks. The number of members grew, however, as time passed and virtually all chartered banks, with two exceptions, belonged to the CBA by 1900.

225 Clouston's contempt for the new body seems to have been reflected in his decision to send his chief inspector to the founding meeting. Other banks, except Coulson's Bank of Toronto and the Merchant's Bank of Halifax, all sent their most senior executive. CBAA, "Canadian Bankers Association Constitution," dated 17 December 1891 and confirmed 7 April 1892.
the Association suggested broad support from all sections of Canadian banking. The inclusion of associate members, bank officers and clerks who could join for a small fee, enhanced the perception. So did the election of Ward as a vice president who was not at the meeting nor was his bank represented. The reality and perception, however, were at odds.  

For its first two years the Association was dominated by Hague, Wolferstan-Thomas, Grindley, Farwell and to a lesser degree Thomas McDougall from the Quebec Bank. The only representative from the French banks that took a real interest was Marie Joseph Alfred Prendergrast, general manager of the conservative Banque d'Hochelaga. Tying these bankers together was a belief in prudent management and the defeat of what they saw as its greatest obstacle - "ruinous competition." Moreover,

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227 Farwell's career is discussed in Ross, V. 1. Quigley suggests the "CBA was controlled by a small group comprising Edward Clouston and Edmund Walker, and to a lesser degree men such as George Hague and Thomas Fyshe during the first fifteen years." Quigley, "Bank Credit and the Structure of the Canadian Space Economy, 1890-1935," p. 86. Clouston played no role at all in the Association, other than spoiler, for roughly a decade and only came to see it as a useful body by the turn of the century. FRBL, Sir Edmund Walker Papers: B.E. Walker's Journal, mfm 565, 12 January 1900. The assumption seems to be that bankers worked fairly well together and the Bank of Montreal's resistance offers an important example that this was not the case during the CBA's formative years.

228 Prendergrast's conservative philosophy is discussed in Rudin, p. 72.
Hague, Wolferstan-Thomas, and Farwell, like Walker in Toronto, had all taken hold of their banks in times of trouble and had to resolve the problems flowing from predecessors who practiced bad banking. Bankers’ concerns about competition’s ill-effects have been explained in one account by the maturity of the banking industry in the 1880s and 1890s and the rise of interregional branching.229 This was certainly a factor but more important, perhaps, were banks with expansion plans that were hampered by their local rivals, especially ones that cut down profits by “interfering with the established connection of other banks, allowing loans without requiring financial statements, paying higher deposit rates than the market warranted, waiving fees for negotiating cheques and drafts, cutting down margins on foreign exchange and opening branches where ample banking facilities existed.”230 Such practices exasperated Walker, Hague and their cautious peers. In the wake of Courtney’s assault on deposit rates, Hague began his presidency by trying to find agreement on lower rates. Circulars were sent to all banks and followed by Hague’s personal appeal for a maximum of 3.5 per cent.231 Success depended on the Executive Council persuading cautious bankers that aggressive competitors would follow the agreement. Conversely, those with ambitions to grow large quickly needed to know they would

229 Bunbury, pp. 576 - 577.


231 CBAA Executive Council Minutes, 7 April 1892.
profit by the agreement. Hague did not find the sense of enthusiasm or moral purpose among other bankers that he attached to the scheme. The CBA failed to make its case to both elements within the CBA or resolve the question of how any influence could be exercised over the banks that were not part of the Association.

Focusing the CBA's energies on deposit rates came at the cost of broadening its appeal. Smaller banks saw opportunity in working with larger competitors, especially in court cases and swaying policy makers in Ottawa. One such institution was the Banque St. Hyacinthe. It asked the Executive Council for support in a court case over interest calculated on a loan. Hague met with Grindley, Wolferstan-Thomas and Farwell and decided "it was scarcely considered as within the province of the council to pursue the matter ... until the Bank had exhausted all its recourse in the Canadian Courts." 232 A different conclusion was rendered under Walker's presidency when the larger and more influential Bank of British Columbia sought assistance in a similar case roughly two years later. It was assured that the Association would work to amend the Bank Act to address the larger bank's concerns. 233 Even though Walker proved more conscious of members who wanted something other than agreements from the CBA, assistance it seems was more likely to go to bankers that supported agreements and did not engage in banking practices that made for "ruinous competition." The Union Bank of Canada, for example, was an ambitious bank that did a fairly large business in Quebec and parts of Ontario and it too sought support from the Association in an action

232 Ibid, 4 September 1892.

233 Ibid., 14 February 1894.
it had before the courts. It was told that only cases of general interest would receive the Association’s attention, an argument that left the Union wondering just what the general interest was. Walker's answer was deposit rate agreements such as the 1894 deal to reduce rates to 3 per cent that he failed to broker because the Union and two other banks rejected it.  

The Association’s weaknesses struck home quickly. The critical issue that led bankers to found their association, the creation of the Redemption Fund, seemed lost in the effort to reduce deposit rates, although it was undoubtedly argued lower rates left wider profit margins and less risk of failures. Still, Wolferstan-Thomas wanted to know how the Association planned to be the Fund’s guardian. He was assured by Hague and others that influence could be exercised by “report to the Government authorities at Ottawa and by invoking the assistance of the Clearing House…,” an answer that paid insufficient heed to the government’s desire to avoid entanglements in banking problems and the practical difficulties of persuading clearing houses to supervise their members and accept the subsequent problems it entailed.

The Association’s first year was fraught with disappointment. Opportunities to serve a variety of causes, giving the CBA needed credibility, were missed. Bank officers and clerks who joined as associates expected educational services enhancing their standing in the workplace. Their expectations went unanswered. The Association

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234 CIBCA Edmund Walker Minute Book of the Bankers' Section of the Toronto Board of Trade, refer entries for 1895.

235 CBAA Executive Council Minutes, 7 April 1892.
seemed destined to be a rather exclusive club of executive bankers mulling over "ruinous competition" and its ill-effects. Locating the CBA's office in Montreal fed into the view that its relevancy for bankers in distant parts was doubtful. Winnipeg, for instance, was a hotbed of costly rivalries where some bankers traded on the west's potential rather than the day-to-day reality laden with risk. Many senior western bankers wanted to bring such competition under control and make their hard work begin to pay substantial dividends. They attracted little interest from the Executive Council and finally organised themselves, a show of independence that reflected their unique sense of identity as much as their impatience with a distant CBA. In 1892 the group Winnipeg bankers founded was attached to the Association without fanfare and only a vague sense of its limits and responsibilities. In time the Sub-Section would prove controversial for its enthusiasm for agreements and an invaluable resource to Montreal and Toronto bankers who were far removed from the politics of the West.\textsuperscript{236}

The second annual general meeting was a sombre affair. Hague's assessment of the first year-and-a-half was uninspired. The Association had, he quipped, "undoubtedly done something, though perhaps not as much as it might have done."\textsuperscript{237} What it failed to do was more apparent than what it had accomplished. Hague argued bankers were too competitive for their own good, admitting his own "strong temptations to enter upon the war path in consequence of what seemed to be acts of hostility

\textsuperscript{236} Ibid.

beyond what legitimate competition would justify. He resisted where others apparently could not. The president found room for optimism only in the fellowship cultivated among some members. This was not enough to smooth over concerns about the Association. To critics who said the CBA was ineffective, he argued:

This complaint would be reasonable if the Association had compulsory powers, and neglected to exercise them. But the constitution of the Association expressly forbids anything of the kind; and even without such a clause in the constitution, common sense would forbid it unless we had gone farther in the way of cooperation than we have. The Scotch Banks have done this, as you all know, and they can bring about a change by the action of a central committee to which all Banks with their Branches submit without question. We have no machinery of the kind. All that the Association could at present do it has done; that is, it has called the attention of all the Bankers in the country to the subject, and with good results.

Those who wondered why Hague had not forged an agreement now had an answer.

The Association's wielded little power over its members, an arrangement many bankers considered quite satisfactory. Some, like Walker, were inclined to think the opposite. By 1896 Walker's like-minded peers were convinced the CBA should have more authority.

In lieu of practical progress, appeals were again made to the CBA's broader social purpose in an economy that was changing the business of banking. A new

\[\text{\textsuperscript{238}}\text{Ibid., pp. 6-7.}\]
\[\text{\textsuperscript{239}}\text{Ibid., p. 9.}\]
member of the Association, the Standard Bank's J.L. Brodie, made the connections plain to bankers, arguing that the banks are "all bound up together and much more so now than we ever were, owing to the rapidity of the spread of news by cable and telegram."241 Canada's economy was more integrated and bank failures and financial crisis in one centre had its consequences in others. Brodie believed bankers should recognise interests beyond those of their own institutions. He gave what sounded like a sermon about their social responsibilities:

Bankers in the various Provinces of the Dominion will consider the interests of their neighbours as well as their own, and conduct their business in a prudent, conservative way, for, whatever a man may be in politics, he should, I think, be conservative in banking, especially as the commercial interests of the country hang, to a large extent, on sound financing.242

The man who had grown grey as a general manager wanted his colleagues to "elevate the standard of banking" in Canada. J.S. Bousquet of Montreal's Banque du Peuple thanked the senior banker for the "delicacy of sentiment expressed in his words."243 Despite Brodie's sincerity, his plea was lost on some of the ten general managers and twenty-nine associates who attended the Toronto meeting. Two years later, Bousquet himself would flee the country, having proved a pretender to the ranks of Canada's

242 Ibid., p. 5.
243 Ibid., p. 6.
prudent bankers.244

The last half of 1893 added to the Association’s troubles. A serious banking crisis in Australia, Italy and the United States unnerved markets.245 The Bank of British Columbia, operating under a Royal Charter and guided by a board of directors in London, suffered heavy losses at its American branches along the West Coast.246 At the finance department Courtney’s anxiety over weak banks was renewed. He worried about Banque Ville Marie, Union Bank of Canada, Commercial Bank of Manitoba, and the near insolvent Banque de St. Jean.247 In July the Commercial Bank of Manitoba proved the weakest and was forced to suspend payment. The Winnipeg-based bank had ten branches in Manitoba and grew out of a private banking firm that won a charter in 1884.248 Winnipeg bankers met with the Commercial’s general manager in the days before suspending but rumours about its affairs scared off potential saviours. Canada had another bank failure to contend with.

Montreal’s financial press saw good in the bank’s demise. It told its readers that “It is not in the best interests of Winnipeg to have a weak bank competing with strong

244 Bousquet lent $1.5 million without authorization from the Peuple’s directors. Subsequently, the bank found itself in deep waters and suspended payment. Loans from the Bank of Montreal and others saved depositors from greater losses. See Rudin, p. 51.

245 Ross, V. 2, p 122.

246 Albert G. Steinberg, Banking and Exchange (Toronto: Sir Isaac Pitman & Sons Ltd., 1936), p. 53.

247 NA FD RG19, E2, V. 2819: Courtney to Foster, 23 May 1893.

248 JCBA (September 1894), p. 34.
ones, as such competition inevitably develops a weak class of business.\footnote{Canadian Journal of Commerce, 23 August 1893.} No panic followed this suspension.\footnote{NA FD RG19, E2, V. 2819: Courtney to Foster, 4 July 1893.} To its credit, the Winnipeg Sub-Section facilitated an arrangement among its members to accept the Commercial's notes, circumventing any public disruption and proving the value of having a body on the ground and ready to act in commercial centres other than Montreal. Rather than bankers, it was the government that appeared flatfooted in the wake of the Commercial's collapse. Winnipeg's assistant receiver general seemed content to ignore the failure. Courtney later admonished him, saying

\begin{quote}
You are evidently not alive to the responsibilities of your position and I can only say that I regret to find that on the only occasion upon which you might have shown that you possessed any ability to deal with a critical situation you have failed to manifest any power to act.\footnote{Ibid., Courtney to H.M. Drummond, ARG, Winnipeg, 5 July 1893.}
\end{quote}

The deputy minister, however, would not be the only one who would have to deal with incompetence. As the Commercial was wound up, the CBA would also feel its effects. Hague wanted no slip-ups and appointed the Merchants' Winnipeg manager, F.W. Ferguson, to oversee the liquidation. All went well until Ferguson asked Courtney to approve a delay in redeeming the Commercial's notes at the expense, albeit a small one, of depositors and shareholders. Ferguson, like Hague it seems, was quite sure of winning cooperation. Writing to Hague, Courtney stated that delay "was out of the
question.\textsuperscript{252} The Bank Act stipulated that outstanding notes from a failed bank would pay 6 per cent interest for a period of sixty days, after which the Redemption Fund would be used to pay any remaining notes, saving shareholders and depositors from being lumbered with the 6 per cent expense over a long period. By October 1893, the Commercial’s outstanding notes amounted to only $50,000, a sum that was hardly burdensome. Courtney, however, objected to Ferguson’s request as a matter of principle and explained to Wilkie at the Imperial Bank that

\begin{quote}
The present case is not very important, but suppose the principle of paying 6\% were established and a great bank were to fail having after 60 days over $1,000,000 in notes outstanding; how could the Government get over the precedent proposed to be established and what defence would there be if a recalcitrant shareholder or depositor was to institute an action for damage?\textsuperscript{253}
\end{quote}

To avoid using the Redemption Fund, Courtney proposed that banks holding some of the Commercial’s notes forego the 6 per cent interest, otherwise the Redemption Fund would be used. Hague was shocked to learn the finance department was ready to use the Fund, calling it a “calamity.”\textsuperscript{254} Whether consciously or not, Courtney challenged the Association’s ability to forge consensus and avoid embarrassment. Hague now had to contend with one of the largest holders of the Commercial’s notes and the bank that

\begin{itemize}
\item \textsuperscript{252} \textit{Ibid.}, V. 2820: Courtney to Hague, 19 October 1893.
\item \textsuperscript{253} \textit{Ibid.}, Courtney to Wilkie, 20 October 1893.
\item \textsuperscript{254} \textit{Ibid.}, Courtney to Clouston, 19 October 1893.
\end{itemize}
objected to the Fund's very existence - the Bank of Montreal. Clouston confounded Hague and ignored his appeal to cooperate.

Courtney enforced the Bank Act and drew on the Fund to pay the Commercial's outstanding notes. In the process he made sure those holding notes from failed banks would not gain at the expense of depositors or shareholders. At the same time, Courtney reinforced the need for bankers to cooperate for the good of their industry. The Bankers Association, for its part, did not fully grasp the meaning behind Courtney's actions. What was clear to the deputy minister was that

The Banks considered the interference of the Fund in the light of a calamity as they wished to be able to say to the Country that although it had been on the statute book, it had never been called into operation and was therefore unnecessary....

By 1899 bankers had apparently forgotten this episode, and were publicly declaring that the Fund had never been drawn upon.

Hague was ready to step down from the presidency in December 1894, but few were eager for the post. Toronto bankers thought it should properly go to a Montreal banker, particularly Clouston who carried the credibility of the Bank of Montreal. Again, he would have nothing to do with it. The general manager of the Quebec Bank,

255 Ibid., Courtney, "Memorandum respecting the business of the Department," 16 November 1893.

256 Thomas McDougall, President of the Canadian Bankers' Association quoted at the Annual General Meeting of the Canadian Bankers' Association, October 1899 in the JCBA V. VII, (1899): p. 113.

257 CBAA Executive Council Minutes, 6 December 1893.
James Stevenson, was also asked but he too declined. Without any able successor, the Association seemed about to be set adrift until Walker stepped forward, taking charge of the CBA and bringing it into the direct orbit of Toronto bankers whose experience with their Bankers' Section had not been duplicated in Montreal. With the help of Wolferstan-Thomas and McDougall, Hague launched a campaign for a Bankers Section connected with the Montreal Board of Trade.  

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By June 1894, the Association had covered much ground. Walker's presidency brought Toronto bankers closer to the CBA. Brodie, Coulson, Wilkie and others in Toronto took an active interest in the Association and helped Walker build a broader support base. More importantly, in Toronto Walker had access to resources at his own bank and that of other institutions to help launch the JCBA, an industry magazine that was used to spread the tenets of cautious banking and inform readers about banking's technical issues. For Hague and Wolferstan-Thomas, Walker's presidency allowed them to concentrate their energies on founding the Bankers' Section of the Montreal Board of Trade which proved to be more appealing to the Bank of Montreal than the CBA which Clouston associated with Walker's Redemption Fund. The official seat of the Association remained in Montreal, where Warwick Chipman laboured as the secretary-treasurer. But with Walker as president, the Executive Council was run by

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258 Ibid., 13 December 1893.

259 For the enthusiasm the financial press had for the new Bankers' journal refer MT., 18 October 1895. The Commerce's J.H. Plummer, Walker's assistant general manager, played a critical role pulling the JCBA together.
Toronto bankers and their concerns became the Association's.

Walker gave practical problems precedence over the more difficult question of deposit rates, turning the JCBA into a reality and tackling some of the difficulties that made it hard for bankers to gain the most benefit from their clearing houses. Walker and his Executive Council approached the deputy minister and proposed creating special legal tenders in large denominations for use in clearing houses. If accepted, the proposal would eliminate the need to maintain and administer large sums in small bills to settle the day's transactions. Obtaining the cooperation of the Association's members even on this issue proved difficult. After three years of negotiations, the finance department agreed when twenty-nine of the country's chartered banks covered the cost of printing the new legal tenders.260 Progress for the Association came not so much in the outcome as in the process of negotiating the creation of large legal tenders and the JCBA. It brought bankers together on matters of mutual interest that did not tread on the way they managed their operations or competed against rivals. Under Walker, the CBA demonstrated practical merits Hague did not develop in his rush to reduce deposit rates.

Halifax hosted the Association's annual meeting in June 1894. Walker was, perhaps, disappointed that most Maritime-based bankers did not attend and that only fourteen general managers, some by proxy, and twenty-seven associates were represented. But the small group gave Walker a chance to cultivate an atmosphere of fellowship. This was helped along by the sunny temperament of John Knight, the

general manager from the People's Bank of Halifax and former inspector at the Merchant's Bank of Halifax. Knight's charm and aptitude for story telling were as welcome as his humour was infectious:

You may be able to judge how ill-qualified I am to address you in appropriate words and how my confrères have recognized this when I tell you that the form of invitation to me to present this address to you was disfigured by a preliminary statement that one man had married a wife and he could not be present, another man was likely to be fishing and was therefore not available, and that another man was never known to address anybody save on business, and so we are compelled to rely on your feeble efforts.  

Laughter eased the tension dividing rivals and offered Walker a segue to emphasize the common struggles uniting bankers. He went on to say that

If we are to co-operate and become united . . . we recognize that we must know each other personally and that we cannot accomplish the best purposes of the Association by correspondence. It is just as true in the banking as in the business world, that personal contact is worth any amount of correspondence. If we wish to do the greatest amount of good to the Association as individuals, we certainly should meet in friendly personal conference.

The president called for an inclusive association, built on camaraderie rather than sterile circulars. He portrayed the CBA as a body guarding the interests of all members by opposing damaging legislation, improving the clearing system and publishing a professional journal where bankers could discuss and read about matters of particular


[262] Ibid., p 9.
interest.

Fellowship was not on the mind of The Bank of Nova Scotia's Thomas Fyshe. He was preoccupied by "ruinous competition." The world was changing, he said, and in its wake some of Adam Smith's cherished theories were overturned.\(^\text{263}\) "There will never again be the profit in banking that there has been,"\(^\text{264}\) declared Fyshe. Canada's banking system had grown too quickly for its own good, delivering credit where none should be given and creating "a vast army of impecunious traders, who intensify competition till the margin of profit nearly reaches the vanishing point."\(^\text{265}\) Fyshe argued there was too much "wasting competition which threatens to prove fatal to the banks and the public alike ...."\(^\text{266}\) Banking had a moral relevancy in the new economic order unfolding before Canada. Amalgamation was the answer to many of the problems plaguing businesses and it went hand-in-hand with the demise of competition. Planning and organization, said Fyshe, was the way of the future and competition, while it has been of much service to the world, is becoming less and less useful, where not absolutely hurtful, and now begins to give evidence that it is approaching the period of its old age. It was chiefly necessary in order to make up for the lack of proper organization. When the latter is achieved we may regard the rapid disappearance of competition with comparative equanimity.\(^\text{267}\)


\(^\text{264}\) Ibid., p. 201.


\(^\text{266}\) Ibid.

\(^\text{267}\) Ibid., p. 203.
Building big banks demanded a new science of business that would bring both profits and a better society. Fyshe thought large banks were the best banks because their size protected the public and bank employees from the dangers of instability attending the free market. Not all agreed with Fyshe. Knight was particularly critical, but Fyshe's message resonated with others who were enchanted with the growing importance large banks played in Canada's emerging industrial economy. Limiting competition was portrayed as a socially progressive part of business evolution in an age when reformers linked the free market's shortcomings to moral decline. Within six months of Walker's first annual general meeting as president, he seemed to secure what had eluded Hague - an agreement capping deposit rates.

The agreement Walker brokered was very different from Hague's 1892 proposal. Hague had demanded an agreement members would strictly adhere to. This proved too ambitious and provoked enough acrimony to set back the entire cause. Walker proposed a more modest and flexible arrangement that aimed at convincing bankers that agreements were possible. At the same time, it did not jeopardise the latitude necessary to retain and attract very profitable accounts. The ceiling that Walker wanted was the same as that proposed by Hague, 3.5 per cent, but rather than apply the ceiling to all deposits, Walker suggested the rate only apply to new deposits taken after a specified date and that government and municipal accounts be excluded altogether. Moreover, he proposed excepting renewed deposits that were paying above the proposed ceiling.268 The new rate would only apply to new monies, thus

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268 CBAA Executive Council Minutes, 24 November 1894.
avoiding conflict between banks and existing deposit customers while ensuring
competition for the largest government and municipal accounts in the country would not
be restricted. What were deemed new monies, however, was largely up to branch
managers. The CBA would not police it. The proposal was sanctioned by the
Association’s members save the Banque du Peuple, which left Quebec out when the
deal came into effect on January 1, 1895. By July, the Banque du Peuple had
suspended payment and the Association’s members in Quebec joined the agreement.
This was the best Walker could do. Privately he had strived for a common rate of 3 per
cent but was blocked by Ontario Bank, Traders Bank and Union Bank of Canada.269
Nevertheless, he had shown agreement was possible. Whether it would ever lead to
anything effective was another matter altogether, a theme he emphasised at the
Association’s annual meeting in 1895 where he announced:

Your Council feel that a great point has been gained in
demonstrating that co-operation on an extended scale
is possible, and they do not doubt that if banks will
heartily favor co-operation and earnestly endeavour to
make each instance of cooperation successful, whether
local or national, a solidarity will be created among the
banks of Canada which in matters of legislation, as well
as of banking practice, will be most beneficial to all.270

As president, Walker had tried to persuade sceptics of cooperation’s benefits and the
Association’s ability to represent them in Ottawa. The first interest rate agreement

269 CIBCA, Edmund Walker Minute Book of the Bankers’ Section of the Toronto
Board of Trade, refer entries for 1895.

270 Edmund Walker quoted in “The Proceedings of the Fourth Annual Meeting of
the Canadian Bankers’ Association,” in JCBA (September 1895), p. 20.
would be the test.

Over the next four years the CBA gained confidence with each successful lobbying effort. Some of that new confidence was owed to Zebulon Lash, who was placed on retainer in 1896 after he worked to defeat a bill that would have imposed a 4 per cent cap on loan rates.\(^{271}\) His close association assured members that legislation affecting them would be vetted by one of the country’s best lawyers and their concerns represented by a person who was not without influence in Ottawa.\(^{272}\) But success, as with failure, brought rumblings from the Association’s Executive Council for greater authority to act on behalf of the Bankers’ Sections in Toronto and Montreal as well as the Sub-Sections at Winnipeg and Ottawa.\(^{273}\) The autonomy these bodies expected at times proved a hindrance to the Executive Council and complicated attempts to persuade politicians it was a truly representative body of the country’s banks. Some success did not draw attention from setbacks, such as the Ontario revenue bill taxing banks in 1899. When the CBA appeared unable to exercise much influence over politicians or suppress “keen competition” among its members, questions about its effectiveness continued.

In 1896, the year Fyshe succeeded Walker as the president of the Association, there was cause for alarm in some circles of the Association after Wilfrid Laurier and his Liberal Party’s victory at the polls. The Tories demise in the wake of Macdonald’s

\(^{271}\) Ibid., p. 59.

\(^{272}\) JCBA, (September 1896) p. 61.

\(^{273}\) Ibid.
death in 1891 and the subsequent passing of his most promising successor, Sir John Thompson in 1894, left Tory bankers fearful that Laurier would reward Liberal rivals with government accounts. And indeed, the new minister of finance and former premier of Nova Scotia, William Stevens Fielding, who built a political career as an editorialist battling the Canadian Pacific Railway and Macdonald’s Tories on the front pages of Halifax’s *Morning Chronicle*, was asked by Liberals from the Merchant’s Bank of Halifax “to dismiss the services” of The Bank of Nova Scotia.\(^{274}\) The Bank of Nova Scotia enjoyed much of the government’s deposit business in Nova Scotia, making it an easy target for the Merchants’ ambitions, but Fielding felt honouring the request was neither in the interests of the public nor politic.\(^{275}\) He did concede that the Nova Scotia bank had a board comprising many Tories, but it was also true that its “active management has been in the hands of pronounced Liberals.”\(^{276}\) The election of Laurier’s Liberals came and went without “partyism” rearing its unhappy head in the government’s banking arrangements. This saved the Association from a potentially dangerous political fight amongst its members at a critical time. It needed more money to improve the quality of its journal and to run its operations. When this was mentioned to members in 1898, the CBA passed its first real vote of confidence - they agreed to raise ________________


\(^{275}\) *Ibid.*

\(^{276}\) *Ibid.* Thomas Fyshe’s views on trade tariffs and his criticism of the national policy place him firmly in the Liberal camp with other bankers like Francis Wolferstan-Thomas, an unabashed Liberal and Edmund Walker who would later be drawn into the Tory camp over the issue of reciprocity with the United States in 1911.
their funding by 50 per cent. Smaller banks would pay between $80 and $240 per year while large institutions would pay $500.

Soon after, the Association began planning uniform rules for endorsing negotiable items as a means to reduce friction and legal disputes between members. Time consuming, the Association’s efforts ultimately proved fruitful and a uniform set of rules was prepared and twenty-five member institutions agreed to implement and abide by them. A more daunting task was establishing common practices for the country’s clearing houses that would help bankers better manage their cash supplies and payment systems. This was not accomplished until the government granted the CBA power to impose change under the Canadian Bankers Association Act, 1900. Still, efforts to improve banking’s machinery were appreciated but did nothing for members of the Association who wanted effective agreements limiting competition. During his presidency of the Association, Fyshe witnessed first hand the seemingly immovable obstacles those promoting cooperation faced. He had suggested the Association prepare identical “Statement of Affairs” forms that bank customers would be required to complete if they wished a loan from a chartered bank. Such statements, he thought, “would be insisted upon if the loss of the account were not feared.” Fyshe was, in the end, only too right and his proposal went nowhere.

In July 1897, the finance department lowered the interest it paid on deposits

277 JCBA (January 1898).


279 Ibid., (September 1896), p. 69.
from 3.5 to 3 per cent at Dominion and Post Office Savings Banks following an agreement with members of the CBA's Executive Council to reduce the rate concurrently. Fyshe's successor, the Molsons' Wolferstan-Thomas, was expected to bring the Association's entire membership in line with the understanding. Toronto's bankers appeared quite willing to agree as did bankers in Winnipeg and Ottawa. Unlike Walker's 1895 agreement, this one involved the finance department and Courtney expected bankers to adhere to the 3 per cent rate. Opposition to the deal was first expressed by the Banque Jacques-Cartier. Ottawa bankers, fearing the Cartier's Hull branch would attract their depositors, persuaded the French bank to cooperate. In Quebec City the Cartier was unwilling to be as accommodating with its French rivals. In the Maritimes competition was so hot no agreement was even entertained. The Executive Council's frustration showed through its reproach of Quebec City and Maritime bankers who were told of the "propriety of bringing their rate into conformity...." Imposing an inflexible agreement proved impractical, leaving the Association in the difficult position of having agreed to lower rates only to have many banks subsequently reject the deal, putting the Dominion and Post Office Savings Banks at a competitive disadvantage. An effort to save face was undertaken in Toronto where bankers said they would uphold the 3 per cent rule, despite others in Quebec and the Maritimes who would not. Two years later Wilkie was circulating a written agreement trying to encourage bankers to keep their word. It was, perhaps, time to

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280 Ibid., (January 1898), pp. 157-158.

281 CBAA Executive Council Minutes, 26 April 1899.
pause, take stock of the Association, and devise some plan to deal with the growing competitive tension dividing its members. But this was not to be. The bankers' association was run by general managers, each one wrapped-up in their own institutions. The Executive Council pushed ahead, encouraged by the pretence around Walker's 1895 agreement, and began considering other conventions.

The most difficult of issues was service charges that entailed fees for sundry services such as negotiating cheques. In an intensely competitive environment, these were often the first revenues branch managers sacrificed when met with the prospect of a good account. They were also a source of discontent for customers who objected to paying them when new managers moved into branches and tried to reclaim what predecessors had given away. The competition in service charges was, as one banker described it, "insane." A schedule of rates was prepared by a special committee of the Association. Ultimately, they hoped to formulate "some plan whereby shareholders' capital entrusted to the banks for employment shall not be called upon to perform so many unremunerative duties." But 1897 saw competitive fervor reminiscent of the 1880s return. In Winnipeg the Association's Sub-Section came close to an agreement on the proposed schedule but one holdout robbed them of success. In other centres where sub-sections were not present it was far more difficult to generate enthusiasm for the proposed schedule and the Executive Council quickly determined that success depended on establishing branches in Quebec City, Halifax, St. John, London and Vancouver. Even the CBA's efforts to meet express company competition by creating

282 JCBA (September 1896), p. 59.
Canadian Bankers Association money orders, payable anywhere in Canada and cashed at no charge by Association members, inspired acrimony. Banks squabbled over the commission and particularly disagreed about the proposal to charge a fee for cashing express company items. Some banks, such as Toronto’s Imperial Bank, held the accounts of express companies and enjoyed the profits made from their large deposits. These banks did not charge nor wish to charge people for cashing express company money orders for fear of losing the express companies’ accounts and could not be persuaded to do so for the sake of making popular the Canadian Bankers Association money orders.

“Keen competition” was not so easily tamed and the success Walker had in 1895 was clearly exposed as a moral rather than practical victory for the then president and his like-minded colleagues. The CBA’s inability to forge practical agreements on interest rates for deposits, service charges, and express company competition made it clear enough, but if further evidence was required, critics could point to the rapid growth in branches, especially in places where banking facilities were long established. New branches thinned profits by boosting deposit rates and reducing service charges and raised employee salaries as banks began poaching officers from rivals because of their personal influence in a district.283 The fallout strained relations between bankers, a point well illustrated in Winnipeg where, in the spring of 1899, the Association’s Sub-Section censured the manager of The Bank of Nova Scotia for soliciting the accounts of

other banks.\textsuperscript{284} The Sub-Section went to great lengths to draft a resolution outlining the charge and declaring the conduct of the offender as "unprofessional, improper and unsafe."\textsuperscript{285} The suspect manager was warned "any repetition of such action... must result in the withdrawal of... friendly relations." In other words, The Bank of Nova Scotia would find it cost more time and money to transact its business with unhappy competitors in the clearing house. It might also discover that its reputation would be attacked by rivals through their business connections in the city. Winnipeg's Sub-Section had gone too far. Its actions revealed the peril the Association exposed itself to when it did not clearly define the authority its branches possessed.

By 1899 The Bank of Nova Scotia had undergone some important changes. Thomas Fyshe resigned in 1897 and replaced the retiring George Hague at the Merchants Bank of Canada. Fyshe's departure from the Halifax-based bank was characterised as both "cordial and agreeable." It was also a reflection of his philosophy about big banks and the Merchants was bigger than The Bank of Nova Scotia.\textsuperscript{286} What the Merchants did not have, and Fyshe later lamented, was the same calibre of bankers that he had worked with at the Halifax-based bank. Fyshe's successor was the Prince Edward Island native, Henry Collingwood McLeod, who won the praises of Fyshe and others during his time in Chicago and Minneapolis where he secured large, 

\textsuperscript{284} NA FD RG19, V. 3193, File 11889: Resolution of the Canadian Bankers' Association, Winnipeg Sub-Section, 19 April 1899. The Bank of Nova Scotia opened their Winnipeg branch in January, 1899.

\textsuperscript{285} Ibid.

\textsuperscript{286} Schull and Gibson, p. 73. Fyshe, "The Growth of Corporations."
safe and very profitable accounts for The Bank of Nova Scotia. Like Fyshe before him, McLeod was not afraid to speak his mind or show offence when given. He called on the Winnipeg Sub-Section to prove their allegations against his manager "on which such extraordinary measures were taken...."287 In the meantime, he told the CBA’s secretary that in his view the Winnipeg Sub-Section had "prostituted the name of the Association."288 Nearly three weeks passed before Winnipeg’s bankers responded. In their reply, they reaffirmed their charges and explained that "they are of the opinion that as one of the objects of the Bankers’ Association is to protect mutual interests, they feel they had a perfect right to express in pronounced terms their disapproval of such methods, which, if continued . . . , [make] it more difficult than ever to conduct a banking business on safe and conservative lines...."289

Chipman had left as secretary two years before and his replacement, Arthur Weir, seemed unable to muster any kind of response to the problem. McLeod found the Winnipeg Sub-Section’s explanation wanting and denied "the right of the Winnipeg Sub-Section, or of the Association itself, to exercise censorian [sic] powers, much less to pass resolutions calculated to prejudice public opinion to the disadvantage of a member."290 He notified Winnipeg bankers that The Bank of Nova Scotia would cancel

287 NA FD RG19, V. 3193 File 11889: H.C. McLeod to the Winnipeg Sub-Section, 3 May 1899.

288 Ibid., McLeod to the Secretary of the Canadian Bankers’ Association, 3 May 1899.

289 Ibid., W.F. Patton to H.C. McLeod, 23 May 1899.

290 Ibid., McLeod to Winnipeg Sub-Section, 1 June 1899.
its membership in the Sub-Section and withdraw from all agreements. The Bank of Ottawa’s J.B. Monk asked McLeod to reconsider but reiterated the Sub-Section’s view that fair “competition must be expected these days, but it is to be hoped that the direct soliciting of business from the customer of another Bank will be deprecated by all.”

McLeod was unmoved and displeased with the inaction of the Association itself. Weir had done nothing more than acknowledge McLeod’s letters. A final letter to the Association left McLeod’s desk in July announcing that on September 1, The Bank of Nova Scotia will “cease to be a member of the Canadian Bankers’ Association, and that it hereby withdraws from all regulations and agreements connected therewith.”

What began as an attempt to check a newcomer to Winnipeg now threatened the Association’s credibility. The Winnipeg Sub-Section withdrew its resolution but it was too late.

McLeod spurred the Association into action with his final letter and a serious effort began to better define the powers of the CBA’s branches. In the meantime, appeals to McLeod to be more reasonable fell on deaf ears. The more he considered the Association and its response to the entire affair the more he believed the CBA was more a danger to bankers than a help. He did have his fun, however. McLeod alarmed many when he announced his Winnipeg manager would be allowed to openly advertise

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291 Ibid., J.B. Monk to H.C. McLeod, 29 June 1899. Monk was the manager of the Bank of Ottawa in Winnipeg and felt the effects of competition on his own revenues which were heavily influenced by the many bad loans he took on to try and show growth on the Ottawa bank’s books in Winnipeg. SGA, J.B. Monk File.

292 Ibid., McLeod to the CBA, 17 July 1899.
deposit rates exceeding 3 per cent. This threatened to send rates up at the Dominion and Post Office Savings Banks and ultimately other banks as well. Walker explained to Courtney that every “effort was made to make peace; indeed many of us who were not concerned in the troubles went further than men should in an endeavour to mollify him, to no avail.” He was sure that if McLeod was not reined in it would “embarrass the government and must inevitably lead to an upward movement in deposit rates over the entire country.” McLeod was moved neither by foe nor political pressure. He let Walker and others tough it out even though he had little intention of posting deposit rates in Winnipeg that exceeded 3 per cent.

At the same time that the Association was dealing with dissension, it was dogged by questions about the banking system’s safety. The failure in July 1895 of the popular Banque du Peuple exposed yet again the want of safety and the CBA’s inability to fill the void left by the Bank Act’s shortfalls. The Banque du Peuple’s demise reads like that of many others. Its general manager, J.S. Bousquet, was active in the CBA, had a good profile in Quebec’s French press and sounded every bit a conservative banker when he announced to shareholders just two years before the suspension that

It is owing to this most careful attention to and supervision of our branches that we have been able, out of surplus profit year

FRBL, Walker Papers, Ms1 Coll, Box 19, file 22: Walker to Courtney, 22 December 1899.

Ibid.

Ibid.
after year, to effect most important internal betterments, to establish and to nurse our branches and to attain, as we now claim to have attained, a high position amongst the soundest banks in the Dominion of Canada....286

Bousquet's rosy analysis was persuasive but far removed from the reality that the *Monetary Times* described after the failure:

the style of management of the bank, which for nearly fifty years was eminently conservative, has been entirely reversed during the last five or six years. An aggressive, pushing and (what is called) an enterprising style of management has been the rule of recent years, with the result that the business of the bank immensely augmented in volume....287

What was particularly "augmented" was the high volume of deposits coming to the Peuple. This reflected, at the trend's most extreme end, the growing reliance on deposits rather than investor capital to generate profits. The logical corollary should have been heightened caution. For Bousquet, who was involved in numerous business enterprises outside the bank, growing deposits gave him ready cash to supply new customers with large loans. When the Peuple was liquidated, it became clear that it extended credit to merchants and others on terms other banks would not consider.288 Ultimately, Bousquet's clouded judgement pushed the Banque du Peuple beyond the saving reach of the Association's members and particularly the Bank of Montreal, which coordinated an unsuccessful million-dollar bail-out package similar to the one offered

286 *MT*, 10 March 1893.


288 Stewart, "What Constitutes Unwise Competition Between Banks."
the Federal Bank in 1888. The bank failed and depositors lost $1.7 million.

In press reports from Quebec and the United States the Banque du Peuple’s collapse suggested the Canadian banking system was in need of reform. This was not echoed in Toronto’s financial press which now emphasized reforming the behaviour of imprudent bankers rather than changing the legislation that was supposed to govern them. The Monetary Times argued

All the acts of Parliament in existence, and all the systems that the wit of man ever devised, will fail to ensure constant wisdom in administration; and the lesson of this suspension is, that wise administration, carrying out the well established principles of banking that are a result of a century of experience, is needed to be applied to the business of every bank, every day all year round.

This proved cold comfort to the “poor old women with tears in their eyes in shabby thin frocks and only a match on their head . . .” who lost much of their life savings to Bousquet’s mismanagement. Most troubling, however, was that Bousquet and the bank he ran were seen as eminently cautious. The Peuple’s failure signalled once again the trouble the public had distinguishing between banks that prudently invested deposits and those that did not.

The Bank of Montreal’s role in the attempt to save the Peuple is reported in Rudin, p. 51. Refer MT., 19 July 1895 and 4 October 1895. Reference to the Association and La Peuple is alluded to in CBAA Executive Council Minutes, 26 March 1896.

NA FD RG19, V. 3485, “Return Showing The Number of Chartered Banks That Have Gone Into Liquidation Since 1867,” 1 March 1933.

MT, 26 July 1895.

John Livingstone to Charles Tupper, 12 June 1897, quoted in Rudin, p. 53.
The tears following the Peuple's failure were not the last shed over a bank collapse. Four years later the Banque Ville-Marie failed, inciting public outrage at the bank's president, William Weir, and Fielding, the Liberal finance minister, who maintained Macdonald's policy of leaving weak banks to appeal to their stronger rivals for help.\textsuperscript{303} Described at the time as "a swindle from the start to finish,"\textsuperscript{304} the Ville Marie's failure is unique for the ethnic tension it aroused in Quebec where Francophone depositors accused the bank's Anglophone management of misrepresenting the bank as French and robbing them of their savings. At the heart of the failure was Weir, an Anglophone and former private banker who became the Ville Marie's leading shareholder in 1880 in what seems a speculative move following its temporary suspension in 1879.\textsuperscript{305} He was soon made a director and subsequently became president after which his Anglophone friends quickly replaced the Francophone board.

By 1892 Weir caught Courtney's attention after the Ville Marie's circulating notes surpassed its paid up capital, violating the Bank Act.\textsuperscript{306} A year later Weir tightened his grip when he became the general manager. With full control of the Ville-Marie, he

\textsuperscript{303} Responding to criticism about the Ville Marie, Fielding replied: "The government [can only] furnish the public with such information as can be obtained regarding the bank's affairs; they cannot accept any responsibility for the bank's affairs." Quoted in Rudin, p. 61.


\textsuperscript{305} Ibid.

\textsuperscript{306} Rudin, p. 59.
proceeded to make a name for himself as the unscrupulous banker par excellence. The paid up capital of the Banque Ville Marie was only $479,620 and it claimed to have an uninspiring reserve equalling roughly 2 per cent of that. At its suspension its notes in circulation exceeded the legal limit, although it was reporting a much lower circulation in the Returns it submitted to the finance department. Much of the Ville Marie’s troubles stemmed from loans to Weir and his cronies on little or no security. But adding insult to depositors’ injury was Weir’s audacity to continue printing Ville Marie bank notes after it suspended payment, robbing depositors and shareholders of even more money.\(^{307}\) In the end, depositors lost an aggregate of $1.2 million, receiving only 17.5¢ for every dollar entrusted to the Ville Marie.

The public outrage was not taken lightly by Courtney who probably wondered if a repeat of his experience a decade before was in the works. But unlike 1887, he had the CBA at his disposal. Courtney also had the memory of trying and failing to change the Bank Act and the embarrassment caused in 1898 when the CBA could not persuade its members to reduce their deposit rates after the government had reduced its rates. In early 1899 the deputy minister “informally” suggested the CBA “should obtain an Act of Incorporation.”\(^{308}\) The Ville Marie mess added momentum to the idea.

As soon as Courtney received the confidential inspector’s report on the Ville Marie’s


\(^{308}\) Courtney clearly suggested the incorporation of the Association and its assumption of regulatory duties but the exact meeting when this was done is unclear. See CBAA Executive Council Minutes 20 February 1899.
excess circulation, he took the unprecedented step of calling a meeting of the
Association's Executive Council in Montreal and forewarned the president that it "is just
possible that, owing to the serious state of affairs the result of the interview may be
rather serious." Indeed it was. Courtney laid the report in front of the Executive
Council and together they decided the full weight of the law should be brought to bear
upon Weir and his collaborators.

Their decision was very much a reflection of the Bank Act's and the
Association's inability to supervise banks. Punishing venal bankers served as a
convenient way to publicly argue the banking system worked while maintaining the
government's distance from any financial responsibility. It also served the Executive
Council and the CBA's members who wanted to sustain the flexibility in the banking
system that allowed them to adjust and compete in Canada's evolving economy. Four
days later Fielding asked the justice minister to take the appropriate steps to arrest
Weir, the Ville Marie's accountant, and a director. But the Ville Marie was not their
only concern. Another weak Quebec-based bank, the Banque Jacques-Cartier, was
forced to suspend after the Ville Marie closed up. Depositors had expressed their
anxiety by precipitating a run on the Cartier and the Banque D'Hochalega, a much
stronger Quebec concern that was able to fend it off with the ease strong reserves
afforded.

In Ronald Rudin's study of Quebec's French banks, the Cartier is presented as

\footnote{NA FD RG19, E2 V. 2839: Courtney to McDougall, 14 August 1899.}

\footnote{Ibid., V. 2840: Fielding to David Mills, 18 August 1899.}
an innocent bystander caught up in the panic following the Ville Marie failure. He argues there “was nothing in particular about the management...” to warrant public concern. Rudin even goes so far as to suggest that the liquid assets of the Cartier were “slightly better” than two comparable banks, the Eastern Townships Bank and the Banque Nationale. But the Cartier was not the stable bystander Rudin suggests. It submitted false Returns which cast great doubt on the liquid assets it claimed and it violated the Bank Act by issuing circulation in excess of its paid up capital. To avoid further public outcry Courtney and the CBA conspired to keep this as quiet as possible. Writing to the president, Courtney confided:

I have your letter...respecting the over circulation in the notes of La Banque Jacques Cartier and whilst the Department will certainly not give publicity to the matter beyond the publication statement in the Gazette as the Bank Act stipulates, we have felt called upon to demand the penalty from the Bank. It will be done this way. The Bank will be asked to credit the Receiver General with the amount, so that no cash will pass, and nobody will know anything about it.  

The Association and the finance department worked behind the scenes to shore up the Cartier and to perpetuate the view that its main trouble was not its financial health but the short term effects of the panic caused by the Ville Marie. But the fact was the Cartier was in deep trouble and initiated a fire sale, unloading many branches to eager rivals and borrowing at least $1.1 million dollars from other banks. The Cartier was reopened in October, avoiding liquidation. It later tried to change its name to La

311 Ibid., Marked “Private,” Courtney to McDougall, 11 August 1899.
312 NA FD RG19, E2 V. 2841: Courtney to Fielding 22 November 1899.
Banque du Canada but the Executive Council of the Association considered it deceptive and Tancrede Bienvenu, the bank's general manager since 1897, settled for La Banque Provinciale.313 Courtney took no chances and informed Bienvenu that the finance department would withdraw its $6,000 deposit, saying to Fielding he was "more afraid of this bank than I can tell you."314 His angst was shared by the minister who, despite the reorganisation of the Cartier and its rebirth as the Provinciale with a larger capital and robust reserve, warned Laurier against the bank's application for a government loan some years later.315

When president, George Hague complained of the Association's impotence. It had neither the machinery nor enough members willing to do their part to end "ruinous competition." In his 1896 essay on the future of banking, H.M.P. Eckardt, a promising officer from the Merchants Bank, mused that in "time we hope to see our Association as powerful as the association of banks in Scotland, which regularly adjusts the minimum discount and maximum interest rates."316 It was an aspiration born of frustration. The CBA's members quarrelled about rules governing clearing houses, interest rate

313 CBAA Executive Council Minutes, 12 January 1900.
314 NA FD RG19, E2 V. 2841: Courtney to Tancrede Bienvenu, general manager of the Banque Jacques-Cartier, 27 October 1899 and Ibid., Courtney to Fielding, 22 November 1899.
316 Eckardt, p. 52.
reductions, service charges, and the proper role of the Association's Sub-Sections. In April 1899, the Molsons Bank was tired of the pretence around the 3 per cent deposit rate and demanded the Bank of Hamilton stop paying more than that. Courtney, in fact, wanted the banks to lower their rates to 2.5 per cent, an idea that went nowhere. The deputy minister, seeing the Association unable to bring about agreement to reduce rates for deposits in 1898, even after the government pledged to reduce its rate, endorsed new powers for the Association and suggested it incorporate. The Ville Marie's demise in 1899 added weight to Courtney's advice. Conservative bankers on the Executive Council now faced the very real prospect that they could soon impose standards on their industry.

Dissension and mistrust were not conquered by the Association during the 1890s, but there were signs the task was not impossible. The most encouraging came in 1899 when Clouston and the Bank of Montreal had a change of heart about the Association. As late as 1898 the Bank of Montreal was still causing trouble for the Association. The Executive Council was unhappy with the Montreal bank which blocked its efforts to turn the Bankers' Section of the Montreal Board of Trade into a branch of the CBA. At the annual meeting that year the Executive Council regretted that while Montreal is the official seat of the Association, there is no branch of the Association in that city such as exists at other important centres, nor is the

317 CBAA Executive Council Minutes, 2 April 1898 and 26 April 1899.
318 Ibid., 20 February 1899.
Bankers' Section of the Montreal Board of Trade in affiliation with the Association. It is to be hoped in the interests of Banking in Canada that this anomaly, which is open to serious misconstruction, will not continue.320

A year later, with the experience of the Ville Marie unfolding and efforts to preserve the Jacques-Cartier ongoing, the Bankers' Section of the Montreal Board of Trade was affiliated. The Bank of Montreal's new attitude seems tied to the Ville Marie failure, the Association's prospect of wider powers and Walker's personal appeal to Clouston to relent. In the fall of 1899 Clouston finally accepted the presidency of the CBA, just in time to oversee the government's revision of the Bank Act.

Fielding was the first Liberal finance minister to revise the country's banking legislation. His politics, however, did not lead him to conclusions that were much different from those espoused by Macdonald in 1867. Troubles at the Jacques-Cartier and especially the Ville Marie fiasco suggested the banking system should be made safer. Some proposals to that effect called for government bank inspection and better security for depositors.321 He listened but he was not ready to endorse changes giving the government new responsibilities. Fielding worried about involvement in the banking system's administration, especially bank inspection which he felt was "poppycock"322 and likely to cost the government should a bank fail despite government supervision. The solution was the CBA. Fielding told members of the Commons that the banks

320 "Seventh Annual General Meeting of the Canadian Bankers' Association," in JCBA V. 6, p. 106.

321 House of Commons, Debates, 21 May 1900.

322 National Library, H.V. Cann, Pages From A Bankers' Journal (January 1933).
"were more or less partners as respects their circulation" because of the Redemption Fund.222 "Partners" was not very accurate. For much of its eight years, the Association was only remotely connected to Halifax and Quebec City's bankers and was divided by competition. Still, most bankers were ready to accept a new role for the CBA if it would preserve the Bank Act's flexibility and avoid a revision such as the one in 1889 when the whole system seemed up for grabs. Fielding was well aware of the problems the Association faced and endorsed his deputy minister's suggestion to incorporate it and give the CBA new authority and responsibilities.

What he could not do was authorise the Association to inspect its members. Behind the CBA's veneer of fellowship lay ambition, distrust and animosity. The way around this, so Fielding and some bankers thought, was Canada's clearing houses. The minister proposed giving the Association authority to make the rules governing clearing houses and by extension give new influence to the Executive Council over reckless bankers. At the same time he wanted the CBA to appoint curators to oversee the liquidation of failed banks and take responsibility for the country's bank notes, ensuring the chartered banks did not issue notes in excess of their capital, measures that were supposed to prevent scandals like the Ville Marie. Unfortunately for the CBA, Fielding did not make any provision spelling out the CBA's responsibility for a curator's misfeasance. Fielding also decided it was time to drop Parliamentary approval for bank mergers, a requirement that went back to the first Bank Act. The change was justified by citing difficulties the parliamentary process caused the Canadian Bank of Commerce

222 House of Commons, Debates, 21 May 1900.
after it had bought the Bank of British Columbia in 1899. What the minister was more intent on doing, however, was making it easier for strong institutions to absorb weak rivals, initiating the start of the largest merger movement in Canadian banking history that gave rise to fears over the concentration of economic power.

The Association was asked to apply for an act of incorporation from Parliament that gave it the power to make bylaws and impose sanctions on members who contravened them. For Fielding's part, he would introduce amendments to the Bank Act giving the Association the authority to supervise the country's bank notes by inspecting each chartered bank's circulation records and creating and enforcing rules for clearing houses anywhere in the Dominion. This did more than "legitimise" the Association; it affirmed the primary role of the Association as a self-regulating body with the power to impose conservatism where, as a voluntary organization, it could do no more that request it. The authority awarded the Association raised expectations that it would make banking safer and also attracted unwanted attention. Some thought the CBA's new powers were not so much an advantage to the public as they were to the banks who could use the Association's new powers to establish an effective cartel.

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324 Quigley, "Bank Credit and the Structure of the Canadian Space Economy, 1890-1935," p. 72. Quigley suggests the CBA's most important role was as a lobby group. That, in fact, was what became its role in the 1930s.

325 House of Commons, Debates, 4 June 1900. What irked some politicians was the banks' exclusion from registering liens when other lenders were forced to. This often led to the difficult situation of a bank seizing collateral that another lender had advanced against not knowing a bank had any claim to it. Fielding argued making banks register liens was impractical for the banks and would discourage lending by
In the House of Commons Fielding's proposals did not go unchallenged. Clarke Wallace, the member of parliament from West York renowned for his anti-combines agitation, argued the changes were "a surrender to the Banks" and suggested Fielding had "some way got under the control or domination or influence of the bankers of Canada." Such control, shouted George Foster from the Opposition's front benches, was a "malign influence." Wallace's criticism was out of step with more than a decade of banking ideals in Canada. The trouble with banking was blamed on the very "free trade" that he wanted preserved. When the minister introduced his proposals giving bankers new powers through their Association and responsibilities under the Bank Act, he declared: "We think that their interest will be in the interest of the public...." Bankers had agreed to the Circulation Redemption Fund in 1890 to protect the public; in 1900 they went further and seemed to formally accept the principle that the business of saving weak banks was the business of strong ones. The CBA came to be seen as the guardian of the entire banking system by bankers, politicians and eventually the public which was not discouraged from forming such an opinion.

When Clouston, Walker, Hague, Fyshe, Coulson, Wilkie, and several others formulated them.

326 Ibid.

327 House of Commons, Debates, 21 May 1900, p. 5731.

328 The mistaken impression that the CBA supervised banks was conveyed in the daily press and other media. See for example Sara B. McLaughlin (ed.), The Canadian Educator: For Home and School Use, V. 1 (Toronto: Iroquois Press, 1927). In its section on banks and banking, it reports: "In 1900 the Canadian Bankers' Association was organized and empowered to give general supervision over all the banks."
the by-laws of the Association in 1900, they did so believing the CBA would act "as a public body for the public good...." Clarke did not believe it and neither did The Bank of Nova Scotia's general manager.

Both the directors of The Bank of Nova Scotia and McLeod contested changes giving the Association responsibility for the safety of the banking system. McLeod urged government inspection as the only way to make the banking system safe for the public and for bankers. The general manager was speaking from both self-interest and a sense of public duty. Rivalry was intense and McLeod was on the verge of moving his bank's headquarters to Toronto from Halifax, a decision that was not welcomed by Toronto-based institutions which were already facing off against Montreal banks operating in the city. McLeod had no intention of allowing The Bank of Nova Scotia's expansion plans to be thwarted by changes that might allow competitors to use the CBA to his disadvantage.

But he also objected to Fielding's reforms on other grounds. McLeod thought the incorporation of the CBA was contrary to sound public policy. It was already clear that the "weak could not protect the strong" and McLeod worried the authority promised the CBA would inevitably shift responsibility for banking from the government, where it properly belonged in McLeod's view, to the Association and by extension the banks themselves. McLeod warned Clouston that

The incorporation of an Association one of the objects of which is the regulation by agreement of rates to be

charged or allowed the public is opposed to public policy, the Association having all the attributes of a trust.

If the Association persists and succeeds in its purpose the likely result will be the production of an aversion by the public to banking interests similar to that in the United States which has resulted in the Banks being taxed out of existence and in making the adoption of banking reforms a matter which no political party dare attempt. To produce such an aversion in Canada will endanger our charters at the next decennial period if not at the present one. I therefore...urge that Government Inspection, partial or full, be substituted.330

In the House of Commons McLeod’s ally was an up-and-coming Tory, Robert Borden, who rallied opposition to the CBA’s incorporation and compelled Fielding to call in the Liberal Whip to ensure support for the measure.331 McLeod did not walk away empty handed, however. The provision forcing all banks to join the Association made exception for The Bank of Nova Scotia and the other hold-out, the small Merchants Bank of Prince Edward Island. More importantly, Section 30 of the revised Bank Act giving the CBA power to make by-laws and impose penalties for breaking them stipulated all by-laws had to be approved by two-thirds of CBA members and receive the further approval of the Treasury Board.332 These were hurdles that did not bode well for a divided association of bankers. The Executive Council would find it very difficult to impose its will on anybody. Nevertheless, when asked in the Commons

330 NA FD RG19, V. 3197, File 12110: McLeod to Clouston, 14 February 1900.
331 Cann, Pages From A Bankers’ Journal.
332 House of Commons, Debates, 21 May 1900.
about improving safety, Fielding left no doubt that the job was now the CBA’s.\textsuperscript{333}

The first ten years of the CBA’s history reveal a body that, finding itself unable to impose prudence, focussed most of its energies on limiting what prominent and conservative bankers deemed illegitimate competition. By their actions, they hoped to fulfill their pledge to the government to make banking safer in Canada through cooperation and thus mitigate the need for intrusive legislation that was seen to punish the prudent despite their diligence. As the Association came together, bankers found making agreements more challenging than they had imagined but found reason to praise their association’s usefulness as a body that improved the efficiency of the clearing system and produced a useful profession journal for bankers. Still, ending “ruinous competition” and making banking safer remained elusive after its first ten years. Walker, Hague and other like-minded bankers blamed such results on the CBA’s fecklessness. The revised Bank Act, 1901 and the Canadian Bankers Association Act, 1900, were supposed to change that.

