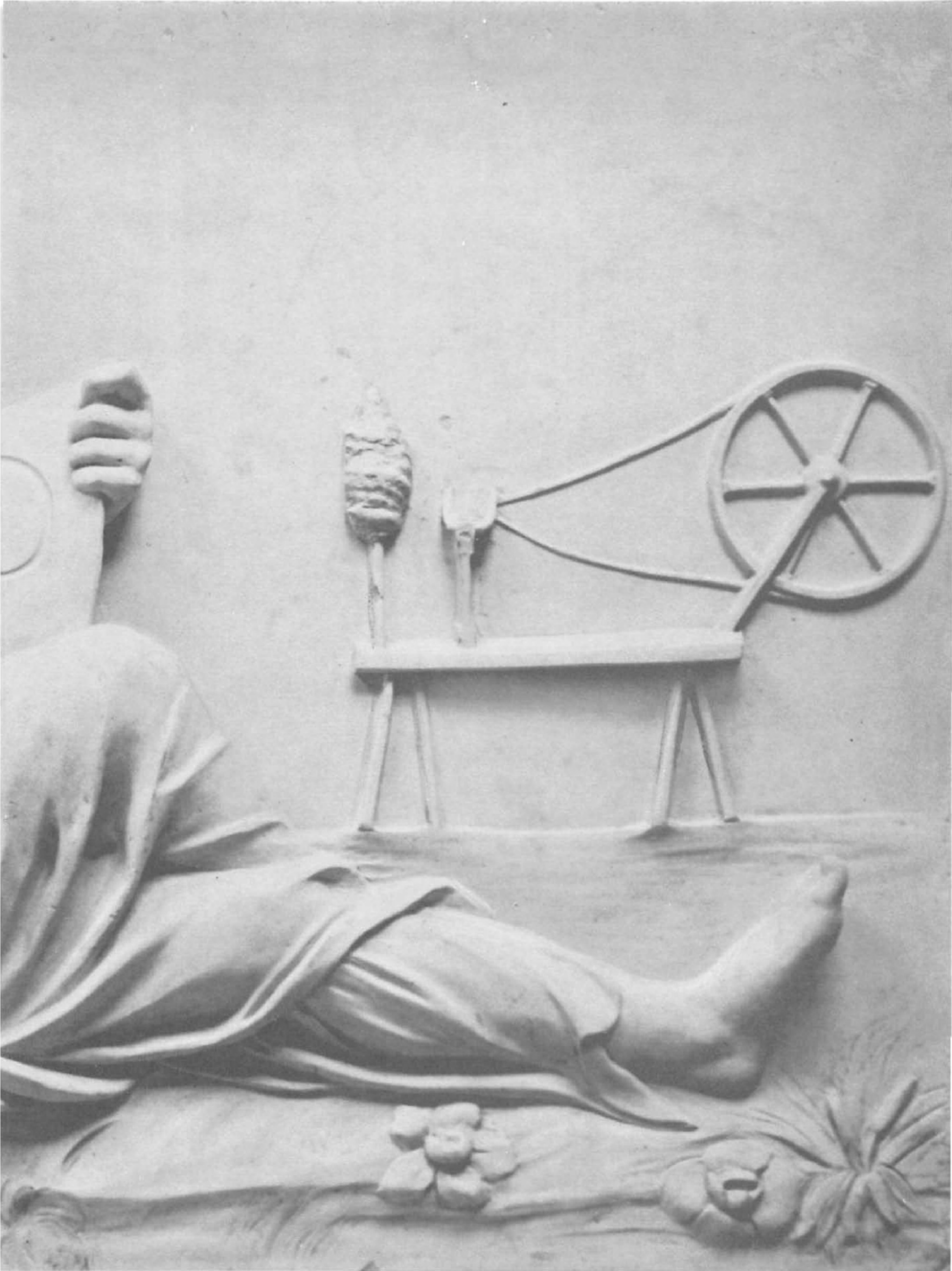
A HISTORY OF THE BANK OF MONTREAL


1819



VOLUME TWO

CANADA'S FIRST BANK

MERRILL DENISON

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BANK OF MONTREAL

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MCCLELLAND & STEWART
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COMMISSIONED FOR THIS BOOK

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OF THE BANK

This scene by the noted Canadian artist, Cornelius Krieghoff, was painted soon after the Bank moved into its new head office on Place d'Armes in 1848. Since then the square has changed greatly and the Bank's edifice of 1819, visible here to the left of the new bank, has long since disappeared. The façade of the domed building, however, has been changed only by the addition of an heroic sculptural group to the pediment.

ONE

EXPANSION AND REVERSAL

EXPANSION AND REVERSAL

1.

The first volume of this history deals with the evolution of banking in Canada from its abortive beginning in the last decade of the eighteenth century to its permanent establishment in the fourth decade of the nineteenth century. The first stage was marked by the founding in 1792 of the short-lived Canada Banking Company by a group of Anglo-Canadian mercantile firms engaged in government contracting and the southwest fur trade, the last by the passage in 1841 of currency and banking legislation by the first parliament of the Province of Canada. The significance of the latter event has been eclipsed by the political conflicts of the period of union; nevertheless, the first effective steps taken in Canada toward the control of domestic affairs were concerned with currency and banking.

Canada was wholly dependent on Imperial bounty for credit to finance the completion of its essential public works. Yet the fledgeling parliamentarians at Kingston had the temerity to reject the adoption of British currency and dismiss, as hardly worthy of debate, Lord Sydenham's proposals for a provincial bank of issue. When it is remembered that a related question had cost Britain her thirteen American colonies some sixty-five years before, the audacious character of the action is brought into sharper focus.

One of the principal engineers of these denials was Benjamin Holmes, Cashier of the Bank of Montreal since 1827 (actually the general manager), and a member of the new legislative assembly for Montreal. Holmes had been granted a leave of absence by his board of directors and on taking his seat in Parliament was appointed a member of the currency and banking committee. In that capacity he devoted his talents to the attainment of three goals: securing the renewal of the Bank of Montreal charter, which then stood in considerable jeopardy; circumventing the intention of Lord Sydenham, the Governor General, to establish a provincial bank of issue; and opposing the designs of the Lords of the Treasury in London to have sterling currency adopted as the Canadian monetary standard.

Although Holmes was able to report the passage of legislation to implement the first objective and the rejection of the two offensive proposals when he returned to Montreal in late September, 1841, his triumph was short lived. The day before the prorogation of Parliament in Kingston, Lord Sydenham reserved for royal assent the bill renewing the Bank of Montreal charter and with it others providing for uniform currency ratings and for the province-wide establishment of branches by the banks originally chartered to conduct business exclusively in Lower or Upper Canada. But much more damaging to economic recovery was the failure of the Imperial Government to fulfil promptly the promise given by Sydenham to guarantee the interest on a £1,500,000 loan to be raised in London and without which the completion of the St. Lawrence canals and other urgently needed public works could not be undertaken.

Complicating matters further were the accidental death of Lord Sydenham after Parliament was prorogued and the four-month delay that occurred before his successor, Sir Charles Bagot, could reach Kingston. Favourably known in Canada for his part in the negotiation of the famous Rush-Bagot Agreement, the new viceroy took up the cause of responsible government where Sydenham had left it, restored leadership to a moribund provincial government, and renewed the hopes of the financial and commercial community. It was not until April 27, 1842, however, that he was in a position to proclaim as law the currency and banking acts passed by the provincial legislature seven months before and even at this date Sydenham's much vaunted Imperial loan appeared to have been lost in the limbo of forgotten things.

Between the passage and the proclamation of the acts, the Bank of Montreal remained in a precarious position, the provincial treasury in a state of penury, and commercial intercourse within the country in a condition verging on chaos, thanks to the conflicting ratings given the silver coins in common circulation in the two parts of the province. Barter again became the principal method of exchange in Canada West and the Bank of Montreal, with the largest volume of notes in circulation and the largest reserves of specie, was exposed both to public demands for conversion and to raids by other banks, particularly from the Commercial Bank of the Midland District at Kingston. Under the leadership of a respected president, J. S. Cartwright, and the aggressive management of an able cashier, F. A. Harper, the thriving institution had become so brazen in its business practices that on a day in September 1841 it presented Bank of Montreal notes to the amount of £40,000, demanding specie in return. The Bank of Montreal had no alternative but to relinquish approximately one-third of the coin and bullion in its vaults.

In these circumstances the Bank of Montreal was obliged to restrict its commercial loans, to enforce rigorously the old sixty- and ninety-day repayment regulations, and to strengthen its specie reserves against any unknown contingencies that might lie ahead. Thanks largely to the stubborn resolution of its doughty cashier, the Bank was able to confine its advances to the government's essential requirements, to a few restricted public undertakings, and to its most solid commercial customers. In line with these stringent policies, the Bank doubled its Rest to £50,000 between 1840 and 1842, by which time its deposits and note circulation stood at £193,450 and £207,633 respectively, while discounts amounted to £885,652 and total assets were £1,088,087. The dividend rate of six per cent established in 1840, however, had been continued in 1841 and was raised to eight per cent in 1842.

In the spring of that year, the Bank of Montreal took steps to consolidate its position in Canada West. Even before the Union Act had been passed by the British House of Commons, the Bank had decided to invade the long-sacred preserves of the banks of Upper Canada and in May 1840 had arranged to purchase the entire stock of the Bank of the People, a small joint-stock institution with a capital of £50,000 which had been founded during the boom days of the 1830's. Under the management of Francis Hincks, the bank had weathered the storm of 1837 and throughout the crisis had continued to redeem its notes in specie. Until the proclamation of the banking acts, however, the Bank of Montreal did not have the authority to open branches in the western

EARLY DAYS AT BYTOWN
1842

To take advantage of the water-power provided by the Chaudière Falls, several lumber mills were erected at Bytown and at Hull, which faces it across the Ottawa River. Bytown – named Ottawa in 1855 – was already known as the lumber capital of Canada by 1842 when the Bank of Montreal opened an agency in rented quarters in the Wellington Street hotel depicted here. On the planked sidewalk the Bank's agent, James Stevenson, Jr., can be seen in conversation with two lumberman customers.

Stevenson, the son of the Crown Timber Agent, was well known among the lumbermen, and found himself called upon at all hours of the day and night in a town where law and order were noticeably absent. Roistering lumber-jacks and rivermen poured into Bytown in the spring after spending long, monotonous months in the woods. Those still ambulatory after a night of conviviality, and planning to leave with their rafts at the first light of dawn, often wanted drafts or cheques cashed and they beat upon the agent's door without regard for the hour until they were served. Although sub-agencies of several other banks existed in Bytown, they were not authorized to issue drafts and so their operations were restricted.

In 1844 the Bank moved to the corner of Wellington and Bank streets, purchasing the Royal Exchange Hotel, part of which was leased to innkeeper James Doran. A second tenant between 1865 and 1869 was the newly founded Rideau Club, the social meeting place of members of Parliament and other prominent citizens. Thirty years later the branch again changed its location, moving to its present site facing the Parliament Buildings which were then being constructed on the bluff that can just be seen at the right of this painting.

Painting by John Little, A.R.C.A.

section of the province, and so the Bank of the People had to be run as a wholly owned subsidiary. Less than a week after the acts were finally proclaimed Peter McGill, the Bank's president, submitted to his directors for approval two notices which had been prepared by the Cashier for publication in newspapers in Montreal and Toronto. The Montreal notice read as follows:

> NOTICE
>
> The Bank of Montreal have constituted a branch of the Bank at the City of Toronto and have appointed William Wilson, Esquire, Cashier thereof. The business will be conducted in the office of the Bank of the People, for whose issues the Bank of Montreal continue to hold themselves responsible, and whose notes they will as heretofore when required redeem at Montreal and Quebec, at the regular rate of exchange between the East and West parts of the Province.
>
> By Order
> (*Signed*) Benjamin Holmes
>
> Montreal
> May 1842

The other notice, similar in content and signed by William Wilson, was to appear in the current Toronto newspapers. Wilson was the receiving teller of the Bank of the People, and was offered the post of cashier in the newly constituted Toronto branch when the incumbent, Joseph Wenham, refused to accept the responsibility of signing notes, and William Gunn, a senior employee of the Bank of Montreal, expressed a most decided reluctance to move to Toronto, thus confirming a venerable folk-prejudice.

The details were worked out expeditiously. At a special meeting of the Bank of Montreal directors held on the evening of May 23, 1842, it was decided that Joseph Wenham would remain on the Bank's payroll until December 31, but would be relieved of all active duties by October 1, or earlier if feasible, when Wilson would assume full charge of the Bank's business in Canada West, including the Toronto and Kingston branches and sub-agencies in St. Catharines, St. Thomas and Amherstburg. In the four months' interval, Wenham was to "put into Mr. Wilson's possession all the Bonds, Notes, Bank paper, Cash, and other securities of the Bank of the People, taking particular care to explain to Mr. Wilson all matters connected therewith."


HOTEL
JOHN LITTLE 1966

The newly appointed cashier was also to "take the requisite measures for legally transferring stock now held in the name of the Bank of Montreal, as well as that held in the names of the stockholders resident in the City [Toronto], to the branch, which it was intended should have all the advantages of said capital." Provision was also made for the Bank of Montreal to "assume all the debts, properties, and assets of the Bank of the People, and give to the respective parties now interested in that Bank such guarantee against all liabilities as might be deemed desirable."

The amalgamation was accomplished sooner than expected. On July 29, 1842, the Board resolved that a branch be established at Toronto, and that Benjamin Thorne and Hon. W. H. Draper, together with other persons unnamed, be directors with authority to submit rules and regulations for the conduct of the office, the Board in Montreal reserving the right of veto at all times. It was resolved also that the bank-notes issued by the Toronto branch be signed by the branch president and cashier and be redeemable in specie at that place.

At the same time, the Office of Discount and Deposit at Quebec, established in 1818, was formally designated a branch, with a continuing board of twelve directors, including the President, Hon. John Stewart. The branch was also required to submit its own rules and regulations for the governance of its affairs. Finally, the Board approved the establishment of an agency at Bytown and appointed James Stevenson, Jr., the son of James Stevenson, Sr. (the Crown Timber Agent), as "manager." This was the first time the designation was used officially by the Bank of Montreal.

Permanently settled during the building of the Rideau Canal, Bytown had grown by 1842 to a town of more than twenty-five hundred inhabitants and as the base of the Ottawa Valley timber trade had recently acquired added economic importance through the completion of timber slides around the Chaudière Falls. This essential public improvement had become a valuable source of provincial revenue and it was for this reason no doubt that the Bank decided to open a branch there. A further development took place with the re-establishment of the Bank's Kingston agency under the former agent of the Bank of the People, John Patton, who was given the power to "appoint such sub-agents as shall be deemed necessary to transact the business confided to him."

Early in August, William Wilson was able to report the final demise of the Bank of the People and the opening, for the second time, of a Bank of Montreal

Toronto branch, Joseph Wenham continuing in a consultative capacity until September 16, when his connection with the Bank ended on the terms agreed upon. Meanwhile, Benjamin Holmes had proceeded to Kingston on a threefold mission: to examine the accounts of the Kingston and Toronto branches and "make such arrangements as might be needful"; to serve notice on the Commercial Bank that their current clearing agreement would be discontinued in thirty days' time; and to confer with Hon. J. H. Dunn, the Receiver General, on the financial needs of the provincial government. Each commission was important in itself but a special interest attaches to the third.

At the beginning of the summer of 1842 the finances of the province had become so strained that the Receiver General was obliged to come to an arrangement with the Bank of Montreal whereby the Bank would furnish the government with a series of ninety-day loans totalling £45,000. As security, the Receiver General gave his own personal note for the entire amount. The final payment of £15,000 was reported to the Board of Directors on September 6, when Holmes asked for instructions "in respect to the making of any tenders for exchange now advertised for by Mr. Dunn." The Cashier was empowered to conduct "all negotiations on that subject after his arrival at Kingston," for which destination he left the following day.

The results of the journey were unexpectedly satisfactory. Before leaving Montreal both Holmes and the Board had anticipated further unpleasantness from Harper of the Commercial Bank and had decided to abandon efforts to secure co-operation. On arrival in Kingston, however, Holmes found himself dealing not with his recalcitrant opposite number but with the President, J. S. Cartwright, who not only proposed that existing clearing arrangements be extended for a year but that they be widened to include the Bank of British North America. Conversations between representatives of the three banks followed, resulting in the first general agreement governing clearing practices in Canada.

Benjamin Holmes was back in Montreal by September 30, when he reported the results of his visit to the Bank's western branches, the first such inspection in the annals of the Bank of Montreal. The Directors' Minutes note that the cash "was found all correct, but the manner of transacting the business of discounting at Toronto and Kingston required alterations and a more strict conformity to the rules and regulations of the Bank than now existed." These problems were left for the Cashier to deal with through William Wilson, Benjamin Thorne and Hon. W. H. Draper. If the question of further expansion was debated by the Board, it was evidently deemed more expedient to await the normal growth of business in the western territory than to embark on a policy of vigorous competition.

Several considerations were probably involved, the most important being the failure of the Imperial loan to materialize, the plenitude of banking facilities in Canada West, and the profound gloom that pervaded business at the advent of another winter. On November 1, 1842, the Cashier noted "a disposition on the part of individuals whose credit had hitherto stood well, to take advantage of the general depression of mercantile credit and the existing despondency for the purpose of evading payment of a portion of their debts." Even more significantly, the Receiver General, early in November, found it necessary to approach the Bank for another £45,000 to replenish the provincial treasury.

Notwithstanding the prevailing mood of "despondency," the loan was granted. Further reaffirming its unshakable confidence in the future, the Bank also decided to purchase £10,000 of Montreal Municipal Bonds. Having learnt that the City Corporation had been unable to come to satisfactory terms with a rival bank for a loan of £5,000, the directors followed the recommendation of their vice-president, Hon. Joseph Masson, that "the Bank come forward liberally."

Before the year was out, the Bank terminated its connection with Smith, Payne & Smiths, the private banking firm that had become the Bank's London agent in 1837 following the collapse of Thomas Wilson & Co. Appointed in their stead was Glyn, Hallifax, Mills & Co., also financial agent for the Bank of Upper Canada and joint financial agent with Baring Brothers for the Province of Canada. The arrangement proved so satisfactory to both parties that the connection has persisted to the present day.

2.

Closely connected with the Bank's reorganization in Canada West was a decision ratified by the shareholders at the annual meeting of 1842 to increase the capital from £500,000 to £750,000 as permitted by the new charter. The plan called for an issue of five thousand new shares on August 1, shareholders of record on June 1 having an option to buy, at the par price of £50, one new share for each two shares held, the offer to remain open until August 8. After that date the stock would be made available to the public at a premium of 7½ per cent, the surplus to be placed in a contingent account. A cash deposit of 10 per cent was payable by those subscribing at par and 17½ per cent by others. Instalments of ten per cent would be due on thirty days' notice but not more than two such calls were to be made during the first six months.

The new stock issue was an immediate success, 4,292 shares having been purchased by August 8, and particular interest attaches to this development because of events in England. On April 29, 1842, Sir Robert Peel had brought down the famous budget in which the first peace-time income tax in British history was imposed and the death knell of colonial preferences was sounded with a general lowering of tariffs. Gone was the protection for timber, wheat and flour on which Canada's precarious peace-time prosperity had been built; yet this ominous news, reaching Canada in late May or early June, did nothing to lessen the bullish mood of local investors.

It was not until August 12 that an act of the Imperial Parliament "guaranteeing the Payment of Interest on a Loan of One million five hundred thousand Pounds to be raised by the Province of *Canada*" received royal assent, and the guaranteed issue of Canadian four-per-cent, twenty-year debentures was not offered in London until January 1843. According to Glyn, Hallifax, Mills & Co. "this loan was taken on the London market without any hesitation like any other government security." During the autumn of 1842, the provincial government had been permitted to draw bills on the Bank of England in the amount of £108,773 sterling, one-third of them being purchased by the Bank of Montreal. While much of this money undoubtedly went to pay off loans obtained from the Bank of Montreal and other banks, the infusion of capital, coupled with a renewed influx of immigration, a mounting demand in Britain for both timber and foodstuffs and a continuation of heavy military expenditures, gave the long-awaited fillip to the Canadian economy. This was greatly accelerated by the spring of 1843 when sufficient funds had accumulated in London to enable the government to give a virtual carte blanche to the recently established Board of Works for the construction of the canal system and other ambitious public improvements. The origins and activities of this remarkable agency will be dealt with later; at this point it will be more satisfactory to examine the economic impact of its operations as they were reflected in the records of the Bank of Montreal.

Following Benjamin Holmes's report on his inspection trip to Canada West, the Bank's activities in that area appear to have remained generally dormant until mid February 1843, when the directors decided to reduce the exchange rate on transactions between the eastern and western sections of the province

ST. CATHARINES, CANADA WEST – 1850

In 1842 an act permitting the Bank of Montreal to operate branches in Canada West was proclaimed and shortly thereafter the appointment of H. Mittleberger as the Bank's agent at St. Catharines was approved by the directors in Montreal.

Situated on Twelve Mile Creek close to where it empties into Lake Ontario, St. Catharines became a centre of construction activity during the rebuilding of the Welland Canal, the channel of which passes behind the promontory on the left of this water-colour.

The experience of the Bank of Montreal in financing canal contractors through its agents at St. Catharines and other western towns proved an unfortunate one, but for St. Catharines the improved waterway meant an increased trade in the produce of the rich Niagara peninsula. By 1850 it had a population of four thousand and, as seen here, its waterfront was lined with warehouses, mills and substantial dwellings.

to one per cent and to accept for deposit the notes of western banks at one-half per cent discount and cheques on Toronto and Kingston at the same rate. While the concession reflected business revival it was still the dead of winter and no further activity was recorded until mid March, when William Wilson, the Toronto cashier, reported on an inspection trip to the St. Catharines, Amherstburg and St. Thomas sub-agencies. St. Catharines was the base of Welland Canal construction, Amherstburg a United Empire Loyalist settlement and garrison post, and St. Thomas the principal town of the Talbot Settlement which dated back to 1803. The agents – who were former Bank of the People appointees – H. Mittleberger, J. & J. Dougall, and E. Ermatinger, drew commissions on their transactions rather than an annual salary from the Bank. The extent of the local business at this time is indicated by the authority given Ermatinger, the St. Thomas agent, to increase his discount limit from £1,000 to £4,000.

As the economic pulse continued to quicken throughout the spring of 1843, several directors' meetings were devoted to the affairs of the agencies at Cobourg (previously opened by Wenham) and Bytown, some consideration also being given to the establishment of new agencies at Drummondville and Belleville. Some of this activity was the result of an extraordinary expansion that was taking place in the mast and square-timber trades, but, of even greater importance, Canada's guaranteed debentures had started to flow onto the London market and the canal program awaited only spring to forge ahead. In connection with the latter the following Minute was recorded in the Resolve Book:

> The Cashier read Mr. Wilson's letter, and the extracts from Mr. Mittleberger's concerning advances to Contractors on the Welland Canal, and stated that he had written to Mr. Wilson for information touching the stability of the parties, and the advantages to be derived to this Bank if it followed up the proposals of the Commercial Bank to the Contractors and made advances in the manner described. He, the Cashier, was averse to so hazardous a means of increasing the circulation of the Bank.

This somewhat cryptic memorandum, as was to develop two years later, referred to the method that had been adopted by the provincial government and the Board of Works for the immediate financing of public works construction. In the simplest terms, contractors were required to finance their operations either through their own resources or by obtaining bank loans on the security of progress vouchers issued by the engineer in charge. While designed no doubt to protect the public purse from fraud and theft, the procedure not only involved incredible red tape but also enabled the chairman and chief engineer of the Board of Works to incur any and all expenditures he deemed necessary or desirable so long as his minion, the secretary of the Board, would certify them under oath. Almost unbelievably, it now appears, the system went unchallenged until the provincial treasury discovered that the Imperial loan was nearing exhaustion two years later.

By far the largest portion of the public works expenditures was incurred in Canada West where the Bank of Montreal, although a comparative newcomer, obtained a major share of a type of business that was regarded, despite the Cashier's misgivings, as profitable, secure, and in the public interest. The canal expenditures were not the only economic stimulus, of course, but they appear to have been the most important. For example, by mid summer 1843, the Bank's Toronto branch had to increase its staff and the limit on discounts was raised to £5,000 for all the western branches. From Brockville, Brantford and Hamilton came petitions to have the Bank of Montreal establish branches, and in London, England, in mid July, the British parliament passed the Canada Corn Act which, in return for a Canadian duty on American wheat and flour, reinstated the preferences on those same products that had been temporarily lost as a result of Peel's 1842 budget.

Stubbornly fought for by the agricultural interests of Canada West, the commercial interests of Montreal and their powerful English allies, the new act reduced the duty on the two staples to the token amount of one shilling per quarter. Although the law did not become effective until October, the Imperial dispensation for once fitted into the rigid cycle of Canadian farming. No records exist of the acreage planted to winter wheat that year, but those of the Bank show that upon the return of the Assistant Cashier, William Gunn, from an inspection of the western branches, the discount limits at the St. Catharines, St. Thomas, Bytown, and Belleville agencies were again increased by substantial amounts.

At the same time, Benjamin Holmes reported on the results of a recently completed visit to Bytown where he had learned that the Bank of British North America proposed to establish an agency and appoint James Stevenson, Sr., as its representative. Returning to Montreal by way of the Rideau Canal, the Cashier had also spent sufficient time in Brockville to become convinced that the Bank should locate there as speedily as could be arranged. To expedite matters, he recommended that James Stevenson, Jr., the agent in Bytown, be deputed to inaugurate the Brockville agency and that James Stevenson, Sr., succeed to his son's post in the capital of the square-timber trade.

Later in the month, on the eve of his departure for Kingston to attend Parliament, Holmes was instructed "to run up to Toronto and Hamilton" to confer with the chairman of the Toronto branch on the desirability of opening an office at either Hamilton or Brantford. A fortnight later, a letter written by the Cashier while en route by lake steamer from Hamilton to Toronto was received in Montreal requesting that the Board endorse the preparations he had made to open a Hamilton agency as soon as staff could be moved there.

The western business had now acquired such momentum that the Board decided that every effort should be made to appoint as agents men who would devote their time exclusively to the Bank's business. This policy was implemented early in 1844 when H. Mittleberger, of St. Catharines, was put on a permanent salary of £450, to include rent, clerk's wages and fuel. His total discount limit was also raised to £20,000, a far cry from the increase from £1,000 to £4,000 somewhat grudgingly granted E. Ermatinger at St. Thomas only ten months earlier.

Another important milestone was reached on February 13, 1844, when Hon. Peter McGill addressed the Board on the subject of the new branches and on "the necessity of a more strict and watchful supervision of their management." This, the President asserted, could best be accomplished "by an occasional investigation into the affairs and inspections of the assets of each, by a competent person duly authorized for that purpose." A concurring resolution stipulating that such investigations be carried out "without previous notice being given" inaugurated the Bank's inspection system and William Gunn became in effect Inspector of Branches, although that title was not officially adopted until 1852.

Continuing the policy of western expansion, in June 1844 the Bank planned to establish a branch at Chatham, C.W., but on the recommendation of the President gave preference to London, a county seat and garrison town, and John Fraser was appointed the Bank's agent there. At the same time, temporary arrangements were made with J. & J. Dougall, who had conducted the agency at Amherstburg, to act as sub-agents at Chatham. By the end of 1845, the western branch system (excluding sub-agencies which were on a commission basis) had grown to the following proportions:

CHATHAM, UPPER CANADA – 1838

Although the first log cabin was erected on the site of Chatham before 1800, the community was slow to develop. By the mid 1830's, however, it had become noted for shipbuilding, and with access to the Great Lakes via the Thames River and Lake St. Clair, it also acquired importance as a marketing centre. In 1836 a private bank was established in Chatham but a law passed in connection with the specie crisis of 1837 made its note issue illegal. When the Bank of Montreal opened an agency there in 1843, the population exceeded a thousand and the village numbered among its enterprises two breweries, two flour mills, a sawmill, a potash factory and a tannery.

During the troubled times in Upper Canada in 1837 and 1838, the Thames River area was subject to rebel raids launched from Detroit. Chatham itself was turned into an armed camp and served as the headquarters for some 550 militia. In this water-colour of Sixth Street a group of these soldiers can be seen drilling near the sentry box.

Agency	*Total Discount Limit*	*Discounts outstanding December 1845*		
Toronto	£ 80,000	£ 81,605	19s.	5d.
Kingston	70,000	66,695	13	6
Hamilton	75,000	61,047	8	4
Cobourg	40,000	39,145	14	0
Bytown	30,000	39,019	7	4
Brockville	30,000	32,077	4	8
London	25,000	22,331	7	6
St. Catharines	25,000	19,947	16	10
St. Thomas	12,500	12,080	16	6
TOTAL	£387,500	£373,951	8s.	1d.

As reported to the annual general meeting in June 1846, the total discounts of the Bank of Montreal in December 1845 were £1,481,544, indicating that those in Canada West accounted for about one-quarter of the whole.

The majority of the towns in which the Bank located during the early 1840's were small and the establishment of an agency usually coincided with the first boom in settlement, milling or lumbering. As the mill was the centre of the town's economy, so the inn or tavern was the centre of its social life, and it was there that the lodges, agricultural societies and other local organizations held their meetings. Although impressive quantities of alcohol were consumed in these isolated communities, crime and lawlessness do not appear to have reached serious proportions. Nevertheless, the Bank's agents were invariably cautioned to provide themselves with stout, fireproof strong-boxes in which they could take home the cash with them at night. When the Bank came to construct its own offices, this system was improved upon by the inclusion of living quarters for the staff on the second storey.

Interestingly enough, the period marked the beginning of the Canadian temperance movement, but heavy drinking was as much an economic as a social phenomenon, attributable to an excess production of rye, oats and other coarse grains for which no market could be found in other than liquid form. Under the circumstances, it is not difficult to understand that there should have arisen, now and again, situations that had repercussions in the board room on St. James Street. In January 1846, for instance, the Cashier was instructed "to note the slightest appearance of irregularity on the part of any of the Bank Clerks and to report immediately whether he had reason to believe *now* or at any future time, that any individual employed in the Bank, was in the habit of frequenting Taverns, or other places of improper resort, or of playing the spendthrift, or whether any evidence appears of their being in debt, or any other reasons to suppose the slightest irregularity on their part, which would induce a belief that indiscreet conduct is practised." In all such eventualities the Cashier was further instructed to act forthwith, "it being the determination of the Board not to retain in its services any person subjecting himself to the slightest suspicion in that way." In such manner did the Board adopt the paternalistic attitude that was to become a characteristic of Canadian banking.

3.

The circumstances that led to the Bank's expansion in Canada West also produced the need for larger head-office quarters in Montreal where in the closing months of 1844 a staff of sixteen was required to do the work accomplished by seven persons in 1817. Although the matter had doubtless been discussed before, it was formally brought before the Board for the first time by President McGill on November 5, 1844, following the approval of the purchase of building sites for new premises in Toronto and Hamilton. John Redpath, John Try and William Lunn were appointed a committee to report on the feasibility of enlarging the existing banking house erected during 1818-19 or building on a new site elsewhere in the city. The three directors were unusually well qualified: Redpath had been one of the contractors on the Rideau Canal, Try had been termed "the principal master builder of Montreal," and Lunn had at one time been Surveyor of the British naval base at Portsmouth, England. When the committee reported in March 1845, it was to recommend that the 1819 building be abandoned, noting further that repairs, if undertaken, would involve the necessity of removing the business, probably for a whole season, into another house of an insecure and inconvenient character. Having disposed of the question whether to build or not to build, the committee had next to consider where.

Using hindsight, it would seem that there could have been only one possible location – the site that was eventually chosen and has been identified for more than a century as the financial heart of Canada. In 1845, however, the choice did not seem as obvious as it does today. In the quarter-century of the Bank's existence, the population of Montreal had grown from around 16,000 to nearly 44,000 and the area of the city from 90 to nearly 1,100 acres. Steamboats and sailing ships discharged their passengers and cargoes beside a fine stone quay along the waterfront; the carriages of the affluent and carts of the countryside rolled smoothly over hewn-plank roadways, and gas lamps lighted the narrow streets and alleyways. More important, only a small fraction of Montreal's population increase of 28,000 had been able to crowd into the old city; for the great majority, housing had been provided in rather mean satellite real-estate developments – to the east straddling the old royal road to Quebec along the shore of the St. Lawrence, to the north around the east flank of the mountain, and to the west beside the fur traders' former portage road leading to Lachine.

Despite the evidence of stunted growth on the one hand and haphazard sprawl on the other, Montreal, in the early 1840's, was experiencing a veritable renaissance, the first important growth since the expansion of the Vermont trade in the 1790's. To men of vision, of whom the city had acquired its fair share, the wealth of the Indies appeared trivial compared with that which could flow eastward to the wharves and warehouses of Montreal from a developed hinterland, Canada West and the American states and territories beyond. Meanwhile, the metropolis, as seaport and financial centre, was responding to all the stimuli that had lifted Canada from the economic doldrums of the years following the rebellion.

Among the many ambitious projects planned or contemplated were a railway around the Lachine Rapids to the west, and to the east, not far from the site of the old Quebec Gate, new hostelries rivalling the best in London, and on the waterfront overlooking St. Mary's Current, Bonsecours Market, a stupendous stone structure, 633 feet long and patterned on Dublin's famous customs house. Also situated to the east were the municipal buildings, law courts and the Champ de Mars. Few new buildings had been located to the west for many years, although when the provincial government had moved from Kingston to Montreal in the spring of 1844 it had taken over the St. Ann's Market near the foot of McGill Street. This, then, was the question: whether or not to follow what appeared to be the trend. The upshot of the matter was the Board's consideration of three sites, two to the east of Place d'Armes and another, adjacent to the existing banking house, belonging to the Gentlemen of the Seminary and occupied by the Fabrique, their parochial educational council. Price was also

MONTREAL FROM MOUNT ROYAL – 1852

By 1852 Montreal had a population of 58,000 and its residential areas were gradually moving northward, away from the river and the busy commercial and financial districts. Grey-stone city houses were beginning to occupy land that had formerly been the site of country estates, some of which, according to the *Stranger's Guide* of 1848, contained "the choicest orchards of the whole island, or indeed of Lower Canada . . . the fruit being of the most delicious flavor, and the greatest luxuriance of yield."

In the foreground, the first buildings of McGill University have risen on James McGill's old farm, while on the northern outskirts of the city stand St. Patrick's Roman Catholic Church and to its right the Presbyterian St. Andrew's Church. Place d'Armes, the site of the recently completed domed head office of the Bank of Montreal, is marked by the imposing twin towers of the Parish Church of Notre Dame which faces the Bank across the square.

a consideration and for some weeks the future locus of Canada's financial heart hung in the balance of a few hundred pounds.

Finally, toward the end of April 1845, the Seminary property was purchased for £8,000 and the Building Committee was directed to advertise for plans for the new edifice. The requirements, as stated by the President, called for "a structure of convenient dimensions, and classical taste, that will do credit to the Stockholders of the oldest Bank of British North America and be an ornament to the Capital of the Province." The Cashier was directed to write to the Bank's correspondents in Scotland for drawings of appropriate banking houses and at the same time to insert the following notice in the Montreal newspapers:

BANK OF MONTREAL

TO ARCHITECTS

THE COMMITTEE for ERECTING a BUILDING for the MONTREAL BANK in the PLACE D'ARMES, are desirous of obtaining GROUND PLANS and ELEVATIONS for the above named Building, and offer a PREMIUM of FIFTY POUNDS for the Plan that shall be approved of.

The requisite information will be given on application to Mr. TRY, at his residence Mrs. STEEL's Boarding House, William Street.

The Plans are required to be sent in on or before the 20th JULY, to the BANK OF MONTREAL.

By order of the Committee,

BENJ. HOLMES
Secretary.

BANK OF MONTREAL,
Montreal, 23rd May, 1845.

No less than nine architects entered the competition, two submitting alternative designs and another drawings and a scale model. Despite the limited time allowed, all entries were in the hands of the Building Committee on the day appointed, but were not presented for the consideration of the Board until August 1, when the directors met to consider the entries of Messrs. John Wells & Son (two); Springle; Lane (two); Footner; McFarlane & Brown;

C. Maitland Tate; J. Dempsey; Wm. Marshall; and Pierre Louis Morin, who submitted the scale model in addition to a set of drawings. McFarlane & Brown, the Wells firm, and Footner all became prominent architects in Montreal during the latter half of the nineteenth century, and Pierre Morin, possibly on the basis of his model, was commissioned by Joseph Masson, the Vice-President, to design and construct the impressive mansion that is still standing at Terrebonne. That the contest aroused widespread interest is attested to by the number of entries and by the awards of £50 made to Wells & Son, Springle, and Morin, but it was not until November 11 that the Board again returned to the question of the new quarters on the Place d'Armes. Meanwhile, it would appear, the Building Committee had received from the Commercial Bank of Scotland the drawings of its new banking house on George Street in Edinburgh, then under construction. Designed in the classical vernacular by a prominent Scottish architect, David Rhind, the façade had a portico of six free-standing Corinthian columns, supporting a lavishly sculptured pediment and flanked on either side by coupled pilasters that framed the window openings of the building proper. So impressive was the appearance of the Edinburgh structure, and so expressive of the Board's own image of what a bank should be, that it was decided to use the Scottish design as a prototype for the new head-office building in Montreal. John Wells was then commissioned as the supervising architect to make such changes as might be necessary, supply working drawings, draw up specifications, and superintend construction.

A comparison of the two buildings as they stand today reveals striking similarities. In Montreal, a narrower lot forced the use of single instead of double pilasters to flank the portico and the ornate balustrade above the Edinburgh cornice was omitted; otherwise the two are identical, although the Montreal building was endowed with an added feature, a wooden dome. Derived from the Roman Pantheon, this motif not only established the aesthetic independence of the Bank of Montreal but also completed the classical masculinity of the composition. In choosing the design, the Building Committee established the tradition in Canada that bank buildings should embody a sense of strength, security and dignity, and above all, be unimpeachably conservative.

Little has been brought to light about John Wells's original contributions to the new banking house. It is altogether likely, however, that he provided the plans of the interior and was responsible for all the architectual details, inside and out, it being improbable that full-scale working drawings were obtained from Scotland. It is safe to assume, also, that the details of the immaculate façade overlooking the Place d'Armes came from his draughting board. Since the interior has been remodelled several times, nothing is known of his work inside the bank, but the scale and refinement of the Corinthian capitals, as well as the treatment of the doors and windows, show him to have been an architect of impeccable taste and skill. It is apparent also that he was able to command the work of craftsmen experienced in the carving of architectural detail.

The work of demolishing the old Fabrique building was begun in the winter of 1845 and the new banking house was ready for occupancy two years later. Meanwhile the Bank of Montreal became engaged in one of the most bizarre incidents in the history of Canadian banking.

4.

More than two years before construction was begun on the new head-office building the Board had discussed the question of discounting paper for contractors on the Welland Canal, but, when large-scale public works operations commenced during the summer of 1843, the Bank dismissed the objections of its cashier and undertook to provide accommodation through its branches on the security of engineers' vouchers. Since such advances were made on the authority of individual branch managers, it is now impossible to determine the size of the sums involved, but, considering the magnitude of the public works expenditures, it is reasonable to assume that they accounted for a considerable portion of the Bank's western business.

Although the arrangements were made with the actual builders of the canals, they inevitably involved the Bank with the administrative apparatus of the public works program. Under the procedure planned by Sydenham, specific projects conceived by the Board of Works were laid before the Assembly for approval. When they had been passed, and the necessary appropriations voted, the Assembly transmitted authority to proceed to the Executive Council, in effect the cabinet, which in turn relayed the authorization to the Board of Works.

The Board of Works was made up of H. H. Killaly, one of the few members of the Assembly who was an experienced engineer, and Messrs. Daly, Draper, Morris and Papineau, all members of the Executive Council. Not only was this department charged with the designing, construction and operation of a vast complex of artificial waterways, but it was also required to build harbours and establish lighthouses and other navigation aids from the Gulf of St. Lawrence to the Great Lakes. In addition, the agency was to lay out and build all new provincial roads, install and operate timber slides on the Ottawa, Trent, St. Maurice and Saguenay rivers, and provide and repair such structures as customs and court houses, jails, post offices, legislative buildings, the quarantine station on Grosse Isle and the marine hospital at Quebec City. To guard against any possible oversight, the legislation of 1841 also provided that "all Public Works not specifically vested in other persons shall be vested in the Board."

Perhaps it is not surprising that Killaly should have elected to become his own chief engineer. No doubt he was too overwhelmed by the tasks that lay before him to consider deputizing his multitudinous responsibilities, even though such highly qualified professionals as the great Polish engineer, Casimir Gzowski, and the Keefer brothers, Thomas and Samuel, were available. Killaly's sole assistance, apparently, came from the Secretary of the Board of Works, Thomas A. Begley, a man of negligible talents but formidable political connections.

Little is known about the building of the Canadian canals between Killaly's appointment in 1841 and September 1845, when Sir Charles Metcalfe appointed a royal commission to inquire into the management of the Board of Works in response to an indignant clamour over unrealistic estimates that were soon outstripped by actual expenditures. Further information about the nature or source of this outcry is unknown, but this much is certain: from the outset, the financial procedure for every project was so complex that it fell to the banks and their branches to finance the actual construction work. Without such accommodation from the banks, work stoppages could not have been other than universal, since neither the Board of Works nor the Receiver General had made arrangements that would enable contractors to receive expeditious payments as the work progressed.

The system that was introduced required the engineer in charge to furnish a contractor with a voucher, or estimate, certifying moneys due; the contractor could then take the voucher to a bank and establish a credit against which to draw money to meet his payroll. Such vouchers were negotiable, however, only after they had been certified by the chairman and secretary of the Board of Works, sworn to before a judge or justice of the peace, and accepted by the

Inspector General. Thereupon the voucher became a warrant authorizing the Receiver General to pay the sum approved out of the public works appropriations. As a consequence of these involved procedures, Killaly and Begley were able to pursue an unmolested course until the money obtained from the Imperial guaranteed loan was nearing exhaustion.

The Bank of Montreal first became aware of trouble early in July 1845, when a letter was received at Head Office from H. G. Baker, the manager at Hamilton, reporting slow collections on contractors' notes held under discount. When similar reports came in from Cobourg and Brockville, Holmes contacted the Board of Works but found Begley curiously reticent, even after he was told by the Cashier that unless estimates were paid promptly on presentation the Bank would be compelled to instruct its agents to decline further advances. Acting on his own responsibility, Holmes then advised the agents at Toronto, Hamilton, London, Brockville and Cobourg to be on their guard when cashing contractors' vouchers and soon afterwards directed that any such paper tendered be forwarded to Head Office.

In an effort to reach some agreement, Holmes then made a personal call on the Board of Works, accompanied by William Gunn. Killaly and Begley were both interviewed but again with negative results. Toward the end of August, however, gossip began to circulate in Montreal coffee houses to the effect that Killaly had been summoned to appear before Metcalfe. Soon after came the appointment of the royal commission, following which Peter McGill made a hurried tour of the western branches. Shortly after the President's return to Montreal, the Cashier wrote to Baker in Hamilton: "My own impression is that there is a deficiency in the appropriations; therefore whatever the consequences in regard to suspension of the Public Works, I cannot depart from the instruction given me but must repeat that until you hear to the contrary from me no moneys are to be advanced upon the estimates or orders of the Board of Works." The same day a letter was sent to the Board of Works informing the members of these instructions.

Throughout October, sporadic payments were received from the Receiver General but no explanation with respect to the continued financing of the canals. To the Bank's officers, this conduct was incomprehensible and in November the mystery deepened when Benjamin Holmes learned from a private source that "measures hostile to the Bank had been a subject of discussion in the Executive Council as a means of bringing the Cashier into collision with the Directors and thereby bringing about his ruin; and the removal of the Govern-

THE SECOND WELLAND CANAL – 1850

In November 1829 two ships negotiated the wooden locks of the Welland Canal, marking the opening of navigation on that important water route. The work of cutting a canal through the 186-foot-high escarpment of the Niagara Peninsula had been started five years earlier in the hope that the connection between Lake Erie and Lake Ontario would divert western trade away from the almost completed Erie Canal on the American side of the border.

Between 1830 and 1833 the Welland Canal was extended to Port Colborne on Lake Erie to avoid the navigation hazards of the Niagara River, but even with this improvement the canal was fated to disappoint its promoters. For a variety of reasons the amount of traffic through the canal remained small, and in 1841 the Welland Canal Company sold out to the government of the new Province of Canada. It was decided to renovate the entire series of Great Lakes and St. Lawrence River canals and in 1842 the tasks of deepening the Welland Canal to nine feet and of reducing the number of locks from forty to twenty-seven began.

Funds for the project were provided from a £1,500,000 loan floated in London and guaranteed by the British government. The Bank of Montreal was active in advancing money to contractors pending the collection of their claims on the Canadian government.

When completed in 1850, the rebuilt Welland Canal followed the same course as its predecessor, although a branch was added to provide a new outlet to Lake Erie at Port Maitland. The more solid construction of this second Welland Canal included the use of cut stone for the walls of the locks such as this one near St. Catharines, through which a sailing vessel with auxiliary steam-power is about to pass. Those boats that carried sail only were pulled through by tow-horses.

Painting by Frank Panabaker, A.R.C.A.


FRANK PANABAKER '66

ment Deposits was the means determined upon as calculated to effect that object." The astounding allegation was confirmed on the fifteenth of the month, when Holmes's confidential informant apprised him of the actual passage of an Order in Council highly prejudicial to the Bank's interest and reputation. President McGill at first dismissed the rumoured Order as unthinkable. But on November 19, the government withdrew £20,000 from its Bank of Montreal account and transferred the Indian Fund to another bank. On November 22 the Order in Council was published in the official *Gazette*, listing the names of the banks which could accept deposits for the Receiver General. The Bank of Montreal was not among them.

The only explanation for the promulgation of such an Order, in effect a combined declaration of war and slur on the Bank, was contained in a communication received from the Provincial Secretary, the Honourable Dominick Daly, on the day of its publication. Writing in response to a letter from Hon. Peter McGill requesting an explanation for the withdrawal of government deposits without prior notice or complaint, the Secretary first denied that the Bank had the right to question any action of the government, much less ask for an explanation. He then made two specific charges: one, that the failure of the Bank to notify the government *before* directing its agents to refuse credit to contractors "was wholly inconsistent with the relations that might justly be supposed to exist between the Financial Department and its Fiscal Agents"; and, two, that such arbitrary action by the Bank "was calculated to produce on the public works" a "very prejudicial effect."

Significantly, from the Bank's point of view, the Commissary Department, which was under Imperial control and one of the principal depositors, took no steps to transfer its funds from the Bank of Montreal, and the Crown Lands Department, the provincial agency charged with land sales and the collection of timber-slide dues, allowed its account to remain with the institution. The Bank tightened its discounting notwithstanding, and, at a meeting of the directors held on November 25, a special committee was appointed to review the whole situation and report to the Board with all convenient speed.

The committee reported three days later. After a scathing denunciation of the government for its "unjust and undignified" proceedings and "unsatisfactory and frivolous" reasons for withdrawing its deposits from the Bank, the committee presented nine resolutions designed to retain for the Bank of Montreal the honourable reputation that it had always enjoyed and that the government had wantonly besmirched.

First denying categorically that the Bank had ever been party to any arrangement making it "the Fiscal Agent of the Finance Department," the resolutions stated that the Cashier's action in refusing to discount engineers' certificates had only been the prudent course any bank would have taken after the repeated and protracted failure of the government to honour such certificates when presented to it for payment. The resolutions proceeded with a full documentation of the evasive behaviour of Killaly, Begley and others connected with the Board of Works, "the members of which constituted four-sevenths of the Executive Council." It was hardly credible, the committee concluded, "that the issue of these instructions [to stop discounting contractors' certificates] formed the sole grounds of the proceedings in question," adding that, in "the exercise of its mature and deliberate judgment," the committee believed the Bank had been the intended victim of palpable dishonesty.

Presented to the Board on the twenty-eighth and ordered printed for the information of the shareholders, the circular immediately fell into the hands of the nine newspapers published in the city. There then ensued one of the editorial Donnybrooks that so enlivened Canadian journalism a century and more ago. Defending the Bank was the chief organ of the reform party, the *Pilot and Journal of Commerce*, edited by Francis Hincks, and supporting the government, the Montreal *Herald*, a tory advocate passionately opposed to Union and liberalism in any form. Ordinarily staunchly conservative, the more venerable Montreal *Gazette* strove to maintain a neutral attitude as vituperative charges and countercharges filled the columns of its lesser rivals. The *Pilot* branded the actions of the government as stupid, indefensible, and prompted by selfish, revengeful motives, while the *Herald* published an anonymous attack on Holmes in which he was accused of engineering a sinister plot to discredit the government and bring about its downfall. On only one point were the two papers in agreement: an ugly conspiracy had been set afoot, but whether by a cabal of contemptible office-holders seeking the discomfiture of the Bank of Montreal and the downfall of its cashier, Benjamin Holmes, or by the selfsame Benjamin Holmes to bring about the downfall of certain political enemies, remained unresolved.

The battle mounted in volume for several days without producing any appreciable effect on the Bank's business but on Monday, December 8, the Board, clearly tiring of insinuations and wishing to clarify the situation as far as it was able, addressed a second circular to the shareholders. It contained excerpts from the letters of Holmes, Killaly and Begley – which had not been made public previously – together with a memorandum signed by Holmes and Gunn designed to acquaint the shareholders with the hitherto undisclosed information that "as far back as the month of July last" the Bank had intimated to the Board of Works its intention to decline the negotiation of estimates if these were not to be paid promptly on presentation. The *Pilot* printed the circular the next day without comment.

Thomas Begley now entered the lists directly with a letter to the *Gazette* in which he denounced the statements of Holmes and Gunn as implausible fabrications, thus giving the Cashier the lie direct. A duelling challenge might have been the result – only the year before Francis Hincks had refused to exchange pistol shots with Ogle R. Gowan, the founder of the Orange Association of British North America, and in 1849 John A. Macdonald and W. H. Blake were dissuaded with difficulty from attempting to kill each other – but instead Holmes and his assistant drafted a joint reply which was submitted to the directors for approval. Having formally withdrawn the Bank's advertising within the week from all newspapers except the official *Gazette* and *La Minerve*, the directors debated the proposed letter at some length before adopting the following Minute:

> It was determined, unanimously, that no notice should be taken of Mr. Begley's letter, nor any further publication on the subject matter of dispute now under consideration (the closing of the Government accounts) by the Bank or its officers.

Following the Bank's lead, all newspapers but the *Herald* let the matter drop; that organ pursued its aim with unabated venom. Assailing Benjamin Holmes's character as "passionate, prejudiced, over-bearing, and anxious to overreach," the paper charged him with having adversely affected the Bank's reputation and hence its operations. Finally, in mid February, 1846, the *Herald* published an editorial based on information obtained from two unnamed employees of the Bank who claimed that Holmes and his chief assistant had speculated in Bank of Montreal stock for their private gain and to the detriment of the trustee of an estate. Asked by the Board to explain the *Herald*'s accusations, Holmes was able to show that he had not only engaged in a common practice, but had done so at the trustee's direct request. Four days later, however, the following letter was read to the Board:

Montreal, 21st February, 1846.

Sir.

It has become evident to me, that the political hostility to myself evinced on every occasion by the public press, must render my continued connection with the Bank detrimental to its interests, and of course embitter my own life should I continue to maintain that connection. Under those, and other circumstances not necessary to notice more particularly, I have determined upon retiring at once from the service of the Bank, and beg leave most respectfully to tender my resignation accordingly.

I am Sir
With much respect
Your very obedient servant
(*Signed*) Benjamin Holmes

The Hon. Peter McGill
President, Bank of Montreal.

"And after full discussion," the Board's Minutes read, "the resignation was accepted and the President was instructed, to convey to Mr. Holmes, the assurance that the Directors, while duly appreciating his long, zealous and efficient services to the Institution, deeply regret that any circumstances, should have occurred to induce him to take such a step, and that the Board will make arrangements to relieve him of his duties, as soon as possible."

5.

The strange interlude had less damaging effects on the subsequent fortunes of the three persons most intimately involved – Killaly, Begley and Holmes – than might reasonably be expected. Mainly to blame for the whole sorry business, of course, was the Florentine manner in which circumstances permitted Killaly to run the Board of Works; this, and the flaccid character of the ministries that governed Canada from the Union until 1848. Yet despite the culpability of Killaly on grounds of administrative irresponsibility, the report of the royal commission submitted on April 6, 1846, recommended reorganization of his department rather than disciplinary action.

During the next parliamentary session an act was passed depriving the Board of Works of its semi-autonomous status and establishing instead a Department of Public Works headed by a chief commissioner and an assistant commissioner accountable to the Executive Council. By this means it was somewhat naively expected that technical control would be subordinated to political authority and the two functions would be rigidly comparted. W. B. Robinson, the first chief commissioner under the new order, did dispense with Killaly's services, but only briefly. Before long, the irrepressible canal-builder was reinstated, to become in due course Assistant Commissioner and permanent deputy head of the department. Thomas Begley's career, after his imbroglio with the Bank of Montreal, differed in one respect only from Killaly's: Begley was not dismissed even temporarily until 1859, when a newly appointed chief commissioner, L.-V. Sicotte, pronounced the perennial secretary "inefficient, incompetent and utterly incapable for the duties assigned to him." His departure from the rolls of the civil service was followed shortly by that of his impetuous former chief.

Benjamin Holmes's retirement from the field of banking proved to be little more than an unpleasant incident in a full and successful life. Embarking on a new career at the age of fifty-two, he formed a partnership with John Young and Joseph Knapp to engage in general mercantile pursuits and railway promotion, then attracting the serious attention of Canadian business men for the first time. John Young had earlier been a partner at Quebec in the shipping firm of John Torrance & Co., and although he had served in a variety of public offices, he is best known as chairman of the Canadian board of the Grand Trunk Railway during the 1850's. No information about Joseph Knapp has been uncovered other than his association with Holmes and Young.

In spite of its obvious resources, the partnership foundered on the shoals of the Annexation Movement in 1849, when Young withdrew and the two remaining partners went their separate ways after winding up the business, Knapp to trade on his own account and Holmes to devote his time and energies to more congenial matters. Before quitting the Bank he had served as member of the first provincial parliament and had occupied various honorary positions on the boards of the Emigrant Committee, the Turnpike Roads Committee, the High School of Montreal and other such organizations; after his resignation he was appointed Treasurer of the Montreal General Hospital and his public involvements increased rather than diminished. Re-entering political life in 1848, Holmes successfully contested a Montreal riding and sat in the third parliament of the Province of Canada as an adherent of the Lafontaine-Baldwin administration. He supported the Rebellion Losses Bill and became an advocate of annexation, acting briefly as vice-president of the Annexation Association.

This position brought about his enforced retirement as a justice of the peace and his voluntary resignation from the Turnpike Committee. He continued to serve as a city councillor, notwithstanding, and in 1853 he was elected Vice-President of the Grand Trunk Railway. In November of that year Holmes returned to the Bank of Montreal as a director and rendered valuable service during the period of phenomenal growth that set in soon after. Upon his retirement from active politics in the mid 1850's, he was appointed Collector of Customs for the Port of Montreal and held the position until his death in 1865 at the age of seventy-two. One of the interesting events in his later years was his successful opposition, in 1861, to the extradition of a runaway slave accused of murder.

But what of the Bank? Was it actually the object of a sinister conspiracy or simply an innocent victim of circumstances, powerless alike to confront its real enemies or restrain its over-zealous friends? And to what extent was it affected by the withdrawal of the government deposits or by the efflorescent publicity that followed?

No wholly conclusive answers to these questions can be given. It seems evident that Holmes was the victim of personal animosity and that the government's action was revengeful and ill-considered, but there is no certainty of the identity of the persons most actively involved. Whatever the motivation, the Order in Council betokened a serious lack of confidence in the Bank's stability or its integrity, or both, and could have had damaging repercussions. Runs on Canadian banks had been started by much less substantial rumours. Yet nothing of the kind appears to have followed the branding of the Bank of Montreal as a lone pariah among the country's financial institutions. At the height of the controversy, it is true, the Board ordered a contraction of western discounts but, as will be seen later, the move was in response to the Oregon crisis rather than to local pressure.

The episode, however, did leave its mark. While the former cashier went blithely forward to a second career, less circumscribed and financially more rewarding than the first, the Bank emerged from the traumatic experience with its psyche somewhat altered. Hitherto the personality of the institution had been projected through the attitudes and activities of its individual officers and directors: hereafter these would merge to produce a more impersonal image. Evidence of the change can be seen first in the resolution to withdraw the Bank's advertising "patronage" from all local newspapers save those required by law, and second in the refusal to permit publication of Holmes's and

Gunn's lengthy rebuttal of Begley's slanderous dissembling. The second decision, whether or not the Board so intended, marked the definite emergence of a corporate identity behind which the Bank would conduct its future affairs in dignified aloofness. The thirteen business men who constituted the Board of Directors had seen the results of one head-on collision with the press and politicians; they were firmly resolved not to invite another.

TWO

THE TWO FACES OF THE ECONOMY

THE TWO FACES OF THE ECONOMY

I.

If the officers and directors of the Bank of Montreal were resolved to retire within their corporate shell, the city newspapers were content that they should do so: Montreal returned to the even tenor of its ways and its editors to their absorption in political developments, foreign and domestic. Meanwhile, the Board of the Bank of Montreal had to appoint a new cashier, a task they wasted little time in doing. At the same meeting at which Holmes's resignation was accepted, the President was directed to write to Alexander Simpson, the Cashier of the Quebec branch. In response to McGill's urgent appeal, Simpson arrived in Montreal within the week to assume the senior managerial post at the Bank, while the cashiership at Quebec devolved upon James Bolton.

Alexander Simpson had been appointed agent at Quebec on the resignation of the first occupant of that position in 1824, but we know nothing of his antecedents nor of any relationship he may have had to the numerous members of the Simpson clan in Canada. That he had influential connections and previous banking experience seems obvious, otherwise he would hardly have been chosen to fill the important post of "manager and cash keeper" at the Quebec office of the Bank. Known originally as the Office of Discount and Deposit, the first of all the Bank of Montreal branches operated more or less independently under its own president and directors acting with the approval of the Board in Montreal. The duties of the Quebec Board, however, were confined mainly to passing on local discounts, the important commissary account and foreign-exchange operations being conducted by the Cashier under instructions received from Montreal or, as was more generally the case, on his own responsibility. As Quebec City was the political capital of Lower Canada until the Rebellion of 1837 and its most active port, it is possible that Simpson's banking experience may have been as wide as if not somewhat wider than his predecessor's. On one occasion at least he had visited the Bank's English and Scottish correspondents and as a branch manager for more than twenty years he had obtained a knowledge of that type of operation that would be invaluable at Head Office.

Whatever his professional qualifications, Alexander Simpson's greatest asset appears to have been a self-effacing modesty but he was no less fortunate in the timing of his transfer to Montreal. Thanks to his diplomatic manner, all tensions within the establishment disappeared and the continuance of the upswing in the economy made his task much easier than it might otherwise have been. In the previous year, 1845, public works construction was at its peak; immigration from the British Isles exceeded 31,000; annual military expenditures were nearing the lordly sum of £475,000, reached a year later, and the enthusiasm in Britain for building railways and still more railways showed no signs of abatement. Responding to these stimuli, Canadian farmers planted more wheat, millers ground more flour, settlers occupied more of the waste lands of the Queen, and lumbermen planned a greater winter cut than had ever been. The Bank's discounts of £1,515,893 and note circulation of £571,063 in November, 1845, were the highest recorded in its twenty-seven-year history.

Despite these prospects, the Board in late December, 1845, sent instructions to the Bank's western agents to reduce their discounts, in some cases by as much as twenty-five per cent. The relevant Minute was unusually explanatory:

> Whereupon, it was determined that in consequence of the present unpromising posture of affairs and the possibility of an interruption of harmonious relations between the Imperial Government and the United

> States of America, it was incumbent to make provision, and so regulate the affairs of the Institution as to avoid the heavy loss which sudden and forced contractions of its business would entail; that therefore a reduction should at once be ordered in the operations of all the Western Branches.

The decision was reached about three weeks after President Polk's first annual message to Congress in which he claimed for the United States all of the Oregon Territory, which included the area stretching from the Columbia River to the southern boundary of Alaska, or the line of "fifty-four forty." The document was carried verbatim by the *Pilot* only a few days after its delivery, but it is likely that other, more detailed information was behind the anxiety at the Bank.

At the annual shareholders' meeting of June 1845, Hon. Peter McGill had seen fit for the first time to divulge the composition of the Bank's ownership. After stating that the authorized capital of £750,000 was now fully paid up, he presented the following analyses:

Ownership	*Shares*
Persons in Canada East	9,739
Persons in Great Britain	2,660
Persons in Canada West	1,186
Officers of the Army and Navy	873
Persons connected with the Hon. Hudson's Bay Co.	469
Persons in the United States	73
	15,000

Parties directly engaged in trade	4,041
Clergymen, Lawyers and Doctors	815
Other Professions and Private Individuals	10,144
	15,000

The purpose of these disclosures was doubtless to dampen the recurrent criticisms concerning the ownership of the Bank. Their chief interest here, however, lies in the light they throw on the ties that had developed between the Bank of Montreal and the Hudson's Bay Company since the termination of

RED RIVER CARTS AT FORT GARRY

In 1845 the Bank of Montreal contracted its loans in response to a situation that had developed some fifteen hundred miles west of its nearest branch. Amidst tension over the Oregon boundary dispute, the Hudson's Bay Company expressed fears that the United States might try to annex the Red River Settlement. Long before troops sent from Britain reached the remote colony, however, the Oregon Treaty had been signed. When they were recalled, the Hudson's Bay Company undertook to settle army pensioners at Fort Garry.

The Red River carts seen here outside the fort were the standard vehicles used for transportation in the often trackless northwest. Made out of prairie hardwoods, they were light but strong and could carry loads up to one thousand pounds. There was not a piece of metal in them and by tying the wheels under the platforms they could be converted into makeshift rafts for river-crossings.

the great struggle for control of the fur trade in the 1820's. It was through this close association, no doubt, that the directors came to view the Oregon crisis through the eyes of the Governor and Committee of the Hudson's Bay Company in London, rather than through those of the Canadian public. Thus the Board would have known about the unpublicized reconnaissance party headed by Sir George Simpson that set out from Montreal in May 1845 to report on the feasibility of moving troops via the Ottawa canoe route for the defence of the Red River Settlement.

On Sir George's return to Montreal shortly before the freeze-up of 1845, they would also have been informed of his urgent request to Sir Charles Metcalfe that a force of British regulars be sent to defend the Company's interests from American invasion. Simpson's report was regarded with sufficient seriousness in England for the Duke of Wellington to order that a part of the reserve battalion of the 6th Foot (the Royal 1st Warwickshire) be dispatched to the Red River territory via York Factory, together with detachments from the Royal Artillery and the Royal Sappers and Miners, to garrison Lower and Upper Fort Garry and strengthen their defences.

These generally unfamiliar facts render more understandable the Bank's response to a contingency that failed to agitate other sections of Canadian opinion. A further reaction was recorded in April, 1846, when the negotiations between Great Britain and the United States appeared to have reached a point of no return, and the Bank again tightened its western discounts. However, the danger proved to be wholly imaginary and by the time the British detachments sailed for Hudson Bay from Cork on June 25, 1846, the Oregon Treaty had been ratified in Washington.

Addressing "the numerous and highly respectable meeting" assembled in the banking house on June 1, 1846, Hon. Peter McGill made no mention of the matter. The payment during the past twelve months of dividends of 7½ per cent, or £56,250, was noted together with the addition of £4,024 to the Rest, which resulted in the attainment of the long-sought goal of a Rest of £75,000, or 10 per cent of the capital. In addition, £12,047 had been set aside to cover bad debts, and £7,625 relegated to the contingent fund, indicating total profits for the year of close to £80,000.

While the report was the most gratifying transmitted to the shareholders in several years, the President felt constrained to echo the bankers' note of caution perennially repeated since the days of the Fuggers and Medicis. Commenting on "the remarkable equability of our operations during the past year," he nevertheless regretted that "all the wants of many respectable and solvent applicants for discounts have not [been] and could not be supplied." He was aware that complaints of the tightness of money had received much notoriety, but there were limits beyond which the banks could not safely extend their discounts; in fact, it would be the imperative duty of the new Board to reduce the limit of discounts considerably.

> The large amount of lumber, deals, staves, wheat, flour and other exportable produce which will be shipped the present season, will I hope enable parties to meet all the paper negotiated during the past winter . . . with punctuality at maturity which will relieve the present tightness of the money market; and then people in trade, of moderate capital, if they study their own interests, will not engage in undertakings far beyond their means, depending on the banks for almost unlimited accommodation.

As he had at the previous annual meeting, the President also defended the institution from the persistent criticism that the financial resources of the banks were controlled by and for the benefit of small groups of wealthy and powerful insiders. To demonstrate the fallacy of this recurrent folklore, McGill made public for the first time since the investigation of 1829 the aggregate liabilities of the directors both as individuals and as members of commercial firms with which they were connected. Such liabilities were stated to be slightly more than five per cent of the Bank's total loans of £1,500,000, a sum which the President characterized as "modest in the extreme."

While the President's report disclosed much revealing information about Bank affairs, its principal interest lies in the many things it left unsaid. Reading between the lines, one is struck first by the serious concern over criticism of the Bank's lending policies, and second by the failure to explain these policies in a more forthright manner. The explanation seems to lie in the uncertain nature of the times: apparently both the President and the Board were more concerned about the future than they wished anyone to know.

2.

Ordinarily by the first week in June, when the Bank's annual meeting was held, the seeding was over, the roads were dried out enough for travel, and the first ships from England had fought their way up the St. Lawrence to signal the reawakening of commercial life in Montreal and other parts of Canada. June 1, 1846, was no exception to the general rule but it was also a day heavy with unresolved anxieties. In London, as far as was known in the province, Peel's efforts to repeal the Corn Laws still hung in the balance; in Washington, the United States Senate had yet to approve an extension of the Drawback Law passed in 1845; and in Montreal, a leaderless assembly had been in session since March 10 without coming to grips with the problem of a sorely depleted treasury.

Acute awareness of this situation may account for Peter McGill's reticence. As a man of probity he could never have dissembled and as the most influential banker in the country he would not have dared to tip the economic apple cart. For Canadian prosperity was threatened in three ways: by the loss of the colonial preferences, on which both the boom in flour milling and the great increase in wheat shipments had been based; by the increased competition the Erie Canal would offer the St. Lawrence route if bonding privileges were extended to cover Canadian exports; and by the failure to float new loans in London now that the guaranteed borrowing of 1842 had nearly been exhausted.

The termination of Imperial preferences had been confirmed in the British House of Commons on January 27, 1846, by Sir Robert Peel with the famous announcement: "I propose, therefore, that there shall be at once a considerable reduction in the existing amount of protection. And I also propose that the continuance of such duties so reduced shall be limited to a period of three years." The act abolishing the Corn Laws was passed by the House of Lords on June 25, 1846. It provided for the repeal of earlier legislation, notably the Canada Corn Act of 1843, but in line with Peel's proposal, a three-year respite was granted during which the duties on foreign foodstuffs would be gradually reduced until by 1849 they would equal the token shilling-a-quarter tariff imposed on colonial grain in 1843.

While the act marked the crowning victory of the free trade philosophy of Cobden and Bright, it was essentially a measure of grim expediency designed to provide desperately needed food for the starving Irish. Because of its humanitarian purposes, no doubt, the act dealt only with the tariff, leaving in force the ancient Navigation Laws which had been the other bulwark of the mercantile system. In consequence, the great St. Lawrence estuary remained as it had been for nearly a hundred years, an exclusively British waterway, closed to all shipping save that of British registry engaged in the carrying trade between Great Britain and its colonies. If repeal appeared to threaten disaster to the mercantile overlords of Montreal, the retention of the Navigation Laws, when taken in conjunction with events in Washington, spelled their ruination.

From the earliest days of the Republic, Canada had been treated by American policy-makers as simply a British adjunct and as such had been exposed to the same tariffs as the mother country, sometimes retaliatory and protectionist, sometimes agrarian and moderate. In 1845, however, came an extraordinary change, when Canada, for the first time, was accorded the compliment of being treated as a distinct and separate entity. This was accomplished by the enactment of a "drawback law" which permitted foreign goods intended for re-export to Canada to cross American territory duty free. Whether the law was inspired by a desire to protect the Erie Canal from the nearly completed St. Lawrence canals or was a result of the general reappraisal of tariff policy that had become the practice after 1842 is beside the point: the drawback laws, coupled with the retention of the Navigation Laws until 1849, did present a most serious challenge to the commercial and financial hegemony of Montreal.

The immediate effect in Canada was the incorporation of the St. Lawrence and Atlantic Railroad, to connect Montreal with Portland, Maine, an ice-free Atlantic port; in the United States, the results were sufficiently promising to warrant an extension of the bonding principle at the next session of Congress which began on December 1, 1845. A bill, in effect an amendment, was introduced granting Canadian exports the same privileges already accorded Canadian imports. By June 1, 1846, the bill had already passed the House of Representatives and its acceptance by the Senate would enable the commerce of Canada West to find a second outlet to the sea and so by-pass the toll gate which Montreal, with a considerable assist from nature, had been able to erect on the St. Lawrence.

The third consideration omitted from President McGill's address was the condition of the public finances. Although revenues and expenditures for 1845 had almost balanced at about £525,000 each, the public debt of the province, by 1846, had arisen to £3,341,173, eighty-five per cent of which was payable in London. Of even greater moment, however, was the state of the country's financial prospects. On January 1, 1846, after the last £60,000 of the guaranteed debentures had been issued in London and £76,600 of another issue had been placed in Canada, the government had only £177,000 left with which to complete some of the most important links in the canal system. By this time, Baring Brothers and Glyn's were growing restive in a gentlemanly sort of way, and the Bank of England was becoming increasingly critical of the somewhat haphazard manner in which the province was disposed to meet its interest payments.

For many of the merchants who owned fine stone warehouses on St. Paul Street and along the waterfront in Montreal there was little to do but hope for the best, taking what consolation they could concerning the morrow from Matthew 6:34. Before the month was out, however, they received a modicum of revenge. On June 29, the government of Sir Robert Peel was defeated by a revolt of its own back-benchers and succeeded by that of Lord John Russell. The shift from Tory to Whig brought back to power the party that had instituted the Union and might now bring an informed and sympathetic interest to bear on the confusions and contradictions that had bedevilled Canada during the years of Peel's preoccupation with Britain's internal problems. Ironically, however, one of the first acts of the new ministry was to refuse to guarantee a further Canadian loan of £250,000 for which Lord Cathcart had urgently petitioned a short time before Peel's defeat.

3.

By midsummer 1846 the provincial administration was well on the way to disintegration. The continuing struggle for responsible government resulted in the resignation of D.-B. Viger; and attempts by Draper to bring in new blood, either French or English, had failed. Yet the disabled administration flexed its sovereign muscles by issuing debentures for sale in Canada to the amount of £88,000 and by obtaining a nine-month loan of £140,000 from the Bank of England, thus enabling the province to carry on its public works construction. While no gestures had hitherto been made by either side to close the breach between the government and the Bank of Montreal, Peter McGill was in London during August when the Bank of England loan was granted, and at the end of that month formal business relations were resumed between the two former antagonists. A Minute dated the twenty-fifth described in some detail the delicate manner in which the rapprochement was brought about. Three days before, Alexander Simpson reported, Hon. Dominick Daly, while in the Bank on matters of personal business had "expressed some regret at the circumstances which had led to an estrangement between the Bank of Montreal and the Government." The Minute continued:

> Neither however being disposed in their official capacities to compromise themselves by reverting to what had passed, being desirous however to

> bring about a reconciliation, it was agreed that Mr. Daly should be at liberty to mention the substance of the conversation and to consult his colleagues, and Mr. Simpson his Board of Directors, with a view to lead to a new arrangement between the Executive Government and the Bank.
>
> Some discussion ensued in consequence of the conversation above referred to, and the probable facilities that might be desired by the Government.
>
> It was Resolved
>
> That the Vice-President, and the Cashier, be authorized to enter into such arrangements with the Executive Government, as they might consider for the interest of the Bank granting at [the] same time a loan to the extent of £30,000 Currency should the Government require such accommodation, for such a period as may be agreed upon.
>
> In accordance with the above resolution, and with the sanction of the Vice-President, the Cashier waited upon Mr. Daly, and was by him introduced to the Receiver General and conversed with that gentleman with regard to the details of the proposed arrangement.
>
> When it was agreed that the Bank should resume the business with the Government, upon the same terms as formerly to receive deposits, and pay the drafts of the Receiver General.

In addition to the inaugural £30,000, the Receiver General obtained from the Bank less than a month later a further loan of £40,000 to pay the "sufferers by the late Rebellion." Repayment was to be made in four annual instalments out of excise taxes accruing from tavern licences.

That the province could conduct its fiscal affairs on such an extemporaneous basis suggests that the economy had yet to feel the effects of either the revolution in British commercial policy or the American drawback laws. Shipping space at Montreal and Quebec was at a premium, while exports of wheat and flour for 1846 increased by thirty-seven per cent and twenty-six per cent respectively over 1845 in response to a rising British demand for foodstuffs. The Bank's records for the period show frequent discounts of as high as £10,000, the nature of which indicates they were desired for grain purchases.

As grain loans were generally financed by bills on England, the scope of Bank of Montreal foreign-exchange transactions steadily grew and business conditions overseas seem to have been regarded as wholly satisfactory, although a crisis was already in the making. Had the commercial outlook been otherwise

Peter McGill would surely have made some comment when he resumed his seat at the Board on September 22. The Minutes, however, contained no reference to the results of the President's English visit: instead, the principal concern had become the dire trouble which threatened the timber trade.

Paradoxically, the reduction of British timber preferences in 1842 had been followed by dynamic expansion of the forest industry in Canada. During the three preceding decades, Canadian pine and oak had been regarded as second-rate products, inferior in all respects to those of the Baltic forests. With the extraordinary demand occasioned by the resumption of British railway building and industrial expansion in the early 1840's, however, Canadian white and red pine had come into their own as superior materials for a wide variety of purposes including pattern-making and, somewhat ignominiously, the manufacture of the recently invented lucifer match.

The impact on the timber trade was spectacular. Previously, cutting had been restricted to easily accessible territory along the St. Lawrence and the Ottawa rivers; now timber cruisers invaded the principal tributaries of the latter as far upstream as Lake Timiskaming. By May 15, 1847, the Department of Public Works had spent upwards of £68,000 on timber dams, slides and booms in the Ottawa Valley.

The dynamic character of the trade is borne out by a single incident, a technical tour de force typically Canadian. In 1845 a group of Montrealers imported from England two Boulton and Watt engines and had them fitted to iron hulls built on the prefabricated principle by St. Mary's Foundry. The hulls were then knocked down and the component parts transported up the frozen Ottawa River to Lac Deschênes and Lac des Chats above the falls of the Chaudière. There they were reassembled and their engines installed in time for towing when the ice went out the following spring.

In 1845, nearly sixteen million cubic feet of white pine alone were sold at Quebec for export, and, speaking in 1849, one experienced timber merchant stated that "the year 1845 was the most prosperous to which my knowledge of the trade extends." Responding to the challenge of the increased demand and rising prices, the timber operators went into the woods in the fall of 1845 determined to cut as they had never cut before.

When President McGill addressed the Bank of Montreal shareholders on June 1, 1846, the big rafts were being put together on the upper reaches of the Ottawa. By July, they had begun to clog the Rivière des Prairies north of Montreal; by August, Lake St. Peter was white with their billowing sails;

BANKING HOUSE AT LONDON – 1846

While travelling through Upper Canada in 1793, Lieutenant-Governor John Graves Simcoe came upon a wooded site at the forks of the north and south branches of the Thames River which he pronounced ideal for the capital of Upper Canada. The capital was destined to remain elsewhere, but Simcoe's private secretary, Thomas Talbot, was later named by the provincial government to superintend settlement of the area.

In 1826 London's first buildings appeared in the forest clearing at the forks of the Thames River. Within two decades the town had become a trading and judicial centre as well as a garrison post for the troops stationed there since the troubled days of the Rebellion in Upper Canada.

Three corduroy roads leading to Port Stanley, Hamilton and Detroit provided communications for London's population of 3,500, and on October 1, 1844, one of the regular stages disembarked John Fraser, whose mission was to open a London office of the Bank of Montreal. The courteous Mr. Fraser quickly attracted business for the Bank, and on October 10, 1844, a building lot was purchased for £325 on Ridout Street, London's main commercial thoroughfare, on which several other banks were already located.

This painting shows the brick building erected by the Bank which, like most bank offices of the period, was designed to provide housing accommodation for the staff on the second floor; hence the residential appearance.

Looking along the rough road past the Bank's agency one can see a bridge over the south branch of the River Thames and, to the left, the famous courthouse modelled after Malahide Castle, the Irish birthplace of Thomas Talbot. Both the bank building and the courthouse are still standing.

Painting by Clare Bice, LL.D., R.C.A., O.S.A.

and by mid September the timber coves beside Cape Diamond at Quebec were covered with a floating carpet of logs. That year 37,300,643 cubic feet of timber came down the river but only 24,242,689 cubic feet could be sold for export. Although sales were actually better by a few thousand cubic feet than they had been in 1845, the large surplus drove prices down and 1846 was a year of near disaster for the 35,000 men employed in the Canadian timber industry.

Fragments of the timber saga are reflected throughout the Board Minutes of the Bank of Montreal – in the ship-building activities of several customers, in the frequent loans to rafting firms located on the upper St. Lawrence, and in the opening of Canada West branches and agencies. Cobourg, Belleville and Brockville, for instance, all had lumbering backgrounds, and at Bytown, it may be recalled, James Stevenson, Sr., who replaced his son as the Bank's local manager, was the Crown Timber Agent. It was therefore probable that the Bank stood to suffer very appreciable losses. However, when McGill presented the annual statement to the shareholders on the first Monday in June, 1847, the entire losses, both "positive and probable," for the preceding fiscal year were reported to be less than £12,000, a total which the President regarded "as comparatively inconsiderable."

Of course, the timber trade had only itself to blame for its stricken condition. For once a contraction in the British market was not responsible for an economic convulsion in Canada; instead, the onus lay on domestic overproduction, induced by both extraordinary incentives and a provincial law passed in the interests of the depleted treasury setting an annual minimum cut on timber berths licensed by the Crown. The surplus created in 1846 caused a cloud to hang over the market for several months, wiping out profits, producing unemployment in the Ottawa Valley, and generating commercial failures, especially in Canada East where most of the trade still obtained its finances.

Despite the severity of the initial blow, the crisis was of relatively short duration, thanks to the appearance of American markets for sawn lumber and the adoption by Canadian sawmill operators of the circular saw. This new contribution to technology had by this time passed the experimental stage and made possible the production of dimensioned lumber in vast quantities at a relatively low cost. There now developed a seemingly insatiable American demand which was to increase steadily throughout the nineteenth century and provide Canada with a sorely needed additional source of foreign exchange. As early as 1847, in fact, the Bank of Montreal was asked by American interests to aid in financing the construction of a railway from the international boundary northward to tap the great pineries of the Ottawa Valley.

Disastrous though it was in some parts of the country, the timber crisis as reflected by the Bank of Montreal records had only a temporary effect on the economy. If there was less cutting in the woods, there was more cultivation of the land, and Canadian agriculture entered on a three-year period of prosperity. Most of this, however, was confined to Canada West where David Fife's hard Galician wheat had proved its immunity to both wheat rust and the wheat midge. A considerable amount of the western wheat production was exported via the Erie Canal, to the chagrin of the merchants of Montreal, or was sold for local consumption in the northern United States.

The shareholders' annual meeting in June, 1847, was uneventful, in marked contrast with developments elsewhere. In England, a mounting frenzy of speculation was building toward the decennial collapse of the economy; in Canada, the first of a vast horde of destitute, disease-ridden Irish immigrants had begun their arrival at the makeshift quarantine station below Quebec. Before the season of navigation ended, their numbers swelled to 100,000 and Canada's medical, social and financial resources were strained to the utmost. Fortunately, the provincial parliament was in session when the deluge started and to cope with the emergency it appropriated the sum of £157,000 for relief, of which £35,000 was advanced by the Bank of Montreal. However, the human crisis could never have been dealt with had it not been for the spontaneous response of religious bodies, social organizations and private individuals. Abundant harvests in 1847 and 1848 required a great number of agricultural workers, but vast numbers of the Irish were simply herded aboard steamships and taken to the western part of the province, where they were left to die or press further west, as nature saw fit.

Both the Board Minutes and returns of the Bank of Montreal reflect an economic buoyancy that was in contrast to the pitiful migration that extended from Grosse Isle to the backwoods of Canada West. Following the annual meeting, the directors were concerned mainly with such routine matters as applications for large discounts and problems connected with individual branches. In August, for example, the Chairman of the Quebec Board, Hon. William Walker, was granted a raise in salary to £400 to enable him to devote "a larger portion of his time to the Bank," and later in the month the Receiver General's department was accommodated by the purchase of £20,000 worth of six-per-cent, ten-year debentures, "to meet the wishes of the Government and assist the Executive to complete the Public Works." In September several towns in Canada West petitioned for the establishment of branches, and the Magnetic Telegraph Company, then engaged in constructing the first telegraph line between Montreal and Toronto, obtained a £2,000 loan secured by notes of the individual directors.

The Board's confidence is implicit in a Minute of October 12, which noted that Alexander Simpson had been granted a leave of absence "to proceed to England on his own affairs." The Cashier took with him a power of attorney "to enter into such negotiations in Great Britain as circumstances may require." This authority was to prove providential, but it is hardly likely that the services of the Bank's senior employee would have been dispensed with had there been any inkling of the stormy weather that lay ahead.

When the directors met on November 2, nothing, evidently, had occurred to change their attitude, for a half-yearly dividend of four per cent was declared. The Minutes that day were headed "New Bank," but as in 1819 no ceremony was held to mark the opening of a new banking house. The Bank, however, did celebrate the event after its own fashion by instituting "a system of Progressive Ledgers" by which in future "the state of any account" could be "ascertained at a glance."

Meanwhile, the economy of the British Isles was approaching the point of crisis. Ever since the failure of the 1845 potato crop, the government had been forced to import unprecedented quantities of foodstuffs to feed the starving Irish, to pay for which enormous quantities of bullion had had to be exported. In consequence the Bank of England's gold reserves fell from £15.5 million in December 1846 to £9.3 million in April 1847. Steps were then taken to reverse the bullion drain by raising the Bank Rate to five per cent and by announcing that future discounts would be limited to short-term, highest quality paper in sharply restricted amounts.

As a result, the private discount rate rose to ten and twelve per cent, but an immediate increase in the gold reserves brought temporary relief. Within a month, however, wheat at 131 shillings set off a new wave of speculation which persisted to mid September, when a sudden market collapse drove its price down to 49s. 6d. Meanwhile, during the course of the summer, the railway construction boom had petered out and with it almost all industrial activity.

Again the time had come for drastic action and on October 2 the Bank of England announced that the discount rate would be raised to 5½ per cent and that, until further notice, no advances would be made on private stock or Exchequer Bills. Within the week these bills fell by thirty-five per cent; Consols, which had been at 84½ on October 2, dropped by October 5 to 77¾, and hoarding spread rapidly to all parts of the country. The Bank of England, notwithstanding, held to its obdurate position until October 18 when the failure of the Royal Bank of Liverpool triggered a succession of bank failures throughout the Midlands.

The Bank of England was now placed in an extraordinary position: it had to choose either to ruin English commerce by continuing its rigid discount policy, or to violate the sacrosanct limitation on note issues of the Bank Act of 1844. The bank was plucked from the horns of its dilemma on October 23 by an unofficial notification from the government that it would be permitted to issue notes in excess of the amount specified in 1844, provided that a minimum rate of eight per cent would be charged on discounts and that all extraordinary profits would accrue to the Treasury. These conditions were shortly confirmed by the suspension of the Bank Act. Immediate collapse was averted but the depression precipitated by the crisis continued throughout most of 1848.

4.

Canadian businessmen were, or should have been, well informed about the crisis developing in England. At least two newspapers, the Montreal *Pilot* and the Toronto *Advertiser*, featured British commercial and financial news as it was received fortnightly via the Cunard Line and Boston; but such intelligence appears to have gone unnoticed. For example, Lord Elgin, in the course of a leisurely journey through Canada West in the autumn of 1847, "was much impressed," to quote his biographer, Sir John George Bourinot, "with the many signs of prosperity which he saw on all sides."

In the Bank of Montreal board room, the first discordant note was sounded on November 9 when President McGill told those present that "the news from England by the mail of yesterday was not so satisfactory as he could have wished and therefore recommended a restriction of the discounts." Seventeen days had then elapsed since the suspension of the British Bank Act, but no further action was taken by the Board until November 26 when the next fortnightly mail arrived from overseas. The pertinent Minute reads:

> The President stated to the Board, that he had received the day previous a letter from the Cashier now in England, which letter he would read. The

> information it conveyed was such, that the Vice-President and himself had deemed it expedient to cause a Circular to be issued to all the Agents of the Bank, calling upon them to use every possible means to curtail their issues. . . .
>
> The President further stated that our Foreign affairs were in such a state that the discounts must be restricted to the lowest possible figure, which proposition was concurred in, and a very small portion of the paper offered taken.

As no trace of Simpson's letter has survived, its contents can only be surmised: it is fairly obvious however that it must have contained a warning that a considerable quantity of the bills on England bought or discounted by the Bank of Montreal would be dishonoured and returned under protest. The Board then took the obvious step of protecting the Bank's liquid position by curtailing its discounts until the extent of its foreign losses could be known. Following the receipt of Simpson's tocsin, each mail from England brought its quota of protested bills and the frequent meetings of the Board were occupied with the accounts of ordinarily strong firms which were in difficulty or had been forced into liquidation. Most of the firms, however, were located in Canada East; in contrast, the Bank's business in Canada West appears to have pursued its normal course: no bankruptcies were reported and the few applications for discount that were referred to Head Office were dealt with on their merits.

Whether or not the worsening business climate in Montreal and Quebec was in any way responsible, Lord Elgin, in December, dismissed Parliament and at the elections held in January the Reform coalition of Lafontaine and Baldwin, after four frustrating years in opposition, was returned to office with a large majority. Francis Hincks resumed his old post as Inspector General, in effect Minister of Finance, but several months elapsed before steps were taken to strengthen the condition of the public treasury by the introduction of new fiscal legislation.

Meanwhile the Bank initiated a major reorganization of its Quebec office, the following resolution being passed on April 10, 1848:

> That in order to promote the more efficient working of the Branch at Quebec, that in place of a Cashier, President and Board of Directors, a Manager be appointed, who under the instructions of this Board shall have

> the sole control of the business of the Branch, and upon whom the entire responsibility of the management shall rest.

The resolution gathered no moss. Three days after its adoption the Assistant Cashier, William Gunn, was on his way to Quebec as manager at a salary of £600 per annum, and the incumbent cashier, James Bolton, was transferred to Head Office as senior clerk. He was granted the same perquisites which Gunn had enjoyed, including an apartment in the new banking house, but the position of assistant cashier was allowed to lapse. Gunn's conduct of his new post appears to have set a new standard for branch management. The Minutes show that on more than one occasion afterward he evoked "the unqualified approbation of the Board," a rare accolade in banking circles.

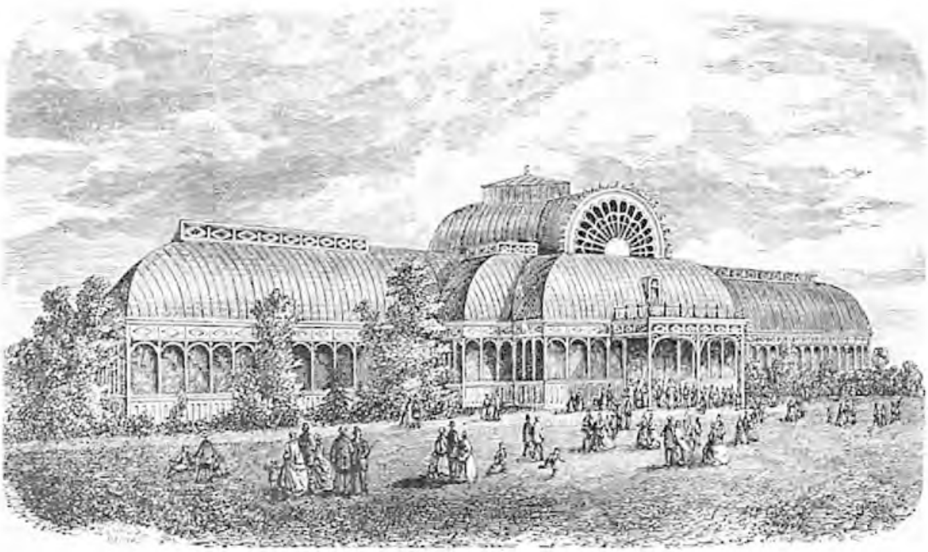
At the annual meeting held in June 1848 the shareholders were informed of the nature of the last year's business. After regretting his inability to offer the congratulations he had tendered in previous years, the President went on to say:

> The past year has been one of the most calamitous in the commercial annals of Great Britain. All the great interests of the country have suffered severely. Many of the Bankers, Merchants, Manufacturers and Capitalists have fallen, and been crushed beneath the pressure of the times – and the commercial community of this Province, dependent as it, in a great measure is, upon the Mother Country for the facilities necessary in carrying on the Trade of the Colony, have largely participated in the general calamity. The consequences flowing from such an unexampled state of things have brought on many disastrous failures, by which the Bank has sustained very considerable losses, especially by Bills of Exchange.

The actual losses reported were £64,642 on bills of exchange and £25,872 on domestic discounts, making a total of £90,514. Aside from these heavy losses, the earnings of the Bank had been remarkably good and the gross profits for the fiscal year ended April 30, 1848, were only two per cent less than they had been for the preceding year, the figures being £70,764 and £72,008 respectively. This discrepancy between the heavy losses and the negligible decrease in gross profits might at first seem surprising, until the monthly returns to the legislature are examined. On this basis it can be seen that at the end of November 1847 discounts stood at £1,321,278, barely lower than the average for the previous fiscal year, and that as late as the end of February 1848 they were £1,219,436. Thereafter they declined sharply to £1,072,126 on April 30, but with the decrease restricted largely to the last quarter of the fiscal year the Bank's earnings were not affected nearly as much as the losses or the balances reported at the annual meeting would seem to indicate. Nevertheless, the losses were the worst suffered by the Bank since the late 1820's, and in order to provide for them and pay a dividend of seven per cent the directors had to reduce the Rest from £75,000 to £15,250 and appropriate the entire £30,764 at the credit of the profit and loss and contingent accounts.

Despite his initial melancholy, President McGill ended his 1848 address with the "sanguine hope that confidence and prosperity will gradually return. . . . The prospects for the coming harvest," he said, "are reported to be exceedingly favourable throughout the whole Province, and the anticipated revival of the Trade of Great Britain will conduce to the same result, by enhancing the value of Colonial Timber and Ships, which will thereby offer [more opportunities] for banking operations than they dō at present." The note of confidence implicit in the continuance of dividend payments, though at a reduced rate, and in the President's closing remarks was justified by the subsequent behaviour of the business of the Bank. While discounts continued to decline until August, 1848, note circulation showed an increase of nearly ten per cent, and this trend continued through October, when the approach of the winter isotherm congealed commerce into seasonal inactivity.

Neither the Bank of Montreal archives nor the Sessional Papers of the province contain the monthly bank returns for the early months of 1849, but Peter McGill's next address to the shareholders on June 4, 1849, casts an interesting light on the period. He reported a decline in profits for the fiscal year of nearly fourteen per cent but appropriations of only £1,200 "to cover positive and estimated losses from May, 1848, to May, 1849." But how are these facts to be reconciled with Lord Elgin's oft-quoted statements to Lord Grey in a letter dated April 23, 1849, that "three quarters of the commercial men are bankrupt," and "property . . . has fallen 50 p. ct. in value"? The explanation would seem to lie in the fact that Elgin was focusing on the situation in Canada East while, because of the Bank's branch system, its statement reflected the economic conditions prevailing in the province as a whole. In view of the Bank of Montreal figures, which even in 1848 reveal that the great majority of losses were on foreign bills, it would appear that both the length and the severity of the commercial disruption have been greatly exaggerated, and the



THE CRYSTAL PALACE, TORONTO

The predecessor of today's Canadian National Exhibition, known as the Provincial Exhibition, was first held in Toronto in 1846. Its fashionable inauguration was attended by the Governor of the Province of Canada and was marked by "a levee after a triumphal procession through the streets in the carriages of the aristocracy." In subsequent years the annual harvest festival also was held at Hamilton, Cobourg, Kingston, Niagara, Brockville, London and Brantford.

The Exhibition's first permanent building, the Crystal Palace in Toronto pictured here, was opened with great ceremony in 1858. Known officially as the Palace of Industry, the cruciform structure had walls of cast iron and glass surmounted by a tin roof which gave the building a "heavy domed" appearance.

Numerous small buildings were erected to supplement the Crystal Palace as the exposition grew, and in 1877 a new site facing Lake Ontario was chosen and became the home of the present Canadian National Exhibition.

so-called depression of 1848 in Canada might be regarded more accurately as a recession.

Until the union of Lower and Upper Canada, the Canadian economy had conformed to the classical requirements of the mercantile system, under which a single economic entity was developed with two complementary parts: one performing the mercantile functions of organization, finance and the exchange of commodities, the other the colonial functions of land settlement, population growth and the production of exportable staples. To be successful, it was believed, the two-way complex had to be rigidly closed to outside competition. This was accomplished by means of colonial preferences and navigation laws which restricted all sea-borne commerce to ships of British or colonial registry. With the aid of these monopolistic devices Montreal became the commercial metropolis of the Canadas with visions of extending its domain to include the entire Great Lakes region, both Canadian and American. With the achievement of Union and the infusion of capital that followed, the dynamic energies of the country were awakened for the first time and while Montreal prospered greatly, Upper Canada, or Canada West as it was renamed, benefited far more, for it was in that part of the province that most of the capital was spent and most of the immigrants chose to settle.

By the mid forties, moreover, there had begun a series of misfortunes that brought about Montreal's eclipse for several years. Oddly enough, it was not the repeal of the Corn Laws that undermined the city's commercial hegemony, but the enactments of the United States Congress. With the passage of the drawback laws in 1845 and 1846 the walls of mercantile monopoly were breached and Canada became two separate economic entities. In this new situation the western region was no longer dependent on the old mercantile patterns; it had been given a second outlet to the sea with which the St. Lawrence was unable to compete. The other side of the coin was also changed since Canada West's old mercantile partner could no longer prosper without its more productive political bedfellow. Under these circumstances, it was possible for one part of the economy to retain some measure of vitality, while the other suffered a succession of economic blows. These conditions would explain the performance of the Bank of Montreal during a period of supposedly severe depression.

THREE

RAILWAYS, RECIPROCITY AND RISING PRICES

RAILWAYS, RECIPROCITY AND RISING PRICES

1.

When Francis Hincks resumed his old post as Inspector General on the return to power of Baldwin and Lafontaine early in 1848, the financial problems that awaited him must have seemed almost insoluble. Interest payments on the public debt now constituted forty per cent of the government's annual expenditures, the sinking fund established to repay the Imperial loan was in arrears, and provincial revenues in 1848 were twenty-five per cent less than those of the previous year. To add further to the stygian shadows, every outside source of funds had been temporarily cut off. Even if London had not been nursing its own wounds, Canadian credit had sunk so low that the province could not obtain a loan for as little as £20,000, and any hope of restoring Imperial bounty had vanished with the rise of the Cobdenite movement. Rather than continue to support the colonies, a growing body of English opinion would have preferred to get rid of them altogether.

In such an extremity, there was little that Hincks or anyone could do but resort to such expedients as the rigid provincial fiscal laws permitted. In due course he could hope to rationalize such laws; meanwhile he was forced to peddle his short-term debentures when and where he could. He also introduced a revenue bill to increase the tariff on imports by twenty-five per cent, regardless of the country of origin, and opened negotiations with the colonies of Nova Scotia and New Brunswick for reciprocity in natural products. It was at this time, too, that the Baldwin-Lafontaine administration, with the active support of Lord Elgin, began its campaign to effect a reciprocal trade agreement with the United States.

Whatever could be done apparently was done – the province somehow managed to keep its head above water – but what was desperately needed was another mighty infusion of capital such as the Imperial guaranteed loan had provided only a few years before. As an experienced journalist Hincks would have been conscious of the need for large-scale foreign investment, but as a one-time banker he must have known that only a miracle could provide him with the means to acquire it. And by a gratuitous conjunction of events, that miracle did happen, taking the form of two identical petitions to the legislature praying that government subsidies be granted for the construction of two railways. These were the St. Lawrence and Atlantic, designed to link Montreal and Portland, Maine, thus ensuring Canada a year-round outlet to the sea, and the Great Western, planned to run from Niagara Falls to Windsor with the object of capturing American traffic moving between the eastern seaboard and the exuberant states and territories of the middle west.