\textsuperscript{333} Ibid.
Chapter Three

At the fin de siècle Canada was in motion, its banks in transition. Speeding trains carried tens of thousands to the prairies. The "Laurier Boom" drove an economy that led the industrial world. Growth spurred ambition and its corollary - competition. By 1900 the race was on. The Merchants Bank of Halifax marched west as "The Royal Bank of Canada." The Bank of Nova Scotia's focus and head office moved to Toronto; Walker's Commerce reached out to the Pacific and Atlantic and the Bank of Montreal followed. Others, like the Union Bank of Canada, Merchant's Bank of Canada, Quebec Bank, and the Imperial Bank launched expansion plans as well. The Sovereign Bank, Metropolitan Bank, Crown Bank, Northern Bank, Home Bank, Sterling Bank, Farmers Bank and the Bank of Vancouver opened their doors and joined the fray. In 1899, 663 bank branches served 5.3 million Canadians, roughly one for every 8,000 Canadians. Nineteen hundred and twenty-seven branches dropped the ratio to about one for every 3,200 by 1908.334 In this "Quick to the Frontier" age, Courtney deemed it pointless to continue dividing Bank Returns on provincial lines.335 The wake of economic change


335 NA FD RG19, E2 V. 2848: Courtney to Clouston, 13 January 1902. See McDowall, chapter 2 for the spirit of the times.
pushed private bankers onto the shores of history. The same fate befell chartered banks that believed they "could afford to stand on their dignity and expect patrons to... humbly ask to deposit funds."\footnote{\textit{MT}}, 4 May 1907; \textit{Toronto Daily Star}, 30 July 1904. The Canadian Private Bankers' Association was formed in 1902 but what it did or did not do is unknown.

In 1900 the CBA was incorporated by the Canadian Bankers Association Act. A year later a modified Bank Act came into play and a new era in the Association's history began. R.M. Breckenridge believed Canada now had a better means for "enforcing the general observance of high standards of banking."\footnote{Breckenridge, "The Canadian Bank Amendment Act of 1900."} Ten years later he said the Association had not "made much effort to develop the functions acquired or to extend the field of activity opened up by the legislation of 1900."\footnote{Breckenridge, \textit{History of Banking in Canada}, p. 156.} Clearing houses were not used to regulate bankers; inspecting circulation accounts fell by the wayside,\footnote{CBAA 87-500-21: Minutes of the Executive Council, 17 April 1915.} and the CBA still could not enforce agreements or subdue the reckless. "Ruinous competition" persisted. So did the Association's impotence. Only now, fecklessness had serious consequences. Politicians and the public expected the Association to make banking safer. When it did not, bankers' political credibility suffered.\footnote{Between 1867 and 1898 sixteen banks failed; nine more failed between 1899 and 1914, averaging one almost every two years. Still, the view of some economic historians is that before 1914 "bank failures were rare events indeed." Failures were in fact rare after 1914. See Georg Rich, "Canadian Banks, Gold, and the Crisis of 1907," in \textit{Explorations in Economic History} 26, (1989) p. 136.} In 1913 the CBA's president, Daniel Wilkie, admitted to an elderly Hague that "we have not in the ranks of..."
Bankers the same weight and influence amongst those at the top that we had twenty or thirty years ago. This chapter explains why.

A new beginning in the Association's history was embodied in its president, Edward Clouston. For much of the 1890s, Clouston and his Bank of Montreal had scorned the Association. Now it was different. His conversion was greeted by Walker with relief rather than suspicion. Where the Bank of Montreal had undermined the CBA in the past, it would now bolster it. As the general manager of one of the largest banks in North America, Clouston commanded the cream of Canada's corporate accounts and possessed stature that reached beyond the Dominion's borders. He was the son of a Hudson Bay Company officer, an Imperialist, and a sportsman. Most importantly, the wealthy banker's position in the Montreal bank was endowed with authority. It sometimes served the Bank of Montreal better than the Association. For example, Clouston objected to a Canadian mint on the grounds that it was a waste of money and used the CBA's offices to condemn it. Courtney took offence, believing the bankers' "Association had the temerity to insinuate it could thwart the will of the Canadian people." Fielding responded like the politician he was, advising Clouston "a cold unfeeling public - which is probably not more charitably inclined towards banks than

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341 CBAA 87-500-12: Wilkie to Hague, 16 September 1913.

342 On Clouston see Carman Miller, "Sir Edward Seaborne Clouston," DCR, XIV (Toronto: UTP, 1998), pp. 219 - 222. Miller, however, gets most of Clouston's involvement in the CBA wrong. He was not president in 1892, he was not an ally of Walker's and Fyshe's in 1890, the government did not propose the Redemption Fund and the CBA had no control over the Redemption Fund after its incorporation.
towards politicians - would insist that the banks' opposition was due to a possible restriction in the circulation of notes.\textsuperscript{343} If they did not, Fielding would see to it that they had every opportunity to.

Working alongside Clouston was the cheery John Knight. When his career as a financial journalist fizzled and he met hard times in Montreal, Clouston asked him to take charge of the Montreal Clearing House and assume what seems to have been considered a part-time job as the Association's secretary-treasurer.\textsuperscript{344} Knight's appointment was not simply a matter of good will, however. Laurier's Liberals were re-elected in 1900 and the Tories appeared moribund. If Fielding was going to be finance minister for the foreseeable future, Knight, a strong Liberal and friend of Fielding's, was well suited for the secretary-treasurer's work. Moreover, Fielding's son was well-suited for a job in the Bank of Montreal, which Clouston gladly offered.\textsuperscript{345} When Fielding was appointed in 1896, he went out of his way to dispel fears about drastic changes to trade policy and the economic order established during Macdonald's long rein. Through the


\textsuperscript{344} Knight worked for Montreal's \textit{Insurance and Financial Chronicle}. His love for writing is evident in SGA, George Burn Papers: refer Knight's collection of stories. His money troubles are reflected in PANS Fielding Papers MG2 V. 434: Fielding to Knight, 10 March 1900.

\textsuperscript{345} PANS Fielding Papers, MG2 V. 444: Fielding to J.S.C. Saunders, 4 September 1903. The job appears to have been given to the young Fielding around the turn of the century.
revision of the Bank Act, he was willing to leave banking to bankers but he had one preoccupation that gave Clouston and some others reason to curry his favour. The finance minister was sensitive to critics who said his policies encouraged a banking monopoly, a reproach that resonated with a man who had made his political name battling the CPR.346 As a result, he was more sympathetic to new bank promoters than some bankers and even Courtney liked. They feared more weak banks, additional competition and possible losses through the Redemption Fund.347 Knight was another voice Fielding might listen to. He might also be heard when the CBA itself needed the government’s cooperation carrying out its duties.

The problems attending the CBA’s new responsibilities quickly surfaced. As secretary-treasurer, Knight had to inspect the banks’ circulation returns and submit them to the finance department. Courtney found errors as early as August 1901, and confronted Knight who said the banks’ inconsistent book-keeping practices was the culprit.348 There was truth to this but it proved an unsatisfactory excuse. Courtney

346 Fielding’s opposition to the CPR and “Tory monopolies” is discussed in Bruce Ferguson, The Mantle of Howe, V. I and Mr. Minister of Finance, V. 2 (Windsor, N.S: Lancelot Press, 1971). Ferguson inexplicably ignores the great wealth of material in Fielding’s papers about banking and says little about his subject’s role during this critical era in banking history. Criticism of Fielding’s changes are found in House of Commons, Debates, 4 June 1900.

347 PANS Fielding Papers MG2 V. 428: Fielding to Courtney, 19 July 1897. This letter pertains to Courtney’s opposition to granting the promoters of what would become the Sovereign Bank a charter. Fielding rejected his deputy’s warning. Bankers’ concerns that the government be a proactive gatekeeper was explicit when the Redemption Fund was agreed to in 1890.

348 CBAA 87-520-01: Knight to Clouston, 26 August 1901.
needed dependable information and expected Knight and the CBA to supply it.

Clouston reminded the deputy minister that "the Association has not been empowered by the Government to supervise the preparation of the Monthly Returns by the banks ... and they might resent our interference." But resentment was far from Clouston's mind. He was more troubled by Knight's revelation that some banks were writing circulation off to profits using the "eminently plausible fiction that a considerable number of notes will never be presented for redemption...." Clouston wanted the entries reversed but was told by Lash the "powers of the Association did not enable it to enforce such steps." Moral suasion convinced the Banque Nationale to gradually restore $60,000 to its Note Account from its profit column. The same could not be said for the troubled Ontario Bank whose general manager took $85,000 into profits that should have been counted as outstanding notes. In addition to such

349 NA FD RG19, V. 3183 Files 11467, 11482, 11470: Knight to Courtney, 1 October 1901 and 3 October 1901.

350 CBAA 87-520-01: Knight to Clouston, 26 August 1901, p. 3.

351 Ibid., Lash to Clouston, 9 December 1901.

352 The Banque Nationale did not have a proper account of the notes it issued before 1870. When it was confronted by the Association, the Banque Nationale's directors decided to restore the amount to the Note Account over four years which was approved by the CBA and would have been kept from the Finance Department if not for the insistence of McLeod at the CBA Annual General Meeting in 1903. See Clouston to P. Lafrance 5 March 1902. Another violator was the Union Bank of Canada which wrote off $35,000 to Profit and Loss in 1888, when it was in deep trouble, and transferred it back to Note Accounts in 1899 when it was in smoother waters. Refer Knight to Clouston, 30 November 1901.

353 CBAA 87-520-01: Knight to Charles McGill, 24 February 1902; Clouston to McGill, 1 March 1902; Clouston to McGill 5 March 1902.
discoveries, Knight's job was further complicated by Toronto bankers who objected to
the manager of the Montreal Clearing House inspecting their circulation accounts.
When he asked Toronto bankers to cooperate, some simply ignored him.\(^{354}\) Knight was
unable to provide an accurate assessment of each banks' circulation and was
hampered by the bill incorporating the Association which, as McLeod had said, "did not
authorize any retrospective inspection."\(^{355}\) For the CBA to fulfill its duties, it depended
on bankers' good will, just as the Bank Act did. When McLeod learned of Knight's
troubles, he immediately wrote to Courtney about "the startling revelations made by the
superficial inspection of the Bankers' Association" and told the deputy he was "anxious
to have ... a general inspection of all banks by the Department of Finance."\(^{356}\) Fielding
would have none of it.

With good will in short supply, Clouston, Walker, Fyshe, Coulson, the Bank of
Ottawa's George Burn and a few other like-minded general managers began plotting
tougher measures. So did McLeod. Regulating bank investments was impossible and
nothing could be done to force bankers to open circulation accounts to inspection. But
they could be made to observe standard reserves as a membership requirement in the
country's clearing houses, a power the CBA possessed under its act of incorporation.
Exercising that power, however, proved another matter altogether. Clearing house
rules were well debated at the CBA through the 1890s and a set of innocuous

\(^{354}\) NA FD RG19, E2 V. 2850: W.D. Ross to John Knight, 25 July 1902.

\(^{355}\) CBAA 87-520-01: J.J. Gornully to Knight, 12 December 1901.

\(^{356}\) NA FD RG19, V. 3185 File 11599: McLeod to Courtney, 11 November 1901.
regulations were proposed in 1897 but never implemented because too many banks found one reason or another to object to them. By 1901 most concerns had been dealt with and the CBA was able to use its new powers in conjunction with the Treasury Board to impose standard cheque clearing rules across Canada.\textsuperscript{367} Regulating clearings was expected to improve efficiencies and were not part of a scheme to make banking safer. That aspect of the CBA's new mandate, thought Clouston and a few others, could be achieved using standard reserve requirements that would better protect the Redemption Fund and the public. Imposing reserve requirements had been rejected by Hague and most other bankers when the government proposed legally enforced reserves in 1890, but reserves imposed by clearing houses on the authority of the CBA offered a measure of flexibility the government proposal did not. At least that is what its proponents suggested as a quiet campaign to draft regulations was launched.

Outside of the Executive Council and the CBA a similar crusade was mounted by McLeod at The Bank of Nova Scotia. The Association's nemesis was not surprised it had trouble supervising the circulation, that some banks wrote off old notes to profit, and that little was done to make banking safer. McLeod was probably the only Canadian financier who recognized how dangerous it would be for the banks to assume public responsibilities through their association and believed such duties properly

\textsuperscript{367} For a copy of the rules refer to Breckenridge, History of Canadian Banking, Appendix VII. The foundation for a national clearing and payment system represented the Association's best work during these years as far as reducing conflict between members and translating efficiencies into decreased costs and more profits.
belonged with the government. Consequently, when he proposed cash reserves of 15 per cent for all banks and penalties for non-compliance, he called for an amendment to the Bank Act. To gauge support he wrote to the general managers of Canada's chartered banks. Some, he later said, "responded favouring the amendments; some appear lukewarm; some, without argument, pronounce the amendments radical; some assail us." McLeod's assailants had several causes for complaint. Few could afford to lose the revenue generated by deploying 15 per cent of their assets in cash. Others objected to penalties for non-compliance. But most disliked amending the Bank Act and endangering the flexibility it afforded them in times of crisis and in an intensely competitive market.

Undermining McLeod's entire effort was an impolitic statistical table included with his letter. It took old Bank Returns at face value, documented the historical decline in cash reserves, and cast implicit aspersions on his peers. It showed the Canadian Bank of Commerce, with a cash reserve of 10.73 per cent prior to Walker's management, had only 4.93 per cent in 1901. The Bank of Montreal's cash reserves were shown to have declined from 16.10 to 6.20 per cent since Clouston was in charge. Others were also caught in McLeod's net, including the Merchants Bank of Canada, now run by his old mentor, Fyshe, Molsons Bank and the Banque d' Hochelaga. McLeod thought he had discovered the onset of imprudence. What he had found was

\[\text{SGA BNSC I 4:b2: McLeod to the General Managers of the Banks of Canada, 24 April 1902.}\]

\[\text{McLeod proposed a penalty of 5 per cent interest to be paid on the difference between the reserve a bank actually held and the stipulated 15 per cent requirement.}\]
the growing pressure on even the best of banks to employ all assets as profitably as possible. More importantly, he demonstrated to the CBA's Executive Council that they could not expect support from two-thirds of the CBA's members for standard reserves, the number needed to win Treasury Board approval for any changes to rules governing clearing house membership.

Many of Canada's bankers had embarked on a balancing act weighing the cost of cash reserves with the need for safety. There would always be cash on hand, but the question was how much was really required in a changing financial market. McLeod thought a large percentage of cash reserves were necessary. He could afford to. During his leadership The Bank of Nova Scotia was one of the most profitable banks in Canada. For others, rethinking the asset mix of reserves was encouraged by the fast pace of expansion and necessity. Between 1890 and 1900 banks significantly increased assets under management but the average net distribution of bank dividends declined from 5.65 to 5.17 per cent. Just as assets were growing so

360 McLeod's management expertise has not received the attention it deserves. He was clearly brilliant and hot tempered, but he could put some of the best and most profitable business on his bank's books and at the same time teach others how to do the same.

361 Breckenridge, History of Banking in Canada, p. 159. One factor that complicates the bankers argument about declining revenues is the dividends in capital as compared to total assets under management. An example of this can be drawn from the Canadian Bank of Commerce in 1912. Net profits on a paid up capital of $15 million amounted to roughly 18 per cent. However, it the total return on all assets under the bank's management is measured the net profit falls to a little more than 10 per cent. Bankers who complained about declining profits measured against the total assets under their management had great difficulty persuading the public that they had a genuine cause for complaint, especially when all the public read in the press was the high returns paid to shareholders. The example of the Commerce is drawn from W.W.
were costs. Bank branches, for example, were not simply built. They were now
designed. "The bank," said one financier, "which owned the finest, most sightly office,
was the one to get the most business." New costs associated with a new time
caued most general managers to reconsider the wisdom of large, non-performing cash
reserves, especially in light of investments available in New York's money market that
were easily and quickly liquidated when needed. Still, McLeod's basic contention,
that Canada suffered weak banks, had currency and he was not one to take no for an
answer. Rather than bow to opposition from competing bankers, McLeod broadcast his
campaign to the public through the Halifax press. In May he took the next step and
returned The Bank of Nova Scotia to the Association's fold and lobbied for his cause
within the CBA. Pointing the spotlight on weaknesses in the banking system was, in
the opinion of most on the Executive Council, better suited to back rooms than the
pages of daily broadsheets. Consequently, McLeod's reception was not an
enthusiastic one. And yet, his return forced the CBA to come to grips with efforts to
forcibly strengthen the position of banks the Executive Council thought were
dangerous. McLeod's point was that the Association was ill-equipped for the task it

Swanson, "Present Problems in Canadian Banking," in The American Economic Review
(June 1914) V. IV: pp 304-314.

Sir Montagu Allan, president, Merchants Bank of Canada, quoted in Saturday
Night, 29 June 1907.

Improved competitiveness by operating with lower cash ratios is discussed in

Halifax Mail, 9 April 1902.

CBAA Executive Council Minutes, May 1902.
was expected to perform. Knight subsequently wrote an unofficial letter to Fielding suggesting it was time for government inspection. Fielding mistook the letter as official and wrote to Clouston. The president admitted to having doubts about the integrity of some banks and that they ought to be inspected by the government. Fielding quickly distanced himself, saying inspection was "one of the good purposes which I thought would be served by the incorporation of the Canadian Bankers' Association."  

Inspection by the Association was a non-starter. Competition was as vigorous as mistrust was rampant. Two-thirds of Association members rejected inspection by the CBA. Clouston was forced to depend on moral suasion and began the tedious task of writing carefully worded letters to suspect banks in February 1903. One of the first letters went out to Knight's old haunt, the People's Bank of Halifax. Its general manager, D.R. Clarke, was having trouble keeping good business and recognized rot when he saw it. Clarke admitted merit in Clouston's suggestions and agreed to gradually increase the bank's reserves. At the same time, he was puzzled by the CBA's slippery definition of liquid assets that allowed banks to make call loans part of their reserves. Clarke argued that "Call loans in Canada would be available in

366 NA FD RG19, E2, V. 2851: Knight to Fielding, 5 January 1903; Fielding to Clouston, 5 January 1903. It seems that one of the suspect banks was the Banque St. Hyacinthe which was based in Quebec and had a small number of branches. It had borrowed from the Eastern Townships Bank and after Clouston's letters the Deputy Minister began scrutinizing the Hyacinthe very closely. See V. 2852.

367 Ibid.

368 CBAA 87-518-21: D.R. Clarke to Clouston, 9 February 1903.
individual cases to meet unexpected demands but would not be a Liquid Asset in the case of a sudden panic...." He then mentioned examples Clouston offered of banks with large reserves and noted one of them with "28.5 per cent of reserves of so-called liquid assets had only 2.5 per cent in cash and 22.5 in Call Loans." The gist of Clarke's message was well taken. Did the Association want cash reserves or more call loans that would "throw more money into the stock market for speculative purposes?" Clouston saw Clarke's point: the CBA needed to define a safe reserve.

As Clouston and Knight waded ever deeper into the murky waters of regulation, the more problematic the whole enterprise became. Escape seemed possible if they could coax the finance minister to inspect suspect banks, a hope Fielding had dashed. Clouston was left to try and appease bankers like George Burn who complained that the banks "have been since 1890 inter-dependent, and I cannot help thinking that this fact has been taken advantage of... by some of them who have kept persistently-narrow reserves, and who seem to depend on the stronger Banks helping them out in the time of need." The Redemption Fund carried obligations that could not be ignored. Declining profits, the costs of expansion, increased competition and unparalleled uncertainty encouraged action. By the summer of 1903, the Executive Council was ready to move. It recommended for all banks a reserve amounting to 15 per cent of

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369 Ibid.

370 Ibid., 87-505-04: Burn to Clouston, 8 June 1903.
total liabilities to the public.371 It would consist of "absolutely liquid assets" such as "Specie, Dominion notes, Balances due from other Banks in Canada and elsewhere, investments in securities of the Dominion, Provinces and of other British and Foreign governments, which are saleable in the stock markets of the world...." By November the Executive Council formally agreed to the regulation.372 But the exercise was more pretence than anything else. The CBA had only suggested standard reserves; it would not enforce them.

Stubborn opposition to an intrusive association gave Clouston and Knight good cause to turn their efforts to increasing revenues using interest and service charge agreements. In May 1902, Knight suggested standard service charges for work customers resisted paying for. Much of the bankers’ day was concealed behind closed doors where they updated ledgers and exchanged money using cheques, drafts and bank notes deposited or negotiated by their customers. What customers did not see they did not want to pay for and bankers faced significant hurdles convincing people that "it is a real service the banks do their customers when they collect for them moneys payable in other places, and when they make payments... in the sundry cities and towns where the customers have payments to make."373 A branch negotiating a

371 McLeod rightly took credit for the Association’s support of standard reserves; although he acknowledged that rather than reverence for his arguments, the Association was induced to act by the Finance minister. SGA RG2, SG2, Series 3, S.S. 10, Unit 1.

372 CBAA Executive Council Minutes, 11 November 1903.

cheque incurred the labour and expense of getting the item paid. Halifax, Montreal, Toronto, Hamilton, Ottawa, Winnipeg and Victoria had clearing houses which made this easier but the majority of bank branches, especially new ones, were not located in clearing cities which meant their operating costs were higher. These costs simply intensified competition for good customers and pulled managers in opposing directions. On the one hand they needed to make the branch pay, but on the other they feared losing larger revenues generated by good loan customers who refused to hand over service charges.

This was by no means a new problem and it was one that some banks tried to address in the 1880s using reciprocal arrangements with competitors. Through these agreements, they offered customers the service of negotiating items with partner banks at no cost. This worked particularly well with clients doing inter-provincial business at a time when most banks had barely ventured beyond their provinces’ borders. Banks who negotiated these arrangements enjoyed better customer relations and reduced clearing costs. But what worked in the 1880s and early 1890s was by 1900 proving more of a burden for banks on an ambitious expansion program. Building more branches meant partner banks with a smaller number of offices could draw cheques on more points throughout Canada at little cost. This helped local and regional banks retain clients but it cost their larger rivals much expense, especially when they were pressured to waive fees because smaller institutions sometimes charged nothing to retain clients. The Royal Bank, for instance, reported in 1902 that over a period of six months it "returned to other banks in Canada nearly 15,000 items, either accepted,
unaccepted, or unpaid, and all the remuneration received was $75.49, which did not cover postage, let alone labour, stationary... The Royal's branch managers surrendered commissions in exchange for larger deposits and loan revenues but the Canadian Bank of Commerce followed a completely different policy. Writing to Knight, J.H. Plummer, the Commerce's assistant general manager, explained that "we regard the maintenance of rates of commission as of almost greater importance than of rates of discount, as any mistakes in respect to the latter will in time correct themselves, while commissions once given away can only be regained with great difficulty." The Commerce's policy was, however, the exception.

Knight's campaign for standard service charges was bolstered by Thomas Fyshe who complained that 'thousands of dollars are lost to the banks as a result of working for customers without reward." Managers of some large banks tended to agree but others were not so sure about any scheme that might upset relations with customers. Knight found members fairly evenly split and interestingly, the Imperial Bank, Molsons Bank and The Bank of Nova Scotia were lined up with smaller banks in opposing the idea of standard service charges. The Bank of Yarmouth's general manager, T.W. Johns, spoke for many when he told Knight he had "not the least confidence that any arrangement such as is proposed ... would even if formally agreed to, be kept." His

374 CBAA 87-533-19: Edson Pease to John Knight, 15 October 1902.
375 Ibid., Plummer to Knight, 31 May 1902.
pessimism was "dictated by past experience." The Bank of Nova Scotia's general manager felt much the same while the Molsons Bank and the Bank of Hamilton preferred the liberty to make what arrangements they could. Complicating attempts to forge an agreement on service charges was reciprocal agreements which were now under attack by some of the CBA's larger members. The Imperial Bank's Wilkie defended reciprocal arrangements as a tool against "ruinous competition" and suggested their "abolition would induce greater competition between banks by suggesting and encouraging the opening of a larger number of branch offices at important centres." When service charges and reciprocal arrangements were raised at the annual general meeting in November 1903, the outcome, as recorded by Knight, was "nothing being agreed upon."

Forging a national agreement on deposit rates was not any easier, although the 1895 agreement offered a model but not much encouragement. What gave Clouston

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377 CBAA 87-533-19: Johns to Knight, 31 May 1902.

378 Ibid., Wilkie to Knight, 13 June 1902.

379 Ibid., John Knight, "Report on Minor Profits", 12 November 1902. Perhaps the most ambitious effort by the Association to improve minor profits was its foray into the money order business in competition with express companies that dominated the small draft business of amounts less than $50. The basic principle of the scheme was laid down in 1898 when the CBA printed up money orders with its name at the top and distributed them to its members who then issued them to customers. Unfortunately they were priced higher than the express company orders and did not take off. An attempt to revive them was undertaken after incorporation on the impetus of Walker who strongly supported them. Many other bankers did not and the program was ultimately sabotaged by Clouston who preferred going into business with the express companies and dividing the profits with them. See Ibid., 87-534-01: John Knight, "Association Money Orders," 1904 and supporting file.
and Knight some room for optimism was the promise bankers made in 1897 to lower rates to 3 per cent on the condition that the government do the same at its Savings and Post Office Banks. The government had kept its word but the banks had not. What the CBA implemented was a patch-work deal that applied a 3 per cent rule that it could not enforce. The result was substantial non-compliance and this became the subject of debate at the Executive Council table. In June 1903, the CBA's Executive Council put forward a new agreement that applied to a wider range of saving instruments. This time "the maximum rate of interest on all deposit receipts, savings bank balances, and current accounts, was said to be 3 per cent per annum." Like those before it, this deal quickly shed light on the mistrust and competition that divided bankers. And as always, McLeod was there to expose the difference between what bankers said and what they did.

By late summer McLeod said The Bank of Nova Scotia was ill-served by a deal that Maritime banks, like the Union Bank of Halifax and the People's Bank of Halifax, simply ignored. He argued that if "Banks in the Lower Provinces, from which his deposits are largely collected, are allowing the higher rate, he should be free to follow the same rule." Unwilling to wait for the slow moving CBA to act, McLeod took his

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*30 CBAA 87-532-12: Knight, "Interest on Deposits," Memorandum, undated.

*31 By June 11 some members of the Association were already expressing their desire to withdraw from the agreement. CBAA Executive Council Minutes, 11 June 1903.

problem right to his Ontario rivals and began advertising 3.5 per cent for deposits in Arnprior, Ottawa and Winnipeg. This provoked his peers but not quite as much as his declaration that The Bank of Nova Scotia was considering paying depositors 3.5 per cent at all its branches. Protests reached the Association quickly and Clouston turned the matter over to Fielding who was more likely to be listened to than a member of the CBA’s Executive Council. In a private letter to McLeod, Fielding remarked on the “flutter in monetary circles” and diplomatically admitted he had no right to interfere.

Still, that was not going to stop him. Fielding was not interested in involving the government in a bidding war for deposits. And yet, the threat of doing just that was the only leverage available to him. The minister warned McLeod that raising rates carried serious consequences, especially for his bank which had many branches in the Maritimes where the Dominion Savings Bank was very well represented.383 Any action by McLeod that caused a general increase in deposit rates across Canada would, said Fielding, cause the Dominion Savings Bank to start paying 3.5 per cent for deposits. Once the government raised its deposit rate, he cautioned, “it will not be easy to reduce it soon.”384

Within days of Fielding’s threat, McLeod travelled to Montreal for a special meeting of the Association. His peers worried that “if the agreement with the government to pay 3 per cent was broken, the Finance Department may increase the

383 PANS Fielding Papers, MG2 V. 444: Fielding to McLeod, 15 September 1903.
384 Ibid.
rate paid at the Savings Banks under its control.\textsuperscript{385} The agreement, in fact, had already been broken but McLeod’s great sin was threatening to change posted rates across the country from 3 to 3.5 per cent, exposing the accord for the farce it was. McLeod nevertheless had a point when he said he was losing business to Maritime competitors who disregarded the agreement with impunity. The Executive Council was anxious to appease him and promised to establish a special committee to deal with the problem immediately. The Association had, in fact, already allied itself with the finance minister who was trying to “induce [the] Union Bank of Halifax and People’s Bank of Halifax to reduce to 3% before 1st January.”\textsuperscript{386} McLeod had once again succeeded in embarrassing the CBA and in the process pulled the finance minister into the fray. The Bank of Nova Scotia did not want to pay 3.5 per cent to depositors when it did not have to, but at the same time its costs and expansion plans were adversely affected by the high rates some Maritime competitors were offering. In October the feisty banker sent a congratulatory letter to the Association for its part in persuading McLeod’s Maritime rivals “to reduce the rate on new deposits from 1st of July next.”\textsuperscript{387} The CBA’s success

\textsuperscript{385} CBAA Executive Council Minutes, Special General Meeting, 18 September 1903.

\textsuperscript{386} SGA RG2, SIG2, SS2 Unit 3: Letter 211, The Bank of Nova Scotia Board Room, 18 September 1903. From Board to the General Manager. NA FD RG19, E2 V. 2854: Marked “Private” Fielding to William Robertson; President of the Union Bank of Halifax, and Fielding to D.R. Clarke, general manager of the People’s Bank of Halifax, 24 September 1903.

\textsuperscript{387} CBAA 87-532-14: McLeod to Knight, 28 October 1903. This change put The Bank of Nova Scotia on a more level playing field with Ontario and Quebec banks and generated additional profits of $60,000 to $90,000 annually. Refer SGA RG2, SG2, Series 3, S.S. 10, Unit 1.
was more properly Fielding's whose influence gave the Association authority it normally lacked. But even the minister's fortune appeared better than it really was.

Unbeknownst to those outside the Executive Council, The Bank of Yarmouth, Merchants Bank of Prince Edward Island and the St. Stephen Bank, all small banks, had no intentions of operating within the agreement. The problem was that the Union Bank of Halifax, which acquiesced under pressure from Fielding and the CBA, was led to believe they would.388

What Fielding and the Executive Council had brokered was another verbal agreement that was easily evaded and left much room for misunderstanding, features that were consistent with the first agreement made in the 1890s. What was different, however, was the Executive Council's decision to put the agreement in writing. While the majority signed, many added qualifications, an indication the written contract was not going to be the defence against evasion that its authors thought it would be. W.D. Ross, former assistant deputy minister of finance and now general manager of the new Metropolitan Bank, refused to sign until Knight confirmed the agreement applied to old and new deposits.389 James Mackinnon, general manager of the Eastern Townships Bank remarked that "There was no hesitation on my part in signing this..., but having heard of the various ways in which some of the bankers interpreted this document I felt constrained to write you for specific understanding."390 Knight told him the agreement

388 Ibid., E.L. Thorne to Knight, 2 April 1904.
389 Ibid., W.D. Ross to Knight, 12 March 1904.
390 Ibid., James Mackinnon to Knight, 14 March 1904.
applied only to new deposits." It occurred to me when signing the agreement," McKinnon wrote back, "that it would be more or less a miracle if some of the General Managers did not put something as a stumbling block in the way of its completion." His was a prescient observation. Knight was already tripping over numerous "stumbling blocks." One was thrown up by Quebec's Banque Provinciale which refused to limit interest to 3 per cent on its "Special Certificates of Deposit." A small player that stuck to the Quebec market may have been over-looked just as some local Maritime banks were, but the Quebec Bank, a much larger institution with branches in Quebec, Ontario and the West, was not. Thomas McDougall, its general manager, was a former president of the Association who did not hesitate to say his directors preferred to retain the option of paying 3.5 per cent on deposit receipts of six months or more "as a protection... principally in the Province of Quebec and in order to meet the possible competition of Banks and trust companies outside of the Agreement." Clouston and Knight were building an accord by manipulating the agreement's meaning and using all the influence the Association had at its disposal. They singled out objectors such as McDougall who was advised:

Of the twenty-seven members of the Association who have already signed the agreement, not one has declined to accept 3% as the

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39 Ibid., Letter from Assistant General Manager, Eastern Townships Bank, to Knight, 8 July 1904.

392 Ibid., Mackinnon to Knight, 19 March 1904.

393 Ibid., T. Bienvenu to Knight, 9 March 1904.

394 Ibid., Thomas McDougall to Knight, 19 March 1904.
maximum rate for the future, and only one bank outside of the Maritime Provinces wishes to except a few special deposits now bearing interest at 3½%. The agreement has been signed without reservation by all of your competitors in the City of Quebec, and, if you decline to be governed by a decision now practically unanimous as to the maximum rate of interest, it may jeopardize the success of the efforts of the Association in a matter which has occupied so much attention since our incorporation.395

Banks based in Québec City had indeed signed with real reservations. Knight knew the Provinciale would continue issuing "Special Deposit Certificates" bearing 3.5 per cent and that some banks signing the agreement stipulated reservations. The Provinciale, for instance, did not keep secret its policy on deposit receipts. Indeed, knowing that many banks were committed to a posted rate of 3 per cent, the Provinciale promoted its special deposit receipts in a local Quebec newspaper advertisement that read:

as it is well known, our Canadian banks, in general, do not pay more than 3% interest on their savings banks deposits, but following the example of the leading French monetary institutions, La Banque Provinciale du Canada now issues special certificate of deposits on which the rate of interest varies according to their terms, that is: 3% for three months, 3½% for nine months and, at last, 4% per annum for a further term of six months.396

The Banque d’ Hochelaga took exception to the advertisement and along with the Quebec Bank worried that the agreement was going to put them at a competitive


395 Ibid., Knight to McDougall, 21 March 1904.

396 Ibid., 87-532-15: Banque d’Hochelaga to Knight, 25 April 1904. The advertisement appeared in La Patrie on 23 April 1904 and was directed at depositors with $500. or more. In addition to the high rate of interest, these “certificates of deposit” were also cashable on eight days notice.
disadvantage.

The president and secretary-treasurer danced around non-compliance and the accord's meaning until they felt they had secured sufficient support to delve into these issues. This created a situation where different banks had different understandings of the accord. The Metropolitan Bank believed the agreement applied to all deposits while the Eastern Townships Bank did not. The Bank of Hamilton signed the deal "on the understanding that... it does not affect deposits which may be presently current and bearing a higher rate of interest than 3%."387 E.L. Thorne, general manager of the Union Bank of Halifax, thought all his competitors would observe the agreement and was shocked that some would not. Thorne was emphatic when he told Knight: "It was clearly stated by me and was the very essence of the agreement ... that all banks were to become parties to it. I could not for one moment think of entering into an agreement to pay only 3 per cent if my neighbours are allowed to pay 3½%, for the keen rivalry prevailing would end in severe loss to the bank."388 The tactics used by Knight and Clouston were a departure for the Association. In the 1890s the Association tried to facilitate communication between its members for the sake of devising agreements. Under Clouston and Knight, the Association played on rivalry and distance and limited the information they shared with each banker to push a superficial agreement through.

These tactics did not serve the interests of the CBA or its members. In April 1904, a particularly unpleasant dispute erupted between the Traders Bank of Canada

387 Ibid., J. Turnbull to Knight, 21 March 1904.

388 Ibid., Thorne to Knight, 2 April 1904.
and the Sovereign Bank. Toronto based and managed by Stuart Strathy, the Traders was a bank that served rural Ontario. After its near failure in 1887, Strathy had laboured to rehabilitate his and the Traders' reputation and did this in part by championing interest rate agreements and their enforcement.399 Strathy was engaged in a game of illusions, supporting agreements to curry favour with larger banks which had bailed the Traders out in the past and may well have had to in the future. But in practice he was quick to abandon agreements when faced with new competitors opening branches in rural Ontario.400 In 1903 the Royal opened in Pembroke and its young manager soon displayed a sign declaring the Royal's capital, $2 million, its reserve, $1.7 million, and assets, $35 million.401 The Royal's financial strength made it easier to attract deposits using a 3 per cent rate. Strathy could hardly say anything about that but he certainly had much to say about the arrival of the Sovereign Bank which was willing to pay more than 3 per cent for deposits.

The Sovereign had the appearance of sound management, was willing to exercise initiative, and basked in a reputation for being progressive.402 At the bank's

399 That respectability finally came in 1910 when the Finance Department decided the Traders was worthy of its business and the public endorsement that such business carried. See NA FD RG19, E2 V. 2879: T.C. Boville to Strathy, 11 July 1910. It is interesting to note, however, that the new confidence in the Traders was likely misplaced. See McDowall, pp. 136-138.

400 For a taste of that competition see McDowall, p. 127. Strathy's support for interest rate agreements is found in CBAA 87-532-15.


402 Much to the consternation of many bankers, the Sovereign began paying dividends quarterly, setting a precedent for Canadian banks, and paid interest quarterly
helm was Duncan Stewart who was trained by the Canadian Bank of Commerce and was an award-winning contributor to JCBA for an essay denouncing "ruinous competition." 403 By 1903 he was the Commerce's prodigal son who proved how quickly lessons from Walker and others about "ruinous competition" could be forgotten. Stewart made the Sovereign into a competitor with the larger banks and in the process provoked much talk in banking circles and the press. "Where he got his business from, heaven only knows," wrote one journalist. "Whether he created, or nursed it, or tore it away from other banks is hard to say: this is certain, he got it." 404 Who he got it from, among others, was Strathy, who protested his methods and complained to Knight that they would "very soon break up the agreement...." 405 Knight took heed and spoke to Stewart who explained that the Traders had broke the interest agreement first and he was simply doing what any banker would do to protect the business on his books. 406 Not knowing when to stop, Knight foolishly passed this along to Strathy who angrily announced that there "is no doubt whatever in my mind the Sovereign Bank has been paying more than 3% for deposits right along and are doing so still no matter how much

as well, another first. Most bank paid interest and dividends half yearly. For its progressive reputation see Saturday Night, 11 May 1907.


404 Saturday Night, 11 May 1907.

405 CBAA 87-532-15, Strathy to Knight, 14 April 1904.

406 Ibid., Stewart to Knight, 23 April 1904.
they may squirm and lie to conceal their actions." Stewart and Strathy never spoke to each other again.

The danger posed by such disputes was the perception that the CBA could be used to bully those bankers who did not agree with their larger peers. Unlike Strathy, some general managers from smaller institutions spoke against intrusions by big competitors and paid no heed to the Association's interest agreement. Such was the case at the Western Bank of Canada, an Oshawa-based institution with several branches in Ontario. It battled with the Bank of Toronto which had many more offices and four times the Western's capital. T.H. McMillan was the first and only cashier of the Western Bank, which opened in 1882. He had tried but could not translate Tory connections into government business. His efforts, in fact, branded the Western with a unsavoury reputation that it could not overcome. Local managers, such as the Bank of Toronto's in Elmvale, Ontario, were not above using rumours about a rival's management to their own advantage. When that failed there was always higher deposit rates, an option the Toronto's manager soon took advantage of even though he warned against such action by the bank's general manager, Duncan Coulson.

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407 Ibid., Strathy to Knight, 2 May 1904. The Sovereign was proved to have violated the agreement again in February 1906 after the Bank of Toronto brought a complaint forward regarding business it lost to the Sovereign's Wyoming branch. Stewart was asked for an explanation but it appears nothing was done to enforce the agreement for the standard reason - nothing could be done. See CBAA Executive Council Minutes, February 1906.


409 The Western Bank and McMillan are discussed in A. St. L. Trigge, A History of the Canadian Bank of Commerce, V. III (Toronto, 1934).
Discovering his orders were disobeyed, Coulson dismissed the manager and expected the Western Bank to forgive past sins and limit deposit rates to 3 per cent.

The Western’s local manager was not that forgiving and wanted back the business he had lost to the Bank of Toronto. He subsequently offered rates in excess of 3 per cent in aid of his cause. Coulson soon wrote to McMillan. The Western’s cashier responded with a definitive answer:

When we located at Elmvale we were the first chartered Bank to open there, and consequently had a right (sic) to the field..., but we no sooner opened than we were met with a singular and most extraordinary hydra-headed combination consisting of the Bank of Toronto, the Bank of British North America and McKeggie & Co., who were to all external appearances under the control or management of a peculiar and impetuous creature called McEachern.... The methods or tactics of the combination’s manager, or whatever position the volatile creature occupied, were neither businesslike, or even decent or respectable in the least degree, as he met our advent to the little village of Elmvale more like some crazed being than a representative of two great banking institutions...and with the most hostile denunciations cursed the Western Bank with book, bell and candlelight from his exalted altar....

It is our earnest desire to conduct our business in a businesslike way and to avoid all form of friction with our neighbours, but if we are to receive only rebuffs and kicks from our powerful and arrogant neighbours we must duly endeavour to protect ourselves as best we can, and permit to remind the combination referred to, Goliath did not succeed in slaying the stripling David.\(^\text{[410]}\)

\(^{410}\) CBAA 87-532-14, T.H. McMillan to Coulson, 7 June 1904. If another example of rivalry between banks is needed, a good one is the dispute between the Quebec Bank and La Banque Provinciale over deposit rates. The Quebec Bank provoked a minor crisis when it announced, before the interest accord was set to go into effect, that it was pulling out after obtaining positive proof that one of its competitors was not going to live up to its commitment. See Ibid., McDougall to Knight, 15 June 1904. To end
Smaller banks looked on their bigger and growing rivals with unease. It was therefore essential for the Association to avoid alienating them. Their cooperation, be it inconsistent, was necessary for the larger banks to even discuss agreements. Nevertheless, the CBA remained very much the home of big banks with big expansion plans trying to ease their transition to national institutions through cost saving agreements. One thing the Association never did, for example, that smaller, local banks would have liked, was limit branch expansion between 1900 and 1913.411

Frustration led Strathy to endorse Association by-laws imposing penalties on banks violating the interest rate agreement.412 Clouston and Knight were prepared to consider change if the agreement's chance of success improved and asked general managers to consider a $500 fine for wilfully breaking the deposit rate accord. The Bank of Hamilton's reply was blunt: "We think the clause proposed...is undignified, and


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disputes the Union Bank of Halifax's general manager advised Knight to issue a circular to all bank branches across the country detailing the agreement for the benefit of branch managers. This Knight could not do, for it would generate discussion on the meaning of the agreement, which was in doubt, and possibly jeopardize progress already made between general managers. Refer ibid., D.R. Clarke to Knight, 11 June 1904; E.L. Thorne to Knight, 17 June 1904.

411 McDowall argues that the CBA began arranging "saw-off" agreements in 1898. He uses the MT to support this claim. See McDowall, p. 127. The MT got it wrong. There is no evidence in the CBAA records to support this. Consequently, little towns had two and sometimes three bank branches. Agreements regarding branch openings were made between banks that were already well established in a region, such as The Bank of Nova Scotia and the Royal Bank which entered into agreements regarding Nova Scotia towns.

412 CBAA 87-532-14, Strathy to Knight, 4 May 1904.
we would sooner have nothing to do with it." McMillan said it was "too drastic" while Thorne reproached the Association for not making the agreement clear by way of circular and stated he could not agree because he was paying more than 3.5 on old deposits which Knight and Clouston already knew about. The Ontario Bank and Banque Nationale rejected the proposal while the Quebec Bank said it was "illegal and unenforceable." Some who did support it, like the Bank of British North America, did so on the condition that all banks agree to it. The Sovereign's general manager was eager to comply and just as quick to instruct his managers to calculate interest on a daily basis, as opposed to the conventional minimum monthly balance, and promote this change in the press to attract new business. Banks like the Bank of Montreal, Bank of New Brunswick, Bank of British North America, Merchants Bank of Canada, Banque d' Hochelaga, Canadian Bank of Commerce, Bank of Toronto, Dominion Bank, Bank of Ottawa, Molsons Bank, The Royal Bank, and The Bank of Nova Scotia, all in the top tier of the country's financial institutions, responded favourably. Their reaction turned hostile, however, when they learned some of their fellows objected to the deal. Knight refused to tell them who the holdouts were and a dispute erupted that nearly

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\[13\] Ibid., J. Turnbull to Knight, 7 July 1904.

\[14\] Ibid., McMillan to Knight, 7 July 1904; Thome to Knight, 8 July 1904.

\[15\] Ibid., 87-532-15: McDougall to Knight, 13 July 1904.

\[16\] Ibid., 87-532-14: Circular 154, The Sovereign Bank of Canada, 28 June 1904; Stewart to Knight, 12 July 1904.
wrecked the pretence around the entire 3 per cent agreement.417

The most important Association meeting since its founding occurred in November 1904. Grievances about the Association's direction, its inability to enforce agreements, the failure to better serve its associates and concerns about its impact on the public's perception of the banks were all aired. There were regional complaints as well. Out west the Winnipeg Sub-Section was tired of pleading with its parent body to convince the finance department to better equip and staff Winnipeg's assistant receiver general's office and allow banks to transfer large legal tenders by wire.418 The associates' cause was taken up by Walker who knew the benefits of studying banking and finance and thought encouraging it among others would be to good effect for the whole industry. The CBA's incorporation encouraged Walker and many associates to believe that better educational training was on the horizon. And indeed, in 1901 a committee of the Association that included associates had met in Toronto to establish an educational wing of the CBA for bank staff. Walker was the force behind the initiative and sent the

417 Ibid., 87-532-15: I. Turnbull to Knight, 13 July 1904; N. La France to Knight, 13 July 1904; Walker to Coulson, 23 August 1904; Coulson to Knight, 27 August 1904..

418 CBAA Execuitive Council Minutes, 11 November 1903. The Winnipeg Sub-Section complained bitterly about this problem and general managers whom seemed unwilling to take the matter up. They wanted their protest published as part of its annual report which usually appeared in the JCBA. McLeod, who had little time for the Winnipeg Sub-Section after its treatment of his manager there in 1899, had their complaint deleted from the published report with the support of W.D. Ross, former assistant deputy minister of finance, and argued that as a Sub-Section it had no right to make complaints of that nature. A committee was soon formed to "define and restrict the powers of sub-sections."
committee's recommendations to Montreal where they were repudiated. Perhaps Walker's Toronto colleagues were less likely to tell him what most bankers seemed to believe: bankers learned by apprenticeship and exposure to an institution's corporate culture. The $2,400 collected from the banks to start up an institute was returned. By 1902 the entire effort collapsed and associates who sought to better prepare themselves for a career in banking were left to the resources of individual banks that employed them. 419

Failure renewed the pattern that began in the late 1890s of excluding associates from CBA activities and Walker resented the change. "Within the last three years they have been treated abominably," said an angry Walker at the 1904 meeting. "We used to bring 15 or 20 of our country managers to our meeting but they said to us do not ask us anymore, we are not wanted, and it is clear that we are not wanted." 420 He rightly believed the CBA had become "a hole and corner meeting of bankers to look after their own selfish purposes and not an educational body at all." 421 James Mackinnon from the Eastern Townships Bank was as upset as Walker. He spoke of one clerk who gave up on the Association and "started a chapter of the American Institute of Bank Clerks." 422

419 In the MT report of the annual Meeting in 1902, a rather optimistic spin was given to the Association's plans for its associates. The MT recognized that the character of the Association had been changed by its incorporation, but was hopeful that it would continue to serve the country's bank employees. MT, 14 November 1902.

420 CBAA 87-500-01: Minutes of the Annual General Meeting, 10 November 1904.

421 Ibid.

422 Ibid.
The interest in the chapter was great and soon clerks from other institutions joined. Walker and Mackinnon had made their point. Nevertheless, most opposed creating an educational arm of the CBA. It may have been in the constitution, but providing educational services was not what the Association was about. McLeod, on a rare occasion, spoke for many when he said: "It seems...we have an attachment that is of no use to us, and it is an annoyance to the attachment. The simplest way is to get the Legislature to drop off associates and form this into what it has developed into, a meeting of the general managers for business purposes, and for the regulation of the business of the various banks throughout the country." Soon after a motion was passed to disassociate the associates from the CBA and establish a committee to consider forming a separate bankers' institute offering professional training.

The Association's evolution annoyed more than Walker. The Imperial's Wilkie spoke of the CBA's public obligations and argued it was not chartered "for the purpose of forming a trust and taking advantage of our incorporation to get the better of the public." With this, a debate was launched that should have taken place in 1899. Clouston tried taking the edge of Wilkie's complaint, saying agreements between banks occur "all the time" and used the deposit rate agreement as an example. A choleric Wilkie abruptly stated: "We did that because we were bound by honor to do it. The

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42 Ibid.
43 The associates were formally disassociated from the CBA in 1906 after Parliament passed a private Bill for the purpose. See Ibid., 87-552-19: J.J. Gormully to Knight, 10 March 1906.
45 CBAA 87-500-01: Annual General Meeting Minutes, 10 November 1904, p. 3.
Dominion Government undertook to reduce their rate of interest, and we were honor bound to bring down the rate. The silence that followed Wilkie's outburst suggested it was time to change tactics and appeal to his peers to undertake agreements with much more care. If agreements were going to be discussed and made, they should not be reported in the JCBA. As a document destined for publication it would, Wilkie said, contain "evidence that we are making use of our powers for the purpose of getting the better of the public." Some had had enough of Wilkie's complaints. The Bank of Ottawa's George Burn saw little reason for banks to defend their actions. "I think the public is getting the better of us now," said Burn, "and we are trying to get even." Wilkie was not moved and told the Ottawa banker that that did not make it right. The debate was brought to a close by the intervention of Walker and Clouston who both stated confidently that making agreements was part of the Association's purpose. Most others agreed, knowing that abiding by them and their enforcement was quite another matter.

The setting for the 1904 meeting was Toronto's grand King Edward Hotel which added to the atmosphere of importance. Associates and their training were removed from the CBA's plate. Interest rate and service charge agreements were deemed

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426 Ibid.
427 Ibid.
428 Ibid., p. 4.
429 Robert MacIntosh states that Walker was President in 1904. This is a mistake. Clouston was the president. Robert MacIntosh, Different Drummers: Banking and Politics in Canada, (Toronto: Macmillan Canada, 1991), p. 48.
appropriate objects of attention. The question of safety was more complicated. The CBA's Executive Council had suggested standard reserves a year before but nothing much had been done about it. From Walker's perspective and that of several others, Clouston appeared uninterested in developing the CBA's ability to impose regulations making banking safer. When asked to explain why, Clouston argued "We cannot tell a bank that if it does not keep up this reserve that we have fixed arbitrarily, that it must close up its doors." According to him, non-compliance, and by extension the banking system's integrity, was a matter for the finance department. If it wished to call for special returns from those that were below the CBA's standard of strength, that was its prerogative. The Association, Clouston told the bankers, had done all it could. Walker disagreed. "There is no question that the clearing house may say that it will not allow a bank to clear if it does not keep a certain reserve." Walker was certainly right. But he was wrong to think a majority of the CBA's members would ever agree to such regulation. This undoubtedly gave Clouston cause to believe that safety and regulation were ultimately the finance department's responsibility. If it did not want to act, as Fielding clearly showed, that was its business, not the CBA's.

The CBA's members vainly discussed reserves just as they did service charge agreements. Paying 3 per cent for deposits was cast squarely as an obligation to the finance minister. Service charges for collecting and making payments could not be framed in the same light. Banks with many branches were far more interested in some kind of agreement than banks with less. A call was again heard for an end to reciprocal  

\^ CBAA 87-500-01: Annual General Meeting Minutes, 10 November 1904.
arrangements and a new minimum charge to customers for payment services. It would, said Walker, "make it clear that the banks will not give away to the public the commission that they presently give away." Both Wilkie and Coulson, who led well capitalized banks with fewer branches than Walker's Commerce, wondered if banks with many branches would not offer customers the benefits of those branches. If they did not, Coulson said, "there would be no difficulty in coming to agreement." Walker was willing to agree but realized few others would consider charging a customer to negotiate a cheque drawn on one of its own branches. His frustration undermined his composure. "I think it a great pity," he lamented, "that a body like this that does not exist for ornamental purposes, cannot get together on a point of this kind and make an agreement that is in the interest of everybody." Wilkie simply reiterated that the CBA was not chartered "for the purpose of putting up rates on the public."

Bringing the CBA's members together in one room presented a problem to Clouston and Knight when the 3 per cent deposit rate agreement was raised. The

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431 Ibid., p. 15.

432 It was common practice to charge a reduced fee or no fee at all when a customer presented a cheque drawn on the same bank. For example, a cheque drawn on the Bank of Commerce in Montreal could be cashed at the Bank of Commerce in Toronto at no charge. Whereas a cheque drawn on the Commerce in Montreal and cashed at the Bank of Toronto in Peterborough would cost the client cashing the cheque in Peterborough a service charge to cover the Bank of Toronto expense of clearing the item.

433 CBAA 87-500-01: Annual General Meeting Minutes 10 November 1904, p. 17.

434 Ibid., pp. 17-18.

435 Ibid.
secretary-treasurer complained about the constant stream of letters that "usually began, 'We have reason to believe,'" but contained no specific charge.\textsuperscript{436} Without specifics, said Knight, "nothing can be done." The Sovereign Bank's Duncan Stewart supplied Knight with a specific charge against the Bank of Hamilton which was not represented at the meeting, but the Commerce's prodigal son was ignored. What the interest rate agreement actually applied to was of greater interest to all. McLeod wanted it to apply to individual and government accounts. So did Walker who mentioned municipal accounts should "not [be] hawked about, and the payment by some banks of excessive rates is very foolish."\textsuperscript{437} The Quebec Bank's McDougall, who pulled out of the agreement before it officially began, complained about banks in Quebec paying 4 per cent for the Province's deposits. Thorne, who had been treated badly by the CBA, spoke up and repeated what he often told Knight: he "always understood that municipalities and Governments were not in the agreement." Clouston came down on Thorne's side. Exceptions would have to be made for municipal accounts as well as accounts from governments and indeed others.

This certainly proved true two years later when the Grand Trunk Pacific Railway received a large Dominion government loan and wanted to deposit it. It considered taking the money to England where it could obtain a higher rate than in Canada, a move Fielding opposed. The Grand Trunk's management told the minister they were happy to keep the money in Canada but that their bankers told them they would get no

\textsuperscript{436} Ibid.

\textsuperscript{437} Ibid.
more than 3 per cent. Fielding warned Clouston that

if the Company are able to show that 3 per cent is not fair value for the money today, and they can get, say, 4 per cent from English Banks, it will be difficult to satisfy the public that the Company should not be allowed to get the best market rate. I am afraid the case would hardly be helped by the answer that the Banks have formed a combination to pay no more than 3 per cent. Combinations are sometimes necessary and I know that there is much to be said in favour of the arrangement so made amongst the Banks. But combinations are at all times somewhat unpopular, and it would be better that we should not rely too much on the Banks' arrangement as a reason why a higher rate should not be paid.⁴⁹⁸

Just as the Bank Act and the CBA's role was flexible, so would the deposit rate agreement be. There would be no enforcement of the rule. Bankers could apply it as they liked, giving tacit approval to substantial non-compliance which the government was not terribly concerned about. The one strict rule that was supposed to be observed, however, was maintaining a posted rate indicating 3 per cent for deposits. That protected the Government and Post Office Savings Banks that reduced their deposit rate to 3 per cent.

Accommodation was the president's unifying theme except when it came to calculating interest on deposit accounts. The Sovereign Bank championed daily interest as a promotion tool with the Canadian public and upset many rivals in the process by suggesting they would not pay daily interest. Advertising was the Sovereign's great strength. Its general manager "wanted money and he didn't mind

⁴⁹⁸ PANS Fielding Papers, MG2 V. 458: Fielding to Clouston, 5 December 1906.
letting people know it." Indeed, Stewart was lauded as a "brass band and a procession of trolley cars with signs in front, when it comes to advertising." Strathy wanted the Association to do something, as did Walker, who referred, although not by name, to the Sovereign's advertising and suggested it was "misleading and certainly unfair." Calculating interest on daily balances had become common and some banks were allowing cheques to be issued against savings accounts. Too common for Walker and Strathy. Clouston was sympathetic but knew it would be difficult to adopt a standard system and "live up to it." Interest, if calculated on the minimum balance for the first half of the month and on the minimum during the last half, would be the fairest solution insisted Walker. The Molsons Bank representative did not think so. He had met with Clouston and CBA officials in Montreal who did not object to his bank paying daily interest, a meeting that Walker and Toronto bankers were clearly unaware of. Under the circumstances, Walker felt his request was out of order, but Clouston, recognizing the awkwardness of the situation, followed the typical pattern in dealing with issues of competition. Walker moved that interest be calculated on minimum

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479 *Saturday Night*, 11 May 1907.

480 CBAA 87-500-01: Annual General Meeting Minutes, 10 November 1904.

481 The Home Bank was allowing cheques on savings accounts as were other banks, a practice that some bankers tried unsuccessfully to stop during the First World War. In *Canadian Bank Facts*, the CBA suggests that personal chquing accounts were not introduced until 1957. This is clearly wrong. They were available from some banks before then, a service that seems to have disappeared in the late 1920 and early 1930s only to reappear once again in 1957. CBA, *Canadian Bank Facts* (Toronto: CBA, 2000).

482 CBAA 87-500-01: Annual General Meeting Minutes, 10 November 1904.
balances during the first and last half of the month. The motion passed but it carried little weight. Knight said it meant "the Association has expressed an opinion as to the way in which the calculation of the balance is done." The CBA would have lots of opinions but few rules.

The annual general meeting in 1904 exposed the CBA as an adornment gracing a banking system that provided limited protection to investors and consumers against weak banks. The Winnipeg Sub-Section's concerns did not even make it to the agenda. Exceptions rather than consistency characterized the interest deal. Discussing service charges highlighted rather than eased differences. Associates' training had been abandoned and standard reserves were more a matter of "opinion" than anything else. The Association was adrift much like it had been under Hague during its first couple of years. Clouston had been president since 1899 and some Toronto bankers wanted change. Thus, when it came time to elect the CBA's president, Walker wanted a Toronto banker, Duncan Coulson, to succeed Clouston. But Walker's plan was scuttled by McLeod who had ruffled many a Toronto banker since sailing into the city in 1900. To him, an Association dominated by Montreal bankers could do less harm than one controlled by Walker and others who resented his Toronto venture. Clouston's re-election encouraged continued indifference about the CBA and it soon showed. By 1905 Knight stopped inspecting all the banks' circulation accounts. Clouston remained in charge of an organization that was unprepared for

"Ibid., p. 53.

"CBAA 87-500-21: Minutes of the Executive Council, 17 April 1915.
the turmoil the near future would bring.


The familiar world of nineteenth century banking began to disappear by 1906. Rapid expansion signalled a new emphasis on retail banking and serving individual depositors. When banks could not find enough qualified staff, the result was seen in some of the more remote branches where, said the Monetary Times, "[w]e get gossips in charge of... branches...." Courtney's retirement that year symbolized the changing times and left the finance department more dependent than ever on the CBA, a perilous situation for bankers when Fielding showed little concern for the dangers posed by weak banks. Stewart's Sovereign Bank was on the finance department's suspects' list as was the larger Bank of Hamilton which received a life sustaining deposit of $800,000 from the Ontario government. Fielding's answer to these problems was to turn them over to the CBA. He believed "If...there still remains room for criticism [after a quiet talk with my deputy], "perhaps the good offices of the executive of the Canadian Bankers' Association could be utilized to assist in bringing about a better condition of affairs." Quiet talks and the Executive Council did little to influence banks like the Sterling. Opened in May 1906, it took five months to earn an "unsavoury reputation" for

445 Deposits during the same period went from $270 million to $553 million. MT, 5 October 1906. For the growth of bank assets also refer Neufeld, p. 91.

446 MT, 31 August 1906.


448 PANS Fielding Papers MG2, V. 457: Fielding to Courtney, 1 October 1906.
speculating in mining stocks and associating with an American swindler. Its general manager, who the bank president said "lost his head a little," had in a short time squandered $75,000 of the bank’s money gambling on the stock market.

A hint of the problems on the CBA’s horizon was suggested in 1905 when the small, one branch Yarmouth Bank ended its forty-six year history in failure. Knight neglected the finance department’s need for information and the subsequent trial of the Yarmouth’s cashier proved embarrassing. The cashier, T.W. Johns, and his directors impaired the little bank’s capital through imprudent loans and distributing dividends that were never earned. Their defence, remarked one judge, was that “the paying of the dividend was not impairing the capital [because] there was no capital to impair.” At the criminal trial the CBA’s curator, W.E. Stavert, testified Johns’ practice of recording overdrawn accounts as current loans was common, shocking the judge who later told Fielding the custom “is open to grave objection and one which wants to enable a Bank to conceal its true position and keep from the public a state of affairs which if known would [give] suspicion and alarm....” Johns, who the judge thought was “unbalanced,” was given two months in jail. The people of Yarmouth were not impressed. According to the judge they wanted nothing “short of torture as well as ...

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49 CBAA 87-518-26: Refer Sterling Bank correspondence from W.D. Hart.

50 OA, Cumberland Family Papers, Mu 3919 Envelope # 6 B-2-a: Judgement of Judge J. Longley in the case of the Shareholders of the Bank of Yarmouth versus the Directors, 4 April 1908.

51 NA FD RG19, V. 482 File 616-617: Judge Meagher to Fielding, 12 July 1905.
imprisonment...." The lesson, said the Montreal Daily Witness, was the Association either needed "more powers of inspection and correction" or had "failed to exercise the powers it had." More importantly, it showed Clouston the onus was on bankers to guard against weak banks, a point not lost on the Monetary Times which said protecting the public "reasonably lay with the CBA." In July, Clouston asked Fielding for authority to demand special returns. He said no, fearing it would be used to unfairly indict banks the Executive Council disliked. He did, however, instruct his department to call for a special return on the CBA's advice. It was not enough.

Change finally caught up with the Bankers Association when the Ontario Bank came tumbling down in October, 1906. Its fall measured all that was wrong with a Bank Act distancing Ottawa from responsibility for the banking system and a bankers' association unable to fill the void. Based in Ontario with $1.5 million in capital and

452 Ibid. This was not the first time a unscrupulous banker seemed to get off lightly. The Ville Marie's William Weir was sent to prison but was released after a short time on compassionate grounds. "He could not live, and he wanted to die at home...." The MT pointed out that for a man "so near death, he is pretty enterprising." Soon after his release he married Mrs. E.C. Scoville of Montreal. MT, 21 August 1903. Also of interest is an MT article criticizing the Johns' sentence and more particularly the judge for finding any excuse to show clemency to someone falsifying returns. The judge was reproached for suggesting there were no strictly accurate and legitimate Bank Returns submitted to the government. MT, 15 July 1905.


454 MT, 10 March 1905.

455 NA FD RG19, E2 V. 2861: Fielding to Clouston, 21 July 1905.

456 OA Cumberland Family Papers: Ontario Bank B-2-a, Envelope # 5. These records contain a wealth of information on the Ontario's demise and the account given here, unless otherwise stated, is found in these papers.
thirty branches, the Ontario Bank was weakened by bad loans in the 1870s and 1880s and never recovered. Its general manager was Charles McGill, a credulous man who took charge in 1895 only to discover the bank was a "wreck," its "earning power... practically gone."457 George Cockburn, the Ontario's president and one time principal of Upper Canada College and Tory MP, whose sideline was the presidency of Consumers Gas, was busy using deposits to buy up Ontario Bank shares investors were selling off.458 His big fear in 1895 was that the near $250,000 in stock Edward B. Greenshields sold to Senator Sir George Drummond and several Bank of Montreal directors in the 1880s would be dropped on the market. Should this occur, the Ontario Bank and Cockburn, who had his own money tied up in the bank's stock, were finished. McGill, who was greeted by some directors as "the new Moses who should lead the bank and its shareholders into a land flowing with milk and honey,"459 headed to Montreal with Cockburn to persuade Montreal financiers not to sell their shares. Drummond, who also happened to be president of the Bank of Montreal, met with Clouston and Greenshields and together brokered a deal with the representatives of the Ontario Bank. The large block of Ontario Bank shares Greenshields had sold


459 Canadian Journal of Commerce, 19 October 1906.
would be quietly traded to Cockburn, McGill and R.D. Perry, an Ontario director. All three had to come up with the money to pay for them.\textsuperscript{460}

When McGill returned to Toronto Perry seemed to have suddenly realized what had happened and announced: “I am not going to buy any stock....” Not to be out-done, Cockburn admitted: “I haven’t got any money; all the money I have got I put in the stock and I have lost all that I have got and I can’t do anymore....” Then McGill learned why he was asked to be general manager. Cockburn turned to him and said: “we all thought when you came up here you had lots of money and friends and interests and you could support it....” McGill certainly had some money and some friends, but not the kind of money or kind of friends that gave the Ontario much of a future. McGill soon spoke of his troubles to Alfred E. Ames who saw in them opportunity to satisfy his ambition and the appetite for credit it fueled. Using his firm, A.E. Ames & Company, a Toronto brokerage business with close ties to many of Toronto’s wealthiest businessmen, Ames planted a “stock-jobbing yarn” in Montreal that sent the price of the Ontario’s shares tumbling just in time for him to start buying them up on behalf of McGill and Cockburn.\textsuperscript{461} The Toronto broker spent the next eight years tightening his grip on the Ontario Bank by purchasing the Ontario’s shares on behalf of some of his wealthiest clients and using them as leverage to squeeze $300,000 in loans out of

\textsuperscript{460} An additional condition was that McGill keep Drummond’s son-in-law on as manager of the Ontario’s Peterborough branch, the administration of which he assumed without much success after McGill went to Toronto.

\textsuperscript{461} Mail and Empire 13 October 1906. The yarn is discussed but no connection was drawn by the paper to Ames’s role which was not public knowledge.
The charade began to crumble in June 1903 when Ames's own troubles overtook his abilities and his firm failed. Cockburn again worried all would unravel if Ames flooded the market with the tens of thousands of dollars worth of Ontario shares he controlled.

Cockburn's fear proved Ames's leverage. He had large debts to Canadian and American banks and secretly sold small blocks of the Ontario's shares to McGill and Cockburn to raise the payments. McGill and Cockburn bought them using deposits and recorded the transactions in an account called "The Officers Guarantee Fund" which was, of all things, a reserve against defalcations. A.E. Ames & Company reopened in 1904 thanks in large measure to the depositors of the Ontario Bank and ultimately its shareholders. Ames was still not satisfied. He wanted rid of more shares than McGill and Cockburn could absorb and in 1905 called on his father-in-law, Senator George Cox. Cox was hesitant, so Ames persuaded Cockburn and McGill to raise the bank's dividend from 6 to 7 per cent in 1906 to induce his father-in-law's confidence. At the same time, Ames promoted the Ontario Bank through his brokerage firm and advised investors to buy as well. It was enough to sway Senator Cox to pick up $15,000 in shares through Canada Life as well as Fred Cox, Ames's brother-in-law, who took another $12,000 through Imperial Life. The bank, however, was not earning 7 per cent.

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462 OA, Cumberland Family Papers, Ontario Bank, B-2-a: Charles McGill discovery testimony, p. 3

In 1896 its directors concluded that "there wasn't any chance for a Bank to make money in the ordinary business in Canada...." A good alternative, they thought, was the New York stock market where they sent McGill to try his luck. He was not very lucky.464

In October 1906, all was exposed by a clerk when Cockburn was in Europe and McGill in New York. Cockburn was called home to rumors about the bank that shook the public's confidence and he was again off to Montreal for help. Clouston proposed a $2.5 million loan at 6 per cent interest and $150,000 in good will money for the Ontario's business. Cockburn agreed and returned to Toronto to obtain his board's consent. While Cockburn carried out his task, Clouston said nothing of buying the Ontario Bank's business to Walker, Coulson, Wilkie, Pease and a few others who he asked to guarantee the $2.5 million Bank of Montreal loan that would save depositors from heavy loss. They agreed, thinking they would have their share of the spoils. Clouston appointed Stavert, a senior officer in the Bank of Montreal, as curator and a committee comprising Walker, Wilkie and Coulson were asked to oversee the associated banks' interests. The Ontario's Board was eager to rid themselves of the mess and agreed to Clouston's proposal on October 13. When Clouston and his entourage showed up in Toronto two days later to close the deal, Walker and the others realized they had been duped. Clouston, as head of the CBA, had asked them to save depositors and the industry from embarrassment. At the same time he

negotiated a deal with the Ontario Bank's directors giving the Bank of Montreal full control of the Ontario's branches and its $12 million in deposits for a mere $150,000, leaving shareholders to underwrite the Bank of Montreal's $2.5 million loan with their double liability.495

Clouston's competitors turned on the Bank of Montreal. In Peterborough the Dominion Bank hired the Ontario's local manager the day Clouston arrived in Toronto. Walker's Bank of Commerce opened an office in Lindsay the next day. In Cornwall The Royal Bank scooped the Ontario's manager and many of his old accounts, making the transition for the Bank of Montreal difficult.496 Press reports suggesting McGill and Cockburn submitted false Returns put the question of bank inspection on the public

495 Ibid., Envelope. #9: Cumberland to John A. Paterson, 21 May 1910. Cumberland writes: "The Bank of Montreal did not, at first, intend under the agreement to gobble up the whole property, but they had it in reserve. A rough Memo of Agreement was afterwards drawn up, and signed, whereby they were to admit certain others of the Banks to have a share of the Spoils. Thus the Curator and the Advisory Committee were formed. The Bank of Montreal thus got into possession. Afterwards a more formal Agreement was tendered by them to their Associates, but was of such a character that the other Banks refused to accept it. The Game was too good for the Bank of Montreal to divide, and I doubt if the Advisory Committee ever acted." The curator appointed by Clouston was Stavert and the person put in charge of the daily operation of the Ontario Bank was A.D. Braithwaite, the former manager of the Bank of Montreal in Montreal. The Ontario's shareholders felt the Bank of Montreal was bleeding them dry, liquidating assets at low prices and generally affording little protection to them. Shareholders paid out $1.2 million in double-liability and of that roughly $600,000 was eventually returned to them. This did nothing to enhance the image of the CBA or its members. Also refer NA FD RG19, V. 3485: "Return Showing the Number of Chartered Banks That Have Gone Into Liquidation Since 1867," 1 March 1933.

496 Peterborough Evening Examiner, 15 October 1906; Mail and Empire, 16 October 1906; OA, Donald McLellan Papers: Business Correspondence 1900-1912, Mu 7553 #3: A. Denny to Donald McLellan, 15 October 1905.
agenda. Ames, trying to distance himself from the whole affair, had the gall to tell the press the bank’s directors should be tried and held liable for the bank’s losses. When the Ontario Bank’s former inspector was interviewed, he heightened anxiety by revealing he was not allowed to see the Head Office General Ledger, a practice the inspector said was common at other banks. The Ontario Bank’s failure was widening into a discussion of the whole banking system itself and the need for transparency. McLeod was handed another opportunity to make his case for government inspection.

Walker tried to narrow discussion of the Ontario Bank’s failure to a matter of criminal conduct by the bank’s officers, underscoring the view that the “failure is due to causes in no way connected with the Banking Act or banking system properly administered.” McLeod strongly disagreed. In a lengthy article for the Globe, he reminded Canadians that of the forty-one banks in existence in 1880, plus the seven that were chartered since then, 25 per cent failed. Canada’s banking system leaned

467 The story was carried by the country’s large and local newspapers and raised banking issues that had national scope. In Nova Scotia, Senator John Lovitt was arrested in August and convicted of signing false Returns, although he was latter acquitted by the Supreme Court. The Ontario kept the wounds in Yarmouth fresh and in Quebec it brought back memories of the Banque Ville Marie which collapsed in 1899. In addition, the story and the debates around it appeared in the MT and the Canadian Journal of Commerce, both widely circulated. The significance of the story is also testified to in CAR, 1906 pp. 237-241.


469 Mail and Empire, 18 October 1906.

470 SGA: BNSC I 4:B3: Fyshe to H.A. Richardson, 13 November 1906.

471 Walker quoted in the Toronto World, 30 October 1906.
too heavily on the good will of its bankers, allowing the unscrupulous free rein. McLeod contended that "a few hours examination by a skilled banker would have disclosed an insolvent condition...years before it collapsed." Thomas Fyshe entered the debate using the pages of the Montreal Witness and dismissed government inspection, saying no manager or director "would be content to be taken charge of, like so many stupid errant school boys...by irresponsible auditors ...carrying probably less weight than some of their own clerks." Prudent bankers, it seemed, were not willing to suffer the indignity of an inspection by civil servants. Moreover, Fyshe questioned the purpose inspection would serve if it saved a weak bank. "Death is as necessary in this world as life," wrote Fyshe, "and, when efficiency is gone out of an institution, in God's name, let it die. ... What the community wants is efficiency, and it can have that only from powerful institutions...."

What Canadians wanted was a safe place to put their money. This was clear enough to the jury that sentenced McGill to five years in jail and decided "it is the duty of the Government to at once establish some system of inspection of our banking system...that will safeguard the investing public from deceitful and fraudulent

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72 Because little history of Canadian banking has been written and what has been done usually discusses a bank that survives to the present, the instability in Canadian banking before 1924 has been largely under emphasized.

73 Globe, 22 November 1906.

74 MT, 8 November 1906.
statements issued by Boards of Directors.... Fielding was adamant. He would not take "any step that will lead to the Government assuming larger responsibility." McLeod soon announced that The Bank of Nova Scotia would hire auditors from Scotland to verify its statements. He also hoped to "induce other Canadian banks to follow suit." While others debated, McLeod built his bank's retail deposit business in central Canada by promoting The Bank of Nova Scotia's safety and transparency.

Walker, Coulson, Wilkie, Burn and others had more reason to be dissatisfied with the CBA following the Ontario Bank's troubles than before it. The Association was ineffective in many ways but Clouston's decision to takeover the Ontario's business after making a deal with other bankers raised doubts about his intentions and inflamed rivalries that undermined cooperation when cooperation was most needed. This was


476 PANS Fielding Papers, MG2 V. 458: Fielding to Knight, 16 November 1906.

477 FCA, James B. Forgan Papers: McLeod to Forgan, 15 December 1906. The first audited statement of The Bank of Nova Scotia was published in local Ontario newspapers and larger daily papers in January, 1907. It used two columns and half a page and showed a reserve fund of $5,250,000. See the Peterborough Evening Examiner, 26 January 1907 for an example. Other bankers looked upon this with much dissatisfaction and considered it an extraordinary measure designed to draw attention to The Bank of Nova Scotia in what some bankers considered a crude advertising scheme. Other bankers, it seems, saw it as a disingenuous exercise on McLeod's part and that The Bank of Nova Scotia's directors did not really support government inspection. They were wrong. See George Hague, "Memorandum For the Committee on Banking and Commerce," in Canada, Select Standing Committee on Banking and Commerce (Ottawa, 1913), pp. 312-314. Also refer SGA: RG2, SG2, Series 3, S.S. Unit 1: Aemilius Jarvis to John Payzant, 26 November 1909.
particularly true in 1907 when a brief liquidity crisis overtook Canada. The country's troubles flowed from a larger financial drama playing itself out in international markets. Capital investments in South America and parts of Africa were not generating the returns hoped for, industrial production was declining and the British and American treasuries were still dealing with war loans built up during conflicts at the turn of the century.478 A panic hit the US market in March and by October collapse came, resulting in serious bank failures and credit famine. The Progressive Movement in the United States left the public with little tolerance for "trusts" such as Standard Oil and reckless financiers speculating in worthless paper. In Canada poor weather sparked fears that the crop would be damaged and unremunerative. Canadians investing in American stocks felt the pinch of the market's fall and were discouraged by rising food prices, growing unemployment and the bust in western Canadian real estate. As the American banking system fell into crisis, the only Canadian casualty was Stewart's Sovereign Bank which was weakened by loans to speculators in the American market as well as the bank's own careless choice of investments, especially a multi-million dollar loan to an Alaska railway to nowhere. Stewart was pushed out, nearly $2.5 million was written off, and new executive officers and directors installed.479 The Sovereign's reorganization kept questions about inspection alive just as it seemed to give credence to western farmers whose credit flow withered as banks began shoring up their own liquidity.

478 CAR, (1907).
479 Ibid.
Western farmers wanted Fielding to force banks to restore the credit they said they needed. For their part, bankers argued they had sufficiently forecast the troubles that hit in August when, earlier in 1907, they advised clients to "restrict their financial operations, to hold in check their otherwise legitimate desires for expansion, to lessen their own liabilities to the banks, and to restrict those of their customers." Farmers were unmoved. The West had developed with boundless expectations of "growth and material success," inspiring a culture of boosterism in many western towns and cities that assailed those tempering enthusiasm. The Winnipeg Free Press joined the chorus of other western papers pressuring Fielding to meet farmers' demands. Fielding's critics in the press encouraged others to speak out. Manitoba's minister of public works, Robert Rogers, suggested large Canadian bank reserves carried in New York should be repatriated for farmers. Fielding decided the best course for the

480 Ibid., p. 27.


482 PANS Fielding Papers MG2 V. 463 and CAR, 1907.

483 The greater emphasis on profitability that fierce competition encouraged became a public relations problem when banks placed their reserves in short term liquid investments offered on the New York market. Had the banks left the money in their vaults they would undoubtedly have reduced their profits and probably sustained criticism for not using some of their reserves. However, in the aftermath of recent bank failures they would have been in a stronger position to defend themselves. As it was, the use of New York investments exacted a toll on the West's perception of their bank's as being more interested in the East and big corporate financing that the farmer. Robert Rogers is cited in CAR, 1907 p. 31. The tone of the debate and response by bankers is found in MT, 21 September 1907; 19 October 1907.
government was to deposit funds with the Bank of Montreal who would in turn lend the money to other banks so that they could keep their customers' credit lines open. The Montreal bank was allowed to charge banks applying for these special loans between 4 and 7 per cent. As president of the CBA, Clouston was expected to convey the importance the government attached to this effort and to encourage cooperation among the CBA's members. When immediate results were not apparent to Fielding, he deposited more government money with the Bank of Montreal and gave Clouston emphatic instructions: "I beg you to use these enlargements of funds to meet western difficulty as far as lies within your power."

Fielding's confidence in the CBA and Clouston was misplaced. If the finance minister wanted the country's banks to increase their credits, the banks expected the government to deposit money with them and not the Bank of Montreal. At Winnipeg the Northern Elevator Company had lines of credit drawn on the Dominion Bank and the Bank of Toronto and when the company called for additional credits, both institutions advised they were "unable to increase their lines of credit owing to no Government funds being deposited with these banks." A full two weeks had gone by since

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PANS Fielding Papers MG2 V. 463: Fielding to Clouston, 8 November 1907.

The CBA's Executive Council Minutes in 1907 speaks volumes. Despite the finance minister's call for action, the Executive Council had very few meetings and when they did meet little of substance was discussed. Before the Ontario affair bankers at least debated the minister's requests and tried to respond. That was not the case in 1907.

PANS Fielding Papers MG2 V. 463: Marked "Confidential," Fielding to Clouston, 20 November 1907.
Fielding placed large deposits with the Montreal Bank and results were still not evident on the ground. He subsequently initiated discrete inquiries and learned that "some of the Banks...are now hinting...that they object to the Bank of Montreal being employed to manage the business."487 The problem, thought the finance minister, was the rate the Montreal bank wanted to charge other banks for the funds. He seemed oblivious to the broader resentment and rivalry that prevented banks from going to Clouston with cap in hand. Pride was a barrier. But for smaller banks, like the Home Bank which refused to take part, the predatory practices of the Bank of Montreal undoubtedly frightened them.

Making matters worse was Clouston's inability to fully appreciate the importance Fielding attached to the issue, a point demonstrated when Clouston proposed to attack the Manitoba Grain Act in his annual address to Bank of Montreal shareholders. The Act was popular with farmers but disdained by the Canadian Pacific, the Bank of Montreal's largest corporate customer. When Fielding learned what the president of the CBA and the general manager of the country's largest bank intended to say he was forced to intervene and remind Clouston that "there is nothing to be gained by the Bank taking a position that would antagonize the western farmer. Just now I would rather have the western farmer feel that the Bank of Montreal has been helping him to overcome his difficulties."488 The finance minister seemed to suddenly recognize the


political danger he was in having entrusted the CBA to carry out a government policy it was ill-prepared to do. Fielding approached the Tory George Foster to try and minimize the damage and persuade the former finance minister not to attack the banks in the Commons.489

Laurier and his government were subsequently forced to find a legislated answer to the western farmers’ credit problems after the CBA failed to resolve the problem for them. Fielding, with advice from some Association members, prepared an amendment to the Bank Act giving banks the power to issue circulation to the extent of 115 per cent of their paid up capital during the crop moving season and subjected excess circulation to a 5 per cent tax.490 This solution recognized the need to leave banks to act on their own but did not address concerns of pride nor fear of predatory banks that might interpret the use of additional circulation powers as an indication of weakness.491 Fielding’s legislation was a workable fall-back plan but it did not exemplify the banking system’s “malleability” as much as it testified to a debilitating rigidness undermining the capacity of the CBA’s Executive Council to respond to policy decisions made by the

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489 PANS Fielding Papers MG2 V. 463: Fielding to Foster, 27 November 1907.

490 The crop moving season was deemed to be 1 October to 31 January. For a discussion and explanation of the amendment see House of Commons, Debates, 19 June 1908.

491 In November 1908, Clouston complained at the Bank of Montreal’s annual shareholders meeting that banks had “taken very little advantage,” suggesting the new legislation did not answer some bankers’ concerns. Also see CAR, (1908).
finance minister.\footnote{McDowall argues that the amendment is an example of the flexibility of the Canadian banking system. Without knowledge of the loan syndicate that failed and Fielding's desire to have no debate in the Commons about banking, McDowall's conclusion appears sound enough. But in face of the evidence it does not stand up. See McDowall, p. 74.}

Such rigidity did not hobble the Winnipeg Sub-Section which remained far from the disputes and mistrust that divided general managers. Winnipeg's bankers developed their own sense of identity within Canadian banking which was reflected in the Sub-Section's annual reports on western farm and economic conditions. Western bankers saw themselves as specialists and pioneers in their own right, playing a critical role flowing money from east to west in support of development. Accordingly, they had a bond that crossed institutional lines that more senior executives in Toronto and Montreal did not. This encouraged fellowship despite the problems at its parent body, an advantage that proved its worth early in 1908 when the mayor of Winnipeg needed to pull together $2 million in emergency financing because the international financial crisis had all but locked Winnipeg's securities out of the London money market.\footnote{CBAA Winnipeg Sub-Section Minutes, 20 January 1908 and 8 February 1908.} A small committee of Winnipeg bankers worked out the details of the loan and verified the city's expenditures to ensure estimates presented to the banks were observed. Eighteen banks were apportioned part of the loan and the Sub-Section took the proposal to Clouston and the Executive Council for approval. To their surprise, they
failed to win enough support for the deal. Only nine of the eighteen banks asked to participate gave the idea any support and other banks, notably the Merchants, Imperial, Molsons, and the Bank of Ottawa rejected the plan outright without giving any reason. Clouston and the Bank of Montreal quickly stepped in, making "special arrangements," taking over the city's account, the management of its security offerings in London, and loaned it $3 million.

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Clouston and Knight had done very little to encourage good will among the CBA's members or to inspire public confidence in the banking industry. Their failure to do both was untimely. Suspensions, mergers and expansion that compromised service exposed bankers to popular criticism that some back-bench Parliamentarians in Ottawa mirrored in the House of Commons with proposed amendments to the Bank Act that would impose government inspection, more stringent regulation of the circulation, a special reserve fund to protect depositors, limits on loans to directors, interest on loans capped at 7 per cent and a revision of the CBA's presumed powers. The response to back-bench grumbling proved largely unuseful. The Monetary Times printed one comment from an unnamed financier saying the "criticism of the average member of Parliament of the banks, and his ideas about banking and currency, are usually little

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* CAR, 1908.

* MT, 1 January 1908.*
better than drivel." When a Royal Commission was proposed, Walker argued publicly that such an exercise would be of little value. Walker, in this instance, was wrong. It was time to take stock of the country's banking system and devise some means of addressing its shortfalls. As 1908 unfolded, continued problems with weak banks convinced many that change was long overdue.

In January efforts to resuscitate the Sovereign were abandoned. It had $3 million in capital and nearly $12 million on deposit which demanded the Association's attention. But saving depositors from the inconvenience of a lengthy liquidation was a much more difficult process than it had been in 1888 when bankers liquidated the Federal Bank with open doors. Clouston's double-dealing in the Ontario Bank case made other bankers wary of quick deals to ease public anxiety. Moreover, the overriding issue was not the reputation of the industry as much as how intervening would benefit the stronger banks. Complicating all of this was a new wave of shareholder militancy inspired by the heavy handed way Clouston, as president of the CBA and general manager of the Bank of Montreal, managed the Ontario Bank deal and made demands on its shareholders. The country's larger banks came to the Sovereign's aid but made sure they received the pieces of the bank they wanted before taking on a portion of its liabilities. Clouston, it seems, was no longer trusted to broker deals. The financial press reported the CBA's efforts to save depositors from embarrassment as an example of strength in the Canadian banking system. More than

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* Ibid., 8 January 1908.

* Ibid., 22 February 1908.
anything it encouraged false expectations. The CBA and its members were not in the business of guarding the public interest as much as they were interested in protecting their own position in an intensely competitive race for market share. Sovereign shareholders realized this in 1911 when the banks which had bailed them out demanded repayment, forcing some of the larger shareholders to forge a compromise by establishing a holding company called “International Assets Limited.” It was supposed to issue bonds to pay off the banks, using the Sovereign’s assets as collateral, and pay back bond holders over the long term, allowing shareholders to slowly liquidate assets and recover a larger share of their value than possible under a quick sale process. The holding company was set up and bonds issued but many shareholders were reluctant to join the scheme. By 1914 the bank’s remaining assets were liquidated and shareholders forced to pay $180,000. For the banks, the Sovereign case and the trouble they had receiving timely repayment after saving depositors gave them another reason to avoid entangling themselves in increasingly messy bank failures.

The Sovereign Bank’s demise seemed part of a growing trend. Not four months passed between its closing and the failure of another bank. This time it was the small, Quebec based, five branch Banque de St. Jean. Its president, H.P. Roy, was nothing less than a criminal whose true disposition was masked by his political career

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500 The St. Jean had a capital of $262,154 and operated out of St. Jean, Quebec. Its history is documented in Rudin, Bankina en francaise, pp. 81-83.
in the province's National Assembly where he had at one time been Speaker. Roy used the St. Jean's deposits as his own personal source of loans for dubious enterprises that finally caught up to him and his co-conspirators in 1908.\(^{501}\) When the bank collapsed in April 1908, Roy and other shareholders had little money to pay the double liability, placing USD $340,000 in deposits, mostly collected from rural Quebecers, in jeopardy.\(^{502}\) There would be no help from the CBA in this case. The St. Jean had no assets any bank was interested in buying and exposed the dangers of the public relying on bankers to guard their interests. In the House of Commons an Opposition member, R.A. Pringle, recognized the threat and led a spirited attack on the banking system. It prompted a farmer from Sabervois, Quebec to write Laurier saying:

There should be something done in regard to the Banking System in Canada. I saw in the Witness a short time where the matter was talked over in the House about the Bank St. Jean. There should be some law framed for one and all banks in Canada, that would make depositors secure. It is really too bad to have poor people who have gathered up a

\(^{501}\) Ibid. Rudin notes that "Neither the federal government nor the Canadian Bankers' Association seems to have been pressing for the bank's closure, which says something about their success as guardians of the public's funds." Rudin is right, but in the apportioning of blame it would be well to remember that the Association informed the finance minister which banks would not comply with reserve requirements of 15 per cent and the St. Jean, it seems, was likely the "hopeless case" Clouston cited at the 1904 Annual General Meeting. Another point is Rudin's assertion that the St. Jean's officials "were so successful in covering their tracks." There was little one needed to do to cover one's tracks. In fact, all one had to do is submit monthly returns that nobody could verify. The only way to gauge a bank's position at this time was by word of mouth between bankers who learned how much a bank was borrowing from other banks and what kind of paper the bank was offering as collateral. This is why close contact between the finance department and bankers was so critical.

\(^{502}\) NA FD RG19, V. 3485: "Return Showing The Number of Chartered Banks That Have Gone Into Liquidation Since 1867," 1 March 1933.
few dollars and deposited in the St. Jean Bank completely ruined.\textsuperscript{503}

Laurier was moved by the writer's plea, replying: "The failure of the Banque de St. Jean is indeed a disaster worse, I believe, than any that has yet taken place." The Bank Act, conceded Laurier, would have to be revised.\textsuperscript{504} In the meantime, depositors received 30\textcent{} on the dollar and were left to take what satisfaction they could from Roy's five year sentence for submitting false Bank Returns.

The St. Jean's fall raised old fears among rural depositors about the safety of smaller banks. The victim of renewed anxiety was the Banque de St. Hyacinthe. It had six branches and was a shaky institution the finance department had had doubts about for years. The Hyacinthe was not, however, in the grip of a criminal. Its general manager and directors were simply poor bankers whose incompetence exposed shareholders and depositors to potential losses.\textsuperscript{505} The run on its deposits after the St. Jean bank's troubles impaired its liquidity and forced it to turn again to the Eastern Townships Bank which had been giving it life saving loans. Clouston learned of the situation and, as the CBA's president, sent Knight to the Hyacinthe to avert another embarrassment to bankers.

Knight exercised little tact when he arrived. He simply told the bank's board to

\begin{itemize}
\item \textsuperscript{503} NA Laurier Papers MG26C, V. 40 Reel C748 Document 141342-3: S.H. Jones to Laurier, 8 June 1908. Also see MT., 18 July 1908.
\item \textsuperscript{504} Ibid., Document 141344: Laurier to S.H. Jones, 13 June 1908. While admitting revision was needed, Laurier did not recommend haste and suggested the coming revision of the Act in 1910 would provide the chance to bring proper change.
\item \textsuperscript{505} Rudin, p. 84.
\end{itemize}
liquidate the business and get out while they could without causing any serious loss. If they did not want to do this, and they apparently did not, Knight threatened to report the bank's insolvency to Fielding. The bank closed and Clouston's Bank of Montreal soon took over the St. Hyacinthe's business at its "most lucrative" branch in St. Césaire.  

Bankers attracted more attention than ever as the first decade of the new century drew to a close. The fairness of their loan rates, suspicion about reserves employed in New York's money market, profits generated from circulation powers, security for depositors, and government inspection to guard against fraud were subjects a growing number of Canadians were thinking about. Mergers were also a subject of popular interest, piqued by the Royal's purchase of the Union Bank of Halifax, the Standard Bank's absorption of the Western Bank, the Union Bank of Canada merger with the Empire Bank of Canada, and the union of the Northern Bank and Crown Bank. Mergers and failures had, despite the launch of new institutions, thinned the number of chartered banks from thirty-seven in 1900 to twenty-nine. Those that remained seemed larger and in some ways more remote. Public concern and the political machinations of MPs made it more and more difficult for bankers like Walker, Wilkie, McLeod and others to leave the industry's public reputation in the hands of an Association run out of Montreal and dominated by the Bank of Montreal. Most importantly, however, they

506 Ibid., pp. 88-90.

507 For the Association, mergers reduced revenues from membership fees that began to have an effect on the Association's ability to carry out its functions. As time passed the membership that was left recognized this and kept up the CBA's funding to ensure its survival.
were not willing to go into a revision of the Bank Act with a hostile public demanding reforms that might be forced upon Fielding by his own caucus. It was clear to most bankers that the Returns they submitted to the finance department were of little use and could easily be used to mask a bank's true state of affairs. Tied to Returns was the whole question of bank safety and outside inspection. There was a real fear that bankers would face some form of government inspection that would reduce the flexibility bankers enjoyed under the Bank Act and used to meet day to day competition from aggressive and expanding rivals. In the shadow of a looming revision of the Act, Knight began to take steps to build some consensus about the future of the Association and how bankers should respond to criticisms. Informal talks with some leading general managers revealed that the question of bank safety was most pressing and that if inspection could not be avoided, it would be best if it was undertaken by the CBA, a move that would undoubtedly preserve the flexibility bankers cherished. What was critical, however, was winning public support for inspection by the CBA. "Any dissension or misunderstanding among ourselves," said one financier, "would be fatal."

Dissension dogged the Association and could not be shaken off even in the face of an impending revision to the Bank Act. The Association's desire to speak for bankers with one voice was again thwarted by McLeod. The Sovereign, St. Jean and the Hyacinthe all furnished McLeod with ammunition in his fight for government inspection and a safer banking system. In 1909 he finally put his entire thoughts on the

508 CBAA 87-505-03: Stewart Patton to John Knight, 25 August 1909.
subject before the public in a pamphlet entitled “Bank Inspection: The Necessity for External Examination.” It was first circulated among general managers, suggesting McLeod hoped his peers might be persuaded by his arguments. McLeod attacked Fyshe’s 1906 arguments against outside inspection as he did Walker’s public declaration that shareholders had the power to secure whatever inspection they desired. At the Association’s annual meeting in November 1909, McLeod’s call for independent inspection was “briefly discussed” and a decision made that should the government demand such a measure, the CBA would devise a means of inspecting banks itself to satisfy it.\textsuperscript{509} Determined to press on, McLeod took his campaign public and made The Bank of Nova Scotia the subject of scorn among its rivals.

Bankers had thought McLeod’s advocacy for government inspection in 1902 and external inspection after the Ontario failure was an attempt to improve his bank’s competitive position and that the bank’s Board did not actually support his public stand.\textsuperscript{510} Using Aemilius Jarvis, a shareholder in the Scotia and owner of a large and influential Toronto brokerage firm, Walker applied pressure to The Bank of Nova Scotia’s directors to silence their general manager.\textsuperscript{511} Jarvis warned the bank’s president that the bank “has already been too seriously criticized for some of its past

\textsuperscript{509} Ibid., Executive Council Minutes, 26 November 1909.

\textsuperscript{510} McLeod really wanted to see government inspection and advocated for such in 1902. In 1906 he softened that to External Examination, recognizing that Fielding would have nothing to do with any proposal increasing the finance department’s responsibility.

\textsuperscript{511} SGA: RG2 SG2, Series 3, S.S. 10, Unit 1: McLeod to the Board of Directors, 15 December 1909.
actions to gain profit by further attracting attention to it by an extraordinary course....

Soon after McLeod delivered his pamphlet to shareholders, Jarvis’s criticisms grew more personal. He asked why McLeod “should constitute himself the financial policeman for the Dominion and heap upon the institution the ill-will of all the other Banks.... The Directorate,” said Jarvis, “is too far from the seat...of operation to realize the many false steps that have been taken, particularly with regard to the aggressive and independent attitude continually taken by Mr. McLeod in his dealings with other Banks.” Jarvis’s message seemed clear enough but to ensure it was not lost he stated it explicitly: “The Bank of Nova Scotia is a member of the Canadian Bankers’ Association, and in all well-regulated organizations the majority must rule, so for it to cut out a line of action entirely independent of the larger body is to say the least an exceedingly bad example.” In reply to Jarvis, McLeod was equally candid, warning his board Jarvis was the spokesman for Walker whom he had irritated with his stand against the Winnipeg Sub-Section in 1899. The Bank of Nova Scotia’s general manager, who guided the bank to Minneapolis and made it an effective competitor in the new era of banking, would not be bullied. “Either Clouston or Walker will lead,” wrote McLeod, “the blind followers are not worth mention by name. I will follow just as

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512 Ibid., Jarvis to John Payzant, 26 November 1909.
513 Ibid., Jarvis to Payzant, 7 December 1909.
514 Ibid.
515 Ibid., McLeod to the Board of Directors, 15 December 1909.
far as I approve and no further." In a letter to his friend, James Forgan, who he worked alongside for many years, McLeod conceded his fear that The Bank of Nova Scotia's directors might be persuaded to oppose his stand and for that reason, he appealed to shareholders, deciding, in effect, "to stand or fall on the issue." Ultimately, he fell. Some directors were wearied by the constant battles and McLeod showed no sign of tempering his struggle which had evolved into a political battle against Walker and the CBA. His enemies at the Association were lined up against him and old allies, such as the leader of the Opposition, Robert Borden, who had done much to help him oppose the incorporation of the CBA, was not interested in involving his party in a dispute between bankers that might cost him much needed support. In January 1910, McLeod retired from The Bank of Nova Scotia and walked away from the whole Canadian banking system, declaring his inability to "quietly tolerate banking practice that has produced so much loss."

The banking system Hincks's Bank Act stitched together in 1871 began unravelling in 1910. Patching holes that appeared after its enactment proved beyond the capacity of the CBA. For the first time a finance minister conceded "something will probably have to be done in connection with Bank Inspection." In the face of an ineffective bankers' association, the government was pressured to drop the long held

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516 Ibid.
517 FCA Forgan Papers: McLeod to Forgan, 27 December 1909.
518 McLeod quoted in Schull and Gibson, p. 100.
519 CBAA 87-505-03: J.J. Gormully to Clouston, 7 February 1910.
policy of leaving banking to bankers. The failure of the small St. Stephen's Bank in March reinforced the need for action. The one branch, New Brunswick based bank was not a model of New England banking as R.T. Naylor suggests; nor was its demise a "severe blow to independent industrial development in the Maritimes." It symbolized, like those banks that fell before, just how little the public was safeguarded from imprudent and incompetent financiers. R.B. Kessen, who audited the bank after it suspended payment, told the deputy minister it "has been conducted by what might be called amateurs, who had no banking experience, and did not understand what are a bank's functions in lending money." It had a capital of $200,000, deposits of $386,000 and had been in business since 1836. Its manager owed the bank $90,000 and could only repay roughly 16 per cent. The former manager owed $25,000 and had not made a payment in more than ten years. The bank had no systematic book-keeping practices and the industries the bank supported were largely speculative mining ventures and enterprises involving the manager's family and some of the


521 NA FD RG19, E2C V. 232 File 616-0-3: Kessen to Boville, 12 March 1910. The bank was founded around 1836, had one branch and a paid up capital of $200,000. The bank had not had a clerk with banking experience for a great many years.
directors' families. The bank's depositors and shareholders would have suffered heavy losses if the bank's president had not come forward and made up the difference between the assets and liabilities of the bank after it closed. His largesse was the only bright spot in another gloomy incident in Canadian banking.

Of far greater significance was the collapse of the twenty-seven branch, rural Ontario based Farmers Bank of Canada. As the scandal unfolded before the public, legitimate questions were raised about even the government's ability to safeguard the interests of depositors and shareholders. For Fielding, the Farmers Bank exposed the danger of answering critics complaining about mergers and shrinking numbers of banks by allowing new banks to open without carefully scrutinizing the credibility of their promoters. The Farmers was launched by its general manager and vice president, W.R. Travers and an Ontario Tory boss, Dr. Beattie Nesbitt, who arranged a $10,000 Ontario government deposit in 1907 that was promptly reloan to him. Both saw the enterprise as a means to finance a northern Ontario mine as well as other speculative investments promising fabulous wealth. Another player in the unsavoury institution was W. Greenwood, the editor of the Toronto World which pioneered "bank bashing" and encouraged the start of local banks. Greenwood, like Nesbitt, used depositors' money in speculative ventures. The bank never raised the required capital of $250,000 and subscribed capital of $500,000, but easily evaded the Bank Act's safeguards and

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522 Ibid. It's unclear what Naylor based his conclusions on but it certainly was not correspondence in the finance department's records. There was no evidence of "criminal work" at the St. Stephen, just unadulterated incompetence that posed a serious threat to depositors. The incompetence of the St. Stephen's cashier is well documented in CAR, (1913).
received a certificate to begin business from the Treasury Board in 1906 despite warnings from Clouston and Knight that Travers did not have the money he said he did.\footnote{523} What shares were sold to the public were mostly picked up in Halton County, Ontario by farmers enticed by an institution expected to devote its energies to helping agriculturalists.\footnote{524} In the summer of 1910 the bank's branch manager in Lindsay, Ontario, A.B. McGill, watched the price of the Farmers' stock, which originally sold at $125, drop to $10. To McGill, it was evident the bank’s speculation in cobalt mining and its connection to a dubious Syracuse, New York insurance firm dealt a fatal blow to the bank’s viability. He promptly quit and took two of his clerks with him to the Lindsay branch of the Home Bank of Canada. Neither of them kept their concerns a secret, causing a run on the Farmers in Lindsay. Travers subsequently hired detectives to

\footnote{523} The only safeguard was a sworn oath taken by the general manager that he raised the capital of the bank according to the law. In his testimony in 1912 to the Committee on Banking and Commerce, George Hague commented that 'a clever fellow like Travers could easily bamboozle the finance department,' which said a great deal about the existing safeguards. See George Hague, "Memorandum For The Committee on Banking and Commerce," p. 313. \textit{MT}, 16 March 1912.

\footnote{524} The origins of this bank are of interest. Initially, its promoters were from North Wellington County and wanted to amalgamate a number of private banks in the region and create a chartered bank giving depositors more security. The inspiration for this bank came from a \textit{Toronto World} article favouring small banks that would assist industries in the localities where they operated and be a "special advantage" to farmers. Prominent men were found to support the endeavour and all seemed well until after the charter was granted in 1904. At that point it seems the existing banks were not enthusiastic about another competitor and began applying serious pressure to its promoters to drop the initiative. It is said this was done through the banks where they held their accounts and this made sales of the Farmers’ stock very difficult. Extensions to raise capital were granted by Fielding who knew other banks were trying to prevent the Farmers from seeing the light of day. This apparently opened the door to Travers who promised to raise the necessary capital and fend off existing banks. \textit{OA, A. Fraser Papers, Correspondence 1911: Farmers bank of Canada, Envelope I.}
investigate the rumours about the bank. He quickly brought a case against McGill and the clerks for conspiracy. When the matter went to court on December 19, Travers presented two mining engineers testifying to the value of the Keeley Mine the bank had invested more than $500,000 in. But the judge ruled out the evidence and stated the issue was "the sanity of the banker who would invest so much in a mine." Charges against McGill and his clerks were dismissed and a much larger run on the bank began, leaving it unable to pay its Toronto clearing house obligations. The bank was closed by December 20. The CBA quickly appointed a curator, although shareholders preferred a liquidator responsible to them. It was clear that Travers had submitted false Returns to the finance department. When police tracked him down at the King Edward Hotel in Toronto, they presented a warrant for his arrest.

Depositors had entrusted the Farmers with more than $1.2 million and like the shareholders, were mainly agriculturalists from rural Ontario. The Ontario Bank and the Sovereign Bank had raised expectations that Toronto’s bankers might assist those who were bound to suffer by the bank’s demise. Asked if the banks would do so, one

525 Toronto World, 20 December 1910.

526 Ibid., 22 December 1910. The shareholders of the Ontario Bank had long complained about their treatment at the hand of the CBA’s curator and clearly the message seems to have stayed with some. The Farmers’ Shareholders were concerned a curator responsible to the Association and not the shareholders was more likely to neglect their interests. The curator appointed was G.T. Clarkson, a professional accountant. This marked a departure for the Association which always appointed a banker before. It suggests that members of the CBA, considering the experiences with Stavert and the Bank of Montreal, were more comfortable with an accountant rather than a banker.

527 Ibid.
financier described as a prominent banker said "There isn't a possible chance...." A fundamental change had taken place. In the face of heated competition, an ineffective CBA, and public expectations that were burdensome, some bankers wanted out of a banking system that left them to resolve its problems. The inquisitive reporter who wanted a better explanation from the prominent banker received it:

In fact, I might say that some of the others are of the opinion that the present will teach a badly needed lesson. [People] have long felt that they could place their deposits in any bank at all, that as long as it was chartered it was perfectly safe, and that even if anything did happen, the other banks would come to the help of the one in trouble, but there will be no more of that.\(^{528}\)

The Farmers failure and the revelations at Travers' trial left no doubt that "the day had passed when a bank could decide for itself if it wanted to be inspected.\(^{529}\) Within a month the CBA publicly announced that "it would thoroughly investigate the question of the inspection of chartered banks.\(^{530}\)

Fielding found himself in an invidious position. In 1906 he was warned by fellow Parliamentarian and president of the Dominion Bank, Edmund Osler, that the Farmers' had not raised the necessary money to start in business and should not be allowed to open. Clouston confirmed Osler's assertion in November but Fielding ignored both in favour of a sworn oath from Travers that he had abided by the law in raising the capital

\(^{528}\) Lindsay Post, 23 December 1910.

\(^{529}\) The Bulletin, 3 January 1911 in PANS Fielding Papers MG2 V. 537, document 8639.

\(^{530}\) The announcement was made 18 January 1911. MT, 16 March 1912.
to start the bank. When news of these warnings got out in January 1911, the Opposition questioned Fielding's judgement and his concern for the interests of bank depositors and shareholders. A month later Travers was standing trial and testified that the Liberal Whip, W.S. Calvert, lobbied Fielding on his behalf to allow the bank to open its doors in 1906. Travers's revelations threw the whole liquidation of the Farmers Bank into turmoil. His six year jail sentence seemed beside the point for most. Shareholders were determined not to pay their double liability on the grounds that Fielding had not exercised due diligence before granting the bank approval to begin business. Depositors, on the other hand, were just as determined to see their money returned for the same reason and by September 1911, had formed the first depositors' relief committee in the country's history.

Borden and his Conservative Party now had a banking scandal that promised new political capital in rural parts of Ontario where Liberals had long appealed to farmers. Fielding defended his actions, claiming that granting the certificate did not cause the Farmers Bank failure. The problem, he said, was bankers themselves. He reproached Toronto financiers who "took the Farmers Bank into the family circle of the

531 Toronto Mail, 21 July 1911. Reference to Osler's warning and Clouston's are found CIBCA, Province of Ontario, Sessional Papers, Paper 153 a, 1913: Special Commissioners' Report by the Chief Justice Sir. W. R. Meredith of Ontario on the Farmers Bank. Reference is also made to the report in CAR, 1913.

532 House of Commons, Debates, 23 January 1911. An excellent summary of the Debates in the Commons is supplied in CAR, (1911).

Toronto clearing house, thus giving it all the rank and prestige that was possible.\textsuperscript{534} He made the same argument with regard to the membership of the Farmers in the CBA. Clouston and others rejected the implication. They had done their part; Fielding had not. But the finance minister thought otherwise. Opposition members criticized his party for allowing mergers and the number of banks to decline. He made his case to voters in a 1911 Liberal pamphlet: if the minister and the Treasury Board refused the certificate, a cry would have gone up from the farmers themselves that they were being badly treated. They would have alleged, and with apparent ground, that the Government were ready enough to allow other Banks to be organized, but refused the same privilege to the farmers. The chartered banks have not generally been popular with our farming community. There has been a disposition to regard them as selfish and grasping institutions. In this case, a refusal to allow the Farmers Bank to go into business would have been regarded everywhere ... as evidence that the Government were determined to give the existing Banks a monopoly and prevent the organization of competitive institutions.\textsuperscript{535}

Fielding let an issue of public trust be dictated by political circumstance and relied on bankers to manage whatever problems might flow from the decision. He did this as the Ontario Bank scandal was playing out in the press. It was, in the end, a tremendous political error that cost the Liberals seats in Ontario, a province that proved crucial to Borden's September triumph over Laurier's Liberals who ran on the divisive issue of

\textsuperscript{534} PANS Fielding Papers MG2 V. 532 Document 8640: "The Farmers' Bank: One of the Tricks of the Conservatives to Prevent Discussion of Reciprocity." This is a very detailed pamphlet produced by the Liberal Party for the September election that attempted to explain Fielding's actions. It is, in some respects, very frank in its admissions, although it tries, unsuccessfully, to spread the blame around.

\textsuperscript{535} Ibid., "The Farmers' Bank: One of the Tricks of the Conservatives to Prevent Discussion of Reciprocity."
reciprocity with the United States. Leaving banking to bankers now cost politicians votes. This proved the lesson of the Farmers Bank whose depositors never did receive the compensation the Tories had promised.

Bank failures between 1900 and 1910 re-opened the question of responsibility for the banking system that Hincks and Macdonald tried to resolve in the country’s first Bank Act. Leaving banking’s problems to bankers had always been a politically dangerous policy but it became even more so after the dramatic changes to banking during the first decade of the twentieth century. Banks served not only business, but more and more individuals who used them to safeguard their savings and generate some income at the same time. When a bank failed after 1900, its economic and social consequences became political issues when neither the government nor the CBA would account for continuing banking troubles. Bankers rightly complained that the finance department was “slow to move and timid in action.” But bankers themselves were slow and just as timid. They were not disingenuous or part of a broad capitalist conspiracy, as Gustavus Myers suggested in the History of Canadian Wealth. Bankers were in business during an extraordinary age of growth, mergers and tremendous opportunity. Rivalry paralysed their association. It was given the job of making

536 There is no doubt that the major issue in the 1911 election was Reciprocity, but a strong case can be made that the Farmers Bank was certainly a minor issue of major importance to farmers in the Halton region and to others across the country who had been affected by bank failures. See CAR, 1911. Also see Ottawa Citizen, 2 September 1911, “Farmers Bank Compensation.”

537 FRBL, Walker Papers: George Burn to Knight, 13 July 1910.
banking safer, a task that it could not reasonably carry out without a large measure of cooperation that there was no historical precedent to suggest was possible. Failing to protect the public and answer demands for reform gave politicians reason to question why the CBA was incorporated and to believe that it served bankers more than the public interest. It also gave them good reason to keep their political distance from bankers and their unreliable association.
Politics, Bankers and War:  
The Canadian Bankers Association, 1911 - 1914.  

Chapter Four

Sir Thomas White's post-war articles on war finance were written, he said to Sir Robert Borden, "to make the facts and circumstances connected with our financial administration known to future historians...." White offers certain circumstances, some facts, and suggests a close and cooperative relationship with the CBA:

the Canadian Banking system is the most perfect instrument that a Minister of Finance could have at his hand in floating a loan.... What had I to do? Just call up on the telephone the president of the Canadian Bankers' Association: 'I want all the branch banks of Canada notified to do a certain thing.' It was done.

White's calls on the Association were frequent but its members did not always do as he asked. When bankers acquiesced, they often did so against their better judgement and the interests of the institutions they led. White was the most powerful finance minister bankers faced since Confederation and his strength along with his expectations did not make for the agreeable relationship he described in his writings. White wrote about war finance for more than the benefit of future historians. He was also writing for Canadians who had just come through the Great War. "In the 1920s and 1930s," argues Jonathan

\footnote{NA Sir Robert Borden Papers MG26, H1 (C) V. 246 Document 160045: White to Borden, 9 May 1921.}

\footnote{Sir Thomas White, "Federal Administration and the Banks," \textit{JCBA} V. XXIX (April 1922), p. 358.}
Vance, "the war evolved into the tool that could weld together the nation." White, who left politics for the vice president's chair at the Canadian Bank of Commerce, hoped the banks' war effort would bolster their battered reputations.

This chapter explores the relationship between a strong finance minister, performing a high stakes financial and political balancing act, and a discredited CBA. It covers the period following the 1911 election and concludes at the end of 1914 after the government dodged the most serious fiscal crisis since Confederation. For the Association these years proved especially trying. Agreements were openly defied, diminishing the CBA's credibility with its members, and public demands for improved safety went unanswered. The one bright spot was renewed interest in bankers' education and the role played by the CBA in establishing correspondence courses bankers could use to upgrade their skills. Nevertheless, the setbacks suffered during Clouston's presidency left their mark. The CBA's political allies were small in number, a problem that was aggravated during the 1913 revision of the Bank Act when Knight offended Liberals and Tories alike. When war broke out, White pushed the CBA and its fourteen member Executive Council aside in favour of a newly established Bankers Advisory Committee dominated by Sir Frederick Williams-Taylor and Edson Pease. Its members essentially wrote what became the Finance Act and dictated policy to the CBA which was expected to rally its members and foster a new spirit of cooperation.

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The generation that launched the CBA was fading into history by 1914. George Hague was frail and confined to his Montreal home. Sir Edmund Walker busied himself with art and education. His presidential office at the Commerce was cluttered with paintings instead of circulars.\textsuperscript{541} The venerable Duncan Coulson was president of the Bank of Toronto and suffering poor health. Clouston was a memory. The man who dominated the Association for more than a decade died in 1912, leaving John Knight to defend their administration. Younger bankers were replacing absent founders. From the Dominion Bank came Clarence Bogert, a debonair fifty year old; The Bank of Nova Scotia sent Harry Richardson, an amiable alternative to his dogmatic predecessor, H.C. McLeod. The Commerce dispatched Alexander Laird whose kindness masked his bank’s frustration with the CBA. The Bank of Montreal distanced itself from the Association, which was consigned to its Toronto representative, leaving Sir Frederick Williams-Taylor, a gentleman banker who climbed the ranks and excelled as a suave international financier in London, to focus on the bank’s management. His skill brought millions of investment dollars to Canada and fetched a knighthood in 1913, a gesture intimating his influence with Canada’s cash starved government.\textsuperscript{542} At the head of the bankers’ organization was another collector of paintings, sixty-eight year old Daniel Wilkie, the first general manager of the Imperial Bank and its president. He inherited a

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  \item \textsuperscript{541} G.P. de T Glazebrook, \textit{Sir Edmund Walker, 1848-1924} (Toronto: Oxford University Press, 1933).
  \item \textsuperscript{542} NA Sir Thomas White Papers, MG27, II D18 V. 2, File 1 “Banks, Bank of Montreal, 1912-1918,” Frederick Williams-Taylor to Thomas White, 18 January 1913. Also refer \textit{CAR}, 1913, p. 64. Williams-Taylor’s success in British financial circles is mentioned in \textit{MT.}, 25 August 1916.
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troubled body. Rivalry undermined fellowship; political sympathy for banks was waning; little control was exercised over weak members; and inspecting circulation accounts had fallen off.543

At the finance department Thomas White was in charge. Swept to office in 1911, he was unlike any finance minister before him. White studied classics at the University of Toronto, gave journalism a try, worked in Toronto’s assessment office, and read law. In 1899 he received his law degree at Osgoode Hall as well as two gold medals for his effort. Within two years he was appointed general manager of Toronto’s National Trust Company.544 He turned the company into a thriving success during the most prosperous era since Confederation and emerged as a savvy politician who mirrored an ambitious Toronto grown wealthy. Toronto opposed Sir Wilfrid Laurier’s 1911 bid for reciprocity and feared its impact on Canadian manufacturers who had done much to make the city a success. White’s political career sprang from this opposition. He blossomed as a public figure after joining Sir Edmund Walker, Zebulon Lash, E.R. Wood and fourteen prominent businessmen to form the Toronto Eighteen, a powerful group that heralded the Tory chorus against Sir Wilfrid. The forty-five year old White dominated bankers and refused to trust them with the government’s political capital; he expected them to follow his directives and used the CBA to win compliance. When war came, he proved

543 CBAA 87-500-21: Minutes of the Executive Council, 17 April 1915.

544 Ibid. He owed his good fortune to the generosity of Canada Life’s George Cox, who offered him the job apparently as a favour to White’s uncle, R.J. Fleming, a former Toronto mayor with better luck in politics than in real estate. The details of George Cox’s life are found in Michael Bliss, “George Alberts Cox,” DCB, V. XIV (Toronto: UTP, 1998), pp. 248 - 251.
the right finance minister for a government willing to assume an "overseers' role in Canadian business." 