At the time there were only sixty-six miles of railway in all of British North America while in the United States nine thousand miles were in operation or under construction. In Great Britain, despite a temporary setback, building of the core of the railway grid that exists today was underway and would be completed by 1875.

After the Union, well over a dozen railway companies had been granted charters by the Province of Canada, but few of the lines got past the preliminary survey stage. The St. Lawrence and Atlantic and the Great Western, however, had superior potentialities. Both lines were joint American-Canadian conceptions and had eminent Canadians behind them, the eastern line in the person of Alexander Tilloch Galt, the manager of the British American Land Company, whose holdings straddled the projected right-of-way near Sherbrooke; the western in that of Hon. Allan MacNab, Speaker of the provincial parliament and solicitor of the Gore Bank, who frankly asserted, "railways are my politics." Although each had been able to raise some money, and the St. Lawrence and

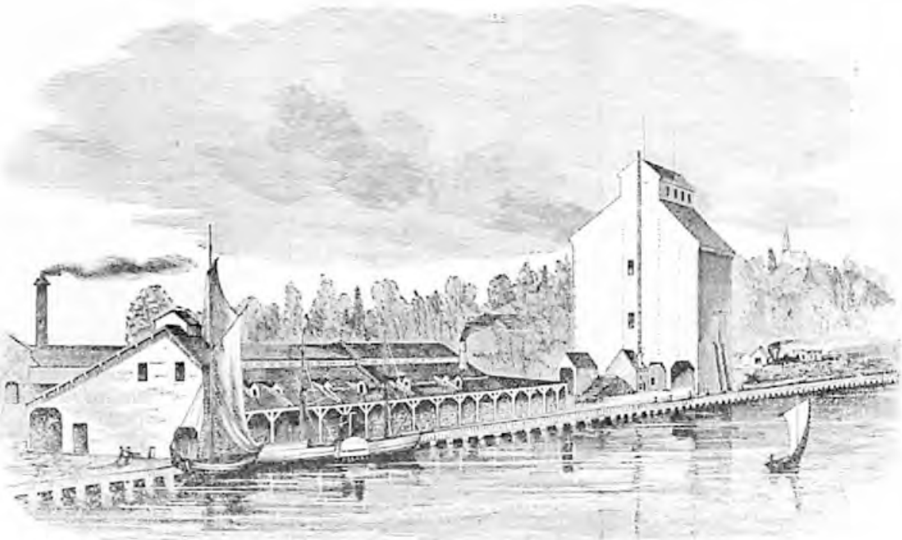
Atlantic actually had thirty miles of its line in operation (between Longueuil and St. Hyacinthe) by the end of 1848, they both fell foul of the British financial debacle.

It was at this moment of crisis that Galt and MacNab presented separate petitions to the legislature praying that their respective railways be granted government assistance. Each proposal embraced the twin virtues of necessity and simplicity, first asserting that "the amount of money required cannot be raised in Canada and your petitioner finds much difficulty in procuring the required amount in other countries," and second, calling for no specific sum but rather the creation of a broad public policy in support of railway financing. Considering the condition of the public credit and the low state of the provincial treasury, the Galt-MacNab proposals could well have been dismissed as preposterous or even frivolous; yet the Railway Committee of the Assembly enthusiastically recommended that the government guarantee the debentures of the two railway companies to a maximum of one million pounds. With victory in sight, the legislature was prorogued, and the matter was transferred to the Inspector General's Department for further action.

Prior to this date private enterprise had chalked up two distinct failures, the Lachine and Welland canals, while under public ownership and government management, the St. Lawrence canal system, including the two sections mentioned, had been successfully completed. Hincks was well aware of these facts and also of the inability of his government to secure foreign capital for its own needs. It was just conceivable, however, that backing might be attracted by a combination of the private and public sectors in the manner that had proved so successful in financing self-liquidating transportation ventures in Britain, Europe and the United States.

The result was the introduction at the next session of the provincial parliament of a bill "to provide for affording the Guarantee of the Province of Canada to the Bonds of Railway Companies on certain conditions." Shorn of circumlocution, the legislation authorized the government to guarantee the interest on fifty per cent of the bonded debt of any railway company chartered to build seventy-five miles or more of line, after it had completed construction of one half. The customary safeguards were to be furnished by mortgage security, half-yearly financial statements, and the establishment of sinking funds.

Introduced by Francis Hincks and seconded by Allan MacNab, the Guarantee Act received its third reading in April, 1849, and was passed into law without a dissenting vote, receiving royal assent on May 30. During the same session of



GRAIN ELEVATORS AT HAMILTON

Although Hamilton was first settled in 1778 and was accorded the status of a city in 1846, its development as one of Canada's great industrial centres really began when trains of the Great Western Railway started to run between Hamilton and Niagara Falls in 1853. The next year, when rail service was extended to Windsor, reciprocity with the United States came into effect, causing a marked increase in trade with American ports on the Great Lakes. At Hamilton harbour the equipment of the Great Western Railway, seen in this drawing of 1863, was capable of transferring three thousand bushels of grain an hour from railway cars in the shed to ships waiting at the dock.

In 1843, when the population of Hamilton had yet to reach five thousand, H. G. Baker arrived to open an agency of the Bank of Montreal. Business was such that two years later Baker's authorized lending limit was the second highest among the Bank's nine offices in Canada West, and in 1856 the Hamilton office, with a staff of six, was officially designated a branch.

Parliament municipalities were empowered to lend to road and bridge companies by an act which, given sufficiently broad interpretation, permitted municipal investment in railways.

The pump-priming legislation was criticized at the time and, to a greater or lesser degree, has been ever since – for inviting waste and political corruption, for promoting speculation and inflation, for burdening the country with a debt that increased threefold in nine years. None of these charges has been successfully refuted. Waste and corruption were unquestionably woven into the fabric of Canadian politics; speculation and inflation raised price levels to heights hitherto unknown; and the railway debts acquired during the 1850's were not finally liquidated until five decades later. But from another point of view, this successful manoeuvre to attract foreign private capital gave the initial thrust to an economic growth whose rate of increase for several years was as great as, and quite possibly greater than, that experienced concurrently by the United States.

2.

Prior to this legislation, various railway companies had approached the Bank of Montreal for accommodation of one sort or another but had met with relatively little success. One exception was the St. Lawrence and Atlantic which obtained a loan of £6,000 in the fall of 1848, while the Galt-MacNab proposals were still in the hands of the Inspector General's Department. The advance was needed to assist in completing the first section of the line but was granted only on the individual security of the directors. Many factors, of course, contributed to the attitude of the Bank; among them must be considered the canal imbroglio, which had brought home some of the dangers of becoming too involved in large capital projects.

Even after the passage of the Guarantee Act the Bank refused to participate in railway financing, but this decision was probably the result of the international political climate. Late in May 1849, soon after the closing of the parliamentary session, Francis Hincks sailed for England for the purposes of raising £500,000 and of counteracting the influence of William Cayley, who had been sent to Britain by the opponents of the Rebellion Losses Bill in an attempt to have that bill disallowed. Cayley's effort was effectively stymied, but Hincks's attempt to obtain the desperately needed £500,000 was not immediately successful. Baring Brothers agreed to market the issue, but the burning of the parliament buildings in Montreal in April and news of an annexation movement created an atmosphere in Britain that was hardly conducive to the sale of Canadian debentures. Such a situation, from the point of view of the Bank, made the government's railway guarantee little better than an empty gesture.

Hincks's difficulty in raising money was hailed by annexationists as additional proof that the mother country was preparing to desert her Canadian colony. Combined with the repeal of the Corn Laws, the removal of a protected market for Canadian timber, and the dumping of thousands of poor Irish immigrants on Canada's shores in 1847, Hincks's rebuff simply added fuel to the fire of colonial dissatisfaction. Montreal merchants, and others in financial difficulties, were only too willing to lay the blame for their plight at the door of government, whether provincial or Imperial; Tories, shocked at Elgin's approval of the Rebellion Losses Bill, felt their loyalty had been repaid with betrayal; and the fear that the Cobdenites, with their professed desire to cast off the colonies, might get their way in the British parliament, weighed heavily upon the minds of many Canadians.

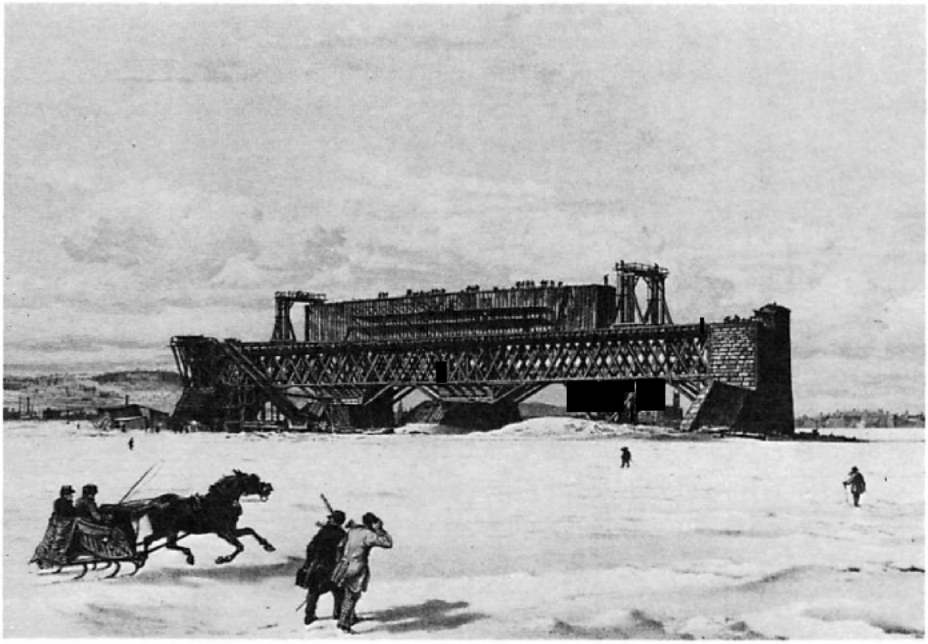
A direct consequence of these fears and frustrations was the Annexation Movement, which held the Canadian stage for a short time, only to vanish as quickly as it had appeared. As stated in the Manifesto of 1849 its purpose was "a friendly and peaceful separation from the British connexion, and a union upon equitable terms with the great North American confederacy of sovereign states." Conceived as the only workable solution for Canada's economic woes, the movement had at the beginning the support of many leaders of the financial and commercial community of Canada East, including persons connected with the Bank of Montreal either as large shareholders or as directors. As the debate wore on and a semblance of economic well-being returned, however, most of the prominent early supporters resigned.

The Annexation Manifesto compared Canada's retarded growth with the ebullient progress to be seen everywhere across the border, examined the various proposals being made to furnish the absent dynamic, and concluded that annexation was the only solution. As an analysis of Canada's economic situation, the Manifesto must have appeared to its originators as irrefutable; nevertheless, when circulated, the well-reasoned document secured no more than one thousand signatures. Various causes contributed to the failure, among which should be included the general apathy with which the proposal of annexation was received in the United States, and yet another bumper harvest in Canada West in 1849, which dissipated some of the gloom even in the eastern part of the province. A further reason for the speedy demise of the movement can be traced to Francis Hincks. Informed in England of the distrust engendered among investors by rumours of annexation and debt repudiation, the finance minister returned immediately to Canada and stumped the province in defence of the British connection. It has been stated, though somewhat extravagantly, that his barn-storming was the sole force responsible for keeping Canada in the Empire. Be that as it may, his evangelism persuaded British investors that Canada was again a worthwhile risk and early in 1850 Baring Brothers were able to report that the entire Canadian debenture issue of £500,000 had been sold at a premium.

Still hesitant, the Bank of Montreal in October 1850 refused to grant a loan to the Great Western Railway on the security of City of Hamilton debentures on the ground that "the Bank could not entertain a proposition to loan money on such securities, the same being contrary to the principles of conducting its business." However, the Bank informed the railway's president of its willingness to advance £25,000 on approved personal security. The following spring, £85,000 was afforded the St. Lawrence and Atlantic on interim security provided by the government until debentures were issued.

Despite the success of the provincial government issue in 1850, it soon became apparent that Canadian railway securities in London, whether backed by the province or by the municipalities, were unable to compete successfully with the far more attractive railway offerings then emanating from Europe, Russia, the United States, and even South America. But again Hincks came to the rescue with an enactment passed by the Canadian parliament in 1851 which provided for the joint construction of a trunk line by the province and the municipalities if the incentives of the Guarantee Act proved insufficient.

The details of the proposed line were laid before Parliament at its next session and called for the building of a line from Trois Pistoles, below Quebec, to Sarnia on Lake Huron. Chartered in November 1852 as the Grand Trunk Railway, it was the boldest, the longest, and generally the most grandiose land transportation scheme anywhere on earth, not excepting the United States or Russia. With the endorsement of Lord Elgin, the support of Baring Brothers and Glyn, Mills & Co., and the enthusiastic backing of the British railway contracting firm of Peto, Brassey, Jackson and Betts, the project won the imagination of British investors and opened to Canada the floodgates of British capital. Hastening the deluge was still another Hincks contribution: the Municipal Loan Fund Act. Under the terms of this legislation, municipal debentures were placed in a



ENGINEERING MARVEL

In 1853 the Grand Trunk Railway decided to build a connection between the Island of Montreal and the south-shore terminus that served its line to Portland, Maine. Robert Stephenson, son of the inventor of the steam locomotive, was commissioned to draw up plans, and work on the Victoria Tubular Bridge commenced on July 22, 1854.

The first train to cross the 9,144-foot bridge steamed into Montreal on December 17, 1859. The official opening was delayed, however, until August 25, 1860, when the Prince of Wales drove the last rivet and set off a six-day celebration.

The scene above shows the centre span on which men worked day and night during the winter of 1858-59 to assemble the iron tube before ice jams during the spring break-up could destroy the scaffolding. Until vents were cut in the tube, each train that passed through it was enveloped in smoke and the passengers cringed from the reverberating noise of the engine and the showers of sparks it produced.

consolidated fund against which debentures bearing the guarantee of the provincial government could be issued. The Guarantee Act of 1849 and its amendments built the skeleton, but the consolidated loan fund added sinews in the form of feeder lines that linked productive hinterlands to the great east-west spine and stimulated growth in regions previously existing on a mere subsistence basis.

The amazing story of railway expansion in Canada during the 1850's has been told so ably and so recently by G. R. Stevens that it needs no repetition here. Suffice it to note that when the great construction effort came to a halt toward the end of the decade, more than two thousands miles of line were in operation; transportation costs had been reduced to a fraction of the former levies; summer travel had been reduced from days to hours, and winter travel from weeks to days – in short, Canada in a few brief years had been catapulted from the eighteenth century into the nineteenth. In addition, and as by-products of the investment attracted primarily by the railways, new industries had been brought into being, agriculture had expanded to occupy all the readily available productive land and the entire economy had been raised to a new plateau.

3.

Although economic revival was based initially on exceptionally bountiful harvests, it reawakened the old clamour for easier money and the creation of the abundant banking facilities believed to exist everywhere south of the international boundary. Particularly favoured was the system in operation in the state of New York where the law permitted any individual or group of individuals to engage in banking, provided they deposited approved securities with the Comptroller of Banking and observed certain prescribed regulations. The New York system, known as "free banking," had been set up in 1838 as a cure for the abuses developed under the existing monopoly system, but had in turn suffered abuses itself. During its first five years of operation some twenty-nine banks had failed, mainly because of a lack of supervision which allowed banks to lend on improper and insufficient security. Since the law had been given new teeth, free banking had worked successfully in New York and other states where it had been introduced.

In Hincks's eyes, the New York statute had one special virtue in its requirement that one-half the securities deposited against note circulation be in United States government stocks or in stocks of the state itself. Reading "provincial debentures'' for ''stock,'' the harassed finance minister could foresee a way to assure himself of an automatic market for these essential instruments of solvency instead of having to dispose of them piecemeal. This prospect, supported by the convincing arguments of W. H. Merritt, who was better informed about American banking practice than most Canadian bankers, resulted in a bill which Merritt himself introduced during the 1850 session of the legislature. It provided for the repeal of the existing laws governing unincorporated banks and for the incorporation of other banking institutions under new rules and regulations.

The Free Banking Act was passed by a vote of 34 to 24, and while it embodied practices then current in New York, it was similar in principle to the law that governed country banking in England prior to the passage of the Joint-Stock Bank Act of 1826. One novel feature was the small capital required. Under the Canadian act only £25,000 was required for partnerships composed of five or more persons to engage in the business of banking providing certain stipulations were complied with. These called for the deposit with the Receiver General of public securities (i.e., provincial debentures) bearing six per cent interest to a minimum of £25,000, whereupon the banks would receive notes which, upon issue, became legal tender for the payment of customs duties, taxes and all other public dues.

As in the regulations covering chartered banks, notes of lower value than five shillings were prohibited and shareholders were subject to double liability. Half-yearly statements were also required and total liabilities were not to exceed three times the paid-up capital. Significantly, banks operating under the new act were relieved of the one-per-cent circulation tax then levied on the chartered banks, but were restricted to a single deposit and discount office, making them, in American parlance, ''unit banks.'' Other provisions enabled the Receiver General to take over and wind up the business of any bank on its refusal over a ten-day period to redeem its notes in specie, any notes then outstanding becoming a first charge on the securities deposited with the government. The Free Banking Act established two important Canadian precedents: for the first time, the government became directly involved in the issue of currency, and for the first time, notes became a prime charge on bank assets.

At the same time another banking act was passed permitting chartered banks to hold and dispose of mortgages on real property acquired by them as additional security for unpaid debts. While the act widened the lending base of the chartered banks, and could have been enacted in response to the same pressures that produced the free banking legislation, it also opened the door to real-estate speculation, a circumstance that during later crises was in part responsible for the failure of several banks.

Lord Elgin gave assent to the Free Banking Act immediately and its passage won popular approval, especially in Canada West. Some conservative opinion, however, viewed its probable consequences as more dire than annexation. Writing to the Montreal *Gazette*, Robert Abraham, a leading journalist of the day, denounced it as "such a monstrous bill . . . that the pigeons which now build their nests in the volutes of the portico of the Bank of Montreal will soon have exclusive possession of the discount desks," and held that "the manufacture of shin plasters on the security of such a government as ours might easily drive the chartered banks to expatriate their capital." The Treasury in London reacted with less hyperbole but little more enthusiasm. Their lordships had already lost the battle for control of colonial currency and banking; nevertheless, they rebuked Lord Elgin for his failure to reserve for their examination and approval what they regarded as a money bill. Of several suggestions offered by London only one received acceptance, the substitution of monthly instead of half-yearly bank returns to the Receiver General.

Although free banking had served Britain well during the French and Napoleonic Wars, and likewise was then serving American territorial expansion, free or unit banking was doomed to failure in Canada for a variety of reasons, the basic one being that it was inappropriate and unrealistic. Even had there been a real need for such additional facilities, or had there existed any communities that were not served by existing branches of the chartered banks, it seems unlikely that investors would have put money into a venture so restricted as to profits as a unit bank would have been under the conditions imposed. Unlike the chartered banks, its capital would have been tied up in low-yield securities while note issue would have been severely limited. In fashioning an instrument to better the provincial finances, Hincks for once, perhaps, was too parsimonious.

The Bank of Montreal preserved an attitude of indifference toward the experiment, as it rode the tide of prosperity that set in in 1850 and swelled to flood proportions in 1854 when the outbreak of war in the Crimea was felt throughout the whole Canadian economy. By 1852 the dividend rate had again reached seven per cent, and in the past three years the depleted rest fund had been augmented by some £60,000. Rather more significantly, average note circulation had increased from £397,302 to £603,639 over the same period. Quite obviously, a sharp business revival had set in, and the Board now prepared to meet the demands for increased banking accommodation that would inevitably ensue.

The Bank of Montreal had received legislative approval for a capital increase of £250,000 in 1848, but allowed the opportunity to lapse because of the economic doldrums that gripped the country. As a result, the Bank had to apply again to the provincial legislature for permission to increase its capital and on November 16, 1852, the President informed the directors that royal assent to the petition had been given and that the Bank was also authorized to transfer its shares and pay dividends in England. This extension of authority was to have a potent influence on the Bank's future progress. At this time, however, despite the competition of free banks and railways for capital, the Bank of Montreal was easily able to dispose of forty-seven hundred of its new shares in Canada at a premium of twenty per cent, or £60 a share, making use of its British privileges to sell only three hundred.

In 1853 the Bank did feel an encroachment of sorts from the free banking legislation. On October 4, John and William Molson tendered their resignations as directors, after an association that had endured in the case of John for nineteen years and in that of the youngest of the Molson clan for more than ten. The reason given for the resignations was a decision to take advantage of the Free Banking Act and revive an earlier Molsons Bank that had existed briefly during the currency stringency of 1837-38. It is possible that another factor in their decision was railway promotion, in which the Molsons had become deeply involved by 1853.

The brothers were succeeded on the Board by David Torrance, a member of the mercantile family that had long been associated with the Bank, and by Benjamin Holmes, who had just been appointed Vice-President of the Grand Trunk Railway. Before two years had passed, Molsons Bank applied for and received a regular charter, becoming rather more a complement than a rival of the Bank of Montreal. The relationship continued until the two institutions were finally merged in 1925.

Despite the new capital issue launched early in 1853, the applications for accommodation were apparently more than the Bank could meet. In Montreal, the Bank's resources were strained to provide the financing necessary to repair the million-dollar damage caused by two disastrous fires in the summer of 1852, which had destroyed twelve hundred buildings and left nine thousand people homeless. Meanwhile in Canada West, general demand was greatly increased by the surge in railway construction and indications of the pressure on the Bank's lending capacity can be seen in its refusal to consider applications for new branches and in a Minute of November 11, 1853, which set out strict credit limits of four and six months for the purchase of grain and lumber.

At this juncture the Crimean War gave a new spur to Canadian prosperity. Britain's European wheat supplies, ordinarily drawn from the Black Sea area, were cut off and her Baltic timber sources threatened. As a result, Canadian farmers enjoyed a booming market while the lumber industry, now adapting itself to meet the ever-growing American demand for sawmill products, suddenly benefited by a revival of the timber trade with the British Isles.

But the impact of war brought the inevitable increase in prices that accompanies war-time conditions. With wheat fetching an unprecedented two dollars and more a bushel, a Canadian price index of fifteen foodstuffs shows a jump of almost fifty per cent between 1853 and 1855. Led by a forty-per-cent rise in wage rates, railway costs climbed to even higher levels than those indicated by adjusted estimates. The results were poor construction and appeals for even more financial help from the government. The Bank of Montreal met the rise in living costs by general salary adjustments that increased the total wage bill from £16,676 in 1853 to £25,685 in 1856, or by more than fifty per cent. By this time the Bank was employing one hundred and twelve persons to operate Head Office, twenty-one branches and three sub-agencies, the latter being run on a commission basis.

Reciprocity with the United States had first become a political issue in Canada following Britain's adoption of free trade and W. H. Merritt was its first parliamentary advocate in 1846. His initial attempt was unsuccessful but it opened the way for the Reciprocity Act of 1849 which offered the United States free trade in a specified list of agricultural, mineral and forest products. A delegation to Washington in 1848 had persuaded the House of Representatives to pass a bill supporting the policy but it was blocked in the Senate by agricultural interests aided by the mounting fury of the abolition debate. Amidst the turmoil over slavery, further trade delegations from Canada achieved little, and it was not until the Atlantic fisheries question became a matter of pressing concern to New England that Lord Elgin's sophisticated diplomacy brought the matter to a successful conclusion. The treaty, signed on June 5, 1854, went into effect in Canada on October 18 and in the United States was proclaimed by the President on March 16, 1855. In addition to granting American fishermen

HALIFAX FROM DARTMOUTH – 1853

Halifax was founded in 1749 as a British military and naval base to protect New England from French seapower and the threat of the great fortress of Louisbourg. More than 2,500 colonists accompanied the initial garrison and settled along the shores of a bay the Indians called Chebucto, or the Great Long Harbour.

A shipbuilding industry was soon established and an active trade grew up with the West Indies, Britain and New England, although after 1775 the Navigation Laws restricted intercourse with the latter. Britain repealed these laws in 1849, however, and when this drawing was made the population of Halifax had grown to 21,000 and its harbour sheltered ships of all the trading nations.

Reciprocity between the Maritimes and the Province of Canada was arranged in 1850, and when Confederation united Nova Scotia and New Brunswick with Canada in 1867, the Bank of Montreal opened a branch in Halifax.

rights in Canadian waters on highly advantageous terms, the treaty provided for reciprocal navigation rights on natural and improved inland waters and for the exchange of a wide range of natural products. The treaty was to continue for ten years, after which either party could terminate it by giving one year's notice.

So diffuse were the influences exerted in turn by the large inflow of foreign capital, the Crimean War, and reciprocity, that a definitive economic study of the period is almost impossible. The Bank of Montreal records give evidence of a tremendous expansion, but one can only conjecture what influence inflation had on the figures reported at the annual meetings. In 1854, for example, the annual statement reveals that discounts had jumped by £800,000 during the fiscal year to reach £2,571,205 and that total assets had climbed by more than thirty per cent to £3,133,038. On the other side of the balance sheet, deposits had increased by less than £80,000 but note circulation had swelled from £780,805 to £1,243,155. More cash would, of course, have been needed to effect transactions during a period of rising prices, but the sharp difference in the relative increases in the Bank's deposits and note circulation is rather striking in the light of today's conditions when most people prefer to keep their cash holdings to a minimum, and an expansion of the money supply is reflected largely in higher deposits.

Net profits, which had shown a steady growth since the beginning of the decade, increased sharply in 1854 to £133,605, and when £65,000 was allocated to the Rest the first semblance of a rift between the shareholders and the management occurred. This addition brought the rest fund to £171,320, and it seemed to many of the stock owners that the time had come for a more liberal disposition of the earnings. Peter McGill, on the other hand, counselled most earnestly that the goal of a Rest of £250,000 (one million dollars) be steadfastly maintained after which, he said, the whole profits of the business "might be safely divided in the shape of increased dividends or by an occasional bonus." The President won the day, while the shareholders, the sooner to reach the desired goal, voted to increase the capital to £1,500,000. The requisite petition was submitted to the legislature and royal assent was granted December 18, 1854.

During the ensuing fiscal year, the dividend rate was raised to eight per cent and the Rest to £212,500, but within a week of the annual meeting misfortune fell in the form of Alexander Simpson's resignation. While he departed from the Montreal stage as unobtrusively as he had appeared upon it less than ten years previously, the Board was not unappreciative of the services he had rendered, voting on June 12 "to convey to Mr. Simpson its sympathy and sincere regret, that the state of his health has obliged him to resign his appointment as Cashier of this Bank, and that while accepting his resignation the Directors further desire to mark their sense of his long zealous and faithful services of thirty-one years in the Institution by requesting him to accept the sum of Five Thousand Pounds." The vacant post was then offered to David Davidson, a descendant of an old Edinburgh family, whose nephew, Randall Davidson, would later become Archbishop of Canterbury and first Baron Davidson of Lambeth. Except that he was employed at the time of his appointment by the Bank of British North America as manager of its Montreal office, nothing is known about the professional background of the new cashier.

4.

Approval for the second Bank of Montreal capital increase in two years having been granted at a special meeting of shareholders on April 11, 1855, the subscription books for the ten thousand new shares were opened a few days before the regular annual meeting in June. Although half the stock was taken up immediately by shareholders of record, five years elapsed before the entire issue had been fully paid up. With an authorized capital of $6 million the Bank of Montreal was, in 1859, one of the three leading banks of North America, the others being New York's Bank of Commerce and Louisiana's Citizens' Bank, with capitals of $9 million and $6.7 million respectively.

Although the Bank's profits for 1855-56 were close to £140,000, substantial appropriations had to be made for losses incurred in previous years. To cover these and provide for doubtful debts, £42,700 was transferred from surplus profits (the former contingent fund) and £37,500 from the Rest, reducing that jealously guarded repository to £175,000. This was still much the largest reserve of any Canadian bank; nevertheless, its reduction could only have come as a painful blow to the directors. But it was in keeping with the dramatic unities; the losses stemmed directly from a departure by the Board from its proven commercial lending principles.

The seeds of misfortune were sown in July, 1851, when the same progressive Montrealers who had operated the Champlain and St. Lawrence Railroad successfully for fifteen years came to the Bank for a loan. Having completed Canada's first railway in 1836, between La Prairie and St. Johns, they were now engaged in extending the line to the American border to connect with the Vermont and Canada. After more than £200,000 had been spent on the extension, the Bank agreed to provide £30,000 against the company's ninety-day notes to complete the project and to buy the needed rolling stock.

Meanwhile, a second connection with the south had appeared in the form of the Montreal and New York Railroad, an enterprise that had grown out of the merger of two earlier lines, one already in operation and the other still in the construction stage. The first of these was the Montreal and Lachine, a nine-mile portage line around the Lachine Rapids which had been opened in 1847; the other was the Lake St. Louis and Province Line Railway, for which William Molson had obtained a charter to build a line from a point on the St. Lawrence opposite Lachine to the international border, where it was to connect with an American project, the Montreal and Plattsburgh. The capital for both the Montreal and New York and its American link was raised from the sale of stock, and by the summer of 1852 work was so well advanced that early in July the Bank of Montreal was induced to advance, on the security of the Montreal and New York's notes, the modest sum of £6,000. This debt, however, more than quadrupled during the succeeding three months. The first through run from Montreal to Plattsburgh was celebrated on September 20, 1852, and less than a month later, on October 19, the Bank was called on to advance £46,000 on the security of £100,000 in first-mortgage bonds. William Molson and John Torrance, then both directors of the Bank, abstained from voting, as was customary, because they were connected with the railway. Of the sum provided, £26,000 was used to retire the railway's current indebtedness to the Bank.

One can only speculate about the reasons that led the Champlain and St. Lawrence and the Montreal and New York to build parallel lines twelve miles apart that would compete for the same business. Suffice it to say that in August, 1853, the six-month loan to the Montreal and New York of £46,000 had grown to an indebtedness of £75,000 against which the Bank held the bonds in the amount of £100,000 sterling.

So chronic were the delinquencies – and so involved the financial entanglements of the principals – that early in 1854 the Board decided to simplify matters by consolidating all outstanding indebtedness to allow the harassed companies a breathing spell. With this end in view, negotiations were completed in June, 1854, for the two companies to sign a seven-year joint note. But late in 1854 and early in 1855 the Bank was again called upon to tide first one and

FIRST CANADIAN TELEGRAPH OFFICE – 1846

Two years after the first telegraph message sped along the wires between Baltimore and Washington in 1844, the Toronto, Hamilton, Niagara and St. Catharines Electro-Magnetic Company was organized to link these Ontario cities to Buffalo, N.Y. The telegraph company's first line between the Toronto office, portrayed in this painting, and Hamilton came into operation in December 1846.

During the following summer the Montreal Telegraph Company established a service between Montreal and Toronto, thereby reducing the time of sending messages between the two cities from days to seconds. An extension to Quebec City by the end of 1847 completed 540 miles of wiring that carried 33,000 messages during the first six months of operation.

The messages were transmitted more slowly than those of today because of the cumbersome keys then used for tapping out the signals. The triangular reflector boxes seen on the operators' tables contained the sounders which responded to the incoming electrical impulses, and the design of the casings permitted each operator to work with his instrument at a low volume so that others in the office were not distracted.

The Bank of Montreal had helped to finance the construction of the telegraph, and the directors were quick to take advantage of the new means of communication. Early in 1848 the Board resolved that "the great facility of communication between Quebec and Montreal now existing, whereby reference can be made to the parent office, with little delay, renders the continuance of a President and Board of Directors at the former place inexpedient and unnecessary." Instead, the entire operations of the branch were put under a manager who would report directly to Head Office. This represented a major step in the centralization of the Bank's branch system resulting in a more uniform and efficient application of policies.

Painting by Kenneth Danby

then the other of the companies over difficulties and it was not until mid summer, 1855, that the Board concluded that the time had come when decisive action should be taken.

At a meeting held August 17, it was resolved that "suit should be immediately commenced . . . against that Company [the Montreal and New York] upon the past due Note for £84,217." One week later the Cashier reported that the notes of the Champlain and St. Lawrence were under protest for non-payment and that other paper on which the same parties were obligated would mature in a few days. The finance committee was asked for its opinion on the course to be pursued if an application should be made for renewal. In its response the committee "felt that the Bank should be guided by the By-Laws on the subject" – meaning that the defaulted paper should be put in suit – "but they trusted that the parties would come to some arrangement with the Bank." The expression of continuing faith was not to go unrewarded. On September 7 a proposal was received from the President of the Champlain and St. Lawrence regarding the notes endorsed by its directors in their private capacities whereby one-fourth of each outstanding note would be paid in cash and the balance at three, six and nine months.

Despite the resolution to sue the Montreal and New York, no further move was made, while the staggered notes given by the Champlain and St. Lawrence were sometimes paid and sometimes not. Required to review the condition of the Bank in April, 1856, the Board finally decided to write down the debt to 7s. 6d. on the pound, covering the difference from the rest fund and the surplus profits.

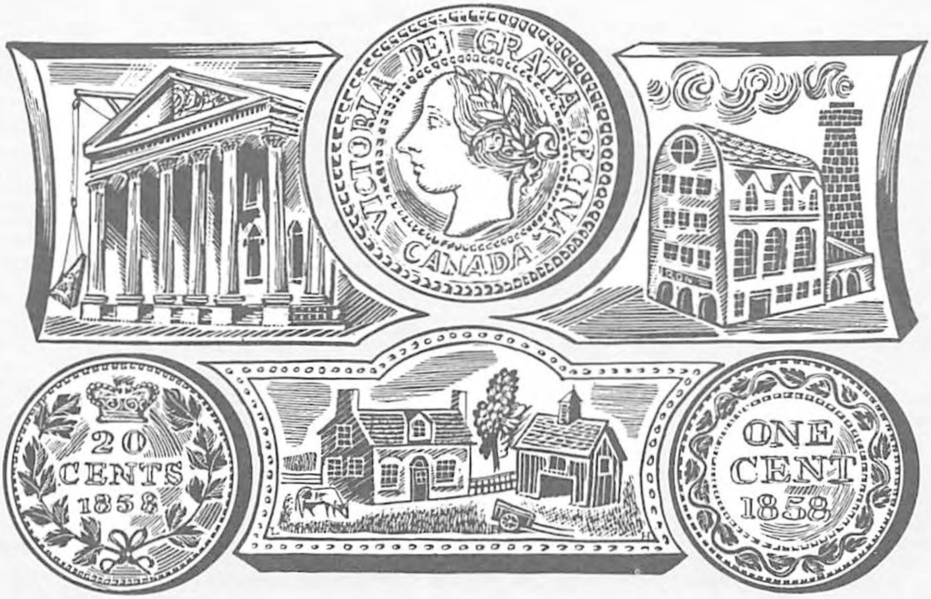
More than three years were to elapse before the Bank could write finis to the fiasco of the pioneer Champlain and St. Lawrence and the redundant Montreal and New York railway companies. Unlike the experience of so many of their Canadian contemporaries, their main difficulty arose not from the failure to attract traffic – the territory, with its connections with the south, should actually have proved a money-maker – but from stupid competition and poor business management. The first of these factors was overcome in the spring of 1857, when the Montreal and Champlain Railroad was incorporated to take over the two existing roads, but even then the obvious advantages of such a merger were almost nullified by a clause in the charter requiring that one mixed passenger and freight train be run each way on both lines every day in the year except Sundays. The Montreal and Champlain continued to operate until 1872 when it was absorbed by the Grand Trunk.

In marked contrast with the Bank's compliance in the above instances was its resolute aloofness to most other railway enterprises including, for a time, the Grand Trunk, although that line was more essential to Canadian development than any other transportation undertaking of the 1850's. The explanation may lie in the fact that from its inception the great Canadian trunk road was essentially a British undertaking. Although twelve of the twenty-six directors were Canadians, the head offices of the company were in London, the bankers were Baring Brothers and Glyn, Mills & Co., and only two per cent of the stock was owned in Canada. Nevertheless, the Grand Trunk brought a new dimension to the Canadian economy. It is not without interest that the Bank of Montreal should have attached itself to the enterprise by electing to its Board of Directors the Vice-President of the Grand Trunk, its erstwhile cashier and able counsellor, Benjamin Holmes. Thereafter the Bank's relations with the railway were much the same as they had been with the canal builders a decade earlier; in other words, any advances were for construction purposes or to finance the purchase of rolling stock. Such accommodation, first granted in 1854, was on a revolving-credit basis, with never more than £75,000 to be outstanding at any one time. All loans were secured by municipal debentures guaranteed under the Municipal Loan Fund and were paid on maturity by bills drawn on Glyn, Mills & Co. in London.

In spite of the Bank's attitude during the 1850's, in all probability no single group in Canada contributed as much to the development and improvement of the country's transportation and communications as the one connected with the Bank of Montreal as shareholders and directors. The association, in fact, extends back well beyond the actual founding of the institution. For instance, we find James Phyn in the 1790's commissioning the sailing ship *Eweretta* to serve the fur trade; Horatio Gates, a decade and a half later, involved in the construction of a turnpike from the international boundary to St. Johns; and John Molson in 1809 building and operating the *Accommodation*, the first steamship to ply Canadian waters and one of the first such ventures to prove a commercial success anywhere.

There followed, in due course, the Lachine Canal, of which John Richardson and George Garden were commissioners, the Champlain and St. Lawrence Railroad, and the first magnetic telegraph lines built between Toronto and Montreal and Montreal and Quebec. But these entrepreneurial accomplishments were the result of private promotion and investment in which the Bank of Montreal as a corporation took little or no part. Where loans were made they were invariably for the continuation of work already in progress, and any advances were made only on the personal security of promoters or contractors. The Bank's approach was simply in line, of course, with the commercial banking policies that had governed the management from the beginning. With the growth of industry that took place following the Union, however, there came a gradual change of policy. This change became more pronounced with the introduction of the more advanced entrepreneurial techniques that marked all stages of the railway building boom. Later there would be the C.P.R., but throughout this first era of construction cautious management practices persisted, with the result that the losses experienced by the Bank of Montreal were minimal compared to those of the several other chartered institutions that became deeply involved in both railway financing and land speculation.

FOUR



CONSERVATISM REWARDED

CONSERVATISM REWARDED

1.

Foreign investment in Canadian railways during the 1850's has been variously estimated at from $60 to $100 million. Whatever the actual amount, this impressive sum was but a part of a much larger capital formation. Military expenditures by the mother country probably accounted for at least another $10 million and there were substantial American investments in the lumbering and manufacturing industries. Finally, there were the domestic capital expenditures that came in the wake of the primary railway investment. While their full extent is unknown, it is clear that railway building was not alone responsible for giving Canada for a brief period a growth rate that possibly exceeded that of the United States. Social conditions in the British Isles, political conditions in Europe, and economic conditions in the United States were also contributory factors as were reciprocity and the Crimean War. To the last two, in fact, may be attributed the remarkable expansion of the lumbering industry that took place after 1854 as well as the unprecedented agricultural prosperity that prevailed for several years.

That the Bank of Montreal should have abstained from railway financing, except in a minor way, yet have been able to double its capital is a significant indication of the vitality of the commercial sector of the economy during the dynamic 1850's. Additional evidence of the development of the St. James Street institution is reflected in the proceedings of the thirty-ninth annual meeting at which consideration was given to consolidation of the Bank's statutes, to the absorption of the Montreal Savings Bank, to a new by-law providing for payment to the elected officers and directors, and to rather extensive changes in head-office administration and branch management.

Despite the fact that the Bank was still a relatively youthful institution, amendments to and changes in its original act of incorporation had resulted in a somewhat unwieldy and confusing body of law. To correct this condition the Board appointed a committee early in 1856 to review the charter although it would not come up for renewal until 1862. The result of its work was a draft bill reducing the number of clauses to thirty-seven, which was introduced in the Assembly by Hon. Luther Holton, then a Montreal member and later Minister of Finance in the Sandfield Macdonald - Dorion administration.

At the time of the Bank's 1856 annual meeting, the bill was still before the legislature, but the stockholders were informed of a proposal to reduce the directorate from thirteen to nine and were "also respectfully reminded that the greatly extended business of the Institution involves much additional responsibility, as well as the discharge of more onerous duties, on the part of the Board, and with a view of giving the Bank a more direct claim to the efficient performance of such services it is suggested that those to whom may be entrusted the management of its affairs, should receive remuneration." It would appear from the tenor of these changes that most of the Bank's business was being handled by a hard core of directors who, it was felt, deserved preferential treatment over those who had been lax about their duties. These conclusions are substantiated by the attendance record at the bi-weekly directors' meetings, and also by resolutions passed subsequent to the 1856 annual meeting, stating "that the remuneration to be received by the President during the current year shall be Twelve Hundred and fifty pounds, and that the Directors present at the meetings of the Board shall each receive Five Dollars ($5) – it being understood that no Director shall be entitled to receive remuneration for his attendance at any meeting at which he shall not have taken his seat within ten minutes after the hour appointed." This marked the first time that the President had had advance guarantee of what was, in effect, a salary.

The act consolidating all legislation relating to the Bank of Montreal was assented to on June 19, 1856, but the number of directors was not reduced until the annual meeting of 1857. Of wider public interest, the total amount of the Bank's outstanding debts was still limited to three times the aggregate amount of the paid-up capital plus specie deposits and government securities; and the aggregate amount of discounts and advances to directors, whether individually or as members of business partnerships, was restricted to one-twentieth of total discounts. The penalty for a breach of the first provision was forfeiture of the charter, in which event the directors individually and collectively would become liable for the excess; however, any director could exonerate and absolve himself by giving public notice of his dissent at the time the excess occurred. A by-law adopted in connection with the revised charter provided that if the capital became depreciated by one-quarter, the directors would be obliged to call a special shareholders' meeting to adopt measures proper to the emergency.

As noted above, the 1856 annual meeting also marked the absorption of the Montreal Savings Bank. This institution had been founded in 1819 to "open to the lower orders a place of deposit for their small savings, with the allowance of a reasonable monthly interest," since "the only effective method of assisting the poor is to encourage industry, economy, and sobriety among them." The office of the Savings Bank was in the Bank of Montreal with which it often shared officers and directors as well as quarters. For many years Samuel Gerrard regarded the junior bank as one of his principal responsibilities and Thomas Porteous and Frederick Griffin served on its board. The Savings Bank was both a shareholder and a depositor of the senior establishment by which it was paid three to six per cent interest, depending on the state of the money market. It was from this source, and prudent investment, that the Savings Bank appears to have drawn most of its modest profits.

By 1856 Samuel Gerrard, John Frothingham and J. T. Barrett were the only founders of the institution still alive, the first two still serving as president and vice-president respectively, and the time had come when they wished to be relieved of responsibilities that were becoming increasingly demanding. The proper approaches were made, negotiations followed, and on April 3, 1856, the Montreal *Gazette* carried a notice that the Bank of Montreal "has become responsible to the Depositors for the Balances due to them and will receive Deposits as the Montreal Savings Bank has hitherto done." Beneath this notice was another announcing the establishment of the Savings Bank Department of the Bank of Montreal. The innovation was another reflection of the booming times. With steady employment and increased wages a more affluent class of depositor had appeared than that for whose benefit the Savings Bank had been founded. The assets of the Bank of Montreal Savings Department at the time of its establishment were £59,423. 10s. 6d., or approximately $237,000.

2.

Few Canadians could have recognized the ominous character of two events that occurred in 1856. The first was the signing of the Treaty of Paris on March 30, the second the arrival at Montreal of the first through train from Toronto on October 27, seven months later. Both events were properly causes for jubilation: the one marking the return of peace to Europe and the Empire, the second an important milestone in the conquest of Canada's interminable distances. Yet each in its way was a harbinger of economic disaster. With the ending of the Crimean War came the inevitable post-war slump; with the completion of the main line of the Grand Trunk Railway an army of men and teams had to look elsewhere for employment. The first era of Canadian railroad building was nearing its close; by 1857 only 490 of the 2,093 miles of track laid in the 1850's and the great Victoria Bridge across the St. Lawrence at Montreal remained to be completed. When construction of that engineering marvel came to its end so would any important influx of British capital for more than twenty years.

Other signs were there for those who cared to read them. In the course of the ebullient five years from 1851 to 1856 imports had greatly exceeded exports, yet despite increased provincial revenues from the duties, the public debt had more than doubled to reach, by 1856, a total of approximately $48 million. This seems a relatively modest price to have paid for the amount of new capital that flowed into the province; for a population of approximately two million people, the sum worked out to less than $15 per capita. But so unsophisticated were the fiscal arrangements of the government that the concatenation of debt, unfavourable trade balances, and the sorry earnings performance of both the railways and the canals made Canadian railway debentures unsalable in London, while the frequent issue of provincial securities had already made Baring Brothers strongly doubt that they would be able to maintain their price much longer.

Dark though these portents appear in historical perspective, they made no greater impression in 1856 than had the signs a decade earlier. Doubtless the explanation is to be found in the momentum attained by the economy. Over a five-year period, the per capita investment was greater than it had ever been before or would be again until the decade that preceded World War I. Urban populations were increasing at a rapid rate, so that by 1861 the five largest centres were Montreal with 90,000, Quebec with 60,000, Toronto with 45,000, Hamilton with 19,000, and Bytown, which had become incorporated as the city of Ottawa, with 15,000. Concurrently most of the arable lands in the province were settled, the techniques of lumbering advanced prodigiously, and iron works, foundries and rolling mills were established at Montreal, Lachine, Hamilton and Toronto to serve seemingly inexhaustible new demands. With the establishment of divisional centres to service the railways, new communities were brought into being which attracted small manufacturing plants for the production of textiles, boots and shoes, furniture, paint and glass, and even the fabrication of organs and melodeons. During the 1840's most farm implements had been American imports; by 1860 no less than four hundred shops were serving local farming communities. Even today the results of the great mid-century boom can be seen in brick farmhouses of the period that have survived along the highways and by-ways of Southern Ontario. Constructed on identical L-shaped plans with high-gabled roofs, fretwork trim and white brick quoins, their Gothic Revival style is a memento of a time when the price of wheat rose to $2.25 a bushel and hay to $30 a ton.

Because of the increased urban activity and the population shift from rural areas to the cities and towns, a scarcity of buildings suitable for business purposes arose. As a result, the Bank of Montreal decided that the time had come when it should dispense with short-term leases and provide itself with permanent structures. Accordingly, several building sites were bought in the spring, summer and early fall of 1856; thereafter rapid progress was made and in November a Board Minute noted that John Redpath, now the permanent head of the building committee, had left Montreal to inspect "the Bank Buildings in Brockville and Belleville," and "to visit Cobourg, Guelph and Hamilton with a view to reporting on the Bank houses to be erected at these places." Many of these and similar banking houses built about the middle of the nineteenth century by the Bank of Montreal were still in use a hundred years later and one or two were not demolished until the present decade. Presumably they were designed and built under the supervision of John Redpath, but while all were handsome adornments to their several communities, little or nothing is known about the actual architects.

TIMBER SLIDE AT HULL – 1850'S

Timber slides, which enabled logs and rafts to by-pass rapids, became a common sight in the Ottawa Valley after the idea was adopted from Scandinavia in 1829. Many of the slides were built by the government and the tolls were a valuable source of public revenue.

While the main support of the Canadian timber industry until 1860 was the British market with its preferential tariffs, exports to the United States also became important, especially after the Reciprocity Treaty of 1854. Many American producers moved into the Ottawa Valley where they constructed large sawmills to manufacture the planks and other wood products that were shipped by rail or steamboat to the United States.

Another major influence on the lumber industry was the introduction of the circular saw at mid century. The continuous cutting process so increased production that some mills turned out up to fifteen million feet of sawn lumber a year.

The Bank's concern with its branch system was not confined to the premises and this period also saw an increase in the paternalism noted in the 1840's and a greater centralization of staff control. Given the effervescent climate that existed – high wages, full employment, business opportunities galore and speculative incitements without end – it is not surprising that some employees should have grown restive and discontented or that some should have jumped the traces. The wonder is rather that their numbers should have been so few and their transgressions so minor; nevertheless, such occurrences were sufficiently numerous and sufficiently serious to strengthen the trend begun a decade earlier.

Thanks no doubt to the general pay raise voluntarily instituted by the Board two years before, few wage complaints were brought before that august body, but the Minutes show that intemperance became something of a problem (as it did everywhere in North America), that defalcations became more frequent, and that more than one branch manager, lured by the prospects of easy profits for himself or for favoured customers, proved a costly appendage. Interestingly enough, disciplinary action usually took the form of a warning, a transfer, or demotion, rather than dismissal. Inebriates were commonly asked to join a temperance society and most offenders were given a second chance.

Some of the blame for staff delinquencies must be attributed to the growing complexities of head-office management and more especially to the failure to improve upon the inspection system as practised by William Gunn before his transfer to Quebec as manager in 1848. Thereafter branch inspection seems to have experienced a temporary eclipse. One of the consequences, when the results of laxity became apparent, was the creation of the office of Inspector of Branches in 1852. The initial plan was to fill the post with various branch managers on a two-year, rotating basis. Evidently, however, this was not found to be a satisfactory procedure and when the second incumbent's tenure was up the Board decided to try to find a qualified and experienced person from outside the Bank. The quest was ended in December 1856 by the receipt of an application from Edwin H. King, then assistant manager of the Montreal office of the Bank of British North America. As subsequent events amply attest, the acceptance of King's application marked one of the red-letter days in the history of the Bank of Montreal.

Although prices began to fall in Britain late in 1856, none of the extraordinary factors was present that had produced crisis and financial panic a decade earlier, and the Canadian economy remained temporarily unaffected by the approach of another cyclical depression. One reason for the delayed reaction was reciprocity, which had involved Canada in the great wave of American expansion that followed the Mexican War, the opening of the west to settlement, and the discovery of gold in California in 1849. How great Canada's participation was is suggested by the fact that over the five-year period 1855-60, shipments of Canadian grain through Buffalo and Oswego averaged 27,500,000 bushels annually while those from Canadian ports (principally Montreal) were only 672,625 bushels per year. This being the case, the behaviour of the British market had become largely irrelevant, at least to Canada West.

When the annual meeting of the Bank of Montreal was held in June 1857, President McGill was able "to state that the business of the past year has been upon the whole satisfactory." Dividends totalling eight per cent had been paid and £10,000 had been transferred to the rest fund, bringing it to £185,000 or $740,000. Nevertheless, the President felt constrained to add the following words of warning:

> Under circumstances more favorable to the interests of the Bank than those which appear to your Directors to exist at present, they would have felt disposed to make a larger addition to the Rest, in the hope that it might remain undisturbed. The expansion of the general trade of the Province, and the rapid advance in the Value of Property, especially in its Western Section have afforded encouraging evidences of the progress of the Country.
>
> The Directors cannot however overlook the fact, that these indications of prosperity are to a considerable degree traceable to the large expenditures on Public Works, and to the unusually high prices of Agricultural products; and now that these important influences have to some extent ceased to exist, that there is reason to apprehend a temporary reaction the probable effect of which upon Commercial affairs naturally gives rise to anxiety.

As provided by the revised charter, the ensuing election reduced the new Board of Directors from thirteen to nine. The nine directors elected and the dates of their original election to the Board were as follows: Peter McGill (1819); T. B. Anderson (1830); John Redpath (1833); James Logan (1835); Thomas Ryan (1847); Henry Thomas (1849); Benjamin Holmes (1853);

David Torrance (1853); and D. Finlayson (1857). The four directors who were retired at this time were Harrison Stephens (1845); John Brooke (1845); Hugh Allan (1847); and John Boston (1848).

3.

The appointment of E. H. King as inspector of branches early in 1857 was quickly followed by steps to improve matters in the branches. Irregularities were brought to light, lax management practices were abolished and, when other correctives failed, recourse to disciplinary action was taken. As noted above, dismissal was the exception rather than the rule, but the effect of demotion was to increase the frequency of transfers and promotions. More capable employees were moved from Head Office to the branches or from one branch to another when the need arose to fill a post made vacant. Thus the flexible system of training and promotion, in much the form that exists today, was introduced into the banking organism. King's emphasis on efficiency also found expression in a Minute of December 8, 1857, which reads as follows:

> The Board having taken into consideration the greatly increased labour connected with the general management of the affairs of the Bank with its extended business and numerous Branches, as well as the importance of a thorough supervision of the operations of every department of the Bank, resolved that it was expedient to relieve the Cashier of the immediate management of the local business of Montreal, and that the same should be constituted a distinct Branch of the Bank, under the charge of a Manager appointed for that purpose.

The astuteness of the suggestion to divorce the Head Office from routine banking operations and leave to it the problems of administration and policy was not lost on the directors who immediately installed King as manager of their newly created, and most important, branch. Lest this manoeuvre be construed as a reflection on the abilities of the Cashier, David Davidson, the Board at the same time granted him an increase in salary to £1,500 per annum.

Management practices aside, there appears to have been no change of consequence in banking activity during the four months that followed the annual meeting held at the beginning of June 1857 – an interesting discovery in view of the confusions which have heretofore surrounded the timing of the Canadian economic crisis of that year. Taken in conjunction with the Board Minutes, the monthly returns to the government make it possible to pinpoint its onset precisely. The key indices, discounts, deposits and note circulation, fluctuated little until the autumn of 1857, the first standing at £2,631,000 in April and £2,649,000 at the end of September, and the second being reported as £682,000 and £695,000 for the same dates. Note circulation actually reached a peak at £835,000 in September before the decline set in, led by deposits which dropped by over £100,000, or nearly fifteen per cent, during October. Discounts and note circulation followed suit, although more gradually, falling off by about ten per cent and twenty per cent respectively before the end of the year. By January, 1858, the economy had established a base that was to remain virtually constant for the rest of that year and throughout 1859.

The depression of 1857 caught Canada at a time when the rapid growth in population, the massive infusion of foreign capital, and the coincidence of war-time inflation had induced a rate of expansion that could not be sustained on the basis of the country's limited area as it then existed. Had there been a "middle west," the fruits of the brief period of intense creativity might have been enjoyed. Instead Canada met face to face the two immutable facts that would govern the nation's economic and political development during the remainder of the nineteenth century: the presence of the Shield stretching a thousand miles to the north and west, and the attractions exerted by the United States.

The catalyst of the fourth major depression in the Bank's brief history was the failure on August 24, 1857, of the New York office of the Ohio Life Insurance and Trust Company, one of the most aggressive financial institutions in the American middle west. A severe contraction in the New York call market had already caused the value of railroad securities to drop precipitously and the stage was set for a panic. The New York banks reacted to the Ohio Life failure by further restricting their discounts with the result that interest rates rose to a high of thirty-six per cent. By mid October every bank save one in New York had suspended specie payments and one hundred and fifty financial institutions of various degrees of probity in Pennsylvania, Virginia and Maryland had failed.

Canadian reactions to this series of events were confused and contradictory. The Montreal *Gazette*, for example, in its issue of September 5, noted that there had been a "money panic" in New York and some failures, chiefly in the stockjobbing line. Referring to "The Ohio Life and Trust Co.," the *Gazette* subscribed to the belief "that this failure will not affect commercial operations. . . . The storm will probably blow over quickly, and confidence become more surely established than before." As we have seen, the position of the Bank of Montreal was not materially affected until October. When the Board met at the end of that month to review the half-year's business, the semi-annual dividend was reduced to three per cent, but at the next meeting Messrs. Finlayson, Ryan and Thomas insisted that their dissent to the reduction be recorded in the Minutes. By that date the specie in the vaults had reached the unusually high total of £224,490. Three months later, in January, 1858, the sum was reduced to £159,620. Part of this drain is attributable to the redemption of notes returned from the United States and part to the paralysis that suddenly struck the Canadian economy. Although Canadian banks joined to resist mounting pressures to suspend specie payment, and later assumed an aura of virtuous superiority for continuing to redeem their notes, they did so only by drastically reducing their note circulation and utility to the public. In due course the action aroused the ire of the commercial community and led to yet another parliamentary inquiry into banking.

By the time the speculative bubble burst in the United States, the Canadian economy had already become so weakened that disaster elsewhere failed to produce the customary convulsions. The badly managed railways had failed miserably to carry the traffic expected; unemployment was increasing at breakneck speed, reversing the population shift between town and country and causing urban land values to plummet; and the exodus to the American west was resumed. To add to these misfortunes, late rains made the crop of 1857 a partial failure while the sudden contraction of banking accommodation to maintain specie redemption brought commercial activity almost to a standstill. As in the private sector of the economy, so in the public. Municipalities that had assumed heavy obligations under the Municipal Loan Fund Act were unable to pay their interest, let alone their sinking-fund charges, and the provincial debt kept mounting as imports progressively declined. In Britain, the financial editor of the London *Times* echoed the City's disillusionment:

> If an honourable settlement is much longer delayed it is hoped that the authorities in Canada whether general or local has [*sic*] seen the last shilling they are likely for some years to receive from the credulity of our investing public.

So reduced were the revenues of the province by 1858 that successive Inspectors General, William Cayley and Alexander Galt, were compelled to increase the tariff substantially on manufactured goods entering Canada from both Britain and the United States while at the same time making other tariff revisions in the hope of attracting more traffic to the St. Lawrence. Duties set at fifteen per cent in 1856 were raised, by 1859, to twenty and twenty-five per cent and a complicated system of customs valuations and toll drawbacks became Canada's long-delayed response to the American drawback laws of the 1840's.

The fiscal legislation had far-reaching repercussions: it aroused the ire of both British and American manufacturers, in the first instance by denying the spirit of free trade, and in the second by increasing the disadvantages from which Americans already suffered under reciprocity. To these tariff revisions, in fact, can be traced the abrogation of the treaty in 1865. Although necessary as a revenue measure, the new tariffs were in essence protective and marked the formal initiation of what was to become the National Policy of the Conservative Party. The legislation was another step on the road to Canadian sovereignty; the repercussions were a forecast of the unsuspected costs that would stem from it.

The parliamentary session of 1857 witnessed another step along the same obstacle-strewn road: the termination of the historic controversy between the Treasury and Colonial Office in London and successive Canadian governors and legislative bodies over the abominations of the colonial currency. Begun by Governor Murray in 1762, the dispute had waxed and waned until ten years after the Union, when Hincks, then Inspector General, secured the passage of the Currency Act of 1850 which adjusted Canadian monetary ratings to American standards. The act was disallowed by the authorities in London but in the argument that ensued between Hincks and the Lords of the Treasury the principle was finally established that Canadians had the authority to deal with their currency problems as they saw fit. On that basis Hincks introduced a series of resolutions during the 1853 session providing for the adoption of the decimal system. Shown the new act, the Treasury riposted, somewhat lamely, that while their lordships no longer objected to the decimal system for Canada, they would prefer to have the word "royal" substituted for the offensive word "dollar" and to have the lesser silver coins known as shillings and marks, rather than as cents. Hincks was prepared to cede the point but in the debate that followed, the consensus, except for some sentimental objections, was so overwhelmingly in favour of American usage that the Inspector General withdrew his concession. The result was an act that completely changed the basis of Canadian currency by providing for the termination of the legal circulation of foreign silver coins and for the adoption of the American eagle and the British sovereign as the Canadian standards at the rate of \$10 or £2. 10s. 0d. Halifax currency, and \$4.86⅔ or £1. 4s. 4d. currency, respectively.

Before further legislation could be passed to make the currency act effective, the Hincks-Morin administration was defeated and no further action was taken until April, 1855, when the Committee of Public Accounts introduced the following resolution in the legislature:

> That after the 31st day of January, 1856, there shall be but one currency of account and payment of which the dollar shall be the unit and standard of value; the public accounts shall be kept in dollars, cents and mills; and the coinage be equal in intrinsic value to that of the United States.

At this juncture, however, Cayley, a parliamentary relic of the Family Compact and Hincks's successor as finance minister, became the *alter ego* of the Treasury to the end that the resolution was withdrawn. The next session saw Cayley's manoeuvre repeated despite memorials to the legislature urging the implementation of the Currency Act passed in 1853.

It was not until the closing days of the session of 1857, in fact, that an act was passed providing that all government accounts were to be kept in dollars and cents, as were all those rendered to it, with the proviso that amounts might also be stated in the old way in a duplicate column. Many merchants employed the new system immediately, and the banks gave formal notification to the public that after January 1, 1858, "all negotiable securities payable in Canada must be stated in dollars and cents." Official procrastination had prepared the public for the change and the system became operative without difficulty. The first Canadian coins, copper cents and silver five-cent, ten-cent and twenty-cent pieces, were received from the British Royal Mint around mid year 1858, but it was not until the annual meeting of 1870 that the Bank of Montreal finally abandoned the practice of reporting in the two currencies, pounds and dollars.

Welcomed also by the banking fraternity was a change in the usury law which had limited the legal rate of interest to six per cent, a rate that had been fixed in Canada since 1777. Long an object of criticism from lending institutions, the act was amended during Hincks's progressive incumbency of the finance portfolio to repeal the old law except as it applied to banking institutions, insurance companies and incorporated lending bodies. For these the law and the penalty remained, the lender at more than six per cent interest having his contract voided and forfeiting treble the amount of the loan, the proceeds to be divided equally between the Crown and the parties suing for relief, meaning the informers. The discriminatory features of the law became even more burdensome when the extremely restrictive policies of American banks drove the discount rate in the United States up to fifteen per cent and even higher. A measure of relief was obtained in 1858 when an act was passed permitting the banks to levy seven per cent on loans longer than ninety days; for shorter accommodation the rate remained as it always had been, ½ per cent per month collectable at the time of discount. It was not until June, 1859, however, that the Bank of Montreal and the Bank of British North America gave notice "that in view of the increasing value of Money both in England and New York," they would "unite in raising the rate of Interest to 7 per cent."

The Bank's annual reports for 1858 and 1859 reveal the ability of the management to cope with adversity. Despite bad debts estimated at more than $150,000 in 1858 the directors had been able to declare a dividend of seven per cent without touching the Rest and in 1859 the rate was raised to the former eight per cent. Although deposits dipped slightly in 1858 they regained their previous level a year later and discounts showed a variation of less than ten per cent. A substantial reduction in note circulation, however, would seem to indicate than the figure for total loans included a substantial number of renewals or extensions. Responsible for this strong performance were the Bank's commercial discount policies, which had kept its railway involvements to a minimum and restricted its real-estate holdings to properties legitimately acquired as ancillary security for doubtful accounts.

Meanwhile, recovery quickened across the border and more and more people in Canada West departed for Michigan and points west, where money might be expensive but at least was obtainable for those who had a use for it. The greenness of far off pastures, taken in conjunction with Canadian lending policies, soon led to renewed demands that more banks be chartered, while Alexander Galt, now officially Minister of Finance, sought ways to better the perilous condition of the provincial finances. In spite of the tariff increases, revenues were still pitifully inadequate to pay current expenses and to meet the interest charges on the country's debt. In this extremity, Galt appointed a Committee of Inquiry in March, 1859, to investigate the reasons for the late financial crisis. Galt's purpose, apparently, had two objectives: to allay criticism, and to pave the way for the revival of Sydenham's proposed bank of issue.

By the latter means he hoped to kill two birds with one stone, correcting certain objectionable features of uncontrolled bank-note issue and restoring the public finances.

The committee report, made public in June, was based on the answers from leading bank officials to a comprehensive questionnaire, but disclosed little that was not already known. Rather churlishly, it seems in retrospect, the committee denounced the recent flood of English capital that by implication was held responsible for the wanton speculation and extravagance that followed; in other words, its findings were more moralistic than economic.

As for possible correctives, David Davidson, the Cashier of the Bank of Montreal, contributed the consensus of the chartered banks that the existing system had permitted the creation of banking capital far in excess of the country's needs and that it had allowed banks to begin business with insufficient paid-up capital. He further suggested that banks be required to publish, at stated intervals, the names of their shareholders or partners, together with the amount of their paid-up shares, the public security being dependent in the last recourse on the double liability of share owners. Most of the larger banks were also of the opinion that $1,000,000 for chartered banks and $400,000 for other financial institutions should be the minimum capital requirements and that from one-third to one-half should be paid up before any bank could engage in business. All favoured doing away with the usury law in its entirety. Guided no doubt by his Scottish banking experience, the Bank of Montreal's Cashier also recommended that specie reserves should be one-fourth of the note issue and one-seventh of deposits and that specie should be used to settle balances between banks as a further check on issue.

The material gathered by the committee constituted a valuable critical analysis of Canadian banking and several acts were passed during the same session, the most important of which was "An Act Granting Additional Facilities in Commercial Transactions." Sought by the business community and the banks alike, the legislation was the first step toward the "pledge" provisions, later Section 88 of the Canadian Bank Act. For the first time banks were permitted to lend on bills of lading and warehouse receipts and to acquire ownership in the goods so pledged, the period during which a bank might hold goods acquired by default of payment being limited to six months. In subsequent legislation this unique feature of Canadian banking has been retained and its scope expanded, making it possible for banks to render ever widening services to the commercial community. Another act passed in 1859 dealt with technical details of the bank-note tax, and two more consolidated existing legislation covering incorporated and free banks.

4.

In a letter from Glyn, Mills & Co. to a Canadian correspondent dated September 7, 1859, a reference to business conditions in Canada indicates the belief that the worst was over. But for the Bank of Montreal conditions in Canada still warranted no better than cautious optimism and for its two foremost western competitors, the Bank of Upper Canada and the Commercial Bank, both loaded with depreciated railway securities and unsalable real estate, the future looked ominous indeed. In Canada East great hopes were pinned on the approaching completion of the Victoria Bridge and the deepening of the Lake St. Peter channel, but affairs in Canada West were less encouraging. The early autumn of 1859 witnessed the failure of two banks and runs on others. While the losses were not great, public confidence was shaken and criticism of the government's banking policies was stimulated to new heights.

Nonetheless, the Bank of Montreal was able to report half-yearly profits of $292,000, the best earnings since 1856, and losses from bad debts of less than $40,000; on this basis the semi-annual dividend of four per cent was continued. For the banking staff and the noon-hour idlers in Place d'Armes a greater interest probably attended the completion of structural changes in the banking house that had been in progress for several months. Early in the spring it had become necessary to remove the dome to prevent injury to the entire building and the opportunity was taken to make extensive alterations to the interior. At the same time the city had adopted a plan to enlarge the Place d'Armes to which the Bank had offered to contribute $6,000, provided that an equal sum was contributed by other banks.

In addition to these improvements the Board commissioned John Steell to execute the heroic group of statuary that still adorns the pediment of the porticoed banking house on St. James Street. Already celebrated for his statue of Alexander the Great taming his horse Bucephalus, and for his seated figure of Sir Walter Scott in Edinburgh, Steell, according to legend, was commissioned to design a conventional group of which Britannia, with shield and trident, was to be the centre figure. Instead he proposed a composition more symbolic of Canada. This consisted of the arms of the Bank of Montreal flanked by two North American Indians and the reclining forms at either side of a sailor and a settler representing commerce and agriculture. The group, carved in

Scotland in heroic size, is fifty-two feet in length, weighs twenty-five tons and is composed of twenty pieces. It was completed in 1867 and although now obscured by the overlay of time it remains one of the most monumental works of sculpture in Canada.

The alterations and improvements to the head-office building were the only concrete expressions of confidence indulged in by the Board at this stage of the depression. No new branch buildings were erected; instead, several agencies in Canada West were either closed or appended to nearby branches, while applications for new branches (such demands remained constant notwithstanding the sluggish state of the economy) were regarded as inexpedient. An added deterrent was no doubt furnished by the knowledge that the country had not heard the last of Galt's Committee of Inquiry. Any misgivings the Board may have had were confirmed when Parliament resumed in February, 1860, and the Speech from the Throne contained notice that legislation to alter the banking laws would be introduced.

The groundwork for such a measure had already been laid by the banking fraternity itself in the replies furnished the parliamentary committee the year before, and Galt was now ready to correct the evils which Davidson and others had sternly criticized. In preparation, inspired articles were carried by the government press proclaiming the real and fancied faults of the existing system but without too much emphasis on the fact that the worst of these – over-capitalization – was a thorn tree of the government's own planting. One of the evils particularly stressed, however, and a very real one, was the lack of uniformity in the value of the bank-note currency throughout the province.

This situation prevailed because a bank was legally required to redeem its notes only at the place of issue; elsewhere they were accepted only at a discount. Despite having won control of its own currency, Canada was still suffering from some of the inconveniences of the old days when a silver coin meant one thing in Quebec or Montreal and quite another above the rapids of the St. Lawrence. Galt's solution to this and other evils was the establishment of a Provincial Treasury Department that would have the sole right of note issue, thereby providing paper currency with a uniform value in all parts of the province. This was a variation of Sydenham's bank of issue and under it the banks would gradually have relinquished their profitable privilege of note circulation in return for what seemed to them inadequate and unfair compensation: the removal of the one-per-cent circulation tax and relief from the requirement that they invest ten per cent of their capital in provincial debentures. The banks

APPLE HARVEST
IN NOVA SCOTIA — 1860'S

After wintering on an island in Passamaquoddy Bay, a small band of adventurous settlers transferred their belongings across the Bay of Fundy to Port Royal in 1605. Thus began a series of French settlements in the fertile valleys of the present province of Nova Scotia. One of the early and successful crops produced by these Acadian farmers was apples, for by 1633 apple trees were flourishing near the mouth of the Annapolis River.

New Englanders and United Empire Loyalists who came to Nova Scotia in the second half of the eighteenth century worked hard to improve the orchards they found there, and apple seedlings later were brought from England and numerous parts of North America to introduce many new varieties of the fruit.

The first export shipment of apples was sent by sailing ship to Great Britain in 1849, and by 1880 apple growing had become a thriving industry. The total crop and the percentage exported rose steadily from that time. In 1892 one-half of a crop of 300,000 bushels was sold abroad, and forty years later annual production reached a peak of five million bushels.

This harvest scene of the 1860's shows a heavily laden orchard near the town of Wolfville, which is located on the south shore of the Minas Basin. In the background can be seen the first building of Acadia College. Now a university, Acadia was founded in 1838 by members of the Nova Scotia Baptist Education Society who, having little money, donated materials and their labour to construct the graceful white frame building which was completed in 1845.

Painting by Thomas De Vany Forrestall

were to issue the provincial paper currency as heretofore, but only after depositing specie or provincial securities with the Treasury worth forty per cent of the face value of the notes they received, the balance of sixty per cent to be paid for at the rate of three to four per cent interest. The Free Banking Act, redundant since 1855, was to be repealed.

Galt's actions, of course, were dictated by the need to increase the public revenues and this he proposed to do by forcing the banks to lend the government the money which they were unwilling to lend it voluntarily. However, instead of introducing a bill embodying these changes, Galt chose to introduce a series of resolutions in the manner of a trial balloon. The reaction of the Bank of Montreal was prompt and unequivocal. Meeting on April 20, 1860, the Board approved this resolution:

> The Board resolved to join with the Bank of British North America and other Banks in a Petition to the Legislature praying for delay & enquiry before assenting to the principle embodied in the Resolutions submitted to the House of Assembly for the establishment of a Treasury Department and authorized the Seal of the Bank to be affixed to the Petition.

Had the climate of public opinion been less agitated, the opposition of the banks might have carried little weight; at this precise juncture in Canadian affairs, however, the public and the banks found themselves in complete accord, not because the former had come to love the latter more, but because of the general indignation resulting from recent disclosures of wanton and cynical political corruption in the Crown Lands and Public Works departments. There was also mounting uneasiness over the extent of the government's involvement with the Bank of Upper Canada, now known to be suffering from financial vapours. This circumstance, coupled with the revelations of the low and venal state of political morality, aroused widespread objections to the possibility that banking might become a political plaything. An even greater obstacle to Galt's design, however, lay in its technical shortcomings. Hitherto, one of the greatest assets of the Canadian banking system had been its ability to provide a note circulation that fluctuated automatically with the seasonal requirements of the economy, providing the extra currency that was needed when the crops were harvested and contracting when business levelled off. Galt's scheme made no provision for such fluctuation and it was for this reason as much as any other that his proposals were shelved for several years.

Despite another year of able management and the defeat of the finance minister's proposals, the report submitted at the annual meeting of 1860 was even less optimistic than that of the year preceding. A typical excerpt reads:

> The Directors . . . have to express regret that they again meet the Shareholders under very similar circumstances, another year having passed without any marked or general improvement having taken place in Commercial affairs, while large and important sections of the Province continue to suffer from monetary embarrassment and inactivity in business.

Obviously the improvement shown for the first half of the fiscal year had been largely responsible for most of the full year's profits. Although the dividend rate was maintained at eight per cent, $125,000 had to be appropriated for losses, leaving a balance of only $27,000.

By this time the business cycle in Great Britain had passed its nadir and the United States was in a flourishing condition despite the imminent outbreak of the Civil War. Why then should the revival of the Canadian economy have been so retarded? A good harvest in 1859 and increased production of both square and sawn lumber, together with the improvements to the ship channel below Montreal, should have brought about the customary resurgence. Yet something was obviously wrong. The explanation may be found in the psychological effects of the depression rather than in economic determinants alone.

By the end of the 1850's Canada had become merely a staging point for immigrants on their way to the States, all the good land had been settled (there was no longer any place for a new settler to go except along the new colonization roads threading their way among the dark pine forests of the Shield), and there was nothing to attract foreign capital save perhaps the high interest rates that could be obtained on mortgages. Deepening the psychological depression also were memories of the exciting progress made during the forties and fifties and the inevitable tendency of Canadians to compare their own achievements unfavourably with those of the United States. What had in fact happened was that Canada had about reached the limit of development until territorial expansion and technical advancement could release it from the narrow confines of the area between the international boundary and the Precambrian waste land to the north.

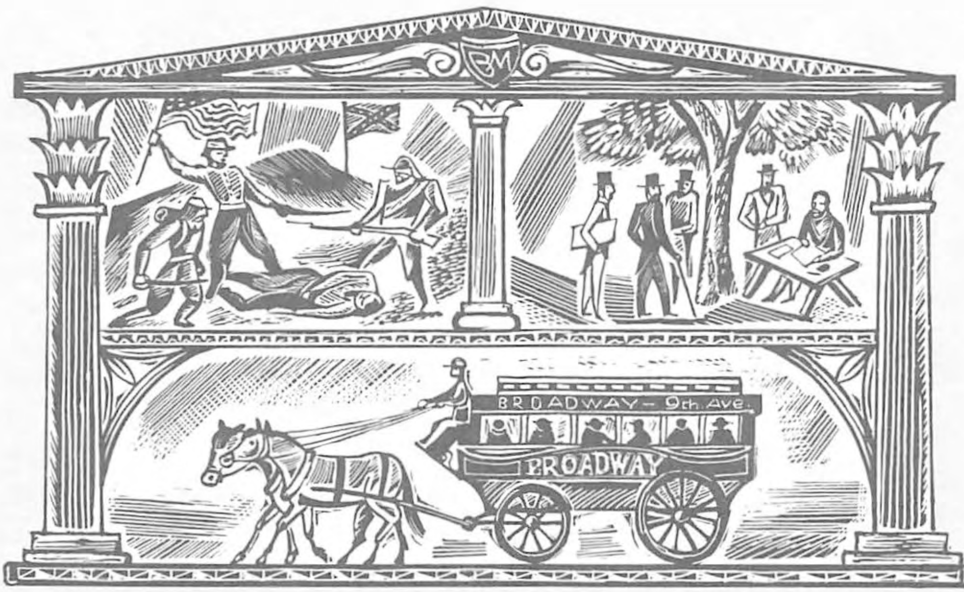
Overshadowing the routine formalities of the Bank's forty-second annual meeting was an event that must have distressed all those present: the absence of Hon. Peter McGill from the chair he had occupied for more than a quarter of a century. Instead, the report was read by the Vice-President, T. B. Anderson, and in it was included a letter from McGill, dated May 21, in which he expressed the wish to be relieved of all further duties for reasons of health. Characteristically, the gentle patriarch of Canadian banking had announced his resignation in advance of the annual meeting "in order that the Board may have ample time to consider the Interests of the Bank, in regard to future arrangements."

As a director in 1819 and from 1825 to 1830, Peter McGill had helped to effect the reconciliation of differences between the founders and the younger generation that gave the Bank its Canadian imprint; as vice-president from 1830 to 1834, he had served with John Fleming and Horatio Gates to complete the work of reorganization begun by the elder John Molson; and as president from 1834 to 1860, he had guided the Bank successfully through a succession of political and commercial crises and had made its name a synonym for strength and promise. Not content with these endeavours, Peter McGill had found the time to serve as a member of the legislative councils of both Lower Canada and the Province of Canada, as mayor of Montreal from 1840 to 1842, and to give his support and leadership to a dozen or more of the city's leading civic and charitable organizations.

The mantle of the presidency fell naturally on the shoulders of Thomas B. Anderson, who had been serving as vice-president under McGill since 1847. The new president's background recalls the very origins of the Bank itself. He was a son-in-law of John Richardson and had been involved with the Phyn-Ellice complex during his days with Forsyth, Richardson & Co. When that firm was finally dissolved in 1847, Anderson, as its last president, had taken charge of the liquidation. The vice-presidency of the Bank, in turn, was now filled by John Redpath, whose tenure as director dated back to 1833. Aside from his connections with construction and sugar refining, Redpath found time to participate in Montreal's municipal government and also to give active support to several educational institutions, the Presbyterian Church and the Montreal General Hospital.

After his formal retirement, Hon. Peter McGill lived only a few months, dying in Montreal on September 28, 1860, at the age of seventy-one. In a very real sense his passing marked the end of an era in the history of the country and of the Bank of Montreal, both of which he had served so well.

FIVE



INVADING AMERICAN CITADELS OF FINANCE

INVADING AMERICAN CITADELS OF FINANCE

1.

One of the great strengths of the Bank of Montreal had always been its international connections, especially with New York. The Bank's ties with that American metropolis, in fact, were already firmly established when it opened its doors to the public on November 3, 1817. Through John Richardson's New York acquaintances had come the Articles of Association that became the corner-stone of Canadian banking, and through Horatio Gates had come the contacts that enabled the Bank to place nearly fifty per cent of its initial stock issue in New York, Boston and New England. Through Gates also were conducted the negotiations that resulted in securing as the Bank's first New York agent the firm of Prime, Ward & Sands, an American correspondent of the House of Baring and one of the strongest mercantile banking firms in the United States.

The connection with this and other agencies, essential to the Bank's dealings in foreign exchange, continued until 1841, when the Bank of Montreal account was transferred to Maitland, Kennedy & Co. This firm remained the

New York agent until early February, 1853, when the news of the death of David S. Kennedy, who had apparently handled the Bank's account, was received in Montreal with deep regret. When Robert Lennox Kennedy could not be persuaded to take over the agency, the Board turned the matter over to Alexander Simpson, instructing him to make an unscheduled stop at New York while on a previously arranged trip to England. On March 11, ten days after the Board's delegation of authority to him, the Cashier sent word from New York that he had come to a tentative agreement with the Bank of Commerce, a widely connected, conservative institution which, some thought, should have taken over the mantle, as successor, of the Second Bank of the United States.

There, as far as the Bank records reveal, the matter rested until nearly a month after Simpson's return from England at the end of May, when the Board came to the conclusion "that the Cashier should proceed to New York for the purpose of arranging matters there with the Bank of Commerce; or . . . with some other Agency should he deem it necessary, & for the interests of the Bank." The tone of the Minute suggests that a serious situation had arisen, but Simpson's infallible tact was able to reconcile the differences and relations between the institutions remained on an amicable basis for the next three years. This period coincided with the introduction of reciprocity and an increase in Canadian exports to the United States, which gave rise to a greater exchange of commercial documents than ever before experienced. Nevertheless it was not until 1858 that the Bank decided to open its own New York agency.

By that time the panic of 1857 had come and gone and banks throughout the United States were again redeeming in specie after suspensions lasting in some instances several months. In Canada, the determination of the banks to hold true to convertibility had led inevitably to the contraction of money, which had brought commercial activity to a standstill. As a result, many of the banks that had asked for charters or capital increases between 1855 and 1857 encountered difficulties in raising the £6,326,666 of new capital authorized by the legislature, a sum which represented more than double the actual paid-up capital of all banks in 1851. On the other hand, all but a miniscule fraction of the Bank of Montreal increases of £250,000 and £500,000, granted in 1852 and 1854 respectively, was now paid up. With relatively immense resources on their hands, and prohibited by law from charging more than six per cent for ninety-day loans, the directors on December 3, 1858, voted unanimously to establish the Bank's own New York agency.

Richard Bell, for some years an agent of the Bank of British North America in New York and therefore known to Simpson's successor, David Davidson, was, the Board decided, the man to manage their affairs in that city. As the Bank of British North America had been represented there for several years, Bell had become thoroughly conversant with the city's financial ways and had made valuable business contacts. During the three weeks following the December 3 decision, Davidson conferred at length with Bell and on Christmas Eve, 1858, was able to report that the latter was ready to become the Bank's agent. The Board thereupon voted to give Bell a salary of $4,500 per annum on his furnishing security to the extent of $16,000.

The festive season was rounded off by the appointment of Jackson Rae, up to that time the manager at Peterborough, to the post of second agent in New York at a salary of $2,000 per annum. There remained only the formality of officially notifying the Bank of Commerce of the new arrangements, and this was done on January 21, 1859, the Cashier being instructed by the Board "to express to the Bank of Commerce their thanks for the attention which had invariably been paid by that Institution to the interests of the Bank."

The problem of finding a suitable location in New York was left to Bell whose choice finally fell on a one-room office at 23 William Street, in the heart of the financial district. Historically speaking, the location of the new agency was not unlike that of Head Office in Montreal. As the Place d'Armes had been the scene of a famous encounter with the Indians, so William Street had been the site of an artillery mound built by the British to defend New York from other Indians, and as Fortification Lane marked the line of the ancient defences of Montreal, so Wall Street marked those of New York City. Since 1792, when the stockbrokers used to meet under the famous buttonwood tree to conduct their business, the Wall and William streets area had become a financial emporium. But so cramped were the Bank's new quarters that the agency was shortly forced to move to 32 Pine Street, a stone's throw from the United States Sub-Treasury office at Wall and Nassau, the crossroads of American finance.

The working conditions, though Bell had doubtless long ago acclimatized himself to them, must have seemed very strange to Rae. By 1860 New York's population exceeded 800,000, and one study of the city relates that "since most business was concentrated below City Hall Park, the torrent of traffic on lower Broadway was so dense that it sometimes took twenty or thirty minutes to cross from the 'shilling' side to the 'dollar' side of the street. Along with the jam, there was the smell ('the whole city's one huge pigsty, only it would have to be cleaned up before a prudent farmer would let his pigs into it for fear of them catching the plague' . . .) and the noise. The continuous rumble of omnibus wheels and the clatter of horses' hoofs on the cobblestones never stilled." To Walt Whitman it was "tumultuous New York [with its] heavy, low musical roar, hardly ever intermitted, even at night."

The banking system of the State of New York at this time, despite the blow to its prestige inflicted by the 1857-58 suspension, was in a fairly healthy state. The General Banking Law of 1838, though subsequently modified by some fifty-odd amendments, was still the basis for its unit banking system, which, it will be remembered, was used as a prototype for the Canadian free banking experiment of 1850. In order to lend cohesion to what could have become an unwieldy situation, a clearing house system had been set up in 1851. Shortly before the Bank of Montreal agency opened in the city, the average daily exchanges totalled approximately twenty million dollars, a figure which reveals the scale of New York banking at the time.

Bell and Rae promptly exercised their collective talents in the business of buying and selling instruments of exchange. Their first advertisement, which appeared in the New York *Journal of Commerce* of March 30, 1859, informed the business community that they, as "Agents for the Bank of Montreal," would "offer for sale Bills on the Union Bank of London, and on the Bank of Montreal and its Branches in Canada, in sums to suit purchasers," in addition to "Credits issued, Sterling Exchange, and Notes and Drafts Payable in Canada purchased or collected."

The profits made by the New York agency during its first two years are meaningful more for the light they shed on the diverse nature of the Bank's business than for any other reason. The statements of assets and liabilities, retained at Head Office, show that for the half-year ending April 30, 1860, Bell and Rae made a net profit of $18,020. Although the New York agency was surpassed in profits only by the Montreal and Toronto branches, the fact that the American operations accounted for only six per cent of the Bank's total net profits for the six-month period serves to put the New York adventure in perspective.

The value of the New York business having been established, the directors on January 24, 1860, approved a communication from New York suggesting that their agents be permitted to make loans on the security of commercial name paper. They insisted, however, that the names of the New York houses seeking accommodation be first submitted to Head Office for authorization. This cautious attitude was undoubtedly induced by the breach between North and South that had been widened by the execution in December 1859 of John Brown, since immortalized in song and poetry.

The election of Abraham Lincoln in November 1860 caused considerable agitation within the commercial community. The federal government found it nearly impossible to obtain funds from a frightened money market, and although southern banks continued to send remittances north, the fear that these would soon cease threw the country into a state of commercial and financial chaos. The South Carolina legislature unanimously voted for a state convention which, on December 20, defiantly proclaimed that "the union now subsisting between South Carolina and the other States, under the name of the 'United States of America,' is hereby dissolved." By February 1, 1861, seven states of the Union had seceded, and within ten days the Confederacy had come into being, with Jefferson Davis as its provisional president. Lincoln, it is true, remained conciliatory, assuring the South in his inaugural of March 4, 1861, that states' rights would be protected and that the institution of slavery would not be interfered with, but remaining firm on the principle that no state could secede from the Union of its own volition. There was, however, to be no reconciliation, and by mid April Lincoln's attempt to relieve the United States garrison at Fort Sumter, and General Beauregard's answer with his shore batteries at Charleston, had set in motion the military machines of North and South.

With a national debt on the day of Lincoln's inauguration of approximately \$75 million – about twenty-five per cent greater than that of Canada – and only \$1,716,000 in the treasury, the government departments were in a state of complete demoralization, and the country's credit was weaker than it had been at any time during the nineteenth century. Such was Lincoln's unhappy inheritance. Secretary of the Treasury Salmon P. Chase estimated costs for the coming twelve months in the neighbourhood of \$320 million, of which \$80 million could probably be raised by taxation, the remainder having to come from loans. Congress accordingly authorized Chase to borrow \$250 million.

The banks of New York, Boston and Philadelphia immediately agreed to subscribe \$50 million and to take two other instalments of \$50 million each. But there were insurmountable difficulties in the Sub-Treasury Act, which specified that only coin was receivable by the Treasury. Chase adhered strictly to the letter of the law, while the banks insisted that funds remain on deposit

FIRST COTTON MILL AT SHERBROOKE – 1844-47

Woollen mills were in operation in Canada in the early days of the nineteenth century but the domestic demand for cotton products was for many years met by imports from Great Britain and the United States. In 1844, however, Hon. Edward Hale leased a site beside a dam on the Magog River on behalf of the Sherbrooke Cotton Factory Company.

The cotton mill subsequently erected there can be seen in this picture, silhouetted against the green hills of Quebec's Eastern Townships. The building housed twelve hundred spindles to manufacture the company's principal product, grey cotton sheeting, but the venture was a precarious one and in 1848 the mill and its apparatus were sold at auction for a little over £1,500.

A second Canadian mill was opened in 1847 at Thorold, Canada West, and although it was followed by a third and larger one at Montreal in 1853, the first real impetus to cotton manufacture in Canada was the paralysis of the cotton industry in the United States during the Civil War. Between 1860 and 1865 several new mills were established in Canada to provide a total capacity of forty thousand spindles. Although the industry suffered with the renewal of heavy American competition in the late 1860's, the high tariffs of the National Policy of 1878, which reached thirty per cent, promoted a gradual expansion.

By 1890 the proliferation of small mills, each attempting to provide a wide range of products, caused over-production and resulted in high prices. To avoid bankruptcy, six of the mills joined together in 1892 to produce the first of a series of amalgamations which, by allowing specialization of operations, enabled the trade not only to survive but to raise wages and lower prices.

Painting by Philippe Panneton


PHILIPPE
PANNETON

until used by the government to meet current expenses. By following conventional monetary practice, the Treasury was, in the words of one authority, "isolated . . . within a barrier of gold," and while expenses spiralled upward, customs duties diminished and with them government income. Before the year was out, military contractors were feeling the backlash of inadequate financing, and the banks, caught between government financing and business needs, were forced to suspend payments. The only notice of the American situation recorded in the Minutes of the Bank of Montreal was in the annual report to the shareholders on June 3, 1861, when it was noted that "the very abundant crops in the United States, and the political difficulties in which that country is involved, have . . . interfered with a valuable and ready market for the agricultural and other products of the Province."

The Bank of Montreal was prohibited by its act of incorporation from lending money, directly or indirectly, "to any foreign Prince, Power or State," on penalty of forfeiture of its charter, and was forced therefore to maintain the position of a detached though gravely concerned spectator. Nevertheless, and as early as January 1861, between the time of Lincoln's election and his inauguration, the Board expressed their confidence in the financial stability of the United States in a resolution adopted on January 22, authorizing the New York agents "to make loans upon the Security of the U.S. Federal Stock and upon those of the Northern and Western States to responsible parties, with a margin of not less than ten per cent below the market rate of the day." Other occasions on which the Board found cause to consider the New York agency during 1861 occurred in January, to approve the appointment of Archibald Ogilvie as second agent under Bell, Rae having resigned to become an independent broker in Montreal; in May, to agree to a temporary arrangement whereby the New York agents would receive deposits for the account of the Bank of Upper Canada and pay drafts drawn against funds in their hands; and in November, when an accountant, C. C. Brough, was added to the New York staff.

2.

As early as the 1840's, when Chicago was little more than a muddy settlement at the head of Lake Michigan, Bank of Montreal records indicate that Canadian merchants had begun to buy grain in Illinois, financing their purchases with personally secured bank loans, the precursors of Section 88 having yet to be enacted. Most such transactions turned out satisfactorily, particularly those of

Thomas and William Molson, whose distilling operations made them heavy buyers, but others were sometimes less so; as a result, the Bank found itself with a number of parcels of Michigan and Chicago property on its hands, acquired through possession of hypothecated mortgages.

During the great boom of the forties, for example, the Board Minutes contain references to this development, and on one occasion "a lawyer from Quebec" was dispatched to Chicago, given power of attorney and deputed to deal with the Bank's real-estate holdings there if circumstances proved propitious. That important sums of money were involved seems unlikely since Chicago real estate remained of little value until railway connections with the east had been established and the period of phenomenal growth begun. This occurred toward the end of the decade and coincided with the depression that weighed on Montreal so heavily. For that reason, interest in the American west began to quicken, but it was not until the Reciprocity Treaty had been in force for several years that merchants from Canada began to make their presence felt along State Street.

In 1857 the impact had become sufficiently important for the Chicago *Daily Democrat*, during the suspension crisis of that year, to state that had it not been for Canadian buyers in the Chicago market, the decline in grain prices would have been much greater than actually was the case. The article also estimated that "very heavy capital" was represented in the fourteen principal Canadian houses doing business in the city, some of them from Montreal, and less than two weeks later the same journal noted that "more than half a million of bushels are now on the way to the Canadian seaboard." Remarking on the local bankers' practice of buying up Canadian bills to send to New York for redemption in Canada, the *Daily Democrat* called for "regular agents in Chicago, to look after the Canadian banks' interests in every way, protecting and providing for their circulation." Referring by implication to the Bank of Montreal, the newspaper continued, "Such a house as this, with its immense control of capital, might do more towards drawing the trade of the West towards the St. Lawrence route than hundreds of newspaper articles."

Despite such flattery it was not until August 13, 1861, that the directors of the Bank of Montreal debated establishing a Chicago agency. Three days later, the Bank's inspector, then Charles Smithers, was instructed to make a reconnoitring trip to that city. When he tabled his report on September 10, the Board resolved that "it was expedient to open an agency at Chicago," and a week later Smithers was entrusted with making the necessary arrangements. By then the Civil War had been in progress for five months and as a result of specie suspension by the western American banks their notes had gone to a discount in some cases of as much as sixty per cent. The Illinois state banking system was particularly hard hit and Chicago and its environs had to rely on the city's private bankers for funds. Smithers lost no time in confirming the directors' trust in his administrative capabilities. Soon after his arrival in Chicago he procured a business address at the offices of Messrs. G. & J. Watson on South Water Street, and on September 24, 1861, the citizens of Chicago were officially informed of the presence of the Bank of Montreal by a notice in the Chicago *Tribune*.

On the same day, the directors in Montreal appointed a committee to discuss with E. W. Willard, who was coming from Chicago, the qualifications and terms of the post of agency manager in that city. That Smithers had already conferred at length with Willard is certain, as is the fact that there were very few Chicago bankers as able and astute. He had been for some years "a most efficient manager" of the Chicago house of George C. Smith & Co., known as "the leading banker of the West" in the years immediately past. The committee's approval was unanimous, and on September 27 the Board offered him "the Management of the Agency at Chicago with a salary of $6,000," and proceeded to show their confidence in this arrangement by approving advances at Chicago to "Messrs. I. Gould & Sons to the extent of $60,000 upon the Security of Bills of Lading and Insurance." Smithers, meanwhile, had been fully occupied in finding more permanent quarters than those on South Water Street, and leased for two years a banking house on La Salle Street, formerly occupied by Hoffman and Gelpcke, bankers.

The Montreal *Witness* commented: "The benefits of such an institution cannot fail to be extensively felt by Western produce dealers. The numerous and vezatious [*sic*] delays in reference to drafts against produce purchased in Chicago for account of parties here, and which had hitherto to be made payable in New York city, are now obviated. Shipments can now be drawn against in the west, and the draft made payable here." Republishing the *Witness* article, the Chicago *Tribune* added for its readers' benefit that the Bank of Montreal "will afford proper and much needed facilities to our large and rapidly increasing Canadian trade."

Chicago, by 1861, despite recent financial reverses, had become one of the greatest boom towns on the continent. Although its recorded history dated

THE PORT OF MONTREAL — 1860'S

Montreal's port had long been a principal factor in the city's rise to commercial prominence and with the coming of the railway in the 1850's its harbour facilities had to be extended. A regular transatlantic steamship service was also established during that decade and annual shipping tonnage arriving at the port increased from 64,000 tons in 1854 to 258,000 tons in 1862.

In 1861 more than half of all the dry goods imported into Canada were unloaded at Montreal and two years later the harbour had eight grain elevators capable of discharging 24,000 bushels an hour. The season of navigation at that time extended from early April to early December and averaged 238 days.

The crowded scene depicted here must have been a common sight, for as many as eighty-six ships could be found in port on a single day. By 1869, in fact, waterfront activity became so great that the wharves had to be kept lighted twenty-four hours a day for the stevedores.

back to Louis Jolliet's return journey from the Mississippi River to the head of Lake Michigan in 1673, the town had only 550 inhabitants when it was incorporated in 1833. By 1840 the population had increased to 4,470 and by 1860 had reached 109,260. To all intents and purposes, however, Chicago was "still in its infancy," so that it was with justifiable pride that the Chicago *Tribune* could report: "The commerce of Chicago . . . amounts in value, during the year 1861, to $200,000,000, and added to that of other cities on the lakes, makes a total of over $400,000,000, exceeding in value the entire commerce of the thirty-four United States with all foreign countries." Within the city and its environs, both aided by and facilitating the commercial growth, were industries engaged in the production of ships, locomotives, freight and passenger cars, wagons and carriages, iron for a variety of purposes, brick and other building materials, reapers, mowers and threshing machines, furniture, footwear, soap, candles, musical instruments and other consumer items, as well as in the important – then as now – business of meat packing.

Willard, it might be surmised, should have been greeted with open arms by all areas of business as he returned to Chicago in his new capacity as the Bank's local representative, but human nature was not to be denied and, in the *Tribune*'s words, "a certain degree of jealousy" had manifested itself. The word had gone round "that there is an intention on the part of the Bank of Montreal to control money matters in this city." The Chicago bankers, solicitous of their own interests, apparently feared domination and had to be chided by the press for maligning the Bank's objective, which was "solely to accommodate the large and valuable trade existing between Chicago and Montreal. Outside of this trade, there will be no attempt to give it a circulation." The Montreal *Witness* impatiently dismissed the misapprehensions with the comment: "If the business men in Chicago will rather use the comparatively valueless bills of wild cat bankers, than a substantial redeemable currency, that is no reason why Canadian merchants residing there should do so." The Bank of Montreal, no stranger to whispered calumny, chose to ignore its new neighbours' exaggerated fears, although it may be assumed that Willard used his local influence to dissipate rumour wherever he found it.

The traditional method of making one's business generally known – the public advertisement – certainly maintained the impression that the Bank of Montreal was primarily interested in the produce trade. The first notices, apart from Smithers's preliminary announcement, appeared in the *Tribune*, during the week October 12-19, as follows:

NOTICE

THE BANK OF MONTREAL
Having established an Agency at
Chicago, is prepared to do general
BANKING BUSINESS
Buying and Selling
EASTERN AND STERLING EXCHANGE,
Discounting Produce Bills based on Shipments,
Receiving Deposits and Collecting Commercial Paper.

E. W. Willard, Agent.

The Bank's offer was immediately taken up. Following hard upon the credit to Ira Gould at Chicago came one of $100,000 on November 5 to Messrs. Edmunston, Allen & Co., and three days later a further advance of $60,000 "on the joint names of Messrs. Ira Gould & Sons and Mr. I. M. Young, together with the security of warehouse receipts for wheat at 60¢ per bushel, and also an advance of $15,000 at not over 30 days on the names above." But on November 29, 1861, after granting a credit "for $20,000 to be used at Chicago [by] Messrs. J. H. R. Molson & Bros.," the Board had finally to face the vicissitudes of war which had already destroyed so many financial interests since the closing days of 1860. The directors, having discussed the worsening state of affairs across the border at length, felt constrained to admit that "in the present uncertain state of public affairs," they could no longer make advances at Chicago to United States residents on the security of warehouse receipts "except for a period not exceeding 60 days."

3.

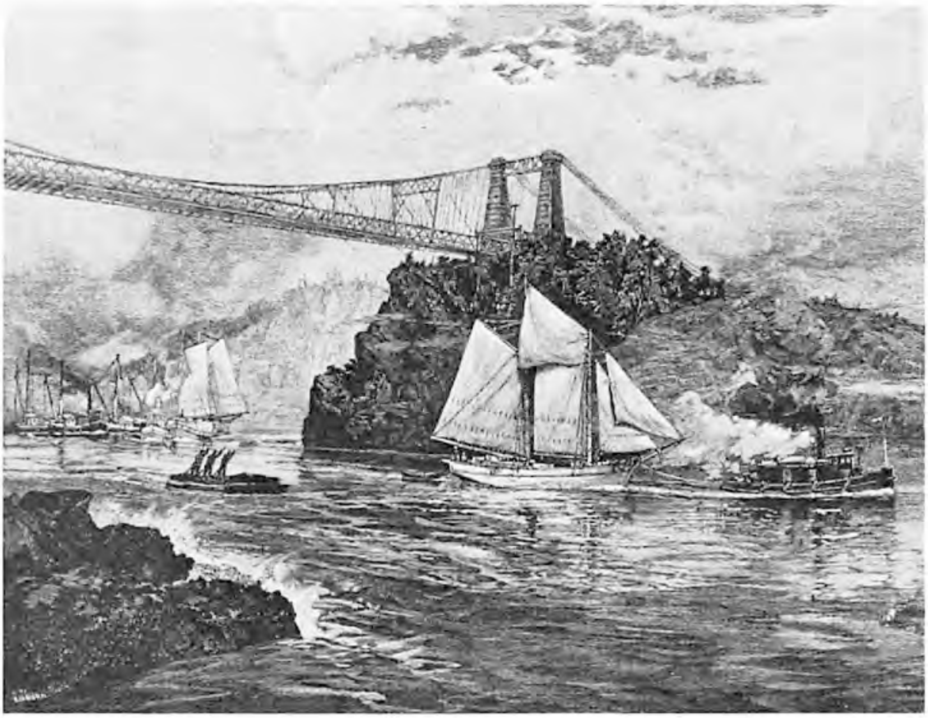
The retrenchment in Chicago, after a scant two months of operations, is not nearly as surprising as the fact that the agency had been opened in the first place. After the fall of Fort Sumter in April, 1861, Lincoln had appealed for 75,000 volunteers, but the Confederacy had won the first battle of Bull Run in July. That same month, over two thousand men of the Royal Artillery left Britain to reinforce the garrison in Canada.

Nevertheless, the government in Canada did its best to establish a position of neutrality. When several of the Northern states attempted to purchase arms from the province, the Governor General, Sir Edmund Head, politely refused on the grounds that a Canadian statute prohibited taking any arms belonging to the militia outside the province. He then referred the representatives to the British Minister in Washington, Lord Lyons, who informed them that "Her Majesty's Government have not authorized me to obtrude advice or even to express an opinion upon the unhappy contest in this country. Much less have they given me authority to ask for material aid from Her Majesty's Colonies for either party in the struggle."

Although the Canadian government strove to maintain a disinterested attitude, such was not the case on the public information level, where chauvinistic invective became the rule. Long before the start of the Civil War, the Toronto *Globe* had sided with the Northern cause on an anti-slavery, moral basis, and support of its sentiments found expression in the enlistment of an estimated 48,000 Canadians in the Northern armies. On the other hand, the Toronto *Leader*, the semi-official organ of the Conservative Party and a close rival of the *Globe* in circulation, could find little fault with the South. Between these extremes was ranged opinion of every kind, although desire to isolate Canada from the conflict was predominant, particularly in Canada East. The bias of the *Leader* was not lost on at least part of the Northern press, which retaliated by turning first on that paper and then on everything in Canada disliked by republican tradition. Insult and bombast were the particular forte of the New York *Herald* – which carried on a fierce long-range battle with the *Times* of London – but it was vigorously aided by other Northern newspapers. On August 7, 1861, even the *Globe* was stung to protest:

> The insolent bravado of the Northern press toward Great Britain and the insulting tone assumed toward these provinces have unquestionably produced a marked change in the feelings of our people; when the war commenced there was only one feeling of hearty sympathy with the North, but now it is very different. People have lost sight of the character of the struggle, in the exasperation excited by the injustices and abuse showered upon them by the party with which they sympathized. It is not in human nature long to maintain cordial sympathy toward those who are pouring insult continuously upon you.

Had only press vituperation, with largely unsubstantiated charge and countercharge, been at issue, it is likely that responsible opinion would have ignored the constant diatribes and gone philosophically about its business, as



TIDAL PHENOMENON

The Reversing Falls at Saint John, New Brunswick, are actually rapids set in a high gorge where the St. John River descends into the city's harbour, an arm of the Bay of Fundy. The famous phenomenon occurs twice daily when sea-water is forced upstream by the Bay of Fundy's tremendous incoming tide and the direction of flow over the rapids is reversed.

During each ebb and rise of the tide there is a period of calm when navigation through the chasm is possible. This engraving shows vessels passing beneath the suspension bridge of the European and North American Railway during the slack.

Discussions and surveys in the thirty years before Confederation failed to produce a railway to connect the Maritimes with the Canadas. Instead, several local lines were built, among them the European and North American between Saint John and Shediac, N.B., later to become a branch line of the post-Confederation Intercolonial Railway.

the Bank had done in opening its Chicago office in September. But into the thoroughly aroused atmosphere was injected the unfortunate *Trent* affair. On November 8, two Confederate commissioners bound for London and Paris were forcibly removed from the British vessel on the high seas and taken aboard the U.S.S. *San Jacinto* as prisoners. Immediately the lid blew off the resentments and strangled antagonisms that lay beneath the surface: this was an act that Canadian public opinion could hardly condone. The newly arrived governor general, Lord Monck, without waiting to consult London, set about strengthening the province's defences.

Throughout the tempest, the Bank of Montreal continued to grant substantial credits at Chicago, where alarm and bias invaded business activity more slowly. As late as November 24, 1861, the Chicago *Tribune* observed that "notwithstanding the belligerent tone of the Canadian press, there are orders in this city from Canada for 10 per cent Treasury notes. To-day Solomon Sturges & Son sold several thousand dollars worth at par to Canadians." By November 28, however, the paper's disposition had changed: "With the exception of the Bank of Montreal, whose notes are redeemed in this city at 'current rates' and are never to exceed ¾ of 1 per cent premium, the whole of the Canada currency now in circulation at the West ought to be driven home." The Bank's decision to restrict its Chicago operations was made the next day, despite its privileged treatment. In mid December, as the war scare continued, the *Tribune* found cause to reflect:

> The foreign news created a good deal of anxiety in relation to Canada money. If we are to have trouble with England it is plain that the more Canada money we have on hand the worse we are off. The feeling did not extend, so far as we know, to the issues of the Bank of Montreal; but everybody was anxious to get rid of the bills of the miscellaneous Canadian banks.

The statistical report submitted to Head Office by the Chicago agency of the Bank of Montreal for December 15, 1861, reveals that with deposits of $189,724 and discounts totalling $363,022, the agency had $121,985 of notes outstanding. Nevertheless, the Bank seemed to be living only temporarily in the United States, drawing on the capital of goodwill that it had earned for itself.

On Christmas Day, Lincoln, with the agreement of his cabinet, suddenly dispelled the atmosphere of tension by releasing the two commissioners to the custody of a British ship. The crisis thus passed, leaving the scars on the mind rather than on the body. January 1862 saw the Union forces following a naval strategy that was eventually to bottle up the Confederacy and destroy its lines of supply. By this time, however, the Northern banks had exhausted their capital in granting loans; money, now extremely expensive, was no longer available for bond purchases, and gold and silver had ceased to circulate. In fact, it had become an absolute necessity that some other medium of exchange than gold be fashioned if the war effort was not to languish. The National Currency Act was the administration's solution to the problem, and when it became law on February 25, 1862, the financial horizon brightened; within months, the irredeemable "greenbacks" (as the legal-tender notes were soon called) became widely accepted by creditors in place of gold. By the close of the 1862 fiscal year, Chase rejoiced that "every audited and settled claim on the government and every quartermaster's check for supplies furnished which had reached the Treasury had been met."

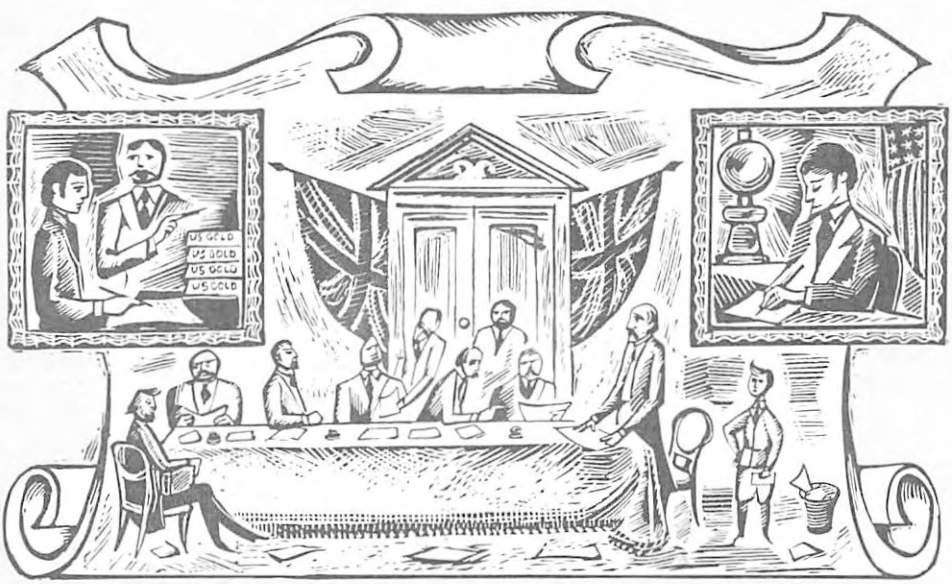
Although disaster was averted, other financial evils grew apace: inflation, as local banks expanded their circulation, sales of securities by foreign holders, and declining gold stocks. The average price in gold of one hundred dollars currency on the New York market fell from a high of $98 in January to a low of $76 in December. Industry boomed, nonetheless, in answer to war's exigencies, and so too did stocks. In the words of one chronicler of Wall Street, "the greatest era of speculation the world had yet seen began. . . . In no other war did so many people of the Street behave as selfishly, as callously, or as treasonably." Millionaires increased from three in 1860 to hundreds by 1865. Opportunity there was, especially in the gold market, but with results so capricious that newly made fortunes were wiped out overnight.

In this strange, venal, but intoxicating atmosphere, the Bank of Montreal proceeded with characteristic rectitude. On January 14, 1862, for instance, at a time when the finances of the Union were in a state of anarchy, the Board again weighed the question of making advances at Chicago "to parties resident in the United States," and concluded that these "might be granted to Houses in New York of undoubted standing." A week later, the directors agreed to grant a four-month credit of $60,000 at Chicago "upon the Collateral Security of Warehouse receipts for Wheat at the rate of 60 cents per Bushel," and similar loans totalling $270,000 followed during January and February. On February 25, the same day that the legal-tender bill was being enacted in Washington, the Board engaged in further decisive action. "In view of an extension of the business of the New York Agency in connection with the Bank's operations at Chicago, and through other channels," the resolution read, "it was necessary to associate with Mr. Bell an officer of ability and experience who should have an equal voice and authority with him in the management of the business." The choice fell on Charles Smithers, who had performed such sterling services at Chicago a few short months before and whose quiet and disarming manner concealed a knowledge of banking equalled perhaps by only one or two other officers of the Bank.

Of the Bank's American activities during the summer and autumn of 1862 little is now known in detail. Nonetheless, we do know that the great things anticipated from the New York agency, like so many other expectations of the time, failed to materialize. The suspicions and animosities aroused by the *Trent* affair were kept alive by other minor irritants and Lyons in Washington, Monck in Quebec, and Russell in London were all of the opinion that preparations had to be made for the worst. By the spring of the year, 18,000 British regulars were stationed throughout the North American provinces. Seizures of suspected blockade runners between the Maritimes and the South, and the arrest of a few British subjects in the Union after Lincoln's suspension of habeas corpus, added to the anxiety.

That the Bank's American fortunes should have fluctuated was only to be expected, but there was no great cause for alarm. The directors were not faced with financial disaster, as were so many American business men at this time; instead they were confronted with a modest profit growth which would be seriously threatened only during peak periods of political fervour. With its powerful reputation and its strength in New York, based on the exchange market, and in Chicago, based on the produce market, the directors doubtless felt the Bank's position to be relatively secure, as long as war did not drag on forever.

SIX



GOVERNMENT BANKER

GOVERNMENT BANKER

1.

Despite the fact that Canadian imports set a record of $48.6 million in 1862 and that exports exceeded $40 million for the first time in 1863, the Civil War years in Canada, according to the annual reports of the Bank of Montreal, were far from prosperous. In presenting the Bank's statement to the shareholders in 1861, the new president, T. B. Anderson, warned: "It is impossible to speak with much confidence of the future." In 1862 he stressed the uncertainty arising from "public events . . . which have exerted an injurious influence upon the general prosperity of the Country," and in 1863 "the exceptional character of some of the difficulties that have attended the business of banking during the past year." In 1864 he forewarned that "the maintenance of the usual return to the Shareholders will depend hereafter more upon the comparative freedom from loss they [the directors] hope to secure by additional caution, and a better system of advances, than upon any probable increase of profits." This last statement provides the key to President Anderson's recurrent gloom. The Bank's current earnings position left little cause for complaint:

profits, before appropriations for bad and doubtful debts, increased steadily from under $600,000 in 1859-60 to over $850,000 in 1864-65. What really concerned Anderson so much was something that every banker dreads – a sharp acceleration in bad debt losses. Net appropriations for losses grew from just over $100,000 in 1859-60 to a peak of $355,000 in the year 1864-65. That this was regarded as a temporary situation is clear from the decision taken in 1863 to maintain the dividend at eight per cent even though this meant reducing the rest fund to provide for the total dividend requirement of $480,000.

The Bank's total assets during this period grew by almost fifty per cent, from $12,413,923 to $18,378,894. The most arresting feature of the comparative balance sheet, however, is the near trebling of deposits to $9,113,320, a substantial portion of which represented flight capital from the United States. The funds were not deposited in either of the Bank's American agencies but were instead sent north to the relative safety of branches in Canada.

Loans and discounts at this time, on the other hand, showed only minor fluctuations, the net increase of $2,365,311 bringing them to $11,424,334 in 1865. The reasons for this are quite apparent: the war to the south, together with a weakening of the banking structure in Canada, dictated caution and made extra safeguards mandatory. Thus the Bank's holdings of gold and silver coin were raised from $942,363 in 1860 to $2,499,617 in 1865 without any significant change in its note circulation. The remainder of its newly acquired funds were used to support the Canadian government, and the Bank increased its holdings of provincial debentures from $602,234 to $2,979,066 over the same period. It can thus be seen that if effective measures could be taken to curtail the ominous trend of bad debts, the directors had little to fear.

While the Bank of Montreal could count on the underlying soundness of its position to tide it over this difficult period, its proud competitor, the Bank of Upper Canada, had no such well of strength from which to draw. From its inception, the Bank of Upper Canada had been closely associated with the political elite of its province, and even after the government of Upper Canada disposed of its stock interest in the bank on the eve of Union, charges of favouritism and patronage continued. Yet, generally speaking, the Bank of Upper Canada was a well run institution and its dividends for many years were consistently higher than those of its rivals. After the union of the two provinces it remained the repository for both provincial and commissary funds and was assumed to be as strong as the fabled Rock of Gibraltar until depression struck in 1857.

During the preceding boom, however, Thomas G. Ridout, the Cashier, had apparently been willing to lend on almost any kind of paper, and the rapid attrition of all values found the bank's portfolio loaded with depreciated municipal debentures, railway securities and hypothecated mortgages. While no runs developed, demands for redemption of its notes had become sufficiently prevalent by the autumn of 1860 for the Bank of Montreal to request an explanation of its position, failing which its notes would be refused at all Bank of Montreal branches.

When David Davidson, accompanied by representatives of the Bank of British North America and the Commercial Bank, visited the head office of the Bank of Upper Canada in Toronto, however, the request was refused, although he was assured that the embarrassment was only temporary and that the bank was "in a sound condition." Davidson was not impressed, and the three banks refused to purchase Bank of Upper Canada bills "unless accompanied with Collateral Security in the shape of commercial paper." For reasons now inscrutable, Ridout and his associates immediately upon Davidson's departure for Montreal connived with the Toronto *Leader* to publish an article which purported, according to the Bank of Montreal Minutes, "to give an account of the result of the recent interviews between the Banks," but which contained statements "completely at variance with the truth." A retraction was demanded and received, but in such terms that the Bank of Montreal directors again expressed their dissatisfaction.

By the spring of 1861, the public was so restive that Alexander Galt, as finance minister, felt compelled to call for an accounting. As he later told a committee of inquiry, "the unfortunate position in which that institution [the Bank of Upper Canada] stood, rendered it for nearly the first three years after my acceptance of office, dependent upon the course adopted towards it by the Government." Although the bank was discovered to be almost beyond redemption, the Minister of Finance knew the economic climate to be so unsettled that he felt powerless to do more than insist on the replacement of Thomas Ridout. The choice fell on Robert Cassells, then manager of the Bank of British North America at Quebec. Like his predecessor, however, the newcomer quickly found it necessary to turn to the government for help, and Galt, apparently in the belief that he had no alternative, pledged the government to maintain a balance on deposit of $1,200,000 "until the Bank should re-establish its credit and relieve the Government and the country from anxiety and alarm."

That the Bank of Montreal was privy to the arrangement appears unquestionable, for the government would not have sequestered over a million dollars of public funds without assuring itself of the support of the institution from which loans to meet the never-ending exigencies of the provincial debt could be most readily obtained. Since no formal agreement was concluded, little or nothing about this new, significant relationship is contained in the Resolve Books, but the Minutes do give evidence of another important development: the disappearance of the old mercantile type of business which for nearly fifty years had been one of the mainstays of the banking trade. This change in policy would be clearly stated in a memorandum to the public in 1867, but the trend became apparent several years earlier when corporate debentures began to replace personally endorsed paper in the collateral dossier. Several factors undoubtedly contributed to this transition, among them the experience of the Bank of Upper Canada, the Bank of Montreal's own losses, and certainly not least the exposure of the Bank to the more sophisticated financial techniques of the New York market. In line with the appearance of such institutions as insurance companies as borrowers on their own paper, the rule requiring bank managers and agents to divest themselves of outside business connections was relaxed, permitting them to represent fire and life insurance companies provided that these had the approval of the Board.

Of greater human interest was an innovation that appears to have been uniquely Davidson's. This was the "Annuity and Guarantee Funds Society of the Bank of Montreal," established under an enactment of the provincial legislature passed on December 22, 1860, and approved by the Board the day after Christmas. Referred to also as the "Widows and Orphans Fund," the plan was a contributory insurance scheme into which each member paid a small sum annually and to which the Bank also made an annual contribution. The fund was set up, no doubt, to make formal provision for the discharge of a responsibility that had been recognized by the Board at the very outset of the Bank's career, as had been that of providing what is known today as "severance pay."

No records of the preliminary discussions have been preserved but it is evident that the scheme was derived from Davidson's Scottish background, since both the draft and the accompanying tables were provided by an Edinburgh actuary acting on the Cashier's instructions. As originally proposed, membership was to be on a voluntary basis, but after some reflection participation was made obligatory for all new employees entering the Bank's service.

The annual contributions of six dollars for those with a salary of six hundred dollars or less and twelve dollars for those earning more provided a life annuity of two hundred dollars payable to the widow and dependent children under eighteen years of age. A member could, however, double, treble or quadruple his contribution, and hence the annuity, if he so desired. Provision was also made for a review of the state of the fund at five-year intervals to determine its actuarial soundness and make recommendations for whatever alterations in the scale of payments were deemed desirable.

That the directors and shareholders were not insensible to the value of David Davidson's services was borne out in 1862, when, noting the Cashier's "increasing assiduity and sound judgment," they decided that henceforth "the designation of the Chief Officer of the Bank be General Manager," and raised his salary to £2,000 per annum. Before a year had passed, however, the able Scotsman resigned his post to become Treasurer of the Bank of Scotland. Davidson's parting was peculiarly uneventful, the customary vote of thanks failing to become a matter of record. Soon after his return to Edinburgh he was responsible for having the Bank of Montreal named the agent for the Bank of Scotland in the United States and Canada, and for the appointment of the Bank of British North America in the same capacity in Nova Scotia, New Brunswick and British Columbia, then becoming world famous as the site of the Cariboo gold rush.

Davidson, the son of the Laird of Davidson's Mains, was no doubt better suited for the post he returned to fill in Scotland. Interestingly enough, however, his Edinburgh career repeated his Canadian experience in one respect. In 1859, his appearance before a select committee of the provincial assembly had been beneficial to the Bank of Montreal and other chartered banks; in 1875, his testimony before a select committee of the House of Commons helped to preserve for the banks of Scotland their ancient right of note issue and their right to do business in England. Davidson spent sixteen fruitful years as treasurer of the Bank of Scotland before retiring from ill health brought on by his part in the noted liquidation of the City of Glasgow Bank. He died twelve years later in 1891.

The Board of the Bank of Montreal had little need of lengthy deliberation before naming Davidson's successor. The choice fell naturally on Edwin H. King, the manager of the Montreal branch, who was appointed to the position of general manager with the same salary and emoluments as his predecessor.

2.

Few bankers have exerted a more powerful influence on their times than Edwin H. King; in fact, had his setting been one of the great financial capitals, his name and triumphs would surely have found their place in the legends of world finance. With a mathematical virtuosity akin to that of a modern computer and an extraordinary insight into human aptitudes, he had the will to pursue his convictions to their creative ends, no matter how heterodox or iconoclastic they might seem to others. As much a political realist as a successful banker, he probably played a decisive role in the unrecorded conversations that led to Confederation. Yet he never appeared publicly in the political arena, and was content, once he had acquired the fortune needed to satisfy his far from simple wants, to quit Canada for good at the comparatively youthful age of forty-five. Although his name looms large in all histories of Canadian banking, there is a remarkable dearth of biographical material about him; the little that has found its way into print, however, reveals something of the conflicting emotions he aroused among those who knew him best.

King was thirty-five years of age in 1863 when he was called to the helm of the Bank's affairs. Born in Ireland in 1828, he later came to Canada to join the Bank of British North America. There still exists a graphic description of King as a banker in his twenties, written by George Hague, at one time Cashier of the Bank of Toronto and later to prove an admiring but implacable banking foe:

> My first recollection of him goes back as far as the year 1854. He was then accountant of the Bank of British North America in Montreal. A handsome, fair-haired, good-natured looking man, no one would have suspected from his appearance what an extraordinary amount of resolution, strength and firmness was bound up in his character. He wrote a hand like copper-plate and had a singular aptitude for arithmetical calculation – an aptitude he was rather fond of displaying, to the astonishment of his fellow officers. This unusual aptitude for calculation stood him in good stead in the experience of after years.

In 1857, as already noted, King left the Bank of British North America to become Inspector of Branches with the Bank of Montreal and in this position developed to a formidable degree the singleness of mind by which he came to be known, as witness once more Hague:

> I remember meeting him when on an inspection tour in an Ontario town, and hearing while there of the trenchant style in which his inspections were made, and how utterly regardless he was of the views and feelings of the agents or managers of the bank. In truth, the old style of inspection badly needed reform, for it was worse than useless.

As manager of the Bank's Montreal branch, King left little to be desired, except perhaps that, like Benjamin Holmes, he was not over-generous in the courtesies he paid to customers whose banking affairs were not in proper order. He was, in Hague's words, "a thorough man of business and a man of the world, who understood the requirements of business, and had a keen insight into the ways of men. He never scrupled to act, when action seemed to be required, no matter who might be in his way. I have heard bitter complaints again and again, not so much of what he did, as of the manner in which it was done."

To say that this resolute Irishman had a galvanizing effect on the Bank of Montreal would be a glaring understatement. No sooner had he entered the General Manager's office than he began to demonstrate the speed and incisiveness with which his decisions were made and carried into practice. By the beginning of March,. 1863, some three weeks before his appointment, the gambling on Wall Street had reached such proportions that the authorities decided to intervene by placing a tax on time sales of gold and prohibiting loans on coin secured for more than its par value. On March 27, a request from the New York agency for "Letters of Guarantee to the extent of $500,000" was probably the first important decision requiring King's attention.

Until now, apparently, the New York agency had remained on the defensive, making what profit it could by negotiating paper for Canadian needs, but keeping as far as possible from the financial cyclones that had destroyed so many financial and commercial institutions. With the Bank already holding abnormally large cash reserves, King now moved to the offensive. Although gold prices in terms of American currency still fluctuated erratically, the official edicts had restored some order to the market, and King saw that there would be little risk if the Bank did not participate in speculation but merely lent gold to established clients. As collateral, according to Hague, "The Bank had the choice of such [bills] as were on the market, and took none but those of the highest class." With a detailed knowledge of the Bank's innate strength and its ability to acquire additional gold through its English connections, King could offer

PETER MCGILL AND THE WIDOWS AND ORPHANS FUND

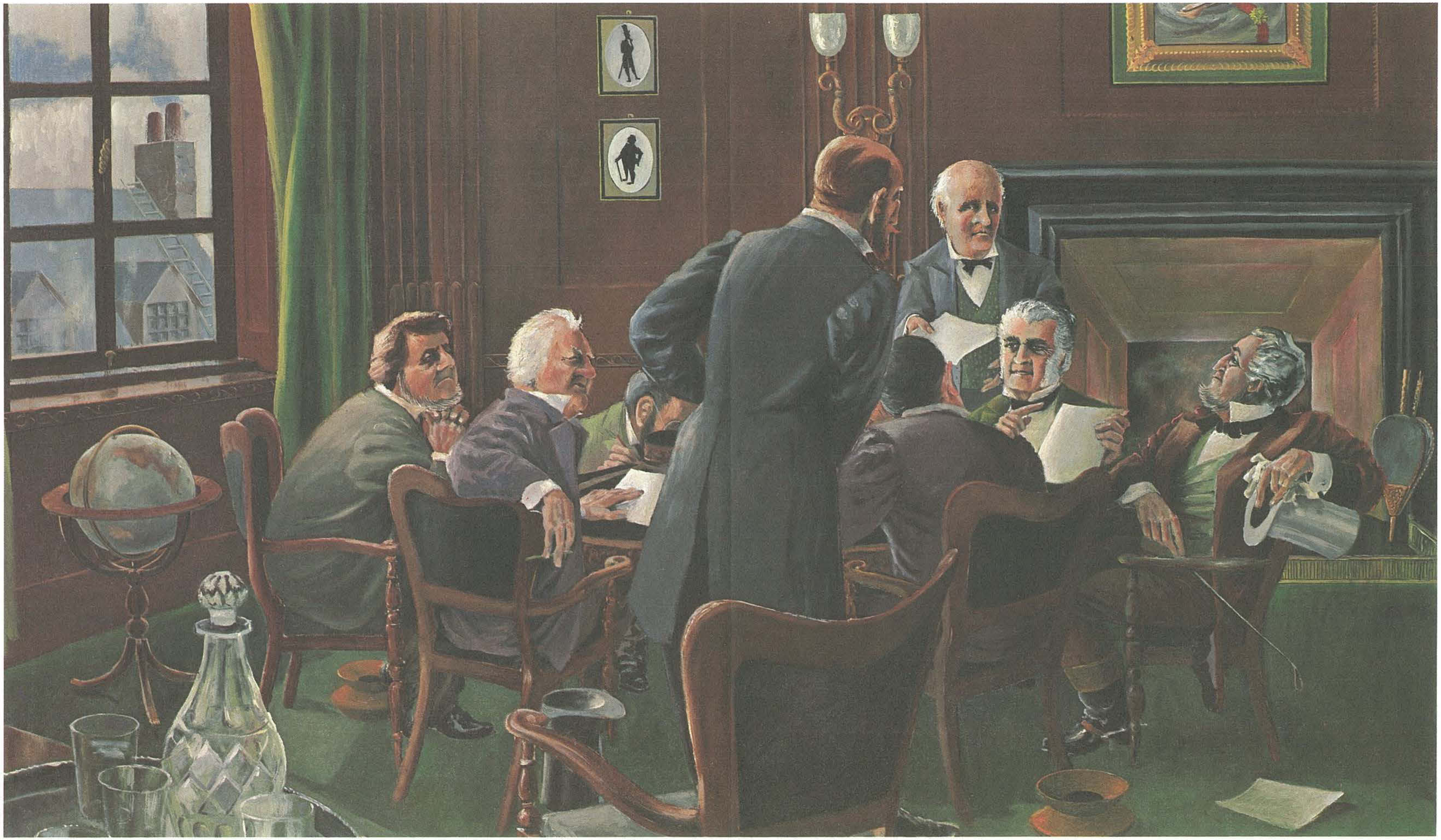
In November 1859 Peter McGill made one of his last appearances at a Bank of Montreal directors' meeting. Born in Scotland in 1789, he had come to Canada as a young man and had quickly become a leading commercial and political figure in Montreal. In 1834 he had been elected President of the Bank, a post he held for twenty-six years until poor health forced his retirement shortly before his death in 1860.

Among his fellow directors gathered around the board room table are a former cashier of the Bank, Benjamin Holmes, second from the left, and two future presidents, David Torrance at the extreme right clutching his beaver hat, and McGill's successor, T. B. Anderson, seated at the far left. Behind President McGill stands the Cashier, David Davidson, ready to propose the adoption of his plan for a "Widows and Orphans Fund."

The Annuity and Guarantee Funds Society of the Bank of Montreal, as it was officially called, was probably the first such plan in Canada. Drafted by a Scottish actuary, the contributory insurance scheme was designed to provide for the family of a member of the Bank's staff in the case of the bread-winner's death. The basic subscription could be multiplied to increase the annuity, and the Bank made an annual contribution.

It took more than a year to work out the final details of the Fund and to obtain an act of parliament for its establishment. Twenty-five years later, in 1885, a wider plan was adopted to include employee retirement benefits which had previously been left to the discretion of the directors. This marked the founding of the present Pension Fund Society of the Bank of Montreal and on its inception it took over the assets of the old Widows and Orphans Fund.

Painting by Robert La Palme



facilities that the American banks were no longer able to provide; and as its New York activities were only a relatively minor part of its over-all operations, King was not bound to take any and every chance to employ the Bank's funds in the hysterically competitive market, as were many local institutions.

Nevertheless, the atmosphere was apparently too charged with tension for Charles Smithers – then the joint agent at New York with Richard Bell – a man of quiet and even temperament. He later confided to George Hague that "the operations inaugurated by Mr. King, and which he had to carry out, were of such a character as almost to make his 'hair stand on end.' " On May 8, 1863, that is, six and a half weeks after King had accepted his new post, the directors of the Bank of Montreal met to consider a letter from Smithers "resigning his appointment and requesting to be relieved of his duties within ten days." The General Manager was instructed to write to Smithers reminding him that the Bank required three months' notice of resignations and informing him that he could be released earlier only if a suitable replacement were found. Smithers appealed the decision, but the Board was adamant, a matter of indiscretion having dispersed whatever earlier sympathy there might have been for him. The pertinent Minute reads:

> The Board determined to adhere to their former letter upon the subject, and instructed the General Manager to convey to Mr. Smithers their great dissatisfaction at his having permitted an advertisement to appear in the Montreal papers on Saturday last, and since, bearing his name as General Manager of the London & Colonial Bank while he was still in the service of, and unreleased from his duties in, this Bank.

By May 26 Smithers had left, presumably to the London & Colonial Bank, to return in later years to the highest position of power in the Bank of Montreal. Richard Bladworth Angus, then thirty-two years of age almost to the day, and another around whom legends were to grow, was sent from the Bank's Chicago office to join Bell in New York as "Second Agent . . . with a salary of $2,400 per annum payable in American Currency."

Smithers was therefore in New York only some six weeks during which he could have received directives from King; and yet on Smithers's evidence, Hague, writing thirty-three years later and understandably somewhat imprecisely, concludes that King's operations "must have been of the nature of speculation, more or less, and . . . might have been highly dangerous." The suggestion that his conduct of operations resulted in huge profits for the Bank of Montreal throughout the period of the Civil War (1861-65) has since been accepted unreservedly. By inference, King has become classed with those financiers of Wall Street amongst whom neither the virtues of patriotism nor the merits of probity were reputed to be held in high regard.

E. H. King was General Manager of the Bank of Montreal for some two years only out of the four that the Civil War took to spend itself; he was, therefore, not directly concerned at all with the speculative opportunities of the early war years. More important, the Bank's records leave no doubt that Hague's recollections on this point – that "the Bank, therefore, during all this period was making double profits on its ordinary banking operations in New York, besides realizing, at times, large sums as the result of its operations in gold" – were in fact mere assumptions. Even more astonishing are the statements that "these extraordinary profits were reflected in the annual statements of the bank at the time," and "dividends as high as 16 per cent were paid, and enormous sums – as much as $1,000,000 at times – were added to the Rest in addition." The facts are otherwise.

At the Bank's annual meeting in June, 1863, the shareholders were informed:

> The heavy loss sustained in the conversion of the Bank's funds in the United States into Gold, the almost entire cessation of business with that country, and the further depreciation in the value of Real Estate held as security for old debts, have, together with the ordinary business losses of the year, combined to render the present return unsatisfactory.

The dividend that year remained, as in previous years, at eight per cent, but the Rest was actually decreased by $100,000. At the annual meeting in June, 1864, the Board reported that "looking at the continued risk and uncertainty attending business transactions with the United States . . . the Directors consider the result of the operations of the last year to be satisfactory." The dividend to the shareholders was still eight per cent. In June, 1865, the shareholders were informed: "Your Directors believe that the prospects of the Bank for the current year are brighter . . . [since] the unhappy Civil War in the United States is at an end." The dividend was continued at the established rate of eight per cent and the Rest was not increased by one penny from the $700,000 reported in 1863. In point of fact, it was not until the early 1870's, when Canada's own domestic economy was experiencing its greatest prosperity of the century, that the Bank paid a dividend of sixteen per cent or added one million dollars to the Rest in a single year.

The operations of the Bank in Chicago during the last years of the Civil War are even more inconclusive. The National Currency Act of 1862 was greeted with considerable enthusiasm by the merchants of the city, as was the National Bank Act passed a year later and recast in 1864. As under the state free banking acts, notes could be issued upon the deposit of approved securities with the government, in this case the federal comptroller of currency, who was authorized to charter privately owned banks in any state with a stipulated minimum capital and a prescribed ratio of cash reserves to notes and deposits. Although both the new acts were aimed at providing the country with a more reliable currency, many Chicago bankers, operating under state charters, were reluctant to adjust their affairs too quickly to the new order. Thus while the general acceptance by the public of greenbacks cut very heavily into the Bank's note circulation and was reflected in falling profits, the demand for bills of exchange for shipping produce to market remained strong, and the Bank's discounts were maintained at a profitable level. As in New York, however, the Bank certainly did not reap any great benefit from the war-time environment.

In the same legendary vein as the story of the Bank's fabulous Civil War profits is another that connects the institution with John Wilkes Booth, who visited Montreal in October, 1864, about six months before he shot Abraham Lincoln at Ford's Theatre in Washington. One of the foremost actors of his day, Booth was in the Canadian city to fill a theatrical engagement and while there is known to have had funds on deposit in a local bank. On the basis of this information, it has been assumed that the bank in question could only have been the Bank of Montreal. However, a search of the Bank's current and savings ledgers of the period failed to disclose any account in the name of John Wilkes Booth.

The facts of the matter have been established by a Montreal historian, Clayton Gray, and reported in his *Conspiracy in Canada*, a work dealing with Confederate activities in Canada during the Civil War. In it the author furnishes evidence to show that Booth did indeed have a bank account in Montreal, but that it was in the local branch of the Ontario Bank, which had its head office in Toronto. The Bank of Montreal did, however, become the temporary repository of the papers of Jefferson Davis, the President of the Confederacy, until he arrived in Montreal in 1867. He remained there four years working on his voluminous history, *The Rise and Fall of the Confederate Government*.

3.

The Bank's New York and Chicago involvements were of course of secondary import. Its principal operations lay in Canada where the great bulk of its capital remained to serve the business community and successive finance ministers.

When Alexander Galt took over the finance portfolio of the province in August, 1858, he tried, as far as was within his power, to further the fiscal reforms begun by Hincks but shelved during the reign of his successor, William Cayley. The sinking fund to retire the twenty-year Imperial guaranteed loan was steadily augmented and Galt's tariff revisions helped narrow the gap between revenues and expenditures. Some progress was made in refunding the provincial debt by the issue of a new five-per-cent stock in place of the existing debentures and by the investment of the sinking fund in more profitable securities. Through such means it was hoped that the entire debt, amounting to $58,292,469 at the end of 1860, could be paid off in fifty years. In spite of such progress, however, the government's commitment to the Bank of Upper Canada still hung like the proverbial albatross around the neck of the finance minister.

When the Cartier government fell in May, 1862, Galt was succeeded by William P. Howland, a successful Canada West merchant and one of the leading lights in the Reform Party, who was later to prove his worth as an able administrator in a variety of cabinet posts. As finance minister in the Sandfield Macdonald - Sicotte administration, Howland decided to institute a full-dress examination of the financial conduct of the preceding government. For this purpose a commission of inquiry was appointed and in May of 1863 rendered a preliminary report that made public for the first time the condition of the Bank of Upper Canada and the extent of the government's involvement. Yet so great was the prestige of the institution, and so strong were provincial pride and loyalty, that public confidence was quickly restored after a brief flurry of excitement.

In one of the frequent cabinet shuffles that marked the period of the Union, A.-A. Dorion replaced L.-V. Sicotte as Sandfield Macdonald's titular partner and Howland's post was given to Luther Holton, who in 1856 had ushered through parliament the bill to consolidate the Bank of Montreal charter. Undaunted by a cool reception accorded an application for funds by his predecessor the previous December, Holton approached the Bank on May 26, 1863, for a loan of £100,000 to £150,000 sterling, "for the purpose of making up the amount required in England to meet the July interest on Provincial Stock and Debentures." Although sympathetic to the government's position and "of [the] opinion that the Bank should do all that was prudent" to assist, the Board found that "the amount named could not be conveniently provided from the resources of the Bank, without the deposit of Provincial Debentures for a portion of the advance, against which the Bank could draw upon its London Agents."

Such an arrangement was impossible, however, because no legislative authorization had been granted for the issue of debentures. Save for the $1,200,000 on deposit with the Bank of Upper Canada, the bottom of the barrel had been reached. In this predicament, Holton could only try to impress upon Cassells, the manager of the Bank of Upper Canada, the desperate nature of the situation; Cassells, in turn, could do nothing more than plead for "moderate indulgence."

Tripartite conferences between King, Cassells, and the government were carried on into the late fall of 1863. The Minutes of the Bank of Montreal, however, give no clue to the nature of the negotiations; this leads to the conclusion that the Board, fully convinced of King's financial acumen by his recent New York experiences, gave him a generally free hand to pursue whatever policy he calculated to be best for the Bank's interests. The Board's confidence and trust in their new general manager was not misplaced. On November 10, by which time the requisite legislation for the debenture issue had been passed, the assembled directors listened with satisfaction to King's report of his latest meeting with Holton and Howland, now Receiver General, at which it had been "agreed that the Bank would purchase Provincial Debentures having three years to run, to the extent of One Million Dollars or if required, to the extent of One and a half Million Dollars." Even more significant was the decision "that the Bank of Montreal should be appointed the Fiscal Agents of the Province in Canada, and that the Provincial Account should be transferred from the Bank of Upper Canada on the 1st January next." This agreement, marking one of the most important milestones in the Bank's career, was forthwith ratified by the Board and confirmed, on the government's part, by an Order in Council dated November 19, 1863.

Although not so much as a hint of King's line of endeavour is contained in the Bank's records, the transfer of the government account would seem, in retrospect, an entirely logical development. The Bank of Montreal had all the prerequisites to fill the role: large capital, an extensive branch system,

MAIN STREET, PICTON – 1869

Occupying one of the most picturesque sites on Lake Ontario, overlooking the Bay of Quinte, the Loyalist settlement of Picton was incorporated as a town in 1837. Picton's buildings clustered around its splendid harbour, for at that time traffic was entirely water borne. It was already a busy trading centre from which large quantities of barley were shipped to the United States. The barley also supplied a local brewery, and one or two foundries were in business.

Four years before the first steamboat docked in the bay in 1850, Picton welcomed its first bank, an office of the Bank of Montreal. In 1862 the branch moved to Main Street. The three-storey building it then rented, and bought seventeen years later, can be seen second from the left in this picture of 1869. In those days Main Street was a dirt thoroughfare bordered by wooden sidewalks.

experience in government finance, established and respected facilities in New York, and important connections in London; the Bank of Upper Canada, on the other hand, was sinking fast and scarcely had the resources to keep its head above water. The relations of the Bank of Montreal with governments dated back to its very founding in 1817. Until Union, the Bank had served both the provincial and the Imperial governments in Lower Canada and, for a time, the latter in Upper Canada. However, the political influence of the Bank of Upper Canada had proved too strong, and after Union the Montreal-based institution had had to settle for a share of the government's deposits until even these were withdrawn following Benjamin Holmes's confrontation with the Board of Works. Thereafter, despite the reconciliation of 1846, the Bank had tended to shy away from involvement with the government, as is exemplified by its refusal to take any major role in the railway schemes of the fifties.

The government account, in 1863, could not have been much of a prize, so tangled were the provincial finances. From the other point of view, the Toronto *Globe* denounced the transfer of allegiance as "highly impolitic as regards the general interests of the country." In the short run, it was more likely to be the general interests of the Bank of Montreal that would suffer. In decades to come, however, the events of November, 1863, would be responsible for changing the whole course of the Bank's development.

The summer of 1863 is of course best known for the battle of Gettysburg which was fought and won by the Union forces of the North in early July. The victory marked the turning point in the struggle between the states and the marshalling of the North's resources that determined the final outcome of the fratricidal struggle. The greatly increased demand that followed for supplies and material of all kinds goes far to explain the record Canadian exports remarked upon at the beginning of the chapter. As noted, however, the annual report submitted to the Bank's shareholders in June 1864 predicted no increase in profits and the implications of the President's dolorous business forecast were clear: there would be no softening of the Bank's conservative policies – in the vernacular, the directors were not taking any chances.

This attitude was no more than realistic. Even though a source of profit to some, the Civil War remained a disruptive influence. At home, the Province of Canada was beset by a series of ineffectual coalition governments and despite the redemption of some debentures in 1863 its debt continued to grow.

The approach of the Centennial of Confederation has made Canadians familiar with the historic conferences held at Charlottetown in September 1864 and at

Quebec six weeks later. What may not be so familiar to many readers is the role that economic necessity played in the struggle for Confederation. How great the financial emergency had become by the summer of 1864 is revealed in a letter written by E. H. King to Alexander Galt, who was again Minister of Finance, on the eve of the Charlottetown Conference. Now preserved in the Galt Papers in the Public Archives, and dated Montreal, August 31, the communication deals with the inability of the Bank of Montreal to relieve the situation. In point of fact, the Bank of Montreal by this time, and for some time past, had been the only source to which the government could turn for the sterling exchange required to maintain its credit in London.

That there could be a limit to such support was implied by King in a statement pointing out that while the Bank had been able to increase its mercantile loans by more than $2 million over the past year, "the means . . . had been derived in great measure, in fact almost entirely, from American deposits which would be hastily withdrawn in case of alarm, monetary or political." King made no reference to the Charlottetown Conference in his letter. There was no need to: Galt had been the first eminent Canadian to propose a federation of the British North American provinces, in 1858, and to him King's message was inescapable.

When the delegates departed from Quebec on October 27, 1864, they had high hopes that the seventy-two resolutions they had drawn up endorsing federal union would be accorded speedy ratification by the several provincial legislatures. Instead, nearly three years were to intervene before the splendid concept of a new Canadian nation became a reality. The forces responsible for obstruction and delay were largely self-seeking and regional, those that determined the final outcome were external and in the main fortuitous. While Macdonald and Cartier, joined in statesmanlike harmony, were able to secure the prompt endorsement of the legislature of the Province of Canada, Samuel Leonard Tilley, the leading proponent of Confederation in New Brunswick, suffered a crushing defeat at the polls in March 1865, and in Nova Scotia, Joseph Howe, the famed tribune of the people, reversed himself to become the most powerful opponent of union. For their part, the hosts of the Charlottetown Conference simply withdrew from further discussion, and Prince Edward Island engaged in capital commitments of fantastic proportions.

Opposing these divisive factors were countervailing influences generated directly in Great Britain and indirectly in the United States. Which of several determinants was the most decisive will always remain a moot question. The support given Confederation by the British government was obviously essential, but significant also were the pressures brought to bear by Grand Trunk Railway interests in London through the potent backing of the International Financial Society. Founded in 1863 along the lines of the French Société générale du crédit mobilier for wide-ranging investment purposes, the Society numbered among its founders Thomas Baring and George Carr Glyn, the two London bankers most intimately conversant with Canadian affairs. Soon after its formation it bought control of the Hudson's Bay Company following the refusal of the latter to come to terms with the Grand Trunk Railway for the construction of a telegraph line across its territory on the grounds that the intrusion would encourage settlement. Although the incident has generally been glossed over, it reveals a vision of Confederation embracing a Canada that would extend from sea to sea and occupy a territory larger than that of the United States.

While the prospect of continental dominion fired the imagination of some Canadians, the vast majority were far more concerned with the progressive deterioration in Canadian-American relations that began in 1864. Involved were such incidents as the raids launched from Canadian soil by Southern military refugees and agents against St. Albans, Vermont, and Johnson's Island in Lake Erie, the abrogation of the Reciprocity Treaty by the United States in 1865, and the threatened invasion of Canada by Fenian sympathizers grouped along the international boundary at points as widely separated as Eastport, Maine, and the Niagara frontier. With the mobilization of ten thousand militia by John A. Macdonald early in 1866, confederation could no longer be viewed as a matter of political expediency. It had become an urgent and desperate necessity.

Meanwhile, in the face of political tumult and dissension, Alexander Galt laboured heroically to preserve the precarious solvency of the provincial treasury and along with it Canada's credit standing on the London money market. Of the difficulties encountered by the harassed finance minister, George Hague observed much later in his reminiscences, "I have seen in Blue Books letters from its [the government's] London agents written in exactly the same tone and to the same purpose as banks assume towards a debtor whose bills are overdue." Despite their connection with the International Financial Society, neither Thomas Baring nor George Carr Glyn appears to have entertained a negotiable belief that Confederation would become a reality and improve Canada's financial position.

CONFEDERATION'S BIRTHPLACE

Delegates from the three Atlantic provinces were engaged in a conference at the Colonial Building in Charlottetown in September, 1864, when they were joined by eight representatives from the Province of Canada. The subject under discussion then changed from a political union of the Maritimes to a confederation of all the British North American colonies. In this painting, the historic conference hall, now called the Provincial Building, can be seen behind the city's market centre, while at the right is the building that housed both the post office and the court house.

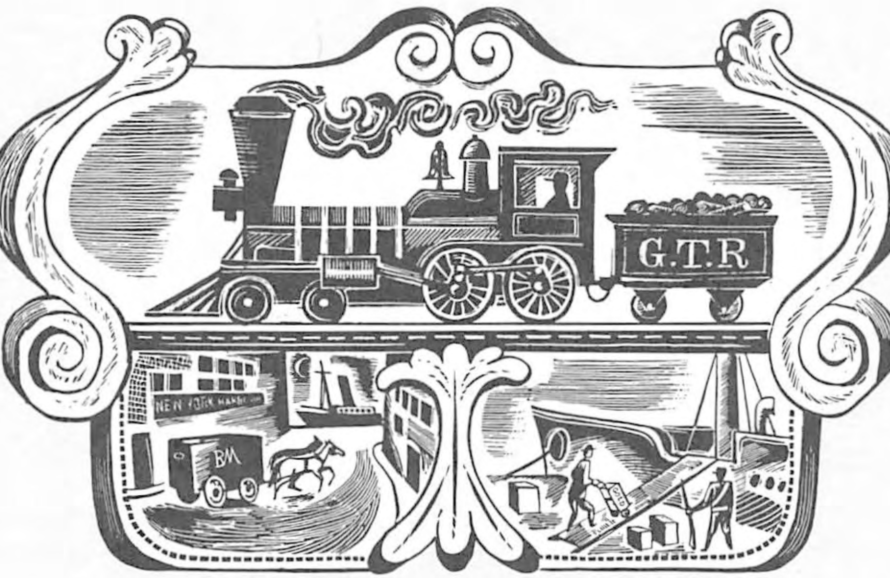
Prince Edward Island, known as St. John's Island until 1799, was separated from Nova Scotia in 1769. The site of Charlottetown, first settled under French rule in 1720, commanded a fine harbour formed by the confluence of three rivers, and the city soon became the commercial centre of the island.

Notwithstanding King's warning letter just before the Charlottetown Conference, the Bank of Montreal remained Galt's staunch supporter. Less than a month after the Quebec Conference the minister was again forced to turn to the Bank for a "temporary" loan of $500,000 and before the year was out an additional $250,000 had to be provided. With the earlier advance of $1,500,000, the government's indebtedness to the Bank of Montreal at the end of 1864 totalled $2,250,000 or about 16½ per cent of the Bank's aggregate advances. Fortunately for all concerned the resources of the St. James Street institution were ample to meet the recurrent demands of its most important customer, the Province of Canada.

With every set-back to the cause of federal union, such demands became progressively more urgent, and early in 1865 the Bank was called upon for an additional advance of £200,000 sterling to meet interest payments in London, while in June the government was granted an extension on $250,000 of the previous loan and another £50,000 in sterling. The extent of the financial crisis by November is conveyed in a letter from Galt to the government's English bankers in which it is stated that at the existing rate of quotation, the government could not contemplate the sale of securities. On November 10 the Bank agreed to extend to December 26 overdue loans totalling $1,000,000 and to advance another sorely needed $1,500,000. The former sum, it was hoped, would be repaid from a loan which Galt believed could be negotiated privately in London. This, ironically, was made possible by the more hopeful outlook for Confederation induced by the ominous developments along the international boundary. Baring Brothers and Glyn, Mills & Co. each agreed to advance £50,000 and the balance of $500,000 was met by withdrawals from the government's account with the Bank of Montreal in which a working balance of $400,000 to $500,000 was maintained under the November agreement.

It is pointless to conjecture what turn events might have taken had it not been for the Bank's unfailing support of Alexander Galt as Minister of Finance in the Macdonald-Cartier government. That such support was rendered without hesitation or apparent questioning can be explained only by the attitude of the Board, and more particularly, perhaps, that of the General Manager, E. H. King, toward Confederation. While the word appears nowhere in the Minutes, it is manifest from the actions of the directors that they were wholly convinced of the urgent need for some form of federal union and were prepared to do all that lay within their power to help bring about its realization.

SEVEN



THE NAPOLEON OF CANADIAN FINANCE

THE NAPOLEON OF CANADIAN FINANCE

1.

Whatever the service rendered to Canada by the Bank of Montreal through its financing of the government, the practical implications of these operations caused some difficulty for the Bank. In order to supply the province with the funds it needed to maintain its precarious solvency, the Bank had to sacrifice a substantial share of its domestic commercial business. This was effected by drastically restricting discounts, particularly in Canada West where the demand was greatest, in the interest of maintaining strong liquid reserves. As subsequent events demonstrated, this policy cost the Bank a serious loss of goodwill in the western part of the province by strengthening the monopolistic image that had been growing since the depression of the late 1850's.

It was in part to improve that image, perhaps, that the Board in July, 1864, decided to revive the practice of having a local director in Toronto. The choice fell upon William McMaster, one of the outstanding financial leaders in the western part of the province and a member of the Legislative Council. Four months later, the Great Western Railway, of which McMaster was soon to be appointed a director, approached the Bank of Montreal with a view to transferring its account from the Bank of Upper Canada and the Commercial Bank, provided a satisfactory arrangement could be made. The value of the Great Western's strategic position as a bridge between the Atlantic seaboard and the American middle west was well recognized by the Bank with its agency in Chicago, and a credit of £20,000 was granted, to be drawn on for operating expenses and to be paid for out of operating revenues.

This was the Bank's first important venture in railway finance since the mid 1850's and was followed less than a year later by the renewal of its former connection with the Grand Trunk. By that time the Grand Trunk had completed tap-roots into Michigan and Illinois, and negotiations instituted by E. H. King in the autumn of 1865 led to the signing of a five-year agreement under which the Bank of Montreal took over the railway's banking and exchange business in both Canada and the United States. Prior to obtaining this account, the Bank had remained a worthy but essentially colonial institution in the eyes of Lombard Street: as the North American banker for the fabulous Grand Trunk Railway Company, it gained new prestige and received recognition as an associate of the powerful financial consortium that had been among the earliest advocates of Confederation.

Taking advantage of this situation, and keeping in mind the dependence on the London money market of two of the Bank's largest accounts – the government and the Grand Trunk – E. H. King set out for England in late January 1866. The overseas journey resulted in a major reorganization of the Bank's foreign connections and a more liberal agreement with the Bank of Liverpool, which had been an agent of the Bank of Montreal in England since 1838. As if King had foreseen Canada's global position following Confederation, he made arrangements with the Oriental Bank to honour Bank of Montreal drafts in India and China, with the National Bank of Scotland for drafts on its Irish branches, and with the Colonial Bank for credits in the Caribbean.

The value of the General Manager's services had been recognized by the Board following the annual meeting of June, 1865, when he was voted £500 for "special services" and his salary was increased to $10,000. In 1866 this arrangement was succeeded by another, unique in the annals of the Bank, under which King received in addition to his salary "a Commission upon the excess of net profits over 8 per cent or 10 per cent per annum upon the Capital." The agreement did not become public knowledge for some years but rumours of its existence helped perpetuate the King legend. As George

Hague observed in his memoir, the profit-sharing agreement was "a somewhat dangerous arrangement, and one offering a great temptation to swell up profits by not making a proper allowance for bad and doubtful debts." To this opinion was added the disclaimer: "Mr. King, however, was not the sort of man to make mistakes of that kind."

The fiscal year 1865-66 was the most satisfactory the Bank of Montreal had experienced since the late depression. In contrast with the total of more than $800,000 written off to cover bad and doubtful debts in the three preceding years, losses from those sources were relatively minor, although a substantial sum was reserved against depreciation in the value of the Bank's bond portfolio. With traditional conservatism the Board held dividend payments to eight per cent and added $250,000 to the rest fund despite the growing dissatisfaction of many shareholders. Provision was also made for depreciation of the Bank's buildings and $50,000 was written off the premises account, leaving $13,250 to be carried forward to profit and loss as an added bulwark to security.

That the Board attributed a large measure of the year's success to the brilliant efforts of E. H. King was amply demonstrated, but, without detracting in the least from his performance, it seems apparent that history was strongly on his side. For example, 1866 was one of the two exceptional years in which the Province of Canada enjoyed a favourable trade balance, the only other being 1860. The reasons were succinctly stated in the annual report of 1866:

> The termination of the American civil war was accompanied and followed by a much more rapid decline in the price of gold than in the price of any other commodity.
>
> The effect of this was to increase enormously the purchasing power of Federal currency in foreign markets, and Canada, being the nearest, was the first to reap the benefit.
>
> Not only were remunerative prices obtained for the lumber and agricultural products which were accustomed to find American markets previously, but an unusual and exceptional demand arose for manufactures and even imported goods to supplement the short stocks fortunately held in the United States at the close of the war.

With commendable irony, the Congressional cancellation of the Reciprocity Treaty in early 1865, to take effect March 17, 1866, also reacted to Canada's advantage. To the demand built up by years of total war was added the incentive to stock inventories before tariffs were raised to their former level. Canada's trade position also benefited from crop failures in the American middle west at a time when adjacent parts of Canada were reaping a bountiful harvest.

The principal determinant of returning Canadian prosperity, however, was the remarkable strengthening of the United States greenback currency that took place after March, 1865, when the House of Representatives passed a resolution endorsing a return to the gold standard. These irredeemable legal-tender notes, at one time issued in an amount exceeding one billion dollars, had depreciated in value to an average of forty-five cents in gold throughout 1864, and at one point, when the city of Washington was seriously threatened, dropped in panic to a low of thirty-five cents. Earlier experiences with paper currency – in New France with the issue of card money, in France during the days of Law's Mississippi Bubble, and in the United States during and after the Revolution – had induced the widely held belief that the country never would or could meet such a colossal debt and that a major portion would eventually be repudiated. Edwin King thought differently. Only on this basis can one explain his New York transactions that had begun when Davidson resigned as general manager in March 1863 and had made Smithers's "hair stand on end."

Vindicated in his judgement of the Union by Lee's surrender at Appomattox, the recovery of the greenback currency, and the best year Canadian trade had yet known, King was not unduly concerned by the termination of reciprocity, as another excerpt from the annual report of 1866 reveals:

> The Directors apprehend, at the worst, nothing more than a temporary interruption to the progress of the country. Favoured as Canada is by freedom from debt and taxation when compared with the United States, and looking at the steady progress in the manufactures of the Province, an opportunity now presents itself of considering our fiscal system with a view of cheapening the necessaries of life, thereby attracting labour and lessening the cost of production, while gradually removing restrictions upon commerce that retard our industrial development, and depending hereafter upon more equal and direct contributions derived from sources of internal revenue for the maintenance of the public credit.

Subsequent developments fully justified the optimistic outlook: both Canada and the Bank of Montreal entered on a period of prosperity that was to extend with only minor setbacks into the 1870's.

What is most interesting in the forecast quoted above is the reference to the opportunity afforded to consider "our fiscal system," and the bearing it may have had on Alexander Galt's budget speech of June 26, 1866, in which he announced that he would seek authorization to issue provincial currency to a minimum of five million dollars, backed by specie and redeemable at treasury offices to be established in Montreal and Toronto. The figure was determined by what has later been termed Canada's "floating debt" – the government's short-term unfunded obligations held in Canada and by its London agents. The scheme was a reiteration of Galt's plan of 1860 and immediately provoked a controversy which has been extensively dealt with in the literature of Canadian banking. While the influence of the recent American experience in currency and banking is plainly evident, Galt's proposals, in at least one respect, were identical with Sydenham's 1840 plan for a government bank of issue: their purpose was to improve the state of the public finances by borrowing directly from the public instead of from the banks.

As Galt explained later in the heat of debate, he was not concerned with theory or principle; his sole purpose was to dispose of the five-million-dollar floating debt. What difference was there, he asked, between the issue of one $1,000 debenture to a bank and the issue of one thousand $1 debentures, or notes, to the public? Important differences, of course, lay in the losses the chartered banks would suffer if their note-issuing privileges were curtailed, and in the saving the government would effect by issuing non-interest-bearing notes. To make his scheme more palatable to the putative losers, Galt proposed that any bank that surrendered its note-issuing privileges would be paid five per cent per annum on its circulation as of April 30, 1866, until the expiration of its charter in four years' time.

Expecting opposition from the western banks, the finance minister concluded that the success or failure of his plan would depend very largely on the reactions of the Montreal financial fraternity and principally on the Bank of Montreal and the Bank of British North America. In support of his belief, a semi-official outline of the proposals was sent to both banks a short time in advance of his budget speech, inviting their opinions. The Board of the Bank of Montreal intimated that they were not averse to the plan, provided certain technical modifications were incorporated. The General Manager was directed to convey the Board's reactions, by letter, to the finance minister.

The cynical assumption has been that Galt and King were in collusion, and such, certainly, was the contemporary opinion. The evidence, however, shows

VICTORIA, THE ISLAND CAPITAL

Fort Camosun, as Victoria was first called, was erected by the Hudson's Bay Company in 1843 and became the headquarters for its Pacific coast operations after the Oregon Treaty established American jurisdiction over Fort Vancouver on the Columbia River. As Fort Victoria, the settlement became the capital of the Crown Colony of Vancouver Island in 1850, and under its present name it was made capital of the united colony of British Columbia in 1869.

This sketch of 1860 shows the little town as it appeared at the start of the Cariboo gold rush. The main harbour is to the left, and this arm, known as James Bay, was later filled in as far as the bridge which was replaced by a continuation of Government Street. During both the Cariboo and earlier Fraser gold rushes the town acted as an important supply depot and its citizens prospered greatly; but they also had to be prepared for strange sights, as on the day one enterprising merchant took delivery of twenty-three camels destined to serve as pack animals for the prospectors.

that King was not seeking any favoured treatment for the Bank. For example, his answer to Galt's tentative proposals went beyond its immediate directives to include a suggestion that the government, before undertaking the controversial step envisaged, should first ask all the Canadian banks to contribute fifteen per cent of their capital to a provincial loan. If successful, such a loan would have provided $4.5 million, in which event the Bank of Montreal would have supplied the additional $500,000 to meet the government's requirements. At the time, therefore, King preferred this compromise to Galt's bolder plan of introducing a provincial currency, but the suggestion was refused. Before further steps could be taken the Montreal *Herald* obtained a copy of Galt's memorandum and published it in full. There followed outbursts of righteous indignation from Canada West where banks were outraged by the failure of the finance minister to take them into his confidence and by the prospect of lower profits if their circulation privileges were taken away. Led by the Toronto *Globe*, the acrimonious debate that followed recalled those that had raged in England over country banking early in the century and somewhat later in the United States over the introduction of free banking. It was echoed in a rather bitter footnote by Breckenridge some thirty years later, in which about the only opprobrious words omitted were "socialism" and "communism." The finance minister, former colonizer and railway builder, was denounced for his invasion of private property rights, his repudiation of solemn contractual agreements, and his proposed seizure, without proper remuneration, of valuable assets.

Notwithstanding the fulminations – and the legitimate fear that any form of government banking would become a political tool, as had been the case in the heyday of the Bank of Upper Canada – an act embodying Galt's proposals was passed by Parliament and given royal assent on August 15, 1866. Apart from minor modifications the provisions of the Provincial Note Act were those contained in Galt's memorandum to the Bank of Montreal, the principal one being the voluntary surrender by the chartered banks of their note-issuing privileges. The act also annulled the Free Banking Act of 1850 which long since had become moribund. To secure passage of the measure, however, the government was persuaded to make an important concession. Before implementing the act, it would make an attempt to raise through public subscription the five million dollars needed so desperately to cover the floating debt. How desperately it was needed may be deduced from the fact that though only half the

\$1.5 million due the Bank of Montreal in April had been repaid, Galt had to request another \$1.5 million to meet interest payments due in London in September. In the midst of these proceedings Galt felt compelled to resign from the cabinet over the question of separate schools, and the finance portfolio was again taken over by W. P. Howland.

Meanwhile the Bank of Montreal had not been inactive. The required \$1.5 million had been placed at the government's disposal on August 14, and in the week that followed the General Manager had several meetings with the Acting Minister of Finance and with Hon. Sir Narcisse Belleau, the Receiver General, with a view to establishing a basis of common interest which would relieve the government of its financial embarrassments. There followed an exchange of letters dated August 27 and August 31 between the Acting Minister of Finance and the General Manager of the Bank of Montreal by which the Bank undertook, alone of all the Canadian chartered institutions, to surrender its note issue within six months of the first issue of provincial notes or within a shorter period if the issue of five million dollars should be completed more speedily.

In return for giving up the profitable privilege of note issue, at long last acquired by the government, the Bank of Montreal was to be compensated at the rate of five per cent per annum as originally proposed and was "to be entitled to receive Provincial Notes in exchange for the provincial debentures held under its charter." The Bank was also to continue as the fiscal agent of the province and in addition was to receive a one-per-cent commission as agent for the issue and redemption of the provincial notes.

The benefits of the agreement were many and far reaching: the government would be relieved of its immediate debt and would be able to repay the Bank of Montreal \$2,250,000 in legal-tender notes together with \$600,000 in exchange for the provincial debentures retained by the Bank in compliance with Clause XXXI of its charter, which required holdings equal to ten per cent of paid-up capital. Putting it another way, the Bank could count on the immediate liberation of close to \$3 million of frozen assets and a greatly enhanced value for another \$2.9 million that it was holding in government securities, one issue of which was quoted as low as 83. Furthermore, since the Bank's own notes were being retired, it would no longer have to keep specie on hand for their redemption and could use a part of its two-million-dollar reserve in money markets where the Canadian usury law did not apply and where a higher rate of interest than seven per cent was readily obtainable.

Already holding nearly forty per cent of the specie in the province, and with other banks now having to remit gold for the legal-tender notes it alone had agreed to issue, the Bank of Montreal became not only a treasurer to the government but financial overlord of all the other banks as well. With a stroke of the pen, so to speak, the position of the Bank of Montreal had become unlike that of any other bank in North America and more analogous to that of the Bank of England, albeit on a smaller scale.

So anxious was the government to implement the scheme that it did not wait for the new plates to arrive but began in October to issue Bank of Montreal notes over-stamped and signed by the Receiver General. By the end of that month $2,920,000 had been issued in this manner, but it has been estimated that a substantial portion of them remained in the vaults of the Bank of Montreal despite concerted efforts by that institution to put them into circulation. As a result, the government's vision of a financial utopia was dashed to earth and on November 6, 1866, it once again had to fall back on the Bank of Montreal:

> The General Manager reported that he had ascertained from the Hon. W. P. Howland, Minister of Finance, that the Government expected to repay the Bank the greater portion of the loan of $1,500,000 maturing on 1st December next from funds derived from the issue of Provincial Notes. That the Government were desirous of a renewal of any portion of such loan as they were unable to meet, until the 15th January next, at the same rate of interest, viz: 7 per cent per annum. That the Government also desired that the Bank would make them an advance of $600,000 or such portion of that sum as might be required to meet the payment to the Bank of a similar sum of Debentures under the Provincial Note Act, such advance to bear interest at the rate of 7 per cent per annum and to be repayable on 1st February next. That the Government were desirous of an advance of $1,500,000 upon the 1st December next bearing interest at the rate of 7 per cent per annum and repayable on 1st May next, for the purpose of meeting the interest due by the Province in England on 1st January next, to be provided by sterling remittances to the English Agents between the 1st & 14th December next; and the Debentures for £400,000 Sterling now held by the Bank's Agents to cover the loan of $1,500,000 due 1st December being retained as security for the repayment of the loan for similar amount due 1st May next, with power to sell such Debentures after that date if the loan remain unpaid.

> The Hon. Minister of Finance also desired that the Bank would remit £100,000 Sterling from the present Cash Balance of the Government to the English Agents within the present week.

The Board consented to these terms, leaving the details to the General Manager, but it was obvious that renewed efforts would have to be made to expedite the circulation of provincial notes if the Bank did not want to be suffocated by the government account. Although the measures employed by the Bank were variously described as coercive, antagonistic and trenchant, the other banks soon adopted the habit of holding provincial notes as part of their reserves, and after it was seen that the government issue had a negligible effect on their own circulations a more general acceptance was forthcoming.

Events meanwhile had reached a point of climax in the affairs of the Bank of Upper Canada, the government's erstwhile banker. With its total obligations to the province alone standing at $1,283,441 by mid year 1866, the once-powerful financial arm of the Family Compact to all intents and purposes gave up the unequal struggle, and on August 15 it was granted permission to reduce its capital. By this time its daily balances were barely being met and it was in vain that the government advanced it $100,000 early in September. On September 14, the directors of the Bank of Montreal were advised by their General Manager "that he had that morning in conjunction with the Bank of British North America withdrawn from the Daily Settlement between the Banks in Montreal, owing to the insecure position of the Bank of Upper Canada." Four days later the Bank of Upper Canada stopped payment. In November its assets were assigned by the shareholders to trustees and in 1870 were transferred to the Crown. Losses arising from the failure totalled approximately five million dollars, equal to nearly twenty per cent of the paid-up banking capital of the province, and were borne chiefly by shareholders and the government.

While this was no inconsiderable amount, the loss suffered by the general public was only $300,000 and the contemporary consensus seems to have been that the failure was less than catastrophic and resulted from inferior management rather than any serious flaw in the banking system. The principal cause of the collapse appears to have been the loop-hole in bank charters that enabled financial institutions to lend money by the process of hypothecation on thinly disguised real-estate security. The practice was quite legal, however, and except among more conservative bankers provoked little criticism.

In any event, the overriding interest of the time was in the changing political climate with respect to Confederation. With a victory at the New Brunswick polls behind him, Tilley in company with Tupper, who had staved off Howe in Nova Scotia, departed for London in July 1866 with legislative mandates for Confederation. In mid November they were joined by Macdonald, Cartier, Galt, Howland and other Canadians in drafting proposals for a federal constitution. The details of the London Conference need not concern us here. Suffice it to say that the seventy-two Quebec Resolutions with minor modifications became the basis of the British North America Act, which was given its final reading before an almost empty House of Commons on March 29, 1867. The long travail was finally ended on July 1 when by royal proclamation the Dominion of Canada, comprising the provinces of Nova Scotia, New Brunswick, Quebec and Ontario, came into being.

In the present context, the most pertinent provisions of the Act were contained in Sections 91, 92, 145 and 146. The first two gave the central government far-reaching powers with respect to fiscal and financial matters, control over trade and commerce, and the regulation of currency and banking. Section 145 provided for the construction of an intercolonial railway, to be begun within six months, to connect Halifax and the St. Lawrence River, and Section 146 gave authority for the inclusion in Confederation not only of Prince Edward Island and Newfoundland, but also, significantly, of British Columbia, Rupert's Land and the Northwestern Territory. The federal government also assumed the debts of the several provinces, aggregating $93 million. At about $28, the per capita debt of the new Dominion was less than half that of the United States.

Yet, before Confederation could become a fact, and despite the flourishing state of the economy, the support of the Bank of Montreal was again required by the government. On May 3 the Board was asked to renew for three months one half, or $750,000, of the previous December's loan to the government which had matured on May 1. Again on June 14, the Board approved the General Manager's "arrangement with the Hon. Minister of Finance for a loan of $1,250,000 repayable on 1st December next with interest at the rate of 7 per cent per annum, for the purpose of providing Sterling Exchange to meet the July interest on the Provincial Debentures in London." Later in the same month, the government sought co-operation of a different kind when Galt, again finance minister, requested "on behalf of the Government of Canada . . . the Bank to send officers to St. John, N.B., and Halifax, N.S. to receive the revenue and make disbursements for the Dominion; also to place $100,000 at St. John and $250,000 at Halifax at the credit of the Dominion."

The first banks established in New Brunswick and Nova Scotia were the Bank of New Brunswick, which received a charter in 1820, and the private Halifax Banking Company, opened in 1825 mainly to handle the extensive foreign-exchange transactions necessary in its native city. By 1867 there were three other banks in New Brunswick serving an economy based almost entirely on forest products, and four others in Nova Scotia deriving most of their business from foreign trade, fishing and ship-building. The replacement of wooden sailing ships by the iron-plated steamship, the loss of colonial preferences, and increased American competition in markets for fish, especially during reciprocity, had impeded the economic growth of the Maritimes. Consequently the capitals of their banks had remained small, the largest being $600,000, and it is doubtful if any one of them could have accommodated the federal government to the extent desired without severely hindering its other operations. The Bank of British North America, of course, had had offices throughout the Maritimes since the 1830's, but the government in Ottawa would have balked at appointing an agent whose head office was in England.

It was these circumstances that sent two Bank of Montreal senior employees, T. Christian and Archibald Macnider, to Saint John and Halifax, respectively, on the very eve of Confederation. In Saint John the advent of the branch was greeted enthusiastically by the press, which predicted great advantages for local enterprise from the large capital and widespread facilities of the Bank of Montreal. They were not disappointed. Only two years later, in July 1869, when the Bank opened a third Maritime branch at Newcastle, N.B., the Saint John office was reporting discounts of $350,500 and total assets of $1,150,000, making it one of the ten largest of the Bank's thirty offices.

At the time of Confederation, the population of Halifax was 26,000, and although the Bank had had the foresight to begin searching for office space in February, the only spot that could be found was a room in the fourth storey of a building on Bedford Row. After making the preliminary arrangements, Macnider was transferred to Saint John and E. C. Jones was sent by Head Office to take his place. The growth of the branch at Halifax more or less kept pace with that at Saint John, but its discounts were for a long time substantially less, most of its profits in the early years arising out of foreign-exchange transactions.

2.

Of all the Fathers of Confederation none could have been more dedicated than Alexander Tilloch Galt. Almost a decade earlier he had been the pioneer advocate of federal union and throughout the discussions that began with the Charlottetown Conference had counselled the creation of a strong central government armed with the fiscal and financial powers that alone could foster a viable economy in British North America. It was entirely in keeping, therefore, that he should have resumed his old finance portfolio when Macdonald, now Sir John, formed the first Dominion cabinet. Yet six weeks after the elections held in August and September, 1867, Galt again resigned the post to take a position as a back-bencher throughout the life of the first Dominion parliament.

The reasons for the resignation were in part political, in part personal, and stemmed directly from the failure of the Commercial Bank of the Midland District on October 22, 1867. While this second major bank failure within a year wrought less damage upon its shareholders and the public than the first and occurred under rather more defensible circumstances, its effects on Canadian banking were much more extensive.

Like the Bank of Upper Canada, the Commercial Bank had been guilty of many unsound banking practices. Advances had been made against accommodation paper and perpetuated almost indefinitely under a haphazard system of overdrafts on improper security. Unlike its defunct contemporary, however, the Commercial had engaged heavily in railway financing including extensive loans to the Detroit and Milwaukee Railroad, an American enterprise managed by the Great Western, a customer of the Commercial Bank prior to 1864. When the American company found itself in difficulties, and the Great Western denied responsibility, the bank was forced into litigation. The sum involved was large enough to shake public confidence and a run occurred, to be promptly halted when the Bank of Montreal made a temporary loan of $300,000 on September 20, 1867.

A month later, a second run took place, whereupon the Commercial Bank turned to its fellows for advances totalling $750,000. Meetings between the various banks ensued at which the Bank of Montreal offered to provide two-thirds of the funds required if the other banks would assume the balance and agree to guarantee the total. The offer was refused and when the government would not intercede, the Commercial Bank was forced to suspend payments. Within two months, however, the liabilities were reduced from $4,350,000

NEW BANKING HOUSE IN SAINT JOHN

The Saint John, New Brunswick, branch of the Bank of Montreal was opened in July 1867 at the request of the new Dominion government to receive customs and excise duties from the port. Following the disastrous fire in 1877 that destroyed more than half the city, including the premises then being used by the Bank, the branch moved to the newly constructed building in the left foreground of this engraving.

The site of the Bank's new offices, the corner of King and Prince William streets, had long been associated with the commercial life of Saint John, for it had been occupied for many years by the city's old Coffee House. Legend has it that prior to erecting this famous merchants' meeting place, about the time of Saint John's incorporation in 1785, the owner had tried unsuccessfully to sell the land for one Spanish doubloon and a gallon of Jamaica rum.

to $1,871,173, and five months later, after the bank was taken over by the Merchants Bank, the remaining liabilities, including the notes still in circulation, were discharged in full. The only losers were the shareholders, who were obliged to accept stock in the Merchants Bank in the ratio of three to one, and the Merchants Bank itself, which never succeeded in realizing many of the Commercial's assets.

The Merchants Bank had received its charter in 1861, but financial conditions in Canada were such that another three years elapsed before the bank had acquired the necessary capital to open. Both the President, Hugh Allan, and the Cashier, Jackson Rae, had previously been connected with the Bank of Montreal, the former as a director until he resigned in 1857 to look after the interests of his newly formed Montreal Ocean Steamship Company, and the latter as the Bank's agent in New York. The Merchants Bank had its head office in Montreal and its business remained largely local until its merger with the Commercial, when its name was changed to the Merchants Bank of Canada.

The government was violently criticized for its failure to come to the rescue of the Commercial Bank while there was still time. Whether Galt could have acted in any other way in view of the state of the public treasury seems somewhat questionable, yet he felt compelled to resign under the hail of censure. In his letter of resignation he explained that he found it necessary in the interests of his family to resign so that he might attend to his own affairs. A more compelling reason, however, may have been the failure of his colleagues in the cabinet, many of whom were also Commercial shareholders, including Macdonald himself, to come to his support.

Denunciations of the Bank of Montreal, and of E. H. King in particular, were no less fierce than those that drove the Minister of Finance from office. In reply, the Board decided to publish a prepared statement, which not only defended their role in the Commercial Bank failure but also contained the following explanation of Bank policy:

> The policy of the Bank in Western Canada, not only since the passage of the Provincial Note Act, but for some few years previously, has exposed it to much unfavourable criticism. This is due to the fact, that the Bank, upon reviewing the position and nature of its business in the winter of 1862-1863, came to the conclusion that the system of advances in Western Canada was thoroughly unsound; a very large proportion of the business was based on accommodation paper, which had been sustained from year

to year under the old system of banking, by the facility and temptation of maintaining a large note circulation. The Directors felt that assets of that description were a source of great weakness and ultimate loss, besides being utterly deceptive as a resource from which to obtain strength to meet any unusual demand for money, caused either by any sudden withdrawal of confidence on the part of the public, or by the increasing and legitimate mercantile trade of the country, which was becoming more and more developed from year to year, and which afforded a far more attractive and beneficial employment for the funds of the Bank.

The Directors did not conceal from themselves, that the banking system which had so long been praised was very defective, and they resolved steadily to persevere in the process of eliminating a class of business, which was neither advantageous to the country, nor profitable to the Bank. It was for the time, a painful and costly operation, and the enormous losses of the Upper Canada and Commercial Banks which astonished the public, could easily be understood by the Directors of this Bank, which during the years 1863-1866, appropriated over a million dollars for bad and doubtful debts, almost the entire amount of which was lost in extricating this Bank from the system of business which had so long prevailed in Western Canada.

Appended to the above statement, and also released for publication, was a memorandum by E. H. King recommending extensive reforms in the banking system. Since these proposals became the basis of later legislation, they deserve attention:

In view of the suspension within a short period, of two of the largest Canadian Banks; the heavy losses sustained by Government as well as individuals; the many wild and mistaken ideas that prevail with regard to the questions of Banking and Currency; and looking also at the near approach of the expiration of Bank Charters in 1870, the General Manager thinks the present a favorable opportunity for stating, that in his opinion, a preference should be given hereafter to a system of Banking, under which the note circulation of the Banks of the country should be entirely based upon Government Securities; that deposits should at all times be protected by a proper reserve fixed by law; and that upon the failure of any Bank to redeem its notes or other obligations in coin or legal tenders, its assets should be at once vested in a Government officer, whose powers should be ample for making immediate calls upon shareholders, to the extent of their double liability, and taking such further steps for the speedy realization of the assets, as would place the interests of the Creditors in their proper point of precedence over those of the shareholders.

Under such a system, the issues of Government Notes in the shape of legal tenders, if permitted at all, should be restricted to a fixed sum, which should not exceed the amount of coin that would otherwise be required to form the needful reserve for deposits and internal exchanges.

* * * * *

The General Manager believes, that the interests of the country will best be served by the diffusion of Banking interests in different localities, leaving to the greater Banks in a large measure, the care of the mercantile and foreign trade of the country, and to the lesser, in their own districts, the care and support of local enterprise. He sees no reason why, under such a system there should not be perfect freedom and equality in Banking, nor any reason why the greater and smaller Banks could not exist in harmony, each class within its own sphere contributing to the general prosperity.

The General Manager cannot under such a system, whereby the note circulation and deposits would be secured, see any objection to the establishment of a local Bank in every county, if thought desirable; nor any good reason why every such Bank might not become a Government depository for receiving the public revenue, and remitting the same at stated intervals to the seat of Government, where the general banking account would necessarily be concentrated. Under this system the Government would receive the benefit of the banking issues of the country, at a reasonable rate of interest, and would in addition receive without cost the amount represented by the economical use of a limited amount of legal tenders as already indicated.

The gravest objection to the proposed system that might come from those who desired at all hazards to give greater security to the public than exists at present, would be the apparent want of elasticity to meet the large increased demand for currency at certain seasons of the year. The General Manager believes that the Banks would invest almost their entire

> capital in Government Securities with which to obtain circulating notes. The natural movement of the circulating medium would ensure contraction at one period and expansion at another. The Banks could afford under such a system, receiving interest as they would on the Government Securities representing their circulation, to keep a portion of their issues idle at one season to meet the increased demands at another; and where this proved insufficient, no difficulty would be found in obtaining the use, upon fair terms, of the issues of the larger Banks, which would necessarily be less actively employed than those doing business in agricultural districts.

Reading between the lines, one can detect on the part of E. H. King a certain desire to extricate the Bank of Montreal from its position as the sole support of the Dominion government, while at the same time to retain its role as a bankers' bank. Needless to say, the memorandum caused no little stir in banking circles.

Sir John A. Macdonald now found himself in a situation not unlike that which faced President Jackson at the beginning of his second administration. Aligned on one side of a classic controversy were the bankers, business interests, and philosophic conservatives, all of whom desired a minimum of government interference and control, and on the other those who believed that a measure of monopoly under much stricter government regulation, together with a national currency that would provide a uniform medium of exchange throughout the country, had become essential to the public interest.

To solve this dilemma, Macdonald chose as Galt's successor John Rose, a 47-year-old lawyer, financier, and director of the Bank of Montreal, who with another director, Thomas Ryan, and the General Manager had been closely connected with the Commercial Bank negotiations. Rose's letter of resignation to the Bank was accepted without comment on November 22, 1867, and Peter Redpath, the son of the Vice-President, was elected a director to fill the vacancy. On Rose's arrival in Ottawa, his first move was to recommend the appointment of a select committee of the Senate to study and report on the country's banking system, his second, to arrange with the Bank of Montreal for the extension to June 30, 1868, of a government note for $2.5 million due on December 1, 1867.

Banking legislation had already been placed high on the agenda of the first federal parliament to enable banks to function in all parts of the Dominion. In consequence, one of the first enactments of the new government gave authority to the twenty-six provincially chartered banks, and to the Bank of British North

America, to do business in all parts of the expanded realm. A subsequent act permitted banks to issue government currency, but the Bank of Montreal remained the only one to avail itself of the privilege. The banks of the old Province of Canada were already adamantly opposed and the nine Maritime banks, with an aggregate capital of little more than $3 million, saw eye to eye with them on the matter of note circulation.

So far as Parliament was concerned, the flames of controversy died down until the end of March 1868, when Hon. D. L. Macpherson, chairman of the Select Committee on Banking of the Senate, tabled its report. This document, embodying recommendations contained in the Bank of Montreal publication of the previous November, created even greater dissension than had previously arisen. Its essence is conveyed in the following excerpt:

> Your Committee recommend that if the financial requirements of the Dominion should induce the Government to desire the introduction of a new system, including the taking possession of the currency of the country (which your Committee would strongly deprecate), the issue of a paper currency be based upon the deposit with the Government of the public securities of the Dominion under a system analogous to the National Banking System of the United States, but redeemable on demand, the Government regulating the issue under the authority of Parliament; the banks through which the notes are issued being responsible for their instant redemption.

John Rose as finance minister, as a widely experienced financier, or as a former Bank of Montreal director would undoubtedly have endorsed the committee's findings. Immediate doubt, however, was cast on their thoroughness, and Rose waited two weeks before moving that a Select Committee on Banking and Currency of the House of Commons be appointed to inquire into the position of all Canadian banks. Thus empowered, the committee prepared an exhaustive questionnaire which was sent to leading bankers, boards of trade, prominent business men, editors, and public figures generally. Parliament was prorogued on May 22, 1868, and did not reassemble until April 15, 1869, giving the various factions ample time to consider and prepare their arguments.

The replies revealed a wide divergence of opinion, those to the third question in particular failing to suggest in what direction a consensus might be found. The question was worded as follows: "Do you favour the system of a direct issue of Government notes as a circulating medium for Canada, or that of having circulation based on Government securities, but issued to the public otherwise than directly by the Government?" The direct issue of government notes, as was to be expected, went virtually unsupported, but on the question of notes secured by government debentures a more favourable response was received. Although the majority maintained their opposition to change, suggestions for reform included a mandatory provision for reserves, more detailed bank returns, more effective double liability, properly secured note circulation, prohibition of notes under four dollars, more rigid qualifications for directors, and technical refinements of a similar nature. The smaller institutions argued that banks in the cities would not be affected much by any change in the currency system because most business in such centres was carried on by cheque. Banks operating in rural areas, on the other hand, would be deprived of much of their loanable capital by being required to cover their relatively large circulations with government securities, and they would inevitably pass on the adverse effects to the commercial enterprises that were dependent on banking accommodation. The rural banks were convinced, with some logical justification, that no built-in safeguards would be adequate to offset the loss of their power to expand and contract their circulations in the customary way according to seasonal demands. The records of the Bank of Montreal also confirm the difference between banking in the city and in the country. From the time that monthly branch statements first become available, in 1859, the ledgers show that the Montreal branch continually reported a substantially smaller note circulation and higher demand deposits relative to discounts than did the rural branches.

Around the beginning of April 1869, representatives of banking and commercial interests throughout the Dominion gathered in Ottawa and passed unanimous resolutions urging the preservation of the existing banking system. The resolutions were then presented to Rose with demands for consideration. Despite the political dangers involved, the finance minister rejected them in the belief that the government could carry his measures, even though there were signs that the Senate would give them a rough passage.

On May 14, 1869, Rose did endeavour to conciliate his opponents, promising that ample time would be given for his proposals to be examined in detail. But he pointed out that there were three banking systems within the Dominion, old and new banks were seeking enlargement and charters, and banks were still failing (the last of the pre-Union banks of Upper Canada, the Gore, had an application before Parliament at that very moment to reduce its capital). It was imperative that confusion be reduced to allow the banks to gain confidence and give to commerce the support it needed to take advantage of the opportunities offered by Confederation.

The paramount consideration, Rose insisted, should be not the interests of individual banks, toward none of which he felt hostility, but a secure national currency that would be accepted at par throughout the Dominion. As for the much publicized objection that the measure would affect the banks' ability to furnish commercial capital by depriving them of liquid funds, he was of the opinion that it had been greatly exaggerated. More capital, it was admitted, would be required for the greater security, but the amount of capital in the country seeking employment was evidenced by applications for new charters and for capital increases from banks already in existence.

The resolutions, which were seconded by Sir John A. Macdonald himself, were similar to those put forward in Edwin King's November 1867 memorandum (a fact the government made no attempt to hide), and stipulated that the banks be allowed to continue present practices until July 1, 1871. After that date they would be subject to provisions of which the following were the most important: banks would be obliged to reduce unsecured circulations by twenty per cent annually, but would be permitted to replace them, up to the equivalent of their paid-up capital, with legal-tender notes backed by government securities; they would be required to hold fixed specie reserves of twenty per cent of their circulations and fifteen per cent of their deposits at call; and in case of insolvency, the notes would be a first charge on bank assets and demand deposits a second.

Outside Parliament, George Hague, secretary of an association of the smaller banks, commuted between Montreal, Toronto and Ottawa marshalling his forces to present a united front and compel the government to heed their views. When, on June 1, the resolutions came before the House in the form of a bill, the debate continued with frequent and spirited interruptions until midnight. The following day rumours of a split in the cabinet reverberated through the capital, and continued for some days. Macdonald, fearing for the life of his government and seeking to avert an open break in the Conservative Party, decided to withdraw the measure for further consideration. In doing so, the government tacitly acknowledged its defeat, and John Rose, after a three-month interval, resigned his cabinet post and seat in the House to return to the world of private enterprise where his undoubted talents would receive less cavalier treatment. He shortly became one of the founders of the important banking house of Morton, Rose & Co. in London, an affiliate of Morton, Bliss & Co. in America, but despite his retirement from active politics continued to serve Canada in London as its unofficial representative until the creation of the post of High Commissioner in 1880.

3.

In view of the uncertainties surrounding banking in Canada, the Bank of Montreal acted with characteristic caution. In 1868 the Rest was increased by $250,000 and in 1869 the addition was twice that sum, bringing the total fund to $2 million, an increase of more than one hundred per cent in three years. The dividend in 1869 reached the height of eleven per cent, but President Anderson sounded a warning:

> The profits of the past year have far exceeded those of any previous year and the Directors consider it right to state that in their opinion the expectations of the Shareholders in the future should not be based upon the unprecedented returns now submitted.

Although the Bank of Montreal was doing well, other banking institutions were encountering difficulties. In the Maritimes, the Commercial Bank of New Brunswick and the Westmoreland Bank went out of business, although with little loss to their creditors, while the Bank of Montreal, the Bank of British North America and the Bank of New Brunswick were busy propping up the St. Stephens Bank. In Ontario, the Gore Bank, which had been closely connected with the Bank of Upper Canada and the Commercial Bank, finally succumbed in the fall of 1869. Its assets were purchased for fifty-five cents on the dollar by the fledgeling Canadian Bank of Commerce, which had opened its doors in 1867 with Hon. William McMaster as president and Archibald Greer as cashier. McMaster had resigned his Bank of Montreal Toronto directorship in disagreement with the Bank's policy in Canada West, and Greer, then Toronto manager, had followed suit to help launch the new enterprise. A story current at the time of the demise of the Gore Bank was that a Bank of Montreal offer to purchase, which appeared better than that of the Commerce, "was being favourably considered, but a country shareholder objected, saying that Mr. King was much too clever a man for them to deal with."

In the spring of 1868, King had again visited New York. After heavy losses on sterling exchange toward the end of the Civil War, the Bank's agency on

Pine Street was re-establishing itself as a most productive asset. A major cause of its expansion had been given in the annual report of 1866, where it was stated that the Canadian usury laws "encourage the banks to prefer foreign and mercantile transactions rather than advances depending on local industry for repayment, with the object of keeping surplus funds more under command for employment in better money markets as occasions arise." Later that year, the Provincial Note Act had provided the Bank with further "surplus funds" for use in the more sophisticated New York market. The *raison d'être* of the New York agency remained, of course, the facilitation of trade between Canada and the United States, and the buying and selling of sterling exchange. Thus, the purpose of King's trip was to widen the base of the agency's operations, which he accomplished by entering into a new agreement with the Oriental Bank to provide credits for use in China, Japan and Brazil.

Since the implementation of the National Bank Act in the Republic, few American banks had felt the incentive to look beyond their own immediate areas for business or to deal to any noticeable degree in foreign exchange, thus creating a void which had to be filled by other institutions. These were chiefly private banks and foreign agencies that found it profitable to specialize in international exchange in New York, the largest being Brown Brothers & Co., with an estimated capital of $20 million. The houses of Rothschild and Baring were also prominent, but the Bank of Montreal had, by 1867, achieved a position in this sphere second only to Brown Brothers, and it is fortunately possible to piece together a fairly comprehensive picture of its operations in the commercial capital of the United States at this time.

After King's visit, the assets allocated to the New York agency jumped, between the end of April and mid December 1868, from $1,200,000 to $8,850,000, almost half of which was represented by gold acquired from Head Office. With customs dues, foreign balances and government bond interest payable only in gold, the precious metal could be profitably lent at a rate that might vary from 1/64 per cent to more than 1/2 per cent per day. The gold transactions were, in the words of the *Monetary Times*, "only short and the rate paid is really more of the nature of a commission that otherwise." At about this time, those Canadian banks with offices in New York were employing an estimated $10 million in the gold market, or one-half the amount available on Wall Street, the Bank of Montreal alone accounting for $7.8 million.

As security for the gold loans, current funds, or greenbacks, were deposited with the Bank, generally at a margin of ten per cent. The greenbacks were then

BUILDING THE HOUSES OF PARLIAMENT – 1860'S

Following Queen Victoria's choice of Ottawa as the capital of the Province of Canada in 1857, a promontory high above the Ottawa River was selected for the location of the Parliament Buildings. Known as Barrack Hill during the building of the Rideau Canal, which joins the river just to the east, the site commands a fine view not only of the river but also of the Chaudière Falls.

Set in thirty acres of grounds, the buildings were styled in the Gothic tradition by the architects Fuller and Jones, who designed the Centre Block, and Stent and Laver, who designed the East and West blocks. The cornerstone of the Centre Block was laid by the Prince of Wales, later Edward VII, on September 1, 1860.

In 1866, the last legislative session of the Province of Canada was convened in the new buildings where the following year Members of Parliament from the provinces of New Brunswick and Nova Scotia joined those from Quebec and Ontario in the first session of the Dominion parliament.

The original Centre Block, containing the chambers of both the House of Commons and the Senate, was destroyed by fire in 1916 and was replaced in 1920 by the present building with its famous Peace Tower. The East Block, which houses the cabinet room and the Prime Minister's office, and the West Block have provided offices for government departments since their completion in 1865. The ornate polygonal library behind the Centre Block was not completed until 1876.

Painting by Robert C. Thomson

used by the agency to discount commercial bills at the ruling New York market rate which was quite independent of the rate for gold. These transactions were doubtless the source for Hague's so-called double profits.

Such developments naturally gave rise to charges of speculation, some of which reached amusing proportions. One of the strangest flights of fancy, which went the rounds of the leading prints, had King cornering all the available gold in New York and delivering it with maximum showmanship to a steamer leaving for London. The market reaction was supposed to have sent the gold rate rocketing upwards, whereupon King, with dastardly cunning, transported the whole shipment along darkened streets and without arousing the slightest suspicion back to his own vaults, where it allegedly rested for a few hours before being disposed of at a colossal profit for the Bank of Montreal. It hardly needs pointing out that the story could only have been apocryphal; nevertheless it was quoted in Canadian newspapers in the hope of discrediting Edwin King. The disingenuous had other, more credible, tales to tell, but these were, as Canada's foremost banking historian, Adam Shortt, described them, "bitter tributes . . . paid to the power of the Bank of Montreal by New York papers, which attributed several of the periodic crises on the New York gold market to the operations of the Bank of Montreal," which was "righteously denounced by those whose speculative ventures had gone astray."

A somewhat more intimate account is provided by a contemporary employee of the Bank, Campbell Sweeney, who wrote in his reminiscences for the *Monetary Times* in 1927 that "there was much talk of his [King's] speculating in New York, but entirely without foundation. He was most conservative and took no risks but took the fullest advantage of a situation and made a great deal of money for the Bank." Sweeney had no reason to recall all the details for his readers but his observations are substantiated by the Bank's records, which show that after suffering a net loss for the six months ending April 30, 1865, the Bank's New York agency began an upward swing that resulted in net profits of over $150,000 for the first half of fiscal 1870-71.

The Chicago operations of the Bank were crowned with less success. It has already been noted that the general acceptance of greenbacks virtually eliminated the circulation of Bank of Montreal notes in Chicago; shortly thereafter, the Midwest was beset by bad harvests, and after the Civil War the resumption of commercial intercourse with the South via the Mississippi completed the erosion of the Bank's main business of financing agricultural exports to Europe via Montreal. Although no record of the resolution is found in the Minutes, the

Board decided, in late 1866 or early 1867, to close the agency in Chicago, and it turned the business over to the renowned banking firm of George C. Smith & Co., from which the Bank had acquired its first Chicago manager five years earlier.

As indicated, the Bank's New York operations in the late 1860's became very large, and in fact the agency ranked third in total assets, behind only Head Office and Montreal branch. Such growth required larger banking offices, premises that would be commensurate with the Bank's position in the financial community. This was successfully arranged by E. H. King in February 1869, when he secured quarters in the Brown Brothers Building at 59 Wall Street for an annual rental of five thousand dollars in United States currency. In marked contrast with the one-room office on William Street that it had first occupied a decade earlier, the Bank now shared the premises of its only New York peer in the field of international banking. Nine months later, another significant event was celebrated – the return of Charles Smithers as New York agent. Operations that had once alarmed him no longer seemed excessively dangerous and he was now able to acquire much of the fearlessness that had become Edwin King's hallmark.

For Thomas Anderson, the President, however, the changing times were proving difficult after a career that stretched back to the early days of the Bank's history. He had been elected Vice-President in 1847, when Edwin King was still a lad in his teens, and the inexorable advance of age, plus a recently acquired speech impediment, now prompted his decision to retire. This he did formally in a letter dated October 20, 1869, in which he stated: "In consequence of my advanced age and failing health, I feel that I am no longer capable of satisfactorily performing the duties devolving upon me. . . . You are already aware that I have lost my voice so far as to be quite unable to express myself intelligibly, *viva voce* . . . and I therefore request that . . . the Board . . . may take such measures as they may deem proper for the appointment of my successor." The directors, as a mark of respect and thanks for his long and faithful services, requested that Thomas Anderson accept an "Annual Allowance, during his life, of Two Thousand Dollars." He then went into complete retirement, and died in May, 1873, "one of the old race of Canadian Merchants . . . full of years, and of the respect of all who knew him."