Bankers looked to White for a sympathetic ear when others in Ottawa distanced themselves. His influence was thus amplified and so was the disappointment of some banks. The minister's loyalty lay with the Conservative government's well-being and not bankers. One of his first ministerial tasks was to manage demands for new patronage arrangements after nearly fifteen years of Liberal rule. Banks with large government accounts were busy warding off rivals who wanted their share of the pie. One such rival was the 290 branch, Winnipeg-based, Union Bank of Canada. Writing to the Minister of the Interior, Robert Rogers, a Union Bank officer observed:

when you consider that throughout the entire Directorate of the Union Bank there is nothing but a solid body of the most loyal Conservatives, who have done a tremendous lot for their party in the past, it does not seem to be very grateful on the part of the Government not to give the Union Bank a certain portion of its patronage....

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56 NA White Papers MG 27 II, D18 V 2., File 5(a) "Banks - Government Accounts with Banks 1911-1919:" Marked "Private & Confidential," H.B. Shaw to Robert Rogers, 19 February 1913. The Union Bank, while having little government business, was in a better position than banks that were not even on the government's list of approved institutions. The Sterling Bank, for instance, found itself in such an unhappy state and lobbied White continuously for change. The reason is made plain in a letter from the
The official's plea was in vain. The deputy minister of finance, T.C. Boville, explained to White that the "Bank had for some years been...very weak and tottering ... and the Department did not feel justified in extending its business with a bank in that condition." White never told the Union's officials why he refused them the government's favour; they were left to believe that larger, eastern interests had more political clout. The Dominion government's banking arrangements went unchanged. When White was appointed minister this had little consequence; in the months before he retired, the same decision had a fundamental impact on banking in the post-war era.

A strong finance minister came to office when the CBA was moribund. The Farmers Bank scandal pulled the Association into the maelstrom of party politics. Clouston and Knight's private warnings about the Farmers Bank were fodder for Tories trying to undermine Fielding and the Grits' credibility. Amends had to be made with Liberals and caution exercised to avoid giving Borden's political foes reason to fault his

Sterling's president: "Our Directors are strongly of the opinion that this discrimination should not exist so far as our institution is concerned. We are not asking for any Government deposit or Government business, nor do we feel that we are asking for any favors, but we do feel that it is unfair to the institution that the postmasters in small towns where we have branches, and other Government officials, are in the position to say that the Government do not allow them to deposit with the Sterling Bank, though we are called upon to cash Government cheques. As stated to you in our interview, it is not that there is any money, or other than work and expense in the matter of these transient deposits and speaking from this standpoint we would be better without them, but on the other hand the fact that the embargo exists and is so generally known in these small towns and villages where we have our branches is very hurtful to the institution." See G. Thomas to White, 15 July 1913.

547 Ibid., Boville to White, Memo respecting Government Account at Macleod, Alberta, 20 May 1914.
government's administration of the banking system. The CBA proved incapable of either. When questions were raised in the House of Commons about the Banque Internationale du Canada, the Association's relations with both parties were thrown into turmoil.

Rudolphe Forget was a stockbroker and Conservative MP who dreamed of fortunes to be made introducing Canadian securities to investors in France.  He created the Banque Internationale for the purpose and won support in Quebec by promoting it as a new channel of investment capital for Quebec businesses. He set out to raise $10 million in capital and expected to find 80 per cent in France. Forget applied to the Treasury Board in 1911 for a license permitting the Banque Internationale to begin business. The application was held over by Fielding till the election finished. Soon after White took office he granted approval, righting what other Conservatives regarded as a partisan wrong by the Liberals. During the revision of the Bank Act in 1913, the Banque Internationale became the subject of controversy. The bank's general manager paid a $200,000 commission to E.B. D'Aoust for selling $2 million of the bank's stock subscriptions in France. The nature of the transaction was concealed from the finance department and the bank's French directors in Paris. When they discovered the payment, legal action began in Montreal. After several months a Canadian judge concluded "it was useless to continue [the] case against La Banque Internationale

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548 Forget was most interested in selling the securities of the Quebec Railway, Light and Power Company, a firm he was directly interested in.

Officials. Transactions stated to be of an ordinary nature. This decision came down after testimony by Knight who was representing the CBA.

Knight and J.G. Muir of the Merchants Bank of Canada were called as expert witnesses and both men assured the judge that "the transactions complained were of the same nature as they, or any other bank, would carry on." But Knight apparently went a little further. According to Wilkie, he "went out of his way to assure the judge that paying such a commission was bona fide." Wilkie was astonished by Knight’s testimony. Not only was Knight wrong, his comments were also impolitic. Knight was now the subject of debate in the House and one member, alluding to external bank inspection, suggested it "is not likely to prove a success if all guardians of the depositors’ money are as indifferent as Mr. John P. Knight, Secretary of the Bankers’ Association." Laurier was "shocked" that Knight would give credibility to Tory accusations that the Liberals opposed the Internationale because it was the project of Forget, a Conservative MP. White was put in political danger as well. Knight intimated that White knew of the secret commission. Wilkie was deeply troubled by the CBA's secretary who "mortally offended Sir Wilfrid and his followers and... attempted to draw

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550 Ibid.

551 Muir was also the auditor for the CBA.

552 CBAA 87-517-09: Wilkie to Hector McInnes, 1 May 1913. Information about the Banque Internationale du Canada is found in CAR (1913), pp. 63-64.

Mr. White into the vortex.\textsuperscript{554} The president of the Association visited Laurier and White to plea the Association's innocence in the whole affair.\textsuperscript{555}

The meeting with White brought another grave matter to the president's attention. The minister wanted answers to allegations that the Banque de St. Hyacinthe was closed without cause in 1908 by Knight. The secretary was alleged to have bullied the small bank's board and he seemed to be working in collusion with Clouston's Bank of Montreal which benefited from the Hyacinthe's demise.\textsuperscript{556} Wilkie confessed that he had never even heard of the incident and asked George Burn to assure the minister that "Mr. Knight's action must have been the result of direct instructions from the former president of the Association if he had any instructions at all and that Knight's action was not the

\begin{footnotes}
\item\textsuperscript{554} CBAA 87-517-09: Wilkie to Hector McInnes, 1 May 1913 (Letter 2).
\item\textsuperscript{555} Ibid.
\item\textsuperscript{556} Ibid., White to Knight, 26 April 1913; Wilkie to Burn, 28 April 1913. The Hyacinthe case is discussed in Rudin's \textit{Banking en fran\c{c}ais}, pp. 89-91. Rudin suggests that "since there was never any run on the Hyacinthe, it seems reasonable to assume that it might have been able to gain a delay in the repayment of depositors such as was gained by the Jacques-Cartier." There was indeed a run on the bank in May 1908 and a sum of $100,000 was withdrawn. The run continued into June and the bank was forced to obtain loans from another bank to pay its depositors. Moreover, in the aftermath of a string of bank failures in 1887 it was the strict policy of the finance department to close banks that suspended payment. The case of the Jacques-Cartier was an exception. It was allowed a second chance largely to hide the troubles at the Cartier and to keep the perception alive that it was simply the victim of runs started after the Banque Ville-Marie failed. If the Cartier was allowed to go it would have raised serious objections about the credibility of the Bank Act that the finance minister, W.S Fielding, was not prepared to entertain during the Act's revision in 1900. Rudin also suggests that "it is impossible to say whether the Hyacinthe could have continued operations beyond June 1908." The liquidator of the Hyacinthe believed it could not. Refer CBAA 87-517-09: Liquidator to Secretary-Treasury, 28 April 1913.
\end{footnotes}
result of instructions received from the Association at large. Knight's past and present behaviour awakened Toronto bankers to the political dangers of an association that appeared to represent them but that they did not control. The immediate remedy was obvious to Hector McInnes, a Halifax lawyer sent to Ottawa by Wilkie to do damage control - dismiss Knight. In June Wilkie and a committee of Toronto bankers requested his resignation. He asked to continue till the 1913 Annual Meeting in September. The committee accepted his proposal. When the Annual Meeting passed, Knight received a pension of $2,000 conditional on "good behaviour." Knight, who charmed Walker and others in the 1890s and was known in Montreal as the "best after-dinner speaker," was paid to be silent.

In the midst of these troubles the Bank Act was undergoing its fourth revision. Topping the agenda of reforms was external examination. Many bankers feared this would be answered with government inspection and possible partisan interference in their affairs. Some appeared equally afraid of any changes that gave their Association inspection powers. In 1910 Walker and Coulson led the discussion among CBA members on how to respond to popular demands for safer banks. Walker proposed

557 CBAA 87-517-09., Wilkie to Burn, 28 April 1913.
558 Ibid., Hector McInnes to Wilkie, 2 May 1913.
559 Ibid., 87-500-07: Minutes of the Committee appointed by the Executive Council of the Association to deal with the appointment of a successor to Mr. Knight, 27 June 1913.
establishing a CBA committee to oversee a team of examiners who would commence a "minute investigation...of all the assets of each bank with the exception of loans, overdrafts and discounts."\textsuperscript{561} When the examiners finished, each bank's senior executives would declare an oath testifying to their banks' true state of affairs. In turn, the CBA would retain the power to appoint examiners and undertake future inspections when necessary. Coulson offered an alternative to Walker's scheme. He preferred examiners chosen by each banks' directors. Still, Coulson was willing to support Walker's position that the CBA should ultimately have the power to inspect its members.\textsuperscript{562}

Responses from other bankers showed how little faith they had in the CBA. The Banque Provinciale stated its objections plainly: "the Bankers' Association is practically and effectively the Banks whose representatives compose the Committee and it is a bad principle to base inspection of a business concern by business competitors."\textsuperscript{563} One who supported Walker's plan, the Merchants Bank of Canada's E.F. Hebden, said there was much to commend in broadening the Association's powers but was conscious, although not very concerned, that "certain of the smaller Banks are apprehensive that the rules and examinations would be for them alone...."\textsuperscript{564} But smaller banks were not

\textsuperscript{561} FRBL Walker Papers, Ms1 Coll Box 61, Canadian Bankers Association file: H. Stikeman to Knight, 20 June 1910.

\textsuperscript{562} \textit{Ibid}.

\textsuperscript{563} \textit{Ibid.}, T. Beinvenue to Knight, 12 July 1910.

\textsuperscript{564} \textit{Ibid.}, Hebden to Clouston, 24 June 1910.
the only ones troubled by the proposals. The Bank of British North America, Bank of New Brunswick, Molsons Bank, Quebec Bank, Eastern Townships Bank, The Royal Bank, Banque d'Hochelaga and the Bank of Hamilton all opposed new powers of inspection for the Association on one ground or another. Wilkie, speaking to the shareholders in the Imperial Bank, attacked Walker's plan, arguing "no Bank under present conditions of competition and with the readiness of some to retire from the business and others to add to their size and importance... should be called on to place their affairs under the review of officials from rival institutions." When the Banque Nationale's management heard of what was contemplated, they opposed it and considered it strange that "six months ago we were unanimous to oppose Mr. McLeod's proposal and now we are ready to offer something equivalent." Walker nor Coulson could generate the support needed to win new powers of inspection for the CBA.

Before his election defeat, Fielding was leaning towards a shareholders' audit and White was disposed to follow his predecessor's example. Borden's Tories had


566 CAR, (1912).

567 FRBL Walker Papers, Ms1 Coll Box 61, Canadian Bankers Association File: N. Lavoie to Clouston, 2 July 1910.
made an issue of the Farmers Bank and after their election offered limited compensation to depositors on grounds the Laurier government had bungled its duty to ensure the bank had met all the requirements set out by the Bank Act before it opened its doors. But they did so with the very explicit caveat that the Farmers Bank was an exception and not precedent setting. White and the prime minister did not want to increase the responsibility of the government for the banking system any more than the Laurier government had and in fact never made good on their promise of compensation. Thus, White was open to suggestions that would allow the government to leave the management of the banking system to bankers. In May 1912, Walker feared that White might be persuaded by the Tory caucus to impose government inspection and made the mistake of suggesting the Association be given broader powers of inspection. White assumed Walker had the consent of the CBA's members when he made this suggestion and Walker probably thought they could be persuaded to accept it as an alternative to government inspection. When Walker brought it forward for discussion, he found most bankers still opposed granting the CBA power to inspect its members. Walker was forced to tell White that inspection through the Association was not on. 506

White could not ignore concerns about the soundness of the country's banking system. Near the end of 1912 he learned the Governor of the Bank of England had lost confidence in Canadian Bank Returns and wanted change, otherwise "Canadian bills offered to the Bank of England... would not be accepted for discount." 507

506 CBAA Executive Council Minutes, 30 May 1912.
507 Ibid., 87-505-04: Clouston to Wilkie, 31 October 1912.
by the House of Commons’ Committee on Banking and Commerce were unprecedented. “Canadian bankers were for the first time obliged to explain themselves publicly.”

Questions were raised about interest rates, service charges, profits, farm credit, glamorous looking branches, mergers and the influence of the Bankers Association. Wilkie was especially perplexed by perceptions that the CBA was a powerful body, arguing “its powers are very limited, and but for the responsibility we have in looking after the circulation of all the banks, and the authority we have to take charge of a suspended bank... I really do not know that we have powers...” Despite all the concern for improved safety, the question that dogged finance ministers devising and revising the Bank Act would not go away. White concluded he could not afford to entangle the government in costly financial obligations to the public should a bank fail.

To avoid the troubles that bank mergers caused Fielding, White changed the Bank Act to ensure all bank mergers required the finance minister’s approval. Western farmers and their representatives gave White cause to increase the banks’ circulation abilities. He created a Central Gold Reserve where banks deposited gold and could issue circulation against their deposit. It would operate under the supervision of the CBA and the finance department and allowed banks to increase the number of notes in circulation without increasing their paid up capital. As an additional acknowledgement

570 McDowall, p. 141. See House of Commons, Debates, 1912-1913. The shear volume of the debates in this period is likely as much or more than the total debates on banking since Confederation.

of western farmers' complaints about inadequate supplies of credit, and bankers who argued they needed greater security before flowing more funds to them, White amended the Act to permit banks to lend on threshed grain as well as livestock. This gave more flexibility to farmers who wanted to sell their produce when the market price allowed them to cover their expenses and make a profit. White's answer to demands for government inspection was a shareholders' audit conducted by auditors approved by the finance department and the CBA and selected by a majority of shareholders. Nobody asked, however, if there was any provision to ensure a bank's auditors were independent of its management. Nor did any questions arise about new and more detailed Bank Returns that the revised Act called for. These returns were supposed to supply more detailed information to the government and the public, but there was no standard definition governing such items as overdue loans, which allowed banks to continue to conceal mismanagement and imprudence. The revision of the Bank Act was a difficult exercise for bankers, but they escaped with the Act's flexibility intact. The government, for its part, maintained its distance from any formal obligations for the banking system's administration, but one change to the Bank Act, allowing the finance minister to call for a special investigation of a bank, narrowed the distance ever so slightly.

With the revision over, the Association began to take stock of its future. Wilkie recognized the time was right for the CBA to once again consider how it might provide educational services to bank staff. Banks were having a difficult time holding staff in

572 For a concise discussion of the revision see CAR (1913), pp 53 - 57.
good times and trouble appeasing staff when inflation generated calls for higher wages. Moreover, complaints from customers about declining service standards in the wake of rapid expansion gave added cause to rethink the way bankers were trained. Educational services for clerks and officers offered bank staff the opportunity to improve their skills, demonstrate their abilities and better negotiate promotions and raises. The alternative was unionization, which some bank clerks were exploring in the summer of 1913 when an organizing drive was launched. By 1914 organizers had the attention of the press and alarmed some senior bankers. Wilkie warned against a confrontation and assured worried bankers that an "alliance between the red flag people and bank clerks was incompatible with socialism."\textsuperscript{573} Wilkie and a small committee soon launched a correspondence program for bank officers provided by Queen's University at Kingston that led to the designation "Fellow of the Canadian Bankers' Association." Bank clerks were offered their own program through the Shaw Correspondence School of Toronto and on successful completion earned the designation "Associate of the Canadian Bankers' Association."\textsuperscript{574} Toronto-based banks were the first to use these courses, suggesting Wilkie succeeded in his effort to attract their interest. Not until the 1920s and 1930s did the Bank of Montreal and other Montreal banks begin to use these

\textsuperscript{573} CBAA 87-516-17: D.R. Wilkie to H.B. Shaw, 16 February 1914.

\textsuperscript{574} Quigley, "Bank Credit and the Structure of the Canadian Space Economy, 1890-1935," pp. 127 -129. The Bank of British North America, The Bank of Nova Scotia and the Bank of Commerce offered courses to their employees before the Association rekindled interest in this line of work. Quigley offers the best analysis of the "managerial revolution" in Canadian banking but fails to explain why the Association launched new educational programs in 1913.
facilities. For bank clerks and officers working in French, no courses were offered until after World War One when the three French banks designed a program for their staff that was delivered in Montreal by l'Ecole des Hautes Etudes Commerciales.

In January 1914, White presided over a very different economy than the one he inherited three years earlier. British investors had slowed the flow of funds to Canada for fear that the economy was contracting. Unemployment reached levels that had not existed since the 1890s. Bankruptcies were rising and the demand for capital intensifying. Savings ebbed as deposits were drawn upon to meet daily needs. In good times banks that broke their pledge and paid more than 3 per cent for deposits aggravated competitors, but there were always new accounts to conquer that soothed the sting of accounts lost. In bad times there was little opportunity to replace monies won by banks that broke their word. As the finance minister tried to manage the growing crisis, the CBA's president was facing one of his own. Before February ended, a divisive dispute erupted in Quebec about interest on deposits.

Alphonse Desjardins' network of Caisses Populaires were successfully exploiting the segmentation of Quebec's deposit market between French and English banks. The Caisses Populaires operated like independent credit unions, having members rather than customers, and grew strong with support from the Roman Catholic clergy and

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575 Ibid., pp. 127-132.
576 Ibid., p. 141.
Quebec's French middle classes. Promoted by Desjardins and his supporters as a means to secure more credit on better terms for productive uses, the Caisses attracted deposits using higher interest rates than banks generally offered. The competitive impact of the Caisses Populaires did not surface in the ledgers of English banks. When french-speaking middle class customers joined local Caisses Populaires and priests preached about their benefits to congregations of all classes, the consequences appeared in the books of the Banque Nationale and the Banque d'Hochelaga. These banks lost deposits.

With capital in great demand, Desjardins drew on the collective savings of the Caisses and offered large deposits to the highest bidder. This was one means of subsidizing the Caisses' higher rate of interest paid to depositors. The Banque Nationale and the Banque d'Hochelaga refused to play. The same was not true for the English banks. To them, a large deposit collected by the Caisses represented fairly

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578 Banque Provinciale said little about the Caisses Populaires. It was inclined to skirt the 3 per cent agreement by issuing deposit receipts, the equivalent of modern day guaranteed investment certificates, and was likely the one French bank that did deal with Desjardins. Unlike the others, it competed directly with the Caisses in only a small number of places. It is suggestive that the Provinciale asked the Association whether Caisses could be considered banks or not. This enquiry may have been related to paying the Desjardins rates in excess of 3 per cent. Refer CBAA 87-500-41: Executive Council Minutes, 14 November 1918, p. 16. Also see Ronald Rudin, "A Bank Merger Unlike the Others: The Establishment of the Banque Canadienne Nationale," in CHR (1980), pp. 195-196. The CBA's Canadian Bank Facts suggests guaranteed investment certificates did not appear until 1951. They were, in fact, sold by many banks by the early 1900s and called "deposit receipts" or "special deposits."
cheap money even if they had to pay 3.5 or 4 per cent for it. There was no expense incurred collecting it and it was drawn from a market they barely served. When Desjardins approached the 96-year-old Quebec Bank, an Anglophone institution in decline, its general manager succumbed to temptation. B.B. Stevenson gave Desjardins 4 per cent and thereby angered his French counterparts. Apparently not satisfied, he also annoyed some of his English rivals by allowing his managers to negotiate deposit rates higher than 3 per cent with their branch customers.\textsuperscript{579} Wilkie, whose Imperial Bank had little exposure in Quebec, was surprised by a spirited letter from the Banque Nationale explaining the Quebec Bank’s action and demanding the Association enforce the 3 per cent agreement. Wilkie knew little about the Caisses Populaires, giving him a convenient reason to delay action. He wrote the Banque Nationale’s general manager, Napoléon Lavoie, asking about the Caisses and wondering if they were savings banks, anticipating in fact the Quebec Bank’s position. Lavoie was “a little surprised that it should be necessary to explain that the Caisses Populaires are not Savings Banks....”\textsuperscript{580} He told the president that the Caisses were established to encourage and help a class having no access to the banks and [to] protect the people against usurers. These were mere words and enabled them to deceive well-meaning people, to the extent of making the encouraging of those Caisses a kind of religious act, for which priests preach from

\textsuperscript{579} \textit{Ibid.}, 87-532-16: Beaudry Leman to D.R. Wilkie, 11 March 1914; B.B. Stevenson to D.R. Wilkie, 13 March 1914.

\textsuperscript{580} \textit{Ibid.}, N. Lavoie to D.R. Wilkie, 2 March 1914.
the pulpit..., soliciting deposits and acting as councillors or presidents of those societies. 581

The point of Wilkie's grievance, however, was the "cabal" between the Quebec Bank and Desjardins allowing the Caisses to pay 4 per cent and in turn "lend money in competition with the banks to municipalities, churches, colleges, convents and even to commerce." 582 When Wilkie communicated with Stevenson he was told "we are not breaking the terms of the agreement because these concerns are simply rural banks and in reaching this agreement we have treated them as banks and... excepted them from the understanding." 583 Banks were certainly excluded but Wilkie argued that "bank" was "interpreted as embracing Banks as we ourselves understand them, namely the Chartered Banks and Savings Banks which receive their license or charter from the Dominion Government." 584

The loose construction of the 3 per cent agreement first drafted in 1904 and re-drafted in 1908 failed to define what was meant by "bank." This did nothing to convince Wilkie that Stevenson's argument was anything but "strained" 585 and that something had to be done to ease a dispute that could spread beyond Quebec. He wrote to Stevenson again and this time offered up the expert opinion of the assistant deputy minister of

581 Ibid. The extent of Lavoie's distaste for the Caisses is discussed in Rudin, Banking en français, pp. 111-112.

582 CBAA 87-532-16: N. Lavoie to D.R. Wilkie, 2 March 1914.

583 Ibid., B.B. Stevenson to D.R. Wilkie, 13 March 1914.

584 Ibid., Wilkie to Stevenson, 17 March 1914.

585 Ibid., 24 March 1914.
finance, Henry Taylor Ross, who was *distinctly of the opinion that 'Caisse' is not 'Banque' under the Bank Act.*\(^{586}\) Stevenson was unmoved and Wilkie appealed to Williams-Taylor and Edson Pease to "exercise joint influence over Mr. Stevenson [and] induce him to retire from a contention which is untenable."\(^{587}\)

Williams-Taylor’s expertise was international finance and not the Francophone deposit market in Quebec or the Caisses Populaires. His initial reply was that the Caisses “do not conflict to any appreciable extent with the chartered banks” and he advised Wilkie not to take action against them considering the support they enjoyed from Quebec’s Catholic Church.\(^{588}\) After further consideration the Bank of Montreal general manager modified his stand and admitted that "while the competition of the Caisses Populaires does not affect the English Chartered Banks, ... it certainly does affect the deposits of the French Banks...."\(^{589}\) Williams-Taylor understood the president’s position, but that did nothing to change his disposition towards the French banks and the Association. He said as much by endorsing Stevenson’s view that the Caisses were banks and that it was "permissible for the Quebec Bank to allow a special rate."\(^{590}\) Wilkie warned Williams-Taylor that the Banque Nationale and the Banque d’Hochelaga wanted a resolution. Without one, he feared the "French Banks... [would]

\(^{586}\) Ibid.

\(^{587}\) Ibid., Wilkie to Williams-Taylor, 27 April 1914.

\(^{588}\) Ibid., Williams-Taylor to Wilkie, 16 April 1914.

\(^{589}\) Ibid., 22 April 1914.

\(^{590}\) Ibid., 16 April 1914.
revolt against existing arrangements.... 591 Williams-Taylor was not bothered by the prospect, but Pease was. He visited Stevenson and declared that the Quebec Bank would "incur the onus of being considered to have failed to keep the terms of the Agreement between the Banks in regard to interest." 592 Stevenson softened his stand and asked for time to work out some arrangement with Desjardins. By June Wilkie demanded an answer. He met Stevenson in Toronto and persuaded him to stop paying 4 per cent on new Caisses' deposits and to reduce the rate he paid on all new deposits to 3 per cent. 593 This came too late for the Banque Nationale. Lavoie had had enough and instructed his branches at Ottawa and Quebec to pay rates in excess of 3 per cent in an obvious attempt to recoup deposits that the CBA proved unable to protect. 594 After some success with Stevenson, Wilkie had to start the process again with Lavoie. By the summer of 1915, the Quebec Bank was again paying rates in excess of 3 per cent to the Caisses Populaires. Enforcing compliance was still beyond the Association's abilities.

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Histories of the war era that touch upon Canadian finance reserve the most comment for one piece of legislation - the Finance Act, 1914. It has been described as a "remarkable piece of legislation" and an "inflationary mechanism to help finance the war effort." 595 It

591 Ibid., 27 April 1914.

592 Ibid., Williams-Taylor to Wilkie, 5 May 1914.

593 Ibid., Wilkie to E.C. Pratt, general manager of the Molsons Bank, 25 June 1914.

594 Ibid.

595 Grayson, p. 9.
was this and more. The Finance Act was a symbol of the CBA's impotence, a testament to the banking system's malleability, and a timely piece of legislation that was as much about financing war as it was about addressing Canada's deepening fiscal crisis. Histories of individual banks offer some insight into the transformation banks endured through the war but there is no detailed account of the war's impact on competition. Thinning profit margins, reduced by increased taxation from all three levels of government and low yields on government securities foisted on the banks by the finance minister, heightened competition. Perhaps historians have been too ready to believe that competition between the banks did not exist. It did, and the transformation of the Canadian banking system during the war and war finance itself cannot be understood by arguing otherwise.  

The winter of 1914 saw Dominion finances suffering under the weight of provincial subsidies, high unemployment, shrinking revenues, and two railway companies headed for ruin. The flow of funds from London was now a trickle. By March only 20 per cent of the year's first Dominion bond issue was sold. In June another issue was launched and the London market digested just 12 per cent at first offering. Williams-Taylor saw the danger before the country and cautioned White that "this year

The best account of the impact that the war had on the banking system is found in McDowall. Also see Grayson, p. 28. The great changes to banking caused by the war are commented on by Sir Edmund Walker in MT, 23 November 1917, p. 25.

Brown and Cook, p. 199.

NA White Papers MG27 II D18, V. I, File 10 (a): Williams-Taylor to White, 11 June 1914.
will probably be the greatest test of Canadian credit in London in our life time.\textsuperscript{599} The unemployed turned to the government and it responded with increased public works expenditures; the Grand Trunk Pacific Railway and the Canadian Northern Railway appealed to Ottawa as well and multi-million dollar bail-out packages were promised to the dismay of many western members of the Tory caucus and their constituents. They objected to tax dollars supporting the Canadian Northern and its promoters, Sir William Mackenzie and Donald Mann, who they thought were milking the railway for all they could. In April 1914, White still had to find nearly $9.4 million of the promised bailouts and the Grand Trunk needed still more money.\textsuperscript{600} A further complicating twist was Walker’s Commerce and White’s old employer, National Trust, which had large sums locked up in loans to the Canadian Northern.\textsuperscript{601} The government sunk $1.6 million into the bank to help it through the Northern’s cash troubles and could not access the funds without jeopardizing the Commerce’s ability to carry the Northern’s account.\textsuperscript{602}

By the end of June the Dominion government would run out of money to pay its obligations. Provincial subsidies worth $4 million were soon due and revenues

\textsuperscript{599} Ibid., Marked “Private and Confidential,” Williams-Taylor to White, 5 May 1914.

\textsuperscript{600} Ibid., V. 2, File 10(a): “Memo on the Cash Situation,” T.C. Boville, 17 April 1914.

\textsuperscript{601} Brown and Cook, p. 201.

\textsuperscript{602} NA White Papers MG27 II, D18 V. 2, File 10(a) “Memo on the Cash Situation,” T.C. Boville, 17 April 1914.
continued to decline. To meet the needs of the Canadian Northern, White considered selling Dominion-backed Northern bonds in New York and London, a novel venture that raised hopes at the Commerce that a share of the government's international business, something Laird had been after since the 1911 election, was on the way. When Williams-Taylor learned of the proposal he protested vigorously and suggested "financial and political London have always been proud... that they have financed the requirements of their colonies [and] London would surely complain that they could not keep track of your debt if you borrow in two markets." Williams-Taylor was less concerned about the feelings of London financiers than the Commerce's efforts to gain a share of the government's business at the expense of the Bank of Montreal. The Montreal banker was quick to assure the minister that "the best channel in London for the flotation of Canadian securities of high class is ourselves..." and said he would be happier if he "knew that the whole business would be left in our hands to do the best we can." Williams-Taylor's resistance worked. White could not afford to offend the Bank of Montreal which was key to obtaining financing in London and the bank with the most ready supply of reserves maintained at the government's behest to protect the integrity

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603 Ibid., also refer Boville, "Memorandum respecting Finances," 2 September 1914.

604 Ibid., V. 2, File 5 (a): Alexander Laird to White, 19 December 1911.

605 Ibid., V. 2, File 10(a): Marked "Private and Confidential," Williams-Taylor to White, 5 May 1914.

606 Ibid.
of the banking system. It was not the last time White retreated when faced with changing the government's arrangements with the Bank of Montreal.

When Parliament entered summer recess Borden's government welcomed the reprieve. Western members were disgruntled and economic depression left everyone scrambling for answers. Financially the country was in trouble and time was needed to plot the difficult course that lay ahead. White's July holiday offered little chance for rest. The prospect of civil war in Ireland destabilized the London securities market and the assassination of Austria's archduke Franz Ferdinand in Sarajevo shook the political foundations of Europe. What began as a quiet Canadian summer ended in the sudden march to war. Investors took shelter in gold, flooding European banks and brokerages with a sea of securities for conversion. European exchanges closed one after the other. London could not escape the wave of panic. In North America the New York, Toronto and Montreal exchanges closed, hoping to arrest the havoc panicking

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607 Ibid., V. 1, File 1: Marked "Confidential," Williams-Taylor to White, 5 July 1915. The Bank of Montreal resented "being forced to carry the maximum of reserves in consequence of certain Banks carrying inadequate reserves." The volume of correspondence between the finance department and the Montreal bank from the start of the financial crisis in June 1914 through the rest of the year suggests how important the Bank of Montreal's expertise was. The increase is substantial and just as suggestive is the decline in correspondence with the Association. See NA FD RG19, E2 V. 2895.

investors unleashed on the world's financial system. At Canada's banks sporadic runs began. White was at Rye Beach, New Hampshire as events unfolded; he returned to Ottawa on July 31. Two days later in his Ottawa office he spoke with the president of the Bank of Montreal, Sir Vincent Meredith, who suggested demands on the banks for gold were heavy but he "did not as yet regard conditions in Canada as alarming...." White did and his response to the crisis said much about the CBA.

The finance minister did not summon the Executive Council to Ottawa to meet and discuss responses to the growing financial emergency. Instead, he called on Williams-Taylor to establish an advisory committee "to co-operate with the Government in providing such protective measures as may be necessary to meet the present crisis." White answered the crisis with the advice of a small group of trusted bankers and not the Executive Council of the CBA. Williams-Taylor hastily assembled a committee comprised of himself, Wilkie, who was in Montreal at the time, the Montreal manager of the Bank of Commerce, H.B. Walker, and the Royal's Edson Pease. One of

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611 RBCA: RBC2 43G PeaE file #3: See report from Advisory Committee. It is undated but was undoubtedly drafted Sunday, August 2, 1914, and brought to Ottawa on August 3 when Walker and Wilkie were summoned to endorse it. White's call to Williams-Taylor was an important gesture. White did not "instinctively" turn to the CBA nor did he believe that it "provided a standing consensus of the industry, ready to consult and act without compulsion." See McDowall, p. 211. The problem with the CBA was that it could not build consensus and it was completely unprepared to compel its members to do much of anything.

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White's main concerns was the absence of any legislation in the Bank Act providing for sustained panics.\textsuperscript{612} He was predisposed to the creation of some kind of rediscounting mechanism as was Wilkie who had told Imperial Bank shareholders just months before that "the time will come in Canada, and come early ... to establish a bank of rediscount under the patronage of the Dominion Government."\textsuperscript{613} Wilkie and the other members of the rapidly established committee essentially drafted what became the Finance Act in Montreal on August 2. While Wilkie and the others completed their task, White received word a moratorium was in effect in Britain for thirty days. Adding to his worry was a memorandum prepared by his deputy minister.\textsuperscript{614} It documented a $10.9 million decline in revenues, poor prospects for the western crop, low balances at the Bank of Montreal, the Bank of Commerce, and balances at the other banks which were at their "lowest point." The deputy minister advised that the "whole situation in Canada must be kept firmly in hand by the Minister of Finance."\textsuperscript{615} White anxiously communicated with Borden, conveying his deputy's fears and added that it "is impossible to assure

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\textsuperscript{612} White, \textit{The Story of Canada's War Finance}, p. 6.
\textsuperscript{613} Quoted in Grayson, p. 15.
\textsuperscript{614} The Moratorium was put into effect as of August 2 and was renewed only once, lasting, in fact, till October 2. Wages were excluded as were cheques, payments of less than five pounds, taxes and maritime freight fees. Two days after the initial moratorium was declared it was extended to include not just bills of exchange but negotiable instruments and contracts dated before August 4. See Ross, p. 311.
\textsuperscript{615} NA White Papers MG27 II, D18 V. 2, File 10 (a): Boville, "Memorandum Respecting the Financial Position of the Dominion, 1 August 1914. Also refer White to Borden, 3 August 1914.
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ourselves that the Dominion will be able to borrow at all....  

The next morning runs on the banks spread and White began a desperate search for credit.

Walker was at his De Grassi Point summer home on August 2 when he received a midnight telegram from White summoning him to Ottawa for a meeting the next day. Walker arrived in the afternoon and joined Williams-Taylor, Edson Pease, Wilkie and White in plotting a bit of financial theatre. A show of unity was needed for cabinet and the public to assure both that proposed changes to the country’s financial structure warranted unwavering support. The committee suggested that August 4, 5, and 6 be declared bank holidays to give the government time to implement change; that Canada follow the Bank of England’s lead and suspend payment of legal tender in gold, non-payment of gold by the banks following in natural sequence; that bank notes be proclaimed legal tender; that the Government agree and be prepared to make advances in Dominion notes to Banks against securities approved by the Government, and that the Government take measures to call a thirty day moratorium if required. The Royal Trust Company, controlled largely by the Bank of Montreal, would act as the government’s agent, holding the securities banks pledged as collateral. The only point of contention was the proposed bank holidays. Before Williams-Taylor left for Ottawa, Meredith told him that “it would be advisable for the Government to give effect

\[\text{\textsuperscript{616} Ibid.}\]

\[\text{\textsuperscript{617} Glazebrook, p. 114.}\]

\[\text{\textsuperscript{618} RBCA RBC2 43G PeaE file #3: Memorandum from the Bankers’ Advisory Committee.}\]
immediately to the recommendations of the committee instead of proclaiming a holiday of three days...."819 White agreed with Meredith. These changes were presented to those members of the CBA's Executive Council who had come to Ottawa as a fait accompli. They were to sign it; not discuss it. The finance minister took the document to cabinet where it was passed as an Order-in-Council during the evening of August 3.620 It later became the Finance Act, 1914. The next morning, White set forth to the Canadian people that, owing to the necessity of conserving gold, the banks were authorized by the Government to make payment of their liabilities in their own notes [and] that the Government would, to whatever extent was necessary, make advances in Dominion notes to Canadian banks upon securities pledged by them with the Minister of Finance.621

The minister and his small group of bankers exchanged the scramble for gold for the more manageable "hoarding of bank notes."622 Bankers now had to work harmoniously and help the minister ease the financial crisis sweeping across the country. As president of the CBA, Wilkie was asked to chair the new group first called the "Bankers Protective Committee."623 Wilkie thought the name inadvisable and had it

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619 Ibid.
620 On August 22 the Order-in-Council was given legal sanction as the Finance Act, 1914, during a special session of Parliament.
622 NA White Papers MG27 II, D18 V. 1, File 3 (a): Marked "Personal," George Burn to White, & October 1914. A less explicit suggestion of hoarding bank notes is found in Ross, p. 321.
623 CBAA 87-542-16: Marked "Private and Confidential," Wilkie to White, 8 August 1914.
changed to the "Bankers Advisory Committee." Chairing the committee proved inadvisable as well. The fulcrum of the Finance Act was the Bank of Montreal and Royal Trust. Walker recognized this immediately and appointed his Montreal manager to take his place on the committee. Wilkie did not. The first regular committee meeting was acrimonious. Wilkie wrote to Williams-Taylor afterwards, saying he was "exceedingly disappointed with Mr. Pease's behaviour... and his efforts to stifle argument and conversation. I also discovered an animus which is very much to be regretted." Pease had long battled with the Bank of Montreal and knew that changes to the country's financial structure tightened the Montreal bank's grip on the government's business. He was there to protect the interests of The Royal Bank as much as he was there to make the Finance Act work. Wilkie, it seems, was in Pease's way.

The CBA's president was not invited to the next meeting when a schedule of acceptable securities banks could borrow Dominion notes against were drawn up. After the schedule arrived on Wilkie's desk, he concluded some securities were "purposely excluded" to the disadvantage of Toronto banks. "This," he thought "was ... an outrage." Wilkie was now ready to hand the chairmanship of the committee over to Williams-Taylor but he was not pleased. He told the finance minister that "it would be unfair to Banks having their Head Offices in Toronto to be obliged to refer their

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62 Ibid., Wilkie to Williams-Taylor, 8 August 1914.

63 Ibid., Marked "Private and Confidential," Wilkie to White, 8 August 1914.
requirements to a Committee consisting of Montrealers.\footnote{626} The solution, as far as Wilkie was concerned, was two committees, one in Toronto and the other in Montreal. White very quickly steered the president away from the idea, saying if he had to appoint two committees it "would attract some public attention and be embarrassing to me in more ways than one."\footnote{627} The minister agreed excluding certain securities was a mistake and corrected it. Furthermore, he assured Wilkie that should "a matter of urgency arise in Toronto it could be dealt with by you and myself."\footnote{628} Wilkie could do little but acquiesce. Like Walker before him, he withdrew from the committee and appointed his Montreal manager to take his place. Williams-Taylor and Pease devised Canada's financial policy in consultation with White; Walker and the president of the CBA were simply kept informed.

The early days were perhaps the most trying for White, his Advisory Committee, and the Association. As the war unfolded, loans from the Bank of England, two national War Loans, two large munition loans, many short-term bank loans, tremendous economic growth, four Victory Bond drives, and new taxes, including an income tax introduced in 1917, gave White the money to pay Canada's way. Working quietly through much of this was White's Bankers Advisory Committee. It does not appear in White's own account of Canadian war finance nor has its role ever been fully

\footnote{626} Ibid. Wilkie's indignant tone in this letter is evident. He finished it with a hand written note that read: "Toronto has more H.O's than Montreal!"

\footnote{627} Ibid., White to Wilkie, 9 August 1914.

\footnote{628} Ibid.
understood. Its decisions and operations were largely secret which remained the case when it was eventually linked to the CBA at the end of 1916. Brown and Cook argue that the "extremely close cooperation between the chartered banks, through the Canadian Bankers’ Association, and the Minister of Finance in the war years provided a near equivalent to a centralized banking system." Linda Grayson’s thesis on the formation of the Bank of Canada offers a similar perspective, but these arguments run contrary to the evidence. White knew the banking system too well to trust his political fortunes to a diverse group of bankers who historically had found it difficult to agree on much of anything. Instead, he relied on his Bankers Advisory Committee comprising Williams-Taylor and Pease, with second opinions offered by Walker when asked. These men had the minister’s ear. Wilkie, as president of the CBA, was expected to free White from the tedium and danger of personally pressing individual banks to

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529 McDowall mentions Pease and his part in a four member Bankers' Protective Committee that was established to implement the changes that would eventually be embodied in the Finance Act. While McDowall was writing a history of the Royal Bank and not war finance, he missed the critical role Pease played in the creation of the Finance Act and the continued role he and the committee assumed. The administration of the Finance Act through the Advisory Committee revealed to Pease the problems inherent in asking bankers to appeal to other bankers for loans and probably accounts in part for Pease's belief that the Finance Act was not enough and that Canada needed a central bank after the war. McDowall, p. 211.

530 Brown and Cook, p. 229.

531 It is important to note that the records of the CBA were not available to Grayson when she was completing her thesis and she could not test this theory. The same situation faced Brown and Cook whose view seems very much informed by Grayson's work.
support his policies and avoid increasing loan or deposit rates.832

The theatrical show of unity on August 3 was not enough to convince all members of the Tory caucus that changes to be embodied in the Finance Act met the crisis facing Canadians. A week after war was declared, runs on the banks ended and the country’s gold supply was safe. What did not ease was the residential mortgage crisis. The world panic and rush to liquidity squeezed many loan and trust companies who showed little feeling for delinquent mortgage holders and those demanding renewals. Borden received repeated warnings that

the labouring and artisan classes as well as clerks and other persons enjoying small salaries run a great risk of losing properties in which they have invested the savings of years as they will be unable to make payments and foreclosures will follow.833

At the same time the prime minister was advised that “[L]oan Companies not able to meet their engagements in the money markets of the world will be involved in difficulties and even in bankruptcy if such payments aggregating large amounts are not met.”834 The new provisions allowing banks to borrow from the government aroused fears that depositors would flock to banks and loan and trust companies would lose what liquidity they still had and make harsher demands on homeowners to obtain the funds to pay

832 CBAA 87-541-16: Marked “Personal,” White to Wilkie, 5 August 1914.

833 NA Borden Papers, MG26, H 1 (a) Document 22107: Borden to A.L. Sifton, 25 August 1914. The extent of dislocation that the financial crisis caused the residential mortgage market is very evident in Borden’s papers and the cross-country pleas for a moratorium and relief from loan and trust companies.

834 Ibid.
their creditors. Voters sent letter after letter to Borden asking for a moratorium but White and the prime minister refused.\textsuperscript{635} The finance minister wanted to protect anticipated access to foreign capital and any hint of default - be it guised as a moratorium - might undermine the country's credit on international markets, scare off foreign supplies of mortgage money to the West, and prove short term relief that exacted a heavy long term price. White faced "great pressure" from unhappy caucus members who he appeased by promising that the banks would protect solvent loan and trust companies.\textsuperscript{636} This was a unilateral decision by White that tested his influence with the country's bankers. He had made them the unofficial underwriters of the residential mortgage market and hoped they would use the Finance Act to deliver liquidity to loan and trust companies - a gamble on White's part for he knew that the banks "would feel some delicacy in availing themselves of loans unless forced to do so by requirements."\textsuperscript{637} More particularly, their own "requirements."

Wilkie was pressured by the finance minister when the British Columbia Permanent Loan Company ran into trouble and faced imminent collapse in October 1914. The ailing trust company took deposits but made no provision for financial crisis and had nearly $1 million in sterling debentures due that, if unpaid, threatened flows of credit to Canada from British investors. The loan company's banker, the Bank of British

\textsuperscript{635} Moratorium legislation affecting mortgage loans was put in place in Manitoba and Saskatchewan by their provincial governments.

\textsuperscript{636} CBAA 87-500-12: White to Wilkie, 27 October 1914.

\textsuperscript{637} RBCA RBC2 43G PeaE file #3: White to Pease, 12 August 1914.
North America, advanced it an unsecured loan for $200,000 but that was not enough.\textsuperscript{638} When the British bank decided they could not afford to continue supplying unsecured loans, White was called in and the bank's general manager delivered an uninspiring appraisal saying the trust "Company is quite solvent but that its assets are not readily realizable."\textsuperscript{639} White referred to his Bankers Advisory Committee and was caught off guard by its lack of sympathy. The committee suggested "the Company should be allowed to go into liquidation and...afterwards the bankers should assume the liability to the depositors."\textsuperscript{640} To follow this line would compromise White's credibility with the Tory caucus. White turned to Wilkie and the CBA, confessing his need for a positive outcome to sustain support for the Finance Act. "It must be borne in mind," wrote the minister to Wilkie, "that a resolution has to be adopted by both Houses of Parliament at next session continuing the legislation enacted last August. If solvent institutions are allowed to go to the wall the privilege which we have accorded to banks is bound to be attacked and attacked strongly."\textsuperscript{641} Wilkie tested the minister's political vulnerability as much as the banks' on the issue and asked the Imperial's Vancouver manager to assess the public reaction if depositors were saved and the trust company went down. Wilkie was told that closing the trust company "as [the] condition protecting depositors

\textsuperscript{638} CBAA 87-524-42: C. Sweeney to Wilkie, 29 October 1914.
\textsuperscript{639} Ibid., 87-500-12: White to Wilkie, 29 October 1914.
\textsuperscript{640} Ibid., White to Wilkie, 27 October 1914.
\textsuperscript{641} Ibid.
would be locally unpopular and would reflect adversely on Banks....\textsuperscript{642} The president of the CBA, who had been a Liberal for most of his life and switched camps in the 1911 election, felt duty-bound to honour the finance minister's promise.

A package to help the trust company was delivered through the auspices of the Pacific Sub-Section of the Association that operated out of Vancouver and was headed by the British Columbia regional manager of the Bank of Montreal, Campbell Sweeney. He "blazed trails" for the Bank of Montreal all through the West and was regarded as a credible banker capable of appraising the trust company's situation.\textsuperscript{643} He conducted a cursory investigation and advised Wilkie that the company's liabilities amounted to roughly $450,000 in deposits and $900,000 in sterling debentures due in the coming four years.\textsuperscript{644} In addition to $200,00 owed to the Bank of British North America, seven other banks had provided the trust company with $100,000 in assistance to keep it going while a plan was formulated.\textsuperscript{645} Its assets amounted to $1.4 million in first mortgages consisting of small amounts loaned on home properties that were being repaid on instalment plans. There were also mortgages on commercial premises in Vancouver and Victoria that were valued at $400,000. Sweeney telegraphed Wilkie that "if assistance given it will take at least 5 years to receive repayment."\textsuperscript{646} The length of

\begin{footnotes}
\item[642] Ibid., 87-524-42: A. Jukes to Wilkie, 27 October 1914.
\item[643] Denison, V. II, pp. 189-190.
\item[644] CBAA 87-524-42: Sweeney to Wilkie, 29 October 1914.
\item[645] Ibid.
\item[646] Ibid.
\end{footnotes}
time that funds would be tied up was not the only problem for Wilkie. He faced a real
dilemma financing a trust company with mortgage securities as collateral. Such a loan
violated the Bank Act. To skirt this problem the Advisory Committee suggested the
mortgages be "assigned to the Royal Trust Company...[to] hold them as security for
advances to the Company itself...." Wilkie feared this arrangement might be upset in
the courts. He also worried that the trust company did not have the legal authority to
assign securities for the protection of depositors.

Wilkie was now hesitant about the entire scheme. White, perhaps sensitive to
Wilkie's anxiety, subtly prodded the president to stay on track by pointing to the
premier of British Columbia, Sir Richard McBride, who was eager for the CBA to do
something to prop-up the trust company and head off runs on other financial
institutions. Wilkie came through with a plan to advance $600,000 divided between
Vancouver banks on the basis of paid up capital. The weak nature of the trust company
demanded quick action and Wilkie now had to persuade banks to allocate their share of
the loan. On October 30, Wilkie sent telegrams to general managers of banks with
branches in Vancouver containing a plan he portrayed as a fait accompli and asked
them to contribute a sum equal to three-fifths of one per cent of their banks' paid up
capital. Three days later the replies began to pour in. The banks that were represented
on White's Advisory Committee all agreed to take their share and offered an example

\footnote{Ibid., Wilkie to White, 28 October 1914.}
\footnote{Ibid.}
\footnote{Ibid., White to Wilkie, 31 October 1914.}
for others to follow. Most did, but not without grumbling. The general manager of the Northern Crown Bank wrote Wilkie, saying, "in view of the fact that all the other Banks have entered into this agreement, and that it is in accordance with the wishes of the Finance Minister, we have agreed to do our share, although somewhat reluctantly."\textsuperscript{650} George Balfour, general manager of the Union Bank of Canada, mirrored the Northern Crown's tone: "We have done this somewhat reluctantly for the reason that we have already come to the help of two other Trust Companies in Vancouver to enable them to pay their depositors...."\textsuperscript{651}

One bank was not only reluctant but unwilling. The Bank of Ottawa's George Burn was unable to persuade his Board of Directors to support the bail-out of the British Columbia Permanent Trust Company. The loan company was debt-ridden and its revenues uncertain. Taking mortgages as collateral presented another obstacle and Burn thought an enabling act would have to be passed by Parliament to allow this exception to the Bank Act.\textsuperscript{652} Wilkie could not let the Bank of Ottawa excuse itself from participating. He assured Burn that ample security would be taken on a two to one basis and noted that all the banks faced uncertain times but were doing their part. He pointed to the example of the Royal Bank, noting the serious trouble that Winnipeg's Great West Permanent Loan Company was in, and assistance it received from the

\textsuperscript{650} Ibid., G. Campbell to Wilkie, 2 November 1913.

\textsuperscript{651} Ibid., George H. Balfour to Wilkie, 2 November 1914.

\textsuperscript{652} Ibid., Burn to Wilkie, 2 November 1914.
Royal amounting to $300,000 with $1 million in deposits still "to provide for." At the same time Wilkie revealed his sympathy for Burn's position by disclosing his personal belief that "assistance to these Loan Companies by the Banks one after another is more likely to intensify the agony than to relieve it." He went further and argued that while it "may be in the interests of whole Country that these Loan Companies should be assisted... the government should take full responsibilities for advances to loan companies rather than ask the banks too." Wilkie's soft sell succeeded. The Bank of Ottawa agreed to participate. On November 7, the ailing trust company was advanced $600,000 through the Bank of Montreal on mortgage securities that were never conservatively valued.

As a solution was being devised for one British Columbia trust company, another one, the Dominion Trust Company, failed. It was small and of little consequence except for its connection to the ten branch Bank of Vancouver which sent its general manager to administer the company without avail. The Vancouver bank apparently loaned large sums to the trust company which fell into bankruptcy after its managing director,

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653 Ibid., Wilkie to Burn, 3 November 1914.
654 Ibid.
655 Ibid.
656 Ibid., Clarence Bogert to George Burn, 1 February 1916. When the Vancouver manager of the Dominion Bank learned that a conservative valuation of the security underwriting the $600,000 advance had never been done, and thought it a good idea that it was, he received little support for doing so from other bankers.
657 NA FD RG19, E2 V. 2896: L.A. Shatford to Ross, 19 October 1914.
W.R. Arnold, misappropriated over $1 million. The ties between the bank and the trust company were not a secret and its demise sent a steady stream of depositors to the Bank of Vancouver demanding their money. The bank was never financially sound and the finance department knew it. When the managing director of the Vancouver boasted to the deputy minister of finance about the bank’s customers, the deputy sarcastically replied: "[t]he management of the Bank, I am confident, will reciprocate this feeling in their conduct of the Bank’s affairs." 

In the winter of 1913 the CBA had launched an investigation of the Bank of Vancouver only to have the bank refuse the Association access to its books. Other banks were well aware of the Vancouver’s weakened position and the Royal Bank contemplated buying it until it discovered the trouble the small bank was in. Despite misgivings, banks responded to the Vancouver’s troubles with loans amounting to $100,000, a sum the premier of British Columbia matched using government deposits. These efforts merely prolonged the bank’s struggle. On November 10, 1914, the new managing director of the bank, L.A. Shatford, advised Wilkie that the Vancouver needed more money. Wilkie, who was acting as both a member of the Advisory Committee and

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658 MT, 7 April 1916; 21 April 1916.
659 Ibid., Boville to Shatford, 17 September 1914.
president of the CBA, sent him to the finance minister who later wrote to the president saying "he was unable to give any assistance as the Bank did not appear to have any liquid assets which it could hypothecate..."662 Even so, White mentioned that he was "of the opinion that the Banks might consider...entering into a new agreement having for its object assistance to the Bank which would prevent insolvency."663 If White could not find securities to advance Dominion notes on, it was highly unlikely that the banks would. Wilkie nevertheless pursued the minister's wishes and launched another investigation of the Bank of Vancouver's affairs through the CBA. Again, the Bank of Vancouver refused to open its books. After two weeks and no prospect of assistance from the CBA or the government, the failing bank made "vigorous efforts to enlarge its circulation and employing outside agents for this purpose."664 All this was, perhaps, too much for the president of the CBA. On November 12 his health began to deteriorate but he continued working from his bedroom. He wrote to White saying he expected the premier of British Columbia to be in Toronto within a few days and that he would put a proposal to him. He closed his letter by assuring the finance minister that the "banks will do anything and everything to help the Vancouver to liquidate in peace ...."665 It was

663 Ibid.
664 Ibid. What the Bank of Vancouver was attempting to do was to exchange its notes for the bank notes from other institutions and Dominion notes which it could use to pay its obligations at the Vancouver clearing house and thus keep from suspending its clearing house privileges which would soon necessitate closing the bank's doors.
the last letter he would ever write.  

George Burn assumed the president's chair and inherited the troubles Wilkie left behind following his sudden death. The Bank of Vancouver was uncooperative, the finance minister wanted no part of the problem, the premier of British Columbia had $100,000 of public monies in the bank, and members of the CBA were losing their appetite for White's patriotic calls to bail out incompetence at the expense of their shareholders. White brought the matter before his Advisory Committee. It reviewed the Vancouver's situation and Williams-Taylor was visited by Shatford who appealed for assistance under the Finance Act. When Williams-Taylor reported back to White he had little encouraging news to deliver. Mindful of the minister's wish to see something done, he declared the committee was "most anxious to save the situation if sufficient security can be produced" but that he feared that "the difficulties are insurmountable." Williams-Taylor and the committee took the problem in hand and appointed a small group of bankers from Vancouver to examine the bank's affairs. A cursory examination proceeded. What surfaced gave reason to "recommend that the Bank of Vancouver be closed and placed in the hands of a Curator...." The bank's immediate liabilities totalled $745,595 while its assets were valued at $529,057. It was estimated that a

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66 CBAA 87-517-04: "The Bank of Vancouver," memorandum, n.d., p. 2. Also see NA RG19 V. 3485: file "Defunct Banks," showing that the British Columbia government settled for 65 cents on the dollar after that bank failed but it seems to have taken many years before that settlement was made.


68 Ibid.
double liability call on shareholders would produce $184,000 and another $50,000 might be obtained from subscribed and unpaid stock. Shatford argued the "assets, exclusive of double liability, are sufficient to provide for all current liabilities." He opposed efforts to close the Vancouver and appointed an auditor of his own to examine the bank's affairs. His obstinacy cost depositors and shareholders a deal with Williams-Taylor and the Advisory Committee that might have saved them great loss. On December 9, the Bank of Vancouver withdrew from the Vancouver Clearing House. The next day White sent a telegram to Shatford stating he had information that the bank's liabilities exceeded its assets by $200,000 and warned that if true, "you have...no unimpaired capital and no power of note issue." Three days later the bank closed. Depositors lost $550,000, shareholders their original investment, and those who subscribed to the stock were obliged to pay nearly $180,000. The failure did not sit well in British Columbia where Premier McBride blamed the collapse on inadequate local support and the lack of "encouragement and assistance the other banks should have given it." The Bank of Vancouver's failure was the start of more trouble for the Association. The bank's outstanding circulation had to be redeemed and the assets of the bank were

669 Ibid.
670 Ibid. See telegram from C.E. Neill, 24 November 1914.
671 Ibid. White to Shatford, 10 December 1914.
672 NA FD RG19, V. 3485: "Return Showing the Number of Chartered Banks that Have Gone Into Liquidation Since 1867," 1 March 1933.
673 MT., 19 March 1915.
inadequate. Contributions to the Circulation and Redemption Fund were not available to pick-up the shortfall because the minister apparently deployed them elsewhere and the CBA was asked to come up with a loan to the extent of $250,000 to cover the bank's outstanding circulation. The members of the CBA saw only 10 per cent of the loan repaid, money that represented the Vancouver's contribution to the Redemption Fund that the finance department eventually handed-over. While the finance minister did not see the Bank of Vancouver saved, as he originally hoped, and did not see it liquidated with open doors, he did shift the responsibility for the Vancouver's note circulation to the CBA's members and their shareholders. Bankers could not be relied on to save incompetent rivals, but they would lighten the government's financial burden if required.