The selection of Thomas Anderson's successor was less a formality than it had been in the past. Influenced, perhaps, by the rise to banking eminence of men of the calibre of Hugh Allan and William H. McMaster, the Bank's directors for the first time offered the post of president to a professional banker in the person of E. H. King. There was another consideration: earlier in the year there had occurred the death of John Redpath, a director since the mid thirties and Vice-President since 1860. His successor was Thomas Ryan, who was then a man of sixty-five and had retired from business some years previously. The customary procedure of automatically elevating the Vice-President would therefore have been deemed unsatisfactory.

Three days before the President's retirement was officially communicated to the Board, the resignation of E. H. King as general manager was tendered and accepted. As a qualified shareholder, King was elected to the Board on November 2, 1869, and immediately thereafter assumed the chair as president. On November 5, Richard Angus, to whom the duties of management had been delegated during King's frequent absences from Montreal, was appointed General Manager "upon the same terms as Mr. King entered upon the office in 1863." With these changes the "Napoleon of Canadian finance" was relieved of all routine responsibilities and the Bank of Montreal, for the first time in its history, was possessed of a chief executive who was a career banker.

4.

As already noted, Hon. John Rose's banking bill was withdrawn for further consideration in the closing days of the parliamentary session of 1869. When Rose's resignation followed, the finance portfolio was again offered to Sir Alexander Galt who refused it because of his growing disenchantment with the government. The post was then offered to and accepted by Sir Francis Hincks on October 9, 1869. Hincks had only recently returned to Canada after an absence of fifteen years during which he had served as governor of Barbados and the Windward Islands and subsequently of British Guiana, receiving a knighthood as a reward for his many services. It became Hincks's responsibility, before Parliament reconvened in February 1870, to find an acceptable compromise between the warring banking interests.

Although Hincks was a political outcast in many quarters because of his previous parliamentary record, it was recognized that some of his financial innovations of the 1850's bore the mark of an astute man, well qualified to administer the perilous finance portfolio. At both stages in his Canadian ministerial career, however, it seems evident that Hincks's paramount purpose was to expand the sources of government credit by means orthodox or unorthodox, just as Galt had been forced to three years before.

As a preliminary measure, on the day before Parliament opened on February 15, 1870, the finance minister served notice on the Bank of Montreal that the arrangement between it and the government would terminate in six months' time, as provided for in the agreement of 1866. The effect of the cancellation was to win for Hincks support among western bankers for the legislation he was soon to introduce. A Board Minute of the Bank of Montreal, dated February 18, 1870, when E. H. King was absent in England arranging for the establishment of the Bank's own agency there, shows that the directors were determined to put the past behind them. Although the relationship with the government had been highly successful, it had also certainly tarnished the Bank's public image, and the directors were probably just as pleased to see the last of it.

The first of the measures introduced by Sir Francis Hincks was the Dominion Notes Act, and the second was entitled "An Act respecting Banks and Banking." Since the latter, however, was of an interim nature, and was superseded by the Bank Act of 1871, it need not be dealt with separately. The Notes Act was a brilliant compromise, taking into consideration not only the political realities, but also the varying shades of Canadian economic opinion, including Hincks's own predilections for a government monopoly of issue. Briefly, it allowed the banks to retain their note-issuing privileges except for notes under the value of four dollars, which the government was to issue. The government issue up to a maximum of $5 million was to be backed by twenty per cent specie and Dominion debentures. Between that limit and $9 million all notes were to be covered by specie to the extent of twenty-five per cent. Above $9 million, a specie reserve of one hundred per cent would be required.

Given royal assent on April 14, the Bank Act of 1871 contained seventy-seven sections and covered twenty-four octavo pages. It included, for the first time in one statute, all the conditions governing the incorporation of new banks and the powers conveyed to those already in operation, providing a uniform banking code throughout the Dominion. In accordance with certain provisions of the interim act of 1870, the banks were relieved of the one-per-cent tax on circulation and were no longer obliged to invest ten per cent of their paid-up capital in government debentures; instead, however, as near one-half as possible, but never less than one-third, of the banks' cash reserves were to consist of Dominion notes.

To the public, the beneficial features of this act were those applying to the granting of new charters, limiting the powers of directors, and shortening the time in which shareholders could be called upon to discharge their liabilities.

In each of these sectors some of the loop-holes revealed by the recent bank failures were plugged, as, for example, a provision that no profits of more than eight per cent could be distributed until a bank possessed a rest fund equal to twenty per cent of its capital. Of even greater importance was a section making bank-notes receivable at par throughout the branch system of an issuing bank, thus alleviating what had long been regarded as one of the most objectionable features of provincial banking. For their part, the banks were subjected to more stringent regulations in the conduct of their internal activities and the submission of reports, the penalties for making false returns being increased. The Bank Act omitted any reference to a fixed specie reserve, leaving its size once again to the discretion of each individual board of directors. Suspension of specie payments for ninety days, however, would still result in the forfeiture of a bank's right to do business. None of the provisions of the new act in any way changed the fundamental principles of Canadian banking as embodied in the original Articles of Association of the Montreal Bank.

From a banking point of view, the most controversial sections of the act by far were those endorsing the dual currency system introduced by Galt and those requiring banks to keep one-half to one-third of their cash reserves in Dominion notes. The government issue of small notes encountered less opposition for the reason that it called for a relatively minor sacrifice on the part of the banks. Aside from being limited to notes of small denominations, the initial government issue could not exceed $5 million and therefore was unlikely to make serious inroads on the banks' circulation, which stood at $18,340,000 on June 30, 1871, the day before the act came into force. In the larger centres, too, as we have seen, cheques were already replacing bank-notes as the prime medium of exchange.

The conditions governing cash reserves, on the other hand, were strongly criticized on both theoretical and practical grounds. In fact, to well-informed critics, among them E. H. King, the obligation that banks keep half their cash reserves in Dominion notes was tantamount to levying a forced, non-interest-bearing loan on any bank that desired to remain in business as a chartered institution.

As previously related, King's elevation to the Bank presidency occurred only a short time after Sir Francis Hincks's return to Canada and speedy appointment as Minister of Finance. Almost immediately King had departed for England, not returning to Montreal until early in March, 1870. By this time, the Dominion Notes Act and the temporary banking act of 1870, incorporating the reserve requirements, were both before Parliament. As seen from the Bank's position they were undoubtedly discriminatory. Besides having to suffer the loss of commission as the government's issue agent, the Bank also faced the task of restoring its former note circulation. Before the Bank became the fiscal agent for the Province of Canada in 1866 this had amounted to more than a third and sometimes to nearly a half of the total for all chartered banks. But it was the cash reserves requirement that aroused the personal ire of E. H. King.

The reasons are set forth in a confidential letter to "My Dear Galt," written at Montreal on March 14, 1870, and now in the Galt Papers in the Public Archives. In it King pointed out that at the beginning of 1870 the Bank of Montreal was holding a twenty-per-cent cash reserve of $5 million against its capital, circulation, and deposits of roughly $25 million, while all the other banks combined were holding an eleven-per-cent reserve against similar liabilities totalling $58 million. The requirement that one-half of cash reserves must be held in Dominion notes would therefore mean that "the Bank of Montreal would have to hand over to the Government over 10¼ per cent of its Capital, Circulation and Deposits while the remaining Banks would have to hand over less than 5¾ per cent only." Expanding further, King wrote as follows:

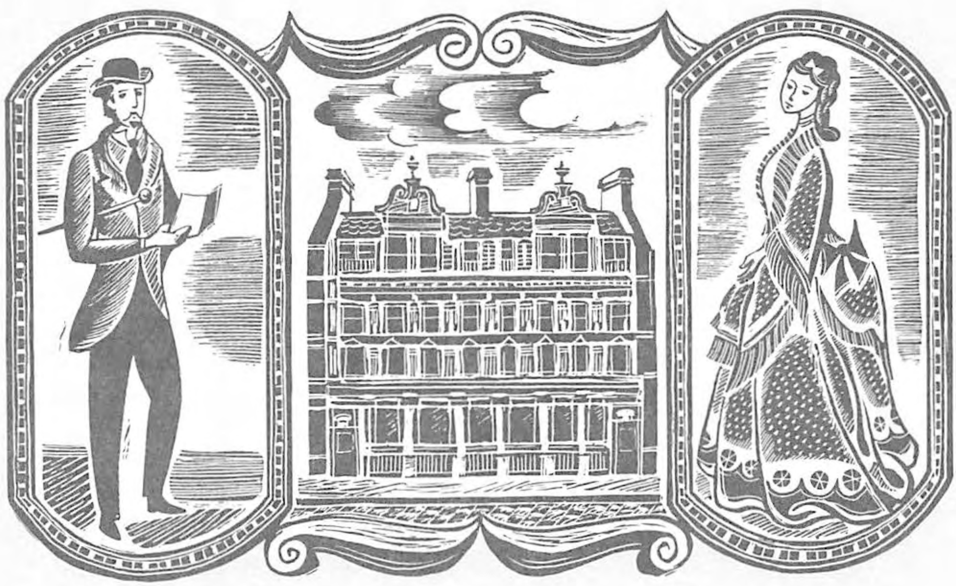
> . . . even if we could issue as much as we used of Notes of $4: and over we should have to hand over the whole of it to [the] Government and about $200,000 in addition or else reduce our Reserves far below our average of the last year. If this is not unfair – as compared with other Banks – what is? It is a direct inducement to send the Coin Reserves out of the Country and would almost seem . . . to have been designed to strike most heavily at the Bank which has kept out of all proportion the largest reserves in the Country.

King's indignation found expression in other letters to the same correspondent and reflected an emotional quality somewhat at variance with the picture that has come down to us of the imperturbable banker in command on any and every occasion. Writing to Galt a year later, while Parliament was considering the Bank Act of 1871, which would reconfirm the contentious provisions, King was so outraged that he protested: "I regard this compulsory reserve of Dominion Notes when thoroughly understood as a blot upon Canadian legislation – in its spirit worthy of the Mexican bandit Juarez, Dick

Turpin, or F. Hincks,'' and in the same letter, ''Why even the United States in their darkest hours of national difficulty – in their dire necessity did not commit the egregious folly of *prohibiting* a coin reserve and insisting on one of paper. They allowed the Banks at least to hold and count all Coin as a reserve if they wished it – they did not enact that the Banks should *stand and deliver* once a month, one half of their coin into the Treasury without compensation.''

But these expressions were confined to private and confidential communications to an old friend and crony. When the time came, according to George Hague, King took his defeat ''philosophically,'' and ''his predominance in the banking world proper continued to be as great as ever.''

EIGHT



THE AFTERMATH OF CONFEDERATION

THE AFTERMATH OF CONFEDERATION

I.

While great political gains stemmed from Confederation, the economic disadvantages of the several provinces remained much the same. The magnificent distances were unaltered, the Precambrian Shield still confined settlement to arable lands along the American border, and foreign demand continued to be the barometer of Canadian prosperity. Yet despite these limitations, Confederation marked the beginning of a period of remarkable economic expansion. How much of the growth and change was wrought by Confederation and how much by external influence is difficult to say. For several years the newly founded Dominion rode the same wave of prosperity that lifted the American economy to spectacular new levels between 1868, the year of a last, brief, post-war recession, and 1873, the year that ushered in the most prolonged depression in modern history. During the five boom years that intervened, American demand for Canadian products, particularly lumber, remained so consistent and at such favourable prices that it obscured almost entirely the actual effects of the loss of reciprocity. Canada also benefited from the brief but immensely costly Franco-Prussian War and the Intercolonial Railway loan and Fenian Raid indemnity provided by the British government.

Granting the significant effects of these economic phenomena, Confederation itself accomplished certain important purposes – the strengthening of Canadian credit; the establishment of a central government with control over fiscal and financial matters, currency and banking, and trade and commerce generally; and lastly, the acquisition and assimilation of Rupert's Land, the Northwest Territory, and British Columbia. Despite the formidable costs involved – the national debt rose from $93 million to $141 million between Confederation and June, 1874 – the newly fledged Dominion was able to pay its way. Never again would "Canadas" prove a drug in the London market: never again would a Canadian finance minister find himself in the plight of the instalment debtor with his payments hopelessly in arrears.

Also indicative of the economic resurgence was the increase in domestic investment that accompanied and promoted the change from commercialism to industrialism. The precise amount of such investment is unknown, but the economic buoyancy of the 1868-74 period is reflected in the twenty-eight new bank charters issued at the time and by the capital increases of the older banks. By July 1874 authorized capital stood at $64.8 million of which $55 million was paid up, an increase of $26.2 million, or over eighty per cent, since Confederation.

At first glance it would seem that the Bank of Montreal must have been exposed to more intensive competition than it had ever experienced in the course of its fifty years in business. However, the expansion of bank charters took place mainly in communities that had been lacking in banking facilities or had been indifferently served by a single branch of one of the larger banks. In any case, the Bank of Montreal appears to have welcomed the proliferation. Pursuing the policies introduced at the time E. H. King became General Manager, the Bank had confined its domestic business more and more to large railway, lumbering and industrial accounts and also to those of the federal and provincial governments and up-and-coming municipalities. Thus the financing of agriculture, lumber-jobbing and local business could be left to smaller institutions, as King had publicly recommended in his memorandum of 1867. The senior bank was in this way not only relieved of considerable criticism but was also able to continue to strengthen its position both as a "bankers' bank" and as the principal agent for the servicing of Canada's rapidly expanding foreign trade. The last consideration led logically to a decision to storm the inner bastions of high finance by opening an office of the Bank of Montreal in London, England.

This project had its genesis in 1869 and resulted in King's departure for England in November of that year, armed with power to make whatever arrangements he might deem advisable. Hurriedly recalled to Canada in March, 1870, to wrestle with Sir Francis Hincks's banking and currency proposals, he was nevertheless able to report that he had signed a seven-year lease on furnished offices at 27 Lombard Street at a rent of £900 per annum. The Bank's branch or agency (both designations appear in the Minutes) was located in the very heart of the City, a stone's throw from the Bank of England, the Royal Exchange and the Mansion House. Lombard Street itself had been a synonym for finance ever since the end of the thirteenth century when money-lenders from Lombardy had established themselves there.

King's report also noted that he had secured the services of four distinguished gentlemen for a newly established London Committee – Robert Gillespie, long a leader of the Canadian mercantile community in London, Sir John Nubbock, Bruce Hugh Pearse and Sir John Rose, whose name had been included in the recent New Year's honours list. The same report further set forth the purposes of the establishment as follows: (1) to provide for the transfer of the Bank's stock and payment of dividends in England, (2) to develop and facilitate the foreign business of the Bank, and the British and foreign trade of the Dominion, and (3) to provide safe employment for "surplus funds" of the Bank. The responsibilities of management were vested in the committee, and the employees were to be recruited locally.

Edwin King had left London at a time of abnormal calm, when Britain looked forward confidently to a prolonged period of world-wide peace that could be extended indefinitely by the universal adoption of free trade. But before three months were out France and Prussia were at war, and the President of the Bank was able to remain in Montreal only long enough to take part in the proceedings of the annual meeting of shareholders which was held on June 6, 1870.

Back in London in July, King found the City in a turmoil. France had declared war on Prussia on July 19, and before the month was over some fifty London brokerage firms had failed. Although the outcome of the conflict was settled in six weeks by the surrender of the French armies at Sedan, the five months that elapsed before the French capitulated was a period of anxious uncertainty on the London market. For E. H. King this situation was merely a repetition of the one he had met and bested in New York during the latter part of the Civil War. Ensconced at 27 Lombard Street with the resources of the Bank of Montreal behind him, including those of the highly respected New York office, he was able to make the most of it. As he reported to the shareholders at the next annual meeting, "the breaking out of war between France and Prussia, and the disturbed state of the money market . . . gave exceptional opportunities, as such conditions always would give, to those who had large sums to dispose of, of making money."

If the war of 1870 was one of the world's shortest, it was also one of the most disruptive. With it went the balance of power so painfully constructed after the Napoleonic Wars and the premature British dream of world peace in the interests of unrestricted trade and commerce. In their place Germany emerged as a world power and British imperialism rose again under Disraeli. The war's most surprising revelation, however, was the productive capacity of modern industry when fully mobilized. Within two years France was able to pay Germany its war indemnity of five billion francs, while Britain undertook the settlement of the *Alabama* claims and then purchased the Egyptian share of the Suez Canal.

Although generally oblique, the repercussions of the European war had a pronounced effect in Canada, where, in conjunction with the current American boom, they brought about new levels of prosperity. Prices failed to scale the dizzy peak attained during the Crimean War but the rise was sufficient to enable the Board of the Bank of Montreal to declare a half-year dividend of six per cent and a bonus of four dollars per share in October and, early in November, to revise the system of staff bonuses that had been in force since 1865. Before 1870 employees earning under $800 annually had been awarded in December of each year an additional twenty per cent of their salaries; those earning over $2,000 received ten per cent, with proportionate bonuses going to those in intermediate brackets. The revised system was based on a sliding scale that began with bonus payments of twenty-five per cent to those with annual salaries of $250 or less, twenty-two and a half per cent when the salary was between $250 and $400, twenty per cent when between $400 and $600, and so on to $2,000, above which a limit of ten per cent was set.

The annual meeting of 1871, held on June 5, seems to have called forth memories of an earlier encounter at the Place d'Armes between the valiant Sieur de Maisonneuve and the raiding Iroquois, with the redoubtable Edwin King cast in the role of the defender. So hectic became the fray that two-thirds of the way through the meeting the President lost his voice and had to turn the chair over to the Vice-President, Thomas Ryan. The fracas seems to have been caused by the presence of a new and intransigent strain among the shareholders, introduced no doubt by increased trading in Bank of Montreal shares. Principally at issue was the matter of increased dividends. Some shareholders were particularly critical of the rest fund, which in 1870 had reached the long-sought goal of $3 million or one-half the paid-up capital. The fund was "ample," King agreed, but he "looked for a great reduction in profits" in the future: the change in the banking laws meant that the Bank would no longer receive compensation for its abandoned note issue and some time would be needed to place its own notes back in circulation. The profits of the previous twelve months were also exceptional because of the Franco-Prussian War, and the President saw little point in a dividend of twenty per cent, "for the sake of momentary applause," when it was not known if it could be attained again. The "prudent and cautious course," he urged, was the one most deserving of the shareholders' support.

Having won the first round by silencing the call for higher dividends, the President had to be content with a draw in the second, on which the opinion of the meeting was sharply divided. Some shareholders wanted a substantial portion of the Rest to be distributed, others maintained that it should be capitalized, and still others insisted that it had long been apparent that the Bank of Montreal should increase its capital. There were also voices proclaiming just as loudly that the country already had more banking capital than it could use and citing the Bank's own foreign operations in substantiation. The final consensus was that it might be well to take advantage of the Bank Act of 1871, which permitted capital increases at the discretion of the shareholders, before this privilege was rescinded by some new legislation. A resolution was therefore adopted declaring that "it is expedient that the capital of the Bank be increased to an amount not exceeding twelve millions of dollars." The conditions and timing, however, were left to the discretion of the Board and it was not until six months later – January, 1872 – that a special general meeting was convened to approve a new stock issue in the amount of $2 million. New shares were issued on the basis of one new to three old at a premium of twenty-five per cent, to provide a total capitalization of $8 million. At the close of the fiscal year on April 30, 1872, the number of unsubscribed shares stood at 1,460 out of a total of 40,000 outstanding. This remainder was offered for public tender and sold at a premium of 124.

In contrast to the stormy gathering in the spring of 1871, the annual meeting of 1872 was the occasion for general congratulations. The profits for the year, after the usual appropriations, amounted to $1,273,989, and after the addition of the $500,000 received from premiums on the new stock, together with the balance of the profit and loss account, the sum available for distribution was $2,238,996. Dividends and bonuses totalling sixteen per cent accounted for $1,015,800, leaving a surplus of $1,223,196, of which $1,000,000 was taken to increase the Rest to $4,000,000 (keeping it at fifty per cent of the capital) and the remainder was allocated to profit and loss.

The shareholders acclaimed the principal architect of these returns by proposing that "as a mark of the high estimation in which Edwin H. King, Esq., President of this Bank, is held by the shareholders, and as a grateful expression of their appreciation of the eminent services rendered by him to the Bank, he be requested to accept a testimonial of a permanent character from the shareholders, and that a sum of $10,000 be appropriated to carry out the objects of this resolution." The motion was unanimously carried.

The Bank of Montreal was not alone in taking advantage of the new law permitting the increase of banking capital. Having taken over the estate of the Commercial Bank when it failed, the Merchants Bank had gained extensive connections in Ontario and had become the most aggressive of the Bank of Montreal's competitors. By June 1872 its capital had been raised to $9 million, and, not to be left out, William McMaster's Canadian Bank of Commerce brought its capital up to $6 million a month later.

Meeting in special conclave in November, 1872, the Bank of Montreal shareholders again debated the question of increasing the paid-up capital. In view of the earlier resolution authorizing a total capital of $12 million, it was agreed that the remaining twenty thousand shares be issued. So prosperous was the country that by March, 1873, only 2,941 of the new shares were unsubscribed. The Board then resolved to offer these to the highest bidder on April 23. By that date the number of shares unspoken for had been reduced to 2,608, and these were sold for $352.50 each, a premium of 76¼ per cent. The premiums realized from the sale of the stock issues of January and November 1872 were reported at the annual meetings held in 1872 and 1873 to have totalled $1,876,936.

2.

The phenomenal growth of the Bank of Montreal between 1871 and 1873 was of course largely a reflection of an ebullient economy. Fundamentally responsible for the country's prosperity were the traditional forces that impinged on Canada from across the Atlantic and below the border. But supporting and strengthening such familiar influences was a new psychological climate induced by the accomplishments of the first Dominion parliament. Except for the words of Thomas D'Arcy McGee, little eloquence had been inspired by the magnificent potentials of Confederation, but once federal union had become a fact, the rapidity with which legislation was proposed and enacted created a confidence that had its expression in the expansion of the banking facilities, the renewal of railway construction and the establishment of native industry and manufacturing. The tremendous task of organizing the federal government was undertaken; new departments were created; uniform currency and banking laws were enacted; Rupert's Land was purchased from the Hudson's Bay Company, and Manitoba became the fifth province. When British Columbia was also added to the federation, the awesome challenge of thrusting a railway to the shores of the Pacific Ocean was accepted without hesitation, and with the Intercolonial Railway under construction to the east, the Province of Prince Edward Island was wooed and won. No longer was continental domain a fanciful dream, and people responded accordingly. But the Dominion's altered political relations with the mother country and its future commercial relations with the United States posed difficult problems.

The circumstances surrounding Confederation had weakened Imperial ties; the withdrawal of the British military forces in 1871 made it appear that they might be severed entirely. To a small band of intellectuals the hope of the future lay in Canadian independence; to realistic business men it rested on the renewal of reciprocity with a disgruntled United States. The Imperial Government, however, was reluctant to press the question in Washington and its attempt in 1869 to settle its own differences arising out of the Civil War had resulted in disappointment. The Dominion, however, held a trump card in its Atlantic fisheries, legally closed to Americans since the abrogation of the Reciprocity Treaty. Resurrecting a law of 1818, the Canadian government tried to impose a licensing system. When this was progressively respected more in the breach than in the observance, government patrol boats began to impound the Gloucester schooners. The United States government then agreed

QUEBEC IN WINTER – 1870'S

The rigours of the Canadian climate are vividly depicted in this study of the upper town of Quebec showing the city's parish church, the Basilica of Notre Dame de la Conception. Completed in 1650, the church was destroyed by fire in 1759 and again in 1922, but each time it was fully restored.

More than a mere blizzard would have been needed to dampen Quebec's enthusiasm in the 1870's. The Intercolonial Railway began running between Halifax and Lévis, opposite Quebec, in 1876 and two years later the North Shore Railway to Montreal was opened. These rail connections and the promise of a prosperous west necessitated extensive alterations to the port facilities, but the past was not forgotten and a concurrent program resulted in the rebuilding of many of the old city's historic gates and the construction of Dufferin Terrace on the site once occupied by Fort St. Louis.

to negotiate the *Alabama* and other Civil War claims, if Britain would do likewise with respect to the Canadian fisheries and the ownership of the San Juan Islands in the channel between Vancouver Island and the mainland. An international joint commission, to which Sir John A. Macdonald was named as one of five British commissioners, met in Washington in 1871 to carry out the negotiations.

The conduct of Canada's first prime minister on the commission revealed his statesmanlike qualities as much as any encounter in his long career, yet his efforts to defend Canada's interests were held to be an ignominious failure. Not only did the reciprocal trade agreement so much coveted by Canada's commercial interests evade him but in addition the fisheries question was left to later arbitration and Canada's claim against the United States for damages arising out of the Fenian raids did not even get on the agenda. Canadian disapproval of the 1871 treaty and Macdonald's alleged leniency in his treatment of Louis Riel, the leader of the Red River uprising, showed in the greatly reduced majority given him in the 1872 elections.

Yet largely because of Macdonald's perseverance, the British government accepted responsibility for the Fenian depredations as a facet of the unhappy political conditions in Ireland and reimbursed Canada by guaranteeing a loan of £3.6 million, or $17.5 million, the proceeds of which were used for the construction of the Intercolonial Railway joining Quebec and the Maritimes. The fisheries dispute was settled by granting American vessels access to inshore waters for a twelve-year period and compensation was fixed by arbitration. When Canada and Newfoundland were awarded $5.5 million in 1877, it was generally thought that they had received the better of the bargain.

Additional evidence could be cited to confirm the healthy state of the psychological climate following Confederation but none could be more convincing than the decision to build a railway from Eastern Canada to the Pacific Ocean just five years after the nation's birth. Although the Macdonald government had appointed a board of railway commissioners to take charge of the Intercolonial Railway, the decision was reached to have the Pacific line constructed by private enterprise. Despite the fact that the Dominion's revenues for 1872 were only $29.8 million, Macdonald was prepared to offer a subsidy of $30 million in cash and land grants of fifty million acres to whoever would undertake the project.

Several groups scrambled for the contract, the two most important being the Inter-Oceanic Company, headed by Senator David L. Macpherson, who had been connected with the construction of the Grand Trunk, and the Canada Pacific syndicate (not to be confused with the later Canadian Pacific Railway Company) formed by Sir Hugh Allan and a group of Canadian and American associates, notably Jay Cooke, the Philadelphia financier, and W. G. Fargo, of Wells, Fargo fame. The contract was awarded, following the 1872 election, to the Allan group on condition that the taint of American participation be removed. This proved difficult to accomplish, and it has been suggested that disgruntled Americans played a part in bringing to light the details of Allan's contributions to the Conservative Party during the preceding election campaign. The resultant "Pacific Scandal" forced Macdonald's resignation and a victory at the polls in 1874 ushered in the Liberal Party under Alexander Mackenzie, who was to remain in office until 1878.

The Bank of Montreal, like Charles G. D. Roberts's epic iceberg, appears to have remained "greatly incurious and unconcerned" throughout the tumultuous political storms of 1873 and 1874. Neither in the Minutes nor at the annual meetings was the subject of the Pacific Scandal broached. There was perhaps a basic reason for the Bank's aloofness. The Grand Trunk, one of the Bank's largest customers, assailed and ridiculed the idea of a railway built on Canadian soil to the Pacific Ocean. Nevertheless, there were oblique connections. Hugh Allan had been a director of the Bank of Montreal from 1847 to 1857, the year after he had established the Allan Line's fortnightly steamship service between Canada and the British Isles, and Donald A. Smith had joined the Board in 1872. Smith, as chief commissioner for the Hudson's Bay Company in Canada, had financial connections in London that led Allan to persuade the former fur trader to join the board of the ill-starred Canada Pacific Company.

Quite apart from its Grand Trunk loyalty, the Bank of Montreal had other preoccupations. Both the London and the New York agencies demanded unflagging attention and by 1871 the growth of Chicago, coupled with the revival of grain shipments via the St. Lawrence canals, had caused a number of large customers in the trade to urge the Bank to reopen its Chicago agency. Following a visit by the General Manager, R. B. Angus, the decision to do so was made on September 12, 1871, and William Richardson, then manager at Saint John, New Brunswick, was appointed agent. Before his arrangements had been completed, however, the great fire of Sunday, October 8, laid a great portion of the city in ashes. Sympathy was spontaneous and world wide, the Board of the Bank of Montreal voting five thousand dollars to the fund set up for the sufferers. According to legend the Board also received a telegram from the Emergency Committee urging the Canadian institution to reopen its agency as soon as possible.

William Richardson arrived in Chicago early in November and was provided with quarters in what was virtually a tumble-down wooden shed in the old Union Block at the corner of Madison and Market streets in the heart of the burned-out city. The Bank's records, left in the keeping of George C. Smith & Co., had been destroyed but the Bank promptly made its presence felt, its reopening "resulting in the forwarding of the mercantile movement by an increase of credits on the East, on Europe, and on China." Approximately fifty banks were then operating in Chicago, including national, state, and savings banks, together with several private institutions, but the Bank of Montreal agency rapidly assumed a unique position as a principal expediter of the city's export trade. As a founding member of the Chicago Clearing House in 1865, the Bank was readmitted to membership on January 7, 1873, and in September of the same year was one of three financial establishments that continued to discharge obligations in full after the violence of the financial panic had prompted the Chicago Clearing House Association to resolve that "until further action . . . and upon advice of the Bank Examiner, the members be recommended and authorized to suspend Currency payments on any large demands made upon them either from Country Banks or over their counters."

Impressed by the success and popularity that attended the return of the Bank of Montreal, the Merchants Bank, the Canadian Bank of Commerce and the Bank of British North America all opened Chicago agencies but withdrew when profits dwindled in the 1880's. Meanwhile the Bank of Montreal branch had become firmly established, playing an important role in the growth of the Midwest's export trade in grain and cattle. When the decision was finally reached in 1952 to close the branch after an association with Chicago that, with the one short interval, had extended over more than ninety years, the expressions of regret among the financial community of Illinois were universal.

On the eve of Confederation, the Bank of Montreal had been asked by the government to open branches in Halifax, Nova Scotia, and Saint John, New Brunswick, to act in conjunction with customs offices to be opened in those cities. In January, 1873, a similar request was made that a branch be established in Moncton, New Brunswick, an important divisional point on the Intercolonial Railway and the nearest mainland town to Prince Edward Island. A hold-out from Confederation, the smallest of the provinces had managed to acquire a debt of four million dollars, most of it attributable to a gaily improvident railway that wound its way along ground contours for 147 miles before reaching a terminus 84 miles in a straight line from the point of beginning. The time had come for the jewel of the Gulf of St. Lawrence to be placed in the federal diadem and this was accomplished on July 1, 1873, when the Dominion government took over the provincial debt and paid the Island's absentee landlords $800,000.

The most momentous event of the year for the Bank occurred in April, when Edwin H. King announced to the Board that he would not be available for re-election as a director at the annual general meeting to be held on June 2. The retiring president also embraced the occasion to inform his fellow directors that although, in the opinion of the Bank's solicitors, by reason of the agreement of 1866 he was legally entitled to such commission, he intended to waive his rights "not only to the commission on the amount of premiums on new stock added to the Rest or Reserve profits, but also to any commission upon the amount of surplus premium distributed in cash to the shareholders whose new stock had been sold for their benefit." The shareholders were equal to the occasion: having made arrangements at the previous annual meeting to provide King with a permanent testimonial of their appreciation, they now presented him with a full set of solid silver plate imported from England at a cost of $10,000.

Having, in the words of a contemporary, "placed the bank in a position far beyond anything known on the continent of America, and made it . . . one of the largest banks in the world," Edwin King, although only forty-five years of age, had decided that the time had come to enjoy the fruits of his arduous labours of the past twenty years. He quit Canada to travel and enjoy "a life of dignified ease," but after six years returned to harness as chairman of the Bank's London Committee, a position he was to hold until 1888.

3.

The annual meeting that saw the much regretted retirement of E. H. King also witnessed the adoption of a new code of by-laws (in conformity with the Bank Act of 1871) and the election to the Board of three new directors: Sir Alexander T. Galt, Edward Mackay and T. W. Ritchie, Q.C. The last was one of the leading lawyers of his day and a former partner of Sir John Rose; Mackay was a member of a retail merchandising firm established in 1840 and one of the founders of the famous Mackay Institute for the Deaf and Dumb in Montreal.

The continuing six directors were Hon. Thomas Ryan (elected in 1847), David Torrance (1853), Peter Redpath (1868), Dr. George W. Campbell (1869), George Stephen (1871) and Donald A. Smith (1872).

Sitting for the first time on June 3, the new Board tendered the presidential vacancy to the Vice-President, Senator Ryan, and upon his unwillingness to serve again in any office, elected David Torrance to the post. Born in New York City of Scottish parents in 1805, he had moved with his family to Upper Canada and at the age of sixteen had joined his uncle in Montreal to become later a member of the energetic Torrance alliance of importers, steamboat proprietors and ocean shippers. One or more of the family had sat on the Board of the Bank of Montreal since 1818.

The post of vice-president, vacated by Ryan, was filled by George Stephen. Born in Banffshire in 1829, he had come to Montreal in 1850 to serve as a clerk in his cousin William Stephen's dry-goods business and within three years became a partner. Later, on a buying trip to London, he attracted the attention of an eccentric millionaire, James Morrison, who had made a fortune in trade by pursuing the principle "small profits, quick returns." When the Crimean War broke out, Morrison urged Stephen to buy up all the goods he could find and ship them to Canada in anticipation of war-time scarcity and a rise in prices. Accepted and acted upon, Morrison's advice laid the foundation of Stephen's fortune. Looking back on his success in later years, Stephen is supposed to have said, "I seemed to have been born utterly without the faculty of doing more than one thing at a time. . . . I soon discovered that if I ever accomplished anything in life it would be by pursuing my object with a persistent determination to attain it. I had neither the training nor the talents to accomplish anything without hard work, and fortunately I knew it."

With R. B. Angus as general manager, Charles Smithers in New York, William Richardson in Chicago, Sir John Rose in London, and experienced managers in charge of the twenty-six branches, the new president inherited a most alert and efficient banking organization. But within four months the ability of the banking staff was tested to the utmost when Jay Cooke & Co. of Philadelphia, the leading financial house in the United States, suddenly suspended payments. Cooke had won nation-wide renown by selling almost $3 billion in Union bonds to the American public in the course of the Civil War, and following a series of no less brilliant operations during Reconstruction his firm had acquired the fiscal agency of the Northern Pacific Railroad. The line, promoted to develop the area between the Union Pacific and the Canadian boundary, was the second of the great American transcontinental railways. The threat of extensions into Canadian territory was one of the reasons for the location of the main line of the Canadian Pacific Railway through Kicking Horse Pass instead of through the much easier Yellowhead Pass, 125 miles to the northwest.

The Northern Pacific cost the American investor unreckoned millions, and brought to a temporary halt Jay Cooke's fabulous career. Having advanced large sums on Northern Pacific bonds, the Philadelphia banker found that disclosures of scandalous dealings between congressmen and Union Pacific promoters had driven the public away from the market for railway securities. Unable to meet their obligations, Jay Cooke & Co. stopped payment on September 18, 1873, and on the same afternoon the New York Stock Exchange suspended operations.

The panic of 1873, the sixth major economic disaster since the end of the Napoleonic Wars, ushered in the "long depression," which was characterized in Canada by a steady decline in commodity prices persisting until 1896. The downward spiral was accompanied by lower production, reduced wages, and widespread unemployment. The year 1873 alone witnessed 994 commercial failures in Canada involving liabilities above $12 million, and this was but a mild taste of what was to come.

As in earlier depressions, however, the Bank of Montreal did not immediately reflect the deterioration of the economy. Net profits, for example, showed an increase of $250,000 for the fiscal year 1873-74, and the dividend rate of sixteen per cent, including bonuses of four per cent, was comfortably maintained. The reasons for the Bank's apparent immunity have already been indicated. They included the continued withdrawal of the Bank from what, to most other banks, was the bread-and-butter business of small commercial discounting, its concentration on government and municipal business, and its ability to employ funds to advantage in the United States and Britain.

To Sir John Rose must be attributed much of the success of the London business. His own firm, Morton, Rose & Co., and its New York affiliate, Morton, Bliss & Co., had been appointed the fiscal agents of the American government to deal with the transfer of $15 million awarded the United States in payment of the *Alabama* claims. Thanks to Sir John's financial eminence and largely on his advice, it would seem, the Bank of Montreal for the first time entered the field of investment banking when the Board, in July, 1874, authorized participation with Morton, Rose & Co. in underwriting a loan of £800,000 sterling for the Provincial Government of Quebec on the London market, £80,000 of which the Bank took itself. This transaction was followed shortly by the successful flotation of a five-per-cent £750,000 bond issue for the City of Montreal, also in conjunction with Morton, Rose & Co.

Despite an accompanying £500,000 subscription to a four-per-cent Dominion of Canada loan, the London excursion into investment banking stood alone for some time. Meanwhile as the Canadian economic climate grew more wintry the Bank of Montreal continued to defy the elements. During the second half of the Bank's fiscal year, November 1874 to April 1875, economic retrenchment was reflected in a drop in the note circulation of all banks from $32.4 million to $21.6 million. Nevertheless, the Bank of Montreal was able to earn net profits during these six months of over one million dollars, only slightly below the figure for the same period of 1873-74. In spite of this accomplishment, the dividend distribution was restricted to fourteen per cent in 1875, and as added precautions $500,000 was added to the Rest and the special bonus to the staff inaugurated in 1865 was dispensed with for the second year running. The rest fund now stood at $5.5 million and the profit and loss account at approximately $400,000.

Despite the deepening gloom of the Canadian commercial community, the remarkable strength of the Bank's position was maintained. Profits held up so well that, although the annual dividend had been reduced to thirteen per cent by 1877, a combined total of nearly $1.3 million had been written off for bad and doubtful debts without recourse being had to the rest fund and decreasing by only some $200,000 the balance carried forward to profit and loss. Meanwhile the Bank's involvement in the bond market continued to increase. This trend became particularly noticeable following the death of David Torrance in January, 1876, after a lengthy illness. The duties of president then devolved upon the Vice-President, George Stephen, although he was not formally elected to the post until March. This event was followed by the addition to the Bank's investment portfolio of large blocks of United States Government and City of Cincinnati gold bonds. Between these two purchases the Bank also bought the remainder of the City of Montreal five-per-cent sterling bonds at a cost of £111,000, and in May formed a syndicate with the Imperial Bank of Toronto to purchase £100,000 worth of City of Toronto sterling bonds. The purchase of the United States Government bonds had been made possible by the omission from the 1871 Bank Act of that clause which prohibited lending money to any foreign prince or state.

In line with the same investment policy, R. B. Angus announced in November, 1877, that £200,000 in Province of Quebec five-per-cent debentures, taken on joint account with the Merchants Bank, had been disposed of "at a fair profit," and obtained the permission of the Board to purchase the balance of the issue, £400,000 sterling, "on the same terms, at 96 net" with "a responsible syndicate in London." That same day the Board also agreed to advance the Quebec government $1 million "in anticipation of the sale of the Bonds of the Province, or, Railway Bonds guaranteed by the Province." The explanation for the unprecedented financial activity lay in the decision of the provincial government to join the ranks of the railway builders by constructing a line westward from Quebec City along the north shore of the St. Lawrence.

Twelve months after the first Quebec transactions the Bank made "a temporary advance, in addition to the $1,000,000 now due, to the Treasurer of the Province of Quebec upon security of the Bonds of the Railway Commissioners." Not long afterward United States greenbacks became redeemable in specie and the stage was set for another in the long series of Bank of Montreal "firsts." Dated February 21, 1879, the pertinent Minute reads as follows:

> The General Manager reported, and the Board approved, a contract entered into between the Government of the Province of Quebec and the Bank of Montreal as set forth in the following memorandum:–
>
> Memorandum of Agreement between the
> Government of the Province of Quebec
> and
> The Bank of Montreal
>
> The Bank undertakes the negotiation of an issue of Bonds representing a loan of $3,000,000 authorized by the Act of the Legislature of the Province of Quebec 41 Victoria Cap. I, the principal and interest of which are to be made payable at the option of the holder at the office of the Bank in London or New York.
>
> The Bank undertakes to purchase one half of the whole amount of such issue of Bonds at the rate of ninety-five 1/6 per centum of the principal of

the Bonds (which price includes interest accrued from the 1st November last) and will pay for the same on delivery of the Bonds at its office in New York on the 28th February 1879.

The Bank shall have the right to purchase at its option, at any time up to and including the 31st May next, the balance of such Bonds, at the same price and with the same allowance of interest, in sums of not less than $100,000.

The Treasurer or acting Treasurer of the Province of Quebec will render all proper assistance in the negotiation of the loan whether undertaken in London, or New York, and will allow the publication over his signature of a statement concerning the financial position of the Province in accordance with a memorandum prepared by the Assistant Treasurer.

Executed in Duplicate this 18th day of February, A.D. 1879.

(*Signed*) H. G. Joly,
Premier of Quebec.

H. G. Starnes,
President of the Council
and Acting Treasurer.

George Stephen,
President, Bank of Montreal.

The General Manager also stated that negotiations were in progress for the formation of a syndicate in New York City to assume the above contract at ninety-five per cent net, the understanding being that the Bank would have an interest in the syndicate to the extent of about $400,000.

The Minutes made no mention of the historic significance of the three-million-dollar provincial issue, but the New York financial press was almost lyric in its praise. "The point," the financial columnist of the New York *World* exclaimed, "is this: these bankers have outbid the London bankers who wished to take the loan, and are about to try the first experiment in placing a foreign loan in this country on its merits. Efforts have been made in past times to sell in this market such bonds as those of Mexico, but only as a means of turning political sympathy into something tangible." The New York *Bulletin* noted: "The United States have paid off many hundred millions of their debt to Europe in the last few years, but that the New York market should be selected as a place to borrow money for one of the British Colonies is so novel that the experiment will be watched with interest."

Within days the loan was being enthusiastically acclaimed as an outstanding success. "It should go on the record," trumpeted the *Evening Post*, "that the first foreign loan ever offered in New York was successful beyond expectation." The bonds were eagerly sought by Baltimore and Philadelphia interests, as well as those of New England, and the loan was closed six days after having been opened, a small balance being retained by the Bank of Montreal and Kuhn, Loeb & Co. "at 101 and accrued interest."

Railway activity was not restricted to Quebec. Prophetically, it seems, George Stephen's succession to the presidency was quickly followed by advances to the Grand Trunk Railway in excess of $560,000 and of a similar amount to the Northern Railway, the portage road begun in the early fifties to join Toronto and Georgian Bay along the old route of the Nor'westers. The Bank's advance to the Grand Trunk, however, was related more to the phenomenal growth of the Chicago wheat trade than to any betterment of traffic conditions in Ontario. It also coincided with the transfer of the railway's management control from London to Montreal after a long and bitter conflict between interests representing the English stockholders and those charged with the railway's operation in Canada. The support given the Canadian group by the Bank of Montreal, both directly and through its London committee, was far from unimportant in determining the final outcome.

The railway career of George Stephen, both with the C.P.R. and in the American Midwest, is familiar to most readers. Generally unknown, however, is his close association with the affairs of the Grand Trunk Railway after he assumed the presidency of the Bank of Montreal. No other president, certainly, and no other general manager except Stephen's close friend and associate, R. B. Angus, ever found occasion to visit Chicago so frequently; and no other reason can be discovered for their journeys than the fascination of the Grand Trunk's struggle to establish itself as one of the major North American transportation systems.

Although the Grand Trunk's earnings had dropped from $1.44 per ton mile in 1873 to eighty cents per ton mile in 1877, the intervening years had witnessed extensive rebuilding throughout the entire system. Seventeen hundred miles of rails were now steel instead of iron; most of the masonry work had been reinforced, and the engines and rolling stock had been placed in first-class condition. In a word, the company was in a position to attempt an invasion of the

American middle west instead of relying for traffic on exchanges with other railways at the St. Clair River. The ultimate goal was Chicago, and to attain it one of the bitterest battles in the history of North American railroading was fought. The principal contestants were the New York Central, controlled by the powerful Vanderbilt interests, and the Grand Trunk, supported by a number of American roads which feared, with reason, a Vanderbilt monopoly. The prize was the wheat and cattle traffic from the middle west to the Atlantic seaboard. The fight lasted for three years and ended in 1880 with the establishment of Grand Trunk freight and passenger terminals on Dearborn Street in the very heart of Chicago.

Known at the time as the Chicago and Grand Trunk Railway, the extension of the Grand Trunk's main line westward from Sarnia and Port Huron enabled the company for a time to carry an extremely large portion of the freight originating in the American middle west. The heavy traffic was explained partly by the superior grain-handling facilities of the Grand Trunk, partly by the competitive rates, and partly by the provision of rail-and-ocean bills of lading to United Kingdom ports at rates lower than those of any other carrier. Forty per cent of the Grand Trunk's gross receipts then originated in Chicago. In this situation the Bank's local agency could only have profited handsomely, though to what extent can never be known. Unfortunately, records dating back for ninety years were destroyed when the Bank closed its Chicago branch in 1952.

The Grand Trunk was not the only railway to mitigate the effects of the depression. Following the victory of the Liberal Party at the polls in 1874, Alexander Mackenzie took over the public works portfolio in addition to his position as Prime Minister, while Richard Cartwright, a scion of the old mercantile family of Kingston and former president of the Commercial Bank, became finance minister. One of Mackenzie's first moves was both to endorse and to repudiate his predecessor's transportation policies, an agile but by no means isolated contradiction. This he did by causing the Intercolonial to be completed and the Canada Pacific project to be abandoned as an extravagance the country could not afford nor a sane and prudent Scot countenance. Instead of the grandiose scheme that had spelled disaster for Macdonald, Mackenzie adopted the old portage principle that had brought the Champlain and St. Lawrence into being forty years before.

The result of this policy was four related but disjointed projects undertaken by the government: first, a line from the head of the Great Lakes to Winnipeg;

WINNIPEG BRANCH MOVES TO CHURCH – 1882

Winnipeg, Manitoba, was still a frontier community with a richly varied population of between four and five thousand Indians, Métis, traders and settlers when the Bank of Montreal opened an office there in 1877. The first shipment of prairie wheat was sent to European markets that same year but the railway would not arrive until 1878 to bring about the city's great boom.

The branch's first office was in a building owned by the Hudson's Bay Company adjoining the trading post of Fort Garry. In the winter of 1881 the Bank erected its own brick building near the southwest corner of Main Street and Portage Avenue, leasing the upper storey to the Canadian Pacific Railway. Hardly had the two companies settled into their new quarters, however, when in 1882 the building was gutted by a fire, and both the Bank and the railway were obliged to take up temporary residence in Knox Presbyterian Church. The church was vacant at the time because its congregation had been forced to seek larger premises.

This painting shows Campbell Sweeney, who had opened the Winnipeg branch five years earlier, in front of Knox Church directing the unloading of documents and furniture saved from the fire. The location of the church on Portage Avenue in the midst of many business establishments proved very convenient for its new tenants. Sweeney and his two assistants transacted their business in the church proper, while William Van Horne, the General Manager of the Canadian Pacific, set up the railway's offices in the vestry and the Sunday-school room.

Painting by Barbara Endres


B. COOK ENDRES

second, a line westward from Winnipeg; third, a line from Yale north up the Fraser Valley along the Cariboo Trail; and last, a line from Winnipeg south to the American border at Pembina. The extensive government surveys by Sandford Fleming were also continued, but a dispute of serious proportions developed when British Columbia learned that the change in policy would render impossible the completion of its transcontinental line by 1881. An agreement with the province was finally reached, however, under which the railway across the Rockies would be finished and in operation by December 31, 1890.

So far as traffic was concerned, the first three of Mackenzie's lines started nowhere and ended nowhere; the fourth, however, through its connection with a complementary American line, the St. Paul & Pacific, running from St. Paul and Minneapolis, Minnesota, to the international boundary at Pembina, became the gateway to the Canadian northwest. Two men who figured prominently in the financing of this road were George Stephen and Donald A. Smith. By the time the first through train reached Winnipeg in 1878, the Bank of Montreal was waiting, so to speak, on the station platform. On September 18, 1877, the Board had passed a resolution "to take immediate steps to procure a suitable office" in Winnipeg. Campbell Sweeney and an accountant were dispatched forthwith to begin the sometimes romantic but often horrendous adventure of branch banking on the Canadian prairies.

By the end of Mackenzie's tenure of office in 1878, ten million dollars had been spent by the Department of Public Works on surveys and the construction of some seven hundred miles of Canada's Pacific-bound railway. The cost of about $15,000 a mile was modest for the time and place, but the creditable accomplishment was overshadowed by the melancholia that had spread to all parts of the Canadian commercial world. George Stephen, in his annual report to the Bank of Montreal shareholders on June 3, 1878, echoed the general impression: "I fear the process of liquidation, which our leading merchants have been pursuing for the last three or four years, must still be continued yet a while." The Bank itself, although showing an increase of twenty per cent in net profits over the previous fiscal year, had registered a decline in deposits of $2 million and in loans of $3 million, and had further reduced the dividend from thirteen to twelve per cent.

In 1876 Mackenzie had prepared his own downfall by sponsoring a select committee of the House of Commons to inquire into the causes of the depression. That body may well have had as important an influence as any ever instituted by a Canadian parliament. When all the questionnaires had been answered and all the briefs delivered, their message was abundantly clear. With few dissenting voices, the business community was for higher tariffs – to pay the Americans back in their own coin, to save the country from American and British dumping, and to protect and nourish native industry.

Hitherto, both the major political parties had vacillated between free trade and economic nationalism as exemplified by the United States; Mackenzie, though himself a free-trader, had been persuaded by Cartwright in 1874 to raise the general tariff level from 15 per cent to 17½ per cent for revenue purposes. Thereafter he would hear of no more increases, and it fell to Sir John A. Macdonald to leap into the breach as a confirmed protectionist. There followed the rapid evolution of the "National Policy," a brilliant though by no means perfect invention calculated to bolster the sorely diminished customs revenues, encourage native industry and foster national pride and consciousness. To promote himself and his fiscal plan, Sir John inaugurated the "political picnic," an institution that rapidly became under his beguiling patronage one of Canada's most popular folk festivals.

Stephen Leacock has already done affectionate justice to rural electioneering and the role played by the local bank manager at Mariposa, but in the late 1870's the fraternity was mainly concerned with grimmer matters. From 1875 to 1878, for example, there had been 7,200 business failures in Canada with losses of over $100 million, and even such proud and successful firms as Torrance & Co. had been forced to close their doors. Casualties were also heavy among the banks, and several failures took place among ephemeral institutions that had been launched so effortlessly during the preceding boom. On the other hand, the Bank of Montreal's graceful neighbour in Place d'Armes, the City Bank, of which Sir Francis Hincks became President after his retirement from political life in 1873, managed to avoid collapse temporarily only by amalgamating with the Royal Canadian Bank. Though it eventually recovered, Sir Hugh Allan's rather flamboyant Merchants Bank of Canada also fell upon evil days. Early in 1877, unwise gold manipulations on the New York market and general managerial incompetence, together with the strain of dubious assets acquired from the Commercial Bank, forced the directors to apply to the Bank of Montreal for a loan of one million dollars. It was granted on a number of conditions: that the directors be individually and collectively responsible; that the London agency of the Merchants Bank be wound up forthwith; and that the management be turned over to George Hague, formerly General Manager of the Bank of Toronto and Edwin King's old rival and admiring critic. By a most felicitous coincidence Hague had just "determined to retire, and intended to devote his energies to philanthropic and religious work," but he was prevailed upon to accept the more exigent call. As general manager he promptly reduced the capital of the Merchants Bank from $9 million to $6 million and and went on to establish it as one of Canada's most stable financial institutions.

4.

The return to power of Sir John A. Macdonald in September, 1878, with a majority of eighty-six marked the beginning of a conservative hold on the electorate that would last for eighteen years. As a means of persuading the United States to reopen reciprocity negotiations, as a response to the pressures exerted by vested interests, as an expression of Canadian nationalism, and as an experiment in nation building, the National Policy received an overwhelmingly favourable response from the Canadian people. As always, revenues were of critical importance and in this field the National Policy was a double-edged sword. When the product concerned was not produced in Canada, the applicable tariff served to add a little gold to the federal coffers, but when the product was in competition with one made in Canada, revenue considerations went by the board and protection of the still-feeble Canadian industries became the dominant incentive. Inevitably, perhaps, the National Policy embraced contradictions but at a time of British withdrawal and American indifference it had the virtue of being unequivocally Canadian. As Mackenzie's virtues have been greatly underrated, so, probably, have Macdonald's great strengths on the hustings and picnic grounds been overrated. That his wit, adroitness, and insouciance made him the vote-getter par excellence cannot be questioned. But these were not the determining factors in the elections of 1878. The country was in dire straits and Macdonald's National Policy was the only realistic proposal put forward to save it.

The Dominion's fourth parliament convened on February 13, 1879, and soon afterward legislation was introduced which in some cases more than doubled the tariff schedule timorously raised by the Mackenzie administration to 17½ per cent. Royal assent was granted in May, apparently with more than favourable results. In both 1880 and 1881 the country experienced surpluses on foreign trade current account which would not occur again until 1894.

To what extent the National Policy was responsible for the short-lived reversal remains in question. As always, the Canadian economy had been slow to respond to improvements elsewhere. These had appeared in the United States in 1879 when a change in fiscal policy had made greenbacks redeemable in specie and a permanent part of the nation's money supply. A feverish flurry of activity on the New York stock market followed but to Canada it proved a false coming of the dawn.

Notwithstanding the Bank's successful flotation of the Quebec bonds in the spring, 1879 proved a difficult and even painful year. Although profits for 1878-79 amounted to $1,758,335, a large portion of that sum, namely $1,154,784, had to be appropriated for bad or doubtful debts and, according to the annual statement, to allow for depreciation of the assets of the Bank. As most of these losses had originated in previous years, it was decided to take $500,000 from the Rest and to reduce the dividends to ten per cent. As to the end of the depression, President George Stephen was not yet very optimistic, saying, "I would fain hope that we have seen the worst, and that trade from this time out will begin to improve and become profitable; but there is still much need for caution."

Reflecting the same attitude, the General Manager, R. B. Angus, stated that although bills of exchange and notes discounted stood at $27.3 million, only five loan accounts ever approached the half-million-dollar mark. Note circulation was down by $225,000 to $2,958,645, but this was a result of the general decrease in commercial activity, while an increase of nearly $1.5 million in deposits at call was credited as only a temporary phenomenon resulting from the working of the government account. A familiar figure reappeared at the annual meeting of 1879 in the person of E. H. King who, it was announced, had been appointed Chairman of the London Committee, succeeding Sir John Rose.

During the next twelve months Canada remained in the commercial doldrums despite an American recovery described by the Canadian *Monetary Times* as "feverish if not wild in its intensity." New York bank clearings for 1879 were increased by forty-six per cent over the previous year to regain heights that had last been attained in 1872. In other American centres the improvement was not nearly so marked, leading to the suspicion that a good deal of speculation was again rife in the New York money market, a situation which, the *Monetary Times* sternly warned, should not be duplicated in Canada.

About one month previous to the Bank of Montreal's annual general meeting of 1880, the act embodying the decennial review of Canadian banking received assent. In view of the recent bank failures (six in 1879 alone), the new act stated that bank-notes would be a first charge upon an institution's assets in the event of insolvency. Agitation for a government-run system of bank inspection was dropped when it was brought to the government's attention that if a bank on which government inspectors had submitted a favourable report failed, the wrath of depositors might be aimed at the party in power. The issue of notes of less than five dollars and sums not multiples of five dollars was prohibited, the minimum proportion of cash reserves to be held in Dominion notes was raised to forty per cent, the form of the monthly return was amended so that more complete details of a bank's position would be available, and the section of the act dealing with advances on warehouse receipts was extended to include petroleum, crude oil and various classes of timber.

Meanwhile the Bank of Montreal had to set aside another quarter of a million dollars at the end of October, 1879, to cover further bad debts, but signs of commercial recuperation became evident in new credits to railways and such industries as lumbering and steel manufacturing. Notwithstanding the improved state of the American economy, Canadian lack of confidence still discouraged most prospective entrepreneurs from entering the market for funds. The one side is evidenced by the successful request of Kuhn, Loeb & Co. in March, 1880, for an extension of their credit with the Bank of Montreal to a limit of two million dollars; the other, by the Bank's steadily mounting deposits, in response to which the directors announced on January 27, 1880, that as of March 1 the rate on savings accounts of two thousand dollars and over would be reduced to three per cent.

The situation in which the Bank was placed can be seen from the April 30 figures that were presented to the shareholders at the annual meeting on June 7, 1880. Despite the Board's best efforts, deposits bearing interest had risen by over $8 million during the past year, so that total deposits of $22,322,238 actually exceeded discounts, which had fallen by nearly $7 million to $20,561,528. This had necessitated a reduction of one per cent in the dividend to nine per cent, but profits were maintained at a high enough level to provide also for $685,446 of bad debts without encroaching on the rest fund. In his message to the shareholders, George Stephen bemoaned the stagnation of the Canadian economy which "resulted in the Bank having a very large average amount of unemployed funds." He went on to elucidate: "The demand for money continues light, and far below the ability of the Banks to supply. The employment

DICKERING WITH THE FACTOR – LATE 1880'S

Since 1670 Indians had been carrying furs to Hudson's Bay Company posts such as this one in Northern Ontario. At one time the company's fur domain extended from Labrador to Oregon, but by the Rupert's Land Act of 1869 Canada paid £300,000 for the whole spacious territory with the exception of the company's forts and one-twentieth of the area's arable land.

of funds in the United States, which has contributed so largely to the income of the past year, is somewhat uncertain and cannot be safely depended upon, though it is a valuable outlet for surplus reserves, which must be employed in such a manner as to be always available." The extent of these operations was reflected in the general statement which showed that balances due from United States banks and agencies exceeded $14.4 million.

At the end of August, 1879, R. B. Angus had resigned as general manager and Charles Smithers had been persuaded with some difficulty to take his place as head of the Bank's management. Smithers had then been senior agent for the Bank in New York for ten years and was in a better position than any other person to defend the Bank's activities in the United States. Shareholders and public alike had been aroused by the fact that while Canada seemed to suffer from a chronic lack of capital, its largest moneyed institution was using its resources to indulge in "speculation" in what was then regarded as a sink of iniquity and corruption – the New York market. Such criticism had been prevalent for twenty years, as we have seen, and had grown more and more persistent as a result of the King legends.

In view of the one-time differences between Smithers and King over the handling of the Bank's New York business, the new general manager's defence of these same operations at the annual meeting of 1880 assumes greater significance than if it had been simply the routine statement expected of the senior officer upon such an occasion. For that reason, and for the light it throws on the relative development of the financial markets in the two countries, it is included here in its entirety:

> He might say first that the funds used in the United States were practically all available. Nobody need suppose that the specie and Dominion notes, although very large, represented the Bank's reserve. They had an amount just as available as that. The funds in the United States were for the most part on call, and that portion which was not on call was at very short dates, and prompt payment could be safely calculated upon. It was worthy of mention that the Bank had lately an opportunity of testing the available nature of their New York reserves, in a very practical way. There had been a great deal of excitement lately, as the shareholders were aware, about a bill before the Legislature at Albany for the purpose of taxing foreign capital. He (Mr. Smithers) took occasion to visit New York at that time, and in order to illustrate to the Legislature at Albany what the effect of

> that bill would be, he called in about four and a half million dollars in the course of a few days. He did not think it would be easy to get an equal amount out of a Canadian district in the same time. (Laughter.) It was very commonly supposed that the New York business was speculative and extra risky, whereas exactly the contrary was the case. It was really the safest and the most available business they had. Why was it the safest? Because the advances were made altogether upon good collaterals, with ample margins, and to a very limited extent upon mere names, as was the case in Canada. When any advances were made on names, the names were of the highest class. To be more exact still, he would say that the losses which had been referred to, amounting to $700,000, were all made in Canada, hardly a dollar having been lost in the United States. (Hear, hear.) The Chicago loans – the Bank had a branch in Chicago – were not perhaps quite so available as the New York loans, but they were only second to them in that respect. Chicago loans were seldom made for more than thirty days and lately within a few weeks they had reduced their loans in Chicago from five million to three million dollars. So that it was evident the money there was almost as available as if it was in their vaults here.

As an explanation of the Bank's position in New York, the General Manager's statement leaves little to be said. With the Bank's far-flung and extensive operations, and with so many large accounts requiring foreign exchange, the Canadian financial structure simply did not provide an outlet for the large liquid balances that the Bank needed to support its commitments and provide for the safety of its note-holders and depositors.

What Smithers failed to make clear was that the retention of these funds abroad did not, as charged, detract from the Bank's services to its own country, but rather enabled it to guarantee to Canada and her business men a higher degree of economic flexibility. From a national point of view, the Bank's balances in the United States could be considered a form of foreign-exchange reserve. Canada's economy was heavily dependent on international trade, and then, as now, chronic balance of trade deficits had to be met through borrowing abroad. Although, as noted, a surplus had been achieved in fiscal 1879-80, it was the first since Confederation and yearly deficits during the interval had averaged over $19 million. Since a substantial portion of the annual deficits was generally with the United States, it can be seen that the Bank's much criticized balance of $14.4 million in New York and Chicago contributed in no small measure to the smooth flow of funds between Canada and the United States. From the country's point of view, therefore, these funds served a vital role, taking the place of an official exchange reserve; from the Bank's, they formed part of an essential secondary reserve which it could not afford to leave idle and had to employ in that market which offered the best combination of safety, accessibility and profit.

NINE

FINANCING THE C.P.R.

FINANCING THE C.P.R.

I.

The Canadian Pacific Railway was born on Thursday, October 21, 1880, when Sir Charles Tupper affixed the seal of the Department of Railways and Canals to an agreement between Her Majesty, Queen Victoria, and a syndicate of six financiers – George Stephen and Duncan McIntyre of Montreal; John S. Kennedy of New York; James J. Hill of St. Paul, Minnesota; Richard B. Angus of St. Paul and Montreal; and Pascoe du P. Grenfell, a partner in Morton, Rose & Co. who also represented Kohn, Reinach & Co. of Paris. Stephen and Angus need no introduction. The calibre of the syndicate and the future involvement of the Bank of Montreal are implied from the inclusion of their names.

Although not connected with the Bank's earlier New York agents, J. S. Kennedy & Co. was familiar to the Board of the Bank of Montreal as a result of transactions in American railway securities, a field in which the New York house specialized. A much closer relationship existed with Morton, Rose & Co. which had had extensive dealings with the Bank since its founding in 1869. Although Sir John Rose, the former director of the Bank of Montreal, Canadian finance minister and member of the Bank's London Committee, had retired by this time, his son Charles had become a partner in the London house. The senior partner in Kohn, Reinach & Co. was Baron Jacques de Reinach, who held financial interests in a company chartered in France to build a Panama canal and no doubt saw in the C.P.R. a promising alternative route to the Orient. Duncan McIntyre had worked his way to the top of a successful dry-goods firm in Montreal and had subsequently become general manager of the Canada Central Railway. This enterprise had been granted a charter in 1861 to build a line from Montreal, via Ottawa, Arnprior, and Pembroke, to a point on Lake Huron. Since the village of Callander, the eastern terminus of the projected Canadian Pacific, lay on this route, the Canada Central, when completed, would form an essential link in the transcontinental project.

In addition to the proven financial capabilities of the above members, the Canadian Pacific syndicate also had in James J. Hill an experienced railway builder whose phenomenal success in resurrecting dead railroads in Minnesota had already gained him both renown and notoriety. In these endeavours Hill had been associated with George Stephen and Donald A. Smith, the second of whom had been elected to represent Manitoba in the Dominion House of Commons in 1871 and had been made a director of the Bank of Montreal a year later. It was one of their lines, the St. Paul & Pacific Railroad, it will be remembered, that in 1878 had made the connection with the Canadian line from Winnipeg to Pembina. The construction of this American railway, which was later renamed the St. Paul, Minneapolis and Manitoba, had been aided by loans from the Bank of Montreal totalling $700,000 which had been made to Smith, Stephen, Hill and a fourth partner, Norman Kittson, on their personal security.

Now that the relationships of the men who contracted to build the Canadian Pacific Railway are known, it remains to be seen what induced them to embark on an undertaking that had plagued three governments of Canada. "An Act to incorporate the Canada Pacific Railway Company" had been passed in 1872 and according to John Murray Gibbon, author of *Steel of Empire*, "It was not easy for Macdonald to persuade Stephen to take over his white elephant, for the odour so far acquired by the Canadian Pacific Railway was not that of Araby." So unenthusiastic, in fact, was Stephen that he forsook Montreal at the beginning of July, 1880, to take Angus salmon fishing at a favourite haunt on the Matapedia River. The fishing being poor, he found time to write to Macdonald, explaining: "We [Stephen and Angus] are both satisfied of our ability to construct the road without much trouble, but we are not so sure by any means about its profitable operation." Feeling confident that Macdonald, Tupper, McIntyre and J. H. Pope would find ample financial backing on a forthcoming trip to England, he was nevertheless wary of British unfamiliarity with Canadian conditions, and warned, "if we cannot operate it successfully no one else can." At this time Macdonald was offering a subsidy of twenty million dollars cash and thirty million acres of land, whereas Stephen advocated more cash and less land.

Later in the summer Macdonald was able to enlist the support of his old colleague Sir John Rose, who used his still powerful influence on his former partners in Morton, Rose & Co., and a preliminary understanding was reached in London on September 14, 1880. The historic agreement, signed in Ottawa on October 21, 1880, provided for a cash subsidy of twenty-five million dollars and twenty-five million acres of land "fairly fit for settlement." The line was to be divided into four sections: the Eastern, from Callander on Lake Nipissing to a point on Lake Superior; the Lake Superior Section, from Port Arthur to Selkirk on the Red River; the Central Section, from Selkirk to Kamloops in British Columbia; and the Western Section, from Kamloops to Port Moody on the Pacific coast. The government undertook to complete the Lake Superior and Western sections while the remainder, calculated at two thousand miles, was to be the responsibility of the company. Work was to begin no later than May 1, 1881, and to be finished by May 1, 1891, at which time the government-built portions of the line would become the property of the company.

The subsidy was payable on a pro rata basis upon the completion of each twenty miles, but the company had to post a million-dollar bond with the government to guarantee construction, the government agreeing to pay interest at four per cent. The railway was granted a virtual monopoly for twenty years, during which no other road would be allowed to build between the C.P.R. main line and the American border. In addition all construction material was to be imported duty free, all property and capital stock were to be tax free, and the lands granted were to be tax free for twenty years or until sold. Provision was also included for advances on the government subsidy to meet the cost of material delivered to construction sites. Until January, 1882, the company also had an option to issue land-grant bonds to the extent of twenty-five million dollars (one dollar per acre). If such land bonds were issued, the government was to retain one-fifth of them for ten years after completion of the road as a guarantee of proper maintenance and operation. If they were not issued, the government would hold back one-fifth of the land grant as security.

Bountiful though these inducements may appear, they were actually quite frugal compared with grants made previously in both the United States and Canada. The essence of the matter lay in the fact that railways in virgin territory absorbed money as a sponge does water. And after the Pacific Scandal, money for any Canadian venture became so difficult to raise that Mackenzie had found it necessary to resort to public ownership to finance railway construction.

When Parliament assembled on December 9, 1880, the C.P.R. was the main item on its agenda. For seven weeks debate raged, the speeches varying from demands for assurances on the location and quality of the road to fantastic speculations about the profits that the company would reap. On many an occasion the arguments degenerated into wrangling between individual Grits and Tories, or between rival Toronto and Montreal interests concerned over which city would be named the eastern terminus. The leader of the attack was the great orator Edward Blake, Mackenzie's successor as head of the Liberal Party, who obfuscated the issue by introducing amendments to give the contract to a recently formed Toronto group for a smaller subsidy of twenty-two million dollars and twenty-two million acres of land. It was obvious that this new group had given very little serious consideration to the undertaking, and Blake's resolution was defeated a few days later by a vote of 140-54. When it became clear that Macdonald and Tupper, the Minister of Railways, would not relent, the opposition finally yielded. On February 15, 1881, by Parlia-
incorporating the Canadian Pacific Railway Company was passed legislation
ment and on the next day the act was accorded royal assent by the Governor General, Lord Lorne.

The capital stock of the company was fixed at $25 million but provision was made for the issuing of land-grant bonds up to $25 million and also mortgage bonds and guaranteed or preferred stock to a limit of $10,000 a mile in either case. Assuming, as the government did in the contract, that the length of line to be built by the company was two thousand miles, the charter gave the company the power to raise $90 million through the sale of stocks and bonds, which, when combined with the subsidy, provided total resources of $115 million.

As soon as $5 million of the stock had been subscribed and $1.5 million paid in, the company would receive the contract upon depositing $1 million in cash or securities with the government. The directors, each of whom had to proclaim his faith in the venture by holding $25,000 in stock, were nine in number: George Stephen, Duncan McIntyre, John S. Kennedy, Richard B. Angus, James J. Hill, Pascoe du P. Grenfell, Baron J. de Reinach, Charles Day Rose, and Henry Stafford Northcote, all of whom have been introduced save the last. Northcote was the son of Sir Stafford Northcote, a former governor of the Hudson's Bay Company and former Chancellor of the Exchequer. Young Northcote had served as a private secretary under the Disraeli government until its ouster in 1880, and was married to Stephen's adopted daughter Alice.

The rivalry between Toronto and Montreal over the eastern extension of the line from Callander was temporarily assuaged by the inclusion of a clause ordering the company to "afford all reasonable facilities" to both the Canada Central Railway and the Ontario and Pacific Junction Railway, which had been granted rather nebulous rights to build from Georgian Bay to Lake Nipissing with "powers of extension" both to the south and to the east. In the case of the Canada Central, which was already operating between Ottawa and Pembroke, the C.P.R. was empowered to purchase or lease the line and to obtain also by lease or purchase any road from Ottawa to a port on the Atlantic seaboard.

On the same day that the Governor General affixed his signature to the act of incorporation the million-dollar deposit was placed in the hands of the government. The company was officially organized on February 17, 1881, with George Stephen as president and Duncan McIntyre as vice-president. Within two weeks, subscriptions had been placed for more than six million dollars of the stock and initial cash payments of thirty per cent had been received, the principal purchasers being members of the syndicate.

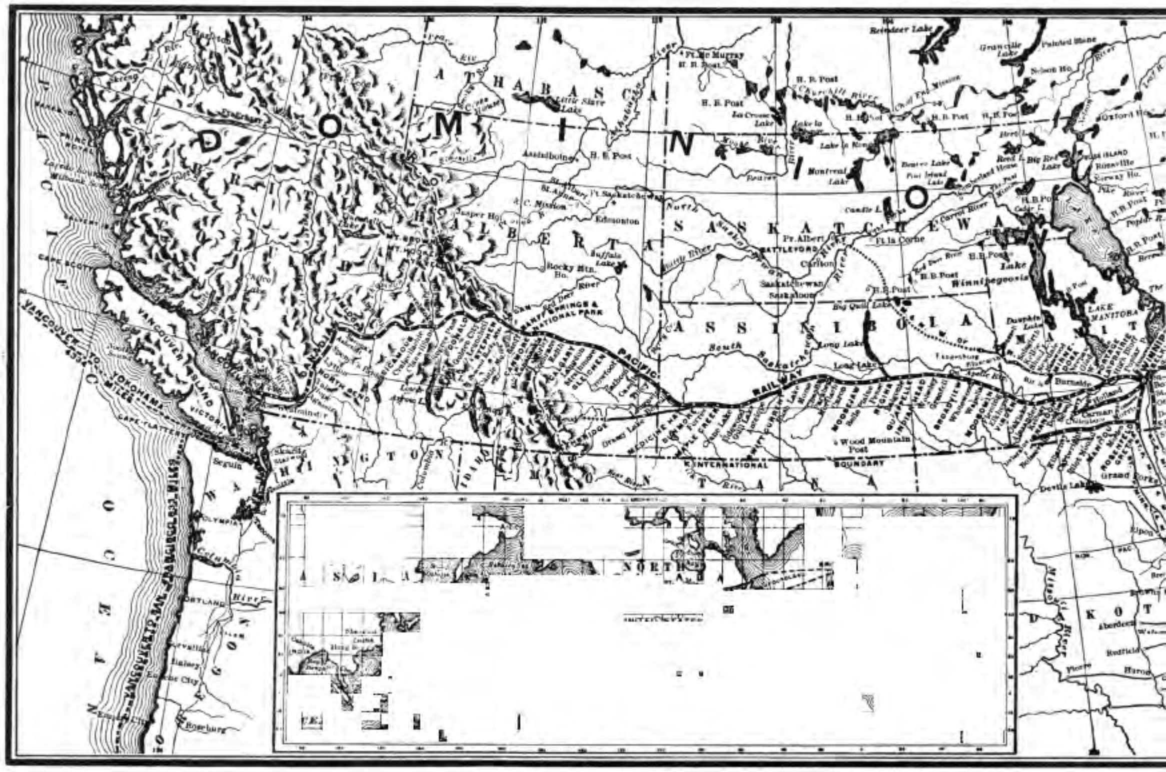
While Canadian activity was concentrated on the line itself, the railway's London agents tackled the problem of immigration and during the spring of 1881 sold 300,000 acres of the land grant at an average price of $2.59 an acre, a most auspicious start. At the beginning of May, the portion of the line east of Winnipeg that had been built by the government was transferred to the company. On the last day of the same month the C.P.R. shareholders met to ratify the acquisition of the Canada Central Railway, although more than one hundred miles of the line north of what is now Algonquin Park had yet to be constructed.

2.

The Bank of Montreal suffered the loss of one of its great presidents when George Stephen laid down the reins of office in June, 1881. Elected to the Board in 1871, to the vice-presidency in 1873, and to the presidency in 1876, Stephen had held office during the worst years of the great depression that brought down the Mackenzie government and inspired Sir John A. Macdonald's National Policy. During the five-year interval from 1876 to 1881, the rest fund had decreased by $500,000, dividends had ranged from a high of thirteen to a low of nine per cent, and discounts had fallen by $6.5 million or approximately twenty-five per cent. Yet Stephen left the Bank more vigorous than it had been when he became chief executive following the death of David Torrance. Not only had he consolidated the gains made by the brilliant E. H. King, but by greatly expanding the Bank's investment portfolio and underwriting operations in London and New York, as well as in Canada, he had placed the institution in a stronger and even more commanding position than it had occupied at the time of King's departure.

Stephen's decision to retire could have brought little surprise to either the shareholders or the public. Only four months had elapsed since the granting of letters patent to the Canadian Pacific Railway Company and his acceptance of the presidency but the interval had been sufficient for the enemies of the company – congenital, industrial and political – to join in a cabal designed to undermine confidence in both the company and the Bank, the latter through guilt by association. While calumny would not assume epic proportions until later, it was sufficiently potent from the outset to make Stephen's dual position increasingly untenable. Of course none of this found voice at the Bank's annual meeting of 1881. Stephen, after briefly reviewing the past year's business, merely explained that he had felt strongly for a year or two that he should sever connections with the Bank but "it was simply because I had so many other things to attend to. The responsibilities upon me were more than I could well bear. However, I made a compact with Mr. Smithers when he came on here that I would stay at least for a year, and I have done so." His valedictory continued:

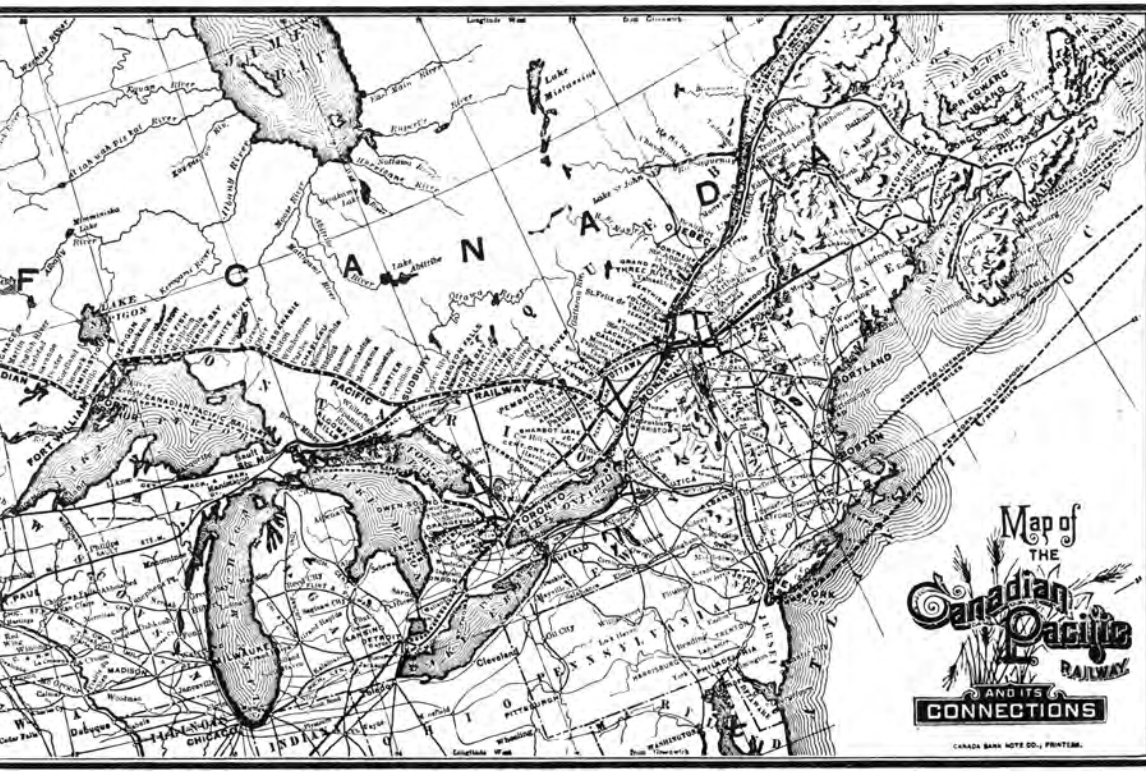
> Since I became connected with the Canadian Pacific Railway I felt it was absolutely impossible to continue my connection with the Bank. I do not sever that connection for the reason advanced by some newspapers. I may



EARLY CANADIAN PACIFIC MAP

Between 1881 and 1885 the main transcontinental line of the Canadian Pacific Railway was constructed from Callander, Ontario, through the Province of Manitoba and the territories of Assiniboia and Alberta to Port Moody, B.C., the railway's first Pacific terminus. A new western terminus was later built twelve miles away at Vancouver when it was decided that the Port Moody harbour facilities were inadequate.

In the east the contract between the railway and the government named Callander as the end of the main line because the government did not wish to face the repercussions of having to choose between Montreal and Toronto. A series of short lines was therefore purchased or leased by the Canadian Pacific running from Callander to Montreal and Quebec City, where connections could be made with the Intercolonial Railway serving the Maritime Provinces. The link with prosperous Southern Ontario,



however, was delayed by the machinations of the Grand Trunk, and several years elapsed before a branch line was completed between Sudbury and Toronto.

This map originally appeared with the Canadian Pacific annual report in 1887. It shows all the C.P.R. stations as well as the two famous passes through which the line was constructed west of Banff. "Summit Rocky Mts." marks the high Kicking Horse Pass, while just west of Donald, B.C., can be seen the pass in the Selkirk Range named for the American railway "pathfinder," Major A. B. Rogers, who was hired to survey the difficult mountain section.

Near Revelstoke, B.C., is Craigellachie, where Hon. Donald A. Smith drove the final spike in November, 1885, seven months before the first through train left Montreal en route for the Pacific coast.

> say for those who take an interest in the Bank, and also for those who take an interest in other people's affairs, that the Pacific Railway Syndicate does not propose to borrow from the Bank or anybody else, whatever advantage may accrue to the Bank through the Canada [*sic*] Pacific Railway.

However inaccurate the pronouncement may have proved with respect to borrowing, its essence was never eroded.

The tried professional, C. F. Smithers, succeeded Stephen to become the Bank's eleventh president, Dr. George W. Campbell, the Vice-President since 1876, continuing in that post. Wentworth J. Buchanan, who had been appointed manager of the Montreal branch in 1874 and Assistant General Manager in 1880, succeeded Smithers as general manager.

The economic picture brightened in 1881; trade continued its upward trend, prices improved, and money in New York and England became "as cheap as it has been for many years." Encouraged by the excellent prices received that spring for its land, the C.P.R. decided to issue the $25 million of land-grant bonds provided for in its charter, and an agreement was reached with the Bank of Montreal on August 19 for the disposal of these securities. The Bank in association with J. S. Kennedy & Co. agreed to take $10 million of the bonds at 92 ½ subject to another one-half per cent commission. A schedule of issue was drawn up covering thirteen months, October 1, 1881, to November 1, 1882. The Bank had a one-year option to take a further $5 million at 95 which, if exercised, gave it the right to purchase another $5 million at 97½ until April 1, 1883. The remaining one-fifth of the bonds, it will be remembered, had to be deposited with the government for ten years as a guarantee of good faith. British newspapers took the opportunity to denounce Canada in general and her debt-ridden government in particular. As a consequence of this and other attacks from such sources as "the G.T.R. and its paid ink-slingers," as Stephen described them, the initial bond issue did not sell as well as had been expected.

Under the terms of the contract, the railway was obliged to leave on deposit with the government the proceeds of the bond sales over and above the earned land subsidy of so much per mile, rated at one dollar to the acre. As the subsidy was earned the cash would be paid to the company. Through a slip, no one had officially informed the Department of Finance that the bonds had been issued. Thus, on January 7, 1882, Macdonald frantically wrote to Stephen calling for a letter from the Bank post-haste to rectify the government's records before a fresh attack could be launched by any enemy of the government or the railway. The letter is one of 135 similar private and confidential communications written by Sir John to George Stephen, most of them between 1881 and 1885, the four years that covered the building of the Canadian Pacific. Recently discovered in private hands in Montreal, the correspondence complements that from Stephen to Macdonald in the Public Archives of Canada and confirms the extraordinary pressures to which those connected with the heroic undertaking were continuously subjected.

> Now a statement going to the public that there was an unauthorized issue of Bonds would destroy their sale-ability (if there be such a word) as much as if they were stolen. Tilley may be asked in the House when the Gov't rec'd them and to what Extent – How many were issued & on what vouchers. His answer would cause an Explosion.

The C.P.R. and the Bank replied two days later giving all details, and on January 12, 1882, the General Manager wrote to Tilley, the finance minister, informing him that the Bank had credited the Receiver General's account with $1,840,000 derived from bond sales. Further payments were slow and by June of 1882 only another $2,760,000 had been received.

By this time negotiations were in progress to sell five million acres of the land grant to the Canada North West Land Company of London. Donald A. Smith and its other directors had obviously been impressed by the initial land sales, and with a capital of $15 million they decided that there were profits to be made in prairie real estate. At the beginning of September, the C.P.R. deposited the second lot of $10 million in bonds with the Bank and a week later the Canada North West Land Company subscribed for $8.5 million of them at 98½. At the same time the land company agreed to take up the remaining $3.7 million of the first lot held by the Bank of Montreal - J. S. Kennedy syndicate. Since general market conditions were degenerating, however, the Canada North West Land Company soon found itself in difficulties, and in November, 1882, came to the Bank for temporary assistance to the extent of $2.7 million. This was granted on the security of the bonds at eighty-five cents on the dollar and the guarantee of the C.P.R. The loan from the Bank was used by the land company to purchase the last of the land-grant bonds in the hands of the Bank and J. S. Kennedy, and the marketing syndicate was formally closed out at the end of 1882. The land company failed to honour its subscription to the other \$8.5 million worth of bonds and only about one million of the second lot were ever issued to the public during the period of construction.

Meanwhile the seasonable months of 1881 were spent mainly in locating and surveying the line; by the end of the year, however, the railway was in operation between Winnipeg and Brandon, some 130 miles. According to one account, twenty thousand immigrants flooded into the area, bringing with them an estimated average of ninety dollars each and the beginnings of inflation. Winnipeg alone had a population of twenty-five thousand and in George Stephen's opinion "the streets were more crowded than Broadway, New York." Such was the scene that greeted William Van Horne in December 1881 when he arrived in Winnipeg to take over as general manager of the railway. Lured away from the Chicago, Milwaukee and St. Paul Railroad by J. J. Hill, Van Horne became the construction genius of the C.P.R. Another employee of the same American line, Thomas G. Shaughnessy, withstood Hill's overtures for another ten months before coming to join Van Horne and eventually to succeed him.

Van Horne was born in Illinois in 1843 and began his railroad career as a telegraph operator at the age of fourteen. Thereafter he served in various capacities with many American lines in the Midwest before coming to work and stay in Canada. His vitality was enormous and the remarkable construction records set by the C.P.R. must be credited largely to his efforts. His attitude is sharply delineated in an anecdote related by one of his subordinates. Van Horne had received a plan showing one mountainous section of the C.P.R. which called for a tunnel some nine hundred feet long. The engineer in charge was instructed to remove the tunnel and substitute a less time-consuming alternative. To the suggestion that the tunnel was no mere whim but a necessity Van Horne explosively replied that he had no intention of building expensive tunnels to humour a bunch of crazy engineers. Astonished but undaunted, the one before him gamely retorted, "While I am up there hadn't I better move some of those mountains back, as I think they are too close to the river?" Instead of showing annoyance, Van Horne burst into laughter. No mountains were shoved back, but the route was relocated, saving a mile and a half of track.

With such a man at the helm there was no holding back, and during 1882 the railway broke all existing construction records. But to keep up with Van Horne's dynamic progress the C.P.R. needed cash. The steel rails alone, delivered at Winnipeg, cost five thousand dollars a mile and although advances

WINNIPEG FROM ST. BONIFACE FERRY LANDING – 1882

When Manitoba entered Confederation in 1870, Winnipeg was but a small and isolated settlement that had evolved from Lord Selkirk's Red River colony. Its closest ties were with St. Paul, Minnesota, some five hundred miles to the south, a long and laborious journey by paddle steamer and ox-cart.

It was not until a railway was completed to the American border at the end of 1878 that any marked influx of settlers began. At the North Dakota boundary this line connected with the St. Paul & Pacific Railroad in which two Bank of Montreal directors, George Stephen and Donald A. Smith, had a substantial interest. Impressed by the potential of the northwest, they succeeded in getting the Bank to open a branch at Winnipeg in 1877.

Their predictions proved well founded. During the construction of the Canadian Pacific Railway, Winnipeg became the commercial centre of the entire northwest, and its population increased from 8,000 in 1881 to 17,000 in 1885.

on the subsidy could be obtained for materials, the land-grant bonds had not been selling well. Stephen and Smith, in fact, had had to go to the Bank of Montreal in December, 1881, for loans totalling $300,000 on their personal security. In January, 1882, however, Stephen received a private letter from Macdonald which must have given him much encouragement. Through the efforts of Alexander Galt, the first Canadian High Commissioner to London, the government had recently reached a more advantageous agreement with Glyn, Mills, Currie & Co. and Baring Brothers, which inspired the Prime Minister to write to the President of the C.P.R.: "You may depend on my backing you up to the utmost of my power as I consider the progress of Canada depends on the progress of the C.P.R." Substantial encouragement was also received during the first months of 1882 in the form of nearly $2.8 million derived from the sale of land-grant bonds and the final call on the initial issue of capital stock.

The Quebec government also evinced its faith in the enterprise by allowing the C.P.R. to defer payment for the Quebec, Montreal, Ottawa and Occidental Railway – running from Ottawa to Montreal – which was acquired from the province at the beginning of March, 1882, for approximately four million dollars. Nevertheless, expenditures were still running ahead of receipts and on March 10, 1882, the C.P.R. came to the Bank of Montreal for its first major loan. The Board authorized a six-month advance of $1.5 million on the company's promissory notes secured by St. Paul, Minneapolis and Manitoba Railroad stock.

At the June, 1882, annual meeting of the Bank, following which Donald A. Smith succeeded Dr. Campbell as vice-president, C. F. Smithers, the President, reported that to date the Bank had been able to dispose of three million dollars of the land-grant bonds in spite of the weak market. Hopes were also high that the prospective sale to the Canada North West Land Company would have favourable effects on the remainder of the bonds. Business generally had fallen off after the previous year's optimistic outlook, however, and although the Bank itself had again increased its earnings, Smithers warned the shareholders, "I think it is an undeniable fact that trade is not in an altogether satisfactory condition. Complaints are very general that profits are light, and it is pretty well understood that considerable stocks of merchandise have had to be carried over."

One of the few people undismayed by the general situation was Van Horne, under whose forceful direction the C.P.R. was employing a task force on the prairie section of five thousand men and seventeen hundred teams of horses and mules. His alleged principle, "Get the work done right and send the bills to Stephen," brought impressive results: at the end of 1882 when cold and snow had brought work to a halt, the track was in operation as far west as Swift Current, 512 miles from Winnipeg. Another ninety-four miles had also been laid farther west, bringing the line almost to what is now the Alberta border. Including feeder lines, the government sections and subsidiary lines joining Callander with Montreal, there were now 1,730 miles of railway over which the iron horse could operate.

To realize its part of the construction, the Canadian Pacific had received only $4.2 million of its subsidy and an added $3.6 million from its land-grant account with the government. In the middle of August, 1882, the remaining $20 million of authorized stock had also been issued but had brought only $4,974,475 to the till, so effective had been the canards of the company's detractors. By the time Van Horne was forced to call quits for the year, the company's resources were in a perilous condition, so much so that if work were to be resumed in the spring at anything near the established pace, significant financial innovations would have to be devised. To attempt to sell any more of the land-grant bonds was useless because of the damning publicity given to the land through which the line would pass, and the company was loathe to take advantage of the clause in its charter providing for the issue of mortgage bonds. Hill's experience in the United States had made him adamantly opposed to burdening the company with fixed, expensive debt charges, especially at a time when earnings were still skimpy. Stephen was of the same mind, as he had emphasized in a letter to Macdonald as early as 1880, when he drew attention to the heavy bonded debt that had strangled the Northern Pacific. The remaining C.P.R. directors concurring, it was decided to adopt another tactic, and in December, 1882, the C.P.R. applied for and received permission from the government to increase its authorized capital stock from $25 million to $100 million.

On December 29, 1882, a syndicate made up of J. S. Kennedy and several American trust companies purchased $30 million of the additional capital stock in three lots of $10 million at an average price of 52½. The first payments were received by the C.P.R.'s agents in New York on February 1, 1883, and by the middle of August payment in full to the company totalled $15,463,178. An analysis of shareholdings in October, 1883, shows that George Stephen was the largest individual stockholder with 31,222 shares, while 59,491 were registered in the names of Morton, Rose & Co. and Morton, Bliss & Co. Fully half of the 550,000 shares outstanding were owned in the United States, while twenty per cent were listed as being held in Canada and fifteen per cent each in Europe and the United Kingdom.

At the Bank's annual meeting of 1883, the President commented on the benefits that had accrued to the country as a whole from the dispersion of this stock:

> It has brought large sums of money into the country and has had important influence upon the Exchanges. Exchange on the United States has been very much against this country, and would have been still more so but for the large amount of American funds supplied by the Company, amounting in all to many millions.

In spite of a glowing picture of the future painted by the New York Chamber of Commerce, Smithers was wary where Canada was concerned, informing the shareholders: "As regards general business, as far as I can learn by diligent enquiry, extreme dullness is the great feature of the day." The staple trades were not as promising as might have been hoped, and adverse conditions in Britain had reduced the reserves of the Bank of England to "the lowest point touched for years." This circumstance would make the London market tight both for the C.P.R. in the sale of land or stock and for the Canadian government in its efforts to finance the railway subsidy.

As for the Bank itself, discounts had reached what was considered a not undesirable plateau at about $30 million and although profits had been well maintained at over $1.5 million, the goal of a $6 million rest fund was still unfulfilled by $250,000. After a surge the previous year, deposits had fallen back to below the twenty-million-dollar mark, but the directors were not displeased, feeling that safe opportunities for the employment of funds had been pretty well exhausted. Frost, grasshoppers and the heavy prairie sod were putting an end to the Manitoba boom and, aside from their business in connection with the railway, the Bank's western branches, which now included Portage la Prairie and Regina, were in a comatose condition.

The C.P.R., however, continued to push ahead, regardless of the state of business elsewhere. Now that the prairie section of the road was well advanced, Van Horne and his staff began to devote more of their attention to the Eastern Section running from Callander to Heron Bay and then along the beetling north shore of Lake Superior to Port Arthur. Van Horne himself first characterized one stretch of this section as "two hundred miles of engineering impossibility," but political considerations demanded that the C.P.R. traverse the primeval Canadian Shield, strewn though it was with innumerable lakes and seemingly bottomless muskegs.

Hill had always opposed this idea, not only because it would make the C.P.R. independent of his American connections, but also because of the lack of local traffic and the cost of construction, which he considered prohibitive – one mile was reputed to have cost the then colossal sum of $750,000. When Van Horne had swung away from Hill's opinion and it became known in the spring of 1883 that the railway would traverse the boreal wilderness north of Lake Superior, Hill resigned as a director of the C.P.R. In his mind now were plans for his own transcontinental railway, the Great Northern, extending from St. Paul and Minneapolis to Seattle and paralleling the Canadian Pacific south of the international boundary. To avoid any conflict of interest, Stephen, Smith and Angus followed by resigning their directorships in Hill's St. Paul, Minneapolis and Manitoba. A certain amount of antagonism has been attributed to these manoeuvres but there is little evidence of such since each of the parties continued to hold large amounts of stock in the other's ventures and Stephen and Hill remained in regular correspondence.

Van Horne's method of attacking the forbidding terrain was to keep the right-of-way as close to the lake shore as possible so that supplies could be brought in by water. To this end he arranged for the building of three steamships in England. These were cut in two at Montreal after their voyage across the Atlantic, and then taken through the canals and reassembled on the Upper Lakes. The actual railway construction necessitated alternate blasting through igneous rock and filling in spongy muskeg, which in one instance was said to have devoured the track half a dozen times, gathering in three locomotives in the process. During 1883 a force of ten thousand men was able to lay only 127 miles of track in this section, while west of Winnipeg another gang added about 375 miles through the rugged foothills to Kicking Horse Pass.

Another accomplishment of 1883 was the completion and transfer by the government of the line between Port Arthur on Lake Superior and Selkirk, just north of Winnipeg. Some ballasting had still to be done but by September 22, trains were running over these 428 miles, giving Winnipeg an all-Canadian connection with the east, via the Great Lakes. More important, the C.P.R. depots at Winnipeg could now be supplied by way of the company's own track and steamships, eliminating the high freight rates charged by United States railways.

The state of the C.P.R.'s credit was much less encouraging. The only hope seemed to lie in raising cash through the sale of some of the thirty-five million dollars of unissued stock, which, by late 1883, was selling at 57. Unless public confidence could somehow be restored, however, putting any more on the market would only depress the price. It therefore fell to George Stephen, the financial genius of the railway, to educe some means of extricating the company from its dilemma.

The solution was found in the annals of Canadian railway finance and so was not original, but it did contain certain novel features. Harking back to Francis Hincks's Guarantee Act, Stephen proposed that the Canadian government should guarantee a dividend on the C.P.R. stock for a ten-year period. As early as the 1840's the British government had guaranteed interest on Canadian bond flotations, and in the 1850's the Canadian government itself had guaranteed bonds of railways. Nevertheless, it was a bold step to suggest the guaranteeing of returns on common stock, especially in view of the unfortunate experience with earlier railway guarantees. Stephen therefore took precautions to guard against history repeating itself by offering to pay immediately into a government account the sum necessary to pay the dividends, rather than merely promising a sinking fund, a species of financial plant life that had shown a definite tendency to wither and die in the Canadian climate.

As first set forth in a letter from Stephen to the government dated October 24, 1883, the plan called for the deposit of enough money to meet a three-per-cent dividend for ten years on the full authorized capital of $100 million. A revision was later made on the grounds that the C.P.R. would want to issue further stock only as the funds became necessary for construction. To this end it was proposed to deposit with the government $15,942,645, the amount necessary, with accrued interest, to cover the dividend on the issued capital of $65 million.

The agreement was formalized by an Order in Council on November 7, 1883, the Bank of Montreal being named as trustees. The C.P.R. was to pay the government $8,561,733 immediately and deposit $2,853,912 more before February 1, 1884. The remaining sum of $4,527,000 was due within five years. Against the last two instalments the government would hold $1,830,000 of land-grant bonds and a lien on all earnings from the postal subsidy and freight. The C.P.R. had to turn over all its unissued stock to the government but could regain portions for issue at any time by depositing the cash to cover dividends until 1893. The government was to pay interest on the deposit and twice a year, on appointed dates, was to make available to the Bank of Montreal as the C.P.R. fiscal agents and trustees the sum necessary to provide for the dividends.

Although money was scarce in the C.P.R. coffers and its stock traded at distressed prices, the company's credit was still in good standing amongst leading financial houses, and the railway was able to raise the initial dividend deposit in New York. Most of it was covered by two large loans, one through J. S. Kennedy & Co. of $5 million, for which the company pledged $10 million of stock that had been issued but not yet marketed, and another of $2.5 million from C. Unger & Co., for which some of the directors pledged their own holdings of C.P.R. stock.

Ingenious and farsighted though Stephen's plan was, it did not work. He described the circumstances that militated against its success in a letter written on January 15, 1884:

> The stock markets of the world have been in a depressed state for some months. The credit of the Company, its means and resources, and the capabilities of the North-West Territories as an advantageous field for emigration and colonization have been systematically decried and assailed by the most calumnious and unfounded statements. And by such means, and by urging the possibility of the whole of the remaining stock of the Company being at any moment placed upon the market, any rise in the market value of the stock has been effectively prevented.