Williams-Taylor and Pease were at the centre of a revamped financial structure. Through the Bankers Advisory Committee, they passed judgement on banks applying

\[\text{\footnotesize{\textsuperscript{674} CBAA 87-517-04: George Cowan to E. Buchan, Liquidator, Bank of Vancouver, 13 December 1915; E. Buchan to George Burn, 15 December 1915; George Burn to H.T. Ross, 30 December 1915. The loan was made to the Bank of Vancouver instead of the government which absolved the finance department of any future obligation if the loan was not realized. It was contrary to the Bank Act to use the fund for any purpose other than redeeming circulation but the contingencies of war over-rode this consideration. It was reported in the press that the fund was drawn upon for the first time, but the amount taken was the sum contributed by the Bank of Vancouver itself. It was not the first time the fund had been drawn on. It was used in the Bank of Manitoba failure of 1893. See Chapter 1. Also refer MT, 9 February 1917.}}\]

\[\text{\footnotesize{\textsuperscript{675} Ibid., J.P. Bell to Secretary, CBA, 16 May 1916. Also refer NA FD RG19, E2 V. 2906: Ross to Williams-Taylor, 11 May 1916 and Ross to W.T. Clouston, 9 May 1916.}}\]
for government loans and assessed different securities banks could use as collateral.\textsuperscript{676} Williams-Taylor was also tracking Canada’s foreign debt and negotiating Canada’s first two bond issues in New York, one in 1915 and the other in 1916. Moreover, Walker and Pease were instrumental in the second Munitions Loan to the IMB which financed British war purchases in Canada and encouraged much of the country’s economic growth during the war.\textsuperscript{677} In effect, White’s Advisory Committee was really operating as a \textit{de facto} management board and Williams-Taylor was the country’s chief banker representing the government.\textsuperscript{678} This was new territory to Williams-Taylor and one filled with risks.

When banks applied for an advance they necessarily opened their books to the small committee of bankers and by extension White. For the most part banks were

\textsuperscript{676} RBCA RBC2 43G PeaE file #3: See Pease to White, 14 August 1914, which indicates that the Bankers’ Advisory Committee was set up to screen applications from banks for government advances.

\textsuperscript{677} CBAA 87-526-20: Henry T. Ross, Retirement Speech, 8 November 1934.

\textsuperscript{678} Bankers often described the Finance Act’s lending provision as re-discounting but this is not strictly accurate. To re-discount is to essentially sell a security, a bond for example, and the buyer, be it a central bank, pays the seller and holds the security until it can sell it and realize a profit. The important point is that re-discounting entails selling securities, whereas the Finance Act provided a straight lending mechanism allowing the government to loan to banks on approved collateral. An actual re-discounting facility demands market expertise and management skills that were simply beyond the government’s resources. A straight lending mechanism was easier to put in place. White simply relied on trusted bankers to vet applications from banks, grade securities securing the loans, and pass the applications on to him for approval. If approved, collateral was assigned to the Royal Trust Company which acted as the government’s agent and the funds advanced through the Receiver General. The collateral could only be sold if the loan went into default. See James Hugh Creighton, \textit{Central Banking in Canada} (Vancouver: Clarke & Stewart, 1933), pp. 76-77.
willing enough to talk to White but there was always hesitation about disclosing details to rivals, a problem that was not surmounted by the confidential character of White’s Advisory Committee. Nevertheless, circumstances led many banks to use the Finance Act to obtain advances from the Dominion Government. Some banks looked to the Finance Act to help them raise the funds to finance crops while others used it to finance provincial governments that found it difficult to raise money abroad. The Union Bank, for example, relied on the Finance Act to lend $1.5 million to British Columbia and nearly $3.5 million to the Saskatchewan government when it could not sell its bonds in New York. One of the first banks to apply for assistance under the Finance Act was the Home Bank of Canada which was crippled by bad loans. The sixty-eight branch bank with less than $2 million in paid up capital was not large, but it had a strong deposit base, especially in Ontario and parts of the West, and failure promised to shake confidence in the banking system at the most inopportune moment. Its roots reached as

Bank Advances Under the Finance Act
(In Millions of Dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Maximum (In Millions of Dollars)</th>
<th>Minimum (In Millions of Dollars)</th>
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<tr>
<td>1914</td>
<td>12.7 (Nov)</td>
<td>0.75 (Aug)</td>
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<tr>
<td>1915</td>
<td>7.9 (Jan)</td>
<td>0.28 (Oct)</td>
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<td>1916</td>
<td>6.9 (Dec)</td>
<td>Nil (June-Aug)</td>
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<td>1917</td>
<td>56.0 (Nov)</td>
<td>Nil (June)</td>
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<tr>
<td>1918</td>
<td>116.5 (Nov)</td>
<td>26.70 (March)</td>
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R.C. McIvor cited in Grayson, p. 45.

NA White Papers, MG27 II, D18 V. 1 file 3 (a): H.B. Shaw to White, 28 May 1915. It is interesting that in the case of British Columbia, the acting attorney general released the information that the Union Bank had loaned the funds to the province using the Finance Act. The money would be used to reduce unemployment and he thought it good politics to let people know this and the source of the funds. The Union was outraged at the disclosure and White considered it "rather unwise." Refer White to Shaw, 1 June 1915; Shaw to White, 14 June 1915.
far back as 1854 when it operated as the Toronto Savings Bank, an institution started by James Mason and built with the savings of Toronto's working class Irish Catholics.\textsuperscript{681} It emerged in 1906 as a chartered bank under James Cooper Mason, the founder's son. As a bank it was free from provincial legislation limiting its deposits and its ability to finance stock, bond, and real estate speculators who found new success in the prosperity following 1896.\textsuperscript{682} A close friend of James Cooper Mason was Sir Henry Pellatt, a millionaire "mining and utilities promoter" who seduced James Cooper Mason with ambitious money making schemes.\textsuperscript{683} When the economy slowed in 1912 Pellatt owed the Home Bank \$4.5 million.\textsuperscript{684} Pellatt's loans were not being repaid and other very large and reckless loans were equally unproductive. Together they compromised the bank's liquidity.

The Home Bank's application was really the first from an institution of some importance that was in serious trouble. The bank first approached White, unaware that his Advisory Committee assessed the applications, and later presented its case to White's trusted bankers. The application revealed the sensitive position the Advisory Committee was in. In peace-time they would simply have said the bank should be wound up, but in the early days of war and at a time when financial stability seemed

\\[\textsuperscript{681} \text{For the details of the Home Bank see MacIntosh, p. 51.}\]
\\[\textsuperscript{682} \text{Journal of Commerce, "A New Phase in Banking," 12 December 1902.}\]
\\[\textsuperscript{683} \text{Pellatt is discussed in Michael Bliss, Northern Enterprise Five Centuries of Canadian Business (Toronto: McClelland and Stewart, 1987), p. 347.}\]
\\[\textsuperscript{684} \text{NA FD RG19, V. 487 File 616-23: W.A. MacHaffie to T.A. Crerar, 25 September 1915.}\]
paramount, such a recommendation seemed impossible. Rather than make any recommendation, the Advisory Committee handed the application back to White. Chartered banks were prohibited under the Bank Act from advancing credit on mortgages but there was no mechanism to enforce this and the Home Bank, which extended mortgage credits when it was a loan company, continued taking mortgages after it received its federal charter. This was done despite a warning from the deputy minister at the time to guard against such folly. With little regard for the Bank Act, or perhaps with confidence that the Home Bank's procedures were common enough, James Cooper Mason offered mortgage loans as collateral for a government advance. White wrote to Williams-Taylor about this, saying: "As banks are not authorized to loan upon security of mortgages I am of the opinion that such security cannot be accepted by the Dominion...." He might also have asked what the Home Bank was doing flagrantly violating the Bank Act, but apparently did not.

The Bankers Advisory Committee suggested the Home Bank provide alternative collateral. Mason gave brokers' promissory notes secured by stocks and bonds of questionable value as an alternative. White accepted the new collateral providing that the promissory notes were assigned to the Royal Trust Company and the brokers who signed them were informed. White then instructed Williams-Taylor to "carry through the

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685 NA FD RG19, E2 V. 2862: Courtney to James Cooper Mason, 28 December 1905.

686 Ibid., V. 2895: White to Williams-Taylor, 19 August 1914.
transaction...without further reference to me." White was too hasty. Williams-Taylor warned him that "were the brokers to be notified ... it might bring about the very situated (sic) which we are seeking to avoid, viz, a shaking of public confidence in The Home Bank's position." A loan for $450,000 was advanced to the Home Bank in October by the finance department. The brokers whose promissory notes secured the advance were not notified, but the Home Bank's Winnipeg manager, W.H. MacHaffie, was tipped-off by a Toronto director that the bank was in "a most serious state of affairs...." Its western directors, which included the president of the Grain Growers' Grain Company, Thomas Crerar, launched a quiet investigation that would return to haunt White and the Canadian government in years to come.

The Bankers Advisory Committee was a fundamental component of Canada's new financial structure and so was Williams-Taylor. As chairman he had first knowledge of the financial position of the country's banks; as general manager of the Bank of Montreal he gauged the condition of most of Canada's top companies; and as the government banker he was intimately acquainted with the country's fiscal circumstances. Before war was declared Williams-Taylor knew of the serious liquidity problems facing the government and its search for foreign credit to pay domestic

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687 RBCA RBC2 43G PeaE: White to Williams-Taylor, 22 August 1914.
688 Ibid., Williams-Taylor to White, 26 August 1914.
689 NA RG 19 E2 V. 2896: H.T. Ross to James Cooper Mason, 24 October 1914.
obligations and anticipated war costs. When facilities allowing the government to advance Dominion notes to banks were conceived, the country’s financial position was grave. What was publicly trumpeted as a measure offering the banks the backing of the government, also offered the government the backing of the banks. If White could not obtain the funds to finance the government, he could now advance Dominion notes to the banks and they could in turn loan the money back to White to use as a temporary means of funding payments. White knew this was a dangerous inflationary game but it was his only safety net.

After introducing changes to the financial system on August 3, White busied himself with the fiscal problems that pressing expenses, declining revenues, increased public works expenditures, and bailout packages for two railways caused. Canadian credit was indeed stopped as White anticipated when war was declared. He soon moved to free up money by changing the Dominion Notes Act allowing the government to increase the amount of Dominion notes from $30 to $50 million issued against a gold reserve of 25 per cent and he won the release of Canada’s $15 million gold reserve from Parliament.

These measures allowed White a short reprieve to consider his options and to consult with the chair of his Advisory Committee. White proposed lending the Bank of Montreal money using the new government lending facility available to banks and having the Bank of Montreal deposit the funds to the finance department’s credit.

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691 NA White Papers MG27 II, D18 V. 2, File 10 (a): White to Borden, 3 August 1914.
Williams-Taylor gave the minister some measured advice:

As for your Government financing itself temporarily through us under the powers you have recently granted, it seems to me, after carefully weighing the two possible objections you mention, that you might ignore both of them, provided, however, you exercise your privileges under the measure to a limited extent only.  

White was undoubtedly concerned about Opposition accusations that he was resorting to the printing press and that international creditors in London would view loans to Canada with that much more caution. The minister did not want any light thrown on the transaction and worried that it might be revealed in the Montreal bank's statement to the finance department that was published in the Canada Gazette. Williams-Taylor's response said much about the statements banks submitted. "So far as our Statement to the Government is concerned," said Williams-Taylor, "we would show in one column loans to the Government and on the other side loans from the Government, i.e. deposits, or in other words, a cross entry." White was, by his own admission, willing to pay the country's bills by "the expedient of issuing Dominion notes." What other bankers had used in the past to conceal poor loans and fraudulent dealings, a vague and unchecked statement to the finance department, now served to conceal the government's response to its own financial crisis. Moreover, it was used to veil the loans banks received under the Finance Act which were recorded as "balance due the

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697 NA White Papers MG27 II D 18 V. 2 file 10 (a): Williams-Taylor to White, 10 August 1914.

693 Ibid.

694 Ibid., Marked "Personal," White to Sir George Perley, 16 November 1914.
Dominion Government," a description that suggested a deposit rather than an advance.695

Finding an alternative depended on the British government. The Acting High Commissioner for Canada in London, Sir George Perley, a lumber baron and minister without portfolio in Borden's government, held out hope that stability's return would liberate funds for Canadian borrowers. Perley discussed Canada's plight with officials from the Exchequer and the Bank of England who greeted the news with sympathy.696 Canada's immediate problem was £1.7 million in Treasury Bills, worth $8.5 million, maturing November 17 in London.697 White needed funds to meet this and domestic obligations and in desperation advised Perley to tell the British that he wanted to use Britain's moratorium legislation to skirt payment until he could find it. British officials diplomatically suggested White devise an alternative. Perley offered the finance minister some perspective:

I really do not think...that it would be wise to take advantage of the moratorium for this purpose even if it were possible to do so. The outstanding bills are only a small part of the great question which we have got to face as to how the loans are to be obtained here which will be absolutely necessary

695 NA FD RG19, E2 V. 2895: White to Williams-Taylor, 19 August 1914. It is interesting that White suggested this reporting of loans himself.

696 This is evident in Perley's correspondence with White and with Borden. See for example NA Borden Papers, MG26 H1 (a): Perley to Borden, 28 August 1914.

697 The exchange rate was roughly $5 to the pound. NA White Papers MG27 II, D18 V. 2, File 10 (a) Boville, "Memorandum Respecting Finances, 29 September 1914.
for war and other purposes.\textsuperscript{686}

With expenses growing by the day, the finance minister was near frantic and entertained fanciful ideas such as renewing the treasury bills early and raising another £300,000 in new bills. White's Advisory Committee chairman pointed to the error of the minister’s suggested course, warning that "If we were to attempt to renew now, it would indicate over anxiety, besides which, a rate would be charged to cover any contingency that might arise not only to maturity but over the hiatus."\textsuperscript{689}

White’s fears were eased in some measure by Perley’s news that a £12 million loan worth $60 million would likely come from the Bank of England. The loan would be guaranteed by the Imperial Government and consequently carry a lower rate of interest than would otherwise be possible. Britain’s desire to help Canada was part of a larger plan being formulated to finance the British war machine. To ensure the British Treasury access to as much capital as possible, officials at the Exchequer were eager to keep Canada and the other dominions off the London exchange. In September, the Bank of England loaned Canada £7 million. This only solved half of White’s worries. He was still labouring under increased Public Works expenditures for the unemployed and mounting military costs that no one seemed able to estimate from week to week. White had to send Perley back to the Bank of England for the rest of the £12 million almost as soon as he received the first portion of the loan. Canada faced defaulting on its maturing treasury bills in November or, confessed White, paying them “by violating

\textsuperscript{686} Ibid., Marked “Confidential,” Perley to White, 28 August 1914.

\textsuperscript{689} Ibid., Williams-Taylor to White, 9 September 1914.
the Dominion Notes Act here and issuing further paper money.... This," said White, "I propose to do."\textsuperscript{700} Canada's finance minister was saved again by Perley who secured a further £5 million from the British to be advanced in £1 million allotments beginning in November.\textsuperscript{701} There was one possible problem, however. White wanted to use British advances for both domestic and military expenses and needed assurances that British monies could be used this way. Perley seemed to confirm the minister's worst fears when he reported the British Treasury Minute of November 17 stipulated advances to self-governing dominions were to cover only war expenditure. He quickly explained, however, that these "conditions are mentioned in order to protect the Government and show that they are using due diligence, but you will notice that they are not in any way absolute."\textsuperscript{702} The British gave White a reprieve from the financial crisis that threatened to stall Canada's fledgling military contribution and deepen the economic depression afflicting her domestic economy.

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The influence of the CBA ebbed between 1911 and the end of 1914. Members were openly breaking the interest rate agreement on deposits and the Association seemed powerless to do much about it. Public concerns about safety went unanswered by bankers who would not allow the CBA to inspect them. Consequently, the industry's

\begin{itemize}
\item \textsuperscript{700} \textit{Ibid.}, White to Perley, 31 October 1914.
\item \textsuperscript{701} \textit{Ibid.}, White to Perley, 18 September 1914; White to Williams-Taylor, 16 October 1914.
\item \textsuperscript{702} \textit{Ibid.}, Marked "Confidential," Perley to White, 20 November 1914.
\end{itemize}
public profile was again left at the mercy of changes that appeared to provide for greater safety but did nothing of the kind. In addition, bankers were for the first time grilled by Members of Parliament during the revision of the Bank Act and on the pages of daily papers. When questions were raised about the suspicious dealings of the Banque Internationale in court, the CBA's secretary mishandled them and cast aspersions on Laurier's former administration and on its successor. The CBA was not only losing its credibility with members, but with the country's political masters at a time when the public had little appreciation or sympathy for the changes banking was going through. When war came, the finance minister put his faith in a few bankers he trusted and brushed aside the CBA. Division had made it unreliable and incapable of quickly developing policies. Rather than ask the CBA's Executive Council for direction, White and his Advisory Committee told the Association what the government's financial policy was and what the government expected it to do. Its job was to carry out orders.
New Directions:
The Canadian Bankers Association, 1915 - 1919

Chapter Five

The Association was quickly marginalized when war and fiscal crisis appeared imminent. Its ineffectiveness made it both a political and a financial hazard that White and senior bankers were wary of well before August 1914. The government would not suffer a politically clumsy and administratively inept bankers' association when it had to rely on Canada's banks to sell millions in Victory Bonds to small investors. A new secretary, Henry Taylor Ross, who had been the assistant deputy minister of finance since 1906, took care of the CBA's administrative problems and helped bankers learn to walk in step with the government. Edson Pease's election as president near the end of 1916, assured White that he had a banker at the head of the CBA who knew the government's priorities. It also comforted many other bankers who saw Pease as an ally in their opposition to the tremendous influence of Williams-Taylor and the Bank of Montreal's special relationship with the government. By the war's end Pease marshalled that opposition and asked White to redistribute the government's business more equitably between the banks. At the same time Pease advocated reforms to the Canadian banking system which he believed were needed to cope with the post-war financial fallout that was inevitable. He wanted a central bank. White was forced to choose between the Bank of Montreal and the status quo, or launching a new era in Canadian finance. He sided with the Bank of Montreal which offered undoubted
expertise in foreign finance that was essential to managing Canada's debt. When the post-war period began, the CBA was better managed and offered members more than it ever had, but it was still a divided organization, unable to overcome rivalries and deliver reforms needed to cope with the troubled years ahead.

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White's fiscal gymnastics preserved financial stability during the first months of war. Canada paid its domestic obligations and sent over 30,000 troops to England where they received better equipment and much needed training before being sent to the trenches of France and Belgium in 1915. How to sustain that stability was the finance minister's next challenge. British loans would not be continued after March 1915, and borrowing on the London market was fast becoming prohibitive as the Canadian dollar weakened in relation to sterling. Moreover, White was asked not to sell anymore of Canada's sterling securities because it influenced the exchange between sterling and the US dollar, increasing the Imperial Government's borrowing costs in America. White needed to find new monies and the obvious source was New York. The chair of White's Bankers Advisory Committee mused about the loss of prestige to the Dominion if it borrowed there, but Williams-Taylor nevertheless brokered a deal for Canada through J.P. Morgan & Company. The Dominion's first New York venture was measured. One and two-year notes worth $45 million at 5 and 5.25 per cent were sold in a market with

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ample money for short term paper. Success breathed life into Canada's securities market and "declared the real interest rate upon high-class securities." This was a critical step removing some of the uncertainty about going directly to Canada's domestic market to raise needed funds.

New York was one of two options available to White; the other was Canadians themselves. The minister was reluctant to issue a domestic loan for a variety of reasons. The weak economy at the war's start raised uncertainties about how much Canadians could contribute; lingering memories of the 1880s and early 1890s, when Dominion Savings Banks and Post Office Savings Banks took deposits from the commercial banks, lent credibility to fears that a domestic loan would succeed at the expense of bank deposits and ultimately the banks' borrowers; and there was also the fear of failure, which could make it harder and more expensive to return to foreign markets. As long as funds from abroad were available and affordable, White could avoid the domestic market.

By the fall of 1915 he was forced to go to Canadians. Since the war began Canada had amassed debts of $198 million and associated costs that Canadians had little influence over. White considered raising funds by borrowing from the public "a doubtful experiment," but he was encouraged by Canada's rebounding economy and banks that he expected would guarantee the country's first national war loan to guard

against failure. The CBA’s Executive Council members went to Ottawa in November 1915 and were asked to “place the offices of all the banks at the disposal of the finance department to receive subscriptions from the public and issue provisional receipts; to endorse payments upon delivery of scrip and to deliver bonds; and to pay the coupons of the bonds at any bank branch in the country.” In return, banks were told they would “receive one quarter of one per cent of the total subscriptions received by them.” The administrative work was essential to the smooth sale of the government’s bonds but the fundamental issue was the banks’ agreement to underwrite half of the $50 million.

The Executive Council agreed to divide the amount pro rata based on assets in Canada and the finance minister was informed the Association’s members would underwrite the $25 million. When bankers left Ottawa the gentlemanly pretence was cast aside by some who had agreed to the deal in front of their peers. The Weyburn Security Bank, Sterling Bank, Home Bank, Northern Crown Bank, Quebec Bank, and Banque d’Hochelaga all decided to scale back their commitments. After some


707 Ibid.

708 White, The Story of Canada’s War Finance, p. 24. The understanding also included the agreement that subscriptions in excess of $25 million would be taken in “abatement” of the banks’ subscriptions. This “abatement” was not fulfilled, however, and the banks were left to keep or sell $21 million.

709 CBAA 87-500-24: Morley to A.H. Walker, 15 November 1915. With the exception of the Hochelaga, all these banks were relatively weak and prospect of directing deposits into low yield securities that diminished their earning power likely was at the root of their wish to back out of the deal.
pressure from Bum, the Quebec Bank offered $500,000, but others were not so easily moved. A shortfall of nearly $1 million soon gave others cause to re-evaluate their participation. The first domestic loan was indeed an experiment and bankers worried about being burdened with low yield government securities that weakened their ability to loan more profitably to industry, agriculture and commerce. For larger banks called to fill the void, another problem arose. If they took up a bigger share of the government’s bonds and left smaller competitors more funds to compete for commercial and industrial clients, it might cost them customers who were all important in an environment of increasing taxes and diminishing revenues.\textsuperscript{710} The uncertainty surrounding the first domestic loan and its potential for success gave the Association little leverage with members and the amount that all the banks eventually underwrote was scaled back to $21.7 million.\textsuperscript{711}

Apprehensions about the loan’s success proved unwarranted. Canadians subscribed for more than $100 million, giving Borden’s government a financing windfall that was put to the service of the Canadian military as much as the Canadian economy.

The government decided to loan $50 million to the Imperial Munitions Board for the

\textsuperscript{710} It is clear that the larger banks were obliged to step in against their own better judgement in many instances and take up the share of government loans that smaller or weaker institutions declined. In Ross’s history of the Canadian Bank of Commerce he notes that “On more than one occasion The Canadian Bank of Commerce joined with others of the larger banks in assuming the shares of smaller institutions which felt themselves unable to carry the full amount.” Refer pp. 342,353, 354. The failure of weaker institutions like the Quebec Bank and the Northern Crown to fully participate in loans may have made White more amenable to their absorption by larger competitors in the final years of the war.

\textsuperscript{711} \textit{Ibid.}, 87-513-01: Circular 31, Bum to general managers, 24 December 1915.
purchase of war material in Canada. To do this White called on the CBA and its members to forego their right to cancel their subscriptions for $21.7 million if the loan was over-subscribed, changing the rules mid-game and putting the CBA’s members in an awkward position. Grudging acceptance gave way to anger when bankers learned that selling the subscribed bonds in foreign markets would be difficult. Foreign investors preferred bonds payable in gold and bankers assumed they could supply them with bonds payable in “gold coin of standard weight and fineness.” To their amazement, White dashed their expectations.712

Burn took the brunt of members’ anger. In December he pressured White to make the bonds payable in gold. In January he was more emphatic.713 The minister had not betrayed the CBA as much as failed to see the possibility that the bonds would reach foreign markets in large enough quantities to make their payment in gold an issue, let alone payable in New York as some bankers now advocated.714 Burn, although assertive, did not know White well enough to be as frank as Walker who wrote long letters to White saying he did not “understand what possible objection could be urged to the bonds being made payable in gold coin….715 The senior banker shook White’s resolve by arguing bonds payable in gold would help the banks sell them in the


713 Ibid., Marked “Private,” Burn to White, 3 January 1916.

714 Ibid.

United States, freeing monies for use in the Dominion should there be an urgent need.

White confessed he was planning to sell more Canadian securities in New York and worried that doing as Walker asked would "at once enter into competition with any issue payable in gold which I may make in the early spring or summer." Walker anticipated the objection but persisted; failure to make the bonds payable in gold would keep them in Canadian hands and reduce funds for future issues while undermining the enthusiasm for new national loans because American investors received a better investment than Canadians did from their own government. Walker, Burn and most members of the CBA opposed White's stand. Williams-Taylor did not. The chair of the Bankers Advisory Committee suggested that "under all circumstances it is unnecessary to make the bonds payable in gold and it would be better to refrain from doing so." If White did as other bankers wanted, Williams-Taylor insisted that it would interfere with the government plan to issue bonds in New York in the spring or summer. He could claim special knowledge that others could not. Williams-Taylor, as chairman of the Bankers Advisory Committee, was helping to manage Canada's foreign debt and negotiating for Canada with J.P. Morgan & Company to float another Canadian loan in New York. The minister stood by his original decision.

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718 Ibid., Marked "Confidential," Williams-Taylor to White, 8 February 1916.  
719 Ibid., White to Williams-Taylor, 9 February 1916. Williams-Taylor was keeping track of the country's foreign debt for White and helping him determine what the interest payments on the debt were, helping White to prepare his budget and
White went to New York in the spring and proposed issuing five, ten, and fifteen year bonds worth $75 million. Williams-Taylor's job was to negotiate the best terms possible in the aftermath of an Anglo-French loan for $500 million that failed, leaving many financial houses holding bonds they could not sell. This made it difficult for Williams-Taylor to produce favourable terms for Canada and exposed differences between his business philosophy and White's. Williams-Taylor preferred negotiation over "competitive purchase" and held the view that it was the "best of policies not to drive a hard bargain but to strike a happy medium between what is termed the right price and the attractive price." This suited J.P. Morgan and Company but not White who was inclined the other way. Williams-Taylor soon had his theory put to the test when the syndicate managers asked Canada to pay 3.25 per cent commission, a full 1.25 point above the commission paid in the Anglo-French loan floated in New York. Williams-Taylor was now negotiating as much for Canada as for his own reputation and warned the New York bankers that "it would be difficult, if not impossible, for the Minister to justify himself in the public eye for having paid in the same market 1.25% commission more than Great Britain and France." They were somewhat moved and

develop the country's fiscal plan. Williams-Taylor's authority to negotiate for Canada with J.P. Morgan & Company is found in many letters pertaining to the New York loan in April 1916 in Ibid., V. 3. File 13.


reduced the commission to 3 per cent.\textsuperscript{722} "With the House in Session White could not face the commissions"\textsuperscript{723} and was prepared to break off negotiations if better terms could not be found. Williams-Taylor warned against this, saying: "I feel it would be a serious responsibility to break off negotiations. We are dealing with the most powerful financial group in the world between whom and this country there should be no disaffection."\textsuperscript{724} White let the talks continue but his threat conveyed a strong message to Williams-Taylor and J.P. Morgan and Company. Williams-Taylor had new leverage and negotiated down the commission to 2.375 per cent which included .25 per cent for bankers underwriting the loan. Commission was not the only problem, however. The rate of interest suggested by the bond dealers Harris Forbes & Company on Canada's ten and fifteen year bonds was considered too high by both White and Williams-Taylor.\textsuperscript{725} Despite their concerns, the New York bond dealers assured their doubtful clients that the pricing was appropriate to market conditions. White deferred to their expertise and a deal was struck to sell $25 million five year bonds at 5.10 per cent, $25 million ten year bonds at 5.37 per cent, and $25 million fifteen year bonds at 5.5 per cent.\textsuperscript{726}

\textsuperscript{722} Ibid., Lamont to Williams-Taylor, 7 March 1916.

\textsuperscript{723} Ibid., Marked "Private and Confidential," Williams-Taylor to Lamont, 8 March 1916.

\textsuperscript{724} Ibid., Williams-Taylor to White, 12 March 1916.

\textsuperscript{725} Ibid., Williams-Taylor to Lamont, n.d., page 1849 of file.

\textsuperscript{726} Ibid., Marked "Private and Confidential," Williams-Taylor to Lamont, 14 March 1916.
The loan was a great success and Canada established its credit in New York for long term bonds on a strong note. The fifteen year bonds were oversubscribed as were the ten year bonds. The syndicate managers believed this was cause for celebration. Not so for White. It reinforced his view that the rate of interest paid on the ten and fifteen year bonds was too high, just as the commission was. The finance minister blamed Harris Forbes & Company for giving unsound counsel and reminded Williams-Taylor that it is "our duty to do the best possible for the Dominion" and that "It is certainly not my intention to place ourselves in the hands of any one group no matter how powerful and influential it may be."\(^{*727}\) Williams-Taylor's effort to "strike a happy medium between what is termed the right price and the attractive price" was seen to cost the Dominion unnecessarily and would not be availed of again in New York. White was criticized in the press and Parliament for the price paid for the loan. So was the Bank of Montreal which was accused of profiteering nearly a year later by the Toronto Star, an allegation that was unfair and based on assumptions rather than facts.\(^{728}\)

As White finalized details of the New York loan, he was worried the Canadian Northern and the Grand Trunk Pacific would collapse and he had the IMB asking for more money. The IMB's $50 million credit advanced in November would soon run out and additional funding was needed to sustain British munitions and supply orders in Canada. Leading the IMB was Joseph Flavelle, a prominent Toronto businessman and


\(^{728}\) *Ibid.*, V. 1, file 1 "Banks - Bank of Montreal." Williams-Taylor to White, 22 August 1917; also refer enclosed clipping from Toronto Star. Criticism appeared almost immediately in the press. See *MT*, 31 March 1916, p. 35.
long time friend of the minister, whose business credibility gave weight to his call for extra funds. Burdened with so many other problems, White's first inclination was to say no. Flavelle persuaded him that this was not the best answer. Since the IMB was formed he had booked $325 million in orders and paid on account $125 million. Without further credits, $200 million in orders would be cancelled and the fallout in Canada would only worsen White's economic troubles. The minister had no government money for the IMB and looked to the banks to bear the result of cancelled orders on their bottom lines. The Bankers Advisory Committee was called together and a meeting arranged with Flavelle and another IMB official, Sir Charles Blair Gordon. The elite group of bankers and the finance minister did not take long to strike a deal. A loan of between $50 and $75 million would be advanced to the British Treasury and placed to the credit of the IMB. All that had to be done was to convince the CBA's members to participate.

Bringing the Association onside would not be an easy task. Many bankers felt that White had already taken great advantage of them as it was and that advances in return for low yield securities from the British made it harder to remain profitable and

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729 Bliss, A Canadian Millionaire, p. 269.
730 CBAA Executive Council Minutes, 7 March 1916.
731 This meeting is discussed in Bliss, A Canadian Millionaire, p. 270. However, it is stated that the meeting was held with a committee of the CBA but there was no CBA committee White met with for the purpose of financing before November 1916 when his Advisory Committee became the Confidential Committee at the Association. The committee he would have consulted in this instance would have been his Bankers Advisory Committee.
pay increasing taxation that all three levels of government were levying. White was undoubtedly conscious of their apprehension, and pressured bankers by leaking "to the press the news that the banks were considering supplying credits for new munitions orders in Canada." On March 7 a meeting of the Executive Council was called and the agreement between White, the IMB, and the Bankers Advisory Committee was presented to CBA members. They were asked to take up the loan on a pro rata basis and collectively advance a minimum of $59 million. Misgivings were evident but Flavelle persuaded most that the loan was needed to keep orders flowing and to avoid the economic upheaval that would surely follow their failure to accept the proposal.

Again, bankers grudgingly did as asked and were saddled with more low yield investments that weakened their earning capacity. No sooner had this deal been struck when White pressed to increase the loan from $59 to $75 million, a request that even the Bank of Montreal objected to. In the end, the loan would top $100 million.

The most serious opposition to White's demands and pressure tactics came from the Merchants Bank of Canada which had a complete change of heart about its pledge

732 Little has been said about the impact that White's calls for assistance from the banks had on their bottom lines, especially smaller banks that needed to generate all the profits they could with the existing resources at their disposal. When the difference between the return on half-a-million dollars or more invested in government securities, as opposed to industrial, agricultural and commercial loans, could reach as much as 3 or 4 per cent, this presented a real loss in earning power and left some banks scrambling to meet the government's demands and those of its customers who were easier to say no to than White.

733 Bliss, A Canadian Millionaire., p. 270. White suggested to companies filling British war orders that they accept British Exchequer Bonds in partial payment for their goods. There was no "enthusiasm" for the proposal and White turned to the banks. See MT, 3 March 1916.
to participate in the Munitions Loan. To pull the Merchants on side the Association's secretary had to exercise "extraordinary effort" and even when he succeeded the Merchants persisted in its attempt to free itself from the deal.\textsuperscript{734} The affair left the Merchants bitter. They did not see the loan return to their deposits and the managing director delivered a veiled reflection of the fact when he observed that "The necessity for very unusual effort in the turning out of war orders is not overlooked, but even banks must be allowed a breathing spell, and any influence consciously or unconsciously exerted in the direction of impairing the liquid position of the Chartered Banks ... should surely be strongly discouraged."\textsuperscript{735} The Merchants failed to move White who was a member of a government whose "official attitude ... was simply a desire to surmount the immediate financial problem presented by the war...."\textsuperscript{736} All the Merchants could do, like other banks, was to improve its profitability by increasing its market share, which meant taking on loans that it might otherwise have refused, or boost its revenues by entering agreements with rivals to limit competition.

The Munitions Loan in the spring of 1916 was not the last call on the banks. Flavelle returned for more money in December after discussing the matter with White. Flavelle again faced a critical need for credits to keep munition orders filled. White sent

\begin{itemize}
\item \textsuperscript{734} CBAA 87-518-04: Morley to Ross, 18 August 1923.
\item \textsuperscript{735} Refer "Merchants Bank of Canada Annual General Meeting," 6 June 1917 in \textit{CAR} (1916), pp. 882-883. Also see CBAA 87-518-14, Hebden to Bum, 27 June 1916.
\item \textsuperscript{736} J. Harvey Perry, \textit{Taxes, Tariffs and Subsidies, I} (Toronto, 1955) quoted in Brown and Cook, p. 234.
\end{itemize}
him to their old friend Walker. Flavelle must have known he had a difficult task ahead of him. Edson Pease, now the president of the CBA, was on record saying "banks could not afford to lend any more money to the British Government." The chairman of the IMB had to convince the bankers otherwise. He had help from Sir Rufus Isaacs, a British politician on a mission in New York to sell more Anglo-French bonds. He went to Ottawa and met with Walker and Sir Vincent Meredith to reinforce Britain's need for funds. Walker and Meredith promised the money and the CBA's Executive Council was called to Ottawa. "The situation was a fait accompli, and the bankers could only grumble," wrote Henry Ross years later. But they did more than grumble. They were again faced with directing millions of dollars into low yield bonds that impaired their profitability. To gain full cooperation something would have to be done to make another munition loan attractive to the CBA's members. A solution was devised by the new president of the Association, Edson Pease, who proposed that the banks advance the $100 million against British treasury bills paying 6 per cent and rediscount the treasury bills with the government using the provisions of the Finance Act and that the government advance the $100 million in Dominion notes to the banks at 3.5 per cent rather than the usual 5 per cent rate. White objected at first, arguing that his cabinet colleagues would say that "here are the banks in the midst of this struggle thinking only

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77 CBAA 87-526-20: White to Ross, 26 November 1934.

78 Ibid., This remark is attributed to Pease and is said to have been made at the 1916 Annual Meeting of the Association. See Henry T. Ross' retirement speech, 8 November 1934.

79 Ibid.
of themselves and trying to make money out of the British Government's necessities."\(^{740}\) Pease fired back that when the war ends "the public finances of the country are bound to be impaired, industry will be upset, everything will be out of joint, and it will require great sums of money to reconstruct."\(^{741}\) White conceded and the banks' second Munitions Loan was executed as Pease suggested.

White's Advisory Committee had served him well over two years of war. The infrastructure underpinning the Finance Act was working, loans were negotiated by Williams-Taylor in New York which established a strong market price for Canadian bonds and the Advisory Committee conveyed the finance minister's wishes to a wary association. By the time the second munitions loan was nearly a completed deal, the Advisory Committee was tied to the CBA and renamed the Confidential Committee.\(^{742}\) In essence, it was a body onto itself, more powerful than the Executive Council and an explicit reminder of who the minister most trusted. Sir Edmund Walker was replaced by his general manager, John Aird, and two new faces were added, the Dominion Bank's Clarence Bogert and The Bank of Nova Scotia's Harry Richardson. Bum continued as did Pease who was the newly elected president of the Association. The newly elected vice president, Williams-Taylor, chaired the Confidential Committee. The reconstitution of White's Advisory Committee marked a turning point in war finance and the history of

\(^{740}\) Ibid.

\(^{741}\) Ibid.

\(^{742}\) Ibid., 87-500-25: Executive Council Minutes, 9 November 1916.
the CBA. It came after a second national war loan proved a healthy success. The economy was now rolling at full speed and banks fuelled economic growth by increasing the supply of credit available to industry and commerce. At the CBA important changes were underway to help its members cope with the new realities of banking after two years of war, loans to ailing financial institutions, large low yield national loans, munitions loans, temporary Dominion loans, and new taxes.

Six months into the war Canada's debt climbed by $136.5 million. As soon as White resolved his quest for credit he began another search for revenue to service the country's debt. White had to be innovative and so did Canada's banks. In White's 1915 budget, tariffs, the mainstay of government revenues in the past, were raised by 7.5 per cent across the board. For consumers this promised an increase in the cost of living; for Canadian manufacturers it spelled opportunity. Canada's banks found little to be happy about. Buried in the budget was the War Revenue Act which imposed a 1 per cent tax on the note circulation of all banks and a stamp tax of 2¢ upon cheques, bills of exchange, [and] bills of lading.743 Williams-Taylor was "shocked" by the tax on circulation which cost the Bank of Montreal nearly $130,000 in 1915.744 Nevertheless, the general manager of the Bank of Montreal put a brave face on the change. Others were less willing to do so. The tax on excess circulation was already 5 per cent and the new tax undoubtedly encouraged some banks to hold back their competitors' notes and


744 Ibid., p. 201. By January 1917 the banks had paid close to $2 million in taxes relating just to the levy on circulation. See MT, 9 February 1917.
circulate them instead of their own, reducing their costs while increasing their rivals.

The 2¢ stamp tax was also a drain on profits and a potential source of friction between bankers and their customers. In Galt, Ontario an enterprising Commerce manager devised "Budget Cheques" which allowed customers to list all their bills on one slip of paper and instruct the bank to pay them with one lump sum debit from their account. The managing director of the Merchants Bank could hardly believe the scheme and characterized it as "indecent, the very worst form of solicitation..." and went on to say that "it would surely excuse the public from expecting more and more from the Banks when the settlement of their personal bills and accounts is voluntarily taken over by a branch bank." 

New taxes gave bankers a collective mission - protecting profits. In the winter of 1915, when the economy was still weak, there appeared to be two ways to do this. Increase market-share through intensified competition, a venture that did not promise immediate revenues, or limit competition and reduce expenses while building walls around existing profits. The latter seemed more promising but only if the bankers' association could be made more effective. The reinvention of the CBA began and one of the strongest advocates for renewal was Walker. At the Executive Council meeting following White's budget he made a rare appearance. Leaving the Association in the hands of executives running their own banks had proved a mistake and Walker "laid

\[^{745}\text{CBAA 87-517-02: Bell to Burn, 30 November 1916; Burn to Bell, 4 December 1916.}\]

\[^{746}\text{Ibid., 87-518-14: Hebden to Burn, 27 June 1916.}\]
emphasis upon the development of the office of the Secretary-Treasurer, stating... it should eventually be recognized as the most important office connected with the Association.....“747 At the time the secretary, G.W. Morley, was new to the job and came from Toronto’s Bicknell, Bain & Company where he had had charge of winding up the Ontario and Farmers Banks. Morley was a young lawyer who proved more adept in legal matters than in administration and divining the sensibilities of bankers.748 The message was clear, however. At the next Executive Council meeting in June the mandate for change had taken hold. George Burn had the stamp tax in hand and facilitated compliance by working closely with the finance department to develop a common understanding of what the tax did and did not apply to. Overseeing the bank note circulation was fully resumed and the Association’s twenty-one members sensed a new confidence in their Association and their collective influence. When the minister objected to rising loan rates in the West and pointed to an agreement with Wilkie at the outbreak of war to keep rates at pre-war levels, bankers argued that “there should be no interference with regard to the rates of interest and discount by the Finance Department....”749 There was no out-right hostility to the minister, and bankers agreed at the meeting that it was inexpedient for all banks to raise rates, but White would have a rough ride winning cooperation from banks called on to finance the Dominion at their

747 Ibid., Executive Council Minutes, 15 February 1915.
748 Morley’s short career at the CBA is discussed in Ibid., 87-518-04: Morley to Ross, 18 August 1923. Also refer MT, 12 January 1917.
749 CBAA Executive Council Minutes, 17 April 1915.
shareholders' expense while being expected to restrict rates to customers which further reduced their earning power. The president of the Association tried to do White's bidding and cap loan rates but failed after stern opposition from the Union Bank of Canada and the Northern Crown Bank.  

Recouping revenues lost to new taxes was tackled by a committee established to examine service charges and construct a general agreement on charges among CBA members. The prospects for success seemed promising in an atmosphere where all the banks felt the sting of taxation and needed new revenues to remain profitable. Edson Pease led the committee and was at the height of his prominence. More importantly, he had avoided serious squabbles with most bankers and was positioned to build consensus with committee members Clarence Bogert, Harry Richardson, and the Winnipeg based Union Bank's George Schoffield. Pease and the others sensed the momentum for an agreement and grew ambitious, broadening the committee's scope after its creation. At the June meeting of the Executive Council the committee

750 Ibid., 87-526-25: "Memorandum to Mr. Burn," n.d. The one success that White had in limiting loan rates was in the instance of cattle loans in Northern Alberta in 1918. The CBA, warning members that it was the finance minister's wish to cap rates at a maximum of 8 per cent, deferred to White. However, there were roughly four or five banks operating in Northern Alberta and a wide agreement was not necessary to win this concession. Had White asked for a nation-wide agreement it would surely have failed. See Ibid., 87-500-41: Minutes of the Annual General Meeting, 14 November 1918.

751 Ibid., 87-526-20: White to Ross, 26 November 1934; also refer to Ross' retirement speech, 8 November 1934.

752 In his first annual address as general manager of the Canadian Bank of Commerce, John Aird noted that during 1915 the Commerce paid 27 per cent of its net profits in taxes to all three levels of government. See CAR, 1915, "Canadian Bank of
presented its plan.

New branch openings in Quebec and the West were taken as evidence of competition gone too far. Pease's committee characterized the problem as "the most hurtful thing that the Banks in Canada have to contend with today." It was also the most difficult to remedy and Pease avoided its dangers by recommending a committee to examine the problem. Pease talked about loans, current accounts, savings accounts, and service charges. He suggested that loans to municipalities carry a minimum rate of 5.5 per cent and that banks stop advancing loans by overdrawing accounts, except for federal and provincial government accounts, cities with populations exceeding 50,000, and their school boards. Current accounts with balances below $3,000 were not to receive interest and those above $3,000 would receive a maximum of 2.5 per cent on the balance above $3,000. Supplying special cheques and stationary to current account holders without charge was deemed unfair and its end was recommended. The sensitive issue of interest on savings accounts was raised and the committee suggested enforcing the 3 per cent ceiling that had become little more than a posted rate customers could bargain away. The final issue struck a blow at the legacy of the Commerce- Addresses and Reports," p. 808. New and heavy taxes levied by provincial governments is discussed in Ibid., 87-500-24: Annual General Meeting Minutes, 11 November 1915.

73 Ibid., 87-500-22 Executive Council Minutes: 23 June 1915.

74 Overdrawing accounts was a less formal means of granting credit that could occur without any specified collateral being assigned to the bank. In effect, credit was loaned on the customer’s worthiness which was convenient for customers but posed a risk to the bank if the overdraft was never paid or paid over a very extended period of time.
Sovereign Bank which had introduced interest calculated on daily balances. Pease’s committee favoured interest calculated on minimum monthly balances and paid half-yearly. Together, these measures were offered as an important means of reducing costs and improving revenues.

Like all agreements considered by the Executive Council, this one provided for exceptions. Competition in Quebec, heightened in measure by non-bank financial institutions, complicated the bid for a national agreement. Pease suggested exempting banks operating in that province until some degree of cooperation could be obtained between all competing institutions. When service charges were discussed, more problems emerged. A schedule of rates for negotiating customer cheques and other items was rejected by the Bank of Commerce and the Bank of Hamilton. Pease tried to anticipate dissent and proposed a process allowing for exceptions to the agreement that would see banks apply to his committee, a prospect other bankers spurned. One of the most difficult obstacles to success was the Association’s past failure to enforce deals between bankers. As happened before, the proposed solution to this vexing problem was allowing the Executive Council to penalize “the wilful infraction of any adopted rule.” Such a prospect invited little support and the Commerce and the Bank of Hamilton stood their ground. Most others politely agreed with them. Pease rushed off for his home-bound train thinking his committee forged a viable answer to increased taxation and ruinous competition.  

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75 CBAA 87-500-22: Pease to Burn, 6 July 1915.

75a Ibid.
When correspondence began to pour into the Association about the meeting it was evident no agreement was possible. Bankers who apparently supported new service charges at the meeting had a change of heart once free from the pressure of their peers. Morley determined the planned service charges should be revised. His decision was reflected in the draft minutes of the meeting he circulated to members. Pease was naturally surprised and wrote to Morley saying he did "not recollect that it was the decision of the meeting that...[it] should be recast." Pease's memory had not failed him, but the Commerce and Bank of Hamilton objection, coupled with the decision by the Bank of Montreal to abstain from voting, were indicative of trouble. The Royal Bank's managing director opposed reopening the issue and advised Burn to pressure the Commerce to drop its opposition. Canada's second largest bank would not be bullied. It had been closing branches in 1915 and trouble with the Canadian Northern exposed it to criticism that it had rarely had occasion to suffer. But the Commerce was not free from a sense of responsibility. Its general manager, John Aird, drafted his own service charge schedule that was less onerous for customers than the one proposed by Pease. Aird wanted to keep the economies of scale the Commerce could effect through its branch network and to protect its customer base from shrinking in the face of higher fees. Moreover, the exclusion of Quebec from the suggested changes to calculating and paying interest was unacceptable. Aird warned that "it would not be fair to permit our business there to be attacked by those banks which are in the habit of paying

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757 Ibid.
758 Ibid.
interest on daily balances...without the opportunity of protecting ourselves elsewhere.\textsuperscript{759}

Burn circulated Aird's suggested changes. The Merchants Bank of Canada rejected them and concluded that Aird's intransigence "debarred the Association from dealing with service charges."\textsuperscript{760} The Banque Nationale also disapproved and the Molsons Bank questioned what was and was not agreed to at the meeting. In August the Northern Crown Bank and the Union Bank asked to be exempted from some of the suggested rules. By then the president of the Association realised that the only way the agreement could be realised by September was by imposing it, an impractical option that threatened allegations that the CBA was enforcing an "agreement in restraint of trade."\textsuperscript{761} The momentum to fix new fees to bank services was lost.

A face-saving exercise was all that was immediately possible. The Executive Council met again and a revised schedule of service charges was offered to appease those who objected to the original scheme. A lengthy discussion followed which concluded with an arrangement where "each bank would be free to deal with these matters as it thought fit."\textsuperscript{762} In other words, the accord was not binding. Banks could follow those features of the proposal that suited them and discard what did not. This is exactly what the Home Bank did, rejecting suggestions that no interest be allowed on

\textsuperscript{759} Ibid., Aird to Burn, 10 July 1915.
\textsuperscript{760} Ibid., E.F. Hebden to Burn, 23 July 1915.
\textsuperscript{761} Ibid., Burn to Hebden, 26 July 1915.
\textsuperscript{762} Ibid., 87-500-23 Executive Council Minutes, 13 August 1915.
current accounts with less than $5,000, that chequing privileges be withdrawn from savings accounts, and that banks only open accounts with a minimum $5 deposit.\textsuperscript{763} No basis for a broad agreement existed and even the Bank of Montreal declined to participate for fear that "it would be called upon to ask for a very large number of exceptions...."\textsuperscript{764} The committee on service charges did not disappear with this first defeat. It carried on under the stewardship of many bankers but the result was always the same. Near the end of 1919 the committee tried again to complete a general agreement only to conclude that "it is impossible to have all the Canadian banks agree to a uniform scale of charges."\textsuperscript{765}

Forging agreement on service charges was beyond the Association’s ability and it soon diverted its energy to finding a genuine agreement governing interest on deposits. The issue was soon a pressing one. In early August 1915 the president was informed by the Quebec Bank that it was "compelled to pay interest at the rate of 3.5 per cent to Les Caisses Populaires... owing to the fact that La Caisse D’Economie, Levis, was paying interest at the same rate for deposits from the same institution."\textsuperscript{766} Pease was asked by the CBA to rein in those who broke the 3 per cent agreement and to

\textsuperscript{763} \textit{Ibid.}, Mason to Morley, 20 September 1915. It is interesting to note that Mason objected to the $5 minimum to open a bank account on the grounds that it "might interfere with the working classes and minors saving money."

\textsuperscript{764} \textit{Ibid.}, 87-500-24 Annual General Meeting Minutes, 11 November 1915.

\textsuperscript{765} \textit{Ibid.}, 87-500-44: Annual General Meeting Minutes, 13 November 1919.

\textsuperscript{766} \textit{Ibid.}, 87-500-23 Executive Council Minutes, 13 August 1915. Also see 87-532-26, Morley to Pease, 20 August 1915.
induce non-bank institutions to adopt the 3 per cent rule as well. He was reluctant and thought it better that the Association's secretary communicate with La Caisse D'Économie.\textsuperscript{767} Pease was, perhaps, hoping that a strong letter would scare La Caisse D'Économie into line. It did not.

At the Association Morley wanted to invite all the banks operating under the Quebec Savings Bank Act to join the CBA. Burn thought this inadvisable and White's Bankers Advisory Committee agreed.\textsuperscript{768} The problem was returned to Pease who began corresponding with the president of La Caisse D'Économie, C. Tessier. Tessier was not impressed by Pease's overtures, arguing that the D'Économie had always calculated interest on the minimum monthly balance until the Bank of Montreal switched to daily interest calculations about a decade before, forcing everyone else to follow suit. He was "loath" to return to the old system unless he could "affirm and prove to our clients that they are unable to get better arrangements elsewhere, and the only way this can be done is by public notice given by all...."\textsuperscript{769} Tessier admitted paying Les Caisses Populaires 3.5 per cent, pointed to some of the French banks that were paying a similar rate, and doubted the "firm determination of some branch managers never to falter and pay more than 3 per cent."\textsuperscript{770} Pease saw some room to manoeuvre but feared Tessier's

\textsuperscript{767} I\textit{bid.}, 87-532-16: Pease to Morley, 23 August 1915.

\textsuperscript{768} I\textit{bid.}, 87-526-24: Memorandum to Burn from Morley, n.d. See Burn's handwritten reply on the bottom of the memo for reference to the BAC.

\textsuperscript{769} I\textit{bid.}, 87-532-16: C.Tessier to Pease, 13 October 1915.

\textsuperscript{770} I\textit{bid.}
threat to go public. He explained that "the chartered banks are unwilling to pledge themselves in writing to any uniform rule for fear that they might be charged by the public with entering a combination." 771 Again Pease turned to the CBA, hoping a letter from Bum assuring Tessier that the Executive Council would deal with infractions of the interest rate agreement would be effective. Bum only won Tessier's cooperation by assuring him that the agreement was the express wish of the finance minister. La Caisse D'Economie finally acquiesced. Starting January 3, 1916 it would calculate interest on minimum monthly balances, pay interest half-yearly, and stick to a ceiling of 3 per cent. 772 But Tessier was determined to tell customers why La Caisse D'Economie was changing. He placed newspaper advertisements declaring that La Caisse D'Economie joined a general agreement between the federal government and the banks. Pease was livid. He wrote Tessier immediately, pointing out that

> While the Government accept savings, we have no arrangement with them, apart from the arrangement that was made twenty-five or thirty years ago that 3% would be the maximum paid. I am sure the Minister of Finance would resent the statement that the Government and the banks were in collusion. He may be called upon in Parliament to explain the position which your advertisement places him in. 773

On Christmas Eve Tessier responded apologetically about what he said was a "misunderstanding." He went on to say that "as proof of our good will, we will remove

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771 Ibid., Pease to Tessier, 25 November 1915.
772 Ibid., Tessier to Bum, 30 November 1915.
773 Ibid., Pease to Tessier, 23 December 1915.
the notices from all the newspapers.\textsuperscript{774}

La Caisse D'Economie was true to its word and reduced the rate it paid Les Caisses Populaires to 3 per cent and eventually lost the account. In the midst of this, the Molsons Bank was complaining that the French Banks and the Quebec Bank had not circularized their managers about the impending agreement and the Association was busying itself "policing" the problem. When the Quebec was contacted, it refused to inform its managers until it received the Association's assurance that the French banks would comply.\textsuperscript{775} At the same time the Bank of Commerce was offered Les Caisses Populaires deposits and it announced it was prepared to take them at the specified price, 3.5 per cent.\textsuperscript{776} Morley advised Aird that all the banks had agreed "that interest payable half-yearly may be allowed on savings accounts at a rate not exceeding 3 per cent on the minimum monthly balance...."\textsuperscript{777} This was news to Aird. By May 1916 the CBA's members were still arguing over how interest should be calculated. In October a loose agreement was finally concluded that again made 3 per cent the maximum amount to be paid on savings accounts and 2½ per cent on current accounts. It allowed for exceptions approved by the president and stipulated that "in accordance with the agreement of 1908, no higher rate than 3% will be paid by any member of the

\textsuperscript{774} \textit{Ibid.}, Tessier to Pease, 24 December 1915.

\textsuperscript{775} \textit{Ibid.}, Stevenson to Morley, 1 December 1915.

\textsuperscript{776} \textit{Ibid.}, Aird to Morley, 16 December 1915.

\textsuperscript{777} \textit{Ibid.}, Morley to Aird, 17 December 1915.
Canadian Bankers’ Association on deposit receipts. What was not revealed was that a dozen banks crossed out the reference to deposit receipts in the 1908 agreement, leaving them free to pay more on deposit receipts if they decided to. Pages of exceptions providing for customers with large deposits show how loose the agreement was and in Saskatchewan the small Weyburn Security Bank was still paying 4 per cent and advertising the fact even though it said it would not. The CBA could do nothing to the Weyburn. It left the matter to those most interested, namely the banks in direct competition with the Saskatchewan bank. The flexibility banks had exercised between their posted deposit rate of 3 per cent and what they were willing to pay was reduced in measure. In June 1917, the Manitoba government launched its own experiment in provincial banking and opened an institution called the Manitoba Farm Loan Association that was more popularly known as the Manitoba Cooperative Land Bank. It offered 4 per cent for deposits and ignited the volatile question of deposit rates once again. It seems that the 3 per cent rate was more uniformly applied as deposits became plentiful but even this limited success came at a price. In the summer of 1918

780 CIBCA C161-3877: see Circular 87 from the CBA, Burn to Aird, 15 August 1916.

781 Ibid. CBAA 87-526-25: Morley to Burn, 4 August 1916.

782 Ibid., 87-532-17: G.H. Balfour to Burn, 29 May 1916. Evidence of rates in excess of the 3 per cent ceiling are found in 87-532-19 “Interest Agreement Exceptions.” The October 1916 Interest agreement on savings accounts is found in 87-533.01.

783 Ibid., Western Sub-Section Minutes: 7 June 1917; 8 August 1917; 27 August 1917.
the Bank of Hamilton wanted to raise loan rates as did others but Williams-Taylor rejected the idea for fear that the public would call on the banks to raise deposit rates.\textsuperscript{782} If the Bank of Montreal did not raise loan rates, few others would.

An alternative to interest and service charge agreements brokered through the Association was mergers. Merging smaller institutions into larger ones was the quickest way to expand resources and build efficiencies that gave banks a fighting chance to maintain earning power and pay the demands different levels of government now levied. During negotiations to find an agreement on service charges and interest rates in the summer of 1915, the Royal Bank and the Bank of Hamilton concluded a merger deal which had been discussed on and off since 1907.\textsuperscript{783} At the same time, the Bank of Ottawa and the Imperial Bank contemplated a merger and the largest stockholder in the Imperial proposed uniting the Imperial with the Bank of Montreal. The Montreal bank was interested but more so in the Bank of British North America whose British directors wanted out of the Canadian banking business and quietly put the bank up for sale.\textsuperscript{784} Public hostility to mergers had given White cause to change the Bank Act in 1913 and require banks to obtain his approval before a deal could be completed. When asked by Meredith at the Bank of Montreal to approve the sale of the Bank of British North America, he told the bank president that "there is a very strong feeling in Canada

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\item \textsuperscript{782} \textit{Ibid.}, 87-500-41: Williams-Taylor to Bell, 2 July 1918.
\item \textsuperscript{783} NA White Papers MG27 II, D18 V. I File 4(a): H.S. Holt to White, 15 July 1915.
\item \textsuperscript{784} \textit{Ibid.}, V. 1, File 1: H.V. Meredith to White, 21 July 1915; White to Meredith 22 July 1915.
\end{itemize}
against bank amalgamations and unless it is clear to me that a bank is in danger of failure it is not my intention for the future to consent to its absorption. When Meredith returned two years later in 1917 and asked White again, he acquiesced in the face of evidence that Lord Beaverbrook, who already controlled the Colonial Bank which operated in the Caribbean, would take the British if given the chance.