Unable to raise money through the sale of stock, the directors of the C.P.R. now discovered themselves in a worse position than had existed before they had made the new arrangement with the government. Having been obliged to pledge the railway company's last security to obtain the funds required under the dividend agreement, they had completely exhausted their credit in the market place.

The nadir of C.P.R. finances had then been reached. With estimated expenditures of $1,250,000 per month for 1884 and its line not yet completed, the company was wallowing in debt with no negotiable resources. There was, of course, one remaining provision of the charter as yet unused – the issuing of mortgage bonds. But if investors would not buy the company's land-grant bonds or capital stock, they were hardly likely to become enthusiastic over some freshly printed mortgage bonds.

The drive that had brought the main line to the height of land in the Rockies at the end of November, 1883, had climaxed a year in which nearly seven hundred miles of track were laid, including branches. The total cost to date had been $58,695,381, and with about eight hundred miles of the main line left to complete Stephen warned Macdonald, "Things have now reached a pass when we must either stop or find the means of going on." Only one hope remained and it was of a highly negative nature. The directors could be sure that if the Canadian Pacific failed, Sir John A. Macdonald's government would come crashing down soon after. With no other doors to knock on, Ottawa was their only chance. It was imperative that the government come forward and provide its first financial assistance outside of the original contract.

In January, 1884, Stephen therefore made a formal request to the government for a loan of $22.5 million which, with the remaining subsidy, would make up the $27 million he estimated as the cost of completing the main line. Needless to say, Macdonald quivered, envisioning the attack such a request would provoke not only from the Liberal opposition but also from members of his own party. Cables were sent to Tupper urging his immediate return to the capital from England to engineer the proposal through caucus. Stephen himself hovered outside the council chambers in Ottawa to provide any assistance or information he could, but he was never able to remain away from Montreal for very long.

Aside from the debts incurred to cover the interest guarantee, the C.P.R. still owed contractors more than four million dollars for the past year's construction and some interim measures had to be taken to pacify angry strikers whose activities had necessitated police protection for company property. The Bank of Montreal was approached on January 2, 1884. With a balance already outstanding of $1,950,000, the C.P.R. was set a credit limit of $3.5 million, "a maximum which shall under no circumstances be exceeded." An elaborate table of collaterals was drawn up to secure that amount, consisting of the personal guarantees of Stephen, Angus, McIntyre and Smith, $1 million in land-grant bonds, $1.3 million in bonds of the South Eastern Railway (a line the C.P.R. had acquired in the Eastern Townships of Quebec), a letter undertaking to transfer shares in the Canada North West Land Company, and finally a letter from Tupper promising to deposit in the Bank all moneys due the C.P.R. by the government until the Bank's loan had been paid in full.

Parliament opened on January 17 and the C.P.R. resolutions were submitted two weeks later. As feared by Macdonald, the Liberals brought out their heaviest guns and the battle was taken up in the newspapers. On February 25, Tupper informed the Bank's General Manager that the C.P.R. resolutions had been passed by a large majority and that he was confident the bill founded on them would become law early in March. While realizing that the Bank had already provided the C.P.R. with $3.5 million, he nevertheless requested on behalf of the government that a further advance of $1 million be afforded the company so that "nothing should occur to impair the efficiency of the Company's preparations for the work of the approaching season," and to "prevent them from meeting with any serious financial difficulty pending the passage of the Bill." By this time, the total short-term liabilities of the C.P.R. amounted to $8,114,137, of which the Bank of Montreal had supplied $3,494,280 in Canada and another $814,271 in New York. Besides these advances, the Bank had furnished the cash for the C. Unger & Co. loan, the collateral C.P.R. stock being transferred to the Canadian institution together with some additional security. With the Unger account now standing at $2,521,667, the Bank's directors were not unnaturally becoming properly concerned over a debt which had grown to nearly seven million dollars in the space of a few months. Nevertheless, the Board agreed to lend the railway sums up to a million dollars provided corresponding reductions could be arranged in the loan with C. Unger & Co. in New York.

When the C.P.R. bill finally became law on March 8, 1884, it granted the railway a loan of $22.5 million, of which $7.5 million was to be advanced immediately and applied against the company's floating debt, while the remainder was to be paid out along with the subsidy. To provide for the immediate resumption of construction, it was resolved that the million-dollar indemnity bond posted in 1881 should be returned to the C.P.R., since earnings for the last fiscal year of nearly $4.5 million made such a deposit no longer necessary. In addition, the $2,853,912 due the government in February for the dividend guarantee was deferred until November 1888, when it would be needed to meet payments. Both the loan and the remaining subsidy were to be advanced not on the completion of every twenty miles, as previously, but on a new system based on the proportion of work done to that left to be completed. As security for the loan, the C.P.R. provided a blanket mortgage on all its property and land except in those few instances where liens were already in existence. All receipts, from either land sales or traffic, were to be paid over to the government and no more stock or bonds could be issued without its express permission.

On March 12, the million dollars worth of Credit Valley Railway bonds that had been deposited with the government as a guarantee of good faith were returned to the C.P.R. and the next day the Bank of Montreal received payment for its loans. Five days later, the Bank's General Manager reported that he had provided the government with three million dollars for four months at four per cent: the C.P.R. was evidently not the only institution embarrassed because of a lack of funds. This inference is given weight by a letter in the Macdonald-Stephen correspondence, dated July 18, 1884, in which the Prime Minister, ignoring his previous assurances of unlimited support, warned the C.P.R. president, "You must not look for any more legislative assistance for the C.P.R. & must 'work out your own salvation' by your own means."

3.

Meanwhile, preparations for the completion of the brutal section along the north shore of Lake Superior had been pushed ahead, and when spring arrived and supplies could once more be brought in, the C.P.R. again approached the Bank of Montreal for cash to start the construction machine rolling. On April 4, 1884, the Board authorized an overdraft of $1,250,000 for the C.P.R., secured on terms similar to the loan negotiated at the beginning of the year. Three days later the government was instructed to pay all proceeds of the railway's subsidy and government loan into the Bank as a further condition of the overdraft.

As well as spending $24,525,288 on its own construction during 1884, the C.P.R. also acquired through lease, purchase or amalgamation five subsidiary or feeder lines: the Atlantic and North West, the St. Lawrence and Ottawa, the Ontario and Quebec, the Credit Valley, and the Toronto, Grey and Bruce. Through Stephen and others, the last two had been recipients of funds from the Bank of Montreal, starting early in 1881, that totalled $1,750,000 by the time of the take-over.

On the main line, only the Rocky Mountain and Lake Superior sections now remained to be completed. With the receipts from the government loan, the C.P.R. was able to lay another 135 miles of track on the latter section before the end of 1884. The cost was in the neighbourhood of $110,000 a mile, or a total of nearly $15 million. By the end of the year the C.P.R. had constructed 1,432 out of the 1,909 miles of main line for which the company was responsible, the original estimate of 2,000 miles having been shortened by adopting a more southerly route through the Kicking Horse and Rogers passes. The company had also acquired or built 432 miles of branch and feeder lines.

Since this was the only instance during construction when the C.P.R. produced a balanced summary of its receipts and expenditures, it might be interesting to review its consolidated statement for January 1, 1885. Expenditures for construction and acquisition of the company's main line from Montreal to Port Moody totalled $63,382,575, in addition to which it had spent $9,168,755 for rolling stock, structures and essential ancillary equipment. Other expenses totalled $21,638,497, of which $19,666,289 was spent in connection with the payment of stock dividends. The total outlay of $94,189,827 had been acquired from the following sources: government subsidy of $20,240,317; loans from the government outstanding of $26,007,512; proceeds realized from the land grant (less land-grant bonds unredeemed), $9,284,820, from the capital stock, $29,568,123, and from municipal bonuses and townsites, $737,275; accrued earnings less accounts payable, $1,456,318; and a floating debt of $6,895,462. This was exclusive of the sections of line built by the government which by the end of June, 1884, had cost $32,485,577, including surveys that dated as far back as 1870.

With the unexpectedly heavy per-mile expenditures during 1884, the new year found the till once more empty. Again George Stephen and his brain trust had to call on all their financial wizardry to keep their sieve-like bark afloat. The task at this time was truly unenviable: they had expended their own credit, mortgaged that of the railway, and were further stymied by relentless hostile publicity, which by then had driven C.P.R. stock below 40. Early in January, Stephen contacted Macdonald with a rough plan for cancellation of the thirty-five million dollars of unissued stock and the issue of a like amount of mortgage bonds in its place. When presented to the cabinet, the plan was denounced by several ministers, one of whom threatened to resign if the measure were passed. To keep the railway going, Hon. J. H. Pope, who had succeeded Tupper as Minister of Railways and Canals, approached Smithers and Buchanan at the beginning of February for another loan to the C.P.R., giving his own guarantee and stating that he had been "deputed by Sir John A. Macdonald and other Ministers to say that they also pledged themselves, personally, and as Members of the Government, to repay the Bank." Exemplifying the scrupulous care with which the C.P.R. account had always been handled, the Board instructed Buchanan to obtain confirmation of Pope's statement. After an interview with the Prime Minister, the Bank's General Manager reported back within the week that Macdonald, Pope and Tilley would guarantee a loan of one million dollars until July 1, 1885. The Board concurred, but with dividend payments over and above the government's guaranteed three per cent due in London and New York the money evaporated like dew in the morning sun.

As the weeks passed, Stephen's patience and hope wore thin. Macdonald seemed to be abandoning the C.P.R. in the fear that the railway would split the Conservative Party and cause his downfall. Tired of the Prime Minister's procrastination and plagued by insistent creditors, Stephen determined to bring the matter to a head. On March 18, 1885, he submitted a formal proposal to the Department of Railways and Canals. The C.P.R., he assured Pope, had ample funds available to complete the main line. Nevertheless, in order to support the large volume of traffic already attracted and to provide for an even greater load when the through line was opened, the company had to provide for further unbudgeted capital expenditures. Stephen then pointed out that the railway was forbidden to use any of the money received under the loan act of the previous year for the erection of structures, shops, elevators, or other ancillary appurtenances. As a result, the $5 million spent on such necessities during 1884 had had to be raised through the personal credit of some of the directors resident in Montreal, along with a further $3 million needed to cover interest charges. Yet much had still to be done in the way of equipping the line to handle traffic and ensuring standards competitive with those of other transcontinental roads. The financing of these requirements was now becoming virtually impossible in view of the government lien on all the property, the exhaustion of personal avenues of credit, and "the unfair and malevolent attacks of the enemies of the company, acting in concert with some, happily only some, of the political opponents of the Government, aided by a venal section of the newspaper press of the country."

Stephen then presented his plan for substituting mortgage bonds for stock which, he claimed, "would have the effect of gradually restoring the credit of the company, and of placing the enterprise in a condition to do its work efficiently and successfully, without involving the Government in any permanent additional outlay on behalf of the company, and actually providing for the practical repayment of the existing loan." The details of Stephen's proposal called for the government to cancel the $35 million of unissued common stock that it held and to permit the C.P.R. to market a like amount of first-mortgage bonds, at the same time providing the company with an additional loan of $5 million until the proceeds of the bond issue should become available. The mortgage held by the government would be replaced by a deposit of the new bonds. This represented a renunciation of the original policy of not encumbering the line with a fixed debt, but at this point there seemed no alternative, and operating revenues had been extremely encouraging.

The proposal was a last hope. While it was before the cabinet, Stephen paced up and down outside the closed green baize doors, but from the very look on the faces of the emerging members Stephen knew his case had been lost. Beaten at last, he wrote in despairing letters to Macdonald, "I am supported by the conviction that I have done all that could be done. . . . It is impossible for me to continue this struggle for existence any longer." On his way to the railway station to return to Montreal and close out the company's books, Stephen was accosted by Hon. Frank Smith. A minister without portfolio from Quebec, Smith still had the drive and confidence that seemed to have deserted Macdonald and his other lieutenants. As the story goes, he persuaded Stephen to let him try again and closeted the dispirited railway president in private quarters while he descended upon the cabinet. Smith was reputed to hold a great deal of power as a Quebec representative, and he had need of all of it on this occasion. Most other cabinet members refused to believe that if the C.P.R. sank they would go down with it. Smith, however, made the position only too clear: unless assistance was rendered, he would resign and would make sure that not one of those at the table with him was re-elected. That he was capable of carrying out this threat seems dubious, but another event intervened that may have saved his proving it.

On March 26, 1885, almost the very day on which Frank Smith waylaid Stephen on the streets of Ottawa, a detachment of North West Mounted Police was defeated at Duck Lake, in what is now Saskatchewan, while trying to quell a nascent rebellion instigated by the return of Louis Riel. Although trouble had been brewing with the Métis for some months, the outbreak galvanized the government into action. In 1870 troops from eastern Canada had taken three months to get to the scene of Riel's earlier insurrection. Van Horne, who had come to Ottawa to relieve Stephen at his parliamentary vigil, learned of the crisis and promptly volunteered the services of the C.P.R., even though several stretches of the intervening track were not yet completed. Given two days' notice he promised that he would transport troops from Ottawa to Fort Qu'Appelle, over three hundred miles west of Winnipeg, in eleven days. When the offer was accepted, the movement was actually accomplished in four days, even though the five thousand men and their equipment had to be transferred to contractors' sleighs on sixteen separate occasions, while in other places ties and rails were laid on the frozen surfaces of lakes and rivers.

Whether influenced more by Smith's threats or Van Horne's dramatic demonstration of the indispensability of the railway, the government decided to reconsider Stephen's application. They acted with exasperating slowness, however, and the matter did not even come before caucus until April 30. Meanwhile, strikes had begun to break out along the line and the Bank of Montreal had to come to the rescue with an additional temporary loan of $750,000 on May 5 to enable the pay train to make its appointed rounds. On May 26, Macdonald wrote Stephen a confidential letter informing him of the difficulties in Ottawa:

> The majority of our friends in Parl't and *all* our & your foes were in favour of the Gov't assuming possession of the road, and my personal influence with our supporters and a plain indication of my resignation only got them into line.
>
> * * * * *
>
> I showed your note only to one colleague and his immediate reply was that as fast as we got you out of one trouble, you tried to plunge into another & we had better break up the whole arrangement.
>
> The advance we are now making is quite illegal and we are incurring the gravest responsibility in doing so. It is a step that Gladstone with all his power would not venture to take.

The cabinet, as indicated, had finally managed to evolve a plan that had won the reluctant support of its members.

Macdonald, however, refused to give the C.P.R. bill preference over his Dominion Franchise Act and it was not introduced in the House by Pope until June 16, 1885. Another agonizing month elapsed before it received royal assent on July 20. The terms were somewhat stricter than those Stephen had originally proffered, the government holding back $20 million of the new bonds to cover part of the previous loan and retaining a lien on an additional $8 million for the temporary loan of $5 million. This time the government discovered a way of not making any cash outlay; they simply turned over the requisite amount of treasury bills to the Bank of Montreal which in turn supplied the actual cash, holding the treasury bills as security. In effect, the government did not lend the money at all, but simply guaranteed a loan by the Bank of Montreal, which, generously enough, required no margin on the government securities. As collateral for the balance of the C.P.R.'s account with the government not covered by the bonds and calculated at $9,880,912, the government was to retain all land-grant bonds that it now held and also to receive a mortgage on all unsold lands earned, or to be earned, by the company.

On the same day that the act received the Governor General's signature, the C.P.R. shareholders approved its terms and passed a resolution providing for the issue of £7,191,500 sterling first-mortgage bonds, bearing five per cent interest, for a term of thirty years. Stephen was already in London negotiating with Baring Brothers for their sale, and a week later, on July 27, 1885, he cabled Ottawa that £3 million of the bonds had been taken at 95. With these encouraging results in hand, an Order in Council was passed on July 29 to turn over the government section of the line in British Columbia to the company. Problems connected with terminal and wharf facilities at Port Moody, however, delayed the actual transfer for nearly a year.

Under the influence of the latest transfusion of financial plasma, the company wasted no time or energy in completing the line. By the middle of October only thirty-six miles of track were left to be laid and the grading on this portion was almost complete. Even earlier, the C.P.R.'s financial reputation had shown signs of marked improvement and on August 21, 1885, the secretary of the company was able to write to the Acting Minister of Finance, Mackenzie Bowell, informing him that the C.P.R. was in a position to repay the loan received barely a month before through the Bank of Montreal. The first instalment of $3 million was paid on September 2 and the balance of the loan was discharged on November 6, 1885.

In September, 1885, also, concrete steps were taken for the acquisition of the Quebec North Shore Railway leading from Montreal to Quebec. At the same time that the C.P.R. had received permission to issue its first mortgage bonds, another act had authorized the government to set aside $1.5 million to ensure the C.P.R. free access to the Port of Quebec. On September 21 it was announced that $525,000 had been paid to the Grand Trunk to clear their claims on the North Shore. At the beginning of October, a further agreement was reached through the Bank of Montreal, as the government's agents, to take up the $1.5 million outstanding of the North Shore's bonds at 87½ plus accrued interest. A cheque for $1,383,033.37 was forwarded to the Bank on

October 6 to enable them to buy up the bonds, most of which were held in London.

Meanwhile, an Order in Council had turned the North Shore over to the C.P.R., and the company had begun making preparations to construct a bridge over the St. Lawrence, again with the backing of the Bank of Montreal. As early as August, 1885, the company had acquired a preliminary loan from the Bank of $640,000 and then on September 18, 1885, a lump sum of $1 million was advanced on the security of debentures of the Ontario and Quebec Railway with a margin of twenty per cent. This line, running between Montreal and Toronto, was under lease to the C.P.R. and Stephen and Smith agreed to buy back the debentures at 80 not later than June 1, 1887.

On November 7, 1885, a mixed work train laboured up the winding grades of the Rocky Mountains and through the Selkirks toward Eagle Pass, some 350 miles from Vancouver. The train came to a stop in the midst of bleak, snow-capped mountains and a small party disembarked to proceed to a point where a work gang was gathered around a partially attached tie-plate. Only one spike remained to be driven in the ribbons of steel which now stretched unbroken from Quebec City on the St. Lawrence estuary to Port Moody at the mouth of the Fraser River. The Governor General, Lord Lansdowne, had had a silver spike made for the occasion, but Van Horne had told him to keep it at home; the last spike was to be no different from any other. Lansdowne, in fact, was not even present at the ceremony, no invitation having been sent him. The honour of driving the last spike fell to Donald A. Smith and the spot was named Craigellachie, the name of a rendezvous in the Scottish Highlands of the Grant clan, from which both Stephen and Smith were descended.

There were cheers, of course, but the occasion was devoid of celebration, and when the echoes of sledge hammer on iron spike had died away, the party quietly remounted their red-painted coaches to continue the journey to Port Moody, the western terminus of Canada's first transcontinental railway. The proceedings call to mind another occasion sixty-eight years before, almost to the day, when another event of paramount importance to Canada had taken place at 32 St. Paul Street, Montreal, with even less formality.

It being late in the year, and some finishing touches still having to be added, the first through train did not leave Montreal for Port Moody until June 28, 1886, five years earlier than the original contract had stipulated. Even before that date mounting revenues and the proceeds from the sale of first-mortgage

THE RAILWAY IN KICKING HORSE PASS – 1884

When the first issue of Canadian Pacific land-grant bonds was floated on the London market in 1881, an article in the British weekly, *Truth*, seized the opportunity to brand the transcontinental railway as a "mad project." The Bank of Montreal, it announced, "with its usual courage, has taken one-fourth of the entire loan." As a result of numerous similar articles and depreciatory speeches, the bond issue and other flotations of the Canadian Pacific Railway met with limited success, but the Canadian government was determined to keep its promise to establish a rail connection with British Columbia and the railway's promoters were equally determined to open up the west to immigration.

Although surveys had been started as early as 1871, it was not until 1881 that construction began in earnest. While almost five hundred miles of track were laid in a single year on the Prairies, portions of the Rocky and Selkirk mountain ranges of the west seemed to present insurmountable difficulties and anything over one hundred miles in twelve months was considered a major accomplishment. In places the cost reached $300,000 a mile.

This painting depicts a narrow shelf far above the Kicking Horse River in the 5,000-foot-high pass through the Rockies that bears the same name. The tunnel has been blasted through crystallized limestone and the trestle at its entrance clearly illustrates the complex engineering exploits that enabled the railway to complete its line. Work continued the year round and included the erection of sheds over the line to protect against snowslides and avalanches. Converted railway cars such as those on the siding at the left of the picture were used as eating and sleeping quarters for the army of men engaged in the construction work.

Painting by Dennis Burton

bonds enabled the Canadian Pacific to arrange for the repayment of the debt it owed the government. This stood at $29,880,912 on May 1, 1886, when a partial payment of $9,987,347 was made, the balance being retired on July 1 with a similar cheque and by the relinquishment of 6,793,014 acres of the land grant at $1.50 an acre. All accounts between the government and the railway were formally closed out by November 20, 1886.

Once the end was in sight, Macdonald wrote to Stephen privately, chastising him for past impatience: "I don't think you do justice to my colleagues in the Government. We have done much and risked a great deal to help the C.P.R. – in fact we have quite spoiled you by granting whatever you asked." Although true enough in fact, the final sentence could only have been written with tongue in cheek: Macdonald well knew that if the C.P.R. had failed the government and company would have hanged together; also, the risks taken by his colleagues and himself were miniscule compared to those assumed by George Stephen, who had given up the presidency of the Bank of Montreal and on more than one occasion had had to pledge his personal fortune to support the enterprise.

As of June 30, 1886, the company had spent $99,665,466.69 on construction and equipment, and the government listed an outlay of $36,305,815.07 on surveys and those sections of the main line for which it was responsible, the last of which had been transferred to the company on that date. In round figures the total was $136 million, to which must be added payments for interest, dividends and guarantees by the company exceeding $20 million. The company's expenditure of approximately $120 million was raised by the sale of stock, bringing in about $29.5 million; the government subsidy, accounting for $25 million; the land grant and connected assets, which yielded another $25 million; accrued earnings of almost $7 million; and finally $33.5 million derived from the sale of the first-mortgage bonds.

During the course of construction, the Bank of Montreal, as well as acting as the fiscal agent of the C.P.R., had furnished the company with direct loans totalling nearly $11.5 million. Vital assistance was also given indirectly through the $2.5 million C. Unger & Co. loan of 1883, the $5 million "government" loan of 1885, the support given to the land-grant bonds in the form of their initial purchase and later loans in connection with their sale to third parties, government advances on the subsidy made through the Bank, and separate loans to contractors and suppliers. In addition, the Bank participated in the financing of lines which formed part of the C.P.R. system, such as the Canada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Central, the Credit Valley, and the Toronto, Grey and Bruce. As a further indication of the extent of the Bank's involvement, it need only be noted that when the C.P.R. received the proceeds from its first-mortgage bonds and repaid all its accounts, Bank of Montreal discounts fell by a total of more than seven million dollars.

Other Canadian banks, of course, played a part in the financing of the undertaking, but the Bank of Montreal was the only institution prepared, in a major way, to disregard the hostility generated both in Great Britain and in Canada by Grand Trunk interests and the government's political opponents. It is a tribute to the strength and professionalism of the Bank that it never gave the Grand Trunk, obviously hostile though it was, an excuse to change bankers. In fact, in the middle of the C.P.R. construction, on April 3, 1883, a new arrangement was negotiated with the Grand Trunk, under which it received preferential treatment as a borrower and buyer of sterling exchange and was promised accommodation to the extent of a million dollars when needed; further, the Bank agreed to make no charge for cashing its cheques or making its collections, unless in the latter case the Bank itself had to pay a commission agent.

There can be no doubt that the Bank of Montreal was firmly behind the C.P.R. Some accounts of its support, however, are obviously exaggerated. As a short-term commercial lending institution, the Bank had never considered fixed capital investments as part of its sphere of operations. Instead the directors adhered to the traditional policy of lending only for work in progress, always taking as collateral first-class security and rarely, if ever, a lien on the capital assets themselves. This was the course the Bank had followed during the construction of the St. Lawrence canals in the 1840's, and these same principles guided the directors in their relations with the C.P.R. The fact that George Stephen was a former president and Donald A. Smith the incumbent vice-president made no difference. The two men were quite familiar with the Bank's methods and whenever a loan was requested they always submitted ample collateral in the form of securities or other financial instruments of equal calibre. Had they so wished, Stephen and Smith could have sold their securities and pledged the cash to the railway; the Bank of Montreal merely provided a more convenient and efficient means of acquiring the needed money.

Throughout this period of the Bank's history, most of its habitual business was carried on as usual. Discounts, of course, had been pushed up as a result of the railway-building activity, and several new branches had been opened in the west, but the Bank still had a comfortable cushion of commercial loans with which to absorb the sudden release of funds when construction ceased. The entire country had been eagerly awaiting the results of the completed line and the Bank's directors were no exception, counting on the newly opened territory and the expected through trade to replenish the institution's temporarily depleted loan portfolio.

TEN

A TIME OF REASSESSMENT

A TIME OF REASSESSMENT

I.

Despite the fall in discounts resulting from the repayment by the C.P.R. of its outstanding indebtedness, the Bank of Montreal distributed a dividend of eleven per cent in 1886 and for the first time since 1873 rewarded the staff with bonuses ranging from five to fifteen per cent of salaries. The profits on hand were actually great enough to have permitted a larger dividend but the directors preferred to retain the additional sum as "a fund for the equalization of Dividends," and furthermore the Bank had to provide for significant improvements and additions to the banking premises throughout the system. After nearly forty years of use the main building in Montreal had become inadequate, requiring the remodelling of the whole interior, and in Toronto the pressing need for enlarged quarters had entailed the erection of a new banking house at the corner of Yonge and Front streets, conveniently adjacent to the wholesale district and the Great Western Railway depot.

Opened in 1886, the main Toronto office of the Bank of Montreal represented as radical a departure from current banking architecture in Canada as had the main Montreal office when built nearly forty years before. Designed by S. G. Curry and the relatively young Frank Darling, who would later win fame as the architect of the Royal Ontario Museum and the Sun Life Building in Montreal, the exterior represented a transition from the severe classicism of the St. James Street temple to the more elaborate Beaux Arts style then gaining popularity. Brilliant use was made of the corner site to develop an interior that was much brighter and more efficient in the disposition of public and working spaces than in any preceding banking office. It could be said, in fact, that the Yonge and Front streets edifice broke with both Italian and British tradition to bring daylight, and even sunshine, into the banking chamber.

Of even greater interest was the announcement of the purchase of a lot in Vancouver on which to erect a branch office of the Bank, even though Vancouver lay twelve miles beyond the terminus of the Canadian Pacific Railway at Port Moody. The first transcontinental train did not leave Dalhousie Square Station in Montreal until June 28, 1886, and did not arrive at Port Moody, 2,905 miles distant, until July 4. Dominion Day, July 1, was fittingly celebrated by the passengers at Winnipeg.

Although the Pacific coast of Canada was probably sighted by Sir Francis Drake in 1579, it was not until 1778, when Captain James Cook refitted his ships at Nootka Sound on the west coast of Vancouver Island, that England established her claim to discovery. Thereafter the coastal region was known principally for its immense herds of sea otter whose skins could be traded with vast profit in China for teas and silks. Early in the new century, the great geographer and Nor'West trader, David Thompson, established a company post near the headwaters of the Columbia River in what later became British Columbia. Moving along the river and its tributaries year by year he reached the mouth of the Columbia in 1811 only to find the men of John Jacob Astor's Pacific Fur Company, many of them his old friends, installed in their newly built Fort Astoria. During the War of 1812 the Nor'Westers bought out and occupied the American establishment, much to the annoyance of the commander of a British man-of-war who had been dispatched from His Majesty's South Pacific squadron to lay claim to the outpost.

The Hudson's Bay Company took over the Nor'West posts after the merger of the 1820's and even after Vancouver Island became the Crown Colony of Victoria in 1849, the Honourable Company retained control over both the island and the British-owned mainland. Company rule was doomed in 1858, however, when the discovery of gold in tributaries of the Fraser River brought close to twenty-five thousand gold-seekers, many of them from California, to the region and made the existence of British Columbia known to the outside world.

The discovery of the yellow metal soon required the provision of some kind of banking facilities and these were initially provided by such experienced companies as Wells, Fargo. Such enterprises were interested mainly in the purchase and transport of gold dust, however, and in 1859 the private MacDonald's Bank and a branch of the Bank of British North America opened for business at Victoria. Three years later the Bank of British Columbia received a royal charter, but the mining boom petered out after the Cariboo gold rush of 1860-62, and little occurred to stimulate economic activity west of the Rockies until the arrival of railway surveyors and contractors in the 1870's.

In spite of the Bank of Montreal's close association with the C.P.R., it was not until a full year after the first through train had reached the coast that Campbell Sweeney was summoned from his managerial duties in Halifax (where he had been posted from Winnipeg in 1884) to undertake the task of opening the Bank's first branch west of the Rockies. When he arrived there in July, 1887, he saw a city of ten thousand population living among the giant tree stumps of the primeval forest and resurrecting itself from a disastrous fire that had almost wiped out the community the year before. The new branch of the Bank of Montreal was located in a modest frame building on Hastings Street in a business district that gave little hint of the city that would one day be the third largest in Canada. In fact, Sweeney's first statement to Head Office at the end of August, 1887, showed that in eliciting deposits of $17,353.24 and disbursing loans of $29,460.07, he had made a net profit of only $143.67, exclusive of overhead, about one-half of his monthly salary. Within five years, however, Vancouver totals stood tenth in loans and fourteenth in deposits among the Bank's thirty-six branches.

Addressing the Bank of Montreal shareholders in 1886, Sir Donald A. Smith foresaw Vancouver's bright future, noting that the first shipload of tea was already on its way there, from Yokohama, to be delivered "not alone in Montreal, Ottawa, and Toronto, but in St. Paul, Chicago, New York and the New England states." Canada at last was to realize the old dream of the Northwest Passage and play an important role in the world's carrying trade. It was therefore perhaps Smith's knowledge of the northwest, rather than his indefatigable purpose or business acumen, that prompted the Board of the Bank of Montreal to elect him President following the death of Charles Smithers.

When the directors received the sad news of the President's death on May 20, 1887, they voted to suspend all business at their succeeding Board meeting and devoted the time to the composition of a memorial to be sent to Smithers's widow, who had borne him eleven children. After emigrating from his native England, Smithers had joined the staff of the Bank of British North America in 1847 and subsequently served as manager of its branches at Brantford, Ontario, and Saint John, New Brunswick, before his appointment as Bank of Montreal agent at New York. Noted for his devotion to business, his high principles, and his brilliant direction of the Bank's affairs during the trying period that had encompassed the building of the C.P.R., he had also found time to direct the reorganization of the Bank of Montreal Annuity and Guarantee Funds Society.

The contributory fund set up in 1860 had provided solely for widows and orphans and any retirement income for an employee was left to the discretion of the Board. This meant that before 1884 a bank officer had no guarantee of the extent of the income he would receive during his later life or in the event of his being incapacitated. In spite of its Scottish origin, the Annuity Fund had also exhibited actuarial weaknesses that had been overcome only by increased contributions from the Bank. By 1883 it had become obvious that the arrangement could not be continued and a committee of Bank of Montreal directors was deputed to study the subject and make recommendations. The result was a full pension plan which was approved by the shareholders at the annual meeting held in June, 1884. Under it, the Bank agreed to take over the assets of the Annuity and Guarantee Funds Society, amounting to $206,000, and to assume the responsibility of providing pensions for employees after age sixty as well as for widows and orphans.

Unlike the earlier association, which began on a voluntary basis, membership in the "Pension Fund Society of the Bank of Montreal" was made obligatory, employees contributing three per cent of their salaries through payroll deductions and the Bank contributing sufficient amounts to insure solvency. Substantially the same provisions were made for compensation to widows and orphans as those that had governed the old fund and in the case of illness or physical disability an employee could retire on pension before the stipulated age of superannuation. Pensions were to be based on tenure, with a minimum qualification of ten years' service, but the maximum obtainable was $5,000 per annum and in cases of resignation or dismissal contributions were to be returned without interest. Annuities to widows were to cease upon remarriage but those payable to minor children would be continued until age twenty-one. A clause in the by-laws of the Society required that all new employees pass an examination by the Bank's medical adviser or an approved physician, and it was further provided that "no clerk will be allowed to marry on a salary of less than $1,000 a year, without consent of the Bank, under penalty of dismissal and forfeiture of all rights under this scheme." How many lovelorn juniors actually defected is unknown.

An act of parliament was passed on May 1, 1885, incorporating the Fund and permitting the investment of its capital "in securities, stocks, etc., other than those at present allowed by the Banking Act." Since then, of course, the by-laws have been amended from time to time in response to changing conditions and the Bank's own expansion. A recent example of this was the Fund's co-ordination with the Canada and Quebec pension plans at the beginning of 1966, at which time the Pension Fund Society had 5,286 members and 1,518 pensioners, nearly half of the latter being widows or minor children of deceased employees or pensioners.

Having succeeded Smithers ten days prior to the annual meeting, Donald Smith was confirmed as the twelfth president of the Bank of Montreal on June 7, 1887. The year before he had been created a Knight Commander of the Order of St. Michael and St. George and after an absence of seven years had been returned to Parliament as the member for Montreal West. The vice-presidential vacancy left by Smith's elevation was filled by George Drummond, a fifty-eight year old Scot who had come to Canada in 1854 and had engaged most successfully in the sugar-refining business, first with John Redpath, whose daughter he later married, and then as the founder of his own enterprise, the Canada Sugar Refining Company. He had joined the Board of the Bank only five years previously on the retirement of Peter Redpath and his elevation to the vice-presidency in so short a time was a tribute to his character and astuteness. The vacancy on the Board occasioned by the late president's death was not filled until the annual meeting in June, 1887, when William C. Macdonald was made a director. A Prince Edward Islander by birth, he had come to Montreal as a young man to engage in the commission business and had amassed a fortune during the American Civil War as one of Canada's pioneer tobacco manufacturers. At a later date he became the Bank's largest shareholder and was knighted by Queen Victoria in 1898 for his munificent gifts to education in Quebec and other parts of Canada, notably a six-million-dollar benefaction

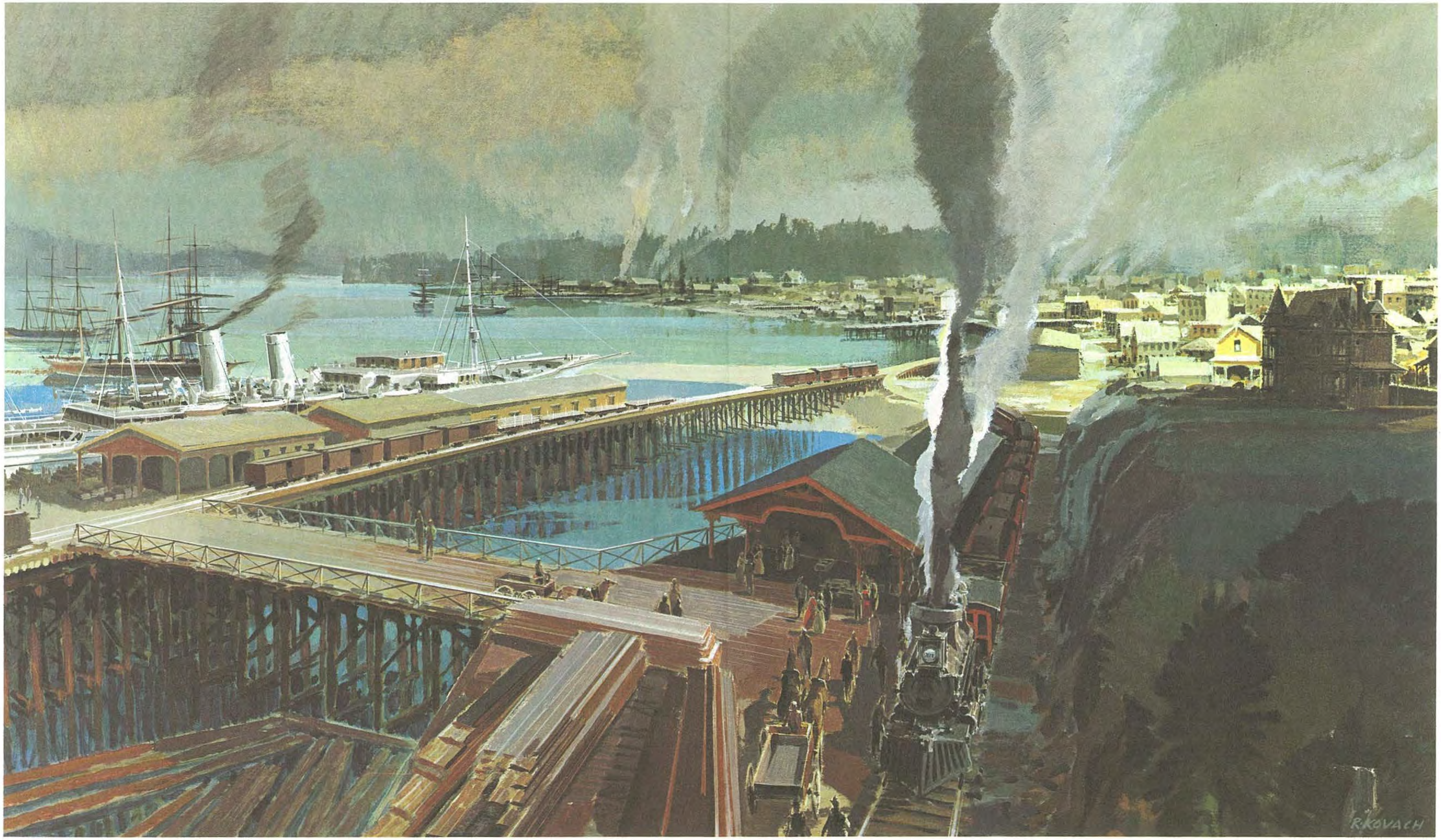
THE PORT OF VANCOUVER
1891

In 1886 the Vice-President of the Bank of Montreal, Sir Donald A. Smith, who was also a prominent member of the syndicate that had financed the building of the Canadian Pacific Railway, spoke of the Bank's plans to open an office in Vancouver, British Columbia, which he prophesied would become a great port. He described the first shipment of one hundred carloads of tea then on its way from Yokohama to Vancouver as "a very substantial commencement of the trade which we expect with China and Japan."

From the first, Sir George Stephen, the President of the Canadian Pacific, visualized the railway as a link in a route between Europe and the Orient that would be faster than that through the Suez Canal. Accordingly, he obtained a contract from the British government to handle mail between Liverpool and Oriental ports and the company's transpacific steamship service came into being in 1887 with three chartered vessels. These were replaced in 1891 by the three original White Empresses, each of 6,000 tons.

Vancouver can be described as the city that transportation built. Before the Canadian Pacific Railway chose it as the site of its western terminus, only a small lumbering village existed there. By 1891 the population of Vancouver was 13,700 and the harbour facilities catered to the ships of many nations. Part of the harbour can be seen here with the customs-house perched on the bluff at the right. The *Empress of India* with its twin funnels is berthed behind the sheds at left. Some of its passengers are about to board a train whose wood-burning engine sends up a pall of smoke partly obscuring the spreading city at the foot of the mist-covered mountains.

Painting by Rudolf Kovach


R. KOVACH

that led to the foundation of Macdonald Agricultural and Normal School at Ste. Anne de Bellevue on the Island of Montreal.

During the late president's tenure there had been several other changes in the Board. In 1882, when Donald A. Smith became Vice-President on the death of Dr. G. W. Campbell, Hugh McLennan, an indefatigable entrepreneur who had been successful in several kinds of business, was chosen to fill the empty seat; on Edward Mackay's death a year later, Hon. John Hamilton, a member of the Senate and formerly President of the Merchants Bank of Canada, joined the group. In 1886 Alfred Brown also died and was replaced by Edward Black Greenshields, a native Montrealer of Glasgow descent who had become a partner in the family dry-goods firm, S. Greenshields & Co., at the age of twenty-six and who at thirty-six was one of the youngest men ever to join the Board of the Bank of Montreal.

2.

Donald Smith's first two years in office were not marked by any outstanding gains for either the Bank or the country and it seemed that the Canadian economy had again entered upon one of those lacklustre periods from which only the impact of dynamic outside forces could extricate it. After reaching a peak of 133,624 in 1883, immigration had averaged only 85,000 over the next five years, and the National Policy had yet to make good the hopes of its supporters. It can be seen now that the country had still to wait for technological innovations – in mining and metallurgy, in electrical development and transmission, in agronomy and farm mechanization – before it could begin to realize its great potential. Meanwhile, Goldwin Smith preached commercial union with the United States while Sir John A. Macdonald, in his role of "Old Tomorrow," bided his time in the certainty that things would improve if they were given half a chance.

In the United States, a government policy of bond redemption had vastly increased the money supply and had kept the call-money market in the doldrums with little or no prospect of a change for the better. Furthermore, as W. J. Buchanan pointed out at the 1889 annual meeting of the Bank, $650 million of American railway bonds would fall due during the next decade, and the superfluity of cash in the hands of the investing public would undoubtedly allow the railway companies to refund their issues at four per cent interest or even lower, instead of the six or seven per cent they were then paying. The General Manager found the prospect not a happy one to contemplate.

The outlook in the United Kingdom was no more encouraging, although much more complicated. Briefly, the Bank of England found itself facing a gold drain as a result of military campaigns in Africa and other parts of the Empire and speculation in the Argentine Republic on a scale that recalled the Mississippi and South Sea bubbles of other days. As before, the Old Lady of Threadneedle Street sought to control the outflow of metal by raising the Bank Rate and bringing in gold, but her concern was not shared by the joint-stock banks or the general public, and the call-money rate continued to remain at or below 2½ per cent.

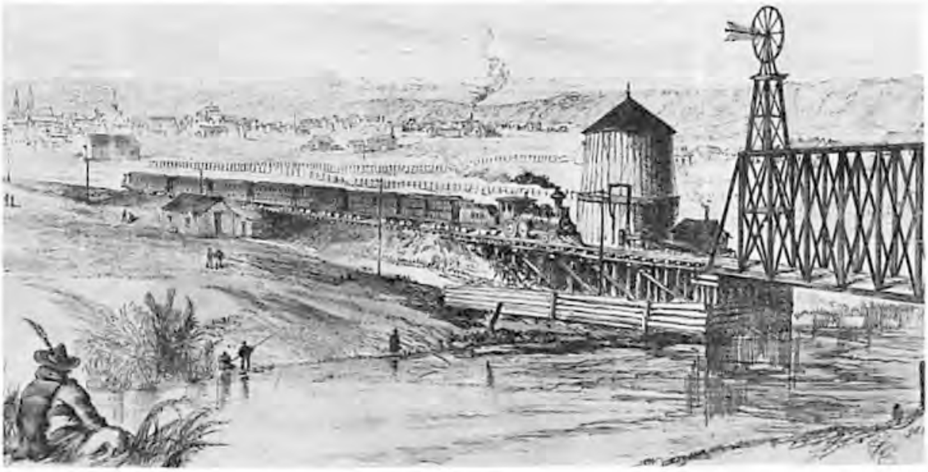
Long criticized for its foreign holdings, the Bank of Montreal was able to demonstrate their usefulness during 1889-90, after the second poor harvest in a row had necessitated extensions on outstanding loans. In order "to renew large amounts of paper" without "unduly cramping our customers," the Board decided to repatriate $6.8 million of the Bank's funds from abroad. As a further pledge of its intentions, the Bank had spent $50,000 on new buildings at Vancouver and at Calgary. New branches had also been opened at Wallaceburg, Ontario, and at the corner of Mansfield and St. Catherine streets in what was then the west end of Montreal. Housed in a handsome red sandstone structure in the prevailing romanesque style, the West End branch marked the first time two branches had been established in one city.

Coinciding with the Bank's decision to repatriate some of its funds came stirrings of an industrial nature within Canada itself, although their contributions to the economy were as yet relatively modest. Despite the lag in western settlement and cultivation, Ontario farmers had seen the writing on the wall. Preparing to cede grain-growing to the newly opened prairies, they began to diversify their production. The introduction of the centrifugal cream separator earlier in the decade had already brought cheese and butter exports to the fore. Based primarily in Ontario, the cheese industry expanded so rapidly during the 1880's that by the end of the decade Canadian cheddar had become a staple on world markets and exports from Canada not only exceeded those of the United States, but also surpassed in value for some time the Dominion's wheat exports. The raising and export of cattle also began to find a place in the Canadian economy, while the old standby, lumber, lost none of its importance. The large accessible pines had gone but an infant pulpwood industry was making modest forays among the vast stands of unused spruce. Three Rivers had become the pioneer centre of activity and the introduction in 1887 of the sulphite process in the manufacture of pulp foreshadowed a great expansion.

Another Canadian industry, cotton manufacturing, also took on a new face about this time. Receiving its initial impetus when the American Civil War cut off the supply of cotton textiles from the United States, the Canadian industry had flourished during the subsequent boom but had over-expanded following the adoption of the National Policy in 1879. Over-investment and inefficient production had made the industry the subject of repeated rebukes on the part of the banking fraternity. Beset by dwindling profits and disappearing sources of credit, nineteen of the country's twenty-six cotton mills finally decided to amalgamate into two syndicates, the Dominion Cotton Mills Company and the Canadian Coloured Cotton Mills Company. The Bank of Montreal had long been a creditor of the industry and willingly supported the consolidation by agreeing to provide the initial financing for the second-named company until its bonds were marketed. The advance was in the neighbourhood of $900,000 and to ensure that future operations would be conducted on a sounder financial basis than the old, the Bank stipulated that no dividend over seven per cent should be paid on any common stock until the loan had been repaid.

As a further example of the Bank's determination to keep abreast of a widening Canadian economy, its London, Ontario, branch accepted the account of the New Refiners Oil Company and advanced $85,000 to finance an inventory of 100,000 barrels of crude oil. This industry had had its beginning before the middle of the century when Abraham Gesner, a Nova Scotia doctor, geologist and inventor, produced kerosene from coal and so pointed the way to the distillation of petroleum. Attempts were made in the early 1850's in both Canada and the United States to exploit the Gesner process with the result that kerosene became quite popular as a lighting fuel. The next advance was registered in 1855 when Charles Nelson Tripp, a Canadian, exhibited at the Paris Exposition asphalt obtained on land owned by him in Canada West. Ignorant of the value of his holdings, Tripp sold out in 1856 to James Miller Williams, a manufacturer of rolling stock for the Great Western Railway, who brought in the world's first commercial oil well in 1857 on the banks of Black Creek in Lambton County. Two years later the more famous strike at Titusville, Pennsylvania, precipitated the first American oil boom.

At the time of the Bank's entry into this field, the Canadian oil industry was producing nearly 600,000 barrels a year. After a peak of 829,000 barrels was reached in 1894, a decline set in until the oil strikes in Alberta following World War I; but another source of power, hydro-electricity, was already in the experimental stage and was attracting substantial investments. In the mining



CALGARY — WHEN THE BANK ARRIVED

Calgary dates its origins back to a North West Mounted Police fort erected at the junction of the Bow and Elbow rivers, within sight of the towering Rocky Mountains. The fort was built in 1875, six years after jurisdiction over the area had been transferred from the Hudson's Bay Company to the Dominion.

Trading posts were soon established beside Fort Calgary to serve the ranchers who appeared in the district, but all supplies had to be brought in by "bull trains" from Fort Benton, Montana. When the Canadian Pacific Railway reached Calgary in 1883 the settlement consisted of only half a dozen log buildings.

The decision of the Canadian Pacific to lay its track through Kicking Horse and Rogers passes, however, placed Calgary on the railway's main line and thereafter homesteaders arrived to cultivate the soil. By 1886, when the Bank of Montreal opened a branch there, the population had reached twelve hundred.

sector, the discovery of nickel at Sudbury during the construction of the C.P.R. had begun to alter prevailing impressions of the accursed Precambrian Shield, and asbestos production at Thetford Mines, in the Eastern Townships of Quebec, contributed to a growth that saw the value of Canada's mineral production reach nineteen million dollars in 1891, an increase of eighty-six per cent in ten years' time. Such diversification, of course, was a by-product of technological progress and was fortunately accompanied by important new developments in banking and finance.

From the infancy of Canadian banking its mentors could look across the border and see examples of successful clearing-house operations, the first of which was the Suffolk system in New England established in the 1820's by H. B. Stone, the original first teller of the Bank of Montreal. According to legend, the first clearing house came into being in London in the latter part of the eighteenth century, when the messengers of the various banks decided to lighten and brighten their jobs by meeting in a coffee house to exchange cheques over a pint pewter of ale, rather than each making the rounds of all the banks.

The first clearing house in Canada was opened in Halifax in 1887 and at the close of the next year the senior officers of three of Montreal's larger banks issued a circular giving the four main reasons for the establishment of like facilities in that city – the saving of time in daily exchanges, the smaller risk to bank messengers, the more efficient settlement of inter-bank balances and the freeing of cash balances for other purposes. Responses were enthusiastic, a simple and concise table of rules was quickly drawn up, and the first meeting of the Montreal Clearing House took place in a room in the Merchants Bank of Canada on January 7, 1889. Sixteen banks attended and presented cheques and notes amounting to $1,458,474.84 for exchange. The Bank of Montreal was appointed the clearing bank for the receipt and disbursement of balances and the net amount of cash required to effect the exchanges was less than $400,000. Instead of taking half a day, the clearings were completed in under an hour.

While the clearing house saved time and risk and promoted efficiency, the records of the Bank of Montreal pay particular tribute to the freeing of cash holdings that resulted from its operation. In each of the cities where clearing houses were opened – Halifax in 1887, Montreal in 1889, Toronto and Hamilton in 1891 – the Bank's ledgers show drops varying between twenty and sixty per cent in the amount of cash carried at its branches. This would go far to explain the initiative taken in Halifax, a port where cash was in heavy demand for use in international trade. In the Bank's records, the Halifax and Saint

John branches are shown as carrying a large amount of cash relative to the size of their liabilities.

At about this time there also appeared a general tendency on the part of banks to cut down on their reserves. In 1889 it was noted by Buchanan, for example, that although total liabilities of all Canadian banks, excluding the Bank of Montreal, had increased by $11 million, their liquid assets had actually decreased by $4,750,000. The failure of five banks had already focused public attention on the pending decennial revision of the Bank Act, the security of bank-notes being a prime concern.

By 1888, public criticism of banking practices had become sufficiently acute to prompt an Ontario banker to circulate a letter suggesting that representatives of the banks should meet and prepare recommendations for the forthcoming revision of the Bank Act in 1890. One consequence of this communication was that for the first time Canadian banks undertook to redeem their notes at par in all parts of the Dominion. At the time of Confederation, it may be recalled, the banks were required to receive their own notes at par at all their own branches but were not equally required to redeem them for specie. As a result, bank-notes passed at a discount in remote places. The banks, by making the new arrangements themselves, removed a long-standing aggravation that stemmed from the 1820's.

During 1889 several newspapers, led by the Montreal *Gazette*, again took up the cudgels for banking reform and advocated among other things a fixed minimum reserve of cash against note circulation, as was the practice in Great Britain and most European countries. The same proposal had been made by David Davidson when he was Cashier of the Bank of Montreal in 1859 and had been the law in the United States since 1870.

On January 11, 1890, representatives of all the chartered banks met in Montreal at a closed meeting, and two weeks later formed a delegation to confer in Ottawa with Hon. George E. Foster, then Minister of Finance and Receiver General. Although no public indication of the government's views on the forthcoming revision of the Bank Act had been given, it was known that Foster favoured a fixed cash reserve of ten per cent of liabilities. In opposition the banks could cite the example of the United States where, as a result of sacrificing elasticity for security, national banks had been forced to violate the law on numerous occasions in connivance with the monetary authorities.

Because the meetings in Ottawa were closed, there is no way of knowing what arguments Foster advanced, but the bankers evidently could not make their point of view prevail. They subsequently appealed to the cabinet for a hearing at which it was suggested that a common safety fund, in place of a fixed reserve, should be set up by all banks for the redemption of the notes of any insolvent bank. To prevent the notes from falling to a discount, six per cent would be paid while they were still in circulation.

The idea of a safety fund was not a new one, and the device had been tested quite recently in Canada in connection with the liquidation of the Federal Bank. Founded in the early 1870's as the Superior Bank, the institution had survived the long depression but in 1884 certain stock manipulations were brought to light. A run was stemmed when the Bank of Montreal took over some of the accounts of the Federal Bank and granted assistance of $500,000, following which advances from other banks increased the total aid to two million dollars. The institution tottered along until 1887 when at the behest of the federal government the chartered banks advanced $2.7 million in cash to a special fund, enabling the Federal Bank to wind up its affairs without a panic and without loss to the public.

Even though this experiment had been successful, the unique position of the Bank of Montreal forced its directors to object to any formalization of such procedures. The Bank instead preferred a fixed reserve (as it had in 1859 and 1867) and opposed the idea of a safety fund not only as injurious to itself and the entire system, but as impractical and ineffective also. Seeing that the government was a convert to the safety-fund plan, the Bank's President, Vice-President, General Manager and Assistant General Manager all appeared before the cabinet to "protest, in the strongest possible terms, against that portion which refers to the security of the circulation." A lengthy memorandum was prepared in which the Bank's objections were explained. With a large Rest and heavy cash reserves, and with only fifty per cent of its authorized note-issue outstanding, the Bank felt that the proposed legislation was discriminatory because it would make all bank-notes equal in the eyes of the public, irrespective of the practices of the issuing bank. Furthermore, the Bank contended, the scheme would be ineffective in the event of a crisis. Should one of the larger banks fail, public knowledge that the others were responsible for its notes would undoubtedly precipitate withdrawals throughout the entire system and some smaller banks might well have to close their doors. If this "domino effect" reached serious proportions, the surviving banks would have to make successive additional contributions to the fund, over and above the initial five per cent of their circulations, and this in turn would weaken their positions. Nor, the Bank claimed, would the promise of interest at six per cent keep the notes of a failed bank at par; only a guarantee could prevent them from going to a discount and this could be given by the government with no risk to itself by adopting the American system and by acquiring a first lien on bank assets.

Failing the acceptance of this scheme, the Bank saw no harm in a fixed *minimum* cash reserve of ten per cent of all liabilities. The directors held that "any Bank which runs its financing so close that it is obliged to trench on 10 per cent. of cash reserve, is evidently not far from being in a position where it should consult its creditors. . . . The mistake in discussing this question appears to be that the 10 per cent. is referred to as almost the only reserve a Bank would hold, while, as a matter of fact, Banks carry, or ought to carry, 20 per cent. more." Despite a persuasive presentation and the support of Hon. George Foster for the Bank's stand, the cabinet sided with the smaller banks and on March 20 the Minister was forced to include in the revision of the Bank Act clauses setting up the Bank Circulation Redemption Fund to which every bank had to contribute 2½ per cent of its average circulation before July 15, 1891, and another 2½ per cent before July 15, 1892.

In defence of the government's position, the Minister of Finance repeated the old arguments against the other alternatives: it would have been too great a burden for the government to assume the note issue itself; the American system would tie up too much capital; and the government could not take the chance of guaranteeing the notes because under some circumstances it might not be able to uphold its guarantee. The Bank of Montreal, however, refused to back down so easily. In the middle of April, 1890, the Assistant General Manager, Edward Clouston, was sent with a deputation to deliver a final assault on the pending legislation. Reporting back to the Board on April 22, he informed the directors that "he represented to him [the Minister of Finance] that rather than agree to the communistic legislation proposed, which might involve a liability in the case of a crisis, limited only by outstanding unredeemed circulation, the Bank of Montreal was prepared to secure their note issue, in full, either by deposit of Bonds or Cash."

The offer elicited little response from the other banks, and all Foster could do to assuage the Bank's outrage was to amend the Bank Circulation Redemption Fund clause so that any further subscriptions required would be limited to one per cent of a bank's circulation in any one year. By the time of the annual meeting in June, 1890, the revised Bank Act had received parliamentary assent and the directorate had become quite resigned to the situation, the shareholders being informed that "the Bank of Montreal will loyally and cordially carry out the compromise."

Other important changes contained in the Bank Act of 1890 concerned the failure of banks: any unclaimed debts of a liquidated bank were to be turned over to the Minister of Finance after three years, and debts owed to the government were made a second charge on bank assets (after notes), to conform to British civil law and also to give the government more encouragement to support banks in times of crisis. The general agreement between the banks regarding redemption of their notes in all parts of the country was formalized and they had to provide for this service in the commercial centre of each province. The maximum interest chargeable on loans remained at seven per cent and although there was no penalty for higher rates, any amount over seven per cent was not recoverable in a court of law.

In this act the "pledge" provisions for granting loans on warehouse receipts took much the shape that the famous Section 88 bears today. A warehouse receipt was defined by the act as meaning "any receipt given by any person for any goods, wares, or merchandise, in his actual, visible and continued possession, as bailee thereof, in good faith, and not as of his own property. . . ." By having the owner of the goods barred from giving his own receipt, the banks hoped to prevent borrowers from selling their collateral goods without notifying their bank and without paying off their loans from the proceeds. In the case of goods in the process of manufacture, however, the owner could obtain a loan by providing his bank with a simple form of assignment, or "pledge," and the loan and lien would stay intact without alteration until such time as the finished product was sold.

An act permitting banks to lend on the security of warehouse receipts had first been passed in 1859 but at that time applied only to grain and lumber products. In subsequent bank acts the scope of the provisions had been extended so that, in addition to grain, timber and textiles, the act of 1890 covered "maltsters, distillers, brewers, refiners and producers of petroleum, tanners, curers, packers, canners of meat, pork, fish, fruit or vegetables, and any person who produces by hand, art, process or mechanical means any goods, wares or merchandise." This definition of the word "manufacturer" gives one an excellent picture of the diversification of Canadian business at the time.

The Bank Act continued for ten years the charters of thirty-six banks and brought three more under Canadian legislation for the first time: the Merchants' Bank of Prince Edward Island, the Bank of British Columbia and the Bank of British North America, thus ending the special status so long held by the last institution.

A significant consequence of the revision of the Bank Act in 1890 was the formation of the Canadian Bankers' Association. Never before in the preparation of any financial legislation had all the Canadian chartered banks worked together in such detail and to such purpose. Prior to the bill's presentation to Parliament, representatives of the banks had met three times in Montreal and on several more occasions in Ottawa with the finance minister and before the Privy Council. This experience had made them realize the efficacy of having a permanent association of joint membership. As a result the Canadian Bankers' Association was formed on December 17, 1891, on a voluntary basis. The services set forth in the constitution included the instruction of bank staffs in commercial law and monetary matters, the publication of a magazine, the operation of the various clearing houses and the preparation of reviews of and reports on banking legislation and judicial decisions. After nine years as a voluntary body the Canadian Bankers' Association was incorporated in 1900 and membership by all chartered banks became mandatory. At the same time that it received official status, the Association was given the responsibility of overseeing the Bank Circulation Redemption Fund and, as "an agent of the government in the administration of the Bank Act," of imposing penalties on any bank that violated its by-laws.

3.

Not long after the Bank's annual meeting of 1890, it became apparent that W. J. Buchanan's health was failing and E. S. Clouston was appointed Associate General Manager to relieve him of the burden of some of his duties. Buchanan was given three months' leave of absence, from which, however, he never returned. After thirty-eight years of service with the Bank, he sent in his letter of resignation on October 30, 1890. It was considered by the Board the next day and reluctantly accepted, a gratuity of $15,000, equal to one year's salary, being voted by those in attendance.

The man who took his place, Edward S. Clouston, had a background indubitably Canadian. His grandfather, Robert Miles, had served as clerk-secretary to Colin Robertson on the latter's ill-fated journey in 1818 to establish the

Hudson's Bay Company post at Fort Wederburn on Lake Athabasca, and he later rose in the ranks of the Honourable Company to become chief factor of York Factory. Miles's eldest daughter, Margaret, married James Stewart Clouston, who later became chief factor at Moose Factory on James Bay, where Edward was born in 1849. An uncle, Robert Clouston, was employed by Sir George Simpson to pioneer the Hudson's Bay Company supply route via Minnesota and the Red River in the 1840's and lost his life a decade later in the Pacific while on a journey to establish a Company post in the Hawaiian Islands. After attending Montreal High School, Edward served a year with the Company before joining the Bank of Montreal as a junior clerk in 1865. He was accorded varied branch experience and in 1887 was appointed Assistant General Manager. With the possible exception of Donald Smith, no officer of the Bank ever enjoyed a wider prior knowledge of the Dominion or a greater appreciation of its possibilities.

The year in which Clouston assumed the duties of General Manager, 1890, was an extremely trying one for the institution. A revolution in Argentina that summer set off a quake that ricocheted back and forth across the Atlantic and shook the financial circles of Britain and the United States. In Britain the reduction of the Consol rate to 2¾ per cent had caused investors to look elsewhere for more profitable outlets. These were mainly to be found in foreign securities and their purchase added to an already critical gold drain. When on November 7, 1890, heavy demands on English gold reserves were made by Spain, the Bank Rate was raised to six per cent. Already, in mid October, the great private banking firm of Baring Brothers had found that it could not meet payments because of extended operations in Argentina. The partners immediately approached Glyn, Mills, Currie & Co. who advanced them £500,000, but during the ensuing two weeks Baring's position became much worse and on November 11 they sought help from the Bank of England. The governors, realizing the tremendous consequences of the failure of such a house, arranged to borrow gold from the Bank of France, and, if necessary, to suspend the Bank Charter Act. After a check of the Baring books, however, William Lidderdale of the Bank of England met on November 14 in closed session with Glyn's, Rothschild's and other financial houses and offered to put up one million pounds if private bankers would raise another three million. This sum was forthcoming by six o'clock the same day and when on November 15 the joint-stock banks were asked for subscriptions, the guarantee fund reached eighteen million pounds. The information was immediately made public and a major panic was

COLONIST TRAIN – 1880's

Canada's first transcontinental passenger train left Montreal in June 1886 with several colonist cars full of hopeful and probably apprehensive homesteaders such as those portrayed in this sketch. The passengers had to ride for several days in the smoky coaches before reaching their prairie destinations, and they had a choice of sitting on slatted wooden seats or trying to rest on pull-down bunks.

Many settlers were attracted to the west in the 1880's by the aggressive advertising of the Canadian Pacific Railway, both in North America and overseas. The directors saw that the railway's future would depend on western development and they tried to promote settlement with low west-bound fares. The company also established experimental farms to develop and distribute wheat seed suitable for the dry prairie soils, and steps were taken to improve the quality of livestock.

averted. Baring Brothers were eventually able to pay their creditors in full without calling on any of the guarantors and the firm survived to rise again to the highest echelon of English finance.

Notwithstanding the swift recovery, the firm's difficulties had serious international repercussions, and the Bank of England had to make use of its arrangement with the Bank of France to import three million pounds worth of gold. The United States had felt the initial impact of the Argentine collapse and was now subjected to the Baring backlash. According to Clouston, "Credit was suspended, some classes of long exchange were entirely unsaleable, and discounts were so difficult to procure, that merchants were put to unusual straits for want of customary bank facilities." Call-money, in fact, actually reached a spectacular high of 186 per cent.

The situation was worsened by monetary developments in the United States. The passage of the Sherman Silver Purchase Act in July had raised the Treasury's monthly purchases and coinage of silver and caused the government to announce its intention of keeping silver on a parity with gold. But the high interest rates in London, resulting from the scramble for liquidity after the Argentine collapse, caused such an outflow of gold from the United States that the federal government was forced to buy large quantities of bonds from the public in order to pump currency into the parched market. In September alone these transactions totalled nearly sixty million dollars, but the Sherman Act caused such uneasiness over the dollar that gold reserves of the banks continued to drop. Just before the Baring crisis became known in November, the New York Clearing House announced that it would issue loan certificates instead of requiring regular settlements. Although few of these were used, the action may have prevented a complete collapse and the effect of the Baring failure was absorbed. Nevertheless, the stock markets on both sides of the Atlantic registered new lows.

Associated indirectly with the financial convulsions of 1890 was another event that was to exert a baleful influence on the Canadian economy for several decades. This was the passage by the United States Congress on October 1, 1890, of the McKinley Tariff Act. Hitherto American tariffs had been determined by the need for revenue, as after the War of 1812, the Mexican War and the Civil War, or for the protection of infant industry. By 1882, however, the Treasury was in such a strong financial condition that excise taxes were abandoned and five years later President Cleveland in his State of the Union message strongly urged tariff reform and the reduction of the surplus. The

Republican Party after its return to office a year later solved the second problem by spending the surplus and the first by adopting the high protectionist philosophy that gave rise to the McKinley and Dingley tariffs in the 1890's and the Hawley-Smoot Tariff in 1930.

The duties assessed under the McKinley Tariff were calculated to make the price of any given import equal to that charged by the domestic producer, but in the case of such items as silk and woollen goods, cutlery, hemp, barley and flax, the duties were so high that they virtually prohibited imports. Although Canada was exporting an annual $800,000 worth of fibres and textiles at this time, the principal outcry was against the barley tariff. The country's average annual exports of barley during the 1880's had been over nine million bushels as against less than five million bushels of wheat and flour together. The year after the McKinley Tariff was imposed, the export figure for barley was very nearly halved and eventually declined to a mere 239,000 bushels, not regaining its former level until after World War I. Although total Canadian exports rose in 1891 in spite of the barley catastrophe, American tariff policy became a potent factor in Canadian politics and has continued to be so to the present day.

On top of external calamities, Canada again suffered another poor harvest in 1890 with the usual consequences. Although the gross profits of the Bank of Montreal were the second highest since 1878, they were cut into so badly by appropriations for bad and doubtful debts that net profits were down by half a million dollars from the year before. In their report to the shareholders on June 1, 1891, the directors explained that the appropriations had been made in connection with a major re-evaluation of the Bank's assets after the crisis of the preceding year. Easy money and low interest rates had caused the Bank much trouble and had prompted a different approach to the investment of its secondary reserves.

Although the Bank had invested substantially in various government and municipal securities during the latter 1870's, it was not until the mid 1880's that bonds and debentures of private corporations were added to the portfolio. Even then purchases were small until 1889-90 when two million dollars in bonds were acquired, mostly United States railway securities bearing four-per-cent to eight-per-cent coupons. With interest rates on short-term funds so depressed, these operations were more a matter of necessity than of any change in basic policy, and the turnover was very rapid. After 1890, as a consequence of the silver problem in the United States, the Bank revalued its bond holdings with the results noted above, and the directors began to favour almost exclusively those bonds that were redeemable in gold, or carried a gold guarantee. By 1892, in fact, the Bank was requiring that all American loans be repaid in gold.

On the home front competition among banks was becoming much stiffer and many of the larger ones began to complain that some of the methods used to woo customers were not only underhanded but also detrimental to both the banking system and the economy. At the 1892 annual meeting of the Bank of Montreal shareholders, for instance, Edward Clouston described Canadian banking as being "characterized by excessive competition, in some cases conducted in a manner that would hardly do credit to the financial management of a corner grocery." He went on to elucidate:

> There have been lower rates for advances, higher rates for deposits, greater facilities granted for smaller remuneration, and all this with steadily increasing expenses. Fair competition may be healthy but excessive competition is unhealthy and dangerous, and it is in a time like the present of easy money that, in order to gain accounts, or even retain them, concessions are granted, facilities given and obligations incurred, entirely at variance with true banking principles, which will surely bear bitter fruit later on.

Much as it disliked the current trend of banking practices, the Bank of Montreal had no alternative but to enter the fray. Since its absorption of the Montreal Savings Bank in 1856, the Bank had operated a separate savings department in its Montreal branch but it was not until 1891 that the competition for deposits forced the extension of such facilities to the individual branches. The new system had been in effect for only one year when the Bank complained that the increased deposits were costing it more than they were worth.

The directors may have resented the way the government had treated the Bank in connection with the Bank Act revision of 1890, but their feelings were not allowed to stand in the way of business. When the federal government came to the Bank on December 6, 1891, for a loan of $2 million, it was readily granted for six months at 4⅛ per cent interest. Only $750,000 of the advance was to be furnished in Canada, the rest being needed in London, presumably to cover interest payments on Canadian bonds in that market.

While the relatively low interest charge on this loan reflected the general pattern of market rates, it must also be noted that "Canadas" had stood up much better in the face of the recent crisis than any other colonial bonds. In fact, between 1880 and 1895 "Canada 4's" outstripped all other colonial obligations by rising 21½ per cent in value, almost equal to the average of 25 per cent in first-class securities. It was evident that by this time Canada was coming into its own. The management of the country's finances had matured and abstinence from the market had raised its credit-rating to heights that could not even have been envisioned by the harassed men who held the finance portfolio during the period of the Union.

Early in October, 1892, E. S. Clouston departed for London. Since the Dominion government's joint fiscal contract with Glyn, Mills, Currie & Co. and Baring Brothers expired on December 31, 1892, Hon. George E. Foster, the Minister of Finance, was also in that city to negotiate a new contract. Who approached whom, or whether Clouston crossed the Atlantic at Foster's instigation, will probably never be known, but subsequent discussions between these two men resulted in Clouston's sending the following proposal to Foster at 3 Park Place, London, on November 10, 1892:

> Dear Sir,
>
> I have the honour to submit to you for your consideration the following offer for the Management of the Financial Affairs of the Dominion in London
>
> For issue of new Loans 1/4%
> (All brokerages, stamps and advertising to be borne by the Government.)
>
> For Management of Loans, including payment of interest and dividend, transfers and inscription of Stock, investments for and management of the Sinking Fund except brokerages and Stamp duties . . £150 – per million per annum
>
> For discounting Treasury Bills outside Bank of Montreal . . . . not to exceed 1/8%
>
> For sale of Stock the Bank would charge 1/8%
>
> In the event of the Government at any time requiring special exertions to market the Stock there would be an additional charge of 1/16%

In case of Redemption it is understood that no charge will be made by the Bank if it has the issuing of a Loan to retire the Bonds redeemed, but if no Loan is issued there would be a charge of 1/8%

Should the Government require the Bank of Montreal to associate another Bank with it in the Issue of a Loan the charge would be 1/2%

The Government to pay the cost of Books which become their property.

This arrangement to continue in force for ten years from 1st January 1893.

Yours faithfully
(*Signed*) E. S. Clouston
General Manager

Four days after the offer was made, Foster replied to Clouston at the Bank's London office, acknowledging the letter and concluding:

> . . . I will as soon as possible submit a report to Council recommending the adoption of your proposition.
>
> In the meantime you may with all safety take such steps as you deem advisable to put the Agency in London in a position to take up the work on 1st January next.

Evidently the Council raised no objections to Foster's recommendations for when Clouston reported to the Board in Montreal on November 25, 1892, the directors placed on record their thanks to the General Manager "for the manner in which he conducted these negotiations, and for the service rendered by him to the Bank *in bringing them to so successful an issue* [author's italics]."

Past experience in underwriting loans on both the New York and the London markets, together with first-hand knowledge of government needs and methods gained from close intercourse since 1817, would seem to have made the Bank of Montreal a natural choice for the government's fiscal agent. Nevertheless the transfer of the account was criticized in London banking circles as both injudicious and unwarranted.

HALIFAX, WINTER PORT — 1888

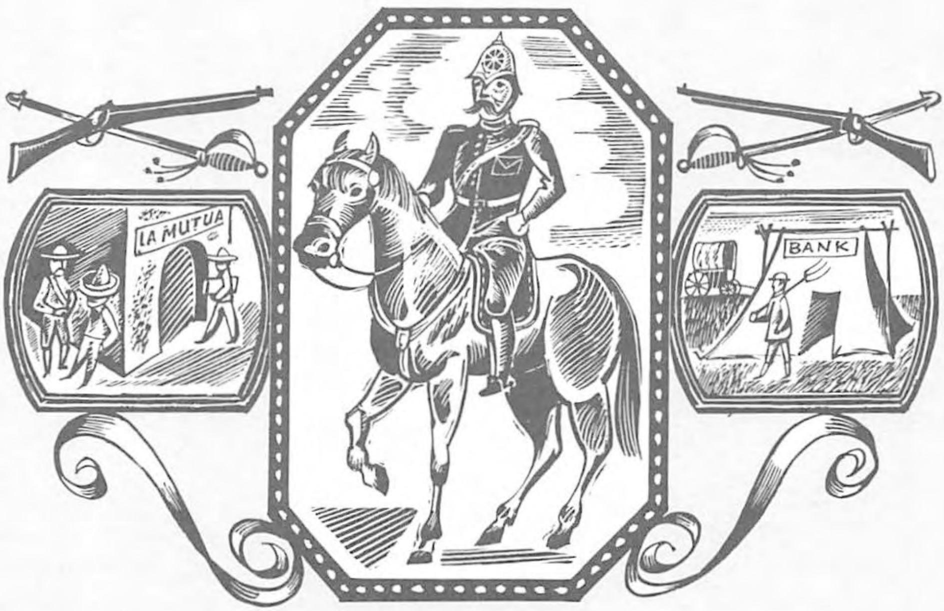
Although snow blankets the hilly street leading down to a corner of the harbour in Halifax in this 1888 etching, three ships lie at anchor in the salt water of Chebucto Bay. The completion of the Intercolonial Railway between Halifax and central Canada nine years after Confederation added to the importance of the city as an ice-free winter port, and helped to cushion the blow that the decline of the wooden sailing ship had dealt to Nova Scotia's famous shipbuilding industry.

The Bank of Montreal in 1903 expanded its operations in the Maritime Provinces by absorbing the Exchange Bank of Yarmouth, N.S., and two years later it purchased the People's Bank of Halifax with twenty-six branches. In 1907 the People's Bank of New Brunswick was also acquired and the opening of a branch in Charlottetown, Prince Edward Island, gave the Bank of Montreal representation in every major Maritime centre.

Although the rapidly expanded London agency had been capably handling an ever-increasing volume and variety of business, certain changes were now necessary. Caldwell Ashworth, who had been with the London office for nearly twenty years, arranged with Clouston to take a one-year leave of absence and thereafter to retire on a full pension. The arrangement was approved by the Board on November 29 and at the same meeting the Bank's Assistant General Manager, Alexander Lang, was appointed manager of the London branch with a salary of £2,000, one of the highest on the Bank's books.

The Dominion government did not call on the Bank's underwriting services for nearly two years, but when it did the result fully justified the choice of agents. In the fall of 1894 Clouston again went to London, this time to supervise the issuing of £2,250,000 of Dominion of Canada three-per-cent inscribed stock, due in 1938. On October 30 of that year the following cable from London was read to a jubilant Board of Directors in Montreal: "Loan great success total applications £11,300,000 – range of prices 95 to 99⅝ allotment about 49% at £97. 8. 6, over that in full. B of M gets about £200,000 – averaging £97. 9. 3." The directors immediately cabled their congratulations to the General Manager and the London branch.

ELEVEN



OPTIMISTIC OUTLOOK FOR THE NEW CENTURY

OPTIMISTIC OUTLOOK FOR THE NEW CENTURY

1.

The appointment of the Bank of Montreal as the government's financial manager in London aroused little interest at the time, except perhaps in Canadian and British banking circles, and no special historical significance has been attached to the event since. Yet it was another of the milestones on the road to fiscal autonomy, together with the defeat of Sydenham's monetary proposals and the efforts of Hincks and Galt to establish control by the then province over its own currency and banking. Seen in this light, the decision in 1892 to make use of the services of the Bank of Montreal in London, in preference to those of the two great English banking houses that had helped to support both the Province and the Dominion of Canada financially for nearly sixty years, was of a piece with Macdonald's posture at the Washington Conference, his National Policy, and his determination to provide Canada with the coast-to-coast rail communications that alone could establish a national economy of sufficient strength to resist the tremendous gravitational pull of the United States.

With cabinet approval of the ten-year agreement between G. E. Foster, as finance minister of the Dominion, and E. S. Clouston, as general manager of the Bank of Montreal, the relations between the government and the St. James Street institution took on a number of features similar to those then existing between the British government and the Bank of England and at an earlier time between the American government and the First Bank of the United States, but without being identical with either. While this new relationship provoked little notice in Canada, it added greatly to the stature of the Bank of Montreal in both London and New York, where it also enhanced the image of Canada as an emerging economic entity. As we have seen, two years were to elapse before the Bank would profit from the arrangement, and another decade would pass before its value to Canada's financial needs would be fully realized. Meanwhile both the government and the Bank continued to wrestle with the problems created by the deterioration of the world economy that had begun with the depression of the 1870's.

The struggle entailed on the government a growing loss of confidence, as a succession of prime ministers took over after the death of Sir John A. Macdonald in June, 1891; to the Bank it meant adjustment to the series of financial convulsions that occurred in Great Britain and in the United States. In 1890, the epicentre of the disturbance had been located in the Argentine Republic. Three years later a much worse quake took place in far-away Australia. In each instance the pattern was identical – promotion, investment, speculation, over-expansion and inflation, followed by a frantic redistribution of the world's supply of gold. Added to the customary cycle, however, was the practice indulged in by Australian banks of soliciting deposits from Britain by paying high interest rates. When British investors grew uneasy, the pressures caused by accelerating liquidation forced Australian and allied banks, with aggregate deposits of $450 million, to suspend payment, and bank clearings in Australia fell from £315 million in 1890 to £140 million in 1893.

The brunt of the disaster fell initially on London, where a desperate need to import gold again developed. But the most readily available source was now the United States, where monetary conditions were already deranged by the great silver controversy. So extensive had hoarding become by 1893 that the British demand for gold led the United States secretary of the treasury, Carlisle, to announce in April that he would shortly be forced to substitute silver for gold in the redemption of notes. An immediate panic was averted by President Cleveland's repudiation of the Treasury statement; thereafter Chicago, because of the Columbian Exposition and the large exchanges transferred there by foreign exhibitors, temporarily became a golden oasis. For a brief period some of the large banks were able to export the precious metal but the failure in July of a spectacularly successful Chicago bank set off a chain reaction that spread first through the middle west and then to the entire country. Currency became so scarce that clearing house certificates were brought into use and, as E. S. Clouston told Bank of Montreal shareholders in June, 1894, "in some cases Canadian currency was actually resorted to for the purposes of commerce and the payment of wages in the United States."

By the middle of September the worst of the monetary crisis was over, the larger Chicago banks having been able to import nearly eight million dollars in gold directly from London against grain invoices. While it is probable that the Bank of Montreal agency participated in the movement, the operation was not at the expense of the Bank's cash reserves in Canada, which remained virtually unchanged throughout the period.

In October the United States Senate finally agreed to repeal the Sherman Silver Purchase Act, and the Treasury was no longer required by law to purchase silver. However, the reprieve came too late and by the end of 1893 a total of 554 banks had failed in the United States and bank clearings from January through April, 1894, were only $15 billion, a reduction of one-third from the same period of the year preceding.

Canada, it would appear, was less burdened by the "cross of gold," as William Jennings Bryan described it in his famous speech in 1896, than either of its North Atlantic trading partners, although in fiscal 1893-94 total note circulation of all banks did fall below $30 million for the first time in eight years. While the Bank of Montreal naturally shared in the decline, it was able to maintain its discounts with a drop of only one per cent. Profits, which had suffered a decrease of $500,000 in 1891, recovered the next year and settled at about $1.3 million for the three succeeding years.

It is difficult to explain the anomalous effects of the crisis on the Canadian economy. The country seemed to have paused to catch its breath after attaining the plateau that had been reached with the completion of the Canadian Pacific, and since neither the country nor the Bank of Montreal had strained its resources to climb new heights, both were less vulnerable to the chaotic influences emanating from abroad than they might otherwise have been. Consequently, when world-wide resurgence began in 1895-96, Canada and its first bank were in a position to take full advantage of the situation. But before that happened, the Bank became involved in affairs outside the country and outside its usual sphere of operations.

Late in 1894 a number of Canadian banks, among them the Bank of Montreal, received urgent calls from the Government of Newfoundland for desperately needed assistance. The Bank's Chief Inspector, Archibald Macnider (who had opened the office at Halifax and had also seen service at Saint John, New Brunswick), was immediately dispatched to St. John's to report on the emergency, and on December 31 the Board, acting on his cabled recommendations, authorized a loan of $400,000 to the Newfoundland government. A week later, on January 8, 1895, a St. John's branch was opened by Macnider in premises that had been occupied by the Bank of British North America before its withdrawal from Newfoundland in the early 1860's. The financial conditions that greeted Macnider were probably the worst that had ever existed in a British colony. The island's two commercial banks, the Commercial and the Union, had been wrecked, and the government itself brought to bankruptcy. The only circulating media, aside from small quantities of gold and silver coin, were heavily depreciated bank-notes, largely unsecured and not designated by the banking laws as a firm charge against bank assets.

One of the underlying reasons for the debacle was undoubtedly the drop in world commodity prices, which had its most baneful effects in areas dependent on a single staple. From the days of its discovery, Newfoundland had been treated principally as a base for fishing operations and during the eighteenth century permanent settlement was actually prohibited by the British. Settlement proceeded nevertheless with the result that representative government was granted in 1832 and responsible government in 1855. Fishing continued to be the mainstay of the colonial economy and after abortive negotiations to enter Confederation were conducted in 1864 and again in 1869, Newfoundland became a party to the Treaty of Washington in 1871. When the United States abrogated that part of the treaty dealing with fishing in 1885, the Newfoundland government sent a representative to Washington to explore the possibility of an agreement between the island colony and the Republic on the vital subjects of fishing rights and tariffs. Subsequent negotiations culminated in the Bond-Blaine Convention of 1890, drafted by Newfoundland's colonial secretary and the American secretary of state, which provided for the free entry of Newfoundland fish into the United States in return for bait privileges to American fishermen and tariff preferences for American imports. But strong objections from Canada caused the Imperial Government to veto the agreement.

The failure to gain free entry for fish to the American market was a bitter disappointment to the islanders and created a deep feeling of animosity toward the Dominion. Moreover it came at a time when the public debt was increasing heavily as a result of government expenditures on an over-ambitious railway. These strains on Newfoundland's economy were intensified in 1892 when the capital city of St. John's had to be rebuilt after the second serious fire in its history had caused an estimated damage of twenty million dollars and left eleven thousand people homeless.

The actual crisis of 1894, however, was precipitated by an event of seemingly limited significance, the death of a Mr. Hall. Hall was a partner in an English mercantile firm that had long enjoyed a virtual monopoly in the marketing of Newfoundland's exports, and he had been in charge of the firm's operations on the island. On the death of this now shadowy figure, the remaining partners "demurred at continuing so hazardous a business," and several bills drawn on the firm by the Commercial Bank were protested for non-payment in London. The resulting pressures in Newfoundland threatened to precipitate a run and rather than attempt to struggle with an impossible situation the Commercial Bank simply closed its doors. The Union Bank, meanwhile, was engaged in marshalling its resources to meet an interest payment of $225,000 due on the public debt in England on January 1, 1895, but gamely continued to pay out specie until the supply was exhausted. Then it too had little alternative but to close its doors.

It was at this juncture that the Newfoundland government turned to the Imperial authorities in London and to the chartered banks in Canada for help. The British responded by insisting on a royal commission with powers to make both political and financial recommendations; the Bank of Montreal, the Bank of Nova Scotia, and the Merchants' Bank of Halifax replied by promptly opening branches in St. John's. These banks have been criticized by Brebner for standing "idly by" while the island writhed in the throes of financial agony, but a contemporary writer, M. Harvey, saw their activities in a different light:

> A vicious and ruinous banking system has been swept out of existence and replaced by one of the best in the world. The old credit system has . . . received notice to quit, and can never be re-established. A spirited and energetic people are courageously facing their difficulties. The lessons of recent calamities will not be lost on either Government or people. A few years hence the colony will be in many respects a NEW LAND.

For its part, the Bank of Montreal, aside from its $400,000 loan to enable the government to meet January interest payments, immediately advanced credits of $200,000 to Harvey & Co., a local mercantile firm, to buy the catch of distressed fishermen, and $450,000 to R. G. Reid to ensure that construction on the Newfoundland Railway could be resumed and the only substantial payrolls on the island would be continued. This advance was an addition to a loan of $900,000 made to Reid in 1891 after he had secured the contract to complete the government-owned railway, which by 1895 had accounted for $9,553,000 of the island's public debt of $15,829,834.

Little more assistance could have been expected, since the island's ties were mainly with England and were likely to remain so, as indicated by the failure of renewed confederation discussions in the spring of 1895. But economic recovery set in rapidly and within three years the Bank of Montreal, which took over the government account, had erected a four-storey stone and brick edifice on Water Street in St. John's to accommodate a growing business and provide residential quarters for the staff. The building was occupied until the present premises were built in 1960.

Unhappily, the financial crisis of the 1890's was repeated in Newfoundland in 1932, and in 1934 responsible government was suspended. Thereafter the colony was ruled by a commission appointed by the British government until 1949, when the determination and salty eloquence of the Honourable Joseph Smallwood finally brought about federation with the nine other Canadian provinces.

2.

The inability of Canada and Newfoundland to come to terms in 1895 was caused primarily by the stubborn attitudes toward financial compensation adopted by the three parties to the negotiations – the Imperial Government, the Dominion of Canada, and the newly elected government of Newfoundland led by William Whiteway and Robert Bond. But Canada's failure to accord the sister colony a generous welcome into Confederation was also a reflection of the uncertainties into which the government in Ottawa had been plunged by the death of Sir John A. Macdonald four years before. Returned to power in 1878 after the five years of Alexander Mackenzie's honest but dour reign, the Liberal-Conservative Party under Macdonald's leadership had been re-elected with diminishing majorities in 1882, 1887, and 1891. The victory of 1887 was, in fact, a tribute less to the appeal of the party's policies than to the political magic of its leader and, similarly, that of 1891 was achieved only by Macdonald's indomitable purpose and the charisma of his personality. At the age of seventy-six he refused to spare himself the rigours of a winter campaign. It was to be his last triumph at the polls. Forced by exhaustion to take to his bed soon after the election had been won, he died three months later on June 6, 1891.

The compromise choice for a successor fell on Sir John Abbott, who led the government from his seat in the Senate for seventeen months before ill health forced his resignation. He was succeeded by Sir John Thompson who died in office two years and one week later, only a few moments after he had been sworn in as privy councillor by Queen Victoria. Sir John Abbott, one of the ablest corporation lawyers of his time, had served both as a solicitor for the Bank of Montreal and as a counsel to the Canadian Pacific Railway, and in 1888, the year after his appointment to the Senate, had also been elected a director of the Bank. He held the post until his death in October 1893. Sir John Thompson had had a more varied career. A Nova Scotian by birth, he had won acclaim in his native province first as premier and then on the Supreme Court bench before entering the federal arena as justice minister in 1885. He served in that capacity under both Macdonald and Abbott, and as Prime Minister was Canada's representative to the treaty negotiations on seal hunting in the Bering Sea and the fisheries. Both Abbott and Thompson proved able administrators, but in the disaster-riddled political and economic climate of the early nineties, they were distinguished not so much for their accomplishments as for continuing to discharge the functions of government at all.

Despite the fact that Sir Charles Tupper, who was the Canadian high commissioner in London, seemed to be Thompson's natural successor, the Conservative caucus turned to the Senate for a new leader. The choice fell on Mackenzie Bowell, a former journalist, newspaper publisher, and pillar of the Orange Order in Ontario, who had occupied minor cabinet posts before his elevation to the senior house in 1892. His term as Prime Minister began with the Newfoundland imbroglio and ended in April 1896 following the resignation of seven of his ministers – Bowell's inglorious "nest of traitors." He was succeeded by Sir Charles Tupper, who held office for seven weeks before the Conservative Party went down to defeat on June 23, 1896, after eighteen years in office.

In spite of Canada's political problems, the country, as noted, appeared to suffer less from the crises in world economic conditions than either Britain or the United States. In the six-year period between 1890 and 1896, for example, exports increased from $94 million to $116 million, and as a result of a concurrent decline in merchandise imports after 1893 a trade deficit of $17 million in 1890 was converted into a surplus of $11 million in 1896. Although capital imports also dwindled, and fewer merchandise imports naturally meant lower revenues, George Foster, who retained the finance portfolio throughout the ministerial changes in Ottawa, was able to conduct the fiscal affairs of the country without difficulty, thanks in part to the arrangements concluded with the Bank of Montreal in 1892. On the other hand, immigration declined from 82,165 in 1891 to 18,700 in 1895, and the commodity price index based on 1900 fell from 104.7 to 88.3. For the successive Conservative governments, weakened by age, riddled by regional jealousies and torn by religious and racial strife, the period was one of progressive deterioration and despair; for the Bank of Montreal it was a time for reappraisal, the regrouping of forces, and the continued strengthening of its dominant position on the stage of Canadian finance.

Despite a rather anaemic economy, the Bank's territory kept on expanding; in 1886 there had been twenty-nine branches and by 1895 thirty-eight were in operation exclusive of the Head Office and the agencies in the United States, Great Britain and Newfoundland. The openings of some of the new branches have already been noted, such as those at Vancouver, Calgary and in the west end of Montreal. In addition, four more were established in British Columbia (at Nelson, New Westminster, Vernon and Victoria), where successive ore discoveries were heralding Canada's great mineral wealth. So active did that provincial economy become, in fact, that in 1898 Campbell Sweeney, who had blazed the trail at Winnipeg in 1877 and at Vancouver a decade later, was appointed Superintendent of Branches in British Columbia, the first regional appointment of the kind ever made by the Bank. Another of the new branches was located at Fort William, reflecting the growing volume of wheat moving for shipment down the Great Lakes, while in eastern Ontario two were opened and one was closed.

3.

The long twilight of Canadian discontent ended politically on June 23, 1896, when Wilfrid Laurier led the Liberal Party to victory at the polls to become the first French-Canadian prime minister of the Dominion. His announcement three weeks later of "a government of all the talents," with three former provincial premiers in key cabinet posts, came as a fresh breeze that would blow away the cobwebs of indecision and ineptitude that had been gathering for years. The country's inertia began to be dispelled by a buoyant optimism as Canada prepared to enter upon one of the most dynamic periods in its history – a period of such tremendous development and growth that within a decade and a half the country had become one of the world's major producers of foodstuffs, electricity, and base metals. For these reasons 1896 has come to be regarded as one of the most auspicious years in Canadian history, as significant almost as that of Confederation itself.

In point of fact the Liberal victory marked the coming of the dawn rather than the effulgence of the sunrise. For example, the Bank of Montreal encountered the trough of the depression in 1891 when net profits of $850,000 were lower than they had been since 1879, the year the National Policy was adopted as the cure-all for Canada's economic woes. Thereafter and despite the financial cataclysm of 1893, the Bank's position improved without serious interruption until the post-war depression of the 1920's. It was only after the turn of the century, however, that the peak attained during the early 1870's was passed.

A similar pattern can be distinguished in the growth of the country as a whole. Between 1896 and 1900 the unmatured debt of the federal government remained almost constant at around $188 million and immigration failed to pass the 50,000 mark attained in the 1840's; it was not until 1902, in fact, that the number of newcomers exceeded those that arrived in 1847, the year of the great Irish famine. On the other hand, the declared value of both exports and imports rose steadily during the five-year period, to register gains of fifty-eight and sixty-four per cent respectively by the close of the century.

Notwithstanding the gradualness of the recovery, Laurier and his government were riding the wave of the future. New gold deposits had been discovered in South Africa in 1886 and shortly afterwards the cyanide process for its extraction had been patented. By the time Laurier was elected these two developments had pushed the annual value of world gold production over the $200-million mark, as opposed to a yearly average of about $110 million during the 1870's and 1880's, and the long decline in commodity prices came to an end. In Canada, with its Klondike rush of '97 and '98, the price index rose by twenty per cent between 1896 and 1900.

The improvement in prices was only one of several beneficent coincidences that Laurier was able to turn to his political advantage. About the middle of the 1890's, also, the last free land suitable for farming in the American west had been occupied and the agricultural frontier pushed northward into Canada.

NELSON'S PIONEER BANKER

Early in 1892 the Bank of Montreal decided to open an office in the infant gold-mining centre of Nelson, B.C., a village of six hundred persons situated on the west arm of Kootenay Lake, high in the Selkirk Mountains. Arthur H. Buchanan was the man picked to carry out this task. Travelling west on the Great Northern Railroad and switching to a branch line just before reaching Spokane, Buchanan arrived at Northport, Washington, sometime in February. The railway went no farther and Buchanan discovered that no form of transportation whatsoever existed during the winter months to carry him through the wilderness to his destination. Undeterred, the resolute banker strapped a pair of snow-shoes to his boots and covered the last fifty miles through the snowy forest on foot.

Having gone to such lengths, Buchanan wanted to open the new branch as soon as possible after his arrival, but he had not been provided with any operating funds and he could muster only $2.50 from his own pockets. As seen here, the weary pioneer stopped to discuss his problem with E. H. Applewhaite, a leading Nelson business man who, along with other activities, operated a small private bank in association with W. G. Allan. Applewhaite appreciated the value to the growing community of a branch of the Bank of Montreal with the great resources it commanded, and he willingly lent the Bank's emissary the cash he had on hand, the sum of $13.50. This was enough, however, to tide Buchanan over until the Bank's funds arrived, and he was able to open the branch immediately in a former barber shop on the village's main street.

Painting by Jack Hambleton, B.C.S.A.


D.H. APPLEWHAITE
REAL ESTATE
Hamilton

Approximately seven hundred Americans crossed the border in 1897; by 1900 the number had swollen to fifteen thousand. As part of its immigration efforts, the Canadian Pacific Railway had established experimental farms where Red Fife wheat, originally developed in Canada West in the 1840's, was grown for seed and distributed to the settlers. Shortly after the turn of the century the Dominion Cerealist, Charles Saunders, succeeded in crossing Red Fife with a strain from India to produce Marquis wheat, which, under the classification Manitoba No. 1 Hard, became the world standard on the Liverpool Grain Exchange.

If Laurier was the child of happy chance, he brought to his inheritance vigour, insight and imagination. Having staked out the twentieth century for Canada, the great Liberal leader proceeded to work the claim with every resource at his disposal. Not the least of these was the services of two exceptional lieutenants: William Stevens Fielding, the former Nova Scotian premier who became Laurier's finance minister, and Clifford Sifton, noted for his part in the Manitoba Schools controversy, who filled the post of Minister of the Interior. In the 1891 elections the Liberal Party had strongly advocated commercial union with the United States, with overtones of annexation: Fielding brought in fiscal legislation that embodied the then-novel principle of preferential tariffs, and Laurier, while attending Queen Victoria's Diamond Jubilee festivities in London in June, 1897, insisted that Britain's commercial treaties with Germany and Belgium be changed so that Canada could negotiate directly with those countries. New fiscal laws substituted *ad valorem* duties for the fixed, specific tariffs imposed by the National Policy and introduced the most-favoured-nation principle with minimum and maximum customs schedules, thereby improving Canada's bargaining position. Meanwhile Sifton embarked on a promotional and sales effort that was to increase the population of Manitoba and the Northwest Territories by more than one million between 1901 and 1913.

Although homestead regulations providing for free land in Manitoba and the western prairies had existed since 1872, Laurier and Sifton saw the need for further encouragement to prospective settlers. To this end the existing regulations were simplified and, according to Sifton's biographer, John W. Dafoe, "directed towards putting the individual John Doe on 160 acres of land, keeping him there, making his conditions of life tolerable, supplying him with railway facilities; and then multiplying the performance a countless number of times." The practice of making land-grant subsidies to railways was abolished, and the C.P.R. was persuaded to patent 22,500,000 acres of unpre-empted land so that the gigantic work of colonization could begin. The groundwork having been laid, Sifton perfected techniques already developed by the railroads to become one of the greatest salesmen of all time. With the North Atlantic Trading Company to assist him in recruiting, he ranged the United States, Eastern Canada, the British Isles and finally Europe, using posters, booklets, handbills, agents, free excursions, country fairs, and low rail and steamship rates to lure land-hungry emigrants to "the last, best west."

The unabashed fervour of the advertising campaign caused tongues to cluck in Toronto, Montreal and Halifax, as did much of the immigration it attracted; but Sifton had a ready answer. "I think," he said, "a stalwart peasant in a sheep-skin coat, born on the soil, whose forefathers have been farmers for ten generations, with a stout wife and a half-dozen children, is good quality." Not all were sheepskin-coated peasants. They came from the Dakotas, Iowa, and Minnesota, from Eastern Canada and the British Isles, from the Baltic to the Aegean and from the steppes of the Ukraine.

Despite the manifold risks involved, this tumultuous conquest of North America's last great agricultural frontier was accompanied by a hectic proliferation of banking facilities. The pace seems to have been set at the time of the Klondike rush when the Bank of British North America raced the Canadian Bank of Commerce fifteen hundred miles from Vancouver to Dawson City in the spring of 1898 to establish the first branch in the heart of the gold field. The Bank of British North America became the winner by opening for business late in May. The starting capital was $202,000 in notes brought in by dog-team and boat down the Yukon River; the first office was a canvas tent with wooden walls, and the first vault consisted of an unused cell in the adjacent North West Mounted Police barracks. The Bank of Commerce branch opened on June 15 in the shack which preceded the log cabin in which Robert W. Service later served as a clerk and won fame as a Canadian poet laureate.