In December 1915, the Bank of Hamilton entered negotiations with the Quebec Bank, an institution facing large loan losses and diminished earning power. When asked to approve the deal White said no. A year later, after the Quebec struggled to participate in various government financing deals and its state of affairs was shown to be poor, White approved its merger with The Royal Bank. White was favourably disposed to merging weak banks out of the system and was quite willing in 1915 to see the Imperial purchase the assets of the Northern Crown Bank, which had written off $200,000 to bad debts at the end of 1914 and paid a dividend the financial press considered unwise. Even so, when the press learned of the possible amalgamation White lost his enthusiasm and the ailing bank continued in operation after reducing its

765 Ibid.
766 Ibid., V. 1 File 1: Refer correspondence between Meredith and White, 8 October 1917 - 17 January 1918.
767 McDowall, p. 148.
768 Ibid., V. I, file 3 (b): Marked “Personal and Confidential,” Stevenson to White, 22 September 1916; V. I File 4 (a): White to J.P. Bell, 30 December 1915.
769 MT, 1 January 1915.
capital from roughly $2.8 million to $1.4 million. Another chance to merge the Northern came up in 1918 after it showed it could not break free of the troubles that limited its earning power. This time White ensured the Northern passed into history and was absorbed by The Royal Bank.

As members courted one another in 1916, a strategic move that served the CBA for years to come was undertaken. Henry Taylor Ross, the assistant deputy minister of finance, left Ottawa near the end of the year and joined the Association as secretary-treasurer. Ross was fifty-five and a well-respected Nova Scotia King's Counsellor who won praise as secretary of the Royal Commission on Life Insurance in 1906. Fielding hired him as assistant deputy minister in 1906. By the outbreak of war he was an undoubted expert on Canada's banking laws. More importantly, he was an effective administrator who enjoyed an easy rapport with bankers and understood the politics of the finance department better than most. He proved the secretary that Walker said the Association needed. One of his first tasks was to help the president, Edson Pease, tackle newly proposed provincial taxes. In Quebec a tax of one-tenth of 1 per cent of a bank's total capital was proposed. Ross and Pease did not persuade Quebec legislators to forsa...
cent reduction for banks with less than five branches in the province. In British Columbia the government proposed taxing banks $3,000 plus $500 for every branch. Again, Ross and Pease failed to defeat the proposed tax but both exercises gave Ross a chance to test the CBA's machinery and to gauge the temper of provincial politicians. Ross's great asset was the credibility he brought to the Association. The new confidence shown by the finance department and the minister in the administrative competence of the CBA was directly linked to Ross and undoubtedly played a part in rolling White's Advisory Committee into the Association as the Confidential Committee. New committees were established at the Association to deal with issues like rural credits and Ross was given two assistants and a stenographer to provide the administrative infrastructure underpinning an association that was branching out in new directions.

The most important service Ross provided was undoubtedly the administrative expertise he brought to the Victory Loan campaigns that began in 1917. The first national war loan issued by White had been sold through the banks and investment firms to large institutional investors. As early as 1916 White contemplated organizing a nation-wide appeal after receiving a letter from The Citizens' Committee of One Hundred, a national temperance organization with some experience arranging national campaigns. The committee chairman, G.A. Warburton, suggested organizing the country "so as to reach every polling subdivision..." and was confident that "there must

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792 CBAA 87-500-32: Minutes of the Executive Council, 14 February 1917.
be immense sums of money in the hands of the common people...."783 The finance
department and the department of agriculture both launched "Thrift Campaigns" in 1916.
Ross thought these of little use and counselled the Association to employ American
"brass band methods" to give the programs some life.784 By 1917 the government and
the banks were also convinced that "brass band methods" were called for. By the
summer the first "Victory Loan" began and small investors were invited to contribute to
the war effort by loaning the government their savings and receive in return a higher
rate of interest than was possible through savings accounts in banks and other
institutions. It was pulled together by a national committee comprised of thirteen
investment dealers that was known as the Dominion Executive Committee.785 Through
this committee a sales force was recruited and an advertising campaign devised to bring
the bonds to the "common people." Bankers committees were established in major
cities across Canada to facilitate sales and A.E. Ames, the chair of the Dominion
Executive, kept the Association appraised of the Victory Loan's progress.786 The critical
role played by the Association was twofold. First, its members agreed to lend up to 90
per cent of bonds purchased by small investors who could repay the amount within a

783 NA White Papers MG27 II, D18 V. 3, File 13: Warburton to White, 17 March
1916.
784 CBAA 87-526-25: Morley to Burn, 25 May 1916.
785 The most well-known figures on the committee were A.E. Ames, J.H. Gundy
and E.R. Wood.
786 The composition of the Dominion Executive and the broader infrastructure
used to sell the Victory Bonds is found in MT, 9 November 1917; 16 November 1917.
year and at the same rate of interest as the bonds’ yield. Secondly, Ross helped to ensure that the procedure for processing bond sales was co-ordinated among all the banks and the finance department to minimize the administrative chaos that the Victory Loan Campaign promised. When the first Victory Loan was completed, 800,000 Canadians had subscribed $400 million in bonds, $250 million more than the government asked for.787

Ross enabled the CBA to serve the finance department better and manage a broad range of important banking issues, particularly administrative changes to the banking system that reduced costs and helped the banks cope with potential problems. When war broke out the Association had not restored supervision of the banks’ circulation and it did not have the administrative strength to review its powers over clearing house rules and bring down changes that were appropriate to the circumstances of war. Ross’s arrival and the establishment of the Confidential Committee remedied the CBA’s failure to provide for emergencies. Measures that the government adopted in the Finance Act allowing banks to borrow against approved securities were emulated and put into practice at clearing houses in case of an emergency. If a bank could not pay its clearing house balance it could now obtain clearing house loan certificates on approved securities and avoid the danger of forced suspension.

One of the most important innovations undertaken by the CBA after Ross’ arrival was adopting numerical addresses for banks and their branches that allowed for quicker

787 Brown and Cook, p. 231.
cheque processing and less labour. Every bank was assigned a number that identified
the institution and each branch was given a number which identified it as a branch of a
particular bank and its location. These numbers were printed on all bank cheques. The
idea was first proposed in 1898 and a few banks, the Bank of Commerce, Bank of
Montreal and Banque d’ Hochelaga, introduced it into their own routines years later. In
January, 1918, the Association and its members adopted the numerical transit number
system. The benefits that flowed from the decision were not confined to greater
efficiencies and savings in the clearing houses. An Inter-Bank Routine Committee grew
out of it and proved “of valuable assistance to the General Managers in considering
labour-saving economies in inter-bank routine arrangements...” Sharing information
about lost cheques, fraud, and administrative processes proved the most important
contribution the Association would make to the banking system.

As bankers entertained changes to the clearing system another administrative
problem plagued the Association’s members - staff shortages. The declaration of war
saw Canada’s banks lose large numbers of male staff to enlistment. As the war
dragged on so did the drain on administrative resources needed to manage the new
volume of business that followed rapid economic expansion. In early 1916 the banks’
contribution of men to the ranks of the military became the subject of public comment
after the minister of militia, Sir Sam Hughes, accused the banks of preventing 25,000

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7 CBAA 87-500-38: Memorandum “An Advisory Committee to discuss Matters of
Inter-Bank Routine.” n.d.
men from joining the military.\textsuperscript{799} Hughes’s indictment was unfair and unfounded. Staff shortages were very much evident in the changing face and culture of Canadian banking.\textsuperscript{800} Women, employed in small numbers mostly as stenographers before the war, were moved to customer wickets \textit{en masse} in 1916 when staff shortages became severe.\textsuperscript{801} At the Bank of Commerce for instance, 44 per cent of its staff had enlisted soon after war was declared and by 1916 roughly 35 per cent of the bank’s male staff between the ages of eighteen and forty-five were still under arms.\textsuperscript{802} Before the war banks employed 17,674 men and 1,609 women. By January 1918 those figures changed to 14,220 men and 6,789 women, a fourfold increase in women employees.\textsuperscript{803} Accompanying more women was new technology, such as book-keeping machines that eliminated the tedious job of writing by hand customer bank books and statements at month’s end.\textsuperscript{804} Canada’s banks had never before experienced such rapid and wide-ranging change. More was still to come. When the Military Service Act was passed at the end of August 1917, it fostered political division and fear among bankers who

\textsuperscript{799} MT., 21 January 1916; 28 January 1916.

\textsuperscript{800} Staff shortages meant the frequent change of manager in western branches and this caused friction with western farmers who asked the banks to appoint permanent managers to their branches. Refer \textit{Ibid.}, 11 August 1916.

\textsuperscript{801} The new importance of women in the banks and how their roles were circumscribed by gender is discussed in Graham S. Lowe, \textit{Women in the Administrative Revolution: The Feminization of Clerical Work} (Cambridge: Polity Press and Basil Blackwell, 1987).

\textsuperscript{802} Ross, pp. 351, 361.

\textsuperscript{803} CAR, (1917), p. 409.

\textsuperscript{804} Ross, p. 366.
worried that they would lose more staff and see their operations ground to a halt. Ross eased their alarm, using his relationship with the department of justice and the government official administering the Military Service Act to ensure that bankers' concerns were not ignored and at least given "reasonable consideration." Ross, despite his connections and effort, failed to win any significant concessions.

Perhaps the most significant shift following Ross's arrival was a realization that the Association had to change. The impact public perceptions had on politicians and legislation affecting the banks was an unrelenting problem that the CBA had done little to address in the past. The measure of banking's politicization could hardly be missed when even the finance minister did not want his relationship with bankers to become the subject of public comment. He felt so strongly about this that he asked that no minutes be taken when he addressed the CBA and later scolded Ross for doing so. Ross suggested that a publicity "campaign be inaugurated to break down the prejudice which now exists against the banks." He reminded Pease of the public hostility expressed during the 1913 Bank Act revision - a feature of the revision that was "a big revelation to the Banks." Ross was not a voice in the wilderness. The Bank of Nova Scotia's Richardson felt the pinch of public contempt and questioned the wisdom of printing the minutes of the Annual General Meeting in the Association's journal. He feared reporting

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805 CBAA 87-500-34: Executive Council Minutes, 27 September 1917.
806 Lowe, p. 68.
807 CBAA, 87-500-34: White to Ross, 13 June 1917.
808 Ibid., 87-526-25: "Memorandum for Mr. Pease, 27 November 1916."
the commissions the banks made on war loans and the rate banks paid for government advances would lead to "adverse comment and possibly unpleasantness."

Part of the problem was fundamental changes to the relationship between farmers and banks introduced by modifications to the Bank Act in 1913. Banks could now use seed grain as collateral and an amendment to the Act in 1916 permitted advances secured by cattle and other livestock. Bankers received additional security and were asked to expand their role in Canada's farming economy at a time when the number of farmers was growing quickly. There was a key element missing, however - formal long term, inexpensive credit facilities. Mortgage financing was largely dominated by loan and trust companies which offered farmers the comfort of a long term repayment plan but they did not have the economies of scale to deliver cheap credit. Many banks did have the size and were willing to entertain long term credits on an informal basis, extending short term loans on the understanding that they would be renewed as circumstances warranted. This gave branch managers and their supervisors reason to believe that if a problem arose and money needed to be called in quickly, they had the legal recourse available to them, something that formal, long term credits ruled out. War was not an expedient time for bankers to begin to try and formalize long term credit to western farmers that threatened their flexibility in an

\footnote{Ibid., 87-500-37: Richardson to Ross, 23 November 1917.}

\footnote{The Finance Act was supposed to alleviate this problem but borrowing under the Act carried a stigma with it that gave bankers cause to avoid it if possible unless for a specific government approved program such as financing the movement of crops or financing Victory Loan sales.}
uncertain time. Despite these realities, the move to a professionally administered and active association, able and willing to battle with bank critics for the minds of Canadians, came at a cost. In fact, a publicity campaign was estimated at $100,000, a price Association members were unprepared to assume in 1917 when increasing taxation, further demands for government loans, and uncertain futures dominated bankers' agendas.

The first push for a publicity campaign came as provincial governments in western Canada were seeking alternatives to chartered banks. Some of their constituents demanded lower interest rates, long term credit, higher interest on deposits, and no service fees. Rural credit societies and cooperative borrowing associations received the most encouragement and some bankers were imaginative enough to see opportunity in such endeavours. In one case the manager of a western branch of the Bank of British North America organized a cooperative loan association in a rural area that secured more borrowing power for farmers using members' collective resources. Individual members enjoyed more room to negotiate better loan rates and it gave the Bank of British North America better security. The branch manager did not organize the cooperative without drawing criticism from his only rival in the area.

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811 Pressure to repay loans is illustrated in NA White Papers MG27 II D18 V. 1. File 3 (b): Hugh Clark to White, 30 October 1917 and attached petition from the Revelstoke, B.C., Board of Trade. For an excellent account of how service charges irked customers refer Ibid., C.A. Lingham to White, 4 November 1918. Banks were divided over the usefulness of legislation allowing them to loan against livestock. See MT 3 March 1916.

812 CBAA 87-526-25: Ross to Pease, 27 November 1916.
Imperial Bank pointed to a local agreement with the Bank of British North America to charge 8 per cent for loans which the branch manager of the British ignored when lending to customers borrowing through the cooperative loan association. Soon the Imperial branch lost customers and it responded by reducing loan rates regardless of whether or not the farmer was a member of the cooperative. The Imperial Bank viewed the innovation of the Bank of British North America and the resulting drop in loan rates as a "breach of their understanding over charging 8 per cent for loans."813

Other alternatives to banks were not so well designed. In Manitoba a provincial institution was created and advertised as the Manitoba Cooperative Land Bank in 1917 which promised easy loans to farmers and interest on their deposits at 4 per cent. It offered savings certificates and promoted them as cashable at par at any bank, a ploy that won the confidence of many customers and the dismay of bankers who were not consulted and had no arrangements to negotiate the certificates.814 The Manitoba government also passed legislation on rural credit societies declaring the maximum interest banks could charge on loans to societies was 6 per cent, again without consulting the CBA or any of its members.815 Manitoba seemed intent on embarrassing the banks and their association rather than finding mechanisms that allowed provincial institutions to build relationships with bankers. The consequences did nothing to help the Association lessen the popular appeal of bank critics.

813 Ibid., Western Sub-Section Minutes: 4 April 1917.
814 Ibid., 8 August 1917.
815 Ibid., 27 August 1917.
Ross worked well with Edson Pease who was the most esteemed banker in financial circles when he came to the presidency. While wary of Pease's and The Royal Bank's intentions, Williams-Taylor told Ross that "Pease is the banker among us who in himself has achieved more, single-handed, than any of his contemporaries." For Pease, the presidency of the CBA offered the opportunity to do two things. First, it gave him a platform to announce reforms to the banking system which he thought essential if the banks were going to help the country through anticipated economic difficulties following the war. Secondly, the presidency furnished Pease a new tool to use against the Bank of Montreal and the advantage it enjoyed over the Royal and other banks as a result of its favoured position as the government's banker.

Pease's immediate concern was advocating reforms to the banking system. Western agitation against the banks increased during the war and western premiers, such as Alberta's A.L. Sifton, often inflamed tensions with irresponsible speeches. Pease did not let this pass unnoticed and one of the first issues he brought to the attention of the Bankers Association as president was the demand for an agricultural

\[\text{\footnotesize 816 CBAA 87-526-20: Williams-Taylor quoted by Ross, See Ross' retirement speech, 8 November 1934.}\]

\[\text{\footnotesize 817 Sifton complained that the banks directed $20 million to speculative loans at the expense of legitimate commercial loans as their deposits increased. He wanted legislation controlling the investment policies of the banks as a result. The Alberta premier was apparently unaware that the banks had been compelled to take up more than $20 million in government securities that allowed White to give the Imperial Munitions Board its first $50 million credit. See MT., 28 January 1916.}\]
The danger of ignoring the plight of farmers was suggested by R.B. Bennett, at that time a Calgary MP who was well acquainted with western criticism of the banks. Bennett advised the Executive Council that "an application would be made to Parliament at the coming Session on behalf of the farmers in three western provinces for the right to establish...Agricultural Banks with a capital of $100,000." If it was denied, warned Bennett, the promoters were determined to go to Britain and seek an amendment of the British North America Act allowing provinces the power to establish the banks they wanted. There was little comment made after Bennett spoke, but that was not cause for Pease to be disheartened. Others could see promise in an agricultural bank and Pease found an ally in the Bank of Montreal's Eastern Division supervisor, F.J. Cockburn, an experienced banker familiar with the state run Western Australia Agricultural Bank which had nearly 9,000 customers with an average debt per customer of £308. That bank provided long term financing to farmers, allowing them to carry the costs associated with their land and meet expenses incurred raising crops and livestock. The Australian bank proved especially useful for farmers unable to supply the

\[8^{18}\] When White amended the Bank Act in 1916 to allow banks to lend against livestock, Laurier observed that banks 'as a rule, did not favor lending to farmers,' and suggested agricultural banks would be needed. Laurier may well have realized that the midst of war was not an opportune time for bankers to begin a new relationship with Canada's farmers. See MT., 25 February 1916.

\[8^{19}\] Ibid., Executive Council Minutes, 14 February 1917.

\[8^{20}\] Ibid., 87-524-38: F.J. Cockburn to Pease, 28 February 1917; S. Kent, Sub-Manager, Bank of Australia, to Cockburn, 10 April 1918. Pease's interest in an agricultural bank seems to have emerged in the summer of 1916 in light of western complaints about the banks and calls for agricultural banks. Refer Pease to Morley, 15 September 1916.
necessary security or income to warrant credit from commercial banks. It gave them an opportunity to establish themselves, after which they tended to borrow "on overdraft from an ordinary Bank; thus the best business passed from the Agricultural Bank to the commercial banks. 821

Cockburn believed the Australian bank was a success and so did the general manager of the Bank of Hamilton. 822 Pease envisioned a similar bank for Canada and suggested that it should lend long term money to farmers to buy land, to purchase stock, and to carry grain over a season secured by the grain itself. 823 Despite initial sympathy, Pease did not win the favour of the one person at the Bank of Montreal who could make or break any effort to start an agricultural bank, Williams-Taylor. Since Clouston's death the Bank of Montreal remained furtive in its relations with the CBA and while Williams-Taylor liked Pease, he and Meredith knew they faced an astute opponent who was one of many who wanted a larger piece of the government's business. This put Williams-Taylor and Meredith on the defensive and made them suspicious of changes to the banking system that might hurt the interests of their bank. 824 Just as Pease

821 Ibid., Kent to Cockburn, 10 April 1918.
822 Ibid., Bell to Morley, 12 September 1916.
823 Ibid., Ross to Williams-Taylor, 9 March 1917. The first discussions of a government run agricultural bank appear before Pease came to office. In March 1916 the Western Sub-Section of the CBA met with farmers to discuss such a proposal. See MT., 24 March 1916.
wanted to take the Association down a more progressive road, the Bank of Montreal began pulling the other way. In this environment an agricultural bank was doomed. When post-war western agitation flourished, all the CBA could offer was an "education campaign" telling western farmers "that no system of banking has been devised that would meet the requirements of rural communities as effectively as our present Canadian Banking system..." It was a disingenuous effort that failed.

Pease's proposed agricultural bank was the first victim in a larger battle to change the face of Canadian banking and prepare for the anticipated post-war economic fallout. The new president of the Association was willing to sacrifice his proposed agricultural bank without public comment but showed far more determination to win the fight for a central bank. This battle was about breaking the Bank of Montreal's hold on government business as much as it was about bringing greater stability to the banking system. As a member of White's Bankers Advisory Committee, Pease witnessed the stigma attached to banks that needed the Finance Act. He also recognised that the fear of this stigma prevented bankers from utilizing the resources the Finance Act put at their disposal and, in turn, they were less able to accommodate their customers and keep the economy rolling. To Pease, a central bank seemed an effective solution to the problem. During much of 1917 he quietly tried to

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826 Pease's desire to prepare in advance for the coming turmoil after the war is found in MT, 9 February 1917.

bring a central bank of re-discount to Canada, approaching the Bank of England to learn if it would establish a Canadian branch for the purpose, and then the US Federal Reserve to determine if Canadian banks could re-discount with it and if The Royal Bank might act as the Reserve's Canadian agent.\textsuperscript{628} Pease's efforts to look abroad and circumvent anticipated opposition from the Bank of Montreal as well as the Bank of Commerce ultimately failed.\textsuperscript{629} At the annual meeting of The Royal Bank in January 1918, Pease made public his campaign for a central bank. He launched a public debate and entangled the CBA in a dispute involving its most powerful members that threatened the progress Ross made since his arrival in late 1916.

Pease's fight ultimately proved futile. Reasons for this have been explored by Linda Grayson and Duncan McDowall. In the final analysis McDowall's emphasis on rivalry between the Royal and the Bank of Montreal best accounts for Pease's failure. Arguments that the CBA effectively lobbied White to reject Pease's scheme are untenable.\textsuperscript{630} As president of the Association, Pease launched a two prong attack on the Bank of Montreal's cherished position as the government's banker by publicly promoting a central bank and privately turning the Association against the Bank of Montreal's privileged position. At the core of the grievance against the Bank of Montreal was the continued expectation from White that all banks would finance government

\textsuperscript{628} McDowall, p. 154.

\textsuperscript{629} The Bank of Montreal rejected anything that threatened its position as the government's banker and the Bank of Commerce was worried about losing its note issue power which was an important source of profit for the bank.

\textsuperscript{630} Grayson, p. 40.
wheat purchases and participate in government war loans while the Bank of Montreal monopolized government deposits. In the fall of 1918 White had arranged for the banks to finance the government's purchase of wheat from western farmers but the proceeds of the loan, which all the banks contributed to and which amounted to $71 million, remained on deposit at the Bank of Montreal. The general manager of The Bank of Nova Scotia, Harry Richardson, complained about "the advantage gained by the Bank of Montreal and the liberty it gave them to quote commercial rates that were difficult for other banks to meet." He asked Pease: "Do you not think it is possible, by concerted action on the part of half a dozen of the larger banks, to remedy this anomalous situation?" If not, suggested Richardson, then it seemed to him "perfectly logical that when the Minister asks you to Ottawa to discuss with him arrangements for financing the grain crop, he be simply referred to the Bank of Montreal." Pease certainly thought "concerted action" was possible and launched a behind-the-scenes attempt to divide the Bank of Montreal business among all the chartered banks while the public debate about a central bank was ongoing.

Grayson's appraisal of Pease and his effect on White suggests the president of the CBA lost the argument with Meredith, Williams-Taylor, and Walker over the benefits

\[\text{\footnotesize \ref{footnote:1}}\]

\[\text{\footnotesize NA White Papers MG27 II, D18 Vol 2, file 5 (a): Harry Richardson to Pease, 5 October 1918.}\]

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\[\text{\footnotesize \ref{footnote:2}}\]

\[\text{\footnotesize \ref{footnote:3}}\]
and need for a central bank of re-discount. Records at the CBA suggest the opposite. By July 1918 Pease had won over White and wrote to Ross telling him: “You will be surprised to learn that the Minister is full of the Central Bank scheme and asks me to have you prepare an act to be considered at our meeting in Toronto... [and that] He is anxious to put the Act through the coming session of Parliament.” Pease’s success brought vigorous protests from Meredith and Williams-Taylor at the Bank of Montreal because it threatened the government business that the Montreal bank enjoyed. The debate was no longer about a central bank and its merit. White was already convinced of that. The question now was “whether the Bank of Montreal is to continue as the Government Bank or whether the Government’s accounts are to be divided among all the banks without exception.” The answer would determine in large measure the character of the new central bank. Pease and the Association lined up against the Bank

834 Grayson, p. 39.
835 CBAA 87-524-21: Pease to Ross, 18 July 1918.
836 White wrote to Williams-Taylor privately conveying his decision that a central bank was timely. The finance minister told Williams-Taylor that “the whole subject is, I realize, a very important one and I desire to have it fully discussed and to give it ample consideration before taking action. After such thought I have been able to give it I have come to the view that the creation of such an institution would be helpful to our banking system, would relieve the Government of much administration which we cannot conveniently carry out departmentally, and would, in addition, meet demands, which are bound to grow, for increased banking facilities in Canada.” Refer NA White Papers MG27 II, D18 V. 2, File 5(a): Marked “Private,” White to Williams-Taylor 20 January 1919.
837 Ibid., White to Pease, 14 May 1919. The context of this letter was lost on McDowall who assumed it directly pertained to the central bank debate. See McDowall, p. 156.
of Montreal. The Commerce, which had opposed a central bank, was now firmly on Pease's side. From the Bank of Montreal's perspective, accusations that it was "over liquid" and that it, rather than Association members, should finance the bulk of the government's needs, were not new. Its defence was clearly spelled out to the minister as early as July 1917 when Williams-Taylor informed White that

an examination of the balance sheets of the other Banks of Canada will show that certain of them have loaned a greater portion of their money to the commercial community than is wise in these times, or even in peace times. This being admitted, then the deduction is obvious that the Bank of Montreal must not be constrained by the banking community to take more than its fair share of Government loans, as it would literally mean that this Bank, which in my deliberate opinion has never swerved from the course of sound banking, would, in these days of financial stress, be penalized, as in days of peace we have for years been penalized through being forced to carry the maximum of reserves in consequence of certain Banks carrying inadequate reserves.  

By the end of 1918 a petition was ready requesting the government to change its banking arrangements. All the banks were prepared to sign it except The Bank of Nova Scotia, which insisted the finance minister look to the Bank of Montreal for its future financing needs if it was going to keep placing the vast majority of its deposits with that bank. The petition was sent to White and another petition was forwarded to Britain's Exchequer. Pease wanted to divide the business that both the Canadian and British

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636 Ibid., Richardson to Pease, 9 January 1919; Richardson to Pease, 5 October 1918.

637 Ibid., V. 1 File 1: Marked "Confidential," Williams-Taylor to White, 5 July 1917.

640 Ibid.
governments gave the Bank of Montreal. Determining the merits of a central bank was far easier for White than tackling the politically dangerous question of turning his back on Williams-Taylor and the Bank of Montreal which had done all it could to help him and Borden's government through the war. White did not betray Williams-Taylor or endanger political ties between the Tory party and the Bank of Montreal and many of the companies it was associated with by redistributing government business. By March 1919, White was assuring Meredith that "no action" would be taken on the central bank question, and ultimately the division of the government's business, until further consultations between them took place. The Finance Act remained in place and it was left to another finance minister to decide what should be done with the government's business.

When the Versailles Treaty was signed on June 28, 1919, it marked the end of an era. The CBA was divided and unprepared despite Ross's skill as an administrator. Pease had convinced White that a central bank was needed but White could not bring himself to divide the government's business between the banks and abandon the Bank of Montreal. Rivalry had again hurt the CBA and the banking system, leaving several CBA members unprepared for the economic turmoil that was anticipated. Pease and others were bitter. In May 1919, he was still trying to whittle away at the Bank of Montreal's government business and sent another petition signed by Association members decrying the issue of interest cheques on Victory Bonds drawn on the Bank of Montreal.

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Montreal. Williams-Taylor told Pease "We take strong exception to the action of the Association in lodging a protest inimical to our interests..." and noted that "this is the second attempt within a short period by which the competitor banks have sought to alienate the Government business from the Bank of Montreal, where its has been carried since Confederation...." Competition between the banks was alive and vigorous. It cost the country a central bank that might have eased the economic transition from peace to war. It also cost the Association which entered the post-war period divided and without the financial tools at its members disposal to lessen the growing popular appeal of bank critics.

The outbreak of the First World War unveiled a weak bankers' association that could not fulfill its original mandate to protect the contributors to the Redemption Fund and ultimately the public from weak banks. Banks that wanted to limit deposit rates to 3 per cent were frustrated by rivals who ignored the agreement and received no satisfaction from the Association. During the revision of the Bank Act in 1913, the secretary of the CBA undermined what political credibility the CBA might have claimed with Liberals and Tories. When the prelude to war pushed Canada into a fiscal crisis the finance minister turned to a small group of trusted bankers and used the Association to sell changes to the financial system that he and his Advisory Committee devised. During the war members of the Association were called on to bail out the incompetence and bad luck of

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*82 Ibid., Williams-Taylor to White, 18 June 1919; Williams-Taylor to Pease, 18 June 1919.
loan and trust companies at the finance minister's request and to contribute huge sums to government loans for various war projects that saddled them with low yield securities that weakened their earning power. New taxes from all levels of government added insult to injury and some bankers resented their treatment at the hands of White. Bankers pushed back when able but they were largely left to play the hand the government dealt them. They tried to do this through their Association by pursuing a service charge agreement to raise revenues. Competition was not so easily defeated and the quest ended in failure just as a similar drive to limit branch openings did. When success came it involved renewing the 3 per cent agreement for deposits when money was again plentiful and the need to pay more than 3 per cent lessened.

As the war progressed, members of the Association recognized their vulnerability in a changing political and economic environment where protests against levying taxes on the banks fell on deaf ears and commissions paid on loans that barely covered the banks' administrative expenses drew public contempt. A new resolve emerged to build an administratively strong body that could help members cope with changing times and the new demands bankers faced. A step in that direction was realized in 1916 when Henry Taylor Ross left the finance department and joined the Association as its secretary. He gave the Association much needed credibility in the eyes of the finance department and he was largely responsible for putting together a new administrative infrastructure that allowed the corporation to coordinate policies with Ottawa relating to Victory Bond sales and address more issues of concern to its members than it had in the past, particularly inter-bank routines where efficiencies could be found and passed
along to members. His most important contribution during the war years, however, was turning the Association into an administratively credible corporation that generated interest among members and new respect at the finance department. Ross realised public opinion mattered and began efforts to direct some of the CBA’s energy toward a more active role answering bank critics. What he could not do was alter the spirit of competition that animated bankers and that proved a near continuous stumbling block to a great many collective efforts to improve revenues and reduce expenses. When the war ended, the inability to overcome rivalry for the sake of improving the banking system remained the Association’s greatest weakness.
Old Problems In A New Era:
The Canadian Bankers Association, 1919 - 1924.

Chapter Six

In November 1918, the CBA was better poised but no better equipped to regulate its members. Rivalries persisted and complaints about "ruinous competition" surfaced in the press.\(^{643}\) Two hundred new branches by January 1919 signalled that the banks' own war of attrition had begun. The proliferation of new branches was inspired by an uncertain future and four years of remarkable economic expansion. By 1921 the number of prairie farmers had increased by 114 per cent compared to 1911. Acres under cultivation across Canada climbed from 48.3 million in 1911 to 70.8 million in 1921. The majority of farmers, 86 per cent, owned their own farms and more than 157,000 of them also owned motor cars in 1921, many financed by banks.\(^{644}\) Driving growth was a soaring national income which climbed from $2.4 billion to $4.2 billion between 1913 and 1919.\(^{645}\) Inflation climbed to historic heights as well. The cost of living began trending upwards by the middle of the war; 8 per cent in 1916, 23 per cent

\(^{643}\) Intensified competition is reflected in CBAA, Western Sub-Section Minutes, Annual Report 1919. The banks opened 200 new branches between 12 November 1918 and 29 January 1919. Also see Clarence Bogert's speech, MT, 31 January 1919.


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the next year, another 20 per cent the year after that. Bankers scrambled for a secure footing before the anticipated "post-war adjustment." Some found it, others did not. When the "new era" started, Canada's banks held more deposits, financed more farmers, more merchants, more industrialists, and more governments than ever. They were now the people's bankers.846

This chapter examines the CBA's final fall from grace during Canada's first "Decade of Discord."847 Class-consciousness, egalitarianism, political assertiveness - all were added to the country's mix of regions and peoples. Canadians, like many of their politicians, were torn between expanding the government's role in the economy and limiting it. Negotiating these political tides proved both difficult and dangerous for the Association. In the West, the politics of rural credit, over-production and poor service hurt the CBA's members. As a national debate about Canada's economy and banking system unfolded after the war, most of the CBA's members publicly discounted the need and ability to manage monetary and credit policy and appeared content with the dictates of an unwieldy market that made bankers appear heartless in the face of

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846 Total deposits due to the public on demand climbed from $381 million at the end of 1913 to $711 million by the end of 1918. Fixed deposits payable to the public after notice or on date of maturity stood at close to $625 million at the end of 1913. Five years later that amount had grown to more than $1.1 billion. C.A.Curtis, Statistical Contributions to Canadian Economic History: Statistics of Banking, V. 1 (1931), pp. 22-23. Bank loans in 1916 totalled approximately $740 million; by October 1918 that figure climbed to more than a billion. MT, 3 January 1919.

847 Canada's inter-war period is discussed in John Herd Thompson and Allen Seager, Canada, 1922-1939: Decades of Discord (Toronto: McClelland & Stewart, 1985).
misery. The great battle in Canada's banking narrative unfolded in the early 1920s when more banks failed and more depositors and shareholders lost money. The flexibility of the Bank Act returned to haunt the CBA and its members. Faced with increasing taxes and tough competition, bankers were wary of changes that might jeopardize their bank's ability to survive. Had Pease's bid for an agricultural and a central bank succeeded, bankers would have had new tools to cope with high inflation, unemployment and popular fears about the "money-monopoly." His failure stripped the Association of any progressive edge it might aspire to and left nothing for voters demanding a different banking system for a different kind of economy. Mackenzie King's Liberals took the first step towards a different system when they imposed government inspection on the banks, a decision that deprived the CBA of a mandate it had never fulfilled and forced banks to live by a Bank Act they traditionally skirted when it undermined their competitiveness. Much of the flexibility bankers cherished was gone. When the Bank of Canada appeared on the horizon in the early 1930s, the CBA had branded itself as a reactionary body unable to answer the concerns Canadians had

Sir Edmund Walker's testimony before the Committee on Banking and Commerce is a typical example of this. CBA, Bank Act Revision Proceedings (1933), pp. 503-506. J.P. Day, A Central Bank in Canada (Toronto, 1933), pp. 41-43.

An interesting expression of this fear was produced by a former bank clerk and union organizer in 1914. J.P. Buschlen's conspiracy theories were a call on the "little man" to strike a blow against colluding financiers in the name of public and business interests. J.P. Buschlen, The War and Our Banks (Toronto: Hollingsworth & Buschlen, 1914). A more influential critic was the United Farmers of Alberta, which met in January 1919, criticized the banks, and heard from J.W. Leedy, former governor of Kansas, who argued that "the Bankers Association could do as they liked with the prosperity of the country." MT., 31 January 1919.
about their banks.

Social strife followed peace. Inflation, unemployment and unrealised ambitions turned social reformers, women's groups, workers, farmers, Westerners and Maritimers into protestors. The "new era" began with upheaval and discord. The same was true at the CBA. Edson Pease's appeal for a central bank was as much about managing Canada's credit as wrestling the government's account from the Bank of Montreal. Pease and Sir Vincent Meredith "were not on speaking terms." Sir Frederick Williams-Taylor and The Royal Bank's general manager, Charlie Neill, "barely tolerated each other." The Bank of Hamilton's J.P. Bell clashed with the Commerce's Frank Jones and Harry Richardson battled with the Merchants' D.C. Macarow. A frustrated Richardson warned that The Bank of Nova Scotia would not be subjected to the "odium and loss of business" due to rivals who ignored arrangements at their pleasure, sentiments others repeated time and again. Post-war uncertainty sharpened criticisms. Pease could do little to foster cooperation. Even the Banque Provinciale ignored his pleas to stop opening Saturday

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851 CBAA 87-532-22: Bell to Pease, 15 October 1919; Pease to Bell, 16 October 1919.
852 Ibid., Richardson to Bogert, 27 May 1920; Macarow to Bogert 1 June 1920. There are also several other letters in this file pertaining to this dispute which even included a carefully worded statement from the customer in question which did not say he was receiving a higher rate but neither did he say he was not, a point that irked Richardson when he found out about it.
evenings in Windsor, Ontario. As bankers argued, tensions between the CBA and the finance department's deputy minister, T.C. Boville, grew. He wanted the banks to pay interest on government deposits made during the Victory Loan of 1918. Ross, for all his administrative abilities, could do little to dampen competition or temper tides of ill-will. The Association entered the post-war period hobbled by dissension.

Backroom contests spilled into the streets. The West was the battle ground: 173 branches were opened there before the Armistice was three months old. Experienced bankers had yet to return from the front and scant resources were stretched at the cost of service for "a future that never came...." Canada had 8.7 million people and roughly one branch for every 2,300 of them. Mergers eased the strain but they brought their own troubles, stoking fears of a "money monopoly" that the finance minister, Sir Thomas White, encouraged by openly opposing mergers unless a "bank is in danger of failure." Each consolidation "was occasion for a hostile demonstration both in and

\[\text{\textsuperscript{853}}\] Ibid., 87-517-02: Pease to Bell, 20 January 1920.

\[\text{\textsuperscript{854}}\] NA FD RG19, V. 4010: Williams-Taylor to White, 4 February 1919; T.C. Boville, "Memo Re Loan 1918," 2 July 1919. The government had millions on deposit for short periods and the banks successfully argued that because the Canadian money market could not possibly absorb the short term money flowing in for Victory Bonds, they could not generate revenue from it and pay interest to the government. The debate, however, was not easily won.

\[\text{\textsuperscript{855}}\] NA W.C.Good Papers, MG27, III C1 V. 17: Good interview with Mr. Reynolds, manager Canadian Bank of Commerce, Prince Albert, Saskatchewan. NA White Papers, MG27 II D18 V. I file 4(a): Richardson to White, 17 February 1919. At this time Richardson estimated there was 1 bank branch to every 2,300 Canadians. The ratio in the US was estimated at 1 to 3,600; in Britain 1 to 4,800.

\[\text{\textsuperscript{856}}\] Evidence that changes to the Bank Act in 1913 that required mergers to be approved by the finance minister were imposed to put the brakes on an unpopular trend
outside Parliament and made White appear as if he was buckling under pressure from powerful bankers. To skirt criticism the Canadian Bank of Commerce said nothing about buying Winnipeg’s Alloway & Champion in 1919, the city’s oldest and most successful private banking firm. Silence was impossible in April when The Bank of Nova Scotia bought the Bank of Ottawa, a victim of its dependence on the Ottawa Valley’s declining lumber trade and a fruitless expansion bid in western Canada.

The Bank of Nova Scotia financed more Winnipeg grain shipments than its

in the banking industry. White states his views in Ibid., file 1: Marked “Private,” White to Meredith, 22 July 1922. Fear of the money monopoly is typified in a resolution presented to White by the Brantford Trades and Labour Council in April 1918 condemning mergers and calling on the government to nationalize the banks. Ibid., file 3(b): Brantford Trades and Labour Council to White, 9 April 1918. White’s opposition to mergers between apparently sound institutions was made clear to the press and the country when he turned down the Royal Bank/Bank of Hamilton merger in 1915. See Ibid., V.1 file 4(a) “Bank Mergers 1913-1919.” R.R. Morgan to White, 10 April 1916. Also see NA FD RG19, V.489 file 619-21: Ross to R.R. Morgan, 5 December 1916.


Alloway and Champion developed a particular skill in western real estate and serving the financial needs of new immigrants to the west. The deal with the Commerce was not revealed to the public until 1923 when disclosure was required by law. See Michael Bliss, Northern Enterprise, pp. 281-282. Also refer MT, 11 January 1924.

NA White Papers, MG27 II D18 V.1 file 4(a): Richardson to White, 17 February 1919. Richardson told White that the Ottawa bank’s western expansion plans led the bank’s directors to consider selling the institution. This is supported by the Ottawa’s general manager, D.M. Finnie, who admitted the Ottawa was really a provincial bank, could not raise the capital needed to expand its operations and found that it could not effectively compete with larger banks in the loan business. See Ibid., Finnie to White, 12 February 1919 and H.V. Cann to White, 14 January 1919. Further support is found in SGA where extensive losses at the Winnipeg branch of the Bank of Ottawa are detailed in the J.B. Monk file.
competitors and was far more practiced in international trade than the Ottawa, a factor that proved key to White's approval. The finance minister was conscious of the public's misgivings, but worried more about facilitating exports and protecting Canada's currency. Critics saw one solvent bank absorb another. The same was true three years before when the unenterprising Quebec Bank merged with the larger and well managed Royal Bank. Opponents were left to guess the reasons behind the March 1918 sale of the popular Bank of British North America to the Bank of Montreal. White could hardly admit the deal thwarted Lord Beaverbrook's attempt to take over of the British bank and export its deposits to finance his Caribbean adventures. Almost every amalgamation appeared in the press in much the same way - a blow to competition, a perspective that resonated in the West where only one large bank was based in 1919. The Union Bank of Canada, which moved its head office from Quebec

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80. Ibid., White to E.W. Nesbitt, 11 February 1919. The Bank of Ottawa had no export financing business. The importance of Scotia's export finance experience was critical to White's approval, a point that did not reach the press or the official history of The Bank of Nova Scotia. Critics of the deal assumed Borden's long ties to The Bank of Nova Scotia paved the way for the merger. See Nesbitt to White, 8 February 1919.


82. NA White Papers, MG27, II D18 V. 1 file 1: various letters between Meredith and White, dating from July 1915 through to January 1918. It is interesting to note Meredith's frustration and expectation that the Bank of Montreal, after its service to the country, "might reasonably look for your and the Premier's favourable and friendly co-operation." An interesting study of the Bank of British North America by Richard Stuart argues that Meredith impressed White by "wrapping the Bank of Montreal in the flag" and pointing to the danger of Beaverbrook's plans which would create a larger British presence in the field of Canadian banking. This was important but not so much as the fear that deposits would leave the country in the context of the Canadian financial situation. Richard Stuart, The Bank of British North America, Dawson, Yukon, 1898 - 1968 (National Library of Canada: MRN324, 1979).
City to Winnipeg in 1912, stayed clear of mergers but formed a “close alliance” with the National Park Bank of New York in 1918, launching a joint banking company.\textsuperscript{663} When the war began Canada had twenty-one chartered banks. Few Canadians understood why five had disappeared by the summer of 1919.

Business uncertainties and bankers’ rivalries were paralleled by political unease. The Union Government, elected in December 1917, was a coalition of English Canadian Conservatives and Liberals who supported Borden’s divisive Military Service Act. Unionism was touted as a new kind of government and gave rise to fanciful expectations of a new social order.\textsuperscript{664} Peace undermined the pretence to the dismay and anger of Unionist supporters. Borden escaped the day to day fallout at the Versailles Peace Conference and entrusted the government to White who was appointed acting prime minister in November 1918. His job was difficult. Demobilizing soldiers, unemployment, high inflation, labour militancy, and the ongoing need to finance the government’s many commitments left little time to consider what plagued bankers and how to cure it. Bankers and their association were very much on their own in a changing political and economic environment full of new hazards.

The Association proved ill-equipped for post-war politics. Ross was a seasoned civil servant who knew the finance department and how it operated, but dealing with critics in the press, public complaints in town halls and politicians who trafficked in

\textsuperscript{663}\textit{CAR.} (1918), p. 571.

\textsuperscript{664} For a discussion of the expectations foisted on Unionism refer Brown and Cook, pp. 294-296.
grievances was beyond him. Perhaps Ross and others were lulled into a false sense of confidence by their admission to the inner chambers of government where they helped White and the prime minister finance the war. They provided financing and depended on politicians to sell changes to the banking system, especially mergers. Consequently, they distanced themselves from the difficult business of explaining a changing banking system and the results showed. The Bank of Montreal’s president, for instance, thought nothing of writing off protestors as voices from “unimportant quarters.” 865 Political leaders, in contrast, viewed them with increasing respect. White, in fact, resisted the Bank of Montreal’s bid for the British for three years until fears about Lord Beaverbrook forced him to act. Bankers needed to exercise tact and come to terms with Canada’s changing political reality.

Discretion was paramount but too often absent. The minister of labour, Gideon Robertson, had high expectations when he asked bankers for their post-war plans. He worried about jobs for demobilized soldiers and assumed the banks’ female staff were temporary. 866 Clumsy answers from some institutions drew fire in cabinet meetings. Walker’s Commerce, for instance, said it would not dismiss any of its 1,300 women employees “if hardship would be created;” the Merchants Bank kept 565 women clerks

865 NA FD RG19, V 488 File 619-3: Meredith to A.K. Maclean, 21 March 1918.

866 NA White Papers MG27 II D18 V.1 file 3(b): Robertson to White, 16 December 1918. Attached to this letter is a synopsis of the banks’ replies to Robertson’s query. Most did not give exact figures showing the numbers they employed but from the figures given by some, 5,000 seems a reasonable estimate of the number of women employed at the banks.
and simultaneously refused employment to eighty veterans it deemed undesirable.\textsuperscript{887}

The CBA bore the brunt of such lapses when their members failed to make clear from the outset that they intended to rehire as many veterans as possible. Uncertainty around the banks' position gave White reason to tell Pease what he expected: "the returned soldier," he said, "if fit to resume his former occupation, is clearly entitled to it as against anyone, no matter how deserving, who may have temporarily filled his position...." White closed his communication with an ominous warning: "Any well founded criticism against our financial institutions on the ground of lack of sympathy with the claims of their returned employees would be most unfortunate."\textsuperscript{888} Indeed it would be. It had been difficult enough trying to explain commissions banks were paid for selling Victory Bonds in the past and if the public believed they were not willing to rehire soldiers after the war, White would have trouble explaining further commissions which were essential to the successful administration of the Victory Bond sales, a job the finance department gladly handed to bankers when they realised that selling bonds in small denominations to more than a million Canadians presented an unprecedented task.\textsuperscript{889}

Labour militancy did not leave the banks unscathed either. Canada's unions

\textsuperscript{887} Ibid., Robertson to White, 16 December 1918.

\textsuperscript{888} Ibid., White to Pease, 18 December 1918; Pease to White, 19 December 1918.

\textsuperscript{889} NA FD RG19 V. 4010: Williams-Taylor to White, 4 February 1919; T.C. Boville, Memorandum, 4 February 1919. There were 1,079,488 subscriptions to the 1918 Victory Loan Campaign which the finance department would have had to manage if not for the banks.
were on the march, increasing their membership by 50 per cent in 1919 alone. Bank clerks became the focus of some Canadian organizers who had the support of Samuel Gompers’ American Federation of Labor. Bankers could not afford to dismiss organizers as “red flag wavers” any more. To undercut their appeal, most banks increased their clerks’ salaries by 15 to 25 per cent in 1919.\^70 It was effective but fears lingered. In the fall, New York City’s Bankers’ Union struck several institutions and succeeded in winning a 25 per cent wage increase for clerks at the Chase National Bank. In the aftermath some bankers viewed Montreal’s fledgling Association of Bank Clerks as far more menacing than it was. The CBA hired the Thiel Detective Service to investigate and shared transcripts of the meetings with the Bank of Montreal.\^71 This miscarried when the bank summarily dismissed an employee who attended a union meeting. Such impulsiveness caught the attention of Sir Henry Drayton, who had assumed the finance portfolio in August 1919 and wanted no more labour troubles. The CBA again faced questions about its members and Drayton asked for a report on the incident. The Association refused. It argued the dismissal was the Bank of Montreal’s business, a position that satisfied the Montreal bank and distanced the Association from an ill-judged decision.\^72

\[^70\] CBAA 87-516-17: Ross to J.W. Tyson, 24 March 1920.


\[^72\] Ibid., Bogert to Williams-Taylor, 3 January 1920; Williams-Taylor to Bogert, 5 January 1920.
The Great War and its economic aftermath exposed gaps in the financial system that banks could not close on their own. The banks' preference for loans advanced on short term notes they could renew as required exacerbated the insecurity of prairie farmers and gave them cause to appeal to governments for reform. Insecurity was coupled with disappointment when dreams of personal fortune crumbled in the face of adversity. Frustration with the West that people imagined and that brought tens of thousands to the prairies caused some to envision a different kind of western Canada, one committed to creating a classless society. The merits of such a project appealed to a growing number of prairie farmers after the war when capital seemed a better barometer of success than hard work. The West seemed to have shed its pioneering image overnight and revealed a society some found unsavoury. "A crude individualism has prevailed among us," lamented one observer, "and we have forgotten justice." Such sentiments reflected an emerging cultural battle pitting individualist aspirations against collectivist and social gospel impulses. Canada's bankers were caught up in the political tempest that followed.

Historians and economists have said little about prairie banking despite the political storm that swirled around financiers and western farmers before and after the war. W.T. Easterbrook's dated study of farm credit depicts a financial system unsuited to farmers' long term credit needs and T.D. Regehr's more recent essay suggests

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bankers could have done a much better job addressing western concerns had they been more innovative.874 Bankers and their relationship to the Prairie West cannot be explained by their public allegiance to orthodox banking principles as alleged by Easterbrook and Regehr. On the ground, orthodox principles were interpreted differently by different banks and served as flexible guidelines in a lending process where the nature of assets secured as collateral was not as important as their value and a borrower's character.875 Efforts by politicians to “sort out” the relationship between banks and the public are identified as important to the story but its centrality has been missed. When politicians, especially in the five years following the Armistice, proposed meeting popular demands for reforms that focused on the kind of credit banks dispensed, the CBA and its members showed every willingness to help. Governments, on the other hand, were less interested in fixing their constituents' problems than shifting responsibility for reform and the financial obligations it entailed to the banks with


875 Part of the problem facing historians over the years is the lack of information on many of Canada's banks that disappeared in mergers and other banks that exist today but are reluctant to open their archives to study. Regehr uses statistics from The Bank of Nova Scotia to suggest the West may not have been a debtor region in the interwar years. But that bank's history in western Canada is one of caution and is very different from the Canadian Bank of Commerce, for example, or the Union Bank of Canada. When the Scotia first ventured to Winnipeg in the early 1880s it lost large sums and closed shop only to return later when better prospects and prudent management offered improved returns. The difference between The Bank of Nova Scotia's approach to the West and its rivals is perfectly illustrated by the Bank of Ottawa. Its Winnipeg branch looked good on paper, but when Scotia officials went into the details of its portfolio they found enormous losses that the Ottawa bank had not recognized. See SGA, J.B Monk file and Ottawa Bank details.
little regard for the potential consequences.

At the root of troubles facing many prairie farmers was the federal government's policy prohibiting lenders from collateralizing homesteads until title was granted. Homesteaders needed credit and generally accumulated debts of $600 to $800 in their first three years and expended several thousand dollars in the eight years it often took to turn a farm into a viable business. But the federal government's homestead policy made the first three years extremely difficult and was seen by Ottawa as one means to protect settlers from losing their quarter section to "financial misfortune." Homesteaders without title and no assets a bank could secure a loan against faced a difficult time raising the money they needed. They invariably had to rely on merchants, implement companies and private bankers who exacted a high rate for their credits. A near 40 per cent failure rate among homesteaders was an indictment of the financial resources made available to homesteaders as much as poor government policy and "environmental unsuitability."

The highly independent and very active Western Sub-Section of the CBA was

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877 With title in hand, a farmer could liquidate debt by placing a mortgage on the homestead but the shortage of credit during the three start up years left him at a disadvantage when trying to establish his business on a firm footing. CBAA Western Sub-Section Minutes, 1 March 1918. Government of Canada, *Homestead Regulations of North-Western Canada with an Abridgement of the Dominion Lands Act* (Ottawa, 1903); Walter Scott, *Homesteads and their Exemptions in Western Canada* (Edmonton: Books, 1917); Minister of Agriculture, *The Settler's Guide or The Homesteader's Handy Helper* (Montreal: William, Foster, Brown & Co., 1894).

878 Friesen, p. 310.
the medium used by western politicians to negotiate changes to lending practices. Its members were seasoned prairie bankers, most of whom were superintendents or managers of flagship branches. While some branch managers considered delinquent farmers "shiftless failures who must be weeded out,"\textsuperscript{879} such sentiments do not appear in the records of the Western Sub-Section. Indeed, Section members sounded much like prairie farmers when it came to the plight of homesteaders: "Many homesteaders of a good type fail to remain for the full three years," they complained, "for no other reason than inability to obtain enough credit to carry them through, and their failure is a serious loss to the nation."\textsuperscript{880} With the war over and wartime debts piled high and growing, the demand for change was never louder and the inability of the banks to respond never so ill-timed. Like the CBA's adept secretary, members of the Western Sub-Section could do little to foster cooperation and build a better relationship between bankers, prairie farmers and their political representatives.

Manitoba responded the quickest to appeals from struggling farmers and stumbled into financial ventures it did not fully understand. George Prout, a Liberal MLA who was disparaging of the banks, made the issue of better credit facilities his own.\textsuperscript{881} He approached Manitoba's premier, T.C. Norris, when the Liberal leader was

\textsuperscript{879} Regehr, p. 318.

\textsuperscript{880} CBAA Western Sub-Section Minutes: "Report of the Committee on Credits for Homesteaders without Patent," 1 March 1918.

\textsuperscript{881} Prout is described as the "founder, adviser and devoted friend of the movement," \textit{CAR}, (1920), p. 746.
seeking ways to buoy farmers’ support for his party. Prout suggested rural credit societies that were probably inspired by Germany’s Raiffeisen co-operative loan banks. They would offer short to medium term lending facilities and inexpensive credit to farmers - all farmers. Norris and his provincial treasurer, Edward Brown, saw the proposal in a different light. By supplying cheaper credits, they thought they could put downward pressure on loan rates at banks and mortgage companies and benefit the great number of farmers who accessed credit through those channels. Thus, they decided to launch a rural credit scheme supplying short term loans and long term mortgage financing through a government controlled Manitoba Farm Loans Association. In March 1917, both initiatives were passed by the Manitoba Legislature. Thirty-five farmers could start a rural credit society by paying $25 and pledging $3,500 in assets, an amount matched by their local municipalities. The province equalled the total, furnishing society members with collateral to borrow against rather than a pool of funds to be directly loaned to farmers. One society opened almost immediately in Prout’s

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884 Address given by Edward Brown, Manitoba’s provincial treasurer, to the province’s Grain Growers Association, 10 January 1919. MT, 24 January 1919.

885 Morton, p. 355. Loans to rural credit society members between 1917 and 1919 were advanced by the banks and secured by the amounts subscribed to societies and other collateral pledged by borrowers. Little, it seems, was advanced by societies using their own capital as Morton suggests.
constituency, loaning $16,000 in its first year of business.886

In the press, rural credit societies were promoted as "adjuncts" to the banks, capable of reaching homesteaders and others "who could not obtain credit from bankers."887 Prout's rural credit societies were supposed to be for all classes of farmers. Norris had little appetite for a province-wide network of little rural banks funded primarily by provincial and municipal governments. He wanted an economic lever he could use to lower loan rates at banks and loan companies. As such, the Manitoba Rural Credits Act reflected the premier's objective and limited the interest banks could collect from societies to 6 per cent, permitting societies to lend at 7 per cent, a point lower than what banks typically charged. The margin was supposed to cover society expenses. Edson Pease warned against fixing the rate banks could charge but showed no hostility to the scheme.888 Toronto bankers were less reserved when they learned Manitoba had also established the "Manitoba Cooperative Land Bank" to take deposits and apparently fund long term farm mortgages through its Farm Loans Association.889

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886 Easterbrooke, p. 99.

887 CBAA Western Sub-Section Minutes, 30 March 1920.

888 Ibid., 87-513-14: H.B. Shaw to Pease, 16 July 1917.

889 MT, 24 January 1919. Also refer the Journal of the American Bankers Association (June 1922), p. 789. The first Rural Credits Act did not permit the government to loan directly to societies. See CBAA 87-513-14: CBA Circular No. 139, Pease to General Managers, 11 July 1917. Also see Ibid., Manitoba's Co-Operative Land Bank: An Explanation and an Invitation, June 1917. The secretary of the Western Sub-Section protested against the Co-operative Land Bank, arguing it was illegal. Ibid., 87-545-19: Ross to D.C. Macarow, 19 June 1920; Western Sub-Section Minutes, 27 August 1917, 2 November 1917, April 1918, October 1918, Annual Report 1918.
The government advertised through newspapers that banks would negotiate deposit certificates drawn on its "Land Bank," putting the banks in an invidious position having never agreed to provide such a service. C.A. Bogert, who replaced Pease as the president of the CBA at the end of 1919, had criticized Norris's action, arguing the pursuit of deposits "was a menace to the interests of the Banks..." and that if they "are to be subjected to such further competition...it will doubtless simply mean...so much less will they be able to contribute to the needs of the Finance Minister later on." To what extent this influenced Norris is unclear, but his government relied on the bond market and its own treasury rather than deposit taking to support its Farm Loan Association.