The pattern of expansion in the prairies followed that of settlement itself and brought about the establishment of branches wherever a new railway was projected, a new block of land was opened or a new grain elevator appeared on the horizon. Some locations were reached by snow-shoe and dog-team, some on horseback, some by the caboose of construction trains, and in one instance at least by bicycle over miles of prairie trail. Apparently all that was required to open a new branch was the prospect of business or the rumour of a rival's plans. With a few hundred dollars in notes and a sheaf of deposit slips carried in the traditional black satchel, the new manager would be in business. In some boom communities where space was at a premium and land values grew faster than the wheat, branches were set up in whatever space might prove available, on occasion sharing quarters with a pool room or an undertaking parlour. In remote communities canvas generally served until such time as the versatile banker-turned-frontiersman could slap together his new premises using the lumber he had brought with his rented team and wagon. When the occasion demanded the wagon also served as a temporary office.

That the resulting edifices were not always the sturdiest of structures was recalled some years later in an after-dinner speech by a director of the Bank: "The Bank building erected at Williston was by no means a credit to the Architect or builder, as it nearly collapsed the first night he slept in it when a pig scratched its back on the corner of the Bank." At one new branch opened in November the safe remained outdoors all winter, perched on the wagon on which it had arrived. On mornings when the temperature hovered between 40 and 60 degrees below zero a blow torch had to be used to thaw out the combination. Although the accountant felt there was little need to worry about the safe being stolen as the thief would not be able to get any distance from the scene of the crime in a hurry, he took the precaution of chaining the safe to the post of his bed in the bank building.

Many a branch was closed when its frontier community failed to prosper, others bowed out before more aggressive competition, and still others lost their identity in subsequent mergers. Nevertheless, the phenomenal multiplication of chartered banking facilities played an important role in the orderly settlement of the Canadian west and the conservatively dressed bank manager with his black satchel was as much of an image as was the sheriff with his six-shooter south of the border. Oddly enough, most of the banks that were in the forefront of the great expansion – the Bank of British North America, the Merchants Bank of Canada, the Union Bank of Canada, and the Sterling and Standard banks – are no longer in existence, although many of the branches established by them between 1900 and 1914 are still flourishing as units of other systems.

At the first blush, it seems strange that the Bank of Montreal with its pioneering background should have chosen to hold relatively aloof from the hectic scramble that dotted the prairies with almost as many branch banks as there were churches. The Bank's behaviour, however, was in keeping not only with the course adopted in the days of the great Edwin King but also with the position of the Bank as the keystone of the Canadian financial arch. This policy called for the Bank to establish strategic branches in the most important centres and to avoid if possible the unnecessary expense of opening branches in boom towns that would soon prove unprofitable when business conditions settled down to normal.

While great infusions of foreign capital subsequently turned Canada's recovery into a period of explosive economic growth, the funds initially invested appear to have been obtained from the domestic market. As early as 1895, for instance, the Board of the Bank of Montreal began to make substantial advances to such old-time lumber companies as J. R. Booth of the Ottawa Valley and the Rathbun Company of Deseronto, Ontario. In 1897, the newly formed Laurentide Paper Company of Grand'Mère, Quebec, benefited from a generous loan, and provincial railway expansion was assisted by the Bank's "purchase of \$1,360,000 Province of Quebec 3% Forty year Inscribed Stock at 90%."

The Bank also continued its interest in the Newfoundland Railway by becoming the banker of the Reid Newfoundland Company when that remarkable enterprise was formed in 1898 by Robert Gillespie Reid to operate not only the railway but also the St. John's drydock, the telegraph lines, and the coastal mail and passenger shipping services of the island. Reid, who had already had a distinguished career as a bridge builder and construction engineer on the Canadian Pacific before going to Newfoundland, was elected a member of the Board of the Bank of Montreal in 1900 and served as a director until his death in 1908.

Despite such evidence of increased economic activity, the closing years of the nineteenth century, from the Bank's standpoint, were essentially a time of transition rather than of spectacular growth. While the deposits and discounts of the Bank began to rise steadily and significantly after 1896, several years elapsed before the general tone of the annual reports ceased to stress the uncertainty of commercial prospects and the fear of renewed depression. This watchful waiting was perhaps justifiable in the light of international events. The Venezuelan boundary dispute, which had almost brought Britain and the United States to war at the end of 1895, had caused what E. S. Clouston termed "one of the worst panics, if not the worst, of the century." This was followed by the short-lived but commercially disruptive Spanish-American War of 1898 and later by the Boer War.

The Bank of Montreal, "departing in some measure from precedent," made generous contributions to funds in both Canada and Britain "for the care of our soldiers and their dependants" during the course of the South African conflict. This was in keeping with the patriotic undertaking of the President of the Bank, who had been elevated to the peerage in 1897 as Baron Strathcona and Mount Royal. On the outbreak of war in 1899, he had raised and equipped at his own expense the Lord Strathcona Horse, a regiment of 589 mounted infantrymen which saw service as part of a force of 7,000 Canadian volunteers.

Yet the nineteenth century ended on a most confident note where the Bank was concerned. Shedding his customary banker's cloak of carefully controlled optimism at the Bank's annual meeting held on June 5, 1899, Clouston told the shareholders:

> When business is good, and the country prosperous very little need be said, and I believe that with respect to the present condition of affairs in Canada there can scarcely be two opinions. There is a feeling of buoyancy and elation regarding it that appears to be thoroughly justified by actual facts. There is hardly a branch of trade that is not prospering. The farmers are receiving good prices for their products, the Government show increased revenues, the railways increased traffics, stocks of all sorts have appreciated in value, while the future wealth which our mining and forest industries are expected to realize for this country is beyond computation.

4.

The year 1900 saw no diminution in Canada's buoyant expectations. The Boer War, it is true, was a dark cloud on a far horizon, but it was confidently expected to come to an early conclusion. Business had been such that George Drummond was able to announce to the shareholders in June that the Bank had added one million dollars to the Rest after maintaining the ten per cent dividend for the thirteenth straight year. In the absence of the President, Vice-President Drummond then went on to review the Bank's progress since 1884. The number of branches had risen from thirty-one to fifty-two and in consequence the staff had been increased from 299 to 562. The capital had not changed and deposits, increasing from $23 million to $53 million, had come to make up a larger portion of total liabilities, which themselves had risen from $45 million to $79 million. Loans in Canada had increased from $30 million to $53 million but net profits in 1900 were only $1,524,000 as opposed to

THE CHALLENGE

The farmer and his wife who are returning from town in their buckboard in this oil painting were probably two of the one million new settlers of many nationalities who accepted the challenge of turning an isolated homestead into an economically successful farm during the great western boom between 1896 and 1913.

Conditions propitious for populating the vast prairies developed all at once. After years of stagnation, a rise in prices began just when the last free arable land in the American west was occupied and excellent harvests in the Canadian prairies established the reputation of the fast-ripening Manitoba No. 1 Hard wheat.

In Ottawa, a dynamic new Minister of the Interior, Clifford Sifton of Manitoba, set in motion the ubiquitous and somewhat flamboyant promotional campaign that, along with material assistance and agricultural advice for the new homesteaders, was largely responsible for turning the prairies into a land of prosperous wheat farms and well-stocked ranches.

$1,434,000 in 1884. "So that," Drummond contended, "to earn approximately equal profits, double the business must be done and the cost of doing it proportionately increased. The public, therefore, is getting its banking business done for about half the prices ruling in 1884. No doubt this is a substantial benefit to all commercial and manufacturing business." The last observations, rather wryly made, provide a hint of what was to become almost a refrain in Canadian banking circles – the acute competition between banks.

As prosperity arrived, and with it higher incomes and higher prices, there came an irresistible demand for increased banking accommodation. While the business of the market place required an increase in bank-note circulation, each bank was limited to an issue of notes equivalent to its paid-up capital. The effect of this situation on the country's chartered banks between 1900 and 1914 is reflected in their year-end statements: paid-up capital nearly doubled to $114 million, bank-note circulation more than doubled to $106 million, and loans rose from $361.7 million to $1.04 billion. When compared with Drummond's review of the record of the Bank of Montreal over a period of almost equal length, 1884-1900, the phenomenal extent of this growth can be appreciated.

The directors of the Bank of Montreal, while perhaps displeased at the nature of some of the competition, were determined, as they said, "to advance with the times." On January 7, 1903, for example, a special general meeting of the shareholders authorized an increase of two million dollars in the capital of the Bank. Motions were also carried requesting the directors to apply to Parliament for permission to subdivide the shares of the Bank into units with a par value of $100 each (instead of $200), and to rescind the word "June" in the first by-law, substituting therefor the word "December" as the month of the annual meeting. The Bank consequently had two general shareholders' meetings in 1903.

The increase of the capital stock having been approved by the Treasury Board in Ottawa on February 9, 1903, the directors met a week later and resolved that the new stock be allotted to the shareholders at the rate of one share for each six shares held, at a premium of seventy per cent. One perennially loquacious shareholder found the premium "excessive," an opinion that went unsupported. Those shares not taken up were, as was customary, to be offered for public tender. An interesting feature of the increased capitalization was the appointment of the Royal Trust Company as the agent of the Bank of Montreal for the issue and registration of the new shares. Hitherto such operations had always been handled by the Bank's clerical staff and the decision to transfer the time-consuming labour to a separate agency was another example of the growing complexity of the Canadian economy.

While a charter had been granted a Canadian trust company as early as 1872, a decade elapsed before it opened for business, and a further seven years went by before another was incorporated in 1889. The third such institution, the Royal Trust and Fidelity Company, was incorporated by an act of the Quebec legislature in 1892 "for the purpose of executing trusts and administering estates, and as a safety deposit company and general financial agents." Although an amendment changed the name of the company to the Royal Trust Company in 1895, it was not until November 15, 1899, that it opened for business in an office on the ground floor of the Bank of Montreal, with a staff of two men and a Board of Directors that included among its sixteen members the nine directors of the Bank of Montreal together with the General Manager, E. S. Clouston, and the Chief Inspector, A. Macnider. The company reported $1.5 million in assets under administration at the close of its first year in business but it was not until after its appointment as the Bank's subscription agent that more commodious quarters were provided for it below the main banking floor. The company obtained separate offices in 1908 with the purchase of the Alliance Assurance Company building on the site adjacent to the Bank of Montreal Head Office. The Alliance building was demolished in 1912 to make way for the trust company's present structure on Place d'Armes. Since its inception, the Royal Trust Company has invariably included on its Board of Directors a number of directors of the Bank of Montreal but the Bank itself has never owned any shares in the trust company.

When the Bank's eighty-sixth annual meeting was held in December, 1903, the directors were able to report that the new stock "had been all subscribed for and all taken up with the exception of $26,440 which will be paid up on the 23rd December, making the capital stock, all paid, $14,000,000." Shareholders of record had subscribed by allotment for 17,100 shares on the new par basis of $100 a share; the balance of 2,900 shares had been disposed of in August at an average value of $245.51 a share. At the same meeting $1 million was added to the Rest which, with the $1 million added in June, 1903, brought the total to $10 million, while $373,988 was carried forward to profit and loss, making capital and undivided profits combined equal to $24,373,988. Comparing this figure with the "Roll of Honor of the National Banks of the United States," issued as an annual supplement to the *Financier*, a journal published for some years in New York City, it can be seen that by 1904 the

Bank of Montreal had become larger in point of capital and undivided profits than any of the 747 national banks in the United States. Its two nearest rivals were the First National Bank of New York City with a combined capital and surplus of $23,972,721 and the National Bank of Commerce of St. Louis, Missouri, with $15,647,863.

The ease with which the Bank of Montreal increased its capital and the premiums received were reflections of the burgeoning wealth of the Canadian economy. This is also strikingly exhibited by the increase in deposits in the chartered banks, which rose from $305 million to $1.1 billion between the turn of the century and World War I. A more interesting adjunct, however, was the competition between the various banks for these deposits, which led to the establishment of some 2,350 new branches during this period. Some indication of the early role of the Bank of Montreal in this expansion is provided by the two annual reports of 1903. In June the report stated:

> Since the last annual meeting, branches of the bank have been opened at Birchy Cove, Bay of Islands, Newfoundland; Raymond, Alta.; Collingwood, Ont.; Paris, Ont.; and Spokane, Wash., U.S.
>
> The Bank has acquired the property at the corner of Hollis and Prince streets, Halifax, and went into occupation in May last; and has also purchased the premises it has been occupying, under lease, at Amherst, N.S.

On the first Monday in December the story was continued:

> Since the last annual meeting of the Shareholders, branches of the Bank have been opened at Edmonton, Alta., Indian Head, Assa. [Assiniboia, now Saskatchewan], and Brandon, and Gretna, Man.; and a Branch at Sherman avenue, Hamilton, has been arranged for, to be opened on the 1st December, 1903.
>
> The Bank also established a Branch at Yarmouth, N.S., through the purchase of the business and premises of The Exchange Bank of Yarmouth.
>
> The Bank is at present erecting premises for the branches at Edmonton, Alta., and Birchy Cove, Newfoundland, and has acquired properties on the corner of St. Catherine street and Papineau road, Montreal, and the corner of Greene and Western avenues, Westmount, where premises are being erected for the occupation of branches to be established at those points.

TRANSATLANTIC WIRELESS, SIGNAL HILL – 1901

Guglielmo Marconi was twenty-seven years old when he and several assistants journeyed to Newfoundland to set up a wireless station at Signal Hill on the outskirts of St. John's. While still in his teens, the Italian inventor and electrical engineer had developed an interest in Heinrich Hertz's discovery of electrical waves. Several experiments in Italy, England and the United States had proved that electrical impulses could be transmitted without the use of wires, and in 1899 he was successful in sending a message from Boulogne, France, across the Channel to England. When further tests showed Marconi that contact could be established with ships up to two hundred miles from shore, it was decided to attempt to send a signal across the Atlantic from the new wireless station at Poldhu, Cornwall.

Marconi and his assistants, G. S. Kemp and P. W. Paget, arrived at Signal Hill in December 1901, a month chosen for the cold weather that had proved best for transmission. For several days a shivering party worked to launch antenna-supporting kites against the blustery winds. Finally, on December 12, Marconi's sensitive magnetic detector connected to a headphone picked up the three faint clicks of the Morse letter "S", the pre-arranged signal from Poldhu station seventeen hundred miles away.

Later that month Marconi transferred his equipment to Glace Bay, Nova Scotia. The Canadian government provided financial aid for the first North American wireless station on Table Head where the first official transatlantic message was transmitted from the Governor General, Lord Minto, to King Edward VII on December 21, 1902.

Although the Marconi Wireless Telegraph Company of Canada started to recruit staff in 1902, regular transatlantic service did not begin until October 17, 1907. Two years later Marconi was awarded the Nobel Prize for physics.

Painting by Geoffrey Holloway


GEOFFREY HOLLOWAY

The merger with the Exchange Bank of Yarmouth was the first such amalgamation undertaken by the Bank of Montreal since its absorption of the Bank of the People in 1840. This was, however, only part of a trend that saw eighteen amalgamations take place in the first decade and a half of the twentieth century, reducing the number of chartered banks in Canada to twenty-two. Most mergers were between a large bank, looking for ready-made outlets and contacts in a new area, and a small bank that either found itself in a weakened position or could no longer handle the growing requirements of its larger customers. In fact, it is generally agreed that the only important new provision in the Bank Act of 1900 was that which permitted one bank to sell to another the whole or any part of its assets without first obtaining a special act of parliament. The movement toward amalgamations was paralleled in other countries, but the growing concentration of resources in the hands of "the big four" (the Royal Bank, the Canadian Bank of Commerce, the Bank of Nova Scotia and the Bank of Montreal) was greeted no more affably than had been the rise to power of the Bank of Montreal in the 1860's.

The arrangements for the purchase of the Exchange Bank of Yarmouth were made during the spring of 1903. The formalities were completed in June and in December a payment of $1,117 to the Bank's Pension Fund Society opened the privileges of membership to Exchange Bank of Yarmouth staff taken into the service of the Bank of Montreal.

The following year, the Bank of Montreal was involved in negotiations with a far larger Nova Scotia banking concern, the People's Bank of Halifax. The draft of the sale agreement was approved by the directors of both banks in March, 1905, and a memorandum to that effect was signed on May 9, setting out that all assets, together with "the goodwill of the banking business," were to be assigned to the Bank of Montreal in return for payment of $1,150,000, of which $1,012,000 was to be in Bank of Montreal capital stock valued at $253 per share, and the balance of $138,000 in cash. The employees of the People's Bank were guaranteed a minimum one-year engagement at their existing salaries, after which those remaining in the Bank of Montreal's service were to be added to its pension list with credit for time spent with both banks.

As the sale agreement necessitated the creation of four thousand additional capital shares, final confirmation had to await the shareholders' approval. This was forthcoming on May 16, 1905, and at the December annual meeting the directors were able to report that "the Bank has acquired the assets and business of the People's Bank of Halifax, with twenty-six branches." With fifteen of the new offices in the Maritime Provinces, the Bank of Montreal became the equal, in quantity of local business, of the other major banks that were already ensconced in Nova Scotia and New Brunswick. Since the early years of Confederation, the Bank of Montreal had slowly built up a small network of nine strategically placed branches in these two provinces, but after its merger with the People's Bank of Halifax in 1905, few Maritime centres of any importance remained where the Bank of Montreal was not represented. While two branches of the People's Bank were redundant, and hence closed, the amalgamation also gave the Bank of Montreal nine new outlets in Quebec. Most of these were located in communities connected with the pulp and paper industry, either in the Eastern Townships or at such places as Grand'Mère, in the St. Maurice Valley, and Lévis and Fraserville (now Rivière du Loup) on the south shore of the St. Lawrence River. Although in the face of the more spectacular growth in the west the rise of such industrial communities in the older provinces is generally overlooked, these branches provided a valuable addition to the Bank of Montreal system.

By late 1905 rumours of a pending amalgamation of the People's Bank of New Brunswick with the Bank of Montreal were rife, but it was not until August, 1906, that the principal shareholders of this Fredericton bank, the Randolph family, accepted an offer akin to what the *Monetary Times* thought a "very generous price of $350 per share." The amount authorized by the directors of the Bank of Montreal for the purchase of the small bank ($180,000 capital) was approximately one-third of that paid for the People's Bank of Halifax, and the transaction was finally completed on April 20, 1907.

Meanwhile the Bank of Montreal was called to the rescue following the most unsavoury bank failure to occur in Canada in nearly forty years. In 1905 the Bank had made a proposal for a merger to the Ontario Bank, a small but seemingly profitable Toronto institution with branches in its home province and Quebec. When the proposal came to nothing, the Royal Bank opened negotiations but in the course of its investigations discovered irregularities and swiftly withdrew. It was subsequently revealed that the General Manager had been falsifying the books to hide Wall Street losses that had obliterated the bank's reserves.

Liquidation was clearly the only way out of the impasse, and after recalling their president from Europe, the directors of the Ontario Bank sought the guidance of Edward Clouston, with the result that the Bank of Montreal agreed to assume the liabilities, pay depositors in full, and take over the Ontario Bank with a payment of $150,000 "for the goodwill of the business." On October 12 the Ontario Bank suspended and, in deference to public opinion, it was decided that the liquidation should be carried through with open doors, the Bank of Montreal assuming the liabilities "under a guarantee from other banks in the event of the assets being insufficient to discharge them." This policy kept runs on branches of the Ontario Bank to a minimum, and the winding-up proceeded "quietly, without any public excitement or disorganization of the business of the country, with a minimum of cost to the shareholders of the Ontario Bank, and without the loss of a dollar to either noteholders or depositors." Criminal charges were laid against both the General Manager and the President; the former was sentenced to Kingston Penitentiary, but the President was exonerated of complicity.

The Ontario Bank shareholders, however, instituted civil proceedings that extended over a period of years, resisting their double liability on the basis of the poorly defined duties of directors under the Bank Act. Eventually in 1910, on final appeal to the Privy Council, the shareholders of the Ontario Bank were denied their claim that the Bank of Montreal had financial responsibility to them in the liquidation of bank assets. As the *Financial Post* observed, the shareholders were in fact better off by at least half a million dollars because of the promptness with which the Bank of Montreal had acted in the face of the emergency.

Two more Quebec offices of the Bank of Montreal were opened in 1908 to serve communities affected by the failure of the Banque de St. Jean and the Banque de St. Hyacinthe. At St. Hyacinthe, the building of the failing bank was purchased for $20,000; the other branch was opened at St. Césaire, equidistant from St. Hyacinthe and St. Johns. These two failures were, however, of a minor nature compared to that of the Sovereign Bank, which had been established in Montreal as recently as 1902 with the support of the New York financier, J. P. Morgan, and the Dresdner Bank of Germany. Addicted to what were euphemistically referred to as "modern" banking methods, including "catchpenny means" of soliciting savings, the Sovereign Bank invited its own downfall by opening forty-three branches during 1906-7. In the last week of January, 1908, the Bank of Montreal, together with fourteen other Canadian banks, divided the institution's assets and liabilities amongst themselves according to the location of existing branches, thereby protecting Sovereign depositors. These arrangements were of little significance to the Bank of Montreal. The business of three branches of the Sovereign Bank was transferred to local branches of the Bank of Montreal, but only one new branch, that at Stirling, Ontario, was added to the system.

Of more significance to the Bank's over-all operations was the opening of a branch in Mexico City in 1906. The seeds of this manoeuvre had been sown about the turn of the century when the potentialities of the rapidly developing countries south of the Rio Grande, which had already attracted American, British and European capital, came to the attention of a prominent group of Canadian financiers. In 1902 James Ross, who had been one of the chief contractors on the main line of the C.P.R. and who had been elected a director of the Bank of Montreal in 1899 to represent reorganized Cape Breton iron and coal interests for which the Bank acted as underwriter, became President of the Mexican Light, Heat and Power Company. This same office would be occupied by both George Drummond and Edward Clouston during the next six years, and in 1905 the company appeared on the books of the Bank twice: first as the guarantor of a million-dollar underwriting that the Bank undertook for the Mexican Electric Light Company, and second as the recipient of a loan of $800,000. Aside from these transactions, the Bank also carried investments totalling a million dollars in the bonds and stocks of two other companies, the Rio de Janeiro Tramway, Light and Power Company and the Mexican Tramway and Electric Company.

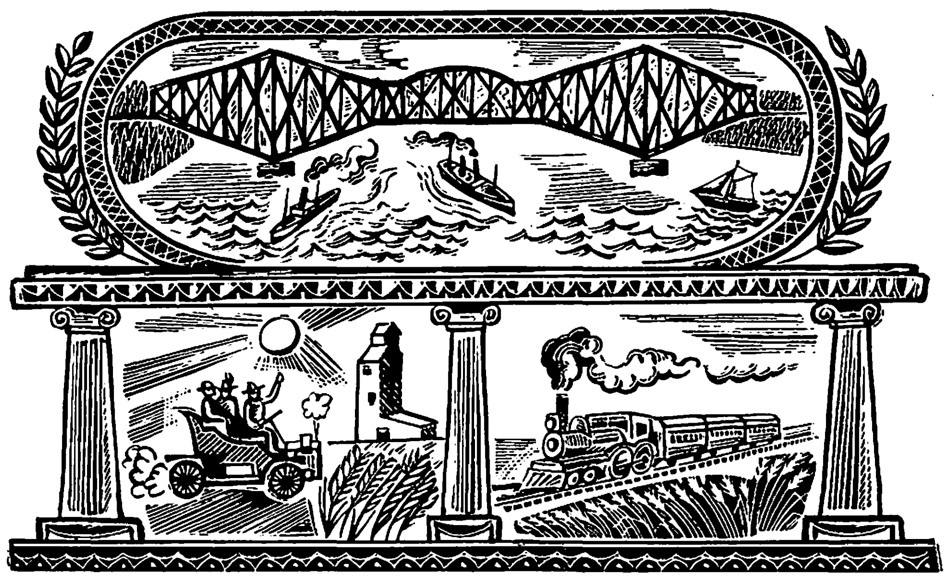
When, on May 6, 1906, the Bank of Montreal opened its doors in Mexico City for the first time, it could therefore hardly be counted a newcomer. Its offices were situated on the ground floor of one of the most impressive buildings in Mexico City, "La Mutua," then owned and administered by the Mutual Life Insurance Company. The country was still under the dictatorship of Porfirio Diaz who had been President since 1876, but the regime had been characterized not so much by severe despotism - although social conditions certainly deteriorated – as by material development and the steady growth of national income. In fact, so impressive was Mexico's economic outlook that even so shrewd an observer as Edward Clouston ventured on one occasion to suggest that Mexican investments were safer than those in Canada.

The Bank of Montreal was well prepared to take advantage of a situation necessitating a heavy business in foreign exchange, and so encouraging were the prospects that the Assistant Inspector, T. S. C. Saunders, a native of Guelph, Ontario, was sent as manager with a salary of $10,000 Mexican. His accountant, James Forsyth, was a man of considerable experience in the area, having formerly been the head bookkeeper of the Banco de Londres y Mexico; the remainder of the staff was made up of three young men who hailed from the British Isles. In addition, an Advisory Board along the same lines as the London Committee was established, consisting of J. J. Seligman, H. P. Hart and C. H. Cahan.

As a result of its first great period of amalgamations, general expansion in the west and the opening of strategic offices in other centres, the Bank of Montreal had by 1908 a total of 142 branches and agencies including Head Office. These were distributed as follows: British Columbia, 16; Alberta, 7; Saskatchewan, 3; Manitoba, 9; Ontario, 51; Quebec, 24; New Brunswick, 12; Prince Edward Island, 1; Nova Scotia, 12; Newfoundland, 2; United States, 3; Great Britain, 1; and Mexico, 1.

There were, however, particularly during the first decades of the twentieth century, reasons for considering branch expansions something of a mixed blessing. Edward Clouston was to remark in later years that there was a chance that branches would have to wait more than a year for their first deposits, a point elaborated by Sir Edmund Walker, for years the power behind the Canadian Bank of Commerce. Walker noted that in his experience western branches, especially, did not pay until the third year after opening and that it was only after the seventh year that a sufficient profit was made to recoup the losses of the first three years. Often the deciding factor in opening an office in a manufacturing district was, as Clouston admitted, the desire to protect head-office business, which might otherwise be tempted away by competing banks offering local amenities merely as a convenience to the manufacturer. Such reasoning led the directors to prefer amalgamations to the opening of new branches wherever possible, and the long delay in expansion in the Maritimes was well rewarded by the acquisition of established accounts and experienced personnel. The same procedure would be followed in the west, where the Bank of Montreal was not extensively represented until after World War I when it took over the Bank of British North America and the Merchants Bank of Canada, both pioneers in this area.

TWELVE



THE LONG-AWAITED BOOM

THE LONG-AWAITED BOOM

1.

The acquisition of eighty-nine branches between 1900 and 1908 was naturally accompanied by a substantial increase in the Bank of Montreal staff, not only to serve in the branches but also to supervise and co-ordinate the continually expanding system from Head Office. In the 1880's, before the west had begun to open up, the Bank had employed about three hundred men. This figure nearly doubled by 1900 and by 1908 there were well over a thousand in the Bank's service. As early as the annual meeting of 1901, the Vice-President, George Drummond, had noted that the head-office building overlooking Place d'Armes had become "very inadequate for the proper conduct of the business." A subsequent report condemned the aged structure as having "long been outgrown by the business of the Bank," which was being carried on under "crowded and most unsanitary conditions."

Nearly sixty years before, when the first banking house had outlived its usefulness, the question of location had been debated at some length. The problem, it may be recalled, was whether to rebuild on Place d'Armes or to follow the trend of business toward the east where the city fathers had decided to erect the ambitious Bonsecours Market. No such quandary existed in 1900. In the intervening decades, St. James Street had become identified as the financial heart of Canada, thanks mainly to the Bank's presence there, and the only matter to be determined was how to expand without disturbing the dignified Corinthian portico overlooking Maisonneuve's old battlefield. The simplest solution would have been to extend toward the west but the General Post Office occupied the plot of ground between the Bank and St. François Xavier Street, the former footpath that had led down to the "Little River" that now flowed beneath Craig Street to the so-called north. The remainder of the plot facing on Place d'Armes, occupied in 1847 by the City Bank and thereafter by the Canadian Pacific Railway and a succession of insurance companies, was either not available at an acceptable figure or was deemed unsuitable for the architectural purposes desired.

Further complicating any expansion within the existing street pattern was the presence of Fortification Lane, dating back to the days of the old walled city. Situated immediately behind the Bank's own property, the narrow artery served buildings facing on St. James and Craig streets, both thoroughfares cluttered with trolley cars, and the municipal corporation refused to close the lane for even so eminent a taxpayer as the Bank of Montreal. Across the lane there were two adjacent properties on Craig Street, "the Boxer property" and one belonging to the Canada Paper Company, that not only were available but also provided the area required, roughly two hundred feet in length by a hundred feet in depth. The plots were directly behind the existing banking house with a difference of twenty-five feet in grade between the levels of St. James and Craig streets. If the City would permit Fortification Lane to be bridged at the St. James Street level, it would become possible to more than double the size of the old building and at the same time make ample provision on the lower level for the new vaults, staff service rooms, and the power plant required for the contemplated expansion. Evidently no objections were raised by the City, for Minutes dated August 4, 1899, and January 19, 1900, noted the acquisition of the Craig Street properties.

Early in 1901 the firm of McKim, Mead and White of New York, then the leading architects in the United States, were invited to submit their recommendations for a solution to the design problem. Architectural drawings were completed within a few months, and on May 30 Norcross Brothers of Worcester, Massachusetts, signed a contract with the Bank of Montreal to proceed with construction work at an approximate cost of $574,000 and in accordance with the architects' plans and specifications. The latter called for extensions and alterations that would be completed in three complicated stages. The first included the excavations and foundations for the new extension on Craig Street, together with the shoring-up of walls and remodelling of the sub-surface areas under the old banking house, and the second, the construction of new banking chambers paralleling Craig Street, with a bridge over Fortification Lane to connect the old and new elements. The third stage was to be the gutting of the entire interior of the old structure, to provide not only for new office arrangements and circulation but also for the restoration of the Pantheon-like dome that had been a feature of the 1847 building but had been removed in the 1850's because of structural weaknesses. Unlike the original, which had been made of wood, the new dome was to be constructed of formed Gustavino tile, necessitating the introduction of steel columns and floor beams to strengthen the original stone masonry. Work was begun soon after the signing of the contract, with James P. Anglin, later to become the head of one of Canada's great construction firms, as the clerk of works for the contractors, Andrew T. Taylor as the associated resident architect, and a building committee of the Bank consisting of Hon. George A. Drummond, R. B. Angus and James Ross.

From the meagre records that have survived, it is evident that a number of problems were encountered at the beginning as a result of inaccurate descriptions of the Craig Street properties and insufficient examination of the nature of the sub-soil. Neither of these shortcomings was uncommon in Montreal; nevertheless, they and other matters gave rise to a lengthy and somewhat acrimonious exchange of correspondence between the contractors and the associated architects, and before the difficulties could be straightened out they had delayed the progress of construction throughout the summer of 1901. Thereafter the work appears to have proceeded without interruption or delay until its completion in the autumn of 1905. The fact that the business of the Bank was conducted without a break during the four years of construction leaves one to ponder the ingenuity and patience that surmounted the multifarious problems of management that must have arisen.

The new head office of the Bank of Montreal was accorded prominent coverage by a leading American architectural magazine in an article dealing with the history and social significance of bank designs, and at a later date it was described by a partner of McKim, Mead and White as "probably the largest, and architecturally the most monumental, bank building in the world." While this estimate appears somewhat exaggerated, the Bank of Montreal could certainly have boasted possession of one of the largest and most splendid single banking chambers in the world, an architectural achievement unrivalled in Canada at the time.

The principal feature, and the one in which the mastery of McKim, Mead and White shows to the greatest advantage, is the great banking room, with dimensions more comparable to those of a railway-station concourse than to the size of any earlier banking structure in North America – 172 feet long, 84 feet wide, and 56 feet from floor to ceiling. Inspired by the churches of Santa Maria Maggiore and San Paolo Fuori in Italy, the huge enclosure takes the form of a Roman basilica divided into three similar architectural units. The style is Italian Renaissance and the detail is treated with the classical purity that McKim, Mead and White had made their trademark.

The main floor area is surrounded by a colonnade of thirty-two Corinthian columns, thirty-one feet high, of polished green syenite obtained from a Vermont quarry bought and opened by Norcross Brothers especially for the purpose. In its polished state, the material reveals many of the qualities of ancient porphyry. The bases are of black Belgian marble, the capitals of solid bronze plated with gold leaf, and the columns are arranged in groups of four along the sides and ends. Each group is separated from the next by massive piers of pink Knoxville marble, and an entablature of the same material surrounds the entire room above an ornamented cornice. Light is obtained through great windows behind the columns that flank the Craig Street wall and by a clerestory encircling the entire chamber beneath a richly coffered ceiling.

When completed in 1905, the main banking floor was divided along its entire length by a marble counter, surmounted by a bronze screen which has since been removed but which at the time was the longest in the world. In a commentary written before his death in 1906, Stanford White, who was probably the principal designer, made the following observations: "It has been the aim throughout, in the interior treatment of the building, to obtain an effect of extreme simplicity and dignity. The materials are of the finest quality and finish. By the use of a few materials, however, in large masses, great breadth has been obtained, and the general effect of grandeur is principally due to the large scale and frequent repetition of the individual units. . . . The colour scheme has consequently been a simple one of three colours – the mauve tone of the pink Knoxville marble, the gold of the caps and the green of the columns."

Entrance to the main chamber is provided by a corridor that bridges Fortification Lane and was originally constructed as an atrium but later was widened into a propylaeum. It is bordered by groups of syenite columns at the sides and ends forming a peristyle, but these columns are in the Ionic order and smaller in both size and scale than the Corinthian, providing a lower ceiling height than in the banking room proper. Three broad steps divided by syenite columns lead down to the new entrance rotunda in what was the centre of the banking house of 1847. Giving access to executive offices, the rotunda is faced with Knoxville marble to the first storey, above which are two white marble galleries leading into other offices in which the management of the branch system was conducted for more than fifty years. Crowning the whole rotunda and reaching to a height of ninety feet above the floor is the dome, faced in white marble and patterned in the manner of a Roman mosaic.

The offices of the President and General Manager flanked the entrance vestibule on either side and were panelled in mahogany with marble mantels of great simplicity and strength. The board room on the floor above was somewhat more elaborate, with English oak pilastered and panelled walls, and a main entrance doorway richly framed in black and gold marble. Notwithstanding the grandeur of the interior, the most distinguished architectural feature of the McKim, Mead and White addition is held by many critics to be the Craig Street elevation. Recognized as possibly the finest classical façade in Canada, the extension is treated in the Doric idiom and built entirely of Chelmsford granite. There are no openings for a height of seventeen feet above the ground and, with its deeply incised stone coursings and heavy bronze window grills, the whole conveys a sense of strength, security and dignity identical with that of the great Florentine palaces that housed the bankers of an earlier age.

In notifying the shareholders of the Bank's plans for expansion and remodelling at the annual meeting of 1902, George Drummond had assured them that "the addition is on a considerable scale, and will, it is hoped, suffice for the wants of the bank for years to come. Large as it is," he continued, "it is not more in advance of our present wants than our present structure was when erected to the conditions then existing." The old building had fulfilled the needs of the Bank for nearly fifty-five years, and the new one housed the ever-increasing staff until 1960, another fifty-five years after its completion in 1905. In 1960, a seventeen-storey building was erected between the older edifice and St. François Xavier Street, on the site of the Bank's first permanent home

RANCHING IN ALBERTA
EARLY 1900'S

In the early years of settlement, even before the arrival of the railway, cattle ranches had made their appearance in the southern part of the territory that was to become the Province of Alberta in 1905. Homesteaders arrived with the railways, but their farming endeavours were limited by the semi-arid climate, and great herds of cattle continued to roam over most of the territory. Today, southern Alberta and southwestern Saskatchewan form the centre of Canada's beef-cattle industry and over 900,000 head of cattle graze off the indigenous drought-resistent grasses.

The land is largely rolling plain, but astride the southern Alberta-Saskatchewan boundary lies a rugged section of country about two thousand square miles in area known as the Cypress Hills. Deeply scarred by gulches and wash-outs, the area is about one thousand feet higher than the surrounding plains and this difference in elevation is enough to cause an appreciably greater annual precipitation. Sheltered valleys provide good protection for the cattle during the winter months and the warm Chinook winds help to prolong the period of grazing.

This painting of the Cypress Hills in the first years of the twentieth century shows an October cattle drive leaving a ranch nestled in a long coulee leading south to the Milk River. The herd, made up largely of cross-breeds from Shorthorn and Hereford stock, is starting what will probably be a two-day trek to the railway yards at Medicine Hat, there to entrain for the markets of Eastern Canada or shipment overseas.

Painting by Robert D. Symons


R.D.Symons

built in 1819. Upon its completion the new building became the Head Office of the Bank while the 1847 domed edifice and its 1905 addition continued as Montreal Branch, or Main Office, the central branch of the Bank of Montreal system.

2.

Fittingly enough, the first annual meeting to be held in the splendid new banking quarters on St. James Street heralded the election of a new chief executive officer. The next day, December 5, 1905, Sir George Drummond became the thirteenth president of the Bank of Montreal.

The outgoing president, Lord Strathcona, had been appointed High Commissioner in London in 1896 and his absence from Montreal had been something of an enigma for the Bank. Although already holding innumerable positions in private business, academic institutions, military organizations, hospitals and various societies, Lord Strathcona had seized on his diplomatic appointment as an opportunity to shoulder new responsibilities for the promotion and development of Canada. He took an active interest in Laurier's immigration program and lent his services wherever he could. At the same time his work in attracting British investment for Canadian enterprise was unfailing, and certainly contributed to the operations of the Bank of Montreal.

As far back as the annual meeting of 1898, however, a shareholder of disputatious cast had raised questions "about our highly esteemed though absent President." The Honourable George Drummond as chairman had been obliged to reply, "I would very gladly give any information on that point, if I possessed it; but I don't. I have no knowledge of the intentions of Lord Strathcona, but I may point out to you that he is a member of the London Board, and his abilities are at the service of the Bank in all matters . . . so that he is not lost to us."

Here the matter rested for several years, with Drummond, who was knighted in 1904, acting as *de facto* president and Lord Strathcona being dissuaded from resigning the presidency despite his heavy load of diplomatic duties. A compromise of sorts was arranged in June, 1900, when the Board decided that "in view of the increased labour and responsibility devolving upon the latter [the Vice-President] in consequence of the residence of the former [the President] in England," the total annual remuneration of $10,000 for these two posts should be divided equally, "subject to reconsideration if objected to by them, or either of them." This arrangement apparently proved satisfactory until 1904 when, at the insistence of Lord Strathcona, the Board finally decided to replace him, having arrived at the happy solution of making him Honorary President.

An amendment to the Bank Act in 1905 provided the necessary sanction. The number of directors, which had been previously restricted by law to nine, was now virtually left to the discretion of the shareholders and, at the December annual meeting, Sir George Drummond moved that "it is advisable to increase the present board of nine directors to ten" and that "the Directors may also at their first meeting, elect by ballot one of their number to be honorary president." Both motions being carried, a third was then unanimously and cordially adopted, expressing pride at having had Lord Strathcona as president of the Bank, "very great regret" because "the connection is to be to a certain extent severed," and also pleasure "that his name will still be associated with this institution." Lord Strathcona remained Honorary President until his death in 1914.

The new president of the Bank was Sir George Drummond, who had been a director since 1882 and Vice-President since 1887. Although he had emigrated from a nation committed to the philosophy of free trade, Sir George had become convinced by his early experience in Canada's sugar industry that his new country needed protective tariffs. As a close friend of Sir John A. Macdonald and Sir Charles Tupper he had been one of the architects of the National Policy and in 1888 he was appointed to the Senate where he became chairman of the standing committee on banking and commerce. Holding interests in many fields of business and having been President of the Montreal Board of Trade, he was well qualified for his parliamentary task. It was said, in fact, that "his opinions relating to matters of financial import were received without question . . . and when Senator Drummond had spoken upon a question of this kind there was a general consensus of opinion that little remained to be said."

Drummond's successor in the vice-presidency was Edward Clouston, the General Manager, who, at the annual meeting on December 4, 1905, had been the shareholders' choice as the tenth member of the Board. Of the eight other directors who now constituted the Board only two, Hon. Robert Mackay and R. G. Reid, had been appointed since the turn of the century. A. T. Paterson (elected in 1881), E. B. Greenshields (1886), Sir William Macdonald (1887), R. B. Angus (1891), and James Ross (1899) along with Lord Strathcona (1872) completed the group of experienced commercial and industrial leaders at the helm of the Bank.

Since the turn of the century the Bank's assets had more than doubled, from \$78,852,197 in 1900 to \$158,232,410 in 1905. This rate of growth was slightly in excess of that of the Canadian chartered banking system as a whole, the assets of which had risen from $430 million to $812 million. While the increase of about sixty-five per cent in the Bank's loans and discounts (to $88,591,794) was comparable to that of all banks, its placing of call loans in the United States and Britain was pursued on a scale unthought of by its rivals, so that by 1905 the Bank of Montreal total of almost $40 million represented two-thirds of all such loans by Canadian banks. Its liquid assets, consisting of gold, silver, Dominion notes and statutory deposit with the federal government, more than doubled from $5.4 million to $12.8 million, in keeping with an increase in note circulation from $6.2 million to $13 million and a rise of 126 per cent in deposits from $52.6 million to $119.2 million. The corresponding figures for deposits in all banks were $282 million in 1900 and $557 million in 1905, indicating that the Bank of Montreal share had increased slightly and that with an even one hundred of the country's 1,454 bank branches in 1905 it held some twenty-one per cent of all deposits. While some of this growth was attributable to the amalgamations undertaken by the Bank of Montreal, it also reflected the phenomenal expansion of the Canadian economy.

As previously noted, the upturn in Canada's fortunes began about 1896 and proceeded in three well-defined stages that coincided rather neatly with the victories of the Liberal Party in the federal elections of 1896, 1900 and 1904, but whether the transformation was the result of a changing world environment or of Canadian initiative and leadership will always remain a moot question. Social and economic conditions in the British Isles and Europe, in conjunction with the availability of unoccupied cheap land on other continents, were certainly responsible for the vast flood of emigration that characterized the opening decade of the twentieth century. On the other hand, Canada was only one of a dozen or more countries competing for immigrants to fill its empty spaces. Historians are generally agreed, therefore, that without the relentless drive and extraordinary salesmanship of the Honourable Clifford Sifton the Dominion might not have been able to attract all of the 2,793,742 newcomers that it did between 1900 and the outbreak of World War I.

But some factor other than European population pressures or Sifton's colonizing genius is required to explain the phenomenal acceleration of Canada's development. Such a factor can be readily discerned in the prodigious railway expansion inaugurated in 1903. As in the 1840's, when the first St. Lawrence canal system was completed, and the 1850's, when the first railway-building boom occurred, so in the first decade of the twentieth century a gigantic public works project, undertaken by the government in defiance of its classical role in the economy, was the means by which Canada was able to obtain the transfusions of foreign capital required to produce one of the greatest booms ever experienced by any country.

The *deus ex machina* of the mighty incentive, indeed its "onlie begetter" in the opinion of railway historian G. R. Stevens, was Sir Wilfrid Laurier. The same author suggests the motives "included a modicum of economic necessity, substantial political inducements, and a measure of personal vanity." Whatever they may have been, the result was not one but two new transcontinental railways, the Canadian Northern and the Grand Trunk Pacific - National Transcontinental. Although Laurier went to the people in 1904 with the proposition that the need for his railway program was more important than the cost, the fact remains that the two lines involved expenditures of more than $700 million, most of which was borne by the government and hence the people. Whether this railway bonanza was an expression of egregious folly or of political and economic vision is a debatable question. But it gave Canada a railway grid of over forty thousand miles, the most extensive per capita transportation system on earth, and its invigorating effects on the economy are incontestable. In the west, two new provinces were created, a checkerboard of municipalities was established between Winnipeg and the Rockies, farm acreage was quadrupled and wheat production rose from 72,000,000 bushels in 1904 to 231,000,000 in 1911. At the turn of the century Saskatoon had been a huddle of tents and sod huts with a population of 113; in 1911 it was a city of 12,000. In the course of the same decade, Winnipeg grew from 42,340 to 128,000 and Edmonton from 2,626 to 25,000. Nor was the surge confined to the west alone. For every homesteader, machinery, groceries and dry goods had to be provided; for every incipient boom town, lumber, tools, primitive services, roads and other basic municipal works were needed. In response to these and other demands eastern manufacturing expanded, the governments of Quebec and Ontario and private entrepreneurs, in command of new techniques, began the conquest of the Shield, and municipalities, bursting their nineteenth-century boundaries, sought new capital to modernize obsolete facilities and cope with the impact of the automobile.

3.

In the context of the historical development of the Bank of Montreal, less interest is attached to the actual building of the new railways than to the incentive their construction gave to both domestic and foreign investment. For instance, the *Financial Times* estimated that British investment in Canada between 1906 and 1913 increased by £246,278,200, of which more than fifty per cent was negotiated by the Bank of Montreal. Canadian credit was so well established that many issues were floated on terms as good as those enjoyed by European governments. Canadian towns of comparatively small population could borrow at 4½ per cent "to the envy of cities twenty times their size in the United States, South America, and elsewhere." Such conditions were unique in Canadian fiscal history and reflected British confidence in the Dominion as a field of investment, but they also coincided with a world-wide outflow of British capital that had been accumulating during the nineteenth century.

The Bank of Montreal, while profiting from this ready availability of funds, persistently sounded cautionary warnings. Too many of the directors could remember from their own experience the calamitous consequences of other inflationary booms in Great Britain, the United States, the Argentine and Australia. Even in 1903, when the brew of prosperity had yet to become fully intoxicating, Bank of Montreal shareholders were reminded that any forecast "should also be compelled to enforce the counsels of prudence and economy"; in 1905 the advice was given that "the abounding prosperity of our country should be prudently accepted and used"; and after the Ontario Bank failure in 1906, Edward Clouston warned:

> It would be contrary to all experience to hope for an unbroken continuance of the present condition of prosperity – periods of reaction and of suspended enterprise may be expected, but we may be assured that the surest means of postponing their coming and dealing with the bad times when they come, is the exercise of prudence and caution in prosperous times like the present.

Before the next annual meeting the Knickerbocker Trust Company of New York had suspended payments and it seemed that Clouston's worst forebodings would be realized.

In New York, security prices had experienced erratic declines throughout 1907 and after the trust company closed its doors in October they suffered a further slump. Speculators who had been buying on margin were unable to pay for their shares, and runs began on banks and trust companies as frightened depositors sought to protect themselves. The rate on call loans soared and currency became almost impossible to obtain. The Chicago agency of the Bank of Montreal, for instance, had to come to the aid of mid-western banks by bringing in currency from Canada. By the speedy action of the federal Department of the Treasury, aided by J. P. Morgan, however, the crisis was averted before it could reach disastrous proportions and spread throughout the economy. "It was," as Sir George Drummond said, "only consistent with all previous experience, and apparently inevitable, that a reaction should come."

The Canadian banks were not caught unprepared. They had sensed the weakening of the Wall Street market and were well aware of the effects that the activities of speculators could produce. "Early in the year," Clouston told the Bank of Montreal shareholders at their annual meeting in December, 1907, "in view of the approaching stringency in the money markets of the world, we slightly advanced our rates of discount, not so much with a desire to increase our profits, but more to give a practical indication to our customers of our expectations of the trend of financial affairs, and to impress upon them that in the conduct of their business they must bear it in mind, and govern themselves accordingly."

Despite the "conflagration raging next door," the Board of the Bank of Montreal displayed an air of confidence, the President pointing out that "consumptive demand has been good, and the excellent business of the early part of the year has shown little abatement up to the present time." This attitude was well founded for Sir George Drummond was able to confirm a year later that although imports had fallen off some twenty per cent, domestic exports had been "well maintained."

The stability of Canadian exports calls for some explanation since the American crisis had occurred in October at the very moment when the Canadian wheat crop of 1907 was beginning to move. The harvest had been late because of slow ripening and the government had to call for the co-operation of the banks in readying it for export. Although the banks had drawn upon their foreign call loans to the extent of $23 million in order to increase domestic discounts by $48 million, the emergency use of their notes in the United States seriously hampered their operations at a time when their issues customarily reached a seasonal peak.

Temporary relief was offered on November 12, 1907, when the Minister of Finance boldly announced a new issue of Dominion notes, not to exceed a total of ten million dollars, which could be advanced against the deposit of acceptable securities to those banks financing the grain trade. The Bank of

Montreal was charged with the responsibility of acting as government agent for the advances, but only $5,115,000 of the notes were actually taken for use. Nevertheless this was sufficient to enable the country's staple export to be moved smoothly to market, and the efficacy of the action could not be disputed.

The relative severity of the crisis in the United States and in Canada may be judged by the reactions of the respective governments. While the resultant financial legislation in Canada was confined to a temporary extension of the banks' note issue, the United States government was prompted to set up the National Monetary Commission which prepared a comprehensive report of over thirty volumes, discussing not only that country's banking system but also those of every major foreign country, in search of a way to strengthen the nation's financial structure. The Commission's findings eventually resulted in the establishment of closer federal control over American banking through the Federal Reserve System. In Canada, on the other hand, the government decided to refrain from further interference, simply amending the Bank Act to permit the banks automatically to issue additional notes up to fifteen per cent of their combined capital and Rest during the crop-moving season from October 1 to January 31. For the remaining eight months of each year circulation was limited, as formerly, to an amount equal to paid-up capital. The amendment became law in July 1908, and a tax of five per cent per annum was imposed on the excess note issue.

Clouston felt that the provision would be little used, suggesting that "the increased number of branch banks in the country has become an important factor in assisting the crop movement, giving the farmer quick payment for his grain and aiding the prompt deposit of its proceeds. Thus circulation is returned to the banks with little delay, enabling them to re-issue notes and taking them out of the pockets of the farmers, where, in former years, they became locked up."

Public policy was, of course, the province of politicians, but this did not deter the Bank of Montreal from counselling moderation. In a letter to Laurier in 1908, Clouston urged the Prime Minister to curb federal expenditures by putting an end to further railway subsidies, by curtailing work on the Grand Trunk Pacific - National Transcontinental, and as a final touch, by either selling or leasing the Intercolonial line between Halifax and its junction with the Grand Trunk. In his reply Laurier agreed that railway expenditures did now seem excessive, but under existing circumstances he felt that he could not take such drastic steps as those proposed.

As bankers not only for the government but also for the C.P.R. and the Grand Trunk, the Bank of Montreal was placed in a curious position throughout the second transcontinental railway era. While advocating restraint, the directors were really in no position to refuse participation in the various bond issues that financed the expansion, and the Bank's portfolio of "railway and other bonds, debentures and stocks" more than doubled between 1904 and 1910.

While the crisis of 1907 had caused a slight decrease in the Bank's assets, their growth was only temporarily impeded and by 1909 they had passed the $200-million mark. There can be no doubt, however, that the crisis had left its mark. Before 1907 increases in loans and discounts had been a major component of the growth in total assets. After 1907 loans and discounts actually began a short decline but their decrease was more than offset by increases in call loans in the United States and Great Britain. In conjunction with additions of a million dollars to the Rest in both 1906 and 1908, bringing it to twelve million dollars, the larger proportion of funds allocated to the short-term call market would indicate that the directors were somewhat concerned over the soundness of the prevailing business expansion and wished to protect themselves with as large liquid reserves as possible. This concern was spelled out to the shareholders at their annual meetings in 1908, 1909 and 1910 in the form of warnings against real-estate speculation and living too extravagantly, and even the unpleasant prospect of having to report lower profits to the shareholders failed to shake the Board from its conservative policies.

Another recurrent theme over these years was the increase in the Bank's deposits, which grew from $119 million in 1905 to nearly $200 million in 1910. While some of the increase was the natural result of an expanding economy, a substantial part was attributed by the General Manager to the inflow of foreign funds. In line with its policy of maintaining a relatively large liquid reserve, the Bank doubled its holdings of cash to $10 million and increased its call loans to $62 million. Despite the Board's difficult position vis-à-vis the railways, and Clouston's call for a curtailment of expenditures on them, the Bank's holdings of railway and corporate bonds reached a total of $19 million in 1910. By then loans and discounts had recovered from their temporary decline and had increased to $112 million, while total assets stood at close to $240 million, a growth of forty-five per cent since the crisis of 1907.

From the shareholders' point of view, the Bank's progress was satisfactory but not exciting. Not only was the Bank keeping a relatively large proportion of its funds in low-yielding call loans, but it was also charging the cost of all new buildings against current revenues. This was being done, the shareholders were told in 1910, because "the Directors have been indisposed to burden their Assets with any large item that could not be promptly converted into cash." Thus, the bank premises account remained at $600,000 while about $700,000 a year was taken out of current earnings to provide new offices and modernize old ones. In view of this situation Clouston had to admit that although he had been looking forward to granting the shareholders a bonus, it was just not feasible. Instead they had to be content with a dividend of ten per cent, a rate which had been maintained since 1888 and paid quarterly since 1906.

4.

The death of Sir George Drummond in February, 1910, marked the first break in the executive of the Bank of Montreal that had occurred in more than a decade. In the course of the fourteen years in which Drummond had served as president, either in his own right or as Lord Strathcona's deputy, he had guided the Bank through one of the most dynamic periods of growth that Canada has ever known. According to a contemporary historian, "his attention to the interests of the bank was as marked when the financial atmosphere was serene as when there were lowering clouds on the horizon. His attitude at the annual bank meetings was the personification of tact and courtesy, and his able addresses on such occasions, uttered as they were with a practiced finger resting upon the financial and commercial pulse of the continent, were read by Wall Street and London as eagerly as by the public men and bankers of his own country."

Although best known for his role at the Bank and as an officer of more than half a dozen other companies, Sir George also found time to devote himself to such diverse interests as stock-breeding, collecting works of art, education, and benefactions in a dozen different fields. In pursuing these avocations he joined that remarkable generation of Montrealers whose philanthropies and leadership contributed so greatly to the culture of the Canadian metropolis.

More than five months elapsed before H. V. Meredith, then Assistant General Manager, was elected a director to fill the vacancy on the Board left by Drummond's death. At the same meeting in July Richard B. Angus was chosen as the fourteenth president. Trained in banking in Manchester, he had served the Bank of Montreal as agent in Chicago and New York before becoming General Manager in 1869 at the comparatively youthful age of thirty-eight. Although he was obviously marked as presidential material, he resigned from the Bank in 1879 to become General Manager of the St. Paul, Minneapolis and Manitoba Railroad at the behest of George Stephen and Donald Smith. Two years later he joined the syndicate they formed with James J. Hill and others to build the Canadian Pacific Railway. He became a director and member of the Executive Committee of the railway and in 1891 rejoined the Bank of Montreal as a director. Railways, of course, were the source of his fortune and the C.P.R. remained a principal interest throughout his life, but he was always careful to avoid putting all his eggs in one basket, a trait which worked to the benefit of such other Canadian industries as coal and steel, electric power, and pulp and paper. In common with his contemporary Andrew Carnegie, he was an example of that Scottish duality that combined shrewd business ability with almost prodigal generosity.

Addressing the shareholders at the annual meeting in December, 1910, President Angus remarked that "it was deemed advisable that I should, for a time, occupy the chair," suggesting that he regarded his tenure as impermanent. This indeed proved to be the case, for he gave up the post in 1913, two and a half years later, but continued as an active member of the Board until his death in September, 1922, at the age of ninety-one. During the first year and a half of his incumbency, the main responsibility for managing the Bank's affairs continued to be borne by Sir Edward Clouston. As general manager since 1891 Clouston had manoeuvred the business of the corporation around the final pitfalls of "the long depression" and as both vice-president and general manager since 1905 he had guided the institution to new pinnacles of success. Recognition of Clouston's outstanding career had come in 1908 when he was created baronet, an honour that he disclaimed as personal, attributing it to "the position I occupy – I was chief executive officer of this Bank and also president of the Bankers' Association – it is an honor to the Bank of Montreal and to the Canadian Bankers' Association."

It was only natural that considerable conjecture should have arisen when the sixty-one-year-old banker was not named as Drummond's successor to the presidency in 1910. Under the existing circumstances, however, it is possible that neither Clouston nor the Board felt they could afford the change. For Clouston it would have meant not only a loss of power but also a considerable reduction in salary, from about $35,000 with bonuses as general manager to $6,000 as president; for the Board, since there was no precedent for combining the two offices, it would have meant the sacrifice of an experienced and immensely competent chief officer at a time when the Bank's affairs called for the ablest guidance that could be brought to bear upon them. Not only was the boom in western Canada exhibiting inflationary tendencies through real-estate speculation but in addition a most unfortunate situation had suddenly arisen in the Bank's branch in Mexico City.

Begun with such promise in 1906, the Mexican office had prospered remarkably until the latter part of 1908 when changes in the directorates of the utility companies that had been responsible for its establishment brought about a transference of banking connections. While this realignment of interests resulted in a certain loss of business for the Bank of Montreal, its position as the leading source of foreign exchange on New York, London, Paris and Madrid remained unchallenged. Mexico was then approaching the end of its first century of freedom from Spanish rule and in 1910 the celebrations of the event were on a scale that attracted world attention. But Mexico was also on the eve of revolution, induced by the thirty-five-year dictatorship of Porfirio Diaz, and the United States Banking Corporation, which had been established in Mexico at the turn of the century by a Canadian from Napanee, Ontario, George I. Ham, found itself in grave difficulties because of its political entanglements. The corporation carried an account with the Bank of Montreal and in its extremity called on the Canadian institution for assistance. The request was met promptly not only with notes and specie but also, so the story goes, with a notice, posted by a member of the Bank's staff acting on his own initiative, to the effect that the Bank of Montreal would support its distressed competitor to the hilt.

The run was stopped but the United States Banking Corporation went into bankruptcy leaving the Bank of Montreal with no alternative but to discharge debts that promised to amount to millions of dollars. When rumours exaggerating the magnitude of the failure reached Montreal, some nervous depositors withdrew their money from the Bank and one of the suburban branches experienced a brief run. Supplies of bank-notes sent from Head Office and piled up behind the teller's wicket soon dispelled public anxiety but in Mexico the Bank's problems were not so easily solved. Revolution rapidly changed to civil war, and financial chaos prevailed for most of the ensuing decade. In consequence several years elapsed before the affairs of the United States Banking Corporation were finally liquidated. The cost to the Bank of Montreal was high: in 1910 over three million dollars had to be appropriated to cover bad and doubtful debts, and while similar appropriations in 1911 amounted to only half a million dollars, a further $1.7 million was reserved against the liabilities incurred in Mexico which had been placed in the hands of the Compania Territorial Mexicana S.A., a subsidiary of the Bank incorporated specifically to administer the liquidation.

Another exceptional item to appear in the Bank's list of appropriations for 1911 carried the abbreviated notation "N. West'r" beside it. On September 15, thieves, having ascertained that a large amount of wage money would be at the Bank at the height of hop-picking and the salmon run, broke through the front door of the branch at New Westminster, B.C., in the early hours of the morning, blew open the safe and escaped with a record haul of $271,721 in notes and gold. So weighted down with their treasure were the robbers that they found it necessary to hide one bar of gold under a wooden sidewalk nearby, and on the outskirts of town they threw five thousand dollars worth of bank-notes off a bridge spanning a ravine. The police, alerted by a Chinese caretaker, who had escaped after being seized and bound when he appeared at the Bank at his usual hour of 4 a.m., arrived to find the building still full of smoke from the charge used on the safe, but despite their brief head start, and despite the large rewards offered by the Bank for their apprehension, some time elapsed before the thieves were captured. Although they had managed to dispose of many of the bills in various American cities, some as far away as Detroit and Chicago, one of the robbers still had some of the stolen ten-dollar gold pieces on his person when he was arrested. His green leather money belt, which now occupies a place of rather dubious merit amongst the banking relics in the museum at Head Office, still bears the imprint of the old coins.

The Bank, however, was able to provide for both its New Westminster and Mexican losses by drawing on its contingent account, or "hidden reserves," to the extent of nearly two million dollars. Since inner reserves were not made public, neither the shareholders nor the customers of the Bank were caused any more uneasiness than that already noted. With no public loss of confidence in its stability, the Bank of Montreal was able to continue normal operations and its current earnings permitted the maintenance of its ten-per-cent dividend.

Of more lasting interest than these afflictions of the Bank of Montreal were the proceedings of the National Monetary Commission of the United States. Instituted by Senator Nelson W. Aldrich to determine the causes of the American banking crisis of 1907, the Commission conducted the most searching and perceptive examination of banking that had yet been undertaken in the United States. Two of its features were a report on Canadian banking submitted by Roeliff M. Breckenridge, whose earlier work, *The Canadian Banking System*, *1817-1890*, has been frequently referred to in these pages, and the testimonies given by a number of leading Canadian bankers, including Sir Edward Clouston and H. V. Meredith.

While Meredith was questioned mostly in his capacity as a director of the Royal Trust Company, Clouston was called on to give extensive evidence covering both Canadian banking legislation and the operations of the Bank of Montreal, especially with reference to note circulation, reserve policies and the Bank's relationship with the government. Noting that the Bank of Montreal held much greater reserves of Dominion notes than were required by law, and also that it kept a much larger proportion of its assets in New York call loans (as a means of acquiring gold) than any other bank, one of the commissioners commented: "You really act as the central bank here, do you not?" Clouston replied: "We do not wish to claim the position, but we are forced into it very often."

The findings of the National Monetary Commission led to the publication of the "Aldrich Plan" in 1911, and to the Federal Reserve Act of 1913, which gave the United States a central banking system and greatly strengthened the American banking structure. While the Bank of Montreal was affected only indirectly at the time, the Commission's report on the success and stability of the Canadian branch banking system undoubtedly encouraged the northward flow of American investment capital that had begun to augment the influx from Britain.

One reflection of the increased dealings between New York and Canada at this time was the purchase of an eleven-storey office building at 64 and 66 Wall Street by the Bank of Montreal in 1909 for a price of $800,000. Because the Bank could not hold real estate under New York law, the Hochelaga Realty and Development Company was incorporated in the United States, the entire capital of this subsidiary being held by the Bank of Montreal and appearing on its books at the nominal value of one dollar. The move by the New York agency in 1910 was only its second since 1869, the first having occurred in 1906 when the offices were transferred from 59 Wall Street to 31 Pine Street. In 1916 it would again be found necessary to acquire larger office space and the lot next to the existing offices was then purchased for the construction of an annex. The location of this addition, at 68 Wall Street, was the site of the famous buttonwood tree under which the New York brokers first traded stocks in 1792, the same year in which John Richardson made his initial attempt to establish the Bank of Montreal. The Bank's agency did not move from this historic address until 1959 when the twenty-one-storey "Tiffany of Wall Street" was acquired at the corner of Broadway facing old Trinity Church.

While the Canadian economy continued to gather momentum, the Dominion, paradoxically, experienced the most decisive political upset in its relatively short history – the defeat of the Laurier government on the issue of reciprocity. Before the elections in late September, 1911, the Liberal Party held 133 seats to 85 for the Conservatives (three independent members making up the balance); when the votes were counted, the position of the major parties was almost precisely the reverse. Responsible for the outcome were past resentments toward the United States and a state of economic euphoria that fostered delusions of financial self-sufficiency, the Conservative strategy being based on the trenchant slogan, "No truck nor trade with the Yankees," emblazoned on twenty-four-sheet billboards from coast to coast. Robert Borden, a Halifax lawyer who had risen from relative obscurity to become leader of the Conservative Party in 1901, succeeded Sir Wilfrid Laurier as Prime Minister, and Hon. Thomas White replaced Hon. W. S. Fielding as Minister of Finance, but the change in government had no discernible effect on the boom conditions then prevailing.

Indeed, the year 1911 brought unprecedented prosperity to every sector of the Canadian economy and almost every region in the Dominion. As President Angus affirmed in his annual address on December 4, "manufacturers have been fully occupied and new industries of every description are springing up in all parts of the Dominion." The wheat crop of 231,000,000 bushels exceeded the previous record set in 1909 by nearly forty per cent. Immigration had risen to nearly 350,000, an increase of 56,000 over the previous banner year, "railway construction especially in the Northwest" continued "to manifest great activity" and "the mines in Ontario" had been "wonderfully productive." The President in fact found but one cloud in an otherwise perfect sky, "the real estate transactions which in some districts savour too much of speculation." He observed that "in Montreal and other large Eastern cities prices have long been in a measure dormant, until recently when the public suddenly realised the necessity of providing homes and commercial buildings for the vastly increased population." The extent of the sudden interest in building is dramatically exposed by estimates of total new and repair construction in Canada. Between 1900 and 1909 annual expenditures in this field increased from $119 million to $396 million, an average increase of about $30 million a year. In 1910 construction expenditures rose to $453 million, nearly double the previous annual average increase; the next year they totalled $535 million and in 1912 they reached a peak of $597 million. This, of course, was only part of a gross domestic investment which has been estimated at $3.8 billion for 1901-10, a period over which the country's aggregate Gross National Product probably exceeded $14 billion.

So great was the expansion of business in Canada that the directors of the Bank of Montreal began to feel a squeeze on their note issue. Despite Clouston's earlier predictions, it began to approach the statutory limit equal to the paid-up capital of $14,400,000 and the directors recommended "the increase of the Capital Stock of the Bank by the sum of one million six hundred thousand dollars ($1,600,000) divided into sixteen thousand (16,000) shares of one hundred dollars ($100) each." The requisite special meeting of the shareholders was held on September 5, 1911, and on October 13, the Treasury Board's formal approval having been obtained, the directors met to authorize the arrangements for allotment of the new issue. The Royal Trust Company was again the Bank's agent for the distribution, except in the case of those holding stock on the London Register who were to make payments at the Bank's offices there. By the time of the annual meeting, $1,013,000 of the new stock had been subscribed for at a premium of $139 per $100 share, and the paid-up capital had been brought to $14,887,570.

Despite the prolongation of its Mexican difficulties, the Bank of Montreal was able to report unprecedented net profits of $2,276,519 for the twelve months ending October 31, 1911. To these were added $365,677, representing the premiums on the new stock, and also $3.4 million as a result of a change in policy regarding the bank premises account. A conservative valuation of the Bank's buildings had been made and when it showed the premises and the land they stood on to be worth $9 million it was decided to increase their value on the Bank's books from $600,000 to $4 million, "more adequately to represent this item in the balance sheet." With $961,789 at the credit of profit and loss account, the Bank had a total of $7,003,985 available for distribution. The customary dividend of ten per cent accounted for $1,440,000; the current year's expenditure for the modernization of old premises and the opening of six new branches in British Columbia, Newfoundland, and Alberta at a cost of $708,800 was also deducted; and $3 million was added to the Rest, which at $15 million was finally on a parity with the paid-up capital. The remaining $1,855,185 was credited to profit and loss account.

STAGECOACH IN THE WEST

Although the heyday of the stagecoach in eastern Canada ended in the 1850's with the arrival of the railway, B. C. Gardner, President of the Bank of Montreal from 1948 to 1952, can recall using such a conveyance in the west as late as 1911. While manager of the Bank of British North America branch at Rossland, B.C., Gardner was called upon to inspect the branch at Fort George, some four hundred miles to the northwest. Travelling up the Fraser Valley to Quesnel by motor car and stern-wheel steamer, he had to board a six-horse stage for the last seventy-five miles. As the stage lurched over the rough road, the sixteen cramped passengers dreaded the approach of each trestle, for there were no guard rails between them and the valley floor far below.

Primitive transportation was only one of the difficulties experienced by pioneer bankers in the west. Sometimes they had to erect their own offices, which also served as sleeping quarters. At night, Bank funds were often hidden under mattresses and a common task on a winter morning was to thaw out the ink.

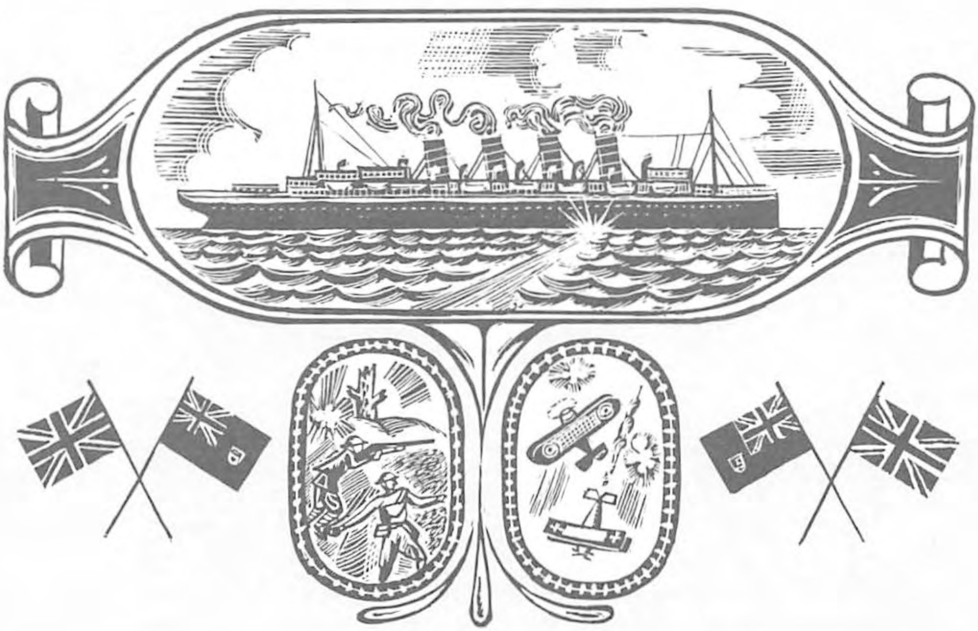
To many shareholders, however, the most welcome reflection of the good times was Clouston's proposal at the annual meeting held December 4, 1911:

> Speaking as an individual, and in no way as a mouthpiece of the Board, I would not advocate increasing in future, our Rest beyond the Paid-up Capital. I should always like to keep the Profit & Loss Account at its present amount, as a Reserve, to be used when the Directors might see fit to do so in the interests of the Bank, and any surplus profits, after full appropriations have been made, I would suggest distributing among the Shareholders.

At the same time, Clouston announced his retirement as general manager for reasons of health, commenting, "I have held the stage for a long time, for I find that my service in the General Manager's position is more than double that of any of my predecessors." A motion from the floor expressing the regret of the shareholders at Clouston's decision was greeted by warm applause and passed unanimously. Sixty-two years old at the time, Sir Edward Clouston continued his duties as vice-president of both the Bank and the Royal Trust Company until death overtook him during the course of a business meeting on November 23, 1912.

Clouston's successor as general manager was H. V. Meredith, who had worked closely with Clouston for several years as assistant general manager and had been elected a director in July, 1910, a distinction never before accorded an officer below the rank of general manager. Thereafter Meredith's advancement was unusually rapid. After being appointed General Manager in December, 1911, he also assumed the post of vice-president on Clouston's death and in October, 1913, when R. B. Angus retired from "active participation in financial affairs," became the Bank's fifteenth president. With the concurrent promotion of Sir Frederick Williams-Taylor to General Manager, and of A. D. Braithwaite, Inspector of Branches in Ontario, to Assistant General Manager, the new management was complete, no vice-president being elected to replace Meredith until 1916.

THIRTEEN



MEETING THE COSTS OF WAR

MEETING THE COSTS OF WAR

1.

That Meredith and Williams-Taylor – like Edwin King before them – should both have been of Irish descent is a wry comment on the legend of Scottish influence so long attached to the Bank of Montreal. But interesting also is the fact that they appear to have constituted the first management *team* in the Bank's history. Hitherto, the senior administrative post had been held by a long succession of unusually able individuals; now, and for the next fifteen years, it would be in the nature of a collaboration to which two men, remarkably similar in personality but with complementary banking experience, would make equally valuable contributions.

The elder of the two by thirteen years, Henry Vincent Meredith was born in London, Canada West, in 1850, the fifth of nine sons of a remarkable family of Irish extraction. Four of his brothers chose the law as a career and by the time Henry Vincent became President of the Bank of Montreal, one, Hon. Sir William Meredith, was Chief Justice of Ontario, another, Hon. Richard Meredith, was a judge of the Ontario Court of Appeal, the third, Edmund, had served a two-year term as mayor of London, Ontario, and the fourth, Thomas, was that city's solicitor. Another brother, Charles, had also joined the Bank of Montreal, but had left to found his own firm of stockbrokers and subsequently became President of the Montreal Stock Exchange.

Henry Vincent, or Vincent as he was later known, was educated at Hellmuth College in London and entered the service of the Bank of Montreal as a junior clerk in the Hamilton branch in 1867. He was then seventeen years old and after branch experience that extended to 1879 he received his first appointment as accountant at the branch in Montreal. A year later, however, he was made Assistant Inspector of Branches and spent the next seven years travelling between Halifax on the Atlantic and the end of steel on the C.P.R., before returning to Montreal as assistant manager of the Main Office. In 1889 he was promoted to manager and fourteen years later when he became Assistant General Manager under Edward Clouston his path to the presidency in 1913 lay clear ahead.

The other member of the team, Frederick Williams-Taylor, was born in Moncton, New Brunswick, in 1863 of Irish and United Empire Loyalist parentage, and after being educated privately entered the Bank's service in Moncton at the age of fifteen, two years before Meredith was appointed Assistant Inspector. For the next seven years he acted as a clerk in various Maritime branches, and if Meredith did not come to know the precocious youngster during his inspection trips, they certainly became acquainted after Williams-Taylor was transferred to Montreal in 1885. During the 1890's he served in minor managerial posts in Ontario and on the inspection staff before being appointed acting joint manager at Chicago in 1904. A year later he became acting manager of the London, England, branch while the manager, Alexander Lang, was on a leave of absence, and when Lang retired a year later Williams-Taylor was appointed manager. His handling of British investment in Canada won him a knighthood in 1913 and a reputation for brilliant accomplishment unexcelled by that of any other Canadian banker of his time.

Neither of the two bankers had seen service in the New York agency, an experience that was later to become a *sine qua non* of promotion to senior administrative rank, but Meredith had become a familiar figure in New York and had made several journeys to Mexico, while Williams-Taylor had served in Chicago and had made himself a welcome caller at leading banking houses in the British Isles, Paris and other European capitals. In combination, therefore, the two men were more widely grounded in the intricacies of world finance than were any of their predecessors. But neither could have foreseen the new challenges they would be called upon to meet or the vast changes they would witness within the next few years.

When R. B. Angus addressed the shareholders for the last time as president in December, 1912, he had felt a need to resort to such unfamiliar words in banking circles as "extraordinary," "phenomenal" and "marvellous" to do justice to "a year of universal and almost unbroken prosperity throughout the length and breadth of the land." With the arrival of 386,000 newcomers, immigration had increased by ten per cent over the preceding year; the wheat crop was again well over two hundred million bushels; and the Dominion's total imports and exports for the first time had exceeded one billion dollars.

The annual statement of the Bank of Montreal contained no challenge to these exciting indices. The year had brought a continued rise in profits, a higher dividend as Clouston had advocated (a two-per-cent bonus being added to the regular dividend of ten per cent), increases in both the Rest and the paid-up capital to $16 million, and the opening of seventeen new branches. The distribution of these offices was in itself another indication of the flourishing economy. The return of the Bank of Montreal to Windsor, Ontario, for example, heralded the successful establishment of Canadian automobile manufacturing, just as the opening of new branches at Granby and Magog in the Eastern Townships of Quebec reflected the growth of a strengthened textile industry. In the opening of an Ogden Shops branch in Calgary can be seen the expansion of C.P.R. maintenance facilities to serve the western grain trade, and in two new branches in Montreal the intensive urban development taking place in all large Canadian cities.

The increase in capital, as R. B. Angus told the shareholders, "did not come before it was wanted." Early in 1912, in fact, it had become evident that the phenomenal economic activity of the country would soon force the Bank's note circulation to its legal limit. Rather than rely on the fifteen-per-cent increase permitted by the Bank Act and become liable to the government for tax, the directors again decided to increase the capital of the Bank. A special meeting of shareholders was therefore called for June 18, 1912, at which an increase in the authorized capital from sixteen to twenty-five million dollars was approved by a vote of 70,548 to nil. The sanction of the Treasury Board for the nine-million-dollar increase was obtained in July, "thus permitting of a further issue of stock from time to time as circumstances may, in the opinion of your Directors, render desirable." No immediate steps, however, were taken to dispose of any new shares and the following year the decennial revision of the Bank Act provided an alternative means of increasing the note issue.

Although revision of the Bank Act had been due in 1911, it was postponed during two successive sessions of Parliament. Meanwhile, in 1912 the provision for excess issue of bank-notes was extended to cover six months instead of the original four, but the banks still found themselves in a tight situation during the harvest period and they were averse to paying the five-per-cent tax on their excess circulation. Consequently the most important feature of the delayed banking legislation was the introduction of the Central Gold Reserves, into which the banks could deposit gold or Dominion notes and receive in return the right to issue their own bank-notes, over and above their paid-up capital, to the extent of their deposit. These gold reserves were to be administered by four trustees, three appointed by the Canadian Bankers' Association and one directly by the Minister of Finance.

In a further attempt to facilitate the financing of agriculture, the revision of 1913 also modified another long-standing principle of Canadian banking. The pledge provisions, which had previously applied only to wholesalers, were altered to allow loans to farmers on the security of threshed grain grown on their own land.

Two other important additions to the Bank Act came as a result of the number of bank mergers that had taken place during the previous decade and especially those where one of the banks was failing. All mergers henceforth would have to have the prior consent, in writing, of the Minister of Finance, and each bank's shareholders were required to appoint outside auditors from a roster prepared by the Canadian Bankers' Association and approved by the Minister of Finance. An article published in the *Journal of The Canadian Bankers' Association* in 1909 had reported on a study by the United States Comptroller of Currency showing that nearly one-third of all national bank failures in the United States since the end of October 1893 had resulted from fraudulent practices. The Canadian record over the same period was worse – four out of the six failures involving fraud – and in many quarters there was pressure for a government audit. Using the same arguments that had been employed in 1880, the Minister of Finance refused to undertake such a responsibility and the outcome was the "shareholders' audit," a system that had been practised for many years by the Bank of British North America.

When the shareholders of the Bank of Montreal assembled at the banking house on St. James Street for their annual meeting in December 1913, they elected George Hyde, C.A., James Hutchison, C.A., both of Montreal, and J. Maxtone Graham, C.A., of Edinburgh to serve as the first independent auditors of the Bank, sharing among them a remuneration of $15,000. The shareholders also reconfirmed the election of William McMaster who had been chosen a director by the Board in October to fill the vacancy brought about by the death of James Ross. Although not related to the William McMaster who, it will be remembered, left the Bank of Montreal to found the Canadian Bank of Commerce in 1867, the man who joined the Board of the Bank of Montreal in 1913 in fact had to resign a directorship in that Toronto institution before joining the Bank of Montreal. A well-known manufacturer with extensive interests in heavy industry, McMaster remained a director until his death in 1930, when his seat was taken by his son, Ross H. McMaster, a former director of the Merchants Bank. The family connection is continued today as William's grandson, David Ross McMaster, Q.C., is a current member of the Board and a senior partner in McMaster, Meighen, Minnion, Patch & Cordeau, the Bank's solicitors. The law firm originated in 1823, although it did not become connected with the Bank until after its founder, Hon. William Badgley, took in one John J. C. Abbott as a junior partner.

Other changes had been effected in the Board in December 1912, when Huntly R. Drummond, son of Sir George, was elected to fill the vacancy created by the death of Sir Edward Clouston, while the Board was increased from twelve to fourteen members by the addition of D. Forbes Angus, son of the retiring president, R. B. Angus, and Charles B. Gordon, who had been responsible for the financial reorganization of the Canadian cotton industry and was then the President of the Dominion Textile Company.

When H. V. Meredith presented his first presidential report to the Bank of Montreal shareholders at the annual meeting of 1913, it seemed, at first glance, that the country had again achieved new heights as it had almost every year since Laurier's first election seventeen years before. With a total of 400,000 new arrivals, immigration had set a record that has never been surpassed, while merchandise exports had grown by some twenty-seven per cent, cutting the country's bloated balance of trade deficit by more than seventy million dollars. For the Bank of Montreal, all categories such as deposits, loans and note circulation had advanced; the dividend rate of twelve per cent had been maintained, and twelve new branches had been opened. Three were in the city of Montreal itself, four in Ontario, four in the Prairie Provinces and British Columbia, and one in London, England. Located in Waterloo Place,

CAMP PETAWAWA — 1917

The small city of tents and rough buildings depicted in this oil painting formed the nucleus of the artillery camp at Petawawa, Ontario. In the foreground are members of a battery of the Royal Canadian Artillery, engaged in training exercises with a gun limber. The camp was chosen for the artillery because of its isolated location 100 miles northwest of Ottawa, and an area of 101 square miles was closed off for gunnery practice.

Just twenty days after the beginning of World War I the first training camp for members of the Canadian Expeditionary Force was opened at Valcartier, Quebec, and the Bank of Montreal immediately opened a temporary office there for the payment of the 33,000 troops of the first overseas contingent. By 1916 fifteen more camps had appeared across the country, in four of which the Bank established temporary branches, the sub-agency at Petawawa being set up in June, 1916.

just off Pall Mall, for the convenience of Canadian travellers abroad, this branch in the West End of London was destined to become before long the most popular office that the Bank had ever established.

In one area only had difficulties been encountered during the Bank's ninety-sixth year. In Mexico City a new political crisis produced *la decena trágica*, "the ten tragic days," in February 1913, during which hundreds of people were killed or wounded and terror reigned in the capital city. On the request of the American ambassador, the staff of the Bank opened a temporary branch in the basement of the United States Embassy to provide travel funds for fleeing American citizens. To get the necessary cash, hardier members of the staff braved stray bullets and threaded their way through littered streets in a car draped with Union Jacks, crossing both the opposing barricades to reach their own shuttered offices, where they found that a shell had pierced the steel blinds without exploding.

The Canadian economic picture, however, as described by Meredith in December 1913, contained both light and shadow, in contrast with the uniform brightness that had persisted for so many years. The western land boom had run its course, as the Bank's annual reports had long predicted it would, the main losers being speculators who watched their location stakes in scores of prairie subdivisions whiten in the sun. While the general price index showed no drastic deterioration, there had been an increase in unemployment throughout the year as the economy was no longer able to absorb easily the flood of immigrants that continued to cross the American border and to arrive with every passenger ship that steamed up the St. Lawrence. It seemed, in fact, that Canada had reached another of the plateaus that had periodically characterized its economic growth.

As had so often been the case before, the fundamental causes lay outside the boundaries of the Dominion. For two years war in the Balkans had disrupted European commercial and financial patterns; interest rates had risen on the London market and the flow of British capital which had been a mainstay of Canada's economic growth for so many years was beginning to taper off. Between 1901 and 1912 British capital exports had totalled $5.8 billion and of this sum more than a quarter had been invested in Canada in Dominion, provincial and municipal bonds and in railway securities which were government guaranteed or supported. The importance of the great capital inflow to Canada, which totalled $2.5 billion from all countries between 1900 and 1913, is delineated by F. A. Knox: ". . . the heavy inflow of capital thus permitted the banks to continue the domestic loan expansion despite the fact that the current balance of payments was running a deficit large enough to have wiped out the cash and foreign exchange holdings of all the banks in any one of the years of this last great boom if it had had to be met without borrowing abroad.''

Although the balance of trade deficit had been reduced to about $200 million in 1913, no one could have been more sensitive to this threat to Canada's fortunes than the newly installed management team at the Bank of Montreal, particularly its junior member. In London, Williams-Taylor had placed hundreds of millions of dollars worth of Canadian securities without difficulty, but during the summer of 1913 he had seen flotations of Toronto, Winnipeg, Port Arthur and Fort William bonds remain largely in the hands of the underwriters. President Meredith summarized the situation thus: ''The flow of money which came in great volumes in the past few years from the British islands and abroad, both for investment and for speculative purposes, and created a somewhat unhealthy expansion, has met with a check. It had much to do with the outbreak of land speculation in the West, which, owing in a measure to a wise precaution of the Bank Act, was limited to individuals and has not affected the country generally in an adverse manner to any appreciable extent.'' The annual address ended with these words ''of counsel and confidence'':

> The finger of prudence points to a policy of conservatism. While the financial sky remains clouded over in Europe, we shall do well to hasten slowly. It is not a time to attempt enterprises of a speculative nature, nor to undertake new commitments prior to the financing thereof, and an accumulation of stock by merchants and manufacturers should, as far as possible, be avoided. . . . On the other hand, the commercial condition of Canada is fundamentally sound. Business as a whole, as I have said, continues good. Our vast natural resources have scarcely been scratched. Immigration is large, railway construction is active, new territory and new resources of wealth are being steadily opened, the confidence of British and foreign capitalists in our country is unabated. A temporary halt can only refresh Canada for yet greater achievements.

Less than seven months later the Archduke Franz Ferdinand of Austria was assassinated at Sarajevo, Bosnia, by a young revolutionary. The date was June 28, 1914.

2.

Only six and a half convulsive weeks intervened between the assassination of the Austrian archduke and the declaration of war on the Central Powers by Russia, France and Britain early in August 1914. As late as the middle of July Canadians who could afford to were enjoying the delights of their summer cottages and people in England were much more agitated by the threat of trouble in Ireland than by the ominous situation developing across the Channel. At the end of that month the London Stock Exchange closed until further notice and the day following, Saturday, August 1, Germany declared war on Russia. On Monday morning when Canadian banks opened, depositors were waiting at branches from coast to coast to withdraw their money and convert paper currency into gold, something that had not occurred in Canada on any significant scale since 1837. In Montreal and Toronto particularly withdrawals became so heavy that incipient panic prevailed.

When the news of Germany's action reached Ottawa, the finance minister, W. T. White, was on holiday but immediately returned to Ottawa where he summoned the President of the Bank of Montreal and other leading bankers into consultation. Many were at their summer homes and had difficulty making train connections, but by Monday morning most of them had reached the capital. Before the day was out an Order in Council had been passed which removed Canada from the gold standard by suspending the convertibility of both Dominion notes and bank-notes, and made it lawful for a bank to pay out deposits in its own notes which were not previously legal tender.

While the suspension of convertibility protected the country's gold reserves, it left the banks exposed to reserve problems of their own. Since notes were a first charge on bank assets, nervous depositors could still convert their deposits to notes and thereby improve the safety of their savings. The note issue of a bank, however, was limited to the amount of its paid-up capital, except during the crop-moving season, and could only be increased by deposits in the Central Gold Reserves. Since under existing conditions no bank was likely to follow this course, at least for very long, the government provided two alternative means of increasing circulation. The first was to extend the period covered by the crop-moving provisions to the full twelve months of each year, and the second was to allow the banks rediscount privileges under which they could borrow Dominion notes against approved collateral. These could then be issued to the public directly or used as reserves against which to issue the banks' own notes.

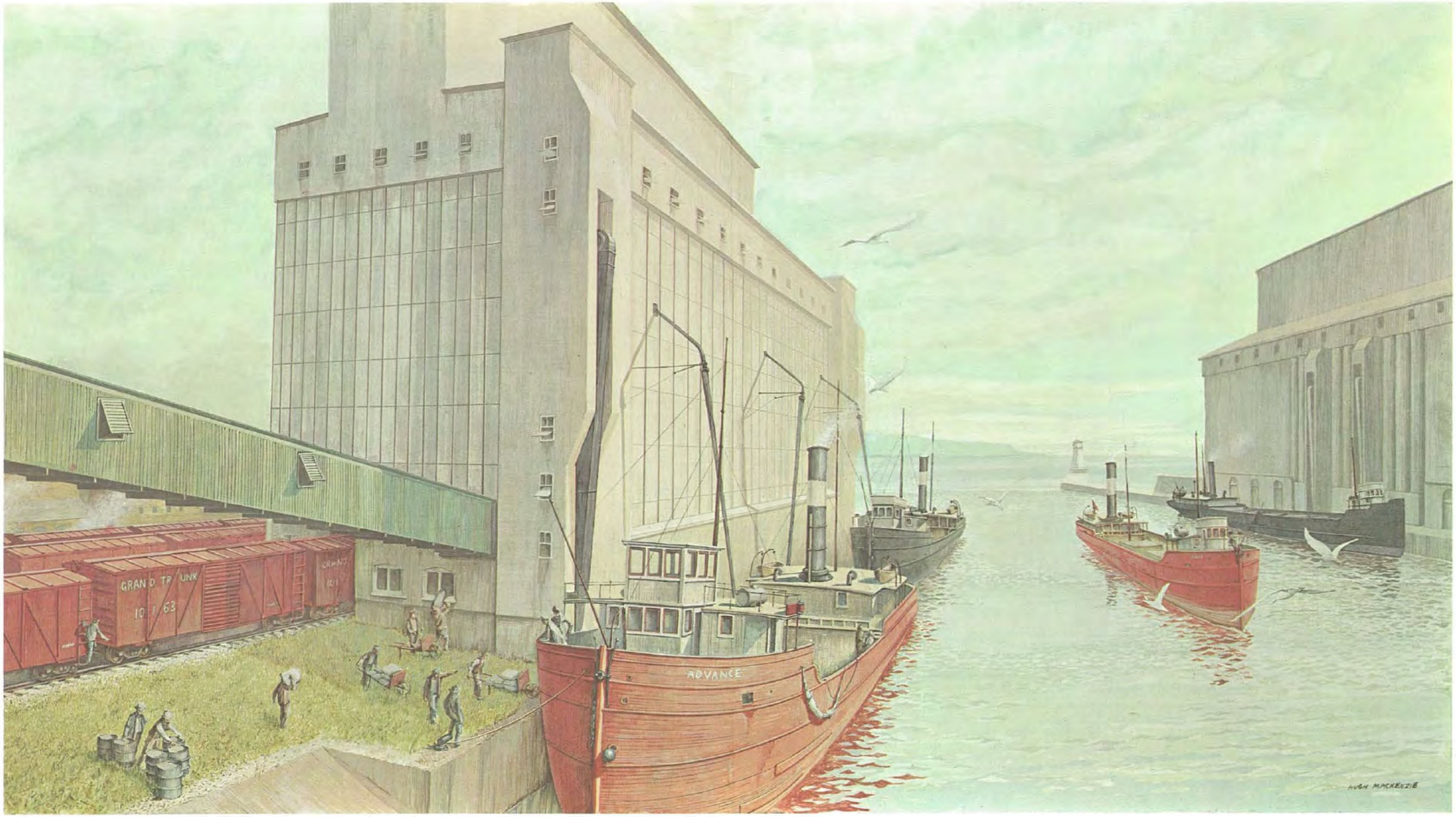
LAKEHEAD SHIPPING
1900's

The first Canadian export shipment of prairie wheat was loaded aboard the steamer *Erin* at Port Arthur, Ontario, in 1883, the year the Canadian Pacific Railway built the first grain elevator at the head of the Great Lakes. The lakehead cities of Port Arthur and Fort William have always been the main ports for the transfer of Canada's staple export to the special Great Lakes grain vessels known as "Lakers" which appeared about the turn of the century. Huge grain elevators, such as the two pictured here, provided storage, grading, inspection and cleaning facilities. By the early 1900's most of the grain was pumped from the elevators through pipes directly into dust-free compartments in the waiting ships, but some was still bagged for storage in general cargo holds.

As the population of the prairies expanded rapidly during the early years of the century, dry-farming techniques were improved and hardier strains of wheat evolved. These developments coincided with a rising demand for agricultural products from the increasingly industrialized nations of Europe and from Eastern Canada and the United States.

Rail lines in the Prairie Provinces were almost tripled to carry a wheat crop that rose from 23,000,000 bushels grown on 2,500,000 acres in 1900 to 209,000,000 bushels produced from 10,000,000 acres in 1913. Such shipments contributed toward making the Sault Ste. Marie canals between Lake Superior and Lake Huron the busiest in the world, handling more tonnage than either the Suez or the Panama canals.

Painting by Hugh Mackenzie, A.O.C.A., O.S.A.


GRAND TRUNK
ADVANCE
HUGH MACKENZIE

By means of these bold actions – subsequently incorporated in the Finance Act of 1914 – public anxiety was allayed as banks were enabled to increase their note circulation in response to any demands made upon them. The Bank of Montreal was not long in making use of the rediscount facilities. At the beginning of October the Bank received $900,000 against the deposit of a one-million-dollar treasury bill of the City of Montreal and four weeks later $5 million was acquired on the security of a Dominion treasury bill of equal worth. The administrative edict also had an important long-range effect in transferring from the banks to the federal government the responsibility for maintaining the nation's gold reserves, and hence the value of its currency. On the other hand, as pointed out at the Bank's annual meeting of 1914, the foreign reserves of the Canadian banks were most important in the conservation of the domestic gold supply.

The impact of war relieved unemployment somewhat as thousands of British reservists rushed home to join the colours. The Canadian Expeditionary Force was formed and sent its first contingent, including 162 members of the staff of the Bank of Montreal, overseas for active duty in October. As early as August, the directors of the Bank had voted $100,000 for patriotic purposes and in September a temporary branch was opened at Valcartier Camp. It was closed when the troops in training moved to winter quarters but was reopened each summer, and served as a prototype for similar offices at Camp Hughes, Camp Borden, Exhibition Camp and Camp Petawawa.

A lull in industrial activity developed, however, until Canadian manufacturers could learn just what, and how much, would be expected of them. It seemed at first that men, rather than materials, would be a sufficient contribution to the war effort, and for some months the manufacturing industries remained inactive, puzzled over what was to be done with their peace-time production. A typical example was the Massey-Harris Company, by 1914 one of the world's leading farm-implement makers, with branches or outlets in every grain-growing country and probably a larger export business than any other Canadian manufacturing concern. This organization was shut down completely from August to December, 1914.

But with the stalemate of trench warfare that developed early in 1915 it became evident that most of Europe's food-producing areas would remain in enemy hands and that the Dominions, along with the United States and the Argentine, would have to feed the allied powers. As the price of wheat rose above $1.60 a bushel at Winnipeg, prairie farmers prepared for the greatest spring seeding the west had known. It was the German use of poison gas at Ypres, however, followed by the sinking of the *Lusitania*, that ended Canada's period of waiting. Thereafter, the government and the people threw themselves into an all-out war effort that was to astonish the world. Farmers were urged to increase their herds and acreages, ships were requisitioned for war purposes, and industry was instructed to retool for the production of shells, small arms, and the other military gear required to support an army that was swelled by volunteers to 200,000 before the year was out.

Responsible in some measure for the phenomenal performance that followed were bold financial leadership, a flexible banking system that responded to every demand imposed on it, and the willingness of the Canadian people to invest their surplus – and even future – earnings in government war loans. The Bank of Montreal, both as the leading institution in the field and through the counsels of its executives and the labours of its staff, made important contributions. As financial agents for the Dominion government in London and New York, the Bank was responsible for the complicated and sometimes delicate negotiations that enabled Canada to finance the war costs, extend credits to Great Britain and at the same time greatly broaden and strengthen the economy.

The war had profound repercussions on Canada's financial principles and practices. Prior to 1914 these had been concerned essentially with the maintenance of the value of a currency based on gold. At the outset of hostilities, the federal government, as we have seen, suspended gold conversion and at the same time provided for an expansible paper currency by allowing the banks to rediscount approved securities with the government, thus for the first time enabling the reserves of the banking system to be increased from domestic sources rather than by the recall of foreign balances. These steps were followed by a freezing of interest rates on commercial discounts, provincial moratory acts on certain types of debt, particularly mortgages, and, as a further measure of monetary conservation, the negotiation of an agreement with the British government whereby Canada was granted a credit of £12 million in London until such time as a balance could be struck between Canadian expenditures in Europe and British expenditures in Canada. At this time Canadian banks agreed to subscribe to the first British domestic war loan, the Bank of Montreal subscribing £250,000.

Despite various expedients, the Dominion government found itself in a precarious financial position as decreasing imports brought reduced revenues from customs duties and excise taxes. The situation was further aggravated by large deficits on the railway account during the opening months of the war. Nevertheless, throughout the fiscal year 1914-15, the government made no effort to raise money from private domestic sources, then thought to be severely limited and wholly required for the financing of commercial transactions within the country. Instead, $5 million was borrowed from the chartered banks and the government increased its note issue, now inconvertible, by $46 million. When these notes were made available to the banking system, they became the basis for a large-scale expansion of credit which was undoubtedly helpful in maintaining industrial activity that had been adversely affected by the decline in capital inflows beginning in 1913. On the other hand, this early increase in the domestic money supply foreshadowed a government approach to war finance that relied almost exclusively on borrowing, facilitated by the expansion of bank credit, and virtually neglected taxation as a major source of funds. The result of this process was, of course, inflation, with all its attendant inequities.

By the spring of 1915 the drain on Britain's financial resources had become so great that it was no longer possible for the mother country to pay the entire costs of the Canadian Army, as she had agreed to do at the outset of the war, but only those of the Expeditionary Force after landing overseas. With demand for food now increasing sharply, it was also evident that Great Britain would have to be given financial assistance to be able to continue making vital purchases from Canada. Special taxes were imposed in Canada, but it was clear that the government considered external borrowing as the only real source of urgently needed funds. With the London market closed to foreign borrowing, New York was the one place where this could be attempted.