In Alberta, the Liberal government of Charles Stewart was a reluctant reformer. It passed a Farm Loans Act it never implemented and was slow to develop a rural credit scheme. Saskatchewan's Liberals were led by William Martin with great assistance from the provincial treasurer, Charles Dunning, an immigrant homesteader turned vice president of the Saskatchewan Grain Growers' Association and general manager of the very successful Saskatchewan Co-operative Elevator Company. Dunning avoided rural credit societies and opted for a Provincial Farm Loan Board that offered thirty year

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890 CBAA 87-513-14: H.B. Shaw to E.L. Pease, 16 July 1917. Banks first learned of this in the press. Pease believed the banks should issue a press notice saying they would not accept the certificates. If they failed to do this he feared it would cause a "new farmers' grievance."

891 Ibid., Bogert to Pease, 10 July 1917.

892 CBAA Western Sub-Section Minutes, 26 February 1919.

mortgages at 6.5 per cent, undercutting support for Saskatchewan's Nonpartisan League and helping to return Martin to the premier's chair in 1917. Of the three governments, Saskatchewan's had most closely aligned itself with the growing farmers' movement and felt the least threatened by it. Alberta's Stewart government could not make the same claim. Bankrupt railway lines and irrigation projects the government refused to support distanced Stewart from farm organizations. Despite overtures to farmers through rural credit legislation and long term mortgage financing, Manitoba's Norris was still not sure of his appeal to farmers. He was elected as a corruption fighter, but political priorities were shifting and he found it difficult striking the same popular chord that brought him to office in 1915. It took him too long to realize that providing long term, short term and cheaper credit to struggling farmers by raising the taxes of all farmers was by no means a ticket to re-election.

In January 1919, Manitoba had eighteen rural credit societies; by December that had increased to thirty-eight with fourteen more on the way. As post-war economic troubles took hold in the aftermath of falling grain prices and Ottawa's abandonment of the Wheat Board, the number of struggling farmers increased and the appeal of societies grew accordingly. Norris responded to complaints about the financial system

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Ibid., p. 248.

On the Stewart government see CAR, (1920), pp. 784-794.

Societies in operation had 91 loans distributed to 762 farmers worth $2,000,950, making the average loan a substantial $2625. The government hoped to have 150 societies by the end of 1920, one for every municipality in the province. In December 1922 there were 70 societies operating in Manitoba. The Financial Times, Montreal, 23 December 1922; MT, 24 January 1924. CAR, (1919), pp. 729-730.
by doing what so many other politicians found politically and fiscally expedient: he announced Manitoba would double the tax on banks. Not to be outdone by populists who assailed banks at every opportunity, Norris condemned Canada's "unjust fiscal system" at a meeting of the province's Grain Growers' Association in Brandon. Following him to the podium was the one-time provincial Liberal leader and now respected provincial treasurer, Edward Brown, who declared Manitoba would do what the banks would not - supply farmers with more credit for less. The chosen means was the province's rural credit societies.

Rhetoric masked the government's real problem. Norris needed, but could not find, farmers who could manage financial hardship and who would take over societies and broaden their appeal. Farmers with substantial assets did not oppose rural credit societies out of self-interest, as they tended to keep bank rates down, but how much support they were willing to lend to them was doubtful. Most would pay higher interest rates, preserve their privacy and uphold their social status by borrowing from a local bank. Without a fairly large contingent of financially strong farmers able to weather

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97 CBAA Western Sub-Section Minutes, 9 June 1919. Manitoba expected to net roughly $100,000 as a result of the increase. After attempts by bankers to explain the cost this would impose on service in the province, Norris modestly reduced the rise in rates so banks would only pay $80,000. What is interesting about this is the bank it hurt the most was the Winnipeg based Union Bank, which had the most branches in Manitoba. Rather than support what was a local based bank, the government seemed to care little that it would bear the brunt of its action.

98 MT, 24 January 1919.

99 CBAA 87-545-19: Ross to L.D. Woodworth, 21 June 1922. This seems to have been true across the prairies. See NA Good Papers, MG27 III C1 V.17: Good interview of Mr. Hall, farmer, Prince Albert, Saskatchewan, September 1923; also see
economic distress, societies faced a troubled existence. Moreover, societies compromised directors who approved loans and applied for them as well. This was held in check as long as local bank managers could restrict loans, something Edward Brown was eager to encourage because it protected the treasury against losses. Politically, however, bankers who over-rode the decisions of local directors did not do much for the government’s campaign portraying itself as a farmer’s party. For bankers, acting as de facto supervisors obliged to say no more often as the economy slowed, the rural credit scheme’s dangers were becoming apparent.  

In late February the CBA’s Western Sub-Section responded to Norris and his provincial treasurer. Western bankers agreed to meet their demands for larger loans if the government guaranteed them. They argued “the Banks should not be expected to take any risk in connection with such loans which will be asked for in many cases from outlying districts where the financial position of the borrowers would be unknown to the local Branch Manager.” In early March, western bankers had the opportunity to meet their assailants and discuss the situation. Premier Norris, Edward Brown and George Prout met with W.S.F. Crispo, a senior official from the Union Bank of Canada, the province’s banker, the Commerce’s Vere Brown and Robert Campbell, a former Bank of Montreal official and friend of the provincial treasurer who now worked for The Royal Bank. The meeting stalled until Campbell proposed a compromise. If the banks could

**CBAA Western Sub-Section Minutes: 1 October 1920.**
charge 6.5 per cent for loans to societies, and the maximum a society member could
borrow was limited to $2,000, the government would not have to supply the banks with a
guarantee. Norris and his treasurer agreed, to Prout’s disgust.\textsuperscript{801} The decision meant
average society loans would fall by just over $600, hardly consistent with Brown’s
January statement promising larger loans for farmers. Norris thanked western bankers
and promised a summer conference to discuss the interest question further. Until then,
he wanted “the assistance of the Banks in granting credits to the societies and so far as
possible in seeing that they do not make undesirable loans.”\textsuperscript{802} The support bankers
demonstrated for rural credit societies in this meeting shows a level of commitment to
change using rural credit that has gone unnoticed.

Despite misgivings, all members of the Sub-Section were prepared to
recommend the deal to their head offices. They were never given the chance. Two
days after the meeting the provincial treasurer called the deal off. For reasons that are
not altogether clear, Norris and Edward Brown could not convince their cabinet
colleagues to support the initiative. Relations between Manitoba’s Liberal government
and the Western Sub-Section never recovered. The Sub-Section refused to assume
risks without providing for losses. Moreover, the government’s unwillingness to

\textsuperscript{801} This was the turning point in the relationship between Prout and Norris. A
 year later Prout stood up in the Manitoba legislature and accused Brown of colluding
 with the banks to undermine the rural credit scheme. He later withdrew the accusations
 but his point and position were clear. In that year’s election he ran as an independent
 in Winnipeg and was defeated. See CAR (1920), p. 747.

\textsuperscript{802} Much of this is discussed in CBAA, Western Sub-Section Minutes,
1917,1918,1919 and 1920.
guarantee loans substantiated fears that societies were likely long term money losers.

Underlying the problems with rural credit societies was the more serious dilemma caused by the proliferation of inexperienced bank managers. Complaints about high interest rates seem specious considering the reluctance among better off farmers to borrow from rural credit societies and the small difference between the 8 per cent banks typically charged and what rural credit societies levied in Manitoba and Alberta. Critics reflected a broader concern about the quality of service and its impact on the ability of farmers to do business successfully in a rapidly changing environment. Poorly trained and unpractised bankers began wreaking havoc across the West almost as soon as the banks began losing experienced managers to the war.

The apprentice training culture of banking offered no systematic and quick means of preparing officers for positions of increasing responsibility. That bankers "were born and not made" was a persistent idea despite efforts encouraging more formal education by the CBA. Young men with little banking knowledge soon filled empty managers' chairs throughout the West. The Canadian Bank of Commerce, The Bank of Nova Scotia and the Standard Bank tried to ease this problem by promoting the CBA's correspondence courses with some success. Others, such as Bank of Montreal, the Royal Bank and the French banks were less eager to do this until the 1930s. New

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903 Alberta societies charged 7.5 per cent. Regehr, p. 306.

904 NA Good Papers MG27 III C1 V. 17: Interviews with various bankers, 1923.

record keeping routines documenting customer histories were another alternative that some banks relied on when confronted with inexperienced staff. The Commerce led the way in 1915 and The Royal Bank followed suit, but the general trend suggests banks managed the unpractised by circular. This led to what might be described as a "whip-saw" effect. Untrained managers would give credit their head offices subsequently deemed unwise and then pulled tight on the reins without any sense of measure to appease district managers. In some cases banks found it easier to simply transfer the offending manager and replace him with another who had strict instructions to clean up his predecessor's mess. Farmers bore the brunt of such practices and could hardly understand what the banks were doing. Consequently, as one seasoned prairie banker complained, western managers were "generally...lacking in independence and good sense" and tried "to curry favor with head office by a foolish and too literal carrying out of instructions."*908

Concerns about the duration of credits had more credibility but, again, the problems around this issue are more complex than they might appear. One serious difficulty was the way bankers wrote loans. Farmers from all backgrounds were seeking larger, long term loans that some banks supplied and others did not. The Bank of Hamilton's J.P. Bell believed banks were unwilling to supply long term credits, loans that did not have to be paid within a year or two, because "almost all the deposits which the Banks have to lend are repayable practically on demand." If the Bank of Hamilton

*908 NA Good Papers MG27, III C1 V.17: See interview between Good and Mr. Harrison, manager of the Union Bank, Vancouver, 22 August 1923.
“could get [its] money on longer terms, or if legislation were enacted giving any Bank 60
to 90 days in which to pay demands made upon it...,” Bell said he could meet farmers’
needs. Other banks were already doing it. S.C. Noseworthy, a Bank of Montreal
district superintendent, explained to one western senator that

It very often happens that our loans to farmers and
ranchers run four or five years before payment and,
in the case of farmers, we have carried a large
number for six or seven years when the borrower
has faced repeated crop failures.

Bell felt more strongly the need to protect the Hamilton’s liquidity, making him reluctant
to carry over short term notes for so long a period. He was, perhaps, a prisoner of the
fact that Canadian banks stood or fell on their ability to repay deposits on demand, a
reality that gave advantages to large banks like the Bank of Montreal with its wide range
of resources. But both the Bank of Montreal and the Bank of Hamilton were exposed to
the problem of inexperienced staff who did not know when to renew a loan and when to
call it. This left farmers at the mercy of unskilled and frequently changing branch
managers.

The private became very political in a wartime economy that measured a farmer’s
contribution to the “cause” by his crop. Finding themselves dependent on a financial
system unable to deal with its own wartime strains inevitably led to conflict. Farmers
began to talk and talk aloud about their treatment at the hands of branch managers.

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907 CBAA 87-517-02: Bell to Burn, 19 April 1916.

908 EA, W.A. Griesbach Papers: MS 209, file 442, S.C. Noseworthy to Griesbach,
15 May 1926.
Complaints resonated with their neighbours and made good press. In 1917 the Grain Growers' Guide took up a subscriber's fight, shedding light on the effect of poorly trained managers in the process. It published a letter from one manager who told a farmer that

my Head Office have granted a line of credit to you to the extent of $700, which amount is to be used for the purchase of two year old steers. The loan is to be on your own note, further secured by hypothecation of the patent of your homestead, and chattel mortgage on all the livestock, horses and cattle, and is to be repaid in full not later than October 15, 1917. Rate 10% per annum.\footnote{Grain Growers Guide, 21 February 1917.}

The Guide alarmed readers by suggesting the Bank Act "requires a chattel mortgage as security and this chattel mortgage may cover the cattle purchased and anything else the borrower may own."\footnote{Ibid.} The legislation permitted no such thing and the CBA's Ross thought the banker was misquoted. If not, mused Ross, the banker "is not fit to be entrusted with the management of a branch bank."\footnote{CBAA 87-529-06: Ross to Brown, 1 March 1917.}

Vere Brown looked into the story and his reply is illuminating. He confessed the "Manager's letter... has been correctly quoted and that a few of the banks have any number of young men managing country branches who are capable of affording even grosser ignorance on the elementary points of banking law and practice." This "gives the farmers of the West," said Brown, "a really good ground for complaint against the
By 1919 the trouble was spreading further afield with just about every new branch opening. To little avail, the CBA spent $7,000 printing pamphlets trying to counter opponents' claims in the press. Western bankers were more attune to the problems and their solutions:

the remedy for discontent and the rendering of efficient service rests primarily with the local manager, who is dealing with the problems of the farmer at first hand; that he should be educated to feel the responsibility of his position, encouraged by his Head Office to perform his duties with good judgment to avoid losses, and with discretion to obtain the good will of the community.

Interviews with farmers around the time confirm the merit in these suggestion. Indeed, transient and inexperienced western branch managers made the American model of local banks appear superior for no other reason than the "permanence of their management."

Dealing with the inexperienced and untrained was a monumental task that the Association and its members could simply not meet without curtailing branch openings and launching an aggressive training program. Bankers were so intent on opening new

\[\text{\textsuperscript{912}}\text{ Ibid., Brown to Ross, 12 March 1917.}\\
\text{\textsuperscript{913}}\text{ Ibid., 87-500-45: Circular No. 331, 18 March 1920.}\\
\text{\textsuperscript{914}}\text{ CBAA Western Sub-Section Minutes: 16 April 1919.}\\
\text{\textsuperscript{915}}\text{ NA Good Papers, MG27, III C1 V. 17.}\\
\text{\textsuperscript{916}}\text{ Ibid., See interview between Good and Mr. Harrison, manager of the Union Bank, Vancouver, 22 August 1923.}\]
branches, however, the CBA abandoned efforts to control it. Its members were left to scramble for staff to fill new as well as established branches that lost managers and officers to better paying jobs and brighter prospects in other fields, one of whom was Vere Brown who left Canada to manage an American bank. As bankers working in eastern head offices opened new branches and invested large sums of money, they could not understand the growing hostility of the West. As time passed and criticism continued, some still found it incomprehensible, especially when "earnings on total assets were less than 1 per cent." Others returned critics' bitter volleys, dismissing western antagonists as people "inspired by political agitators or would be borrowers who have no basis for credit."

Callowness was compounded by an unwritten policy across the banks restricting the supply of credit to borrowers. This did nothing to temper criticism. But bankers and their association could do little about it without ignoring detailed instructions from the finance minister to conserve credit for the government and act as agents enforcing government economic policy. In a long letter to the CBA written soon after the December 1917 election of the Union Government, White outlined the government's expectations. He wanted a stop to merchants stock-piling goods in anticipation of

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917 CBAA, Minutes of the Annual General Meeting of the Canadian Bankers' Association, 13 November 1919.

918 Ibid.

919 NA White Papers, MG27 II D18 V.1 file 4(a): Richardson to White, 17 February 1919.

920 Ibid., File 3 (b): White to Pease, 22 January 1918.
higher prices and told bankers to restrict loans accordingly. White instructed the banks not to finance customers investing in foreign securities. To address Canada’s growing trade imbalance with the U.S., the minister asked bankers to use their influence with customers to steer them away from American suppliers. Banks became the ex-officio agents of the finance department and the CBA was supposed to ensure its members followed White’s guidelines. It seems that most did through 1918 and much of the following year. This led to internal bidding wars for credit within the banks and managers with the greatest influence at their head offices or who served influential customers were better positioned to secure the funds than inexperienced counterparts.

A good prairie crop in 1917 generally kept credit lines open in 1918 as did continued large orders from the British for wheat. But when many new western branches appeared after the Armistice, the increased demand for more credit led to rationing and, as members of the CBA’s Western Sub-Section observed, some farmers losing “access to credit they were reasonably entitled to.”

Norris’s government drifted through 1919 watching the number of rural credit societies grow in tandem with hardship. A government financing program was introduced for livestock and made $400,000 available on an annual basis to farmers. At the same time, the Farm Loans Association was lending heavily. Such measures did little to boost Norris’s fortunes. The premier’s mandate was running out and the opportune time to call an election had proved elusive. By the spring of 1920 he had

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921 CBAA Western Sub-Section Minutes, 16 April 1919.

922 Easterbrook, p. 95.
thirty-six rural credit societies to contend with, twenty-two others in the make and a new antagonist - George Prout. In March, Prout stood up in the provincial legislature and declared the treasurer, Edward Brown, “and the Banks were trying to stifle the activities of the societies....”

Outside the legislature he withdrew the accusation but the damage was evident and Norris was now on the defensive. From April to May the government paid off roughly $1 million in bank loans to rural credit societies and passed it on to Manitoba taxpayers. Norris needed money to fund new and existing societies and the banks needed either a government guarantee or a higher rate of interest to provide for losses. On June 1 Norris had the legislature dissolved and called an election for June 29. Rural credit became a political football that Norris and his Liberals ran with, rolling over the banks as they tried to convince struggling farmers that Prout, who abandoned the Liberals and ran as an independent, was wrong about the provincial treasurer’s commitment to rural credit societies.

Two days after Norris’s government was dissolved, Edward Brown announced the creation of the Manitoba Provincial Savings Offices. Forty MPSOs would open throughout the province, pay 4 per cent for demand deposits, 4.5 per cent for long term deposits, and offer customers the assurance of a provincial guarantee. Norris’s Liberals wanted to portray themselves as the friends of rural credit societies and critics of banks who, claimed the Liberal press, charged as much as 20 per cent for loans before

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924 Easterbrook, p. 98.
925 Manitoba Free Press, 3 June 1920.
Norris's government implemented the rural credit scheme. Banks were further denounced for opposing the expansion of rural credits into older and more prosperous farming areas. This was political rhetoric the CBA just did not know how to contend with. The Association asked its Western Sub-Section to launch a campaign making the banks' position clear but it came late.

With political promises came new problems for Edward Brown. He needed revenues to pay depositors 4 and 4.5 per cent and he did not believe the societies could generate it. On June 21 he approached the province's banker, the Union Bank of Canada, and offered it the MPSOs account in return for 4 per cent interest. The bank's general manager, H.B. Shaw, looked to the CBA's Confidential Committee for guidance. He was advised not to pay any interest and to apply a service charge of one-eighth of a per cent to transfer money between MPSOs. The Confidential Committee provided poor service to the Union and the delay in reaching a deal with Brown gave the provincial treasurer the chance to look elsewhere and find a willing banker in the Bank of Hamilton which offered 3.5 per cent for deposits, waived charges for transferring money and eventually allowed cheques drawn on MPSO accounts to clear through the Winnipeg Clearing House under its name. If the Hamilton thought of reneging, Manitoba had another bank, the Merchants Bank, ready to step in. When the Union Bank's general manager eventually learned what happened, he complained bitterly that

926 Ibid., 11 June 1920.
927 CBAA Western Sub-Section Minutes, 30 March 1920.
not only did the Union lose the MPSO accounts, "its position as Bankers for the
Government [was] made ridiculous." Edward Brown was personally reluctant to open MPSOs and later admitted it was
done because the government's hand "was forced." His and the premier's fears about
the entire scheme were reflected in the way they structured the relationship between the
MPSO and rural credit societies. The MPSO bought provincial bonds that were
reported at face value in its balance sheets and the government distributed the loans,
taking care to mask losses and doubtful loans taxpayers would have to make good so
that MPSO depositors could be paid their interest and principal. Politics drove the
deposit taking scheme and despite Brown's own reservations, his department promoted
the MPSOs with even greater vigour after the June 29 election outcome. Norris's
Liberals won twenty-one of fifty-four seats, farmer candidates won thirteen, labour
secured eleven and the Tories ended up last with nine. The premier lost his majority but
held onto government by virtue of his splintered opposition. He quickly made
"overtures" to farmers' representatives who were in no hurry to declare their support for
the Liberal premier. They waited till December 22 to announce that, while they did not
oppose the Liberal government, they were not inclined to form an alliance with it
either.

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929 Ibid., 87-545-20: H.B. Shaw to Bogert, 14 May 1921.

930 Ibid., 87-545-19: H.T. Ross, Memo Re Rural Credit, June 1922. Within a year
of opening 40 MPSO offices, Brown was trying to put the brakes on their growth. Ibid.,
Robert Campbell to Charlie Neill, 21 June 1921.

931 CAR (1920), p. 753.
During the interim, Edward Brown’s department was widely advertising its MPSOs and the government advanced more than $600,000 in loans to societies to prove its critics, like Prout, wrong. By 1921 the government’s cost for the program loomed large following poor crops that forced most societies to carry over their members loans for another year.832 Much of the southern prairies were drought stricken and the Dominion Wheat Board was wound up in 1920, leaving prairie farmers to the caprice of the market which promptly delivered plummeting wheat prices. Norris’s government appropriated $25,340 from the treasury to cover the societies’ operating expenses and conceded they could only have been met if society farmers were charged the same rate of interest as the banks.833 At the Annual Meeting of the Dominion Bank in January 1922, the bank’s president, Sir Edmund Osler, spoke for many bankers when he complained that

To impose heavy taxes on the banks and then establish Government opposition, paying unhealthy rates for deposits and operating the machinery in a manner which makes it possible to draw on the public pocketbook to cover deficits, is both unfair and unsound.834

It seems many in Manitoba agreed. In the face of rapid deflation, all farmers were facing difficult times and the majority who relied on the banks for loans objected to their tax dollars subsidizing cheap loans for others. Such sentiments had their

832 Easterbrook, p. 99.
833 Manitoba Free Press, 2 April 1921; CBAA 87-545-19, Alexander Laird to Ross, 8 April 1921.
834 Sir Edmund Osler quoted in the Globe, 26 January 1922.
consequences. Norris began cutting back on rural credits. The government official overseeing the societies reported that in 1921 "advances to farmers had been restricted as far as possible without forcing borrowers from the land...."^35 The rural credit scheme was starting to crumble under both the perception and the reality of unsound lending practices and a government unwilling to cooperate with bankers.

At the CBA the new MPSOs heightened tension among bankers. More importantly, they took the focus off why the rural credit scheme was started and focussed it on the competitive threat that MPSOs presented to the banks. Manitoba was buying deposits using rates the banks could not compete against if they wished to keep their overall operations in the province profitable. Banks lost deposits as a result and few stood idly by and let them go without a fight. In July 1921 frustration was evident. The Royal Bank’s Winnipeg branch lost $60,000 to the MPSO and another $250,000 was withdrawn by one of the bank’s largest corporate clients in the city. Neill, the Royal’s general manager, told the CBA’s president that “he was seriously considering the cancellation of this company’s credit during the coming grain season.” He explained that “unless we take active steps...to show borrowing customers that the banks resent the transfer of deposits to the Government Savings Bank, we may expect stronger competition as time goes on."^36 Such action did nothing to undermine the popularity of the MPSOs and everything to upset large and important customers.


^36 CBAA, 87-545-20: Neill to Bogert, 27 July 1921. By November 1920 there were 2,241 accounts at the MPSOs offices. A year later that number skyrocketed to 8,052 accounts. CAR, (1922), p. 756.
The shine came off Manitoba’s rural credit societies at the same time Norris’s hold on government grew more tenuous. His "progressive" administration, one that poured millions into a public telephone system, public buildings and new road works, was responsible for three-quarters of the province’s $62 million debt. Taxes had risen since 1915 to support spending and taxes would have to rise again. Efforts to introduce a gas tax were rejected in the legislature as was a hotly contested income tax proposal. Pressure from farmers and other groups was now centred on reducing costs, not spending. Manitobans wanted lower taxes. By 1922 Norris’s government had disintegrated and cooperation with farmers and others in the legislature seemed impossible. Ministers were voting against the premier and an air of crisis pervaded until the province’s lieutenant governor put an end to it and dismissed Norris’s administration. An election was eventually called for July 18. It was Norris’s last. The farmers in the legislature reorganized and emerged as the United Farmers of Manitoba and ran a winning campaign without any designated leader, positioning themselves as the only farmers’ party in the province. John Bracken, president of the Manitoba College of Agriculture, was soon premier. He had won in Edward Brown’s old riding and had the support of the former provincial treasurer who retired when Norris’s government was dismissed. Brown’s endorsement signalled changes to the rural credit system and MPSOs.

Manitoba’s venture into banking did not go unnoticed in Ontario where the United Farmers of Ontario government, led by E.C. Drury, announced in March 1922 that Ontario would have its own Provincial Savings Offices that would operate in tandem
with Ontario’s Rural Credit Act and pay depositors 4 per cent. Money lent to farmers, however, would come at “current banking rates,” an obvious attempt to avoid the losses Manitoba’s rural credit societies were expected to reveal as time passed. Bankers were bitter and their reaction to Ontario’s decision proved impolitic and damaging. The CBA issued a long and detailed letter to all branch managers in Ontario and told them that Ontario’s Provincial Savings Offices "must be regarded as a political rather than an economic development, as it is put forth with a view of catching votes and giving preferred treatment to a small number in the community...." The letter cited all that was wrong in Manitoba with its rural credit scheme and painted government involvement in banking as a political enterprise that undermined the ability of the banks to serve their customers while leaving taxpayers to cover the cost of imprudent loans. The Ontario government was not amused and its own press organ, the Farmers' Sun, warned that “the banks should not forget that an aroused public is stronger than any organization, and also that the public is becoming restless, under the handicap, alleged or real, which they feel they have suffered in the past." Manning Doherty, Ontario minister of agriculture, responded to the CBA in the press, arguing that the “purpose of banks [is] to serve people, not make arrogant millionaires." The UFO delivered a

937 Saturday Night, 11 March 1922.

938 The Evening Telegram, 14 March 1922. The Telegram printed the CBA’s complete letter to bank managers and was probably leaked to the press by the CBA itself in an attempt to turn the public against the Ontario government’s scheme.

939 Farmers’ Sun, 18 March 1922.

940 Globe, 23 March 1922.
stinging blow and showed no hesitation putting bankers in their political place. CBA officials tried to repair the damage in an April meeting with Ontario's cabinet to "bury the hatchet" and withdrew the allegation that the province's savings offices were politically inspired. The circular was part of a public relations campaign that began in January 1922 and went very wrong.

In Manitoba, Bracken entered the premier's office pledging to govern with "businesslike efficiency and economy." The rural credit system was not seen as either efficient or economical by 1922 when widely reported mismanagement threatened to impose more costs on taxpayers. Bracken's government was not interested in extending credits but worried about losses. It sent out letters to society borrowers in September that no bank would issue, warning that

UNDER NO CIRCUMSTANCES WILL A PART RENEWAL BE ACCEPTED by this office when a borrower's crop was sufficient to pay his loan. If any borrower is under the impression that he can pay others and not Rural Credits we wish to disabuse his mind NOW of that idea for we intend TO HAVE OUR LOAN PAID.

Cheap and larger loans undertaken by provincial governments were, by 1922, seen with increasing suspicion. Two months later Bracken received the Jackman-Collyer Report

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941 Farmers' Sun, 8 April 1922.

942 CBAA 87-517-15: Agenda, Meeting of Confidential Committee, Canadian Bankers' Association, 21 January 1922.


944 CBAA 87-505-25: Letter from Charles Gifford to rural credit borrowers, 1 September 1922.
on rural credit societies that the premier had commissioned after he came to office. It revealed "totally inadequate supervision and control" and concluded that the "credit problem of the farmer can best be met by the development of existing agencies to Agricultural purposes rather than establishing independent machinery." Bracken began immediately winding down the rural credit scheme, reducing new loans from over $1 million in 1922 to $372,708 by the end of 1923. Bankers at the Western Sub-Section did not let the scheme die without trying to save it. They offered to give 6 per cent loans if Manitoba would guarantee them and wrote to the provincial treasurer saying that "it is for the Government and the Rural Credit Societies to decide if they desire the co-operation of the Banks, which will be heartily given." Bracken was not interested.

Two years later rural credit societies advanced less than $20,000 in new loans. Many of Manitoba's rural credit societies were insolvent and by 1925 losses sustained by the province topped $500,000. By the end of the 1920s, Bracken had written off more that $1.1 million in loans and interest to rural credit societies. When the Depression took hold in the early 1930s the government of Manitoba approached the CBA and asked its members to takeover its money-losing MPSOs. The CBA obliged and critics in the press raged that it was another example of the banks undermining a competitor.

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945 Ibid., 87-545-19: Memo from Ross, 23 March 1926; CAR, (1923) p. 692.
946 Ibid., Western Sub-Section Minutes: W.A. Weir to F.M. Black, 10 July 1923.
947 Easterbrook, p. 100.
948 Ibid.
949 CBAA 87-532-12: Ross to Jackson Dodds, 19 December 1932; Ross to H.B. Henwood, 19 December 1932; Beaudry Leman to Ross, 17 December 1932; Henwood
In the depths of the post-war depression governments were wary of expensive attempts to fix what ailed the economy. Troubles first surfaced in 1920, the year of reckoning for Canada and the start of a trying three year depression. The wartime inflationary bubble burst in the summer, sending prices into a tailspin during what merchants called a “buyers’ strike.” The cost of living dropped quickly, falling by 25 per cent in two years. Businesses caught unprepared were desperate to reduce overhead and secure stable revenues. Canada’s “readjustment” had arrived, bringing high unemployment, declining incomes, rising American tariff walls, an exodus of skilled workers and tax fatigue. The unemployed, bankrupt farmers, their advocates and many others demanded more government spending to ameliorate the resulting social crisis. Worried tax-payers pulled in the opposite direction, scared by Canada’s post-war debt and failed government forays into the market.

The Union Government led the retreat to passive government in 1920 when its compulsory Wheat Board disappeared and it abandoned the Board of Commerce which was supposed to regulate prices. The election of William Lyon Mackenzie King’s Liberals in December 1921 accelerated the trend. Ottawa was back in the business of “encouraging and assisting investment projects undertaken by other governments

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to Ross, 17 December 1932; CBA Memo, MPSO undated. The federal government under order-in-council supplied the banks taking over MPSOs with a guarantee against losses. Executive Council Minutes, 27 June 1932.

60 Bliss, Northern Enterprise, pp 382-384.

61 The trend toward economy is reported in CAR (1922), p. 252.
and by private individuals and enterprises.\textsuperscript{652} William Fielding was again finance minister. He cut spending in his first budget by $138 million and slowed the growing national debt by increasing taxes, including the stamp tax on cheques, over the protests of the CBA.\textsuperscript{653} The banks' customers would pay more and so would the banks. In 1913 total taxes on the Dominion Bank's net earnings, for example, had been 8 per cent; by the end of 1922 they amounted to 27 per cent.\textsuperscript{654} A larger percentage of bank revenues now flowed to all three levels of government whose sympathy for financiers was slipping. Fielding let it be known early on that he was "strongly opposed to his Department's continuing to make advances under the Finance Act."\textsuperscript{655} For the CBA, Canada's changing political winds made credible pleas that banking be left to bankers. As the post-war depression took hold, the interests of the CBA and the federal government intersected with lasting consequences for Canada's banks and their Association.

To buoy the confidence of international lenders and quiet critics at home, Canadian bankers took every opportunity to promote the banking system's strength and its ability to meet the "legitimate" needs of all Canadians. When the war ended and

\textsuperscript{652} Firestone, p. 73.

\textsuperscript{653} CAR (1922), p. 252-254. The stamp tax amounted to 2 cents on every $50 to a maximum of $2.

\textsuperscript{654} Dominion Bank, \textit{Fifty-Second Annual Report}, 30 December 1922, p. 23. Provincial and municipal taxation increased far more than federal taxation did during the war and after. At the provincial level taxes increased by roughly 50 per cent between 1913 and 1922. At the municipal level the increase often topped 100 per cent.

\textsuperscript{655} CBAA 87-505-25: Williams-Taylor to E.C. Pratt, 21 September 1922.
western bank critics, along with others, appeared in unprecedented numbers, the Association's members extolled the virtues of Canadian banking even more vigorously. A battle for public opinion at home and abroad ensued. Respected international financiers, like the Bank of Montreal's Sir Frederick Williams-Taylor, assured those with misgivings that the banking "system as it stands is without doubt, adequate to meet any possible demands arising during the reconstruction period and for years thereafter." Two years of bantering with opponents produced more encouraging results abroad than at home. In his final speech as president of the CBA on November 11, 1921 the Dominion Bank's C.A. Bogert expressed the

conviction that, when we return to an era of prosperity and confidence, it will be again demonstrated that under the Canadian banking system we have been able to cope successfully with difficulties which at present seem formidable. The Canadian Bank Act, as it at present stands, admirably meets the conditions and requirements of this country and the needs of the people. This, unfortunately, is more fully appreciated by financial experts in other countries than by many sections of the Canadian public.

The job of Bogert's successor at the CBA, Williams-Taylor, was to prove it. Williams-Taylor's presidency coincided with a crisis in Canadian banking that jeopardized the CBA's efforts to guard against local banks, government inspection, a federal reserve system and provincial governments moving into the business of banking. The Montreal bank's general manager was at the height of his career. He had


CAR (1921), p. 34.
helped steer the country through a difficult war and successfully fought off The Royal Bank's Pease, whose campaign for a central bank had endangered the Bank of Montreal's relations with the Dominion Government. At the same time he was the first general manager of the bank to have to watch a rival, Pease's Royal, overtake the great Montreal bank in size. Williams-Taylor's most important presidential decision came early. He hired as an advisor and lobbyist his close friend, Sir Thomas White, who declined to succeed Borden early in 1920 and turned to business where he began recouping the financial toll nine years in politics wrested from his savings.958

On November 12, 1921, Sir Montagu Allan, the president of the Merchants Bank of Canada, received a long awaited report about his bank from H.B. Mackenzie. The former general manager of the Bank of British North America and general manager of Royal Trust exposed $8 million in losses and probable ruin for the 400 branch bank. The story was much like past banking wrecks: a general manager writing imprudent loans and a board of directors that did little to protect shareholders. Allan immediately asked Mackenzie to take charge of the bank. He refused, suggesting, it seems, a talk with Williams-Taylor. On December 16 Allan announced to Montreal's "astonishment and the country's absolute amazement" that the Merchants would be sold to the Bank of Montreal.959 The Bank of Montreal would be number one again. This was not a merger,

958 On White's exit from public life see Bliss, A Canadian Millionaire, pp. 400-401. Working together during the war made White and Williams-Taylor very good friends. See CBAA 87-505-25: White to Williams-Taylor, 4 September 1922.

959 CAR (1921), p. 40.
as one historian asserts, of little concern to those "outside the business world." Allan spoke of the motive behind the sale, telling the press the Merchants' directors were misled by the general manager, D.C. Macarow, who replaced the venerable H.B. Hebden who had died in 1916. Markets answered with barely a flutter. The press response was another matter. Some papers supported the merger. Montreal's Gazette, the Financial Times and the Monetary Times thought it a prudent move. The Montreal Star, however, was a "vehement critic" and the Financial Post demanded an investigation. The Montreal Witness said the Merchants' demise was a "shock to public confidence" and wanted a Royal Commission. "Learning that the bank's condition was a surprise to its directors," reported the Witness, "people are saying that the audit has either not been sufficiently thorough or not sufficiently frank in the public interest." A bank clerk who wished to remain anonymous asked Fielding to protect pension funds at the remaining banks from the sort of misadventure seen at the Merchants. Some Merchants' shareholders were simply relieved that part of their investment had been saved. Others were mystified by the turn of events. One

960 Ronald Rudin, "A Bank Merger unlike the Others: The Establishment of the the Banque Canadienne Nationale," in CHR, V. 61, No. 2 (1980), p. 191. While the Merchants' fiasco was not as important to Quebec as the situation involving the Nationale, the merger of the Nationale paled in comparison to the Merchants on the national stage. Press reports, the anxiety it caused bankers and the political reaction to it all support this view.

961 MT, 23 December 1921.

962 CAR (1921), p. 42.

963 Montreal Witness, 28 December 1921.

964 NA FD RG19, V. 262 File 101-53-6 -1923 V.1: Bank Clerk to Fielding, n.d.
American financier who had invested in the Merchants could hardly "understand how the Rest could fall off $8,000,000 practically over night." 965  

Toronto bankers, especially Sir John Aird and Sir Edmund Walker at the Bank of Commerce, were deeply suspicious of the deal. Communication between Montreal and Toronto bankers was not what it should have been and did little to ease a situation that grew worse when Aird tried to extract a small measure of revenge by demanding the Bank of Montreal guarantee the Merchants' clearing payments until the merger was finalized. Williams-Taylor said the demand was "unprecedented and uncalled for." The Molsons Bank's Edward Pratt thought it "most astonishing that our Toronto friends cannot read between the lines; they seem to be no better informed than the newspapers." 966  But there were two messages between the lines. The first was that the Merchants Bank had failed. The other was the possibility that the Bank of Montreal took advantage of the circumstances. Williams-Taylor tried to assure The Bank of Nova Scotia's Richardson that "though some of the Bank of Montreal's Toronto friends may be sceptical on the subject, the step this Bank has taken...was in the public interest and with the object of preventing a serious financial condition arising...." He went on to argue that "the Bank of Montreal's action was not actuated by a desire for

965 NA Fielding Papers MG2 V. 532, Folder 126: Isaac Chahoon, Vice President Plattsburg National Bank and Trust Company, to Fielding, 20 January 1922; Chahoon to Fielding, 1 February 1922.

966 CBAA 87-518-14: Edward Pratt to Williams-Taylor, 23 December 1921.
aggrandizement,\textsuperscript{967} a position Aird could hardly accept when cheques of $500 and more drawn on some of the Merchants' branches were payable only at Bank of Montreal branches, a ploy to keep Merchants' customers from transferring their business to the Montreal bank's rivals.\textsuperscript{968} As Williams-Taylor dealt with complaints, Fielding and the prime minister were sorting through the politics of the Merchants' troubles and the subsequent merger proposal. In deference to critics, Fielding eventually argued the government felt it was "the best available means of dealing with a difficult position...."\textsuperscript{969} Pressure for an official investigation was enormous but King decided to let the courts sort it out. Allan and Macarow went on trial in late March, 1921.

Allan was charged with approving, and Macarow with willfully making, a false and deceptive Return. To the CBA the trials were of immense importance. Williams-Taylor argued with the editor of the Financial Post, saying it "does not follow that the Bank Act has proven to be defective because of the Merchants' Bank affair" and further suggested that "the provisions of the Act as it now stands are adequate to punish dishonesty or negligence...."\textsuperscript{970} When the CBA's secretary, Ross, learned only Allan

\textsuperscript{967} Ibid., Marked "Confidential," Williams-Taylor to Richardson, 20 December 1921.

\textsuperscript{968} Ibid., Sir John Aird to Williams-Taylor as president of the CBA, 19 January 1922.


\textsuperscript{970} CBAA 87-505-25: Marked "Confidential," Williams-Taylor to J.W. Tyson, 12 April 1922.
and Macarow were charged, he asked his old friend Fielding why the Merchants' auditors were not on trial as well. Allan was arguing that the auditors assured him that the bank’s reserve was "intact" six months before Mackenzie's investigation revealed otherwise. If true, the auditors seemed to have something to answer for and Ross thought it was essential that "the public should be made to understand that there is real responsibility resting upon auditors and that if they sign certificates which are obviously incorrect they place themselves in jeopardy."\(^{971}\) That they were never charged lends credibility to Williams-Taylor's view that the Crown was "lukewarm in its prosecution."\(^{972}\)

Complicating the matter further were the official charges laid against Allan and Macarow; they referred solely to the Merchants' October 1921 Return to the finance department. All preceding Returns were excluded. One observer thought this would open a "technical loophole" for the defendants and believed a "wider indictment should have been charged as the Press state the October return was not different from previous months statements...."\(^{973}\) His remark was prescient. Macarow argued that he did not receive all the semi-annual reports from the bank's branches when he made up the October Return and was therefore innocent. The judge, to the public's bewilderment, agreed. Allan's trial was put on hold till the government's appeal of the Macarow decision was heard. The second trial took place in September and again

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\(^{971}\) NA Fielding Papers MG2 V. 532 Folder 126: Marked "Confidential," Ross to Fielding, 25 March 1922.

\(^{972}\) CBAA 87-505-25: Williams-Taylor to White, 21 August 1922.

\(^{973}\) NA Fielding Papers MG2 V. 532 Folder 126: Marked "Confidential," James Brodie to Fielding, 3 April 1922.
Macarow was cleared. Allan was later judged innocent as well. The verdicts were damaging. So too was testimony that Macarow had $230,000 in speculative loans owing to the Merchants, some with no collateral. In the Commons questions were raised about millions of dollars loaned to bank directors. The press largely denounced the judgements. The *Winnipeg Tribune* "declared the Bank Act a 'dead letter' so far as protecting the Shareholders was concerned." One shareholder labelled the whole affair "an scandalous and infamous outrage." The president of the CBA, Williams-Taylor, agreed. He resigned himself to Macarow's acquittal even before the government's case was heard in appeal. He thought "the case for the Crown... more imperfectly conducted than any important case in the whole of my banking experience." It left Williams-Taylor, like many others, deeply worried about the likely fallout. "A great Canadian bank has gone under," he confided to White, and "that no one has been found to blame not merely discredits our system in the eyes of the outside world but at home [as well]...."

As the Merchants case unravelled, the Banque Nationale was being "literally held on its feet by the scruff of the neck." The largest of the French banks, the Banque Nationale operated mostly in Quebec, had 325 branches and $2 million in

975 *CAR* (1922), p. 530.
976 PANS Fielding Papers MG2 V. 532 Folder 126: J.A. Montgomery correspondence to Fielding, 1923 to 1924.
977 CBAA 87-505-25: Williams-Taylor to White, 21 August 1922.
capital. The bank was over-extended and had loaned nearly $2.8 million to the Machine Agricole, a road equipment manufacturer turned munitions maker turned farm implement company headed for insolvency. Its downfall, however, was the many bad loans on its books as it was the loan to the Machine Agricole.\textsuperscript{979} The Nationale's Returns to the finance department reported past due bills of $30,000 that in reality amounted to more than $2.3 million.\textsuperscript{980} The bank had been too sanguine in a great many of its loans. Rumours about its financial well-being reached the public early in 1921 and a run, starting in May, drained the bank of roughly $15 million by year end. Once elected president of the CBA in November, Williams-Taylor soon heard from a worried Sir Henry Drayton who wanted a quiet examination of the Nationale, a task assigned to the Quebec City manager of the Bank of Montreal. By December the new president learned the Nationale had "less than $1,000,000 of cash on hand and was in great peril."\textsuperscript{981} Writing to the publisher of the Montreal Star, Lord Atholstan, Williams-Taylor frankly confessed "there is all the material in Canada for something approaching serious business disturbance," and asked his friend "as the head of a great and powerful

\textsuperscript{979} Rudin, "A Bank Merger unlike the Others," pp. 194-195. Rudin assesses the loan to the Agricole at around $5 million. This is undoubtedly the figure given in newspapers from the time but it does not stand up to the reports from the examiner who investigated all loans the bank made of $20,000 or more.

\textsuperscript{980} The secret examination of the Nationale's affairs by the Quebec manager of the Bank of Montreal revealed that of a capital of $2 million, a rest fund of $2.4 million and secret reserves of $2.575 million, only $785,487 remained after appropriations for losses not reported. CBAA 87-517-15: Williams-Taylor to Fielding and attached reports, 11 January 1922.

\textsuperscript{981} Ibid., 87-517-15: Williams-Taylor to Richardson, 21 December 1921.
newspaper, to reassure the public.\footnote{962} He then turned to the general manager of the Nationale, Napoléon Lavoie, and advised him to liquidate what he could to raise his bank’s cash reserves, a proposal Lavoie was very reluctant to follow because it meant selling his best commercial accounts to rivals.\footnote{963} The president of the CBA was working against time to save a public scandal. The Bank of Nova Scotia’s Richardson suggested merging all three French banks but that did nothing to ease the immediate crisis.\footnote{964} The Union Government, which propped up the Nationale with loans totalling $8.2 million before the December 6, 1921 election, seemed a likely saviour but in the election’s aftermath the out-going cabinet was not disposed to do any more favours for the Quebec based institution.\footnote{965} The Nationale’s only hope and Williams-Taylor’s, it seemed, rested with the incoming Liberals. The president instructed the Nationale to use all the influence it had with the government to win its sympathy and spoke with Mackenzie King, urging a government loan to avoid disaster.\footnote{966} When Fielding learned

\footnote{962} Ibid., 87-517-14: Marked “Private and Confidential,” Williams-Taylor to Atholstan, 22 December 1921.

\footnote{963} Ibid., Marked “Confidential,” Williams-Taylor to Lavoie, 3 January 1922. Lavoie wanted the Bank of Montreal to take over the Nationale’s best accounts with hopes, it seems of getting them back when the crisis passed. Williams-Taylor told Lavoie in writing and verbally that “as President of the Bankers’ Association [he] must positively not be placed in a wrong position with regard to any loan accounts of which you should decide to dispossess yourselves.” The newly elected president of the Association could hardly afford worsening relations with Toronto bankers any further by taking advantage of the Nationale’s condition and bettering the Bank of Montreal’s loan portfolio. See Williams-Taylor to Lavoie, 6 January 1922.

\footnote{964} Ibid., 87-517-15: Richardson to Williams-Taylor, 23 December 1921.

\footnote{965} Ibid., Williams-Taylor to Richardson, 27 December 1921.

\footnote{966} Ibid.
of the $8.2 million loan he is reported to have responded in "horror." King and Fielding eventually agreed to another secret loan of $1 million on January 13, 1922. Lavoie delivered the collateral to the Bank of Montreal, the government advanced the funds to the Montreal Bank and it in turn loaned the funds to the Nationale.

Williams-Taylor and the CBA had saved the situation but only for a short time. Key to government support was Williams-Taylor who thought the Nationale could "probably pull through" if it continued to receive government assistance and was reorganized with an infusion of new capital. His own preference was a merger. Fielding thought the same and advanced the $1 million to the Nationale expecting a quick solution along such lines. The finance minister was extremely hard-nosed when it came to the security offered by the Nationale and forced it to liquidate more good accounts to prop up its own cash position. The president referred to the Association's Toronto wing of the Confidential Committee and ran four scenarios by them. The first was to let the Nationale collapse. The second was liquidation with open doors requiring guarantees. The third was a merger which again entailed guarantees. And the fourth was dividing the Nationale up between interested banks. Toronto bankers

\[\text{\textsuperscript{97}}\text{CAR (1924-25), p. 580.}\]

\[\text{\textsuperscript{98}}\text{CBAA 87-517-15: Marked "Secret and Confidential," Message for Mr. Richardson and Williams-Taylor to Richardson, 13 January 1922.}\]

\[\text{\textsuperscript{99}}\text{Ibid., 87-517-14: Lavoie to Williams-Taylor, 14 January 1922. Lavoie was by this time almost completely dependant on the CBA and its president and essentially pleaded with Williams-Taylor to have the finance department ease up on its demands.}\]

\[\text{\textsuperscript{90}}\text{Such consultation seems to have been generally expected by the members of the CBA but was not followed in the Merchants' case, leading to reasonable suspicions}\]
recommended amalgamation with the Hochelaga and if this was unfeasible a division of
the Nationale between Bank of Montreal, Bank of Commerce, The Royal Bank, Banque
Provinciale and the Hochelaga. The Commerce sent one of its inspectors to Quebec to
explore the second option and within two days recommended against taking any
Nationale branches, advice that soon trickled down to branch managers who severed
financial arrangements with local Nationale branches and began "raiding" its deposits
by playing up public rumours.\footnote{A merger, it seemed, was now the best option and it
certainly did "go beyond the rumour stage."} A merger, it seemed, was now the best option and it
certainly did "go beyond the rumour stage."\footnote{Without the benefit of CBAA access, Rudin concluded that the idea of a
merger between the three banks was nothing more than rumour in early 1922. The
CBA's records show otherwise. A merger, was, in fact, given very serious
consideration by La Hochalaga.}

Troubles at the Merchants Bank and the Banque Nationale confounded Williams-
Taylor as the much anticipated revision of the Bank Act approached. Wide press
coverage around the Merchants debacle raised immediate calls from the public and
some businessmen for legislation providing better safeguards. Sun Life's W.J. Bell,
whose father had been president of the weak Traders Bank that the Royal absorbed in
1911, strongly recommended government inspection to Fielding.\footnote{The CBA's nemesis,
H.C. McLeod, who was writing a tell-all book about Canadian banking which he never
among Toronto bankers that the Bank of Montreal took the opportunity to benefit from
the Merchants' folly.}

\footnote{CBAA 87-517-14: E.G. Audet to Williams-Taylor, 24 January 1922; Williams-
Taylor to all general managers, 25 January 1922.}

\footnote{PANS Fielding Papers MG2 V. 532 Folder 126: W.J. Bell to Fielding, 14
January 1922 and attached correspondence.}
finished, told Mackenzie King that "[G]overnment has no more beneficent duty than the protection of the savings of the many who, in the main, lack capacity for discrimination as to safety of a depository." King also heard from Liberals suspicious of the influence bankers wielded within the party and was advised that "it will not do to allow the business of banking to go on as it has in the past, and the government cannot escape responsibility in the matter." But escaping responsibility was exactly Fielding's and the prime minister's desire. Bankers had little intimation of this in the shadow of the Merchants' fiasco when Williams-Taylor and White plotted the CBA's strategy for the revision. What the president of the CBA had to do, argued White, was buy the CBA time. It was Williams-Taylor's job to persuade Fielding "that it would be quite inadvisable, in the present situation, to proceed with the revision of the Bank Act." What White wanted was a revision undertaken during "a rather busy session in order that the full attention of Parliament may not be focussed upon it." Fielding, it seems, needed little convincing. But a new parliament, with members eager to win attention and impress constituents in the aftermath of the Merchants' scandal, would not let the government avoid new responsibilities quietly.

While Fielding was cautious, he decided early on that bankers' liens could no

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964 NA FD RG19, V.261 File 101-53-6, 1924 V.4: McLeod to King, 19 March 1923.

965 Ibid., Alex Darrach to King, 30 January 1922. Darrach argued that the Minister of Agriculture, S.F. Tolmie, owed large sums to the banks and was first nominated by the banks and put in Ottawa to do their bidding. Such influence would be the downfall of the Liberals, said Darrach.

966 CBAA 87-505-25: White to Williams-Taylor, 22 December 1921; White to Williams-Taylor, 27 January 1922.
longer go unreported, a practice that infuriated other lenders that unwittingly advanced credits on collateral banks had first claim to. Change was needed or "there would be strong and embarrassing opposition in Parliament..." Despite this, Williams-Taylor was encouraged by Fielding's desire to hear bankers' views but recognized consultations with the minister had to be discrete. Members of the CBA were warned not to talk about any Association proposals to the minister as it "might seriously affect the chances of the adoption of our suggestions and lessen the opportunity of a free conference between the representatives of the banks and the Minister during the preparation and passage of the Bill." The days when bankers and politicians could freely admit sitting down together and working through revisions to the Bank Act were over.

As Macarow's trial began the appointment of the Banking and Commerce Committee was announced. The chairman was Alexander MacLean, a Liberal minister without portfolio in the Union Government who had resigned after the war. In all, the committee comprised eighteen Conservatives, eighteen Progressives, three Independents and forty-three Liberals. The Committee provided a good living to Ottawa lobbyists who did the banks' bidding and discerned the different committee members'
views. The CBA soon found eager advocates at their doors but Ross, experienced with Bank Act revisions from the finance department side, thought little of them. Using the bank’s branch managers, he was confident the CBA could “ascertain the disposition of all the members of the Committee towards the banks.” A relatively quiet parliamentary run-up to the revision was soon jeopardized by one member of the committee, H.H. Stevens. A Conservative, Stevens represented Vancouver City and proposed a resolution calling for a government investigation of the Bank Act, better protection for depositors and government inspection. Again, Ottawa lobbyists swooped down from the CBA “to do useful work” but White argued that they would “do more harm than good” and used his ties to the Conservative Party to dampen Stevens’s enthusiasm for an immediate investigation. Debates about the Crow’s Nest Pass Agreement and reviving the compulsory Wheat Board did much to take Parliament’s attention away from banking reform in 1922. Most members, it seems, were content to wait till the scheduled revision in 1923. When they appeared otherwise, especially in relation to the Merchants Bank affair, the government’s position was clear: questions relating to the banking system were “matters for consideration when... a renewal of the Bank Act

1000 McDowall suggests that it was not until the end of the 1930s that the banks used paid lobbyists. McDowall, p. 276. The banks and the CBA were using paid lobbyists well before then. See CBAA 87-505-25.

1001 CBAA 87-505-25: Ross to White, 27 March 1922.

1002 Ibid., White to Ross, 28 March 1922. Stevens, in responding to Fielding’s budget delivered before the Commons in May, 1922, made mention again of his ideas but softened his stand considerably, having undoubtedly been told by White that the proper time to consider such questions was in 1923 when the Act was up for revision. See Henry Stevens, House of Commons, Debates, 23 May 1922.
comes before Parliament.*1003 It would not come before Canada's fourteenth Parliament during its first session.

The CBA began the real work on the Bank Act revision in September 1922. White had spent most of July and August in Port Carling, Muskoka where his wife was recovering from a serious illness. He passed the time thinking about the war, the coming revision, western criticism and the Merchants' case. Two issues, he decided, were of prime importance: "bank inspection and chartering small local banks."1004 Some of the Association's members were more concerned about the Stamp Tax on cheques which customers despised.1005 Williams-Taylor, on the other hand, was fretting over who should lobby for the CBA. White eased the president's concern by explaining how to tailor the CBA's lobbying to the politics of the time. In post-war Canada hiring large numbers of lobbyists was dangerous rather than useful. The supposed influence of bankers inspired enough public hostility that governments had to be very wary of their relations with financiers. The CBA's lobbyists should be, according to White, discrete and few in number.

Two names were subsequently brought to his attention by Williams-Taylor. The first, Aime Geoffrion, was a Quebec born professor emeritus of civil law at McGill University with a booming private practice and "persona gratissima" with King's Liberals.

1004 CBAA 87-505-25: White to Williams-Taylor, 4 September 1922.
1005 Ibid., Minutes: Meeting of the Montreal Members of the CBA, 1 September 1922.
The second was H.J. Symington, a Winnipeg lawyer "well regarded by the leaders of the Progressive and Liberal parties" and especially friendly with T.A. Crerar.1006 White approved of both but again emphasized "that a strong and open lobby should be avoided...."1007 The most important consideration, argued the former finance minister, was not so much the question of counsel as "the policy of the Minister in drafting the bill...." He told Williams-Taylor that "you, as President of the Association..., should consult and keep in touch with the Minister as to the policy which he thinks necessary to pursue...."1008 The CBA would best serve the banks by supporting Fielding. Having consulted his Ottawa contacts, White was now persuaded that local banks would hardly be countenanced by the minister unless "under extreme political pressure." More likely were changes in some sections of the Act and an emphasis on new inspection and reporting provisions in the aftermath of the Merchants' scandal. If Fielding decided on a system of inspection, counselled White, the "Executive of the Association should consider carefully what plan will best meet the situation and make suggestions accordingly."1009

White's assessment of Fielding's priorities proved correct. Once confirmed in late September, the CBA set out under Ross's guidance to design changes to the Bank

1006 Ibid., Williams-Taylor to White, 8 September 1922; F.W. Ross, Chairman Western Sub-Section, to Williams-Taylor, 12 September 1922.

1007 Ibid., White to Williams-Taylor, 12 September 1922.

1008 Ibid.

1009 Ibid.
Act that suited the finance minister. The CBA's Confidential Committee met in Toronto and endorsed a new audit system that had the government choose auditors from a small number of highly reputable firms to inspect each bank's head office and report to the government. Rather than reporting directly to government, the minister preferred auditors that were accountable to bank directors who could then consult the finance department if circumstances warranted it. This gave directors an explicit role in each bank's management. Fielding wanted to keep the shareholders' audit and give more powers to directors while the CBA was proposing government inspections undertaken by private accounting firms. The Association soon realised its job was to promote reforms that fit Fielding's ultimate political priority - avoiding costly responsibilities for the federal government. It was not about "one of the most potent monopolies in the country," as one critic called the CBA, exercising influence over a cowering government.

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1010 Ibid., Minutes of the Confidential Committee, 25 September 1922.
1011 Ibid., Williams-Taylor to White, 11 October 1922.
1012 Ross, who had written Bank Act revisions in the past, worked closely with the deputy minister of finance to construct the changes to the Bank Act that met Fielding's desired changes. See NA FD RG19 V. 262 File 101-53-6-1923 V. 1: Marked "Confidential," Ross to Saunders, 29 January 1923. Also of interest is Sir John Aird's comment on the inspection provision: "The government inspection of banks would throw a responsibility upon the government and naturally people would say in the event of trouble, well, the government inspector or auditor signed this statement as correct, and we naturally look to the government to protect us." Aird quoted in Maclntosh, p. 50.
1013 NA FD RG19, V. 262 File 101-53-6: W.T. Jackman to King, 29 January 1923. The perception that the CBA possessed a tremendous amount of influence was tied to its special place in the Bank Act and its close relationship with the finance department.
White thought it best that parliamentary discussion should be avoided while the shadow of the Merchants fiasco hung over the banking system. Like Williams-Taylor, the former finance minister reckoned that waters on the other side of 1922 would be smoother. By and large, they realised their wish. Fielding did not bring his bill revising the Bank Act before Parliament until March 1923. The road to its introduction, however, was a difficult one for the Association. Again, Williams-Taylor faced troubles with weak banks. The Nationale could not be resuscitated and hard times in western Canada forced the Winnipeg based Union Bank of Canada to reveal its weakened state to the CBA. It had close to 400 branches, most on the prairies. For all the talk about wanting a western bank that catered to western needs, western provincial governments did little to encourage the Union. Manitoba's rural credit societies competed with more Union Bank branches than any other bank's. It deposited monies from the MPSOs with the Bank of Hamilton and while the Union was the province's banker, the privilege conveyed minimal prestige. Alberta, where the Union Bank was the first to open, showed even less interest in the western based bank. Its banker was the Bank of Montreal. Saskatchewan was equally unimpressed by the Union's western status. On February 2, 1923 the president of the Union, W.R. Allan, wrote to Williams-Taylor to tell him that H.B. Shaw, his general manager and vice president, was taking six months leave of absence due to ill-health. Three weeks later Shaw resigned and Williams-Taylor subsequently asked his western superintendent, Jackson Dodds, to examine the through its Confidential Committee during the war. Its political influence, especially after the war however, has been greatly exaggerated by critics of the banks like Jackman.
Union's financial affairs. The reports were discouraging. The CBA faced another race against time. Rumours about the Union surfaced almost as soon as Shaw left the bank and threatened the relative "quiet" in the West. Adding to the anxiety was a further complication in Toronto where the Standard Bank was suffering problems similar to the Union's.