Although the Bank of Montreal had successfully floated a loan in New York for the Province of Quebec in 1879, no precedent existed for the issue of Dominion securities in that city, and correspondence between Thomas White and Sir Frederick Williams-Taylor reveals that both the Finance Department and the Bank hesitated to make such a drastic break with tradition. Influenced by happy memories of London, no doubt, a greatly disturbed Sir Frederick pointed out that this would be the first time in history that any British dominion or colonial dependency had ever contemplated floating a loan elsewhere than in the capital of the Empire. The General Manager of the Bank underscored the sentimental considerations involved and pointed to the unfavourable repercussions that must inevitably arise from such a departure from established custom. For his part, the Minister replied that, loathe as he was to break with tradition, the force of circumstances allowed him no alternative. The Canadian government needed the money and there was no other place to get it but New York. When a decision was finally reached to go ahead with the bond issue, the amount was held to $45 million because Canada was one of the active participants in the war and it was feared that a larger sum would arouse opposition in the United States which was attempting to preserve a status of neutrality at this time.

The issue, however, met with unexpected acceptance in New York and opened the door for extensive Canadian borrowing in the United States not only during the war but also in the decades that followed. By the middle of 1915 most Canadian municipal bond issues were being floated in New York instead of London. Provincial governments were also forced to go to New York for funds, while the interest of American investors in Canada rapidly increased. At the annual meeting of the Bank of Montreal in December, 1915, the General Manager reported that since August, 1914, Canadian Treasury Bills outstanding on the London market had been reduced from £10 million to £325,000; on the other hand, Canadian borrowing in New York during the same period had risen to $142 million. Never again would the London market occupy the almost monopolistic position it had held for nearly one hundred years as the source of finance capital for Canada.

The Canadian loan of 1915, in fact, was used as a spring-board by Britain. When the Canadian offering proved such a success, an Anglo-French issue of $500 million was marketed. The magnitude of the loan, however, somewhat overwhelmed the American investors and made that market temporarily unreceptive to Canadian bonds. As a result, Canada's finance minister with the co-operation of the Bank of Montreal, the Canadian Bankers' Association, and other banks began work on plans to call on Canada's domestic resources.

The spring of 1915 had seen more land sown to field crops in Canada than in any previous year, the seeding of thirty-nine million acres representing an increase of seventeen per cent over 1914 and eleven per cent over the bonanza year of 1911. Nature then bestowed her snows and rains and sunshine in such beneficent proportions as to bring forth a truly prodigious harvest. The yield of wheat was up seventy per cent over the best previous year to amass a total of nearly 400,000,000 bushels, and oats threshed out at 465,000,000 bushels to set a comparable record. Despite a drop of thirteen per cent in the price of Manitoba No. 1 Hard ($1.13 against $1.32 at seeding), the value of Canadian field crops in 1915 was $825 million, an increase of almost forty per cent over the preceding year, none of which could be attributed to inflation. The effects of such a performance were felt throughout the economy; the Massey-Harris Company alone increased its prairie sales by fifty-five per cent, existing bank branches were alerted to extend their credits and more new branches were established, though not in the impetuous manner that had prevailed before the war.

By the end of October 1915 the chartered bank deposits of the public totalled nearly $1.1 billion, but despite this evidence of an impressive reservoir of liquid assets the first domestic war loan was launched with much fear and trepidation in November, and with an objective of only $50 million. When the returns were in, the subscriptions had passed $100 million. A new prospectus was swiftly prepared to provide for the acceptance of the surplus and although a right of withdrawal was included very few cancelled their subscriptions. The added $50 million was then lent to Britain for purchases in Canada. The banks had originally offered to take $25 million without commission but their final allotment on a pro rata basis came to only $21 million out of the increased total. As the largest Canadian bank, the Bank of Montreal subscribed $3.6 million.

The main contribution of Canadian banks to war-time finance, however, was less through direct participation in public loans than through the purchase of short-term treasury bills. The practice of obtaining interim funds in anticipation of the sale of long-term securities had been followed by the Canadian government for many years and, in contrast to British and American war-time financing, was simply continued on a more formidable scale. In both the larger countries banks invested heavily and directly in the numerous Victory and Liberty issues, but in Canada a combination of branch banking, high per capita savings, and patriotic fervour led to the widespread public purchase of war bonds by means of time payments, the banks providing both the retail outlets and the necessary financing.

For the conservative Bank of Montreal, especially, the introduction of deferred payments for the purchase of war-time securities by individual wage earners was in the nature of a daring innovation. In essence, these transactions differed little from the standard margin loans granted for the purchase of securities, but such credits were customarily restricted to established brokers and never before had they been made available to so many individuals in such small amounts. That much of the success of the subsequent Canadian Victory Loans can be attributed to the banks' willingness to break with precedent goes without question. Limited to one year, the loans were repayable in quarterly or monthly instalments at the same rate of interest as the bonds themselves bore, 5½ per cent.

Besides the actual sale of bonds, the banks were able through their hundreds of branches to contact possible subscribers in every part of the Dominion. The Canadian government was fortunate to have at hand such a highly ramified organization, and one that could reach down into the grass roots in a matter of hours. As a result the government was spared much of the tremendous promotional effort that accompanied the sale of Liberty Bonds in the United States. Just as important, the contributions of the branch organizations of the several banks were by no means confined to the sale of war bonds and savings certificates. Instead, the government found ready to hand an efficient and highly responsive means of communication through which every patriotic endeavour from Red Cross recruitment to the promotion of austerity diets could be stimulated. The extent of the co-operation between the government and the banks was described after the war by Sir Thomas White: "I discovered when I was Minister of Finance that the Canadian banking system is the most perfect instrument that a Minister of Finance could have at his hand in floating a national loan. Nothing like it in the world, that I know of. . . . 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."

Nor were the contributions of the banks limited to the financial and promotional fields. Enlistments in the armed forces by bank employees were perhaps as great proportionately as those of any other occupational group in the country. By 1917 for example, the Bank of Montreal could report that 810 employees or almost fifty per cent of its staff had left their employment to join the colours. Such war-time departures led inevitably to many changes. Prior to 1914, women stenographers were still a rarity, even in Head Office, and women accountants were undreamed of. By the war's end, hundreds of females had been added to the employment rolls not only as stenographers and secretaries but also in every clerical position below the rank of manager. Taken on with great reluctance at first, and then solely because they were the only help available, women proved themselves, much to the astonishment of St. James and Bay streets, as able to count money and keep books as they were to drill shell cases, drive transports and fly aeroplanes. At the annual meeting of 1917 it was noted that forty-two per cent of the staff of the Bank of Montreal was then composed of women. A similar trend in commerce and industry throughout the Dominion resulted in voting rights for women in several provinces and the Wartime Elections Act of 1917 which instituted partial women's suffrage throughout the country.

Changing war-time needs also saw the Bank – again with grave misgivings – bow to the coming of the machine. Although typewriters had made their appearance in some banks soon after the turn of the century, the adding machine, or "arithmometer" as it was called, was still regarded as something of a corrupting influence and prone to foster slipshod ways. While the massive account ledgers of the Bank of Montreal continued to be posted laboriously by hand, they had become so heavy that strong juniors were needed to carry them to and from the vaults, and in deference to its female clerks the Bank began to change over to loose-leaf ledgers, the individual pages of which could be removed for easier handling. Along with other changes wrought by the war was a repeated rise in the salaries of all employees from General Manager to junior clerk and the granting of war-time bonuses of up to fifteen per cent of salaries.

3.

By the beginning of 1916, the increasing scope and intensity of the conflict on the European battlefields and along the Atlantic sea lanes caused Canada to commit all its resources of wealth and manpower to final victory. On New Year's Day, the government announced that the size of the army would be increased from 250,000 to 500,000, a number that would require the enlistment of one out of every five Canadian males between the ages of fifteen and fifty. To help pay and equip these men, a tax was placed on business profits and in March a series of three loans, each for $25 million, was floated in New York with the help of the Bank of Montreal and J. P. Morgan & Co.

Britain, by this time, was again facing grave financing problems. After the $500-million loan in New York had proved difficult to move, American underwriters would not accept any more unsecured British issues. As a result the British government made every effort to lay its hands on acceptable collateral in the form of United States or Canadian securities. To this end the Canadian government issued to Britain, in payment of Canada's indebtedness, Canadian securities that could then be used as collateral in New York. Britain also endeavoured to accumulate all the gold it could from various parts of the Empire to use for purchases in the United States. Ottawa became the clearing house and before the war was over the Treasury had handled some sixty-four million ounces of gold coin and bullion worth $1.2 billion at the existing price of about twenty dollars an ounce.

In Europe, 1916 is best known for the naval encounter off Jutland which established British control over the sea, and for the costly and drawn-out battle of the Somme which was responsible for twenty-seven thousand Canadian casualties. The total cost of the war to Canada by the time of the Bank's annual meeting was given as $354 million, 14,000 lives and 45,000 casualties.

Canadian exports had risen markedly and a balance of trade surplus was beginning to take the place of the London market as a source from which to draw foreign exchange for the payment of interest on Canada's external debt. However, in order to enable Britain to continue making war purchases in Canada, the Dominion had to supply the mother country with credit at the rate of $25 million per month. After the March loans in New York, the Canadian government again turned to its own people and in September 1916 the second domestic war loan was launched with an objective of $100 million. Again subscriptions were received for double the amount listed in the prospectus.

As Sir Vincent Meredith, who received a baronetcy in 1916, noted at the annual meeting in December, the domestic war loans totalling $200 million had had little effect on Canadian deposits in the chartered banks. Deposits had, in fact, increased, and in explanation it might be pointed out that although the government was using the proceeds of the loans to supply Britain with credits, these credits were used to buy Canadian food and munitions. Thus the money never actually left the country and as it returned to the public domain, the President informed the shareholders, the larger corporations were wisely husbanding much of it in the form of deposits. This being the case, many such companies which had been regular borrowers found it no longer necessary to go to the Bank for commercial loans, with the result that loans and discounts of the Bank in Canada had fallen from $109 million in 1914 to $94 million in 1916.

Although the London market was closed to other securities, there was still substantial activity in the treasury-bill market, a sphere which as noted was quite familiar to Canadian banks. It was not unnatural that the Bank of Montreal should play a leading role in this market and the Bank was described as "among the important and appreciated lenders of short money in the London market." The Bank's call loans in London and New York, in fact, had increased from $42 million to $113 million during the first two years of the war. The contribution of the Bank in London, however, was not confined to the money market. The branch in Waterloo Place became such a mecca for Canadian soldiers and others working or visiting in London that in 1917 the Bank had to open another office in nearby Trafalgar Square. Both these branches also functioned as unofficial post offices where itinerant Canadians could come and collect their mail from home.

Since 1913 the Bank of Montreal had functioned without a vice-president. For the first year, perhaps, this was intentional because the position of honourary president was still occupied by Lord Strathcona. There was no lack of experienced business leaders on the Board, however, and after Strathcona's death in 1914 it would appear that others must have refused the executive position because the exigencies of war demanded their full attention to their individual business interests. Finally, in 1916, Charles Blair Gordon, already Vice-Chairman of the Imperial Munitions Board of Canada and soon to be director-general of war supplies for Great Britain in Washington, was persuaded to accept the post. Whether or not he felt at the time that the war would soon be over is unknown, but expectation of an imminent victory had certainly become a feature of Bank of Montreal annual meetings.

The optimistic view that the war would be a short one had not been confined to Bank of Montreal circles, but the course of events in Europe was beginning to dampen such beliefs. With 434,000 Canadians in active service, the stream of volunteers began to slacken and the question of conscription was broached. Early in 1917 rationing and an income tax were imposed in Canada and in March the third domestic war loan, for $150 million, was issued. Once more Canadians showed their overwhelming support and subscriptions for $260 million were entered. During the summer the Canadian government again went to New York with an issue of $100 million in two-year treasury notes, but the flotation did not meet with the success of its predecessors. The lack of American interest resulted from the fact that the United States had just declared war on Germany and American investors were conserving their funds to finance their own national war effort.

It is the judgement of history that America's entrance into World War I on April 6, 1917, made the defeat of the Central Powers inevitable. In the summer of 1917 this prospect was far from certain; in fact the war then entered its most crucial phase. With an insignificant regular army and a poorly organized and largely untrained militia, the military strength of the United States was an unknown quantity; the outbreak of the Russian Revolution and the collapse of the eastern front had released the full weight of the German armies on the west, and the French mutiny in the spring of 1917 had revealed how near to the point of complete exhaustion the Republic had been driven. Canadians could take pride in their victory at Vimy Ridge and in the fact that their forces were now an independent unit serving under their own commander; but sorely needed reinforcements could no longer be obtained through voluntary enlistment. There followed the bitter conscription controversy and the re-election of Sir Robert Borden as the leader of a union coalition.

On top of all this Canada found itself confronted by another financial crisis. Although the American commitment had relieved Britain from its immediate financial problems when the United States Treasury established almost illimitable credits for purchase of American supplies, Canada was regarded in Washington as a British possession and as such Britain's responsibility. To meet purchases in Canada, Britain still needed credit which had to be supplied by Canadians or their government. In the fall of 1916 a syndicate of six Canadian banks had provided a revolving credit of $20 million to the Royal Wheat Commission and in June 1917 Sir Thomas White (created K.C.M.G. in January, 1916) arranged with the banks for three monthly advances of $25 million each which he hoped would carry the government until he could float another domestic loan. About the same time, however, he received dispatches from London warning him that the British government would be unable to make further purchases of Canadian cheese, flour, bacon and other foodstuffs unless the Canadian government could provide new credits. White found part of the money by issuing $50 million in Dominion notes which were lent to Britain. Approved collateral for the loan was deposited by the British Treasury with the Bank of Montreal in London and this in turn was used to secure the note issue. White then called together the leaders of the Canadian financial community and discussed with them the launching of a new national financial appeal on a scale larger than any of those that had gone before.

This was the origin of Canada's first Victory Loan. It and two others of the same name raised an aggregate of $1.7 billion from thousands of subscribers of every class of society and in every part of Canada. The second, accounting for $690 million, was unique in the participation of more than one million subscribers, a large proportion of whom financed their purchases through their local banks. The three Victory Loans kept the Dominion treasury in funds to pay for its own war expenditures in Canada and those arising from British purchases in Canada. The loans also enabled Canada to end the war with practically no floating debt and with the British government owing $400 million over and above the sums that the Dominion government had borrowed from the United Kingdom for the maintenance of the Canadian armed forces abroad.

How many of these bonds were sold to the public on an instalment basis through the Bank of Montreal is unknown, but some indication can be gained from the fact that at the time of the first issue the Bank had to request loans totalling $20 million under the provisions of the Finance Act. At the annual meeting in December 1917 the contribution of the Canadian banks to the financing of the war was outlined. They had loans outstanding to the Imperial Government of $100 million for wheat purchases and a further $160 million to cover expenditures in Canada on munitions. Because of the public response to the various bond issues, the banks had had to advance only $147,450,000 to the Canadian government out of the public debt of $948 million, which was then increasing at the rate of $1 million daily and consuming $500,000 in interest every twenty-four hours.

During the course of the war the assets of the Canadian chartered banks grew from $1.56 billion to a total of $2.69 billion. While domestic loans rose thirty-two per cent to $1.2 billion, the greatest increase took place in holdings of securities, which rose from $106 million to $514 million. On the other side of the balance sheet capital and Rest remained virtually unchanged while total deposits jumped from $1.18 billion to $2.08 billion.

The important role played by the banks during the four-year period naturally focused attention on them, and during the last year of the war the subject of a central bank was broached at an executive meeting of the Canadian Bankers' Association. The matter received some consideration from the various members but the final verdict of the Association was to recommend the renewal of the Finance Act. The failure to institute a central bank appears to have had no serious repercussions until 1926 when the restoration of the gold standard created a conflict between its mechanism and the provisions of the Finance Act.

4.

The 101st annual meeting of the shareholders of the Bank of Montreal was held in the splendid board room on St. James Street three weeks to the day after the signing of the armistice that ended the hostilities. Thus the first and second centuries in the history of Canada's first bank were begun under some curiously similar world conditions. Although Sir Frederick Williams-Taylor, the General Manager, did not remark upon this fact when presenting the annual statement, he could have pointed to Britain's departure from the gold standard during the

WATERLOO PLACE BRANCH
1914-18

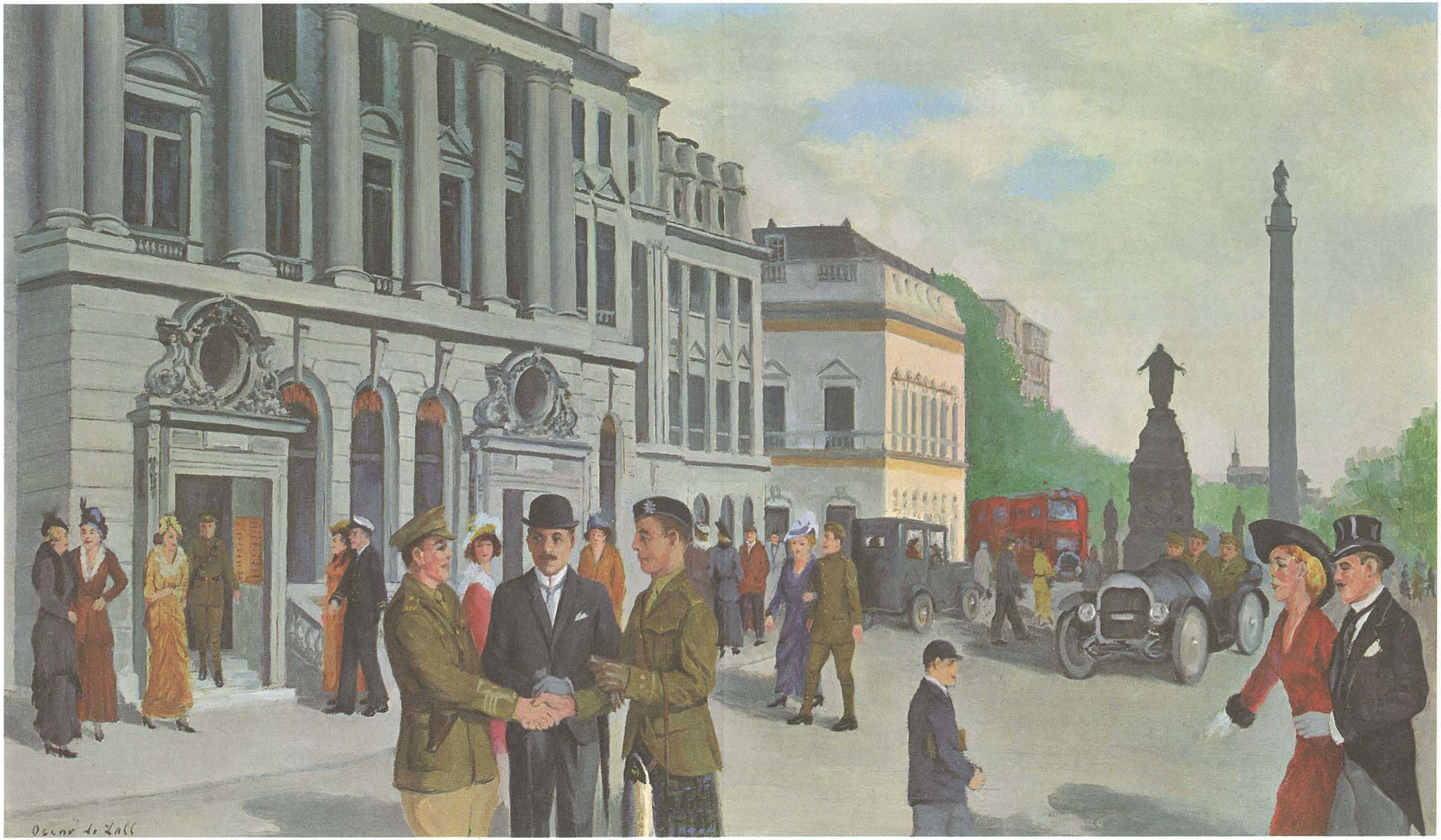
While an agency of the Bank of Montreal had been established in the financial heart of London, England, in 1870, the Bank in 1913 decided to open a second office, for the convenience of Canadian visitors to the city. Situated in the West End, close to the hotels, shops and theatres, the new branch in Waterloo Place acquired an unexpectedly large amount of business in October 1914 when the first contingent of the Canadian Expeditionary Force arrived in Britain en route to Europe.

Before World War I was over, more than 450,000 Canadians would serve overseas, including the 22,000 men who joined Britain's Royal Flying Corps and Royal Naval Air Service. By 1916 the Waterloo Place branch had 25,000 accounts belonging to officers and men of the various armed services such as those depicted here. The Bank is on the left, and looking along Regent Street one can see the Crimean Monument and beyond it the Duke of York's Column.

All Canadian officers serving overseas were paid through accounts in this branch and it became a popular meeting place for the troops of all ranks because mail from home could be picked up there and the staff cheerfully filled requests for theatre and hotel bookings. Special services were extended to the less fortunate. On behalf of clients being held as prisoners of war, the branch sent gifts and messages to loved ones in Canada. Inquiries were made about the missing and wounded at the request of their relatives and those hospitalized in the vicinity of London were frequently cheered by visits from Bank personnel.

When World War II broke out in 1939 the branch in Waterloo Place again played an important role as a home-away-from-home for Canadian servicemen. After peace returned in 1945, the steady rise in international trade and the improvement of transatlantic travel brought about an increasing demand for its services, and its quarters had to be enlarged in 1960.

Painting by Oscar de Lall, R.C.A.


Oscar de Lall

Napoleonic Wars and perhaps have drawn a lesson from the economic readjustments that followed the defeat of the French emperor just over a century before. Instead, Sir Frederick was content to confine his remarks to a review of the past year's business and to the extraordinary strength of the Bank's position. "This Bank's total assets," he stated, "are now as great as were the combined total assets of all the Canadian Chartered Banks seventeen years ago."

The phenomenal effects of the war on the Canadian economy were mainly responsible, of course, for the Bank's growth, but another important contribution to the Bank's position was the closing of an agreement on October 12, 1918, for the purchase of the Bank of British North America. The Thomas White Papers reveal that Sir Thomas Skinner, head of the Bank's London Advisory Committee, had been conducting negotiations with the British bank prior to July 21, 1915. On that date Meredith wrote to White, the Minister of Finance, to inquire whether the government would be disposed to sanction the merger. Meredith received a negative reply because, as had been revealed at the time of the Bank Act revision of 1913, Canadian sentiment was strongly opposed to additional bank amalgamations. Unless a bank was in actual danger of failure, wrote the Minister, and its rescue by some stronger bank had become imperative to protect the public, no thought of further concentration of banking resources would be entertained by the Canadian government.

With an unbroken history dating back to the 1830's the Bank of British North America was almost as venerable as the Bank of Montreal itself, and, although its policies were still directed by a Court in London, it had long been one of the most progressive and popular banks in Canada. A large number of its senior staff had been recruited in the Old Country but had evinced a pioneering spirit that had taken the bank into virgin territory such as British Columbia and the Yukon, and even to California ahead of the railways. By 1915 it had branches in almost every region of Canada and had been most successful in the invasion of the Prairie Provinces.

In late April, 1917, Williams-Taylor received a confidential report that Lord Beaverbrook and unidentified friends in England were trying to get control of the Bank of British North America to merge it with the Colonial Bank, an enterprise that had also received a British charter in the 1830's and had developed a profitable business in Africa, British Guiana, and throughout the Caribbean. Since there was a move afoot in England to join the West Indies to Canada, Beaverbrook's plans were of some moment. As a counter-measure, Meredith instructed Sir Thomas Skinner to reopen negotiations with E. A.

Hoare, Chairman of the London Court of the Bank of British North America. Skinner followed up an interview on July 10 with a letter, and at the beginning of August he was given assurance that the terms of his proposals had been favourably received.

Meanwhile in Canada Meredith recommenced his overtures to the Minister of Finance, claiming that the proposed amalgamation with the Colonial Bank would lead, under Beaverbrook's aggressive direction, to a partial loss of control by Canadians over their own banking system, since both banks involved held British charters. One of the first steps toward Canadian monetary independence, as described in the first volume of this history, was the memorial to Queen Victoria in 1841 concerning the operations of the Bank of British North America in the new Province of Canada, and Meredith was evidently bent on preserving the victory that had been won three-quarters of a century before. In addition, he stated that the London Court of the Bank of British North America of necessity had become so immersed in war-time problems overseas that it had lost direct touch with Canadian conditions and could no longer operate as efficiently as had been its practice. This was certainly true to some extent, as the British bank was heavily involved not only in British financing but also in Canadian war loans. Nevertheless, the Bank of Montreal was also interested in extending its own branch system with a minimum of effort and in augmenting its sorely depleted staff by the addition of the well-trained banking personnel for which the Bank of British North America was noted.

On October 10, 1917, Meredith laid before his Board a proposal to take over the assets of the Bank of British North America on the basis of £75 per share for the twenty thousand shares of the British bank outstanding, each of which had a par value of £50. The directors authorized the President to negotiate on this basis and less than a week later the Court in London agreed to enter into a provisional agreement. The details were worked out and on March 20, 1918, a conditional contract was signed between the two institutions. Some further amendments required the signing of a new contract on July 23 which was subsequently ratified by Bank of British North America shareholders on September 3 and by those of the Bank of Montreal on September 10.

The amalgamation, however, remained conditional until the approval of the Canadian government was signified by an Order in Council dated October 12. The formal purchase date was fixed as December 1, 1918, and Bank of British North America shareholders were accorded four months to signify whether they would accept £75 cash or two Bank of Montreal shares for each share of

£50 par value held in the British bank. The purchase price of £1.5 million for an institution with assets of just under £16 million made the transaction the largest of the kind that had yet taken place in Canada and was made possible by an increase in capital stock of the Bank of Montreal from sixteen to twenty million dollars.

With this purchase, merger, or amalgamation, the senior bank improved its competitive position considerably, particularly in the west, by the addition of seventy-nine new branches manned by an alert and aggressive staff. One of the most interesting acquisitions was a San Francisco branch that had been established by the Bank of British North America in 1864, shortly after the Bank of Montreal opened its branch in Chicago. By the middle of World War I both Canadian outlets in the United States were among the oldest banks in their respective communities. After the destruction of the German squadron off the Falkland Islands in December, 1914, had made the Pacific Ocean reasonably safe for allied shipping, the San Francisco branch played an important part in the transfer of silver and gold to and from the Orient and Australia. When the merger arrangements with the Bank of Montreal were at an advanced stage, it was discovered that the California state banking authorities would not transfer the Bank of British North America branch charter to the Bank of Montreal because the branch had operated without any specified capital. Thus in the summer of 1918 the British American Bank was incorporated in California with a capital of one million dollars and when the merger was confirmed the Bank of Montreal acquired its entire capital stock.

Although a consolidated balance sheet including the Bank of British North America acquisitions could not be struck for several months, one aspect of the merger was reflected in a change in the internal management of the Bank of Montreal just prior to the annual meeting in December 1918. Instead of a single assistant general manager below Sir Frederick Williams-Taylor, there were now four: F. J. Cockburn in charge of Quebec, the Maritimes and Newfoundland, H. B. Mackenzie in charge of the newly acquired Bank of British North America branches, G. C. Cassels in charge of the London, England, offices and D. R. Clarke in charge of Ontario branches; E. P. Winslow, who headed the western branch network, held the rank of superintendent. Cockburn had entered the Bank of Montreal in 1879 and before his appointment as assistant general manager in November 1918 he had been superintendent of the Quebec, Maritime and Newfoundland branches. Mackenzie had been with the Bank of British North America since 1887 and at the time of the merger was its General

Manager. Cassels was another long-time employee of the Bank of Montreal, having joined in 1885, and had previously served as manager of the branch in Trafalgar Square. The fourth new assistant general manager, Douglas R. Clarke, had come to the Bank of Montreal as a result of its merger with the People's Bank of Halifax and had been posted to Vancouver as a superintendent to widen his experience.

A. D. Braithwaite, the man whom these gentlemen replaced, had been asked to undertake a special assignment by the Canadian government. In December 1918 he was appointed a member of the Canadian Economic Commission to Siberia, one of the fact-finding teams sent out by Sir George Foster, then Minister of Trade and Commerce, to investigate new markets for Canadian exports after World War I. Thanks to the generosity of his daughter, Marjery L. Snively, the Braithwaite Papers are now preserved in the Bank of Montreal Archives and provide a valuable insight into conditions in Russia at the time.

Braithwaite landed in Vladivostok on February 27, 1919, after a very rough two-week trip from Vancouver aboard the *Empress of Japan*. Following several weeks of interviews and conferences, he departed on a 3,500-mile journey west through Siberia to the provisional government capital of Omsk, during which he narrowly avoided contact with Bolshevik revolutionaries whose gunfire at one point shattered the window of the railway compartment in which he was travelling. As a result of the war and the revolution, Siberia was almost prostrate. With regular avenues of trade to the West completely cut off and foreign exchange virtually unobtainable because of rampant inflation, the normal methods of financing foreign trade were out of the question. A system of barter was considered, but the sabotage activities of the Bolsheviks, along with the fact that thousands of railway cars were being used as living quarters, had so paralysed the country's transportation system that much of a three-year-old wheat crop had yet to find its way to market. Under such conditions it would have been unreasonable to encourage foreign merchants to engage in even a direct exchange of goods.

Although Braithwaite found the Siberian people, and especially the business men, eager for trade contacts, the leading bankers and those in official positions were unable to suggest any means of improving their plight and had adopted the attitude that the economic climate would eventually improve of its own accord. In order to hasten and facilitate stability, Braithwaite drew up a plan for the establishment of a Siberian central bank with the sole power of issuing notes, for it then appeared that the Siberians would succeed in suppressing the

Bolsheviks, and that a trans-Pacific trade would certainly evolve between Canada and Siberia. The revolution dragged on, however, and eventually Siberia was incorporated into the U.S.S.R., losing its sovereignty to Moscow.

The maintenance of Canada's recently expanded export trade also appeared on the agenda at the Bank of Montreal annual meeting of 1918 when the shareholders were informed that "the question of opening branches in foreign countries to participate in the business that may arise in connection with reconstruction requirements abroad is one that has received considerable attention from your Directors." Since no one knew what effect peace would have on a Canadian economy that had been radically altered in response to war, the directors decided to conserve the Bank's resources "for the assistance and encouragement of home trade" and to direct their foreign efforts toward strengthening and extending the Bank's relations with foreign banking houses. It was announced, however, that one new foreign agency would be opened in Paris, "not for the purpose of loaning Canadian funds, but to supply necessary banking facilities to Canadians travelling abroad and to further the interests of Canada generally in France." Located in the heart of the French capital in the fashionable Place Vendôme, the new establishment was reported to be in a flourishing condition only a few months after opening for business.

At home, President Meredith told the shareholders:

> As the war ends, all signs point to a great demand for capital for reconstruction, refunding and replacement purposes, and interest rates, in consequence, will in all probability rule high for some time to come. A temporary shortage of all kinds of merchandise, owing to labour having been diverted from domestic to war purposes, also seems probable.
>
> But sooner or later we in this country will, without doubt, have to meet [the] foreign trade competition of cheap and skilled labour, together with advantageous transportation facilities, to a more pronounced extent than Canada has yet experienced. If this competition is to be effectively coped with, the increased efficiency, co-operation and co-ordination to which I have referred are essential. Our best energies must be directed to greatly increased production of our basic, agricultural and other great natural resources. In this way, and by strict economy in our Government, Municipal and personal expenditures, a solution can be found of our difficulties of exchanges, the maintenance of our favourable trade balance and the payment of our war debt. Otherwise, we must look for a shrinkage

FAMOUS BANKING HALL — 1905

The gold-plated capitals adorning the syenite columns and the high coffered ceiling of the banking chamber of 1905 designed by McKim, Mead and White contributed to the aim of making this hall the "focal point of the entire scheme, to which all the other sections of the building are subordinated."

> of business, to be followed by a readjustment of the scale of wages for labour and of the prices of all commodities.
>
> We shall undoubtedly for some years have to pay in relatively high taxation the price of our devotion and patriotism, but I am confident this will be done uncomplainingly, in the belief that all present and prospective difficulties can and will be overcome.

Sir Vincent would appear to have had ample grounds for optimism. During the four years of war, deposits in the Bank of Montreal had increased from $197 million to $470 million and on the other side of the balance sheet total assets had grown from $259 million to $558 million, an almost unbelievable average of twenty-nine per cent per annum. Moreover, the Bank's ability to adjust its operations in response to any major change in economic conditions had been preserved. Over forty-six per cent of its total assets was in the form of "quick assets" – cash, Dominion notes and deposits in the Central Gold Reserves accounting for $122 million, call loans totalling $99 million and balances due from other banks standing at $39 million. The balance of assets was made up largely of security holdings which had grown from $12 million to $110 million and current loans in Canada which had risen from $123 million to $162 million. As an adjunct to this increase in the Bank's domestic business, note circulation had jumped from $17 million to $42 million.

What makes these achievements the more remarkable is the conditions under which they were accomplished. In the course of the war, forty-eight per cent of the Bank's total male staff, or sixty-seven per cent of those of military age, had enlisted in the armed services of Canada or Great Britain and of this number 505 were killed, wounded or taken prisoner and 99 received decorations. It was seemly therefore that the directors should have wished to create a permanent monument to those of the staff who made the supreme sacrifice. With this end in view an international competition was arranged to which sculptors in Canada, the United States and abroad were invited to submit designs for a statue to be cast in bronze which would present a realistic portrayal of a Canadian soldier in battle dress. The winning entry was submitted by an American sculptor, James Earle Fraser, who visited the Main Office in Montreal soon after the awards had been announced.

As it happened, the enormous war-time increase in the number of depositors had made it necessary to reorganize the savings department and install it in larger quarters. This was accomplished by providing space on either side of the corridor built over Fortification Lane joining the old banking house with the great banking chamber designed by McKim, Mead and White some fifteen years before. Fortunately, the same green syenite was obtainable from the original Vermont quarry and it was thus possible to transform the rather simple and austere atrium into a court or propylaeum of lovely proportions and arresting beauty, off which the savings department on one side and a suite of offices on the other were reached through monumental openings between the columns.

This work had been completed before the arrival of James Fraser and so impressed was he by the magnificence of the setting that he suggested that the memorial be given a different and more imaginative interpretation. This was to be expressed by the heroic, draped figure of a woman in the classical Greek manner, executed in gleaming white Serezza marble and representing the triumph of peace and victory.

Fraser's idea being approved, the statue was commissioned and now stands, nine feet in height on a four-and-a-half-foot pedestal, at the top of a shallow flight of steps leading to the propylaeum. The base of the pedestal is sculptured on four sides in low relief, the front bearing the words "Patria," and "To the memory of our men who fell in The Great War." When the statue was exhibited in New York, the noted critic and art editor of the New York *Herald Tribune*, Royal Cortissoz, described it as the finest post-war sculpture he had seen, and wrote of it: "To strike the martial note is the easiest way out. But, to interpret the physiognomy of a goddess at the same time triumphant and mournful, sorrowfully victorious, meditating not upon the thrill of battle, but upon the cost of peace – to do this is to move into a finer air. Mr. Fraser has so moved and, as his marble shows, with a very tender instinct. The final thought about a war memorial must be one of character. That is where this Victory leaves a memorable impression. Mr. Fraser has produced a truly great monument, one with a spiritual vitality."

As a fitting companion piece to the glorious statue, a bronze plaque attached to the marble walls of the propylaeum records the names of the dead together with those of the Bank's officers and directors at the time of its founding and one hundred years later.

Fraser's original conception of a Canadian soldier in full battle array was also commissioned. In order to ensure an appropriate setting for this memorial the directors elected to place it on a pedestal on the triangular plaza in front of the Bank's branch at the junction of Portage and Main streets in Winnipeg, Manitoba. This was the second building designed for the Bank by McKim, Mead and White, and it incorporates a happy marriage of Greek and Roman styles. Completed in 1913, its granite walls are enclosed by stately Corinthian columns and an open portico leads to a large banking hall surrounded on all sides by a gallery. Emanating a sense of permanence and security, the classical style and massiveness of the building provide a worthy background for the statue which, cast in bronze and of heroic size, won the gold medal of the Architectural League at the New York Exhibition of Architectural and Allied Arts in 1925.

FOURTEEN

AMALGAMATIONS AND FRESH ATTITUDES

AMALGAMATIONS AND FRESH ATTITUDES

1.

As World War I ended, the Canadian people had every reason to feel an intense pride in their proven capacities, their magnificent achievements, and the high place they had earned in the world's esteem. Giving of their blood and treasure without stint, they had raised and transported overseas an army as large in proportion to their population as that of any of their allies, and under Canadian leadership that army had distinguished itself on a dozen famous battlefields. In addition, they not only had paid most of their own war costs but had been able to extend substantial credits to the mother country. Finally, but certainly not least psychologically, the Canada that had entered the war impelled by colonial loyalties had emerged from it endowed with the strength of nationhood.

After a short interval of shock and readjustment, North American industry began to respond to Europe's desperate need for food and material for reconstruction. Coupled with the vastly increased purchasing power of both Canadians and Americans, the European demand created a boom that drove commodity prices to heights never before known, and as Sir Vincent Meredith had predicted, the demand in Canada for financing among farmers, manufacturers and business men generally mounted steadily. In 1919 the federal government decided to retain, on a temporary basis, the provisions of the 1914 Finance Act, and with the continuation of rediscount privileges, bank-note circulation, loans and discounts rose to unprecedented levels. As credit was rapidly expanded, so were inventories and futures buying, leading to a fever of speculation that by November 12, 1919, had driven the interest rate on call-money in New York up to thirty per cent. During the span of the runaway boom, Canadian loans and discounts of the Bank of Montreal rose from a total of $162 million in 1918 to $238 million in 1920, an increase of nearly forty-seven per cent. At the same time the Bank's investment portfolio declined from $110 million to $56 million, and in 1919 the quarterly dividend was raised from 2½ to 3 per cent, thus incorporating in the regular dividend the two-per-cent bonus that had been paid regularly since 1912. That same year $4 million was credited to the Rest, but most of it came from premiums on the stock issued to cover the Bank of British North America amalgamation.

In response to the feverish environment, the race among the chartered banks to establish branches had resumed in 1917 and resulted in expansion from that year's total of 3,306 branches to 4,676 in 1920. While the Bank of Montreal increased the number of its branches from 182 to 319 over the same period, 79 of these resulted from its acquisition of the Bank of British North America. Other branch activity saw the closing of the Trafalgar Square office in London, England. Once the majority of Canadian troops had been repatriated, the nearby branch in Waterloo Place was sufficient to handle the Bank's business in the West End. Both offices will be long remembered by thousands of Canadian soldiers on leave who gathered there during the weary months of waiting for embarkation orders that would return them to Canada and their homes.

In April, 1920, "a substantial interest" in the Colonial Bank was purchased in furtherance of an announced policy that called for the Bank to acquire "close connections with Banks of undoubted standing already firmly established in the field rather than to open and operate branches of our own at distant points." The defeat of the Colonial's effort to achieve representation in Canada through the Bank of British North America had obviously left a serious gap in its business that the new arrangement was designed to fill. The Colonial Bank owed its origin to the same wave of British financial interest in the colonies that had resulted in the formation of the Bank of British North America in the 1830's, and the two had divided the colonial field between them, the Colonial Bank operating largely in the West Indies and West Africa, and the Bank of British North America choosing the Canadas, the Maritime Provinces and Newfoundland. This move to bring about a closer working arrangement between the Colonial Bank and the purchaser of the Bank of British North America nearly a century later was perhaps more than mere coincidence: Canadian trade and investment were rapidly expanding in the area served by the Colonial Bank and while the Bank of Montreal had had a branch in Mexico since 1906, other Canadian banks were opening offices throughout the Caribbean. The arrangements with the Colonial Bank were concluded by increasing the capital of the Bank of Montreal by $2 million, bringing the total to $22 million. The new shares were made available to the Bank's stockholders on the basis of one new share for every ten held.

The post-war boom was over in less than eighteen months. Triggered by a break in the speculative raw silk market in Japan, the cascade of prices set in. As speculators rushed to cover their positions and merchants strove to unload swollen inventories, all markets were affected, and by the middle of May, 1920, such basic commodities as sugar and corn had begun declines that would see their prices fall by more than sixty per cent. The desired end to inflation was thus accomplished very abruptly, but it was attended by lingering complications in the form of German reparations, Soviet intransigence, and the collapse of half the currencies of Europe.

On July 16, 1920, the Canadian government announced the disbandment of its wheat-marketing organization, the Canadian Wheat Board, after one year's operation, and by December the price of wheat had fallen from $2.85 to $1.80 a bushel on the reopened Winnipeg Grain Exchange. Between 1920 and 1922 the general wholesale price index in Canada fell from 203 to 127, and with this sharp drop in prices came reduced production, wage cuts, unemployment, and the beginning of five years of stagnation. While only six per cent of the labour force was actually unemployed, average wage rates declined fifteen per cent. The gross value of manufacturing production dropped precipitously from $3.7 billion in 1920 to $2.5 billion in 1921 and the total value of Canadian imports and exports fell from $2.6 billion to $1.6 billion over the same period. Inevitably, the loans of the banks contracted but the decline in domestic discounts amounted to less than ten per cent, a relatively minor decrease when compared to the deterioration in other sectors of the economy.

The seeds of the crash of 1920 had been evident in Canada for some time. Between the turn of the century and the outbreak of the war, when economic activity in Canada had reached undreamed of heights, price increases had averaged only about 2½ per cent a year. Between 1915 and 1920, however, prices more than doubled, and the pressures of such drastic inflation began to take their toll when peace returned. Instead of glorying in their war-time achievements, Canadians found themselves disillusioned and embittered. Behind this growing mood of discontent were many and diverse causes: rumours of widespread profiteering, high living costs and the refusal of the government to control them, the belief current among western farmers that they suffered exploitation at the hands of the railways, the eastern manufacturers and bankers, and the loan sharks, and the tedious delays that attended the return to civilian life of the men from overseas who were still outraged by the conscription fiasco of two years earlier. The world that was to be fit for heroes to live in seemed cynically forgotten. With widening discontent came the rise of radical labour movements, hitherto unknown in Canada, and in May, 1919, the Winnipeg General Strike, during which the Central Strike Committee virtually ruled the prairie metropolis for several days. The strike was eventually broken after the Royal North West Mounted Police arrested the leaders on charges of sedition, but it and similar episodes cost Canada a total of 3,400,000 man working days in 1919, a figure that was not exceeded until 1946. Dissatisfaction with the established order also found expression in the growth of wheat-marketing co-operatives and in the election of farmers' political parties.

As the largest institution of its kind in the country, and an outstanding symbol of St. James Street power, the Bank of Montreal received a heavy volley of criticism for making excessive war-time profits before the crash of 1920 and then for pursuing harshly restrictive lending policies. As to the first charge, Sir Frederick Williams-Taylor could truthfully assert that, alone among prices, interest rates on bank loans had not risen, as they had in other countries, and about the second, that when credits had become "frozen" by deflated prices and vanished markets, the banks had come to the rescue. "Speaking for our own institution," said the General Manager in 1921, "we have maintained to the limit of prudence our acknowledged century-old policy of carrying deserving customers in difficult times."

In point of fact, the Bank of Montreal had been spared many of the problems experienced during the trying post-war years by Canadian industry and commerce. For one reason, no employment difficulties were encountered. Enlisted members of the staff had retained seniority and those who wished to continue in the Bank's employment were taken back without replacing the large number of women whose services were still required. Harmonious employee relations were also furthered by the award of large annual bonuses to the staff, some as high as thirty-five per cent of salary, during the period of inflated prices.

The need for a larger staff was paralleled by an increase in the number of directors. In 1919 Edward W. Beatty, the first Canadian-born president of the Canadian Pacific Railway, was added to the Board, and a further increase was made in 1920 when Sir Arthur W. Currie, the commander of Canada's forces overseas, and the newly appointed principal and vice-chancellor of McGill University, together with Sir Lomer Gouin, the recently retired Premier of Quebec, joined the directorate.

But if the Bank escaped the customary dislocations of depression it shared anxieties of other kinds: the burden of servicing a combined federal and provincial debt amounting to more than three billion dollars, the depreciation of the Canadian dollar by nearly twenty per cent in New York, and the deterioration of world trade generally. Fortunately, most of the national debt was held internally and Canada had become a creditor of Britain and her allies to the extent of $420 million. Fortunately also, the depreciation of the Canadian dollar in terms of United States currency made Canadian securities attractive in New York, and reinforced the eagerness of Americans to invest money in Canadian developments, particularly in the mining, pulp and paper, automobile, and electric appliance industries.

To Sir Vincent Meredith, with more than fifty years of banking experience, the time-tested remedies held the answer to Canada's problems. The boundless west, however, evidently no longer beckoned as it had during the first decade of the century, for when the statistics of the 1921 census were published it was discovered that although 1,800,000 immigrants had entered Canada from abroad since 1911, nearly as many persons had left the country for the United States, so that the total population increase of 1,600,000 was about equivalent to the natural increment. Nevertheless, Meredith did not despair, and in 1922 returned to his former thesis: "Our country's natural resources exist in abundance; we have an exhilarating climate, fertile soil, immense forests, rich deposits of minerals both base and precious, providing opportunities for livelihood that should attract the surplus population of the Old World. . . . It is gratifying, therefore, to learn that the Dominion Government, in co-operation with the Provincial Governments and private organizations, is to embark upon an energetic immigration policy, of which the first-fruits, we may hope, will appear next year."

Meanwhile, however, the Americans had passed the Fordney-McCumber Tariff, virtually excluding Canadian farm products from the United States market, and, notwithstanding the broadened economy, it appeared that Canadian prosperity and well-being were still dependent, as they had been throughout more than three hundred years of history, on conditions elsewhere over which Canada had little control.

2.

Directly or indirectly, the stock-market boom and debacle of the early 1920's were responsible for one of the most sensational incidents in Canadian banking history – the announcement, made in December, 1921, that the Merchants Bank of Canada would be absorbed by the Bank of Montreal as soon as a general meeting of shareholders had ratified the unheralded arrangement.

As noted in a previous chapter, the Merchants Bank was founded in 1861 by Hugh Allan and expanded rapidly after taking over the foundering Commercial Bank of the Midland District seven years later. Although the bank gained some unfortunate notoriety as a result of Allan's connection with the Pacific Scandal that unseated Sir John A. Macdonald's first Confederation ministry and during the 1870's had to reduce its capital because of the "Jay Cooke depression," it was able to establish itself in both Quebec and Ontario and to become one of the first chartered banks to open branches in the northwest. With the early foothold established there, the Merchants became one of the most aggressive banks in Canada during the boom of the 1900's.

By 1921 branches of the Merchants Bank of Canada numbered over four hundred and extended from the Maritimes to Vancouver Island, and the annual statement issued in June of that year showed a paid-up capital of $10 million, a Rest of $9.4 million, and total assets of more than $190 million; dividends of twelve per cent had been maintained for several years. Six months later the Canadian financial and business worlds were stunned by the announcement that the institution was to be taken over by the Bank of Montreal on the basis of one share of Montreal stock for two shares of Merchants stock and a cash settlement of $1,050,000. A special general meeting of the Bank of Montreal shareholders, held soon after, ratified the transaction and voted a new stock issue of $5,250,000 to complete the transfer of ownership. The Bank's capital and Rest were then each raised to $27,250,000 and the number of branches increased to 623, about a sixth of those acquired from the Merchants Bank being judged redundant or hopelessly unprofitable.

When the circumstances of the merger were made public by Sir H. Montagu Allan, the Merchants' erstwhile president and son of the founder, an astounding situation was revealed. Prior to the denouement, the directors of the Merchants Bank had become suspicious that they were not being kept fully informed of the bank's position and as a result had arranged for H. B. Mackenzie, who had left the Bank of Montreal in 1920 to become General Manager of the Royal Trust Company, to conduct an examination of the books. He discovered among other things that two of the bank's largest customers had been allowed to increase their combined loans from $807,200 to $5.8 million without the directors' cognizance, much less their authorization. Mackenzie then recommended that $7.9 million be taken from the rest fund to provide for probable losses. The directors, however, fearing unfavourable public reaction, immediately turned to the Bank of Montreal with the results described above. Referring to the transaction in his next annual report, Sir Vincent Meredith told the shareholders that, in his judgement, "the prompt action of your directors, subsequently ratified by you, averted a situation that might otherwise have proved serious to the country at large, and secured the shareholders [of the Merchants Bank] from losses greater than were suffered."

The public were less agreeably impressed. Not having been consulted or informed, they condemned both the methods by which the take-over had been consummated and its hasty approval by the Minister of Finance. The resulting pressures led Hon. W. S. Fielding, who had succeeded Sir Henry L. Drayton as finance minister on December 29, 1921, following a Liberal Party victory at the polls three weeks before, to lay charges of making false returns against the President and General Manager of the defunct bank. In the ensuing court proceedings both were acquitted, the General Manager, D. C. Macarow, on the grounds that he had been duped by the bank's chief accountant, the President because, in the words of the Chief Justice of the Court of Special Sessions, "The president cannot be charged with negligence in not doing what it was impossible for him to do."

The disappearance of the Merchants Bank of Canada underscored what many believed to be the greatest weakness of Canadian banking, namely the absence of government inspection to inform the public of the true condition of the country's financial institutions. The criticism had long existed but in the west and in the rural sections of the older provinces the incident gave rise to more sinister interpretations. Whereas in 1913 there had been twenty-seven chartered banks, by 1922 there were only seventeen, a fact that led agrarian and socialist reformers to see a "money trust" in the making, if one was not already in existence. Western farmers were still outraged by the abandonment of government wheat-marketing controls; and the combination of a world-wide slump in commodity prices and the necessity of keeping up payments on land and implements bought in boom times and at boom prices led Canadian agricultural producers everywhere to demand a searching investigation into all aspects of banking with emphasis on inspection and the financing of rural credits. As would be expected under such circumstances, the sittings of the parliamentary committee on banking in 1923, prior to the decennial review of the Bank Act, produced a wide variety of opinions on the functions and practices of the Canadian banking system.

Many witnesses were heard, among whom George Beavington, an Alberta farmer, and Sir Frederick Williams-Taylor, appearing as president of the Canadian Bankers' Association, can be taken as representative. Their views were diametrically opposed. The farmer condemned the Canadian banks for their alleged failure to satisfy the needs of the country's primary producers and consumers; the expert challenged the contention as uninformed and dangerous. The Canadian banking system, said Williams-Taylor, "is well adapted to meet all the banking requirements of production and consumption, as well as those of the mercantile community, and . . . under its operation the savings of the people of the Dominion are encouraged, mobilized, and made available for the agricultural, commercial, industrial, and financial needs of the community." In substantiation, he also reminded the committee that "the Chartered banks of Canada were able to meet all the unprecedented banking demands of the period of the war with its vastly increased volume of production, distribution, and international trade, and, in addition, to finance, pending the issue of public loans, the exceedingly large temporary borrowings in Canada of the Dominion and Imperial Governments." As for the need of farmers and other individual producers to obtain longer credits than sound banking practice could justify or the law permit, the solution, Williams-Taylor insisted, lay in the creation of loan organizations for that specific purpose, not in endangering the entire credit structure of the country by embarking on a course which would inevitably lead to a depreciated currency, rising commodity prices, speculation, and a general demoralization of business. The professional viewpoint won the day. Although members of the committee were sympathetic to the farmers' problems, few were prepared to sponsor radical change in a banking system that had served Canada so well.

The Merchants Bank revelations gave rise to a number of important amendments to the Bank Act but government bank inspection was not among them. During the debate in the House, Fielding pointed out that government inspection had been considered in the course of every previous revision of the Bank Act and every finance minister in turn had opposed it as unwise. With Canada's widespread system of branch banks, the Minister claimed, any system of government inspection would bring into being a large and costly bureaucratic apparatus that could provide no better guarantees against fraud and mismanagement than the independent audit system then existing in Canada. In view of the finance minister's opposition, the subject was again shelved and the House was satisfied with the provisions for more revealing audits and the requirement that whenever a bank proposed to make advances under Section 88 of the Bank Act a notice to that effect should be registered with the Assistant Receiver General. The same session of parliament also witnessed the passage of a statute placing the temporarily extended Finance Act of 1914 on a permanent basis. In recommending its passage, the Minister of Finance said, "It may be said that the war being over we no longer have any need for the act, but experience has shown that the act is still required; indeed, I am inclined to think that something of the kind will have to become almost a permanent part of our financial system."

Almost as soon as it had left the presses of the King's Printer, the revised Bank Act of 1923 was challenged by events. Before the summer had passed, the Union Bank of Winnipeg announced the reduction of its reserve fund from \$6 million to \$1.75 million, the Home Bank in Toronto failed under shocking circumstances, La Banque Nationale was saved only by the intervention of the Quebec government, the Standard Bank also readjusted its reserve position, and the ailing Bank of Hamilton was absorbed by the Canadian Bank of Commerce. Confidence in the whole banking system suffered, and early in the parliamentary session of 1924 a resolution was adopted which instructed the Committee on Banking and Commerce to initiate reforms. By that time the Home Bank had been in the hands of a liquidator since the previous August, the Vice-President, five other directors, the chief accountant and the chief auditor had been indicted on criminal charges, and a number of other banks had combined in making an advance to the liquidator that would enable him to make an interim payment of twenty-five per cent to the depositors and other creditors.

Again the Committee on Banking and Commerce of the House of Commons invited opinions on bank inspection from experts, including C. E. Neil, the

Acting President of the Canadian Bankers' Association, Sir William Stavert, a Montreal financier who had played a prominent role in the liquidation of several banks, including the United States Banking Corporation in Mexico, and John W. Pole, National Bank Examiner, Washington, D.C. The two principal objections to any alteration in the existing system of examination had always been that the government might incur liability to depositors and other creditors should it undertake to give a bank a clean bill of health, and, secondly, that the sum of money involved in examining some four thousand separate banking outlets would not only be colossal, but could not fail to open wide the door to political patronage and inefficiency.

Sir William Stavert is given the credit for proposing a solution of the problem. Basing his proposal on exhaustive experience, he suggested that a person with a wide experience in banking be given authority to examine the banks' own inspection records, their credit information files, and the reports of the shareholders' independent auditors. He would then report to the Minister of Finance any irregularities or dangerous situations he might discover. Following this procedure, Stavert pointed out, a qualified inspector need visit only the head office of each chartered bank once a year and discuss with the management any matters that seemed to him to require explanation. The upshot was the introduction of a bill by the Acting Minister of Finance, J. A. Robb, to create the office of Inspector General of Banks with the full powers recommended. The new officer was to be appointed by the Governor in Council on the recommendation of the Minister of Finance and the costs of the audit were to be paid annually by the chartered banks on a pro rata basis. The enactment also protected the government from incurring "any liability whatever to any depositor, creditor or shareholder of any bank, or to any other person, for any damages, payment, compensation or indemnity which he may suffer or claim," and instructed that "no such payment, damages, compensation or indemnity, nor any claim therefor, shall in any case be authorized, paid or entertained by the Government."

A year after the creation of the post of Inspector General of Banks, however, the federal government admitted partial culpability in the Home Bank failure because although the condition of the bank had been brought to the attention of the Department of Finance in 1916 and again in 1918, the then Minister of Finance had failed to take appropriate action for fear of precipitating a financial crisis in war time. As a result, an act was passed in 1925 to reimburse Home Bank depositors in an amount not to exceed three million dollars and on a basis of pecuniary need. Thus depositors with claims up to five hundred dollars finally received thirty-five per cent of their claims in addition to the twenty-five per cent interim payment from the liquidator. Some claims for deposits above five hundred dollars were adjudicated by a commissioner.

The Bank of Montreal refrained from comment on the Home Bank episode until the annual shareholders' meeting of 1924, when President Meredith noted that the publicity accorded it was "out of all proportion to its effect on Canada's financial structure." Nevertheless, the extensive coverage given the bankruptcy, the last of its type, incidentally, to occur in Canada, probably helped to prepare public opinion for the further consolidation of banking in a few strong institutions. As a result, the merger in 1925 of the Bank of Montreal and Molsons Bank, with its head office also on St. James Street, provoked little comment, favourable or unfavourable. The announcement of the event, in fact, seemed to formalize an alliance that had existed for many years between members of the Molson family and the Bank of Montreal.

Although the Molsons Bank had first received a charter in 1855, the Molsons had been engaged in banking operations long before that, either as officers of the Bank of Montreal or in connection with their brewing business. When their own bank was established, it maintained friendly and to some extent even complementary relations with the Bank of Montreal throughout its lifetime. While the older institution was concerned mainly with commercial business, the younger, especially at the outset, devoted its resources to financing the agricultural community with a view to increasing the production of barley and lesser grains required by the Molsons as brewers and distillers.

The going was not easy. In 1870 the capital did not exceed the original $1 million while deposits were $694,000 and discounts $1.4 million. In that year Wolferston Thomas, then serving as manager of the London, Ontario, branch of the Bank of Montreal, was appointed Cashier. During the next four years the capital was doubled and nine new branches were opened in Ontario, almost all of them in thriving agricultural districts. But the depression that began in the 1870's caused retrenchment and it was not until 1898 that any real expansion was resumed; thereafter, and until World War I, a policy of growth was vigorously pursued. In 1900 total assets were $20.6 million and by 1914 they had increased to $50.4 million. But following the peak of 1920 Molsons Bank experienced a severe decline in profits and the directors found it increasingly difficult to earn the customary dividend of twelve per cent. As F. W. Molson said of the bank in 1924, "Conservatism has marked the policy of its

FISH-DRYING IN THE ATLANTIC PROVINCES

One of the world's greatest fishing grounds is located on the continental shelf off Canada's east coast where cold ocean currents sweeping south past Labrador meet the warm waters of the Gulf Stream.

Four hundred years ago European fishermen were hauling in their catches on the Grand Banks off Newfoundland. The English and French, some of whom later ventured along the shores of the other Atlantic Provinces, dried their fish in the coves along the coasts, but many years elapsed before little settlements began to appear. Then other goods, such as furs and timber, were shipped to European markets, but they never replaced fish as the region's most important product.

In 1900 dried, salted cod was the major export item in a marine harvest which included lobsters, oysters, halibut, mackerel, haddock, herring, Atlantic salmon and sardines. Fishermen working from fleets of schooners made their living using the methods handed down through the generations. The new century signalled an era of change, however. Engines began to replace sails, and the appearance of draggers or trawlers on the Banks after 1908 aroused violent opposition from the in-shore line fishermen who were unable to invest in the new equipment and feared for their livelihood.

The greatest changes in the Atlantic fishing industry, however, resulted from improved transportation and new refrigeration facilities. The demand for dried fish decreased and was replaced by the market for fresh and frozen products. The Newfoundland fisheries, because of the island's distance from North American markets, continued to concentrate on supplying the remaining markets for dried cod, which were mainly in the Mediterranean and Caribbean areas. The other provinces, however, faced a long period of adjustment to the processing revolution.

Painting by George Menendez Rae


SCOTT & SONS
George Menendez Rae

directors from the first, their aim having been security rather than size," but when extensions had to be granted on some of the larger loans, the limited resources of the bank became a serious handicap and the directors turned to the Bank of Montreal.

The Bank appointed H. B. Mackenzie, General Manager of the Royal Trust Company, to carry out an evaluation of the assets of Molsons Bank. To Mackenzie this was, of course, no new task. As General Manager of the Bank of British North America at the time of its merger with the Bank of Montreal he had been largely responsible for making the necessary arrangements on behalf of the British bank; and in 1921 he had been called in to investigate the affairs of the Merchants Bank. The Bank of Montreal, therefore, had acquired the services of one of the foremost experts on bank amalgamations in the Dominion, under whose direction the books of Molsons Bank received a careful examination and no less than one hundred and fifty separate loan accounts were subjected to a detailed review. Despite "a cut to the bone in the appraisal of securities," and a reduction of the Rest from $5 million to $3 million, Mackenzie's estimates resulted in what was considered by the Molsons directors a very favourable offer. As the President, F. W. Molson, told the shareholders: "Your Directors had a good property to sell and were able to obtain a good price for it. That reason, indeed, principally induced them to accept the terms offered by the Bank of Montreal." In calling on the shareholders to ratify the agreement of sale, he continued: "In merging this institution with the venerable and powerful Bank of Montreal the interests of both will be promoted" and "there is the satisfaction of knowing that as shareholders of the Bank of Montreal you will participate in that recovery of debts written off which we feel confident will occur." The par value of Molsons stock was then one hundred dollars, as it had been since 1903, and the merger called for the payment of two shares of Bank of Montreal stock and thirty dollars for every three shares of Molsons, meaning that at current market quotations Molsons shareholders received the equivalent of $176 per share for their stock. The new shares issued in this connection increased the paid-up capital of the Bank of Montreal to a total of $29,916,700.

When the acquisition of Molsons Bank was ratified at a special general meeting of the shareholders of the Bank of Montreal on December 23, 1924, it had 125 branches, a paid-up capital of $4 million, deposits of $54 million, loans in Canada of $41 million, and total assets of $68 million. One hundred and seventeen of the branches were in Quebec and Ontario and brought the total number in the Bank of Montreal system, both foreign and domestic, to 617 (there having been a considerable reduction during 1923-24 in the number of branches, including many former offices of the Merchants Bank). Provision was made at the annual meeting of the Bank of Montreal in December 1924 for an increase in the number of directors and in the succeeding July F. W. Molson was appointed to the Board.

The head office of Molsons Bank at the corner of St. James and St. Peter streets, built in 1866, is still in operation as a branch of the Bank of Montreal and still bears the name of the original owners. Noted for the gaiety of its Victorian-baroque façade and the lavish treatment of the interior, the structure is also unusual in bearing both the signature of the architect, George Brown, and bullet marks that memorialize street fighting between the supporters of D'Arcy McGee and Bernard Devlin during their post-Confederation election campaign.

3.

The assimilation in rapid succession of the Bank of British North America, the Merchants Bank and Molsons Bank imposed pressing burdens on the Bank of Montreal. Not only was the number of branch outlets more than tripled but hundreds of new employees were added to the staff. In the one instance, every branch taken over had to be carefully inspected and a decision reached regarding its retention or disposal; in the other, questions of seniority arose that could be resolved only by the exercise of great care and grave deliberation.

Nor were the demands on management confined to domestic and internal matters. The transfer of the world's capital market from London to New York required a reorientation both in outlook and in business transactions. Moreover, in San Francisco, where difficulties in acquiring the Bank of British North America branch had led to the incorporation of the British American Bank, it was subsequently found necessary, for reasons connected with the granting of discounts under California law, to take the further step of opening an agency of the Bank of Montreal. Although it had the same address as the British American Bank, it was a separate legal entity and even when the corporate name of the British American Bank was changed to "Bank of Montreal (San Francisco)" in 1927, the agency remained separate. Another change in the Bank's representation in the United States occurred in 1924 when the branch at Spokane, Washington, which had been in operation since 1903, was closed. Its local business and fixed assets were transferred to the Old National Bank of Spokane.

In Mexico an unsettled political atmosphere had kept the Bank's operations dormant between 1912 and 1920. After the election of President Obregon, however, business conditions improved gradually and a new bank of issue, the Banco de Mexico, was established in 1925. By that time the Bank of Montreal had opened four new branches in Mexico (at Veracruz, Puebla, Guadalajara and Monterrey), and two more were added in 1926, a second office in Mexico City and one at Tampico. While the conservative nature of the business was repeatedly stressed at annual meetings, the Bank had succeeded in becoming the largest banking institution in the Latin American republic.

Out of this complex of influences and pressures came the most extensive internal reorganization yet undertaken in the Bank's history. The war-time work-load and the absorption of the Bank of British North America had already resulted in the appointment of four assistant general managers, and the need for departmentalization in the interests of internal efficiency and improved customer relations soon became apparent. In January 1919, therefore, the Foreign Department was created, followed in the 1920's by the Foreign Exchange, Routine Efficiency, Bank Premises and Special Debts departments.

Perhaps the most important development of this nature, however, was the formation of the Securities Department. The Bank of Montreal had for a long period taken an impressive part in underwriting and syndicate operations relating to bond issues in Canada, London and New York, principally for Canadian governments, municipalities and railways. When domestic war financing proved so successful, many of the institutions for which the Bank acted as fiscal agent began more and more to look to the home market as a source of funds. In 1922 G. W. Spinney was put in charge of these dealings and on his recommendation the Securities Department was formed under A. J. L. Haskell four years later. Besides enabling the Bank to provide detailed advice on new issues to governments and other public borrowers, the department dealt in securities for the Bank's own account and for accounts of its customers. In conjunction with head-office security operations the Montreal Company of New York was incorporated in December, 1926, as a wholly owned subsidiary to engage "in the underwriting and distribution of investment securities" in the United States.

More interesting from a lay point of view were the changes made by the Bank in its advertising and publicity in adapting itself to the new environment. Prior to World War I, and indeed since the trying days of Benjamin Holmes, the Board had restricted its communications with the public to the publication of the annual reports and the insertion in newspapers of advertising "cards" similar to those favoured by lawyers and doctors. The same aura of dignified aloofness, as Stephen Leacock observed, had expression in the banker's habit of conducting most over-the-counter business with studious detachment. The break with tradition came with the need to sell war bonds, when branch managers were urged to woo the small depositor and were supplied with printed literature to convince him that he was an important customer. It was the absorption of the Merchants and Molsons banks, however, that really impressed upon the Bank of Montreal the need for a serious revaluation of its public image. Both these banks had extensive branch systems, with many of their offices located in small towns to serve small business men and farmers. The methods and attitude of the staffs of these banks in dealing with that segment of the public were not lost on the management of the Bank of Montreal.

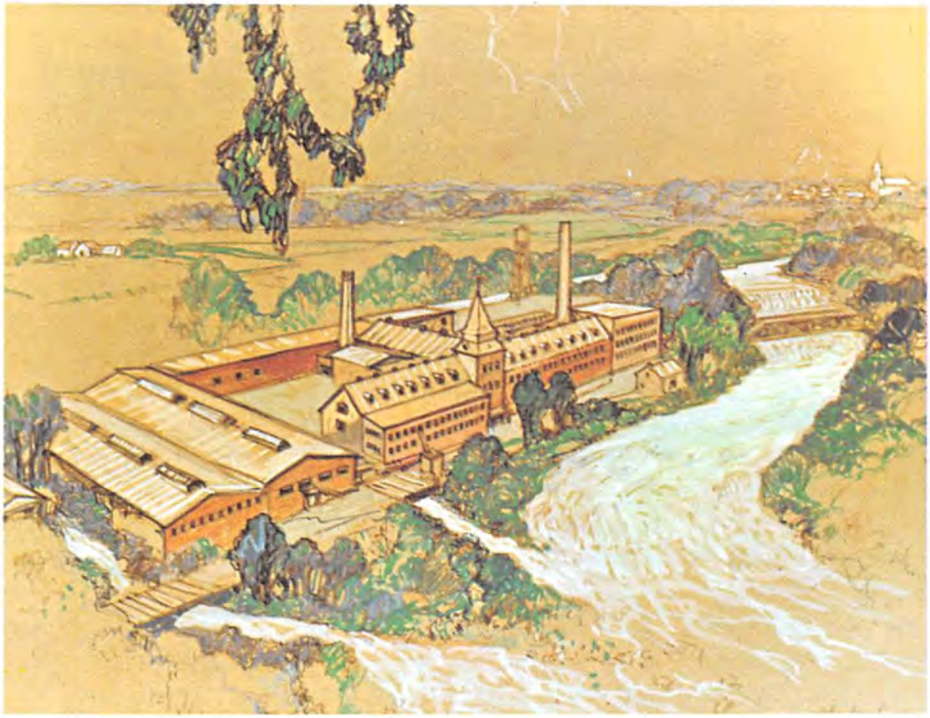
It was hardly through coincidence therefore that the General Manager at the annual meeting in 1926 should have drawn the attention of the shareholders – and the public – to a series of booklets and other publications that had recently been undertaken. Enumerated were such items as the monthly *Business Summary* aimed at the commercial and financial community, weekly crop reports, booklets dealing with Canada to be placed in the hands of prospective immigrants, and more than 150,000 copies of several authoritative but popularly written treatises on scientific farming methods. "Not all of these services perhaps are directly remunerative," Sir Frederick Williams-Taylor explained, "but we believe they have all been of very definite value. They are broadening the facilities available to our clients, creating goodwill, and demonstrating that the Bank is keenly concerned in the public welfare and in furthering the general interests of this country."

Without the whole-hearted co-operation of the staff, of course, any attempt to change the public image of the Bank would have been defeated. Paralleling the institutional campaign, therefore, was another which seems to have evolved in response to circumstances rather than to conscious planning. The first evidence of it can be read in the Bank's circulars during the war. These instruments of internal communication had been in use from time immemorial but until World War I had remained little more than terse procedural directives. With the first Victory Loan their character underwent a subtle change and by the time the war ended they had become both discursive and persuasive. This trend was continued throughout the 1920's and a better rapport was thus established between Head Office and the widely dispersed staff, and a new dimension was added to an esprit de corps already based on leadership and long-established employee benefits.

When it is recalled that the management was seriously short handed until demobilization had been completed late in 1919, the complexity of the task that had devolved upon the executive and supervisory personnel becomes even more impressive. But what is most astonishing is that the break with century-old custom and tradition should have been accomplished through the leadership of two men whose banking experience had been gained in a wholly different milieu. It is obvious of course that the introduction of new attitudes and practices must have been largely the result of collaborative effort; nevertheless, all final administrative decisions still had to be made either jointly or individually by Sir Vincent Meredith and Sir Frederick Williams-Taylor, the team that had been given direction of the Bank's affairs in 1913. Policy decisions technically remained the prerogative of the Board but they were made with the advice of the President and General Manager. It was to the administrative adaptability of these men, coupled with their inflexible adherence to time-tested banking principles, that the Bank owed its remarkable expansion during the first decade of its second century in business.

4.

Though five years were required for the Canadian economy to recover from the shock of 1920, the United States entered a vigorous economic upswing in 1922. Primarily responsible for the old familiar lag, of course, was Canada's continuing dependence on the marketability of a single export product. When the price of wheat tumbled everything fell with it: the western farmer's ability to pay his inflated debts, the earnings of a burdensome transportation system built mainly to service the grain trade and the domestic market for manufactured products. Complicating Canada's position was the rise of the United States to world financial leadership before either the American government or the people could recognize, much less accept, the responsibilities their new eminence had thrust upon them. Adopting a policy of undiluted economic nationalism, the administration in Washington not only insisted on the full payment of enormous war debts but demanded that they be paid in gold. The effect of this policy on the debt-ridden countries of Europe was to increase budgetary and foreign trade deficits, to magnify currency depreciation, and to further prolong reconstruction. It was 1924 before the Americans began to realize what havoc they were creating and took steps to rectify their mistakes



PULP AND PAPER INDUSTRY – 1920'S

A small mill of the Rolland Paper Company was erected beside the North River near St. Jerome, Quebec, in 1882 to produce fine papers. Within forty-five years it had grown into the large complex seen in this water-colour.

Paper, first produced in Canada in 1803, was made exclusively from rag stock until successful experiments with wood pulp in the 1860's led to the gradual adoption of this material for lower quality papers.

The number of pulp and paper mills in Canada increased sharply after 1900 when the spiralling demand from the United States for wood pulp led to the imposition of bans on the export of soft wood logs cut from Crown lands. In 1911 newsprint was admitted to the United States tariff-free and the value of paper production in Canada began rising steadily, reaching its pre-depression peak of $193 million in 1929.

by the implementation of the Dawes Plan. In Great Britain alone some measure of stability and economic self-sufficiency had been achieved, but a host of new problems had appeared in connection with the world-wide transition from a coal and steam economy, on which Britain's commercial greatness had been based, to the oil and electricity economy that had begun the transformation of American industry two or more decades before World War I.

Even had the great martial cataclysm never happened, the second industrial revolution would have altered the balance of world power. As it was, the conflict simply speeded up a process made inevitable by America's abundant supplies of oil and electric energy, mass production techniques evolved to use them, and protected market of more than a hundred million people. The dynamic expansion of the American economy is strikingly reflected in the statistics of the automobile industry. In 1914, production was 573,000 units, of which 4½ per cent were trucks and buses. By 1917 the total had increased to 1,874,000 vehicles of all kinds excluding farm tractors. In 1922 output reached 2,554,000 units, rose to 4,358,000 in 1928, and to 5,337,000 in 1929. By that time the automobile, directly and indirectly, was responsible for over one-tenth of all employment in the United States and the productive energy available to the American people had grown from less than one horsepower per person in 1900 to twelve horsepower per person in 1930. Just as significantly, the tremendous proliferation of automotive vehicles triggered an enormous expansion of manufacturing to meet the demand for consumer goods resulting from the increased purchasing power of the population. From a Canadian point of view, one of the more interesting by-products was the sudden and unprecedented demand for newsprint that developed during the 1920's and was responsible for the establishment of Canada's modern pulp and paper industry. Its spectacular growth arose from the need of publishers to add more pages to their newspapers so that manufacturers of automobiles, radios, home appliances and other consumer goods could advertise their wares to a newly affluent public.

While some of the effects of these developments in the United States were transmitted to its northern neighbour, it was not until the annual meeting of 1925 that the President of the Bank of Montreal felt he could speak with guarded optimism about Canada's future. "There is no question but that the trend of business is slowly but surely upward," said Meredith, citing as evidence the largest car loadings on record, a $500-million wheat crop, and a favourable trade balance of $361.4 million, the largest since 1919. These emphatic gains, however, had given rise to a fear of Americanization "because of the large sums of money coming from the United States for investment in manufactories and other enterprises in this country." And indeed, American investment in Canada rose from an estimated total of $1.63 billion at the end of 1918 to $4.66 billion in 1930, while England's capital commitments in the Dominion remained relatively static, amounting to $2.73 billion and $2.77 billion in the same two years. One reason for this tendency, of course, was New York's replacement of London as the world financial centre and the diversion of Canadian public issues to Wall Street. Another factor was increased direct investment by Americans in Canadian mines and forests and the establishment of subsidiary manufacturing plants. Criticism of these developments was in part emotional, stimulated by such incidents as the "who won the war" controversy. Having proved to themselves by their own part in the war that they were worthy partners of Great Britain and no longer poor relations, many Canadians, imbued with a new spirit of freedom, feared their independence might be jeopardized by the American assault on their natural resources.

In point of fact, however, American branch manufacturing plants were attracted to Canada mainly to gain access to export markets that their own country's tariff policies had closed to them, and for that reason much of the American investment could have been considered a bulwark rather than a threat to Canadian sovereignty. An outstanding example of such a situation was the Canadian automobile industry which, thanks in part to Canada's advantageous tariff agreements, expanded at an even greater rate than the same industry in the United States, total production increasing from 66,000 vehicles in 1921 to 263,000 in 1929, a figure that would not be surpassed until 1948. Investment in Canada's mines and forests, on the other hand, was solely to obtain the raw or semi-manufactured materials that were needed by the burgeoning American consumer-goods market and could not be obtained economically in the United States. Canada could easily have imposed export duties – and perhaps have gained both respect and revenues for so doing – but it was decided that development capital, whatever its source, would profit Canada more in the long run than inhibitory legislation. As Meredith told the Bank of Montreal shareholders, "I do not share this fear [of Americanization] but rather welcome the flow of money which must assist in the development of our natural resources, give employment to labour and increase our exports to other countries."

The continued improvement of business conditions in Canada bore witness to the wisdom of this stand. When the shareholders of the Bank of Montreal next assembled the economic climate had changed phenomenally. Gone was the need for studious appraisal or weighing the bad against the good. "A broad survey of trade conditions in the year under review finds much to hearten and little to discourage," President Meredith stated at the outset of his annual address in December 1926, and in conclusion affirmed that "Canada has emerged from the shadow of restricted business, unsatisfactory earnings and indifferent balance sheets and the trend of business is now distinctly upward in practically all lines of trade. I cannot see any indication that this period of prosperity is soon coming to an end. I believe the underlying conditions are sound and the future can be viewed with confidence." Continuing in the same vein, the General Manager emphasized the fact that the annual balance sheet "reflects, in the fuller employment by the business interests in Canada of our available funds, and by our comparative freedom from losses, the general improvement that has taken place in the trade and commerce of this country during the past year." Savings deposits in the Bank had passed the $500-million mark, and while the investment portfolio had been reduced by approximately $27 million, commercial loans in Canada had increased by a similar amount, a gain of over 11.5 per cent. "This," averred Williams-Taylor, "we regard as proof positive that business throughout the country is better."

Other evidence was present in abundance. On almost every front the economy had regained its lost momentum. While another bumper crop of wheat was in the vanguard, the value of all agricultural products combined was less than those of the manufacturing industries. Exports of wood and wood products, including paper, had risen over a ten-year period from $83 million to $278 million and mineral production increased by fifty-seven per cent to $228 million over a somewhat longer period. Both were influenced strongly by American demand but their growth was also heavily indebted to the prodigious development of hydro-electric power undertaken during and after the war. As the internal combustion engine had added to productive capacity across the border, so the whirling turbines of Niagara and a score of other great Canadian rivers had made Canada one of the world's largest per capita producers of electrical energy. Vast construction projects were also under way on the St. Maurice and Saguenay rivers for the use of the electro-chemical and aluminum industries. Not only had the economy become more diversified; thanks to technological advancement, the hidden resources of the once forbidding, roadless Canadian Shield were being sought out by bush pilots flying surplus war-time aircraft and developed through the use of caterpillar tractors.

AUTOMOBILE ASSEMBLY LINE
1920'S

The automobile industry came of age in the second decade of the twentieth century when assembly line procedures began to be used in the manufacture of cars and trucks. The resultant mass production with its low unit costs inaugurated a second phase of the industrial revolution and brought about a new way of life.

With the first automobile assembly line, introduced about 1910, each section of the chassis was installed by a different team of men. As each job was completed, the vehicle was pushed along the floor to the next group. Before long, an endless conveyor chain was employed to propel the vehicles at a predetermined low speed from one end of the assembly line to the other. Each team, therefore, had to complete its work within a limited time and space. Assembled separately, the engines were lowered into the chassis with the aid of a chain and pulley.

The different parts of the chassis were carried from the storerooms to the required station on the assembly line by means of an electrically operated chain conveyor. In this picture, one of these overhead conveyors can be seen above the worker who is removing a fender from the acid bath. Although sprayed with a coat of priming paint at the time of manufacture, each section of the body was cleaned in a weak acid solution before being affixed to the chassis. The final painting was done when the car came off the assembly line. Rigid inspection was the order of the day as reflected here in the earnest discussion between foreman and engineer.

Mass production relied upon standard parts, and their manufacture required heavy capital investment in machinery which, in turn, only mass production could justify. The techniques pioneered by the automobile companies resulted in the more efficient use of men and machines in other industries, and made available to the average man a whole new range of goods at prices he could afford to pay.

Painting by William Showell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The post-war era of readjustment in Canada had thus come to a close. It had been characterized by excessive heights of inflation, great depths of depression and widespread social unrest. It had left its mark on all Canadian banks, bringing disaster to some and proving the strength of others. For the Bank of Montreal the period involved the acquisition of a large number of new branches and with them new business, all of which led to extensive internal reorganization and a more open policy toward the public. When Canada and the Bank of Montreal emerged from this difficult period they were challenged by a new phase of growth. The changes wrought by the war and the technological leadership of the United States had shifted the centre of world economic power to North America and this had a profound effect on Canada. British capital had played a substantial role in the great boom at the beginning of the century that had witnessed the long-awaited agricultural fruition of the west and the consequent surge of settlement and railway building; but in the 1920's new foreign investment in Canada was predominantly American and the expansion was industrial rather than agricultural, being centred in the mining, manufacturing and hydro-electric industries, which were closely allied to the American economy. The influence of the United States on the direction of Canadian development was, of course, not a new phenomenon, and its advantages and disadvantages are still being hotly debated today, but the fact remains that without the new diversity and maturity gained in the 1920's the Canadian economy would have been hard pressed to cope as well as it did with the two decades of buffeting that it had to go through before another comparable era of growth began after World War II.

FIFTEEN

AN ERA ENDS

AN ERA ENDS

1.

Celebrating the Diamond Jubilee of Confederation in 1927, Canadians basked in the assurance that their troubles were over and that the country was once again on its way toward fulfilling Sir Wilfrid Laurier's claim to the twentieth century. While American prosperity had been the most important factor in Canada's economic resurgence, more stable monetary conditions in Europe had also played their part. The Dawes Plan, implemented in 1924, had relieved many of the financial pressures attendant on the German reparation payments and with European economies less restricted, Canadian exports had regained levels prevailing before the crash of 1920-21.

Following the lead of Great Britain, Canada returned to the gold standard in 1926, when the legal convertibility of Dominion notes and bank-notes was restored. While this move was undoubtedly welcomed by the country's trading partners, it introduced a serious discrepancy into the Canadian financial structure because the rediscount privileges of the Finance Act were retained. Under the mechanics of the gold standard, deficits or surpluses in a country's balance of payments were assumed to lead to outflows or inflows of gold. In turn, the money supply, and hence prices, wages and production, was supposed to react to these gold flows in such a way as to remove the causes of disequilibrium and thereby eliminate the initial reasons for the gold movements. But as Professor McIvor has pointed out, the rediscount privileges of Canada's Finance Act permitted increases in the money supply with little regard to the country's stock of gold. This potentially dangerous situation appears to have gone unnoticed at the time. Before 1921 when inflation was rampant and prices rose steadily, the Canadian dollar went to a discount, but during the later 1920's prices remained much more stable so that the need for direct controls over the money supply was apparently not a pressing concern. Eventually, of course, the problem was recognized, but not before the country had lost a large proportion of its gold reserves, an experience that emphasized the need for a controlling mechanism to safeguard the value of Canada's currency.

In the meantime, however, the upward trend continued among most economic indices, many of them surpassing all previous peaks, and the Canadian euphoria was reflected at the annual meetings of the Bank of Montreal. "Until a few years ago," said Sir Frederick Williams-Taylor in his address of 1927, "Canada was best known abroad as an agricultural country. . . . To-day most of the largely increased capital coming in for investment is for industrial development. It is now fully recognized that Canada has the natural resources for the building up of a vast variety of indigenous industries, and is fitted by the character and spirit of her population to take an increasingly important place among the industrial nations of the world."

For the Bank of Montreal, the year 1927 was most satisfactory. During the twelve-month period total assets increased by fifty million dollars to reach $832 million, a growth of more than $300 million over the low registered in 1921, and total deposits exceeded $700 million for the first time. Net profits, too, were up and at $5.3 million enabled the directors to add one million dollars to the Rest as well as to declare the usual dividend of twelve per cent, topped off by a two-per-cent bonus.

The year was also made notable by a change in the executive structure of the Bank. Sir Vincent Meredith, it may be recalled, had been born in 1850 and had joined the Bank in 1867, and had therefore completed his sixtieth year of service with the Bank. This fact was appropriately recognized at the annual meeting held on December 5, 1927, when Sir Vincent, after acknowledging warmly expressed congratulations, announced that the Board at his suggestion had approved a reorganization by which he would vacate the presidency and become Chairman of the Board and of a newly created Executive Committee. Continuing, he said, "This action has been taken with a view of strengthening and broadening the structure of executive management of the great and growing property of which your Board are trustees, and, in my judgment, will conduce to the advantage of the shareholders. It is not my intention to relinquish the position of Chief Executive of the Bank so long as I retain the confidence of the Board and of the Shareholders." Meredith was duly elected to the positions noted and Sir Charles Gordon, the Vice-President since 1916, was named President. Another break with precedent occurred with the election of two vice-presidents in the persons of Huntly R. Drummond, the son of a former president, and Major-General Hon. S. C. Mewburn, who had joined the Board three years previously. Together with the Chairman, the three senior officers constituted the new Executive Committee.

In Sir Charles Blair Gordon the Bank of Montreal acquired one of the most energetic presidents in its history. The son of a Montreal merchant, he was born in that city in 1867 and after attending Montreal High School entered a wholesale dry-goods firm where he obtained an expert knowledge of every phase of the textile business from manufacturing to merchandising. After establishing his own firm, in 1905 he became the principal organizer of one of the first large-scale industrial amalgamations in Canada: the Dominion Textile Company, of which he became the president and managing director in 1909. He was elected a director of the Bank of Montreal three years later, becoming Vice-President in 1916. Because of his experience with the textile amalgamation Gordon had been able to contribute most effectively to the reorganization of the Bank undertaken after World War I, but his services were by no means to be restricted to internal matters.

From the earliest days, of course, travel had been an important function of Bank of Montreal executives, at first mainly to London, Boston and New York to strengthen the Bank's connections. In Peter McGill's day, after a permanent foothold had been won in all parts of the Province of Canada, visits to the western branches were added to the itinerary. The appointment of an inspector of branches made the presidency somewhat more sedentary but only for a little more than a decade. The rapid foreign expansion that took place after 1860 forced E. H. King to become a constant traveller and a few years later George Stephen seemed to be continually on the move between Montreal and Ottawa, Chicago and New York, London and the Continent. Vancouver was

MECHANIZATION OF THE LUMBER INDUSTRY

By the end of World War I most of the large hardwood trees had been cut from the areas adjacent to the rivers of Eastern Canada. As a result, logging railways began to penetrate the woods. After the trees were felled during the winter cutting period, they were dragged by teams of horses to the railway spurs. When trains were able to get through in spring, the logs were lifted by steam-operated cranes onto flat-cars for transportation to the mills.

Spurred on first by prairie settlement and later by the needs of war, domestic demand rose steadily during the first two decades of the twentieth century and was supplemented by export markets in the United States and Great Britain. During the post-war depression the value of production fell sharply but real output, employment and the number of mills remained at relatively high levels as new areas of operation in British Columbia were opened up.

brought into the orbit when Donald Smith, then the Bank's vice-president, rode the first C.P.R. through passenger train from Montreal to Port Moody. It remained for Edward Beatty, elected president of the Canadian Pacific Railway in 1918 and a director of the Bank of Montreal the following year, to make an annual ritual of such trips. He invited the Bank's president and other giants of finance, industry and business to accompany him in his private car on inspection tours that covered the main line of the C.P.R. and some of its important and interesting branches. After 1927 it fell to Meredith's successor to join this annual western expedition, which involved regal journeyings of upwards of seven thousand miles.

When Sir Charles Gordon delivered his first presidential address in December, 1928, however, the shareholders learned that the railway tour had encompassed but a third of his mighty peregrinations. In addition to calling on the more important Canadian branches, he had visited those in London and Paris and the seven Mexican branches of the Bank as well. In all, nearly twenty thousand miles of travel by rail and steamship had been accomplished. "This," said Sir Charles, "gave me an opportunity of meeting many of our most important managers and others, and it gives me great pleasure to inform the shareholders that the Bank of Montreal has a high type of men representing it."

Enlarging on his observations, the sixteenth president spoke with unalloyed optimism; never before in the Bank's history, in fact, had a chief executive addressed the shareholders with such irrepressible enthusiasm over the Bank's current progress or with fewer reservations about the future. There had to be, of course, one cloud on the horizon. During the year, the rampaging New York stock market had reached formerly unimaginable heights and, spilling over into Canada, this market activity had raised the price of Bank of Montreal stock to a high of $420 and the Bank's domestic call loans to more than $39 million, an increase of over thirty per cent in one year's time.

But in November 1928 Herbert Hoover had been elected President of the United States on a platform that promised no tampering with the booming economy, and any danger signals flew virtually unheeded. In Europe conditions had continued to improve and with the promise of lasting peace engendered by the Kellogg-Briand Pact trading conditions with the Continent were better than they had been since the war. Great Britain, it was true, was still being drained of gold and was plagued by unemployment because of the continuing depression in the island's coal, iron and other basic industries. Nevertheless a vast income from invisible exports, plus the monetary sophistication of the Old

Lady of Threadneedle Street, had made possible a reduction in the mother country's unfavourable current account balance by some £35 million. In addition, three Canadian provinces had found it possible to float substantial loans in London. "You will be glad to know," said Williams-Taylor, "that your Bank has been the medium through which the London market was re-opened to Canadian Government borrowings after a lapse of fourteen years."

Referring to the situation in the United States, President Gordon touched briefly on the sensational prosperity and the "rampant speculation on the Stock Exchanges." He added, "I need not tell you that the rise in prices cannot go on forever and that there is a well defined limit to bank loans on stocks. My hope is that reaction may not be sudden or severe."

Whatever the advances made elsewhere, those in Canada were hailed as the most extraordinary. Wheat production at 567,000,000 bushels had set a record that would stand until 1952, and the railroads had set other records by moving the gigantic crop to the terminals with remarkable dispatch. The Canadian roads, in fact, had evolved handling techniques which placed them in the vanguard of the world's land carriers and were now winning the praise and revenues that were justly theirs. Freight carried rose by twelve million tons over the year before and while grain still provided the largest single bulk commodity, increased output from the mines and forests had greatly augmented the total. So rapid had been the growth of the pulp and paper industry, for example, that it was already threatened by over-production and price-cutting; but Canadians could still take pride that their country was the world's largest producer of newsprint, as well as ranking among the top five in the production of wheat, flour, nickel, lead, asbestos, copper, wood pulp, and automobiles.

As enumerated by the Bank's president, the roster of Canada's new heights of achievement seemed to be almost without end. Construction and building contracts, for example, were being awarded at the rate of $40 million a month, the tourist trade (thanks in part to prohibition in the United States) had become an important source of foreign exchange, and Canada's exports and imports were finally regaining their record pre-depression values notwithstanding the continued low level of commodity prices. In point of volume, therefore, the flow of commerce was much greater than it had been before 1921.

The Bank's progress, the President reported, had been commensurate with that of the country, and he recommended, with the concurrence of the Board, that the paid-up capital of the Bank be raised to $36,000,000 from the existing $29,916,700, and that the authorized capital be increased to $50,000,000. A resolution to that effect was introduced and in accordance with the Bank Act an enabling by-law was duly approved by the shareholders. When the 60,833 new shares were issued early in 1929, they were readily taken up by shareholders of record at a premium of 100 per cent, the maximum figure permitted by the Bank Act. The funds derived from the premium were allocated to the Rest and after the final payments had been recorded, that account stood at $38 million, two million dollars in excess of the paid-up capital.

2.

The death in quick succession of three outstanding directors early in 1929 – F. W. Molson, Sir Vincent Meredith, and Sir Lomer Gouin – reduced the Board's membership to sixteen, but it was not until May 28 that two of the vacancies were filled by the election of A. O. Dawson and W. N. Tilley, K.C. Dawson was a native of New Brunswick who had moved to Montreal and had become the President of Canadian Cottons Limited, a rival of Sir Charles Gordon's Dominion Textile Company, and Tilley, a director of the C.P.R., was the country's foremost legal expert on railway matters. Tilley joined another C.P.R. colleague, W. A. Black, who had succeeded C. R. Hosmer on the Board of the Bank in 1928. Black had grown up in Montreal but had moved to Winnipeg with the railway and had developed extensive interests in grain, mining, textiles, and pulp and paper. The Board's membership again rose to nineteen on October 15, 1929, when Sir Frederick Williams-Taylor relinquished the position of general manager to become a director and Vice-President. His successor in the highest managerial post was H. B. Mackenzie who had been General Manager of the Bank of British North America at the time of the amalgamation. After serving briefly as an assistant general manager with the Bank of Montreal, he had become General Manager of the Royal Trust Company in 1920, a position he held until 1928 when he returned to the Bank as assistant general manager, probably with the understanding that he would succeed Williams-Taylor.

It would seem that differences over policy, aggravated perhaps by clashes of personalities, were behind the change in management personnel. After the death of Sir Vincent Meredith, it is quite likely that the remaining member of the team came to be considered a block to the wheels of progress. Both the character and the background of the man point to this deduction, as does the fact that Williams-Taylor, although a vice-president, was never made a member of the Executive Committee. With more than fifty years of banking experience behind him, he had lived through not one but several business cycles and could sense, as few of the other directors could, signs of impending disaster. As early as 1927, in fact, when the stock speculation craze reached Canada and it was deemed heretical to be otherwise than rabidly optimistic, he included in his annual statement a brief but nonetheless emphatic warning. That year the volume of transactions on the New York Stock Exchange reached 577,000,000 shares against 83,000,000 in 1913. In 1928 the volume of trading had risen to 920,000,000 shares and by the spring of 1929 six- and seven-million-share days were not uncommon.

Sir George Paish, Special Representative of the British Treasury to Washington, also sounded a discordant note in 1927. Speaking in Chicago in February of that year he claimed that "American business has never been in so critical a condition" and that unless the United States increased its buying from Europe and Great Britain a collapse of the American financial structure was certain. If the English expert was like one crying in the wilderness, there were other signs to be read, if only in retrospect. One of the outstanding anomalies of the stock-market boom, for instance, was the behaviour of commodity prices. These remained at the deflated level reached in Canada in 1922 and in the United States two or three years later. The soaring prices of common stocks bore no sensible relation to earnings; somewhere along the line what had begun as a means of financing capital expansion in the consumer-goods industries had degenerated into an orgy of unrestrained gambling.

Sir Frederick Williams-Taylor, steeped in the conservative banking traditions of an earlier generation, must have felt compelled by the dangers inherent in the situation to urge upon his confrères, in his clipped, aristocratic manner, the need to exercise restraint. In this endeavour he had the support of Sir Vincent Meredith, who in 1927 had prevailed upon the Board to augment the Rest by one million dollars and to desist from increasing the capital. It was not until ill health had forced Meredith to give up the presidency that the issue of some sixty thousand new shares was authorized. The Bank of Montreal was not alone in a desire to increase its capital; five other large Canadian banks at this same period raised their aggregate capital and rest funds by approximately $36 million to grasp the opportunities presented by what was being hailed as perpetual prosperity.

Meanwhile in New York the speculative stock market continued its incredible spiral. The New York *Times* index of twenty-five industrial stocks, which had stood at 134 at the end of 1924, reached 331 at the end of 1928 and on August 31, 1929, rose to 449. Although some economic indicators had by then turned down, they had quickly recovered from a similar dip in 1927 and in the midst of such mad enthusiasm few people noted the warning. Despite a nervous break in the market in March, call loans continued to increase at the rate of $400 million a month during the summer, at the end of which they stood at $7 billion. Even when the Federal Reserve Board raised its rediscount rate to six per cent in August, the action had little effect because the call-loan rate was often double that level and so provided an ample profit margin.

Soon after Labour Day lightning flickered over Wall Street and rumblings of thunder were heard in every broker's office from Miami to North Bay; for all that, loans to brokers increased by a record $670 million in September. But like an Ontario weather breeder, calamity was in the air and the storm finally broke on October 24, Black Thursday. On that day 12,894,650 shares were traded on the New York Stock Exchange, three times the average daily activity during the summer. Remembering J. P. Morgan's successful action to avert panic in 1907, the New York bankers pooled their resources to support the market with the result that the New York *Times* index closed only twelve points below its opening level of 384. The net effect of their efforts, however, was no more successful in stemming the tide than those of King Canute. On the following Tuesday another record was set as 16,410,030 shares changed hands, and by that time stock prices were in a slide that would not be checked until the New York *Times* index had hit 224 on November 13.

The golden age had ended, but despite thousands of bankruptcies few wanted to, or would, believe it. To most bankers, financial editors and experts, and to most economists, in fact, the stock-market crash was regarded as a psychological phenomenon to be blamed on human aberration rather than as a reaction to the underlying malaise of the world economy. The overwhelming professional consensus was ably expressed by Sir Charles Gordon at the conclusion of his annual address to the shareholders of the Bank of Montreal early in December:

> Since the beginning of October the greatest volume of public selling of securities, accompanied by the most severe continuous break in the short space of a few weeks, has been witnessed, but it is believed that the period of acute disturbance is now past.
>
> In conclusion, may I say there never was a time in the history of Canada when business as a whole has been at a higher peak than during the year under review, or when the developed sources of our wealth were

> more wide and varied than they are today, and never a time when the earning power of our people was sustained in so many channels of production. We must not allow a possible temporary reaction, the result of a collapse in a purely speculative orgy in the stock markets, unduly to distort our view. Fundamental conditions are sound, and there is no reason for apprehension as to the ultimate future of Canada.

H. B. Mackenzie in his first report as general manager could only endorse the President's confident point of view. "The real national wealth of the United States and Canada remains what it was," he said. "This may not give much comfort to the losers, but it is important from the standpoint of national welfare and prospects. Business will perhaps be somewhat quieter while we are getting back to realities, but the realities in both countries afford a firm basis for a healthy optimism."

That these views proved to be ill-founded needs no repetition here, but in the light of the situation at that time they are at least understandable if not excusable. During November, President Hoover had summoned his country's leading industrialists to the White House and with much attendant publicity they had assured him that the United States economy was fundamentally sound and that prospects were favourable. Even the New York stock market had stabilized during the latter part of the month.

In Canada, the annual statement of the Bank of Montreal showed little indication of any serious deterioration. Total assets had grown by nearly $100 million during the year and, standing at $965,336,997, were only some $35 million short of placing Canada's oldest financial institution in the still exclusive circle of the world's billion-dollar corporations. Gains had been made in nearly every category of the Bank's activities; particularly significant for their reflection of the urbanization then rapidly in progress were loans to cities, towns, municipalities and school districts, which had nearly doubled over a two-year period. In 1929 alone, thirty new branches were opened, principally to extend services to suburban areas brought into being by the automobile, and construction was begun on new and larger premises in Ottawa and Calgary, while a similar project at Hamilton, in the heart of the Canadian manufacturing region, was nearly completed.

Not all totals, however, had increased, foreign call loans having fallen from $139 million in 1928 to $115 million in 1929. At first sight this decline might seem only natural, but it should be remembered that the Bank's fiscal year ended barely a week after Black Thursday and that September had been a record month for call loans on Wall Street. The decrease in the Bank's foreign call loans therefore can hardly be attributed in any large measure to the stock-market crash. Instead it was merely the continuation of a cautious policy initiated over a year earlier, undoubtedly by Sir Frederick Williams-Taylor, after these assets had reached a high of $151 million in 1927.

Throughout Canada, in fact, there was apparently little cause for concern. The stock exchanges, of course, had followed the pattern of their New York counterpart, but in the United States it was estimated that less than two per cent of the population had accounts with brokers, and in Canada the figure must have been even lower. The western farmers, it is true, suffered from a partial failure of the wheat crop, and their plight was not ameliorated when prices remained at the low levels reached with the preceding year's record harvest. But for most Canadians 1929 was simply another year of thumping prosperity, as industrial production attained a new peak and both the number of jobs and the country's total labour income showed satisfying increases.

3.

Early in 1930 the Bank suffered a serious loss when its general manager, H. B. Mackenzie, died almost without warning on April 25, only six months and ten days after he had been appointed to his new position. Sir Charles Gordon and many members of the Board had unquestionably placed great confidence in Mackenzie's administrative capacities and in replacing him found it necessary to form a joint managership by calling on the services of two senior members of the staff, W. A. Bog and Jackson Dodds.

William A. Bog had been with the Bank of Montreal for forty-nine years, having joined its staff at the age of seventeen in Picton, Ontario, his birthplace. In 1898 he was transferred to Main Office in Montreal where he rose to be the accountant before being appointed second agent in New York. He was in that city for fifteen eventful years, from 1906 to 1921, during which he experienced the stock-market crisis of 1907, the rise of New York to world financial prominence during World War I, and the post-war inflation and recession. He returned to Montreal as assistant general manager in 1921, but it was undoubtedly his New York experience that gained him his promotion nine years later.

Jackson Dodds was born in England in 1881 and began his banking career in the London office of the Comptoir d'Escompte de Paris. In 1901, he joined the

Bank of British North America and was posted to Western Canada until 1911 when he returned to London to work in that bank's head office. At the outbreak of World War I he enlisted in the British Army from which he emerged after the armistice with the rank of Lieutenant-Colonel and the Order of the British Empire. By that time the Bank of British North America had merged with the Bank of Montreal, and Dodds resumed his banking career as an officer of the Canadian institution, first in London, England, and then in Winnipeg, where he was Superintendent of Western Branches before leaving to become Assistant General Manager at Head Office.

The combined knowledge and experience of the two men therefore covered a wide range of the Bank's activities and it is unfortunate that the records do not reveal how the responsibilities of management were divided. This would be of academic interest only, however, because at the time they assumed office the Bank was entering one of the most trying eras in its history, one fraught with enough problems to occupy a whole platoon of general managers.

In 1907 the stock-market convulsions in the United States, it will be recalled, had had relatively mild repercussions in Canada. Since that time, however, American investment in the Dominion had greatly increased and with a relative decline in Canadian exports to Great Britain the United States had become Canada's most important customer. As a result of these closer economic ties the crash of October 1929 was felt much more rapidly and severely in Canada than the earlier crisis. Over-all economic activity, as measured by Gross National Product, fell slightly over 6½ per cent in 1930, about half the percentage decline registered in the United States. In certain areas, however, deterioration was much more acute, as for example in exports and business gross fixed capital formation both of which decreased by over 20 per cent in the one year. Freight carried by Canadian railways was off some 16 per cent, and while the index of manufacturing production decreased from 100.2 to 90.9, the number of unemployed increased by 255,000, sending the civilian unemployment rate from 2.9 per cent of the labour force in 1929 to 9.1 per cent in 1930, a worse rise than that experienced in the United States. A partial explanation of this difference lies in Canada's heavy dependence on exports.

In 1929 exports made up more than one-quarter of Canada's Gross National Product and their sharp drop the next year was naturally felt by a large segment of the populace. In the election of 1930, in fact, R. B. Bennett, the Conservative leader, campaigned on the promise that he would "blast a way" into the markets of the world. After a Conservative victory at the polls in July, Bennett called an emergency session of Parliament and higher Canadian duties were immediately enacted in retaliation for the crippling Hawley-Smoot Tariff implemented by the United States in June. Canada's foreign trade was also a subject of discussion at the Imperial Conference in London later in the year. There it was stressed that the economies of Great Britain and Canada, except in the production of foodstuffs, were no longer complementary but competitive, and that the British Dominions, as food suppliers, were competing against one another. A second Imperial Conference, held in Ottawa in 1932, resulted in the adoption of preferential tariffs among the members of the Commonwealth, but by that time the value of Canadian foreign trade had been reduced to fifty per cent of the level prevailing in 1929. On the home front, Bennett instituted a public works program in 1930 budgeted at $20 million, but this could not do much to alleviate the problems brought on by a decrease in private business investment of $235 million.

Such a violent downturn in business activity was naturally reflected in the statements of the country's financial institutions, and total assets of the chartered banks declined from $3.52 billion in 1929 to $3.14 billion in 1930. In the United States, in contrast, although thirteen hundred banks failed, the assets of the banking system increased in 1930. In the case of the Bank of Montreal, instead of breaking the billion-dollar barrier, its assets faded to $827 million and net profits were off by half a million dollars. As would be expected, the largest decreases took place in call loans, those in Canada falling by more than fifty per cent and those abroad by only slightly less. A reduction of twenty per cent took place in domestic commercial loans, and deposits declined by eleven per cent over the previous year.

This was not a very pleasant report for the new joint general managers to present to the shareholders at the annual meeting in December 1930, but the task was made somewhat easier by the fact that the Bank had been able to continue its dividend payment of twelve per cent and bonus of two per cent. Nor was this feat mere window dressing, for it had been accomplished after making full provision for all doubtful accounts and without diminishing the balance carried forward to profit and loss, which stood at $947,000 after the year's division of profits. With a capital and Rest totalling $74 million, the position of the Bank of Montreal therefore appeared virtually impregnable, and while it was hoped that the depression would be short lived, it was confidently predicted that the Bank could withstand even the most severe deterioration without undue discomfort.

Just how severe that deterioration would be was probably beyond the imagination of most of the Bank's shareholders. By 1933, when the depth of the Great Depression was reached in Canada, 826,000 people were out of work, a frightening nineteen per cent of the labour force, and Gross National Product had declined by more than forty per cent since 1929. Other statistics were even more shocking: business capital formation dwindled to one-fifth of its 1929 level, with housing and construction declining by seventy-five per cent; railway freight was halved; retail trade declined by over forty per cent during the same period and wholesale prices fell by thirty per cent. When the stock market in Montreal touched bottom at the beginning of June 1932, share prices had fallen by eighty-three per cent since October 1929. Bank of Montreal shares declined from their 1929 high of $425 to a low of $150 which, however, was a relatively commendable performance when compared with the record of some of Canada's leading industrials.

The banks, in fact, withstood the strain better than most other sectors, their total assets diminishing by only some twenty per cent over the four-year period, although domestic commercial loans were down by thirty-five per cent as corporations cut back expenditures and reduced inventories. With a drop of only nineteen per cent in deposits, the banks channelled their funds into the bond market where the average yield on long-term government bonds was between 4½ and 5 per cent.

While the devastation in Canada was immense, it was, of course, worse in the United States, and the American presidential elections of 1932 were followed with intense interest by Canadians. Their result aroused feelings of both relief and anxiety in Canada. To radio listeners near the border Franklin D. Roosevelt was the voice that had proclaimed inspiringly, ". . . the country demands bold, persistent experimentation"; but to many in financial circles he was an unpredictable political dilettante to whom monetary matters were an unplumbed mystery. At the time, millions in North America were out of work, living on hand-outs, and it seemed that conditions could not possibly be blacker. In the four months that intervened between the November election and the inauguration, however, they went steadily from bad to worse, transforming the president-elect into another Moses who alone could point the way to the Promised Land. Between 1929 and the end of 1932, a total of 5,102 banks, or one-fifth of all those doing business in the United States at the start of the depression, had suspended payment, and during the two months preceding the inauguration, the situation became so critical that many states had to legislate restraints of one sort or another. One of Roosevelt's first acts as president was to declare a "bank holiday" during which all banking operations in the country were suspended for four days.

The financial blackout across the international boundary caused the Canadian banking system to shine as it never had before. There were brief repercussions on the stock market and breaks in commodity prices, but every head office and branch outlet north of the 45th and 49th parallels maintained regular hours and only firms and individuals having American drafts or cheques to cash were seriously affected, being required to wait upon collection.

Another four thousand banks closed their doors in the United States during 1933 and at the end of that year total banking assets had contracted by twenty-nine per cent since 1929. Here is an interesting comment on the relative merits of the two banking systems. In Canada, a twenty-per-cent reduction in assets was accompanied by the closing of only 432 of the country's 4,069 bank branches; not a single bank failed and no depositor lost a cent. In the United States, where the smaller banks did not have the resources of a branch system behind them, a twenty-nine-per-cent reduction in assets was accompanied by the suspension of nine thousand banks involving deposits of seven billion dollars. These deposits, if not actually lost, were tied up for an indefinite period; in Canada, funds on deposit in a branch that closed were transferred to another office of the same bank and remained at all times available to the depositor.

The American bank holiday marked the beginning of the New Deal and was followed shortly by the advent of the Federal Deposit Insurance Corporation and the deliberate depreciation of the United States dollar in terms of gold by about forty per cent. Devaluation and the New Deal were viewed with considerable alarm in Canada: the first, naturally, because of a fear of the adverse effects it would have on Canadian exports to the United States, and the second because the "balanced budget," whether family, corporate or national, was the ideal of orthodox economic opinion. Although John Maynard Keynes had advocated deficit financing as a means of promoting employment, large public debts were still regarded as detrimental to prosperity on the grounds that they adversely affected a country's credit rating, and that the higher taxes needed to pay the interest on them weighed too heavily on private business.

Whatever the influence of the New Deal, recovery began in Canada at about the same time as in the United States, the summer of 1933. It was necessarily slow, and it was not until 1935 that evidence of improvement was clearly visible in the annual statements of the Bank of Montreal.

In the intervening years since 1929, the assets of the Bank had suffered a total reduction of $206 million, largely made up of declines in foreign call loans of $83 million, in Canadian call loans of $31 million, in foreign commercial loans of $26 million and in domestic commercial loans of $183 million. Loans to municipalities, however, had been well maintained and in fact had registered a net increase of nearly $6 million over the period in question. The Bank had made a special effort to accommodate cities and towns that were using the money for relief and in some cases, for instance Montreal, officers of the Bank had worked closely with municipal officials in laying out a sound financial program. In this same vein it might be noted that the Bank of Montreal, and Sir Charles Gordon and George Spinney in particular, had played a leading role in the launching of the National Service Loan in 1931 which provided funds for public works programs. Offsetting the major declines on the asset side of the Bank's balance sheet was a rise of $186 million in holdings of Dominion and provincial securities between 1929 and 1934.

The Canadian banks were criticized at the time, and have been ever since, for putting all their money into securities and refusing to grant the loans which supposedly would have assured the return of prosperity. Instead of approaching this charge with the theoretical considerations available in the 1960's, let us appeal to the contemporary statements of the Bank's senior officers. In 1932, Sir Charles Gordon reminded the shareholders that a bank's first responsibility (except to its note-holders) was to its depositors:

> Our banks welcome borrowers to whom they can safely lend, and as trustees of depositors from whom their loaning resources are derived, banks ought not to lend on any other conditions.

Two years later he returned to the same subject but with a different approach.

> The demand from commercial borrowers for bank loans is still at a comparatively low level, due to the fact that these customers are in large measure able to finance the present volume of business from their own resources, with the result that a larger proportion of the Bank's assets than we might wish to see must perforce be invested in high-grade securities.

In the General Managers' address additional evidence of the lack of demand was given when W. A. Bog noted that "the total of credits authorized for our borrowing customers is very largely in excess of the amount which they have found that they can use to advantage." He also expanded on the President's remarks, stating:

> The increase in trade activity compared with a year ago has been financed largely by a more rapid turn-over of bank deposits, rather than by increased borrowings. Bank deposits now in existence could readily finance a volume of trade substantially greater than that of today.

As the Bank's funds were employed more and more in securities, earnings naturally diminished, causing a steady diminution of the dividend to eight per cent. The number of branches was reduced from 669 in 1929 to 567 in 1934, but the Bank followed a policy of not laying off active employees although the staff bonus was suspended after 1930. While considerations of economy dictated the closing of many branches, improved roads and faster travel also played a role in such decisions. "Business in rural districts is steadily gravitating to the central points," Jackson Dodds informed the shareholders in 1931, and "there is consequently less need for branch banks in hamlets which formerly justified the opening of offices within a few miles of other branches of the same institution or of another bank."

In the foreign field, a policy of gradual withdrawal from Mexico was initiated as early as 1931. By that time a continuously volatile political situation had already led to an exodus of foreign capital, and the depression, coupled with government attempts at monetary reform, greatly increased the problems faced by the banks. In 1933 the government began to encourage the establishment of small local banks and a year later the last Mexican office of the Bank of Montreal was closed. During this period also the Bank disposed of its interest in Barclays Bank (Dominion, Colonial and Overseas), which had been formed in 1925 through the amalgamation of the Colonial Bank, the Anglo-Egyptian Bank and the National Bank of South Africa. In 1920, it will be recalled, the Bank of Montreal had acquired an interest in the Colonial Bank and when Barclays D.C.O. was established the Bank became an original shareholder. A further reduction of foreign outlets took place in 1935 when the Paris office, which had been operating at a loss for some years, was closed.

In the light of world conditions the stability of Canadian banks during the depression became one of the marvels of the international financial community. For this accomplishment the Bank of Montreal was to a large extent

CANADA GETS A CENTRAL BANK

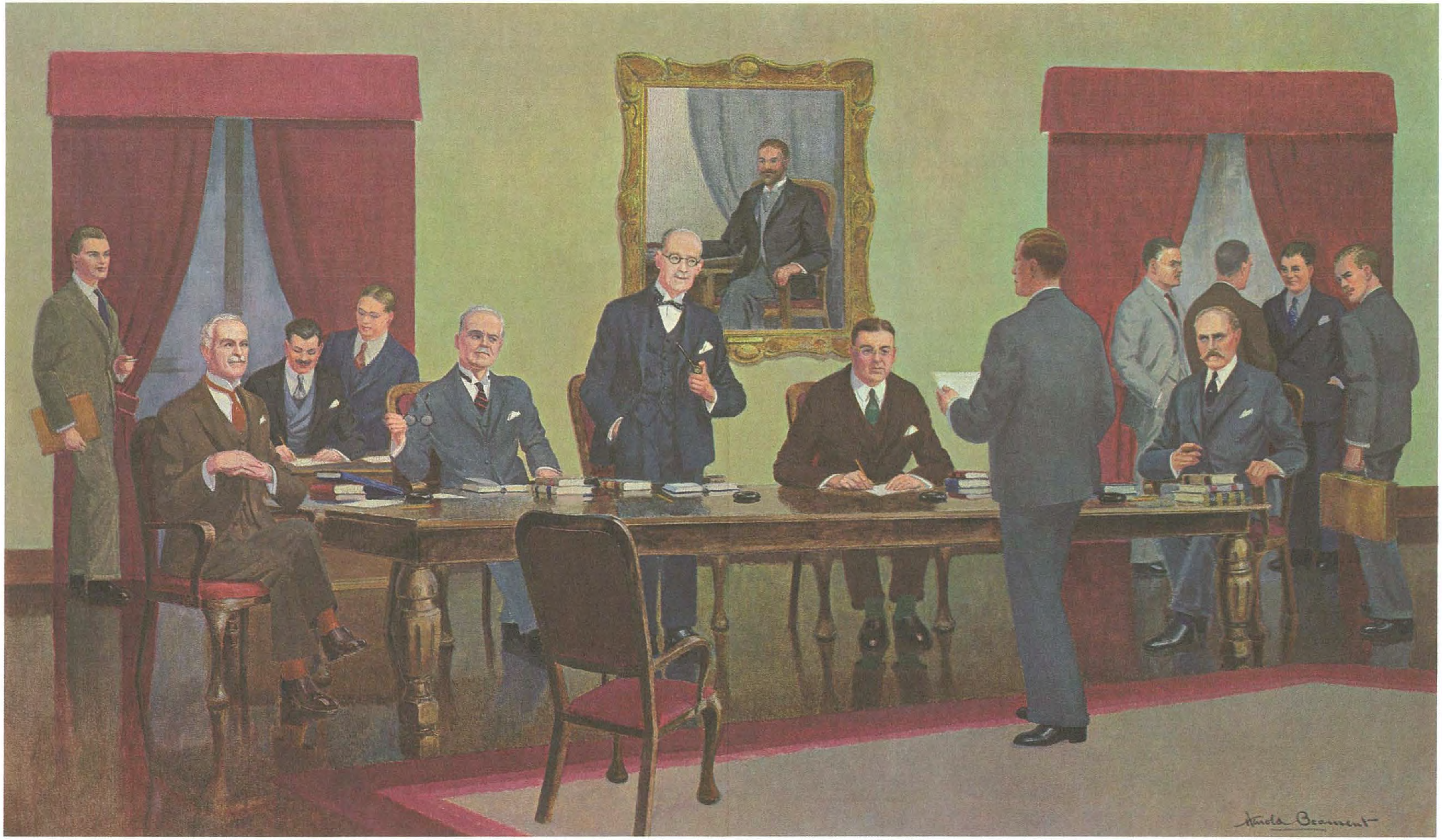
In the summer of 1933 Canada was still in the midst of the Great Depression. Until that time the Canadian government had done little to alleviate the economic situation outside the passage of some relief legislation. With the decennial revision of the Bank Act due in 1934, however, a royal commission was appointed on the last day of July to examine the country's banking and financial systems, and also to recommend "such other measures as they may deem desirable to promote the revival of trade and enterprise."

Known as the Macmillan Commission, after the British jurist who acted as its chairman, the investigatory body travelled from coast to coast in Canada holding public hearings in fourteen different cities, and its every activity was reported in the press. The five commissioners are seen here receiving one of the 211 briefs presented in person in addition to 193 other representations submitted in writing. The commissioners are, left to right, Sir Charles Addis, Sir Thomas White, Lord Macmillan (standing), Hon. John Edward Brownlee and Mr. Beaudry Leman.

Despite the crowded schedule, the scope of the inquiry and the mass of material that had to be digested, the commissioners produced their final report on September 27, 1933, only fifty-eight days after being appointed. Its principal recommendation, which at the time was opposed by the chartered banks and two of the commissioners themselves, was that Canada should have a central bank.

The government of the day proved considerably slower in acting than its royal commission. It was not until July 3, 1934, that the act creating a central bank received assent, and another eight months elapsed before the Bank of Canada actually began operations.

Painting by Harold Beament, R.C.A.


Harold Beament

responsible. Not only had its founders laid down the principles of commercial banking that became the guide for all other Canadian banking institutions but throughout its history it had taken the lead in preserving the system it had established and in influencing the evolution of Canadian banking law. Since 1893 the Bank of Montreal had also been the financial agent of the Dominion government in London and in that capacity became the principal adviser to a succession of finance ministers, an association that was in a considerable measure responsible for the reputation for soundness in financial matters that Canada came to enjoy outside its borders.

4.

During the parliamentary session of 1928, the Banking and Commerce Committee of the House of Commons recommended that the Minister of Finance convoke a conference of leading Canadian bankers and other experts to study the banking system and make suggestions for the decennial revision of the Bank Act in 1933. To be included in the agenda was the question of a central bank, a subject already discussed by the Canadian Bankers' Association during World War I. At that time, it may be recalled, the consensus of the banking fraternity had been to renew the Finance Act, and its provisions were subsequently made a permanent part of the Canadian monetary apparatus in 1923.

After Canada's return to the gold standard in 1926, however, weaknesses were exposed in the Finance Act and the government began to experience a gold drain that took on serious proportions at the end of 1928. But the country was booming at the time, and the incumbent Minister of Finance, Hon. James A. Robb, evidently felt no immediate compulsion to arrange the conference recommended by the Banking and Commerce Committee. The stock-market crash occurred in October 1929 and Robb died less than three weeks later. Before his successor had sufficient time to reconsider Robb's decision the new government led by R. B. Bennett took over the reins of office in Ottawa.

By the time the new government was formed, the conditions induced by deflationary influences, coupled with a sharp decline in federal revenues, had become so alarming as to override all other considerations. Hardly had another year passed when Great Britain again abandoned the gold standard and, faced with a serious depreciation of the Canadian dollar in terms of United States currency, the government in Ottawa applied restrictions on the export of gold. It was not until 1933, when the Bank Act was due for its decennial revision, that the Bennett government gave serious consideration to the conduct and operation of the country's banking system. By then world conditions had grown so chaotic that it was decided to postpone revision of the act until the report of the World Monetary and Economic Conference could become known and until the government could appoint a royal commission to inquire into all aspects of the country's economic malaise.

Pursuant to those decisions, bank charters were extended for one year from July 1, 1933, and on July 31 an Order in Council was issued appointing five commissioners to examine the Canadian banking and monetary systems with special reference not only to the Bank Act, but also to the Dominion Notes Act, the Currency Act, the Finance Act and the advisability of establishing a central banking institution. The commissioners were directed to consider these subjects in relation to commodity price movements, fluctuations in international exchange, the increase of employment, and the revival and stabilization of trade generally. The following were named as commissioners: the Right Honourable Lord Macmillan, P.C., K.C., of the City of London, England, chairman; Sir Charles Stewart Addis, K.C.M.G., of the City of London, England; the Right Honourable Sir William Thomas White, P.C., K.C.M.G., of the City of Toronto, in the Province of Ontario; the Honourable John Edward Brownlee, K.C., M.L.A., of the City of Edmonton, in the Province of Alberta; and Beaudry Leman, Esquire, B.Sc., C.E:, of the City of Montreal, in the Province of Quebec.

With the possible exception of the inquiry into banking held immediately after confederation, the Macmillan Commission carried out the most searching investigation of the kind ever held in Canada. It was staffed with a most able and representative group of men. Lord Macmillan was a distinguished British jurist who had recently chaired a commission to study British finance and industry; Addis was an important figure in international banking; White, a former Canadian finance minister, was the originator of the controversial Finance Act; Brownlee, the Premier of Alberta, was intimately conversant with western conditions; and Leman, the General Manager of La Banque Canadienne Nationale, represented the banks themselves. Rarely has a royal commission acted with a greater sense of urgency. Its mandate was approved on July 31, 1933, and its report was delivered to the Governor General on September 27 of the same year. During the course of the eight intervening weeks two public sessions were held in Ottawa and one each in Victoria, Vancouver, Calgary, Edmonton, Saskatoon, Regina, Winnipeg, Halifax, Charlottetown, Saint John, Quebec, Montreal, and Toronto. More than two hundred persons representing the government, the chartered banks, and interested organizations encompassing all shades of economic opinion appeared before the commission, and almost as many submissions were received in writing.

In this connection, it should be recalled that although Keynes had diagnosed the cause of the depression as a lack of mass purchasing power, he had yet to formulate his revolutionary "General Theory." Moreover, the "100 days" of Roosevelt's New Deal had been concluded only a few weeks before the appointment of the Canadian commission, and the Co-operative Commonwealth Federation (C.C.F.), meeting at Regina in July, had issued a manifesto calling for the socialization of the banking, credit, and financial systems of the country. From the radical standpoint, much of the distress and human misery that Canada suffered was attributable directly to government inertia and the credit policies adopted by the banks and other lending institutions. From the conservative point of view, as represented by the banking fraternity and financial leaders, the difficulties in which the country found itself had arisen from external factors that were beyond Canada's ability to control.

Harking back to the original Articles of Association and the charter of the Bank of Montreal, it is difficult to see that it or any other Canadian bank could have pursued a course different from that adopted during the Great Depression of the 1930's. Created initially to promote the trade and commerce of the country by marshalling its meagre capital resources and by making these available to persons engaged in productive enterprise, they could provide credit only to those who were already in possession of products that could be readily marketed and sold. It followed almost automatically that credit expanded in good times and contracted in bad times, and echoing some of the arguments of the President and General Managers of the Bank of Montreal the Commission agreed that "the commercial banker has very properly in the past regarded his responsibility as mainly confined to safeguarding the interests of his depositors and shareholders and to making judicious loans and investments with the funds entrusted to him."

Like most Canadian royal commissions, that headed by Lord Macmillan functioned both as an educational forum and as a national safety valve. Its main purpose, however, was to provide the government of the day with a consensus of opinion on the question, "Should or should not Canada have a central bank?" Despite the large number of submissions and the detailed press coverage of the hearings, most people in the country simply wanted to discover and adopt ways and means by which the desperate and dehumanizing condition of affairs could be improved. In actual fact, only a few persons other than professional bankers were qualified to discuss such abstruse and highly technical questions as Canada's retention of the gold standard, the maintenance of the exchange value of the Canadian dollar, or the managed control of credit in the interests of the national economy.

When it came time for the banks to present their case, at the final session of the commission in Ottawa, Jackson Dodds, the Joint General Manager of the Bank of Montreal, appeared together with the general managers of the other banks and representatives of the Canadian Bankers' Association. As a group, the chartered banks were against the establishment of a central bank, but generally agreed that the Canadian financial system would benefit by the introduction of some co-ordinating factor. Naturally enough, the arguments presented were prompted by self-interest, but they were also based on honest conviction and pragmatic experience. Basic to the banks' point of view was the unquestioned stability of the Canadian banking system. To the contention that Great Britain, the United States and all major European countries had adopted central banking systems, they could reply that conditions were different in Canada, where not a single bank, in contrast with the United States, had failed as a result of the depression. Why then, they asked, embark on some new experiment whose operations would be subject to political entanglements? In a word, why rock the boat, especially when the boat had proved itself so watertight and seaworthy?

If credit management were deemed desirable through control of note issue and the rediscount rate, then the apparatus was already at hand in the Finance Act, which had served Canada so admirably during World War I. All that was required, the banking group contended, was that its administration be given over to a board of qualified experts representing the country's principal economic sectors. On a more technical level, professional opinion, in opposition to that of academic economists, also doubted the ability of a Canadian central bank to operate successfully without a domestic money market such as existed in New York and London. The bankers also insisted that the withdrawal of the note-issuing privilege would greatly curtail the operation of branches in rural communities, and that the carrying of statutory reserves with a central bank would prevent these funds from being used as a true reserve.

A majority of the commission thought otherwise. In the report submitted on September 27, 1933, the chartered banks were praised quite handsomely for their strength and stability and for their steadfastness in a time of unusual economic peril, but it was also pointed out that Canada lacked any authority to regulate the volume of currency and credit, to maintain the foreign exchange value of the Canadian dollar, or to advise the government on questions of financial policy. After observing that in many countries such functions were performed by a central bank, the commission, by a vote of three to two, recommended that a similar institution be established in Canada without delay. Dissenting opinions were submitted by Sir Thomas White and by Beaudry Leman, the only two men on the commission who had ever held posts in the Canadian financial world. In sum, their objections were that the proposal to institute a central bank was premature because of the economic difficulties prevailing; that such a costly mechanism could bring no additional wealth or capital to Canada; that it would diminish the strength of the existing institutions; that it would encroach on the sovereign power of the government; and that it was inconceivable that monetary control could be divorced from political pressures. Sir Thomas White, it would seem, was dissenting simply in defence of his own creation, the flexible and at one time useful Finance Act; the General Manager of La Banque Canadienne Nationale was defending his professional convictions and future independence.

The commission recommended unanimously that the federal government, if possible in collaboration with those of the several provinces, conduct an inquiry into the question of short- and long-term rural credits, with a view to the introduction of appropriate legislation. Four of the commissioners also thought that the statutory limit of seven per cent on loans was "anomalous and an undesirable interference with the freedom of contract," and ought to be repealed. Another recommendation urged the banks to take a less direct role in the marketing of securities.

The commission envisioned a new and broader role for the Canadian chartered banking system. "It must bear a share," the report reads, "in trying to maintain stability and to regulate the quantity and flow of credit; it must interest itself in price levels, in the fluctuations of exchange, in international monetary co-operation – in short, in all the matters which concern national finance." Such responsibilities almost demanded the creation of a central bank and notwithstanding the banks' opposition, it had been made clear by their representatives, including Jackson Dodds, that the government could count on their full and whole-hearted support should the establishment of such an institution be deemed advisable.

When a bill to establish the Bank of Canada was introduced during the 1934 session of Parliament, therefore, the debate produced no fireworks, the only issue being whether the institution would be privately or publicly owned, the Conservatives favouring the first arrangement and the Liberals the second. Since the Conservatives were in power, the Bank of Canada, as first constituted, was consequently a private corporation with a capital of $5 million divided into 100,000 shares of $50 each. When the Liberal Party under W. L. Mackenzie King was returned to power in 1935, however, an amendment to the act enabled the government to acquire a majority of the shares, and in 1938 the Crown became the sole owner.

As set forth by the Minister of Finance, Hon. E. N. Rhodes, in presenting the bill, the broad purposes of the Bank of Canada were those enumerated in the report of the Macmillan Commission, as follows:

> In the first place, from a national point of view, the central bank, within the limits imposed by law and by its capacities, should endeavour to regulate credit and currency in the best interests of the economic life of the nation and should so far as possible control and defend the external value of the national monetary unit. In the second place, from the international point of view, the central bank by wise and timely co-operation with similar institutions in other countries, should seek, so far as may lie within the scope of monetary action, to mitigate by its influence fluctuations in the general level of economic activity. These functions should not, of course, exhaust the tasks of a central bank. Within a state the central bank should, in addition, be a ready source of skilled and impartial financial advice at the disposal of the administration of the day. In return for the privileges which the state confers upon it, the bank should use its store of experience in the service of the community without the desire or the need to make profit a primary consideration.

Not referred to in the above, but regarded as essential to the successful operation of the Bank of Canada, was the exclusive right to issue notes. Thus were the efforts of Charles Poulett Thomson, Baron Sydenham, finally vindicated after a lapse of more than ninety years. The bank was also to act as the government's banker and fiscal agent and manage the public debt.

In discussing the role of the Bank of Canada, the report had made numerous allusions to the operations of central banks in other countries. But the members of the commission need not have gone that far afield. For nearly one hundred and seventeen years the Bank of Montreal had served many of the functions envisaged for the new central bank. In colonial days it had been the banker in Canada for both the Imperial and the provincial governments, and had become the principal source of foreign exchange for both government and private enterprise; during the period of the Union, it had been the financial bulwark of a succession of harassed administrations; at the time of Confederation it had wielded an influence whose potency may never be assessed. Thereafter, it had followed the spread of settlement and commerce into all parts of the Dominion, not just extending its own business but also serving the government as its banker. From 1893 on it had acted as the federal government's fiscal agent in London, in which capacity it had also been the virtual manager of the public debt, a function it had performed, moreover, for the provinces of Quebec, Ontario and New Brunswick, as well as for many of the larger municipalities. Even before it represented the financial interests of the Dominion in London, the funds it kept in New York played no small part in defending the external value of the Canadian dollar. And throughout, the Bank of Montreal had been, in the words of the royal commission, "a ready source of skilled and impartial financial advice at the disposal of the administration of the day." That it had used "its store of experience in the service of the community" can hardly be contested.

When the Bank of Canada Act received royal assent on July 3, 1934, much of this ended, opening a new and contemporary chapter in the history of Canada's first bank.

EPILOGUE

EPILOGUE

No comparable period in history has witnessed such a multiplicity of disruptive events or experienced so many revolutionary changes as the three decades that have elapsed since the Bank of Canada opened its doors on March 11, 1935. The world has been in the throes of a technological and sociological transformation of prodigious dimensions which even today shows little sign of abatement. Because it is manifestly impossible, as yet, to view this period with historical detachment, this final chapter in the history of Canada's oldest financial institution does not attempt to do more than review, in very general terms, the Bank's own progress.

In the thirty-two years that have passed since central banking was introduced into Canada the Canadian economy has experienced a remarkable growth. This upward trend can be divided into several phases: the years 1935 to 1939 were marked by recovery from the depths of the Great Depression, while re-armament in Europe and civil war in Spain foreshadowed the dark days of World War II; 1939 to 1945 were the war years, when all else was subordinated to the task of achieving victory; the immediate post-war period was a time when the Canadian economy was able to adjust to peace-time demands without being subjected to the severe depression that had been expected and prepared for; and the 1950's, opened by the Korean War, saw in Canada a capital investment boom of immense proportions. Finally, there has been the prolonged and unprecedented prosperity of the 1960's.

In 1935, with the advent of the Bank of Canada, all the chartered banks were faced with a gradual adjustment to the loss of their note-issuing privileges, but the Bank of Montreal also had to contend with the loss of a major portion of the business of its largest single customer, the federal government. A fine new banking edifice had just been completed opposite the Parliament Buildings in Ottawa and it was felt that the Bank could well be left with a "white elephant" on its hands. Instead, the handsome structure on Wellington Street has acquired so much business in the intervening years that it has recently been necessary to provide additional space.

The story of the Bank's entire branch system has followed much the same pattern. During the depression the number of Bank of Montreal branches fell steadily as the need to effect economies led to the closing of redundant branches and the transfer of the business to nearby offices. The advent of war brought about the enlistment of experienced personnel in the armed forces and in co-operation with the government's efforts to reduce the pressures on manpower further branch closings were undertaken. At the government's suggestion a policy of "trading off" was often followed: that is, the Bank of Montreal would close its branch in a given town and turn the business over to another bank in return for a reciprocal arrangement in another centre where both banks were represented. As a result of these various factors the number of Bank of Montreal branches fell from a high of 672 in 1930 to a low of 468 in 1943.

Since that time there has been a year-by-year increase. In some periods an ambitious program of expansion has been pursued while in other years relative caution has prevailed. The smallest increase since the war was in the Bank's fiscal year ended October 31, 1951, when only nine offices were added, while the highest was in 1959 when there was a net addition to the system of no less than forty-nine offices. The one thousandth office, opened in the summer of 1966 at Sussex, N.B., was not the end of a series but merely a milestone in the Bank's continuing expansion, an expansion designed to provide a comprehensive branch coverage in Canada and direct representation in key areas throughout the world.

By 1939 most economic indicators had regained their pre-depression levels, and in that year the assets of the Bank of Montreal exceeded the one-billion-dollar mark that had been so nearly attained in 1929. When Sir Charles Gordon died on July 30, 1939, however, the Bank lost the president who had guided it through the troubled decade. As Gordon's successor the directors chose Huntly R. Drummond, the son of a former president and a vice-president since 1927. No new vice-president was elected, there being already two, Major-General, the Honourable S. C. Mewburn, C.M.G., appointed in 1927, and W. A. Bog, who had moved up from Joint General Manager in 1936. On Bog's election as a vice-president, George Spinney had joined Jackson Dodds in the administration of the senior managerial post. Prior to this appointment Spinney had worked at Head Office since 1915, first as secretary to the General Manager, then as assistant to the General Manager and after 1928 as an assistant general manager. In the last capacity he had been in charge, at various times, of the Securities Department, branches in eastern Canada and branches abroad. These, then, were the highly qualified men who were in control of the Bank's affairs when Great Britain declared war on Hitler's Germany on September 3, 1939, and Canada followed suit in her own right a week later.

As had been the case in 1914, the government wasted little time in tackling the economic and financial problems of war. On September 15, under the authority of the War Measures Act, the Foreign Exchange Control Board was created with powers to license both the import and the export of goods, securities and currency. Nine months later, when the smoke had scarcely cleared from the beaches of Dunkirk, the National Wartime Resources Act was proclaimed, empowering the government to require all persons to place themselves, their services and their property at the disposal of the Dominion for the duration of the conflict. Other acts and orders in council brought under government control and direction most of the country's economy, and the exercise of these controls led in turn to the creation of numerous administrative boards and authorities.

Such government bodies required large and skilled staffs, and it was soon found that the chartered banks were among the best sources for such men. In common with all other members of the banking fraternity, the Bank of Montreal placed its full support behind the government's war effort and in October 1941 George Spinney was called upon by the government to initiate and organize the National War Finance Committee. The committee was responsible for the promotion and sale of all subsequent issues of war bonds and after it was officially established early in 1942 Spinney became its chairman and headed a vast network of nearly 150,000 workers, most of them volunteers.

In addition to the Joint General Manager, twenty-two other senior officers took leaves of absence from the Bank of Montreal to serve the government in various administrative and advisory capacities, working with such bodies as the Foreign Exchange Control Board, the Wartime Prices and Trade Board, the National War Finance Committee and the Wartime Industries Control Board. Countless other members of the staff took on volunteer jobs in addition to their mounting duties at the Bank which included the handling of ration coupons and the myriad tasks involved in the sale of government war bonds, many of which were issued in small denominations and bought on an instalment basis. Applications for foreign-exchange permits also had to be processed in accordance with frequently revised regulations. During the first two years of the war, in fact, the Bank received no less than 348 bulletins from the Foreign Exchange Control Board, each of which had to be studied in detail and sent to all branches. Complicating the performance of all these duties were the problems of staff depletion. In all 1,269 men and 181 women, or about one-quarter of the Bank's staff, joined the armed services, and the replacements and additions that were hired required on-the-spot training which meant additional burdens on the more experienced personnel.

Despite his absence in Ottawa with the National War Finance Committee, George Spinney was chosen as the eighteenth president of the Bank in December 1942. Huntly Drummond, then seventy-eight, had decided that the heavy responsibilities of the presidency should be borne by a younger man but agreed to stay on as Chairman of the Board, a post he occupied until 1946, when he became Honorary President until his death in 1958. These changes were accompanied by the appointment of B. C. Gardner to the post of general manager, which ceased to a be dual office with the retirement of Jackson Dodds. Gardner had come to the Bank of Montreal from the Bank of British North America at the time of the merger and, after serving in Newfoundland, the Maritimes and New York, had become Assistant General Manager at Head Office in 1935.

In 1948 the Bank's illustrious war-time president, George Spinney, died and his place was taken by B. C. Gardner who had become Executive Vice-President the previous year. On Gardner's elevation to the vice-presidency, the post of general manager was assumed by Gordon R. Ball, who had come to the Bank of Montreal from the Merchants Bank and after branch experience in Canada had spent twenty-three years with the New York agency.

In 1952, B. C. Gardner, at the age of sixty-eight, became Chairman of the Board and his place as president was taken by Gordon Ball. The new general manager was Arthur C. Jensen. Like Ball, Jensen had begun his career with the Merchants Bank, which he had served both in London and in Canada. After joining the Bank of Montreal, Jensen spent several years in Montreal before going to New York. When he returned to Head Office in 1931 he devoted his time to securities operations and later served as personal assistant to George Spinney during his chairmanship of the National War Finance Committee. In 1947 Jensen was appointed an assistant general manager.

During the war, the banks' financing of bond purchases attracted many new customers. After peace returned these people continued to make extensive use of banking facilities and the banks found themselves providing a wider variety of services to an ever increasing number of customers, a trend that was to continue into the following decades. At the war's end, for example, the Bank of Montreal could proudly claim to be "My Bank" to a million Canadians; by 1961 it was "My Bank" to three million.

The broadening scope of bank activities in an environment of dynamic change, where television, satellites and laser beams have become household words, has been reflected in the three revisions of the Bank Act that have taken place since 1935.

In retrospect, the most significant changes brought about by the revision of the Bank Act in 1944 were a reduction in the maximum rate of interest chargeable on loans from seven to six per cent and the measure of discretionary power accorded the Minister of Finance with regard to the regulation of the banks' unpublished inner reserves. The accumulation of such reserves had been the prerogative of the banks for many years – the contingency account of the Bank of Montreal having first been set up by Edwin King in 1867. In discussing the size of these reserves, the Minister pointed out that "it is a responsibility of the shareholders' auditors and of the Inspector General of Banks to see not only that inner reserves are built up to the level of adequacy but also that they do not exceed this level." When the act was amended, a new clause was inserted instructing the finance minister to inform the Minister of National Revenue of any additions made to these reserves out of current earnings, before taxes, whenever, in his opinion, such appropriations were "in excess of the reasonable requirements of the bank." As a result of this provision, the Bank of Montreal agreed to add the sum of $2,200,000 retroactively to its 1943 income for taxation purposes.

This adjustment was based on a formula developed by the finance minister and subsequently issued for the guidance of all banks. The formula stipulated the various classes of assets against which inner reserves could be held and the percentage allowable in each instance. Although the Bank of Montreal had been able to make steady additions to its inner reserves during the difficult years since 1929, these reserves had not grown at any marked rate. On the other hand, a major portion of the Bank's total assets had come to be made up of government securities, and these holdings were assigned the lowest reserve allowance of the several categories of assets included in the formula.

While the method of calculation has since been changed several times, resulting in a lower ratio of inner reserves to risk assets, the composition of the Bank's balance sheet has also changed. Loans have grown enormously, and security holdings have fallen, so that risk assets now comprise a major percentage of the Bank's holdings. While inner reserves have continued to increase in absolute terms, the growth of the Bank has been such that they now represent a lower percentage of deposit liabilities than they did twenty-five years ago.

The revision of the Bank Act passed by Parliament ten years later also contained a number of novel amendments. The most dramatic break with tradition in 1954 was the authority granted the chartered banks to engage in mortgage lending for new housing construction under the provisions of the National Housing Act. This change meant that for the first time in its 137 years of operation the Bank of Montreal was able to grant loans on mortgage security, and it lost little time in entering the market. It was the first chartered bank to grant a mortgage loan in accordance with the new legislation and in the succeeding five years its advances under the National Housing Act grew to $227 million. Late in 1959, however, the rate on N.H.A. mortgages rose from 6 per cent to 6¾ per cent. Since the new rate exceeded the maximum allowed under the Bank Act, the banks, in spite of their favourable experience with mortgage loans, followed the opinion of counsel and began a withdrawal from the market.

In an effort to introduce another new element of competition into the lending market, the 1954 revision also authorized the chartered banks to make loans to individuals on the security of chattel mortgages issued against household property, i.e., "motor vehicles and any personal or movable property for use in or about dwellings." The granting of small personal loans, of course, was not a new field for the chartered banks, but such operations had always been hampered by the relatively greater risk involved and the heavy per unit cost of managing loans of this type. The right to take mortgage security went a long way toward overcoming one of these problems and the other was solved by discounting the loans or by implementing a service charge. In this way the banks were able to earn a return in line with their risks and costs. Loans under special programs such as the Bank of Montreal Family Finance Plan have become increasingly important and now account for nearly twenty-five per cent of total chartered-bank loans in contrast with some seven per cent in 1953.

A somewhat technical but nevertheless important amendment raised cash reserve requirements from five to eight per cent of Canadian deposit liabilities. While this might appear to have been a restrictive change, the effect, in point of fact, was the reverse inasmuch as for many years the banks had, by custom, worked to a cash reserve ratio of approximately ten per cent, the legal minimum requirement of five per cent notwithstanding. With the basis of calculating the reserves also changed by the 1954 act, the banks were given more leeway to adjust their positions over a full month, allowing them to work much closer to the stipulated reserve requirement. This change was accompanied by another innovation – the development of an active market for day-to-day money. A much more efficient management of cash assets became possible thereafter.

From the time of its inception until a few years after World War II ended the Bank of Canada followed a generally easy monetary policy. But the end of war-time regulation of the economy led to rising prices and, in turn, to an increasing use of monetary policy as a weapon of control. During the 1950's recurring periods of tight money evoked mounting criticism of central bank policy especially when the unemployment rate increased markedly toward the end of the decade, and in 1961 there was a clash between the government of the day and the then governor of the central bank. Partly as a result of this clash, which led to a change in the governorship of the Bank of Canada, and partly in anticipation of the decennial revision of the Bank Act due in 1964, a royal commission was set up to "inquire into and report upon the structure and methods of operation of the Canadian financial system, including the banking and monetary system and the institutions and processes involved in the flow of funds through the capital market." Under the chairmanship of Hon. Dana H. Porter, Chief Justice of Ontario, the commission commenced its work in 1961 and brought in an exhaustive report early in 1964. Finally, in 1967 a revised Bank Act was passed by Parliament.

This latest banking legislation, undoubtedly the most important since 1935, provides for a further broadening of the powers of the banks in order to enable

FOUNDERS IN CANADA

In the centre of Place d'Armes rises Philippe Hébert's heroic statue of Paul de Chomedey, Sieur de Maisonneuve, who founded Montreal in 1642. On the north side of this historic square another founder has stood for close to a century and a half: the Bank of Montreal, the originator of Canada's branch-banking system in 1817.

Here, in reality, is the birthplace of Canadian banking, for it was on the exact site of the present head-office building, opened in 1960, that the first structure in Canada designed for banking purposes was erected in 1818-19.

Today the Bank of Montreal occupies its third home on Place d'Armes – the seventeen-storey building on the original spot – while its second home, the domed edifice seen immediately to the right, continues to serve as the main banking office of its far-flung branch system.

them to become more competitive with the other types of financial institutions that have risen to prominence since the war. One provision of the new Bank Act will lead to the removal of the ceiling on the rates the banks may charge on loans, commencing in 1968. Another provision permits the banks to lend on most types of security, including real properties, thus marking the end of all prohibitions against this type of loan and, in conjunction with the removal of the interest-rate ceiling, paving the way for a re-entry by the banks into the field of mortgage lending, this time on a wider basis than was possible under the 1954 act. An entirely new method of raising capital has been opened up to the banks which are now empowered to issue debentures that will be subordinated to deposits. The requirements governing cash reserves have also been changed and, in effect, lowered from the eight per cent set in 1954.

On a more restrictive note a number of new prohibitions have been introduced designed to ensure a widespread dispersion of ownership and at the same time to prevent the transfer of more than twenty-five per cent of the shares of any chartered bank to foreign ownership. A limit is also imposed on bank ownership of shares in other corporations, including trust and loan companies, and interlocking directorships are restricted. Finally, it will be necessary henceforth for the banks to publish their accounts in more complete form, revealing for the first time the amounts held in inner reserves and showing a more detailed statement of revenues and expenses.

While revolutionary in some respects, the amendments to the laws governing Canadian banks that have been passed in the last quarter-century have arisen in response to developments in the economy and have been designed to enable the banks to keep pace with the country's growth and with the requirements of the ever changing environment.

The beginning of the 1960's found the Bank of Montreal headed by a new executive team. After Gordon Ball's sudden death in 1959, Arthur Jensen, who had been Executive Vice-President since 1957, assumed the chairmanship of the Board and of the Executive Committee, while G. Arnold Hart became President and Chief Executive Officer. Hart had entered the Bank at Toronto, his birthplace, in 1931 and, after returning from military service in World War II, he served at Head Office, in the west and in New York. He became an assistant general manager in 1954, Deputy General Manager two years later, and General Manager in 1957.

When Hart became President in 1959, R. D. Mulholland was appointed General Manager to succeed him. Mulholland had joined the Bank at his home town of Peterborough, Ontario, in 1923. His subsequent career, which was interrupted by war-time service with the Canadian army, was one of wide variety, encompassing posts in Ontario, Montreal, London, England, Paris, France, and the Canadian west. As manager of Montreal Branch he was appointed an assistant general manager in 1954 and held this title on transfer to Toronto a year later, where he assumed charge of the Ontario Division. He returned to Montreal in 1958 as deputy general manager at Head Office.

When Arthur Jensen retired as chairman in 1964, Arnold Hart assumed that position as well as the presidency, while J. Leonard Walker became General Manager and R. D. Mulholland moved to Chief General Manager. Walker had entered the Bank in 1927 and after filling many different positions in numerous branches he assumed charge of the Bank's British Columbia operations in 1959. Further changes in the executive took place at the beginning of 1966, at which time Mulholland assumed the post of executive vice-president in addition to that of chief general manager. In his new position he was charged with the formulation of major policy in concert with the President, and responsibility for the day-to-day operations of the Bank devolved upon Walker who became Senior General Manager and Chief Operating Officer.

On May 1, 1967, the Bank again reverted to the practice of having a separate chairman and president. Arnold Hart remained Chairman of the Board and Chief Executive Officer while R. D. Mulholland became the Bank's twenty-second president; J. L. Walker assumed the title of Senior Executive Vice-President and General Manager. Concurrently, and in accordance with a clause in the recently passed Bank Act permitting banks to name as vice-presidents officers who were not directors, the Board approved the appointment of thirty-three senior officers as executive vice-presidents, senior vice-presidents or vice-presidents.

In keeping with the growth in world trade since the war and with the particularly important role of exports in Canada's economy, the Bank of Montreal has pursued a policy of strengthening correspondent relationships in all parts of the world and, as already mentioned, of opening representatives' offices in leading centres. Such offices have been opened in Dusseldorf and Tokyo, and the Bank has again established direct representation in Paris and Mexico City.

In conjunction with the decision to open a full-service office in Los Angeles the name of the Bank's California subsidiary was changed from the Bank of Montreal (San Francisco) to the Bank of Montreal (California) in 1962. That same year a representative's office was also opened in Houston, Texas, which, like California, is one of the fastest growing areas in the United States. A possible clash with the banking laws of the State of Illinois, which prohibit branch banking, unfortunately led to the closing of the Chicago branch of the Bank in 1952, after a long history of successful operation. The Bank's connection with Chicago has been continued, however, by the setting up of a representative's office.

A further extension of the Bank's international representation was achieved in 1958 when an agreement was concluded with the Bank of London & South America, Limited, by which the two banks became equal partners in a newly created affiliate, the Bank of London and Montreal, Limited, with head office in Nassau. The first chairman of BOLAM, as it has become known, was Gordon Ball, who held the post until his death in 1959. Thereafter, and until 1966, the chairmanship alternated, on a two-year basis, between Sir George Bolton, K.C.M.G., Chairman of the Bank of London & South America, and Arnold Hart. In March 1966, R. D. Mulholland was elected to the position. At the end of that year BOLAM was operating thirty-seven offices in ten countries in the Caribbean, Central and South America. A one-third interest in this bank was acquired in 1964 by Barclays Bank D.C.O., and in 1965 BOLAM closed out its own offices in Venezuela and became instead a large shareholder in Banco La Guaira Internacional C.A., which operates five offices in Caracas and La Guaira.

The Bank's dealings in New York, which, as the reader will be well aware, have been important since its very founding, have become increasingly active since the evolution of the so-called Euro-dollar market in the 1950's. The term Euro-dollars is simply the name used to describe United States dollars deposited in a banking office anywhere outside the United States. Commercial banks acquire Euro-dollars from European central banks, international companies whose operations give rise to dollar balances, or through swaps out of a local currency. These funds are lent at short term and the spread between borrowing and lending rates is usually very narrow. It is a characteristic of this market that funds generally move in large amounts between first-class names only and the Euro-dollar market is one of the freest, most competitive and most flexible markets in the world. The Bank of Montreal has taken full advantage of the opportunities in this field and the necessity of keeping large balances in New York has markedly increased the flow of funds through its office there.

The tremendous enlargement of the Bank's business arising from the dynamic economic expansion in Canada and abroad has made it necessary to follow a comprehensive program of construction and renovation of premises throughout the entire system. While many of the Bank's newer offices occupy rented premises in large office complexes or shopping centres, the Bank at the end of 1966 owned well over half of the buildings in which its more than one thousand offices were located. More than 250 of these buildings have been erected since the war and there are very few other offices that have not been extensively altered during the same period.

The most notable single construction project was a new head-office building. Like their predecessors of over a century before, the Bank's directors were faced with the question of whether to remain at the site so long identified as the birthplace of Canadian banking or to follow an emerging trend to relocate in another area of Montreal. As in the 1840's, tradition resisted the blandishments of change and the Bank decided to erect its new headquarters at the corner of St. James and St. François Xavier streets, on the site of the original 1819 edifice. The new head-office building was designed by Barott, Marshall, Merrett and Barott in association with the Bank's own Chief Architect, Bruce Wright. Faced with Queenston limestone and trimmed with granite, the new building has seventeen floors above ground and four below which provide working space for more than two thousand men and women and which contain some of the most up-to-date equipment used in banking.

The continuing growth in the number of accounts and in the volume of entries handled by the Bank has fortunately been accompanied by the creation of a whole new technology involving the use of computers and high-speed electronic equipment. Although the Bank of Montreal was not the earliest to install computers, it was the first bank in Canada to introduce integrated processing of the cheque-clearing and ledger-posting operations. Until 1963, when the Bank of Montreal set up its electronic data-processing department in Montreal, these two functions had always been carried out separately. The problem of naming the new department was submitted to the Bank's staff in the form of a competition and out of the many entries, GENIE (GENerates Information Electronically) was selected as the winner.

Computerization of routine clerical functions has not only enabled the Bank to handle the ever increasing volume of work more efficiently and at less cost but has also led to the development of new services. The uses of this equipment have proved many and varied, ranging from account reconciliation for large business concerns to the calculation of monthly handicaps for golf clubs. The growth of the Bank's business has already led to the installation of the latest "third generation" computers, and additional Genie centres have been put into operation in Toronto and Vancouver.

Some indication of the Bank's growth can be gained from the annual balance-sheet totals which, reflecting in part the economic growth of the country as a whole, have tended to expand at an accelerating rate in recent years. For example, total assets of the Bank of Montreal first exceeded one billion dollars in 1939. Ten years elapsed before a second billion was added and another nine years before the total reached three billion dollars. Only four years later, in 1962, assets passed $4 billion and during the next four years a sum of nearly $1.5 billion was added; at the end of March, 1967, the total assets of the Bank stood at $5.52 billion.

As the total assets of the Bank have grown in size so have its capital funds. In 1935 the paid-up capital was $36 million with the Rest (which had not been drawn upon since $500,000 was appropriated to cover losses in 1879) and undivided profits together amounting to an additional $40 million. Although this total had not changed much by the end of the war, it has since been possible to report steady additions to the capital funds from undistributed profits. The capital position of the Bank has also been strengthened during the past two decades by new issues of stock. The first was offered in 1954 and raised the paid-up capital to $45 million. Two more issues were made in 1957 and 1959 and when they were fully paid up the capital and Rest stood at $60,750,000 and $141,850,000, respectively. Since that time there have been no new capital issues and the further increase in the shareholders' funds to a total of $231 million at the end of 1966 has come entirely from earnings.

In an effort to encourage a wider base of ownership, the par value of the Bank's shares has been reduced through splitting of the stock. In 1944 a ten-for-one split was authorized and the shares assumed a par value of ten dollars each; in 1967, when these shares were quoted at $56 on the market, it was announced that the shares would be further subdivided in a ratio of five to one. The increased number of shares created by both the splitting of the stock and the new issues has resulted in a marked increase in the number of the Bank's shareholders, from nine thousand in 1943 to twenty-five thousand in 1966.

Along with the other increases that have been noted, there has of course been a concurrent rise in the number of the Bank's personnel. While the Bank followed a policy of endeavouring to retain all officers during the depression years, normal attrition led to a decline in their numbers. In the ten years ending in 1946, however, the expansion of business necessitated the addition of nearly three thousand men and women to the staff, bringing the total to eight thousand. Despite the introduction of modern labour-saving equipment, that figure has more than doubled during the last twenty years.

The greatly increased requirements of Canada's expanding economy, coupled with the desire of the chartered banks to compete more vigorously with other financial institutions, have prompted the Bank of Montreal to undertake a re-examination of its entire system of operations. In 1963 the foundations of profit-planning were laid and a series of organizational changes, the most extensive since 1817, were subsequently instituted. One of the most important results of this program has been the reversal of the time-honoured – and frequently criticized – policy of centralization. In conjunction with a thorough overhaul of the Bank's recruiting and training practices designed to further the education and increase the skills of personnel at all levels, the responsibilities of divisional officers and branch managers have been greatly enlarged. These changes not only have moved the decision-making process closer to the customer but also have enabled Head Office to concentrate on the development of such new facets of banking as systematic long-range planning and market research.

It is on this note of determination to keep in step with the dynamic pace of the Canadian economy and to take full advantage of the most recent developments in corporate organization and business methods that this history comes to an end. As the Bank of Montreal approaches the 150th anniversary of its founding, it is actuated by the same resolution to serve Canada's financial needs that has marked its progress in the past, and there is every reason to believe that the Bank and the country will continue to draw strength from each other as they have unfailingly through a century and a half of growth.

Montreal,
May 1, 1967

APPENDICES

APPENDIX A

BANK OF MONTREAL PRESIDENTS AND CHAIRMEN IN THE PERIOD COVERED BY THIS VOLUME

The Honourable Peter McGill had served as president of the Bank of Montreal seven years when the institution was granted its third charter by the first parliament of the Province of Canada in September 1841 – the final event mentioned in the text of the first volume of this history. With those of his five predecessors, his biography was included in Appendix C of the first volume. Suffice it to note here that McGill, who served as president for nearly two more decades after that historic event of 1841, held office longer than any of the twenty-one other incumbents who have occupied that position. He was President from 1834 to 1860 – a period encompassing more than one-sixth of the 150 years the Bank has been in existence.

McGill's career was an illustrious one, and during his last twenty years his ever-growing stature made him "quite the most popular citizen of Montreal."

To succeed McGill, T. B. Anderson, who had served as vice-president since 1847, was elected President. He held the office for nine years. A member of the Board of

PETER MCGILL

T. B. ANDERSON

EDWIN H. KING

Directors for nearly thirty years when he became President, Anderson had also been a partner in the famous firm of Forsyth, Richardson & Co. up to 1847, following which he set up his own business. He was a son-in-law of the great John Richardson, the chief mover in the foundation of the Bank.

A significant change occurred in the selection of the next president of the Bank, for Edwin King, who succeeded Anderson on his resignation in 1869, was the first professional banker in the fifty-year history of the Bank to occupy the post. Significant, too, was the fact that King was, at forty-one, the youngest president ever to be elected.

Born in Ireland in 1828, he came to Canada in 1850; after serving with the Bank of British North America, he joined the Bank of Montreal in 1857. His progress was remarkable: in 1863 he became General Manager and six years later was elected President.

Under the presidency of King, who was a key financial figure in the exciting period that led up to Confederation, the Bank prospered greatly. One of the most colourful and controversial executives ever to occupy that office, he had a profound influence on the Bank that continued to be felt long after he left the post. His bold direction of the New York agency's operations in the American gold market, for example, earned him the grudging admiration of his rivals.

Having established the Bank as a force to be reckoned with in New York, King next turned to London, where he arranged for the opening of a branch in the very heart of the world's financial capital.

In Canada, King was not only responsible for getting the government account for the Bank but was also the only banker who chose

DAVID TORRANCE

BARON MOUNT STEPHEN

to take advantage of the Provincial Note Act. In effect, this enabled the Bank of Montreal to act for a time as a government bank of issue.

Such aggressiveness hardly endeared King to his contemporaries, but he seemed immune to both criticism and calumny. He was also the only president to enter into a contract with the Bank under which, in addition to his salary, he was paid a percentage of the annual profits whenever they exceeded a stipulated amount.

Four years after his election as president he tendered his resignation to take effect in June 1873, when, at the age of forty-five, he retired and settled in England. He came out of retirement in 1879 to become Chairman of the Bank's London Committee, a post he held until 1888 when he took up permanent residence in Monte Carlo, dying there in 1896.

Succeeding King was David Torrance, who had been a member of the Board of Directors for twenty years. Born in New York in 1805, he came to Canada as a boy with his father, James Torrance. After a period at Kingston, young Torrance moved to Montreal and at the age of sixteen became a clerk in the business of his uncle, John Torrance, who took him into partnership twelve years later.

When the elder Torrance retired, the firm was reorganized as David Torrance and Company. It became one of the leading mercantile establishments in Montreal, with a fleet of steamships and connections in the West Indies and China.

Torrance's term as president of the Bank was less than three years, for he died on February 1, 1876.

Succeeding him was the great George Stephen who, soon afterwards, was to be such a driving force in the building of the Canadian Pacific Railway.

A native of Dufftown, Banffshire, Scotland, Stephen was born in 1829. At the age

C. F. SMITHERS

BARON STRATHCONA
AND MOUNT ROYAL

of twenty-one he immigrated to Canada and entered his cousin's firm, William Stephen and Company, importers of woollen and cotton goods, in which he eventually bought a controlling interest. Twenty-one years later, on his forty-second birthday, June 5, 1871, Stephen was elected a director of the Bank of Montreal.

With his cousin Donald Smith (later Lord Strathcona and Mount Royal), George Stephen was a member of the group that organized the St. Paul, Minneapolis and Manitoba Railroad, and of the syndicate that undertook the construction of the Canadian Pacific Railway.

In 1881, after being elected the first president of the Canadian Pacific Railway Company, Stephen resigned as the chief executive of the Bank. Five years later, when the railway line was completed to the Pacific Coast, Stephen was created a baronet of the United Kingdom. In 1888, at the age of fifty-nine, he returned to the British Isles and made his home in England, devoting his energies to philanthropic works. In 1891 he was made Baron Mount Stephen. He died at Brocket Hall, Hatfield, Hertfordshire, on November 29, 1921, in his ninety-third year.

The second professional banker to hold the post of president was Charles F. Smithers, who succeeded Stephen in 1881. Like Edwin King, Smithers was an immigrant to Canada and had served with the Bank of British North America before joining the Bank of Montreal.

Smithers came to Canada from his native London in 1847 at the age of twenty-five. After eleven years with the Bank of British North America, he joined the Bank of Montreal. While serving as senior agent of the Bank in New York in 1863 he resigned to take charge of the Montreal branch of the London & Colonial Bank. Three years later he was back in New York where he entered the field of private banking.

In 1869 Smithers rejoined the Bank of Montreal to direct its operations in New York. After ten years he succeeded R. B. Angus as general manager of the Bank, a post he held for only two years before assuming the presidency in succession to George Stephen. Smithers died in Montreal on May 20, 1887, in his sixty-fifth year.

Sir Donald Smith, who had been knighted in the previous year and who had served as vice-president for five years, was elected President of the Bank following the death of Charles Smithers. Like his cousin George Stephen, with whom he had been associated in the development of the St. Paul, Minneapolis and Manitoba Railroad, Smith was very active in the building of the Canadian Pacific.

Donald Alexander Smith was born in 1820 at Forres, Morayshire, Scotland, and joined the Hudson's Bay Company at the age of eighteen. He spent the next thirty years on the Labrador coast and on Hudson Bay, serving the company in various capacities, including those of chief trader and chief factor. In 1868 he was appointed to the post of resident governor with headquarters in Montreal.

In the following year, Smith was asked by the Canadian government to serve as a special commissioner to inquire into the troubles connected with the uprising at Red River, a post in which he rendered signal service. Later he was elected a Winnipeg member of the Legislative Assembly of Manitoba and also the member of the Canadian House of Commons representing Selkirk.

Meanwhile, Smith was also active in railway development in the west and in 1880 joined the syndicate for the building of the Canadian Pacific. During the years that followed it was mainly through the courage and resourcefulness of Stephen and Smith that the company was able to survive the difficulties of the period of construction.

In 1887, the year in which he became President of the Bank, Smith was elected to the House of Commons as the member for Montreal West. Two years later he was named Governor of the Hudson's Bay Company.

Although he was nearly seventy at this time, Sir Donald showed no sign of contracting his broad interests in business, banking, politics and all manner of community developments. He continued to represent the Montreal West constituency in the federal government until 1896, when he was appointed to succeed Sir Charles Tupper as Canadian High Commissioner in London, a post he was to hold for the remainder of his life.

In 1897 Smith was created Baron Strathcona and Mount Royal. Although he was absent from Canada much of the time, he retained his interest in Canadian affairs and made substantial contributions to McGill University, the Royal Victoria Hospital, the Young Men's Christian Association and King Edward's Hospital Fund, as well as to Aberdeen University. During the South African War he outfitted at his own expense a Canadian mounted regiment known as the Lord Strathcona Horse.

When he retired from the presidency of the Bank of Montreal in 1905, Lord Strathcona had held the post for eighteen years – a longer term than any other incumbent

SIR GEORGE DRUMMOND

R. B. ANGUS

with the exception of the Honourable Peter McGill. On his retirement, he was named Honorary President, a position he retained until his death in his ninety-fourth year on January 21, 1914.

Like so many of his predecessors, Sir George Drummond, who succeeded to the presidency in 1905, was a Scot. Born in Edinburgh in 1829, and educated at Edinburgh High School and University, he immigrated to Canada at the age of twenty-five. He became associated with the Montreal sugar-refining firm of John Redpath and Son, of which he was manager before establishing his own business, the Canada Sugar Refining Company, in 1879.

In 1882 Drummond was elected a director of the Bank of Montreal. Five years later he was named Vice-President. In the following year he was appointed a member of the Senate of Canada.

A year before he was elected President, Senator Drummond was knighted, being created K.C.M.G. in 1904 and K.C.V.O. four years later.

Sir George possessed a notable collection of paintings, and was Chairman of the National Gallery of Canada and President of the Art Association of Montreal.

When the directors elected Richard B. Angus to the presidency on Sir George Drummond's death in 1910, they were choosing only the third professional banker for this post in the ninety-three-year history of the Bank. Another Scotsman, Richard Angus came to Canada at the age of twenty-six. Born in the village of Bathgate in West Lothian in 1831, he acquired old-country banking experience before immigrating to Canada. After joining the Bank of Montreal in 1857 his progress was rapid and within twelve years, at the age of only thirty-eight, he was made General Manager.

In 1879, after holding the post for ten years, Angus resigned to devote his full time


SIR VINCENT MEREDITH


SIR CHARLES GORDON


H. R. DRUMMOND

to railway-building in association with George Stephen and Donald Smith. He served as general manager of the St. Paul, Minneapolis and Manitoba Railroad. Later he became a member of the syndicate for the building of the Canadian Pacific.

In 1891 the directors of the Bank invited Angus to join the Board, and he continued as a member of the directorate until his death in 1922. His election to the presidency in 1910 was in the nature of a second record for Richard Angus; he was, with the exception of Edwin King, the youngest in the Bank's history to be appointed General Manager, and, at seventy-nine, he was the oldest to be elected President.

Vincent Meredith, who succeeded Richard Angus as president in 1913, was the first Canadian-born incumbent of the post. Born at London, Canada West, in 1850, Meredith was educated at Hellmuth College, London, and entered the service of the Bank of Montreal at Hamilton in the year of Confederation, 1867. After holding a variety of important posts, he was made General Manager in 1911, Vice-President in 1912 and President in 1913 – a post he held until 1927, when he became Chairman of the Board and of the newly created Executive Committee.

Vincent Meredith was knighted in 1916 and died on February 24, 1929, four days before his seventy-ninth birthday. In his will, he left a bequest to serve as the nucleus of a pension fund for the female personnel of the Bank.

Sir Charles Gordon, who had been a member of the Board since 1912 and served as vice-president since 1916, became President in 1927.

Like Meredith, Gordon was Canadian-born. He was the first native Montrealer to occupy

GEORGE W. SPINNEY

B. C. GARDNER

the President's chair. Born in Confederation year, he was educated at the Montreal High School and began his business career locally in the textile trade.

In 1909 Gordon became President of the Dominion Textile Company, an organization he headed until his death.

During World War I, Gordon served as Vice-Chairman of the Imperial Munitions Board in Canada (1915-17) and as Director-General of War Supplies for Great Britain, with headquarters in Washington, D.C. (1917-18). He was knighted in 1918 for his war services.

Succeeding Sir Charles Gordon on his death in 1939 was Huntly Redpath Drummond, son of Sir George Drummond and a director of the Bank since 1912.

Born in Montreal in 1864, young Drummond received his education at the Montreal High School and at Rugby, England, following which he served an apprenticeship as a clerk in the Bank of Montreal before joining the Canada Sugar Refining Company, of which he became President in 1910.

On his retirement from the presidency of the Bank in 1942, Huntly Drummond served as chairman of the Board until 1946, when he became Honorary President, a position he held until his death in 1957 in his ninety-fourth year.

With the election of George Wilbur Spinney as president in 1942, the Bank adopted a definite practice of placing professional bankers in the presidency.

Born in Yarmouth, Nova Scotia, in 1889, Spinney joined the local branch of the Bank of Montreal at the age of seventeen and worked his way up through a variety of posts at branches in Eastern Canada to become, in 1922, Assistant to the General Manager. In this post he became responsible for the development of the Bank's investment facilities and directed the establishment of the Securities Department at Head Office.

In 1928 Spinney was made an assistant general manager and eight years later he became Joint General Manager with Jackson Dodds. Early in World War II, Spinney's services were requested by the federal government at Ottawa to assist in developing the domestic war financing of the nation. He was named Chairman of the Executive Committee of the National War Loan Committee early in 1941. Later he organized the National War Finance Committee, of which he became Chairman, and laid down the campaign pattern for the nine Victory Loans to which the Canadian people subscribed so generously during the war years.

On his return to the Bank at the end of 1942, Spinney pursued plans for the development of the Bank with great vigour, although he retained the chairmanship of the National War Finance Committee until the following August, when he was made Honorary Chairman. Later he was also very active in community undertakings, notably in reorganizing the finances of the Royal Victoria Hospital, of which he was President.

The strains of war-time work left their mark even on Spinney's robust constitution, and the demands of the new era that began as the war ended brought him to an early death in his sixth year as president in 1948.

To succeed him as president and chairman of the Executive Committee, which had been revived in 1944, the Board chose Bertie Charles Gardner, Executive Vice-President and formerly General Manager since 1942. Born in Bristol, England, in 1884, Gardner acquired experience with a private banking company there before joining the Bank of British North America in Montreal in 1906.

Service with that bank took Gardner to numerous points in Western Canada. In 1914 he was made an assistant inspector at Winnipeg. It was while he was on this post that he was commissioned as a lieutenant in the 79th Cameron Highlanders of Canada in 1915. Early in the following year he went to France. He was twice wounded in action, and was awarded the Military Cross in 1917. At the end of hostilities he held the rank of major and was second in command of his battalion.

On his return to Canada, the Bank of British North America had been amalgamated with the Bank of Montreal, and Gardner was made assistant manager of the branch at St. John's, Newfoundland. In 1928 he became manager of the branch and two years later he took charge of the main office at Saint John, New Brunswick.

After moves to Montreal and New York, Gardner was appointed an assistant general manager at Head Office in 1935. Seven years later he was named General Manager, subsequently becoming a director and Vice-President. Working closely with George Spinney until 1948, he succeeded to the presidency when Spinney died and held the post until 1952. When he retired as president, he became Chairman of the Board. He continued as chairman of the Executive Committee until 1953.

Bertie Gardner's list of directorships was extensive, and he had numerous community interests, notably the Royal Victoria Hospital, of which he was President from 1950 to 1952, and McGill University, which he served as chancellor from 1952 to

GORDON R. BALL

ARTHUR C. JENSEN

1957. He was Honorary Lieutenant-Colonel of the Canadian Grenadier Guards, and he received honorary degrees from Bishop's and McGill universities.

When Gordon Reginald Ball succeeded Bertie Gardner as president, he had been General Manager of the Bank since 1947. Born in Toronto in 1897, Ball joined the Merchants Bank of Canada at the beginning of World War I. He soon enlisted, serving with the Canadian Expeditionary Force from 1915 to 1919. He was twice wounded and was awarded the Military Medal.

Ball returned to banking following the war and after the Merchants Bank had merged with the Bank of Montreal, he was sent to New York in 1924. There he specialized in investments, becoming manager of the agency's Securities Department in 1929. Five years later he became third agent; he served successively as second and first agent until 1947, when he was appointed General Manager at Head Office. He was made a director, Vice-President and a member of the Executive Committee in 1951.

Ball was a director of many business organizations in Canada including the Royal Trust Company, of which he was Vice-President. In 1955 and 1956 he received honorary degrees from Bishop's University and the University of Montreal.

When Bertie Gardner relinquished the chairmanship of the Executive Committee in 1953, Gordon Ball took on the duties of this position, and a year later, when Gardner retired as chairman of the Board, Ball also assumed that post in addition to the presidency.

On Ball's death in February, 1959, Arthur Christian Jensen became Chairman of the Board and of the Executive Committee, posts he held until 1964. Jensen had served as general manager from 1952 to 1957, when he became Executive Vice-President.

Like Ball, Jensen began his banking career with the Merchants Bank of Canada in

G. ARNOLD HART

R. D. MULHOLLAND

1914. He was born at Harbour Breton, Newfoundland, in 1896 of Danish extraction, and joined the staff of the main office of the Merchants Bank in Montreal, later undertaking special duties at that bank's office in London, England.

Following the amalgamation of the Merchants Bank with the Bank of Montreal in 1922, Jensen was attached to offices in Montreal and New York until 1931, when he joined the Securities Department at Head Office, becoming its assistant manager in 1935.

During the early years of World War II, Arthur Jensen worked very closely with George Spinney in the operations of the National War Finance Committee at Ottawa. On his return to the Bank in 1943, Jensen was made Superintendent at Head Office, and four years later he became an assistant general manager in charge of the Ontario Division.

In 1952, when Gordon Ball was elected President, Jensen became General Manager. Two years later he was elected to the Board of Directors and made a vice-president.

Arnold Hart succeeded Arthur Jensen as general manager in 1957 and two years later, on the death of Gordon Ball, he became President and Chief Executive Officer.

Hart's rise in the Bank was perhaps the most rapid of any member of the staff in this century. He joined the Bank at the age of eighteen in his native Toronto in 1931, and saw service at branches there and in Montreal until he joined the Foreign Exchange Department at Head Office shortly before World War II.

During the war Hart served with the Canadian Army from 1941 to 1945. He was awarded the M.B.E. (Military Division) and retired with the rank of major.

On his return to the Bank in 1946, Hart was appointed Secretary to the President. In 1948 he was made Assistant Superintendent at Calgary, and thereafter became manager of Edmonton Main Office and third agent at New York before returning to Head Office in 1953 with the rank of superintendent. In the following year he was named an assistant general manager.

In 1956 Hart was appointed Deputy General Manager and less than a year later, at the age of forty-three, he became General Manager. In 1958 he was elected a member of the Board and a vice-president.

When Arnold Hart was elected President in 1959 he was forty-five years of age and the youngest Canadian bank president at the time. He became, in addition, Chairman of the Board and of the Executive Committee in 1964 on the retirement of Arthur Jensen.

Arnold Hart's interests have been many and varied. A director of numerous leading corporations in Canada and the United States, he has also identified himself with a multitude of community interests, including such widely diversified organizations as the Canada Council, the Y.M.C.A., and the Royal Victoria Hospital, of which he was made a governor in 1959. He has also been appointed to the boards of governors of three universities and his achievements have been recognized by honorary degrees from four others.

At the beginning of May, 1967, Hart relinquished the presidency of the Bank but remained Chairman of the Board and Chief Executive Officer. R. D. Mulholland then became the twenty-second president.

Born at Peterborough, Ontario, in 1904, Mulholland was educated there and at Trinity College School, Port Hope. He entered the Bank at Peterborough at the age of nineteen and subsequently served at Hamilton, abroad at London and Paris, and at Montreal before joining the Canadian Army. During World War II he held staff appointments in both Canada and the United Kingdom, emerging from the service with the rank of major.

After he returned to the Bank at the end of 1945 Mulholland received a series of rapid promotions that took him to the west coast and back again. He was made an assistant general manager in 1954 and a year later was moved to Toronto and put in charge of the Bank's Ontario Division. He returned to Head Office in 1958 and became Deputy General Manager, General Manager in 1959 and Chief General Manager in 1964. Elected a director and simultaneously a vice-president in 1960, he became Executive Vice-President in 1966, remaining Chief General Manager. That year he was also elected Chairman of the Bank of London and Montreal, Limited, the Caribbean affiliate of the Bank of Montreal.

He served as president of the Canadian Bankers' Association from 1961 to 1963 and thereafter as honorary president. Outside the banking world, Mulholland has devoted much of his time to health, education and welfare organizations. His particular concerns include the Montreal Children's Hospital, the Quebec Hospital Service Association, Trinity College School, Bishop's University and the University of New Brunswick. In addition, he acts as first vice-chairman of the United Red Feather Services of Montreal.

APPENDIX B

HISTORICAL RECORD OF THE BANK OF MONTREAL

While many of the officers of the Bank of Montreal listed in this appendix also appear in the main body of the text, it was not feasible to mention every senior officer and director in the course of the narrative. To provide a complete historical record, separate lists have been prepared covering honorary presidents, chairmen of the Board, presidents, vice-presidents, cashiers, general managers, former directors and, finally, the Board of Directors as it stood on May 1, 1967. The dates shown before each name refer to the years during which the office concerned was held.

On the fold-out following page 420 a record of the Bank's growth, at ten-year intervals, is given in a table made up of representative statistics from balance sheets over the past century and a half. Unless otherwise noted, all statistics apply to the Bank's fiscal year-end which was April 30 until 1903 and October 31 thereafter. The table of offices appearing on the same page includes agencies, sub-agencies and representatives' offices as well as regular branches.

HONORARY PRESIDENTS

1905-1914	Donald A. Smith, Baron Strathcona and Mount Royal
1946-1957	H. R. Drummond

CHAIRMEN OF THE BOARD

1927-1929	Sir Vincent Meredith, Bart.
1942-1946	H. R. Drummond
1952-1954	B. C. Gardner
1959-1964	Arthur C. Jensen
1964-	G. Arnold Hart

PRESIDENTS

1817-1820	John Gray
1820-1826	Samuel Gerrard
1826	Horatio Gates
1826-1830	John Molson, Sr.
1830-1832	John Fleming
1832-1834	Horatio Gates
1834-1860	Peter McGill
1860-1869	T. B. Anderson
1869-1873	Edwin H. King
1873-1876	David Torrance
1876-1881	George Stephen, Baron Mount Stephen
1881-1887	C. F. Smithers
1887-1905	Donald A. Smith, Baron Strathcona and Mount Royal
1905-1910	Sir George Drummond, K.C.M.G., K.C.V.O.
1910-1913	R. B. Angus
1913-1927	Sir Vincent Meredith, Bart.
1927-1939	Sir Charles Gordon, G.B.E.
1939-1942	H. R. Drummond
1942-1948	George W. Spinney
1948-1952	B. C. Gardner
1952-1959	Gordon R. Ball
1959-1967	G. Arnold Hart
1967-	R. D. Mulholland

VICE-PRESIDENTS

1817-1818	Thomas Turner
1818-1819	George Garden
1819	Charles Bancroft
1819-1822	George Garden
1822-1825	Thomas Thain
1825-1826	John Forsyth
1826-1830	John Fleming
1830-1834	Peter McGill
1834-1847	Joseph Masson
1847-1860	T. B. Anderson
1860-1869	John Redpath
1869-1873	Thomas Ryan
1873-1876	George Stephen, Baron Mount Stephen
1876-1882	Dr. G. W. Campbell
1882-1887	Donald A. Smith, Baron Strathcona and Mount Royal
1887-1905	Sir George Drummond, K.C.M.G., K.C.V.O.
1905-1912	Sir Edward Clouston, Bart.
1912-1913	Sir Vincent Meredith, Bart.
1916-1927	Sir Charles Gordon, G.B.E.
1927-1939	H. R. Drummond

1927-1950 S. C. Mewburn
1929-1932 Sir Frederick Williams-Taylor
1936-1944 W. A. Bog
1944-1948 B. C. Gardner
1944-1954 Charles F. Sise
1950-1959 Louis L. Lang
1951-1952 Gordon R. Ball
1953- J. A. MacAulay
1954-1959 Arthur C. Jensen
1958-1959 G. Arnold Hart
1959-1966 R. G. Ivey
1960- Harold S. Foley
1960-1967 R. D. Mulholland
1964- Leslie M. Frost
1964- Roger Létourneau
1964- Hartland deM. Molson, O.B.E.
1966- Budd H. Rieger

(This list includes only those vice-presidents elected from amongst the directors, and does not include those senior officers of the Bank who were appointed vice-presidents on May 1, 1967.)

CASHIERS

1817-1827 Robert Griffin
1827-1846 Benjamin Holmes
1846-1855 Alexander Simpson
1855-1862 David Davidson

(Title changed to General Manager, June 3, 1862)

GENERAL MANAGERS

1862-1863 David Davidson
1863-1869 Edwin H. King
1869-1879 R. B. Angus
1879-1881 C. F. Smithers
1881-1890 W. J. Buchanan
1890-1911 Sir Edward Clouston, Bart.
1911-1913 Sir Vincent Meredith, Bart.
1913-1929 Sir Frederick Williams-Taylor
1929-1930 H. B. Mackenzie
1930-1936 W. A. Bog, Jackson Dodds } Joint
1936-1942 Jackson Dodds, George W. Spinney } Joint
1942-1947 B. C. Gardner
1947-1952 Gordon R. Ball
1952-1956 Arthur C. Jensen
1956-1959 G. Arnold Hart
1959-1963 R. D. Mulholland
1964-1965 J. L. Walker

CHIEF GENERAL MANAGER

1964-1967 R. D. Mulholland

SENIOR GENERAL MANAGER

1966-1967 J. L. Walker

SENIOR EXECUTIVE VICE-PRESIDENT AND GENERAL MANAGER

1967- J. L. Walker

STATISTICAL SUMMARY ON FOLD-OUT ▶

DIRECTORS

1817-1825 Austin Cuvillier
1817-1826 F. W. Ermatinger
1817-1820 John Forsyth
1817-1826 George Garden
1817-1834 Horatio Gates
1817-1821 John Gray
1817-1829 James Leslie
1817-1818 John McTavish
1817-1818 George Moffatt
1817-1819 Hiram Nichols
1817-1818 George Platt
1817-1818 Zabdiel Thayer
1817-1818 Thomas Turner
1818-1819 Charles Bancroft
1818-1824 David David
1818-1823 Thomas Porteous
1818-1826 Thomas Thain
1818-1826 Thomas Torrance
1818 Arthur Webster
1819-1826 François Larocque
1819 Peter McCutcheon [McGill]
1819-1825 James Millar
1820-1827 Samuel Gerrard
1821-1822 Alex Thain
1822-1825 George Auldjo
1822-1835 George Moffatt
1823-1829 John Forsyth
1824-1826 John Molson, Jr.
1825-1860 Peter McGill
1825-1826 Simon McGillivray
1826-1831 William Blackwood
1826-1832 John Fleming
1826-1847 Joseph Masson
1826-1836 John Molson, Sr.
1826-1828 Thomas Porteous
1826-1857 John Torrance
1828-1844 Charles Brooke
1828-1849 William Lunn
1828-1833 John Try
1830-1834 T. B. Anderson
1831-1833 George Davies
1831-1847 Joseph Shuter
1832-1835 Thomas Cringan
1833-1836 Louis Gugy
1833-1869 John Redpath
1834-1838 H. L. Routh
1834-1835 William Walker
1835-1869 T. B. Anderson
1835-1839 John Jamieson
1835-1865 James Logan
1836-1839 John McPherson
1836-1853 John Molson, Jr.
1838-1839 Turton Penn
1839-1843 James B. Greenshields
1839-1843 John G. McKenzie
1839-1845 John M. Tobin
1843-1853 William Molson
1844-1845 James Reid
1844-1848 John Try
1845-1857 John Brooke
1845-1857 Harrison Stephens
1847-1857 Sir Hugh Allan
1847-1881 Thomas Ryan
1848-1857 John Boston
1849-1873 Henry Thomas
1853-1865 Benjamin Holmes
1853-1876 David Torrance
1857-1859 D. Finlayson
1859-1867 Sir John Rose, Bart.
1860 Sir George Simpson
1861-1872 Thomas E. Campbell
1865-1871 E. M. Hopkins
1865-1873 John G. McKenzie
1865 John Swanston
1868-1882 Peter Redpath
1869-1882 Dr. G. W. Campbell
1869-1873 Edwin H. King
1871-1881 George Stephen,
Baron Mount Stephen
1872-1914 Donald A. Smith,
Baron Strathcona
and Mount Royal
1873-1880 Sir A. T. Galt, G.C.M.G.
1873-1883 Edward Mackay

STATISTICAL SUMMARY

(Thousands of dollars)

ASSETS AND LIABILITIES	1817*	1827	1837	1847	1857	1867	1877	1887	1897	1907	1917	1927	1937	1947	1957	1967†
TOTAL ASSETS	150	1,651	3,258	7,108	12,484	19,787	38,625	42,075	64,095	165,235	403,980	831,549	829,634	1,898,405	2,866,082	5,518,782
LOANS AND DISCOUNTS	–	1,363	2,748	5,874	10,408	11,022	31,110	27,793	36,950	128,713	220,050	500,589	231,497	458,511	1,437,636	3,407,183
SECURITIES	–	–	10	263	563	3,359	–	–	4,736	10,886	74,600	125,068	437,668	1,054,755	872,675	1,094,620
NOTE CIRCULATION	–	354	723	2,099	3,325	988	3,276	5,204	4,563	12,501	29,308	45,761	24,429	4,784	–	–
DEPOSITS	–	496	939	1,094	2,677	11,199	16,916	17,418	40,037	126,272	335,439	709,180	717,799	1,783,442	2,632,251	5,097,190
PAID-UP CAPITAL	150	750	1,000	3,000	5,510	6,000	11,998	12,000	12,000	14,400	16,000	29,917	36,000	36,000	53,687	60,750
REST FUND	–	53	198	300	740	1,250	5,500	6,000	6,000	11,000	16,000	30,917	39,000	44,000	117,374	168,000
PROFITS FOR FISCAL YEAR	–	n.a.	n.a.	242	566	906	1,189	1,520	1,231	1,980	2,170	4,576	3,008	5,423	9,650	19,906‡

* On November 3, 1817
† On March 31, 1967
‡ Year ended October 31, 1966

n.a. = not available
– = nil

OFFICES OF THE BANK	1817*	1827	1837	1847	1857	1867	1877	1887	1897	1907	1917	1927	1937	1947	1957	1967†
ALBERTA	–	–	–	–	–	–	–	1	1	5	9	65	49	57	77	106
BRITISH COLUMBIA	–	–	–	–	–	–	–	–	7	15	26	45	47	62	102	132
MANITOBA	–	–	–	–	–	–	–	1	1	8	7	37	29	25	34	62
NEW BRUNSWICK	–	–	–	–	–	–	4	3	3	12	10	14	13	14	16	25
NEWFOUNDLAND	–	–	–	–	–	–	–	–	1	2	3	5	6	9	16	29
NOVA SCOTIA	–	–	–	–	–	–	1	1	2	12	13	14	13	12	21	28
ONTARIO	–	–	–	17	21	22	23	21	23	50	60	241	210	193	263	354
PRINCE EDWARD ISLAND	–	–	–	–	–	–	–	–	–	1	1	1	1	1	1	3
QUEBEC	1	2	2	2	3	3	3	3	5	22	38	125	111	106	138	189
SASKATCHEWAN	–	–	–	–	–	–	–	1	1	3	10	63	35	38	44	64
YUKON AND NORTHWEST TERRITORIES	–	–	–	–	–	–	–	–	–	–	–	1	2	1	2	4
FOREIGN	–	–	–	–	–	1	3	3	3	5	6	13	5	5	14	18‡
TOTAL	1	2	2	19	24	26	34	34	47	135	183	624	521	523	728	1,014

* On November 3, 1817
† On March 31, 1967
‡ Since 1958 the Bank of Montreal has been represented in the Caribbean area through its affiliate, the Bank of London and Montreal, branches of which are not included in this total.

– = nil

1873-1877	T. W. Ritchie
1876-1891	Gilbert Scott
1877-1879	Allan Gilmour
1879-1888	Alex Murray
1880-1886	Alfred Brown
1881-1909	A. T. Paterson
1881-1887	C. F. Smithers
1882-1910	Sir George Drummond, K.C.M.G., K.C.V.O.
1882-1899	Hugh McLennan
1883-1888	John Hamilton
1886-1917	E. B. Greenshields
1887-1917	Sir William Macdonald
1888-1893	Sir John Abbott, K.C.M.G.
1889-1891	C. S. Watson
1891-1922	R. B. Angus
1891-1895	W. H. Meredith
1893-1903	A. F. Gault
1895-1900	W. W. Ogilvie
1899-1913	James Ross
1900-1908	Sir Robert Reid
1903-1916	Robert Mackay
1905-1912	Sir Edward Clouston, Bart.
1907-1914	David Morrice
1907-1923	Thomas G. Shaughnessy, Baron Shaughnessy
1908-1927	C. R. Hosmer
1909-1917	A. Baumgarten
1910-1929	Sir Vincent Meredith, Bart.
1912-1943	D. Forbes Angus
1912-1957	H. R. Drummond
1912-1939	Sir Charles Gordon, G.B.E.
1913-1930	William McMaster
1916-1938	Herbert Molson
1916-1934	Harold Kennedy
1917-1924	J. H. Ashdown
1917-1925	H. W. Beauclerk
1917-1944	Henry Cockshutt
1917-1933	G. B. Fraser
1919-1943	Sir Edward Beatty, G.B.E.
1920-1933	Sir Arthur Currie, G.C.M.G., K.C.B.
1920-1929	Sir Lomer Gouin, K.C.M.G.
1922-1930	James Stewart
1923-1941	F. E. Meredith
1924-1954	S. C. Mewburn
1925-1938	Thomas Ahearn
1925-1938	J. W. McConnell
1925-1929	Frederick W. Molson
1928-1936	W. A. Black
1929-1940	A. O. Dawson
1929-1942	W. N. Tilley
1929-1945	Sir Frederick Williams-Taylor
1930-1937	Patrick Burns
1930-1955	Ross H. McMaster
1930-1933	Christopher Spencer
1933-1954	Charles F. Sise
1934-1944	W. A. Bog
1934-1954	Norman J. Dawes
1934-1949	W. Sanford Evans
1934-1941	Arthur B. Purvis
1936-1959	Louis L. Lang
1936-1950	W. G. Murrin
1937-1959	L. J. Belnap
1938-1966	G. Blair Gordon
1938-1951	H. W. Molson
1939-1958	Charles A. Dunning
1939-1942	C. H. Houson
1939-1961	Robert A. Laidlaw
1941-1966	R. G. Ivey
1941	L. S. St. Laurent
1942-1945	S. G. Blaylock
1942-1961	J. V. R. Porteous
1942-1948	George W. Spinney
1943-1954	G. E. Barbour
1943-1951	D'Alton C. Coleman
1943-1959	C. G. Heward
1943-1954	Gordon C. Leitch
1944-1959	B. C. Gardner
1944-1951	J. A. Humbird
1944-1951	Lucien Moraud
1945-1966	R. C. Berkinshaw
1945-1967	Henry G. Birks
1946-1958	Charles J. Burchell
1947-1964	R. E. Stavert
1950-1955	William A. Mather
1950-1953	Rush D. Purdy
1950-1964	Clarence Wallace

1951-1959	Gordon R. Ball	1957-1960	C. D. Howe
1951-1953	Prentice Bloedel	1959-1963	David G. McConnell
1952-1963	R. E. Powell	1959-1962	Kenneth J. Morrison
1953-1959	Robert J. Dinning	1961-1963	Sir Leonard Outerbridge, C.B.E.
1953-1964	H. G. Hilton	1962-1966	Gordon H. Allen
1954-1959	George P. Vanier	1962-1966	Samuel Bronfman

PRESENT BOARD OF DIRECTORS

(May 1, 1967)

1958-	G. Arnold Hart	1961-	J. H. Mowbray Jones
1960-	R. D. Mulholland	1961-	Bernard M. Lechartier
1942-	J. A. MacAulay	1961-	Donald A. McIntosh
1948-	George W. Bourke	1961-	James Sinclair
1950-	Noé A. Timmins	1962-	Leslie M. Frost
1951-	Hartland deM. Molson, O.B.E.	1962-	Roger Létourneau
1951-	H. Greville Smith, C.B.E.	1962-	Eric Cook
1953-	Harold S. Foley	1963-	Leonard Hynes
1954-	Arthur C. Jensen	1963-	Arthur R. Lundrigan
1954-	W. A. Arbuckle	1963-	H. J. S. Pearson
1954-	T. W. Eadie	1964-	V. W. Scully, C.M.G.
1955-	Henry S. Wingate	1964-	W. S. Kirkpatrick
1955-	N. R. Crump	1964-	John G. Prentice
1956-	H. Roy Crabtree	1964-	Forrest Rogers
1956-	Ralph B. Brenan	1965-	Budd H. Rieger
1959-	H. C. F. Mockridge	1965-	George H. Sellers
1959-	Jack Pembroke, C.B.E.	1965-	George C. Solomon
1959-	Paul Bienvenu	1966-	W. M. Vacy Ash
1959-	D. R. McMaster	1966-	David Kinnear
1960-	Sir Nutcombe Hume, K.B.E.	1966-	Charles R. Bronfman
1960-	G. H. Sheppard	1966-	R. M. Ivey
1960-	Lucien G. Rolland	1966-	Victor deB. Oland
1960-	A. Searle Leach	1966-	F. Ryland Daniels
1961-	J. Bartlett Morgan	1966-	Donald S. Harvie
1961-	Nathanael V. Davis	1967-	Donald Gordon

APPENDIX C

CANADIAN MONEY

Between 1817, when the Bank of Montreal was founded, and 1866, when the Provincial Note Act was passed, the issue of bank-notes in Canada was the private preserve of the banks. As early as 1841 the government made an attempt to enter the field, but Lord Sydenham's plan for a provincial bank of issue was rejected by a committee of the Assembly. A similar proposal in 1860 by A. T. Galt received a like treatment and as a result the legislation introduced by him six years later was in the nature of a compromise.

The Provincial Note Act of 1866 authorized any bank to relinquish its own circulation, in return for a specified compensation, and to issue government notes, but the Bank of Montreal was the only institution to take advantage of the act. At the top of the opposite page can be seen a Province of Canada two-dollar bill signed by T. D. Harington, the Deputy Receiver General, and countersigned by S. J. Stammers of the Bank of Montreal. Shortly after Confederation this arrangement was cancelled and the


The
PROVINCE OF CANADA
TWO DOLLARS
018461
Deputy Receiver General
TORONTO
UPPER CANADA
BANK OF THE PEOPLE
Two Pounds Currency
TORONTO
EIGHT
Cash.
Pres.
EXCHANGE BANK OF YARMOUTH
NOVA SCOTIA
TWENTY DOLLARS
Yarmouth
2009
20
THE PEOPLES BANK
ONE DOLLAR
FREDERICTON
ONE
46517

Dominion government assumed the exclusive right to issue notes below the value of four dollars. The chartered banks continued to issue bills of four, five, six, seven, eight, ten, twenty, twenty-five, fifty and one hundred dollars. Some of these, issued by banks that amalgamated with the Bank of Montreal, are reproduced here along with earlier bills of the Bank of the People in Toronto and the Peoples Bank of Halifax.

When the Bank of Canada was established in 1935, it acquired the exclusive right to issue currency in Canada. The chartered banks were given fifteen years to retire their circulations and could not issue or reissue any notes after ten years.

While the very first notes of the Bank of Montreal were printed in dollar denominations, Canada did not officially forsake pounds, shillings and pence for the decimal system until 1858. That same year the Royal Mint in England produced Canada's first silver and copper decimal coins, although there had been sporadic issues of copper pence and half-pence before that date. Another fifty years elapsed, however, before Canada established its own mint and the first copper and silver coins minted in Canada bear the date 1908. Four years later came the five-dollar and ten-dollar gold pieces.

FIRST CANADIAN DECIMAL COINAGE (minted in Great Britain)


THE PEOPLES BANK
XX
20
TWENTY
Twenty Dollars
Halifax
NOVA SCOTIA
024398
The Bank of British North America
Four Dollars
THE MERCHANTS BANK
OF CANADA
83294
10
TEN
Dollars
TEN DOLLARS
THE MOLSONS BANK
7
TORONTO
SEVEN DOLLARS

FIRST CANADIAN COINS MINTED IN CANADA

FIRST BANK OF CANADA NOTE ISSUE (1935)

LAST BANK OF MONTREAL NOTE ISSUE (1942)

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As in Volume I, the archives of the Bank of Montreal have supplied the largest part of the material contained in this volume. Again the Public Archives of Canada have proved a valuable source of reference for correspondence between officers of the Bank and government officials, particularly the papers of Sir Alexander Tilloch Galt, Sir John A. Macdonald, Sir Wilfrid Laurier and Sir Thomas White. Other government documents consulted extensively have been the reports of the various commissions on banking, statistical series on banks contained in the legislative journals and the Canada *Gazette*, and, of course, the many statutes dealing with banking and currency. The archives of the Canadian Pacific Railway Company were also made available for that part of the history dealing with the railway's construction.

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CHAPTER TITLE ILLUSTRATIONS / *Laurence Hyde*

TYPE / The text of this volume is set in Perpetua, one of Eric Gill's most popular type faces. It was designed by him in the years 1929-30, based, like Pilgrim, on Trajan's Column. It was named after the martyr St. Perpetua.

PRINTING & BINDING / Lithographed in six colours by Southam • Murray on 80-lb. specially opacified Lucerne Text; bound in C.I.L. PX7 pyroxylin cloth and foil-stamped in gold and silk-screened in two colours by The Ryerson Press.

ENDPAPERS / Photographic reproductions of "Arts and Crafts" and "Commerce," two of four Coade plaques that were set in the façade of the Bank's Head Office building erected on Place d'Armes in 1819.