Fielding's revised Bank Act avoided new and expensive government responsibilities. The 1913 shareholders' audit was tailored to the circumstances around the Merchants Bank debacle - so much so that one conservative press report suggested "that onerous and possibly dangerous innovations have been proposed...." Auditors from two different firms would now report to the general manager and the board of directors all unsatisfactory transactions and loans in excess of 1 per cent of a bank's paid up capital. Under this scheme directors could not escape responsibility and were far more accountable to shareholders. They were also more likely to interfere with the bank's administration, a prospect most general managers did not welcome. Loans to bank officials were limited to $10,000 and advances of $1,000 or more needed board approval. Bank auditors were prohibited from taking retainers or other business from

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1015 CBAA 87-505-26: Symington to Williams-Taylor, 30 October 1922.

1016 Financial Times, 31 March 1923.
their clients, a provision the leading chartered accountant in the country, G.T. Clarkson, said would "place nearly all large Auditing firms in Canada in a position where they will be unable to undertake the audits of Banks if they are to retain their general business."1017 This was welcome news to smaller firms.1018

The fundamental change in the revised Act concerned Bank Returns. Banks had to do more than reflect what they considered a fair appraisal of their position. Market values would now be enforced by auditors and reflected in Bank Returns under threat of elaborate legal penalties. Most significant was the standard definition of non-current loans devised by the CBA's Confidential Committee. It deemed a non-current loan as a loan where no interest had been paid for two years; a loan where the bank exercised its right to take possession of the collateral securing it; a loan the bank launched legal proceedings over to recover its money; a loan to a party who had declared bankruptcy; or a loan that a local branch manager would have reason to define as non-current.1019 This would bring an end to vague reporting and misleading information in Bank Returns calculated "so that a bank did not get a black eye."1020 Banks that allowed branch


1018 Ibid., Marked "Private and Confidential," W. Thomas to Fielding, 5 May 1923. Fielding's correspondence around this audit reveals that his provision started a heated debate within the Chartered Accountant profession that pitted different groups against each other and questioned the ethics of some of them.


1020 CBAA 87-505-20: H.O. Powell to Ross, 6 January 1919. Powell complained that banks were consciously skirting the need to report over-due loans and in 1919 argued it was time the CBA put a stop to it.
managers to supplement incomes by selling insurance were brought to heel by the Confidential Committee that worried about the impact the practice had on customer service and relations. The revised Act outlawed the practice with one exception: managers at the small Saskatchewan based Weyburn Security Bank could continue selling hail insurance. To critics of secret liens by the banks, Fielding provided that farmers borrowing under Section 88 had to disclose liens to the Assistant Receiver General in their province, a provision that he had Ross prepare. The Finance Act remained, the minister having been convinced that cancelling it posed an unwarranted danger to an already beleaguered economy.

When the House went into committee to consider the revision, Stevens, the Tory who had called for government inspection in 1922, stated: "The changes now presented to the committee in this Bill cover completely the discrepancies in the Old Act." Fielding’s revised Act carried no “radical” changes but it would be a mistake to argue that the Act was merely “tinkered with.” The revised Bank Act set off a chain of

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1021 Ross’s influence is evidenced in NA FD RG19 V. 262 File 101-53-6: Ross to Saunders, 6 March 1923. Changes to the Act are summarized in CAR (1923), pp. 281-282.

1022 CBAA 87-505-25: J.P. Bell to Williams-Taylor, 3 October 1922. Bell seems to have been one of the first to pressure the CBA’s president to bring to the minister’s attention the consequences that curtailing loans under the Act would have.

1023 CBA, Bank Act Revision Proceedings, 1913 - 1928 p. 106. Also see House of Commons, Debates, 1923, p. 4089.

1024 McDowall argues that the 1923 Act was “not fundamentally altered” and on the surface that is true, but changes to the shareholders audit, new legal responsibilities attached to bank directors and officers, and especially changes to Bank Returns had a profound and immediate impact. Writing to members of the CBA, Ross
events that have escaped historians' attention. On June 19 it went to the Senate for approval and became law on July 1, excepting the provision for Bank Returns which did not come into force till October 1, giving banks time to prepare for new reporting standards. A day after the revised Act went to the Senate the Union Bank publicly announced it was writing off $4.25 million in advances that a month before were characterized as "Current Loans," a decision directly attributed to the government's changes. By July's end the Standard Bank expunged $2.25 million in advances under similar circumstances. Rather than declare heavy losses, the president of the Bank of Hamilton, Sir John Hendrie, quickly sought a merger with the Bank of Commerce. His proposal was rejected by Mackenzie King to the "bitter disappointment" of Cyrus Birge who succeeded Hendrie as president. At the same time Montreal's Molsons described it as follows: "There is no doubt that this provision, coupled with the audit provisions in the new Act, as soon as it became clear that they were to come into operation, had a remedial effect upon the banking system. Directors and executives who were approving of and signing returns realized that the new provisions made it impossible to go on as before...." CBAA 87-506-13: See attachment to Circular No. 35 - X, 16 May 1924. The change also forced the Banque Nationale to reveal its position and forced the hand of the Quebec government which had to assemble a bail out package. It lent the Banque d' Hochelaga $5 million to take over the Nationale. MT, 22 February 1924.

1025 CAR (1923), p. 291.
1026 NA FD RG19, V. 488 File 616-23: "Memorandum on Canadian Banking System and Home Bank Case," 3 March 1924. The author seems to have been the deputy minister of finance, J.C. Saunders.
1027 PANS Fielding Papers MG2 V. 533 Folder 133: Marked "Private and Confidential," Fielding to King, 11 August 1923; Marked "Confidential," Cyrus Birge to Fielding, 9 August 1923. What is quite extraordinary about the Hamilton's merger bid with the Commerce is that it is inspired by the Hamilton's president who did not tell his general manager and confided in only a very small number on the bank's board. He
Bank began to seek a buyer. Then, on August 7, what White and the CBA's president thought was a victory began to unravel when the Home Bank faced its own day of judgement.

In early August James Cooper Mason, the Home Bank's general manager, died of stomach cancer after four months of agony. He was forty-seven, had a reputation as a good soldier and was an excellent athlete. As a banker he was distinguished for his courage in an 1890s robbery in which he was "clubbed into insensibility...." Mason was subsequently promoted.\(^{1028}\) He became the bank's general manager in 1916, replacing his father, General James Mason, who left during a reorganization of the bank's management initiated by White as finance minister. During the younger Mason's four month struggle with cancer, A.E. Calvert was made assistant general manager and soon uncovered a banking horror story. When Cooper Mason died, Calvert reported the bank's "precarious position" to the Board and asked for an appropriation of more than $2.2 million to cover bad loans.\(^{1029}\) The president, H.J. Daly, who would soon succumb to stomach troubles himself and had outstanding loans amounting to $761,000, laid Calvert's report before Sir Thomas White who was well acquainted with the Home Bank's situation. The former finance minister offered a carefully worded response on

\[^{1028}\text{Mail and Empire, 7 August 1923. James Cooper Mason died on August 6.}\]

\[^{1029}\text{NA FD RG19, V. 488 File 616-23: "Memorandum on Canadian Banking System and Home Bank Case," 3 March 1924. There is no evidence to support Maclnstosh's claim that the directors of the Home Bank instigated an investigation of their own. That was the last thing they wanted. See Maclntsoh, p. 56.}\]
August 14 that left few options. The seventy-one branch bank, with a paid up capital of $1,960,594, a rest of $550,000, and deposits amounting to roughly $19 million, had been compromised by $7 million in bad loans. It had but $363,000 in cash and its other liquid assets were tied to advances secured in New York and Ottawa. White told Daly to inform the finance minister at once.\textsuperscript{1030} The bank president sent three directors, James Stewart, Casey Wood and Richard Gough to Ottawa to try and save the situation.\textsuperscript{1031} Stewart and the others met with James Robb, the minister of trade and commerce and acting finance minister, in a hastily arranged late night conference at Ottawa’s Chateau Laurier.

Stewart, Wood and Gough, who all owed the Home Bank roughly $400,000, wanted a government loan, an option Robb could not approve on his own. With the deputy minister of finance in tow, Robb and the Home Bank delegation headed to the prime minister’s house. There would be no government loan to the Home Bank. King was not about to continue the Union Government policy of bailing out weak banks. He sent the whole entourage to Sir Vincent Meredith in Montreal. As they left, King began rethinking the Hamilton’s request to merge with the Commerce and approved the

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\textsuperscript{1030} PANS Fielding Papers MG2 V. 533 Folder 133: White to the President, Home Bank of Canada, 14 August 1923. The Home had advances under the Finance Act totalling $220,000 and $21,000 in deposits in a Receiver General’s account. J.C. Saunders to Fielding, 15 August 1923.

\textsuperscript{1031} Wood was a King’s Counsellor with his own Toronto law firm and had an interest in investment banking. Gough was a Toronto furrier and merchant with big ambitions. Stewart was a University of Toronto graduate, the Ontario Commissioner of the Boy Scouts, a Liberal and a businessman with directorships in a great many companies across Canada. \textit{Who’s Who in Canada} (Toronto: International Press Ltd., 1922).
\end{footnotesize}
takeover on August 27. Sir Vincent Meredith met the Home Bank officials at the Ritz Carleton and recommended suspending payment. The president of the CBA, Williams-Taylor, was out of town and the Home Bank's directors assumed Meredith's opinion would not be substantially different from his general manager's. Back in Toronto one last desperate appeal was made to the Commerce's Sir John Aird. He proved unobliging. Aird met with other members of the CBA early Friday afternoon, on August 17, to discuss the options. They concluded that the Home Bank must close. When the signs went up in branches in Ontario, Quebec and the West, telling depositors "Bank Closed - Payment Suspended," the political fallout for the CBA began. All that could go wrong with a bank under Canada's banking laws would soon be laid bare.

One feature of the Home Bank saga that has never been properly explored is its impact on working people. As reported in the 1923 Canadian Annual Review, most of its depositors were "wage earners." Demands for government inspection were immediately voiced and members of the House of Commons were calling for a thorough investigation. Fielding told those who asked: "I can see no good purpose to be served at present by such a Government inquiry as you ask. I do not think any depositors are

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1032 PANS Fielding Papers MG2 V. 533 Folder 133: James Robb to Fielding, 15 August 1923. That King would do this is interesting. He seems to have been bracing for the inevitable collapse of the Home Bank by ensuring it would not be followed by another failure involving the Hamilton.

1033 Ibid.

seriously clamouring for Government inquiry. What they want is their money. No
Government inquiry would give them that.\textsuperscript{1035} Williams-Taylor offered the anxious little
better, answering pleas for the CBA to cover depositors’ losses by saying “The
Association is not prepared to assume any such responsibility in this case or the case of
any other bank.”\textsuperscript{1036} His words were no comfort to the roughly 60,000 depositors who
stood to lose by the Home Bank collapse. Letters poured into the Association, the
finance department and MPs’ offices by the thousands. One, from a working mother in
Toronto, reflects the personal hardship the failure caused:

I am writing in regard the Home Bank affair and
which I only hope will eventually give better returns
than we fear. I have been working myself, to keep
my two babies, one five, the other just four this month,
as my husband has only had odd jobs for three years
now and while he worked, I saved for this winter’s
supply of Clothing and Coal as last winter I had
nothing but what was sent me by my people. I don’t
know what I would have done without it. However,
I had saved $234.19 and had only had the best of that
in since May 8th as I had held it in the house but
feared to lose it. I banked it, and then again I had
saved $40.00 and had only put it in on Friday last at
half past two, and at night the bank shut down. What I
will do for the winter, I don’t know. My husband has
nearly starved himself to save this and maybe to lose
it all now.

Can you advise me what to do. I had to start work the
next day because I would not have money to feed us,
as all was in the bank.....

\textsuperscript{1035} PANS Fielding Papers MG2 V. 533 Folder 133: Fielding to T.L. Church, 24
August 1924.

\textsuperscript{1036} CAR, (1923), p. 285.
This is not a begging letter, Sir, but one to ask you to try to get our money back, if it is humanly possible for the poorer class at any rate, first. This kind of thing gives no man or woman a heart to work or save, does it?\textsuperscript{1037}

The Home Bank's assets only amounted to 1 per cent of all bank assets in Canada, but the fallout from its collapse in the aftermath of the Merchants trouble, bank mergers and public dissatisfaction with service and credit policies went far beyond what one might expect to follow a small bank's suspension. Depositors' committees sprang up in cities, towns and communities where Home Bank branches were located. A national committee soon followed.\textsuperscript{1038} Churchmen, politicians, farmers, labour unions and women's groups launched a spirited campaign demanding redress. Others, who had long criticized the banks or called for reform, latched onto the movement.\textsuperscript{1039} "What made the Home Bank failure such a political case," as Robert MacIntosh rightly argues, "was that a handful of self-dealing speculators in Toronto had used other people's money, which had been collected in small deposits across the country."\textsuperscript{1040} By the fall of 1923 the CBA, its president and White had to contend with extraordinary public scrutiny of the banking system's financial and political administration.

Precedents surrounding past failures were quickly exhumed. In Fernie, B.C. for example, where the Home Bank was the only bank, labour leaders began distributing

\begin{footnotes}
\textsuperscript{1037} PANS Fielding Papers MG2 V. 533 Folder 133: Mrs. Hill, 45 Sackville Street, to T.L. Church, MP, 22 August 1923.

\textsuperscript{1038} MacIntosh, p. 58.

\textsuperscript{1039} Grayson, p. 68.

\textsuperscript{1040} MacIntosh, p. 56.
\end{footnotes}
letters to workers documenting the history of Canadian banking collapses.¹⁰⁴¹ One Toronto businessman, who noted that "banks after banks have failed year after year," asked Fielding "is it true that you, as Minister of Finance for the Dominion of Canada, have accepted a mere scrap of paper just with some of the officers' and directors signatures thereon, and deliberately taken such statement for granted that it is the truth...."¹⁰⁴² Arguments bankers had used to defend against critics were turned against the CBA. T.L. Church, a Toronto Tory MP, laid out the public argument for compensation in early September:

This would do more...than anything else to restore public confidence in our Canadian banking system. The Association has on several occasions gone to the relief of the smaller banks and they claimed they averted failures so this principle has been admitted by them to have been in practice before. If the Canadian banking system is what the Association claims it is then I hope they are in earnest and that they may take the action suggested aforesaid.¹⁰⁴³

The responsibilities given the CBA by Ottawa at the turn-of-the-century to supervise the banking system, and the subsequent efforts by the Association and its members to defeat improved bank inspections, returned with a vengeance. The CBA had been saddled with the expectation that it would guard the integrity of the country's banking system. When it failed Canadians looked to their government once again. Borden's

¹⁰⁴¹ CBAA 87-518-09: W.R. Wilson, president of the Crow's Nest Pass Coal Company, to J.F. Edgar, Toronto, 23 August 1923.

¹⁰⁴² PANS Fielding Papers MG2 V. 533 Folder 133: Charles Peters to Fielding, 15 October 1923.

¹⁰⁴³ Ibid., Church to Fielding, 12 September 1923.
Tories said Farmers Bank's depositors deserved compensation, arguing that Fielding and the Laurier administration were negligent when they granted the Farmers Bank a federal charter. Now depositors' groups were saying the same thing, especially after revelations in the press that White, when finance minister, knew about the precarious state of the Home Bank's affairs years before.

As soon as questions about White's connections to the Home Bank came to light, the former minister answered charges of negligence in the press. He wrote a lengthy letter in October, 1923 to Toronto's Globe, explaining that in 1916 he was assured by the bank's president at the time, Michael Haney, that doubtful loans would be shored up and that interest which was never paid would not be taken into profits and distributed to shareholders.\footnote{Globe, 15 October 1923.} He also answered questions stemming from portions of an August 1918 letter, also published in the Globe, from the Home Bank's one time Winnipeg manager, and Haney's assistant, W.N. Machaffie. Writing to White, Machaffie advised the minister that his 1916 instructions had not been followed, that Lash was being lied to, the Bank Act was being violated, and officers who "did not want to share the guilt" were being dismissed.\footnote{Ibid., 13 October 1923.} White told the Globe that he sent Z.A. Lash to the Home Bank once again and received a letter from the bank's president "denying the allegations...." On this information and to avoid a crisis during the war, White argued that he used his best judgement and allowed the bank to continue.\footnote{Ibid., 15 October 1923. Also see CAR, (1923), p. 286.} What was not
reported was that Machaffie was a blackmailer and presented his accusations to the bank's president well before writing to White. Home Bank directors paid Machaffie "a considerable sum of money and in return received a letter from him withdrawing his allegations."\(^{1047}\) The accusations against White grew worse when it was revealed that he left "private correspondence" pertaining to the Home Bank at the finance department when he left office and returned after the failure to retrieve it. This put Fielding in an awkward position. To protect the treasury from depositors' claims, he defended White from other cabinet ministers who wanted to treat the matter as one of "politics."\(^{1048}\) Despite White's arguments in the press, the former finance minister never instigated a proper audit and consistently avoided taking any action to control the Home Bank's management, a mistake he and 60,000 depositors were now paying for.

The perilous state of the Home Bank was first revealed to White in late August 1914, when the bank applied under the Finance Act for a government loan and pledged security the minister refused to take. White discussed its condition with Williams-Taylor, who headed up the secret Bankers Advisory Committee. They decided to


\(^{1048}\) A very interesting exchange of letters between Fielding and Charles Murphy, the Post Master General, over White and the Home Bank reveals the extent to which Fielding protected White. Murphy wanted to turn the scandal on White and the Tories but Fielding thought "it would be a grave political mistake to treat this matter as one of politics at all. It is a simple matter of business, to be dealt with on the ordinary principles that govern gentlemen in their personal transactions." Murphy replied that it was already a matter of politics and he was right. PANS Fielding Papers MG2 V. 533 Folder 133: Marked "Private," Fielding to Murphy, 16 October 1923; Murphy to Fielding, 17 October 1923.
accept mostly poor collateral from the Home Bank to secure a loan and shut down another ailing bank, the Vancouver. Whether they worried about closing both at the same time is unclear. What is evident is that the Home Bank was still in a position in 1914 to be merged with another bank and should have been. White was again faced with deciding the Home Bank's fate in 1915 when Machaffie reported to western directors, John H. Kennedy, T. A. Crerar and John Persse, that the bank was in trouble. It was, in fact, insolvent and immersed not only in bad real estate loans to Sir Henry Pellatt, but another scandal involving Toronto lawyer and MP, Edmund Bristol. He apparently started an investigation of his own using private detectives to determine if the western directors owned their Home Bank shares outright. He hoped to prove they did not and force them off the Board. Bristol owed the bank more than $30,000 and was working alongside Charles Barnard, a Home Bank director and Montreal investment dealer, as well as W. Grant Morden, a Canadian-born British MP who was the Deputy Chairman of Canada Steamship Lines. Using Haney, who was the vice president of

1049 The finance department's investigation of the Home Bank concluded that by 1916 the "Bank had ceased to be an attractive purchase for any stronger Bank." The deputy minister who prepared the report, J.C. Saunders, seems to have been completely unaware of the revelations to the finance minister just after the war started when the Home Bank applied for financing. NA FD RG19, V. 488 File 616-23: "Memorandum on Canadian Banking System and Home Bank Case," 3 March 1924, p. 103.

1050 Ibid., p. 102. Using the Home Bank's records after the failure, a special auditor appointed by the finance department came to this conclusion.

1051 OA Edmund Bristol Papers, MU284 F68 File "Edmund Bristol - Personal, 1915: Marked "Private and Confidential," Bristol to C.V. Lindsay, 8 September 1915; Bristol to W.D. Staples, 28 August 1915.
Canada Steamship Lines, these men were in the midst of negotiating a deal to finance the New Orleans Southern & Grand Isle Railway Company using advances supplied by the Home until the railway could be sold. The western directors opposed the deal to little avail in the end. By 1923 the ill-advised loan amounted to a loss of more than $1.1 million.¹⁰⁵² After the failure, Bristol's constituents in Centre Toronto, who knew nothing of his involvement, wanted his help obtaining compensation. He advised that "I am, unfortunately largely interested as a depositor in the Bank myself and that makes me feel that as a Member of Parliament I should take no active part in the matter."¹⁰⁵³

Bristol did not run in the next election; Barnard whose investment company held most of the securities, took the blame, and Morden went on to be a British Justice of the Peace and avid fox hunter.¹⁰⁵⁴

The Home Bank's collapse entangled Williams-Taylor and the CBA in a very

¹⁰⁵² Ibid., Marked "Personal," Bristol to W. Grant Morden, 28 September 1915. Without financing, Bristol confided in Grant that they would suffer "a very large loss in the matter." Haney resigned as president of the Home Bank in 1921 and had kept the bank going, much as Charles McGill had done years before for the ill-fated Ontario Bank, by speculating in stocks on the Toronto and New York Exchanges. Once the economy went into depression, however, Haney realized the bank's end was near and resigned.

¹⁰⁵³ Ibid., Bristol to Henry Kimmerly, Secretary, International Brotherhood of Blacksmiths, 12 June 1924.

¹⁰⁵⁴ Who's Who in Canada (Toronto: International Press Ltd., 1927). A recent article on Bristol completely misses the role he played in the Home Bank affair and argues that his departure from active politics can be tied to the decline in Bristol's patronage "empire" following civil service reforms in 1918. A better explanation for Bristol's retirement is found in the Home Bank scandal which was known to Liberals and would surely have brought him certain defeat at the polls if publicized. Alan Gordon, "Patronage, Etiquette, and the Science of Connection: Edmund Bristol and Political Management, 1911 - 1921," in CHR, V. 80, No. 1 (March 1999): pp. 1 - 31.
serious scandal that imperilled the banking system's integrity. In December, 1923 a Toronto Telegram editorial argued:

If the Bankers' Association had gone up against the MANHOOD represented by Sir Thomas White's mastery of the Finance Department, instead of going up against the mush represented by Honourable W.S. Fielding's management of that department, the Canadian Bankers' Association would have taken over the Home Bank or have liquidated the institution, and no depositor would have lost a dollar.¹⁰⁵⁵

Most Canadians who gave the Association any thought believed it supervised banks in some way or another, a notion that had been laid in the public's mind by bankers and politicians almost since the founding of the CBA. Williams-Taylor complained to Fielding that "there is much real ignorance on the part of the public regarding the functions and powers of the Canadian Bankers' Association..."¹⁰⁵⁶ a problem that was not the public's as much as it was the CBA's and its members.

In early October Williams-Taylor, as president of the CBA, met with depositors' advocates but maintained the Association could bear no responsibility for the Home Bank, a position that only angered those who wanted action. Bankers seemed to be saying that when all was well they would happily accept responsibility but when that was not the case they were powerless. As the intrigue played out in the press it became evident that depositors would in all likelihood lose at least 65¢ on the dollar. At the Association's Annual Meeting Sir John Aird was elected president and the public

¹⁰⁵⁵ Telegram, 12 December 1923 quoted in Macintosh, p. 57.

¹⁰⁵⁶ PANS Fielding Papers MG2 V. 533 Folder 133: Williams-Taylor to Fielding, 13 October 1923.
relations campaign began.

Home Bank depositors were partially spared the long wait to liquidate the bank's assets. Using collateral that was still realizable, the Association's members advanced $3,750,000 or 25¢ on each depositors' dollar in an attempt to do something to answer demands for action.\(^{1057}\) What the victims of the Home Bank and their supporters wanted, however, was "one hundred cents on the dollar" and the banks to guarantee each others' deposits. The Association responded with a cold and academic pamphlet explaining why guaranteeing deposits would never work.\(^{1058}\) At the same time Aird and the Association tried to distance themselves from the Home Bank, arguing that it "stands...quite outside the established and well-tried methods of Canadian banking practice,"\(^{1059}\) a message that missed the point.

When asked about government bank inspection the Association's members showed less cohesion. The public was clamouring for change, having lost faith in the promises of bankers and the existing system's pretense of safety which, one critic said, "lured depositors on and kept them living in a fool's paradise."\(^{1060}\) The CBA's and its

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\(^{1057}\) This decision was taken at the AGM in November 1923. See CBAA 87-500-61: Marked "Personal and Confidential," Memo of Meeting of Toronto General Managers, 18 December 1923.


\(^{1059}\) JCBA V. XXXI (October 1923), "The Home Bank of Canada," pp. 9-10; Aird is quoted in Montreal Gazette, 5 January 1924.

\(^{1060}\) PANS Fielding Papers MG2 V. 533 Folder 133: Un-named Liberal to Murphy, 13 October 1923.
members' credibility was on the line, a point not lost on prominent Tory and Toronto businessman Sir Joseph Flavelle who told Sir John Willison that

> if the bankers fail to present a constructive measure, the pressure of crowd opinion, demagogue newspapers, hard-pressed politicians and people who suffered sore losses will lead to legislation the banker will angrily dispute, but will be compelled to accept. He will complain, and probably rightly, that the legislation will have mischievous results, and the public will be befooled, but if this is so, and the bankers pay the bill, may not some of the fault of it be laid at their door?  

Aird defended the Association as much as Fielding when he argued that the 1923 Bank Act had never been given a chance to work and that Canadians should give it time.  

This was not the “constructive measure” someone like Flavelle would have hoped for. The Royal Bank’s general manager, Charlie Neill, on the other hand, pointed to the Home Bank and “welcomed government inspection as long as it was efficient.”

Perhaps Neill did recognize the “inevitable,” as McDowall argues in his history of the Royal Bank, but the finance department was ready to believe something quite different about bankers who now publicly endorsed government inspection. “Their change of attitude,” thought the deputy minister of finance, “was linked to the gripping powers of shareholders to control management under the 1923 Act which would be displaced by a

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1083 McDowall, p. 232.
government inspection program." The Association had originally opted for government inspection conducted by private accounting firms, but Fielding rejected this thinking it might encumber the treasury following any future bank failures. Neill, in early 1924, was simply returning to the CBA's initial position, only this time publicly.

One can hardly over-estimate the consequences that followed the Home Bank failure. It heightened public discontent with banks and brought into disrepute the reputation of Canadian bankers and their association. Debate in Parliament led to discussions about a central bank that questioned the proficiency of bankers and finance department officials. The good will bankers had long cultivated with the Canadian public had been marred by the whole affair. Again, the CBA could not even count on the courts for any measure of support. Daly died before his day of judgement but other Home Bank officers and directors were brought to trial, convicted on various charges and eventually acquitted on appeal. The Home Bank had failed before October 1, 1923, when the new provisions regarding Bank Returns came into effect. Consequently, all the legal loopholes that protected the president and general manager of the Merchants Bank were available to Home Bank officials. The fear the Home Bank disaster instilled in many depositors was the death knell for some of Canada's remaining small

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1065 Grayson, p. 69.

1066 After this became clear to one of the directors, Richard Gough, he tried to withdraw his resignation from the Board of Canadian National Railways, a decision Fielding advised against. NA Fielding Papers MG2 V. 533 Folder 133: Gough to Fielding, 4 October 1923; Telegram, Fielding to Gough, 9 October 1923.
It was, argued The Manitoba Free Press, "the smaller banks that had suffered chiefly, as the people showed a preference for the stronger banks, thinking they afforded better security." This was born out by the experience of Toronto's Standard Bank and especially the Sterling Bank which lost $3 million in deposits that "about wiped out its earning power...." The Standard and the Sterling sought safety in each others arms and proposed a merger that Robb, the acting finance minister, consented to after special audits that the CBA did not want to reach the floor of the Commons. Even after they were merged in 1925, the new Standard Bank's days were numbered. Banque Nationale had finally disappeared by 1925. The Molsons Bank ended its career a year before when it was bought by the Bank of Montreal. In 1925 the Winnipeg-based Union Bank of Canada sold out to The Royal Bank and the last of the mergers stemming from the banking crisis of 1921 to 1923 was completed in 1928 when the Bank of Commerce absorbed the Standard Bank, an ill-timed merger that re-ignited fears of a "money monopoly" and public antagonism toward banks. All of these mergers would have probably happened in 1923 if Fielding had not laid down a

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1067 Immediately after the Home Bank failure depositors in the banks, mostly the small ones, withdrew more than $10 million. The Dominion Bank in Toronto, a well-managed and sound institution, was subjected to a run and could not keep up with the demand for cash and called on its banking neighbours for help. CAR (1923), p. 286.


1069 NA FD RG19, V. 492 File 619-30: Memo on Standard and Sterling Merger, 1 January 1925.

1070 Ibid. Also CBAA 87-500-61: Marked "Personal and Confidential," Memo of Meeting of Toronto General Managers, 18 December 1923.

1071 Public reaction is found in NA FD RG19, V. 492 File 619-30.
fairly clear no merger policy until after the Home Bank issue was resolved.\textsuperscript{1072}

Early in 1924 King’s Liberal Government gave into pressure and appointed Justice H.A. McKeown to conduct an investigation into the Home Bank failure. McKeown’s findings were passed along to the Committee on Banking and Commerce. It concluded that Home Bank depositors had a “moral” rather than legal claim in the government for compensation. The committee also argued that it was time for government inspection. King’s administration agreed to both. In July, 1924 the government passed legislation creating the Inspector-General of Banks and appointed C.S. Tompkins, the former Royal Bank’s inspector, to the post. In February, 1925 King introduced legislation that would give depositors in the Home Bank some compensation. Those individuals who had less than $500 on deposit would receive 35 cents on the dollar, while those with more would have to have their cases individually assessed by an appointed official. The government’s action was not welcomed by all. Some press reports argued that depositors had no claim whatsoever on the government.\textsuperscript{1073} Those who invested in bank shares, however, thought otherwise. The value of Canadian bank stocks increased substantially.\textsuperscript{1074}


\textsuperscript{1073} CAR (1925-26), p. 312.

\textsuperscript{1074} Ibid.
Conclusion

Speaking to Ottawa’s Board of Trade and Commerce in March 1897, George Hague suggested

The Bankers of the country have proved themselves, by a very long course of operations, to be the truest friends of the merchant and manufacturer, and they have some reason to think that they should be trusted by an intelligent community like that of Canada, and not viewed with suspicion such as is entertained by the Populists and Socialists of the Western and South Western States of the Union.\(^{1075}\)

Hague looked south to the United States and found American bankers, especially those who managed large, federally regulated banks, the subject of hostile attacks from many different quarters.\(^{1076}\) That Canadian bankers should face a similar fate seemed both unfair and unlikely in 1897. After all, Canadian bankers like Hague welcomed Confederation, endeavoured to build a national economy and eventually shouldered responsibilities through the Bank Circulation Redemption Fund that the government did not want to be lumbered with. Moreover, as Edmund Walker told an American student inquiring about Canadian banking in 1899, there “is no banking monopoly here... and the accommodation accorded to the public is not only the fullest possible character, but

\(^{1075}\) George Hague, “The Banking of Canada as connected with its Trade and Commerce,” An Address Delivered Before the Board of Trade of the City of Ottawa, 31 March 1897. Robarts Library, University of Toronto.

\(^{1076}\) Unit banks in the United States were far more successful at building alliances with state politicians and merchants than their larger federally regulated cousins. Eugene Nelson White, “The Political Economy of Banking Regulation, 1864 - 1933,” Journal of Economic History V. XLII, No. 1 (March 1982).
the remuneration received by the banks is rapidly diminishing on account of... competition." 1077 Most bankers believed they served Canada well. Where there was room for improvement, many admitted, was in reducing the number of failures. Prudent bankers, conscious of the need to maintain public confidence in the banking system, had been pragmatic and willing to compromise with Sir John A. Macdonald's government. Their association was a testament to their imagination when asked to preserve the Bank Act's flexibility and make banking safer for both the public and banks that contributed large sums to the Redemption Fund. What the CBA's founders failed to appreciate was how difficult it would be to overcome the rivalry that divided Canada's banks. The CBA did not keep Canadian banks in step with the country's changing economy and political culture. When it was launched in 1891, it symbolized the willingness among a small group of prominent bankers to experiment when faced with demands for change. When the Home Bank collapsed in 1923, the CBA seemed symbolic of the public's perception that bankers were unfeeling and intransigent. Few Canadians realized rivalry had paralysed the CBA long before the Home Bank ran into trouble.

This thesis has traced the history of the CBA from its founding in 1891, and the events that led up to it, through to the failure of the Home Bank in 1923 and its consequences. Chapter one demonstrated that the Association was not, as one writer claims, simply the

1077 FRBL Walker Papers, Ms1 Coll Box 19, file 13: Walker to John Fisher, 14 February 1899.
product of bankers who wanted "a forum in which the banks could consider legislation affecting banking." The CBA was not a cartel, as Naylor suggests and the Bank Act's reserve requirements did not limit competition, an argument set forth by Taylor and Baskerville in their history of Canadian business. The CBA's launch reflected growing dissatisfaction with Canada's banking system. Sir Francis Hincks's Bank Act was expected to make banking a safer enterprise than it had been in Upper Canada prior to Confederation. When banks failed and it became apparent the Bank Act did not offer the protection Canadians had called for, Sir John A. Macdonald faced public demands for reform because voters believed the government was responsible for the country's banking system. Wary of the possible costs associated with regulating banks, and having little fear that trade associations endangered consumers, Macdonald and his cabinet were satisfied that Walker's proposed Redemption Fund and the banks' self interest would give bankers enough incentive to regulate their conduct through their own industry association. For most bankers, the Redemption Fund and the launch of the CBA guarded the Bank Act's flexibility which allowed prudent bankers the latitude they believed was necessary to grow and survive in a tremendously competitive environment. It also deflected popular pressure for reform off the government and onto the banks, an outcome that was not anticipated by the CBA's founders.

The deputy minister of finance, John Mortimer Courtney, was hopeful that a bankers' association would make his job easier and help limit competition for deposits, a business the government was interested in through its own Post Office and Dominion

1078 MacIntosh, p. 21.
Government Savings Banks. His hopes were unrealistic. Establishing the CBA proved a trying exercise for the bankers who had proposed it. Canada's largest bank at the time, the Bank of Montreal, would have little to do with the Association until the end of the 1890s, a problem that undermined the political and public credibility of the CBA during its first decade of existence. Chapter two has shown that when faced with regulating each other, Canada's bankers were unwilling to have any competitor interfere with their management decisions through the guise of an association. The launch of the CBA did not impose rules on banks that limited competition, as Darroch contended in his study of global competitiveness and public policy. Bankers refused to give it the authority to intervene in a bank's affairs and it was soon clear that if it was going to have such power, most banks would have had little to do with it.

Rivalry precluded a powerful industry association. The alternative was a voluntary body that tried to build a relationship with its members by promising to offer educational services to their staff and to represent them in Ottawa and provincial capitals when confronted with legislative changes bankers considered unwise. The principle purpose of the Association remained, however, making banking safer for the contributors to the Redemption Fund and ultimately the public. Key to this goal was preventing failures through improved profit margins that "ruinous competition" diminished. The conflict between the CBA's primary objective and its secondary concern for services to members undermined its effectiveness within the banking system. During its first decade, the CBA began publishing the very useful JCBA and concluded a deposit rate agreement with the full support of the finance department that
was supposed to reduce interest expenses and improve profits. The 1895 agreement proved, however, to be little more than a polite courtesy that was disregarded by bankers and branch managers whenever it jeopardized new business or the retention of valued clients. Quigley’s argument that an inflexible deposit rate was concluded by the CBA in 1895 does not stand up to the evidence. When the 1890s drew to a close, competition was growing in intensity, banks were still failing and the federal government again faced calls for reform. The CBA’s founders blamed their organization’s poor performance on its lack of power, a problem the government said it would remedy by chartering the Association in 1900.

Incorporation did not change the Association’s predicament, a fact that chapter three covers in detail as it outlines the magnitude of bank rivalries during the first eleven years of the twentieth century and documents more serious bank failures that were now causing bankers very tangible political problems. This decade proved to be the worst in the CBA’s history. Many of its members lost interest in the CBA when they determined that it had little relevance to their own organizations, a perception that was given currency by the long tenure of its president, Edward Clouston, and its secretary, John Knight, who managed the CBA from Montreal. The CBA did not use the powers it gained upon incorporation to regulate members through Canada’s clearing houses, it did not successfully fulfil its obligation to inspect the note accounts of all its members after 1905, it raised the ire of shareholders in failed banks who did not like the heavy handed approach of its curator and it made an enemy of The Bank of Nova Scotia and its general manager, H.C. McLeod, who led a public campaign for government bank
inspection which gained momentum with every failure. By the time Sir Wilfrid Laurier and his finance minister, William Stevens Fielding, left office in 1911, parliamentarians had realized that depending on bankers to regulate their industry was politically dangerous. Some voters had realised it as well.

When war came in 1914 the CBA was marginalized, a fact the histories that have dealt with war finance have missed. The revision of the Bank Act in 1913 revealed to bankers the deepening resentment some Canadians and politicians had for the chartered banks and dispelled any doubts the new finance minister, Thomas White, may have had about the political sensitivity that had to be exercised when considering bank mergers and other changes to the country's banking system. John Knight made relations with Canada's political leaders more difficult during this period through impolitic statements that made the CBA and its members appear indifferent to the changing political times. He was dismissed and Toronto bankers were left to try and piece together a better association. Some initial success was found by focusing on new educational services to members by arranging correspondence courses for their staff through Queen's University and the Shaw Correspondence School of Toronto. Little, however, was done to repair the political damage to the CBA's reputation among most senior bankers and federal politicians. When war and financial crisis appeared on Canada's horizon in 1914, White turned to a very small group of bankers that he trusted. They devised what became the Finance Act and the CBA was delegated the job of carrying out White's policies and those his trusted advisors suggested.

Circumstance forced the CBA to change. White and the small committee of
bankers who advised him needed a better bankers' association that could help them implement policies and finance the war. The first step came in 1916 when Henry Taylor Ross, the assistant deputy minister of finance since 1906, left the civil service to join the CBA as its secretary. Ross knew the finance department's needs and expectations. Moreover, he brought administrative experience that Knight never had and was able to turn the CBA into a much better run organization than it had been. This was a critical first step that was needed to ensure the sale of Canada's Victory Bonds in small denominations through the branches of the chartered banks.

Complimenting Ross's work was Edson Pease who was elected president of the Association in 1916. Pease brought credibility to the Association both in government circles and among bankers. He also carried new ideas about reforming the Canadian banking system through an agricultural bank as well as a central bank that he believed would be necessary to help ease the economic transition from war to peace. Pease embodied both the spirit of imagination that the founders of the CBA had shown in 1890 and their inability to see the obstacles that rivalry would present. Nevertheless, his bid for reform failed and the CBA, which was better run under Ross than it had been in the past, was not prepared for the economy and politics of a "Nation Transformed."

The past cast long shadows over the CBA in the post-war period. Rivalry had prevented needed reforms and troubles at some of Canada's banks that had been brewing for years came up to a boil. More mergers near the end of the war likely saved Canadians from a great many failures, but mergers were unpopular and governments could only countenance them when the tangible benefit seemed to outweigh the public's
outcry. Adding to the CBA’s troubles and that of its members was a sharp decline in the quality of service to bank customers that coincided with the banks’ loss of staff during the war and over expansion afterwards. The fall in 1921 of the Merchants Bank of Canada, an institution with a long history and a sound reputation built on its size and presumed sound management, dealt a hard blow to the remaining credibility of Canada’s bankers. When the trial was over and the Merchants’ general manager was cleared of wrong doing because Canada’s banking laws were simply too weak, insult was added to the injury suffered by the CBA and the remaining banks. The only source of good news in the Merchants case was the Bank of Montreal’s actions in taking over the bank and preventing its suspension and what could have become a serious financial crisis. For this the Bank of Montreal earned few friends among other bankers and some newspapers who saw the move as one that served the Bank of Montreal’s interests more than anyone else’s. The banking system had to be changed and in the revision of the Bank Act in 1923, Canada’s banking laws were made stronger, imposing clear responsibilities on bank directors and officers while defining overdue accounts and other items to ensure accurate reporting in all Bank Returns to the government. This in itself precipitated another smaller crisis at some of Canada’s weak banks that resulted in mergers and ultimately forced officials at the Home Bank to admit their bank was insolvent. It failed and with its collapse came another debate that reflected poorly on the CBA, its members and entrenched the belief among politicians that the government was better off regulating banking in Canada and responding themselves to the public’s concerns than depending on bankers and their association. Government inspection, an
issue first raised by Sir Samuel Tilley in 1880, came to Canada in 1924, leaving the
CBA to redefine itself and bankers to contend with public animosity that the Home Bank
affair and a variety of other concerns about the banking system had generated.
Epilogue

The Home Bank saga marked the end of an era for Canada's banks and their association. On March 27, 1924, Sir Edmund Walker died at age seventy-five. The Monetary Times worried that "unless it quickly discovers new talent, the Canadian Bankers' Association will be rather handicapped in its endeavours to impress Parliament and the public." Walker was not the only banker the Association lost during these difficult times. The Bank of Nova Scotia's Harry Richardson, who had proven a useful intermediary between Montreal and Toronto bankers, died in May 1923. Edson Pease was still working at his Royal Bank but he all but gave up on the CBA after his failed attempt to instigate financial reforms at the end of the war. Williams-Taylor seemed as glad as Pease had been to leave the Association and all its troubles to others. A new generation of bankers, Sir John Aird and S.H. Logan of the Commerce, Charlie Neill and Morris Wilson from The Royal Bank, J.A. MacLeod from The Bank of Nova Scotia, the Bank of Montreal's Jackson Dodds, Beaudry Leman, who led the Banque Canadienne Nationale, the Dominion Bank's C.A. Bogert and the Imperial Bank's A.E. Phipps emerged as the leading forces at the CBA, all carefully assisted by Henry Taylor Ross, the Association's secretary. When Walker and other bankers launched the Association in 1891 Canada had forty chartered banks. After 1925 there were only eleven chairs left at the Association's table. Those who filled them could no longer "impress Parliament and the public" as Walker had done in his day; too much had changed.

\[1079\] MT, 4 April 1924.
Mackenzie King's decision to impose government inspection forced bankers to work within the Bank Act and generate sufficient revenues to satisfy both shareholders and governments that taxed them. The innovative edge banks showed through the 1890s and during the first two decades of the twentieth century diminished in this new environment. Bankers now had to explain to politicians and the public how taxes affected their ability to serve the country's needs and to win back both the legislative flexibility and the political favour that they had lost over the preceding thirty-five years.

The new confines of the Bank Act and the onslaught of the Great Depression did not make this an easy task. Returns that mergers were expected to generate seemed to disappear into government coffers and unpopular strategies were employed to bolster revenues. By the late 1920s, Canada's surviving banks began closing unprofitable branches and improving internal controls over the lending process to comply with the Bank Act and guard against loss. Shutting down unprofitable branches, especially in the West, was interpreted as a comment on a community's future and provoked feelings of animosity towards Canada's banks. A further complication was the imposition of new internal controls on branch managers. When managers could not explain changes to lending policies, it proved easier to blame distant head offices for inconvenience and inadequate accommodation.

Another alternative for bankers was to again try to control competition through the CBA. E.C. Pratt, the Molsons Bank's general manager, was determined to weed-out the many official exemptions to the 1916 deposit rate agreement which was supposed to impose a ceiling of 3 per cent. Pratt faced the unhappy consequences of many non-
performing loans and falling revenues in 1923. By 1924 his patience with the Molsons’ predicament and good business lost to rivals had withered. In late January, six months after he first asked the CBA to enforce better standards governing exemptions, he complained to Ross that “[n]ine-tenths or more of the names on the lists...were not entitled to the privilege and it should never have been allowed.” He went on to say “I am one of the Banks that have managed to get along without any exceptions whatever and I do not want to be left in this position, as several of the names on other banks’ exceptions were formerly customers of mine....”

The Molsons Bank, in fact, had not “managed to get along without any exceptions.” Exceptions were simply too expensive for a bank that could not generate the revenues to support them. Pratt’s frustration was projected on competitors and the CBA which eventually embarrassed him by pointing to the manager of the Molsons branch in St. Thomas, Ontario who was paying more than 3 per cent for deposits.

By October 1924, Pratt had found a way out of the Molsons dilemma - the Bank of Montreal. The Molsons was sold but Pratt had started a new movement at the Association that placed great emphasis on stabilizing interest costs in the face of increased taxation and more government regulation. A determined bid to build a strong agreement followed and by May 1927, an elaborate interest convention was prepared setting out how interest was to be calculated and paid on both savings and current account deposits. The exception list, which generally contained the names of Canada’s

1080 CBAA 87-532-24: Pratt to Ross, 21 January 1924.
top corporations and government accounts, began to shrink.\textsuperscript{1081} When the stock market crashed in 1929 another round of tax increases began. Within three years bank taxes climbed by 45 per cent, adding appeal to interest agreements brokered through the Association.\textsuperscript{1082} The general business trend toward "administered prices" and away from "market mechanisms" that first began in the United States in the late 1920s affected Canadian bankers as well.\textsuperscript{1083}

Fielding's retirement in 1925 left Ross and the CBA with little influence at the finance department. Prosperity, which returned to Canada in 1925, tempered public criticism but did not extinguish it. If the Association needed proof it found it in 1928 when some argued the banks had formed a combination. The question of a central bank was raised once more and again the banks and the CBA appeared uninterested in

\begin{center}
\begin{tabular}{|l|c|}
\hline
Country & \begin{tabular}{c}Percentage of Interest Paying Deposits \end{tabular} \\
\hline
Belgium & 23 \\
France & 8 \\
Germany & 54 \\
Italy & 29 \\
Netherlands & 45 \\
Sweden & 80 \\
Switzerland & 83 \\
England & 83 \\
New Zealand & 47 \\
Australia & 65 \\
South Africa & 35 \\
Canada & 73 \\
United States & 41 \\
\hline
\end{tabular}
\end{center}

Canada was number three in this list of countries in 1935, showing the important cost that interest on deposits had in Canada relative to other countries. \textit{Ibid.}, CBA letter to general managers, 3 October 1935. \textit{CAR} 1933 p. 354.

\textsuperscript{1081} \textit{Ibid.}, Circular No. 55 - H, 26 May 1927.
\textsuperscript{1082} This trend is mentioned in Bliss, \textit{Northern Enterprise}, p. 412. Also see Robert F. Himmelberg, \textit{The Origins of the National Recovery Administration}. New York, 1976.
ways to better manage Canada’s monetary system.\textsuperscript{1064} Compounding the banks’ problems was the public controversy over the Commerce’s purchase of the Standard Bank. Western editorials were especially critical. The \textit{Winnipeg Free Press} argued that J.A. Robb, in approving the transaction, invited the “existing banks to get busy and merge....”\textsuperscript{1065} Growing dissatisfaction with the banking system stemmed from concerns about the concentration of financial power and a simultaneous decline in customer service by banks which were short on trained staff and resources. In such a climate the idea of a central bank found fertile soil on the prairies where some believed it would give the public more influence over how the economy was managed. By 1925 the Progressives had made a central bank part of their party’s official platform.

While the CBA’s arguments against a central bank are documented elsewhere,\textsuperscript{1066} what is not well understood is the CBA’s struggle to redefine itself in the midst of economic and political turmoil that frequently was blamed on bankers. Canadians were looking for answers and everyone, argues Michael Bliss, “believed something had to be done.”\textsuperscript{1067} As the country’s economic decline worsened in 1930

\begin{itemize}
  \item \textsuperscript{1064} \textit{CAR} (1927-28), pp 346 - 348.
  \item \textsuperscript{1065} \textit{Winnipeg Free Press}, 6 November 1928.
  \item \textsuperscript{1066} In 1973 the CBA denied Grayson access to its Minutes and discussions about a central bank. Despite this, Grayson’s thesis remains an excellent history on the Bank of Canada’s formation and the CBA’s opposition. What the CBA seems to have objected to in turning down Grayson is mention in the Minutes that the Association employed B.K. Sandwell, editor of \textit{Saturday Night}, and one-time McGill economist, to prepare pamphlets opposing a central bank and to go out West on a speaking tour. Other than this, there is nothing in the Minutes that is particularly illuminating.
  \item \textsuperscript{1067} Bliss, \textit{Northern Enterprise}, p. 412.
\end{itemize}
and 1931, most members of the CBA's Executive Council seemed to think nothing could be done. Indeed Beaudry Leman, the first Francophone president of the CBA, noted that no Canadian bank had failed during the crisis and that nothing "much can be wrong with a system that produces such results." While he and many other bankers measured the banking system's merit by the absence of failures, Canadians, including R.B. Bennett who led his Tory party to victory in the 1930 federal election, had come to expect more.

The new prime minister told bankers in early 1931 that "he was not going to fight their battles in Parliament..., that they would have to look after their own interests." Bennett it seems, was preparing to join their chorus of critics. He realised the treatment of farmers by inexperienced managers and the possibilities a central bank presented were two important keys that could unlock much needed political capital for his Tories in the West as the Depression worsened. He had gone into the 1930 election betting the Depression was temporary and the product of Liberal "mismanagement." Many voters believed him.

By reducing government expenditures and following a "sound money policy," Bennett argued Canada's troubles could be overcome. Progressives wanted new

\[1088\] CAR (1932), p. 461.

\[1089\] CBAA 87-529-07: Circular No. 77 - Z, 24 April 1931.

\[1090\] Quoted in McDowall, p. 270. CBAA 87-529-07: Circular No. 77 - Z, 24 April 1931.

\[1091\] Glassford, p. 118.
government spending programs to help alleviate the suffering endured by farmers. When they approached Bennett early in 1931, the prime minister decided the CBA might be useful after all. He asked the Association to send an official to Ottawa to meet with Progressives to discuss their concerns. Ross, who was seventy years old and more attuned to the politics of Fielding's era than Bennett's, travelled to the capital to hear Bennett criticise the banks for unduly restricting credit to western farmers and Progressives argue “the financial situation of the great majority of farmers is hopeless” and government assistance was the only solution.\textsuperscript{1092} Ross was simply beyond his depth. He would not confront Bennett, leaving Progressives to think their only hope for immediate relief for farmers might come from squeezing more credit out of the banks. Ross asked the Progressives to supply statements of customers denied credit so an investigation of such decisions could be undertaken. Bennett was indeed “pleased to learn that they were prepared to make the statements and await further consideration by the banks.”\textsuperscript{1093}

Pease’s unsuccessful bid for a central bank in 1918 offered a useful lesson to two other Royal Bankers, Randolph Noble and Graham Towers. If Canada was going to have a central bank, it would come despite the Association. When the CBA told Bennett a central bank was inadvisable in 1931, the prime minister turned to Noble, the Royal’s assistant general manager, who quietly promoted the ideas of John Maynard

\begin{footnotes}
\item[1092] CBAA 87-529-07: Circular No. 77 - Z, 24 April 1931.
\item[1093] Ibid.
\end{footnotes}
Through 1930 and 1931, when Bennett served as finance minister as well as prime minister, his conviction that sound money was the answer remained strong, but his hope that the Depression would be short wavered. Noble’s relationship with the prime minister during these years seems to have been built on the value Bennett saw in having an ally who was also a critic of the government’s financial policy. Noble had been insisting since 1930 that credit needed to be injected into the economy using the Finance Act. He wanted the prime minister to force a $50 million loan on the banks.1065

By October 1932 Bennett seems to have warmed to Noble’s idea and finally approached the CBA, asking bankers to borrow $35 million under the Act. Bankers “explained that there was ample money, that it was lack of legitimate demands for its use that limited the use of the Finance Act.”1066 Like so many others in business, bankers had simply been frightened by the scale of the Depression and were unwilling to risk valuable resources by increasing loans that could be more safely placed in securities. Bennett, who was tired of bankers’ resistance, would hear none of it and told them to take the loan and prove that credit expansion “would not have an ultimate effect in raising prices of commodities or in making business more active.”1067 The CBA’s

1064 McDowall discusses in detail Noble’s influence over Bennett and his ability to shape policy. Nobody at the CBA, it seems, knew Noble was advising Bennett. McDowall, pp. 270-271.

1065 Ibid.

1066 CBAA 87-524-30: “Extract from the Minutes of a Meeting of the Prime Minister and Minister of Finance with the Members of the Association,” 17 October 1932.

1067 Ibid.
members, it seems, took the prime minister too literally and used their portion of the advance to pay down their old debts to the government and replenish their reserves.\textsuperscript{1096} In doing so they set the stage for the upcoming revision of the Bank Act and undermined the CBA's credibility as an instrument capable of implementing fiscal policy.

In 1934 Henry Taylor Ross retired from the bankers' association after eighteen years of service. His send-off brought familiar faces back to the CBA for the last time. In a ceremony that symbolized the end of an era as much as the end of a career, bankers gathered to thank the Halifax lawyer for his years of dedication. Old memories were conjured up by Ross who spoke of Edson Pease's efforts to forge a central bank and an agricultural bank in 1918 and 1919, initiatives that proved a measure of his foresight. Most, perhaps, wondered how different the banks' fortunes would have been had Pease been successful. Williams-Taylor had seen Pease's ability early on, telling Ross "Pease is the banker among us who in himself has achieved more, single-handed, than any of his contemporaries."	extsuperscript{1099} Sir Thomas White agreed with Williams-Taylor, saying he "always had the very highest opinion of the character and ability of Mr. Pease. But for the Nickle resolution he would have received the honour of Knighthood. That he did not has always been a matter of regret to me."	extsuperscript{1100} For the Association, Pease's failure was a lost chance to revitalize the banks' credibility with the public and their influence in the back rooms of Parliament. Ross's retirement in 1934 forced bankers to

\textsuperscript{1096} McIvor, p. 133.

\textsuperscript{1099} CBAA 87-526-20: H.T. Ross retirement speech, 8 November 1934.

\textsuperscript{1100} Ibid., White to Ross, 26 November 1934.
reassess their association.

Rethinking the CBA’s role was not a leisurely exercise. In Alberta, “Bible Bill” Aberhart was building a political movement using Major Douglas’s Social Credit theories and blaming a conspiracy of bankers for almost all the province’s troubles. Clubs dedicated to social credit appeared throughout Alberta as Aberhart exploited misunderstanding, hardship and a demand for immediate relief. For Alberta’s bankers the real “deluge” began in August, 1935 when Aberhart completed a successful political campaign and was elected premier. Frank Pike was still hard at work in Alberta when the new premier came to office. He was the Bank of Montreal’s most senior manager in the province and ran its main Edmonton branch. Writing to his head office in Montreal, Pike reflected on the politics of the time:

Doesn’t it seem unfortunate that public men of all parties consider it necessary, in order to obtain votes, to vie with each other in their criticisms, abuse would not be too strong a word, of the Canadian banking system.

There seems to be a lack of appreciation of the complete banking service given to almost every village and hamlet in Western Canada. It makes me wonder if we have not been remiss somewhere in allowing such a state of mind to develop.\(^\text{102}\)

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\(^{101}\) Robert L. Ascah’s recently published *Politics and Public Debt: The Dominion, the Banks and Alberta’s Social Credit*, is a very good contribution to the country’s financial history and especially Alberta’s default in 1935. It does, however, paint the banks as a monolith and could be complimented by a thorough study of the political relationship between Aberhart and the CBA. Robert L. Ascah, *Politics and Public Debt: The Dominion, the Banks and Alberta’s Social Credit* (Edmonton: University of Alberta Press, 1999).

\(^{102}\) Alberta Archives, Accession # 88.480/3: Frank Pike to H.O., August, 1935.
Pike was not the only banker to think that they may have been "remiss."

By 1935 it seemed clear that the CBA had to change and focus on how to make banking safe for Canada's banks and their shareholders. Arthur Rogers, a young Ontario lawyer who worked under Ross for several years, took over for the retiring secretary and began to turn the Association into a public relations machine for its members. Rogers, however, was not skilled in how the news media worked or how to make it work for Canada's banks. He soon concentrated his energies on the federal government and explaining to politicians the impact taxes and ill-considered public policy had on the CBA's members, leaving the Association's public relations initiative to Vernon Knowles, who left his job as managing editor of the Toronto Star. As Knowles and the CBA's members tried to grapple with Aberhart, a new era in the Association's history began to unfold. Rather than debating the merits and means of enforcing agreements targeting "ruinous competition," bankers sitting around the Executive Council table began discussing how to convince Canadians that they were neither heartless nor crooked, accusations Gustavus Myers and Aberhart used to great effect.
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