

## **From Wall Street to Bay Street: The Origins and Evolution of American and Canadian Finance**

Christopher Kobrak & Joe Martin

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The first words of the introduction to this book are “history matters” (quoting Douglas North). The authors amply prove the truth of that statement in this engaging, enlightening and insightful comparative study of finance in Canada and the US.

The authors set themselves a challenging task, to write a book for the general public that traced financial history from colonial times to the present in both the US and Canada. I am happy to report that they have met that challenge.

The authors were especially qualified to undertake this study. Both were experts in the financial history of their native lands working together in the same university as like-minded friends and colleagues. The book came out of a course that they co-taught at the University of Toronto. Sadly, Chris Kobrak did not live to see the book through publication. That task fell to Joe Martin, formerly the National Chair of Deloitte Touche, a large management consulting firm, and now the director of the Canadian Business and Financial History Initiative at the Rotman School of Management. Luckily Kobrak had largely completed his written contribution to the book before his death. He provided a unique perspective. Although born and raised in New York State, he brought an international perspective. After completing his PhD from Columbia, he had done post-doctoral work at the University of Toulouse and had taught in Paris at École supérieure de commerce de Paris (ESCP Europe). Over the last few years he had split his time between Paris and Toronto, teaching at both the ESCP Europe and the University of Toronto.

The authors generally follow a chronological approach, putting the financial developments of each era into the US and Canadian political and social climate of the time. They treat developments in each country separately in sufficient detail to provide a meaningful overview and to allow comparison.

The first chapter takes the reader from colonial times to the US Civil War and Confederation. The authors begin with “the world war that created the United States”. They note that the Seven Years War as it is known in Canada and the French and Indian War as known in the US gave the impetus to the

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American Revolution as well as made Canada a British colony. This chapter focuses on the development of the US approach to finance. The unsuccessful efforts of Alexander Hamilton to exert federal control over currency through the creation of a central bank, the First National Bank of the United States and later the Second National Bank, are outlined. Ultimately Hamilton and his supporters would lose these initial battles over banking. Many states and their citizens resented central authority and feared the dominance of the north eastern bankers. These states favoured smaller, unit banks largely free of government and especially federal government regulation and supervision. Such banks, however, were susceptible to downturns in local markets and the economy generally. Bank failures became an ongoing issue.

The next chapter deals with the birth of the Canadian federation in the shadow and under the influence of the US Civil War. Even though, as the authors point out, many business people in Canada had come from the US, this northern nation charted a different course in banking. Ironically, Hamilton's ideas that had been rejected in the US, came to be adopted in Canada. Even before Confederation, the British North American colonies in chartering banks had patterned those charters after the Second National Bank of the United States. Free banking lost out to government sanctioned chartered banks with multiple branches. These differences in banking were further accentuated when Canada's fathers of Confederation, seeing what was happening in the US, gave banking and currency to the federal government rather than follow the example of US state banking. As a result, Canada would develop fewer, bigger, more stable and conservative banks. Bank failures would be less frequent and more often dealt with by consolidation.

Chapter 3 dealing with the period from 1869 to WWI is a long and important chapter as the two countries mature, each doubling in population and opening its West. The authors look at the ongoing banking wars in the US as the *National Bank Act of 1863* led to a number of national banks. But these banks were superimposed on top of the many, many unit banks under state oversight. Rather than bring stability and a simpler system, it introduced additional complexity without resolving the underlying issues. Meanwhile, Canada's relatively few banks grew their branch networks across the land. The authors also look at the role played in each country by railroads, the development of insurance and the growth of professional advisers (actuaries, accountants and consultants).

Chapter 4 looks at the "Great Disorder" from 1914 to 1945. During this period, each country developed securities regulation, but again in different ways. In this case, it was the US that developed national securities regulation. Canada, following a legal challenge that went to England's Privy Council, ended up with provincial regulation. The authors also consider the increased social demands brought on by the world wars and the depression. They note how the two countries reacted differently to these demands and the challenging economic times, the US adopting New Deal legislation and the Federal Deposit Insurance

Corporation (to help with its many bank failures) while Canada, facing hard times but few bank failures, created the Bank of Canada.<sup>1</sup>

Chapter 5 is another lengthy chapter ironically entitled “The Short Pax Americana 1945-2000”. As the authors note, this was in some respects the easiest chapter to write and in others the most difficult. It was easy in that the subject was the most familiar to readers but difficult because so much changed. The US had become a world power. Canada had fallen more under the influence of the US as its links to the UK weakened. Banking and finance became more and more a global enterprise as world trade grew and technology better facilitated such growth. At the same time, the regulatory regimes in both the US and Canada greatly expanded, even with the merging of the four pillars (banking, trust, insurance and investment) and the creation of large, global financial institutions.

The authors bring their study to a close with a thoughtful and insightful conclusion. They note how the US emphasis on innovation contributed to the financial crisis of 2008 and how Canada’s very different emphasis on stability helped it better weather that crisis. They point out that over the centuries ideas on finance and regulation have generally moved from south to north. But the authors hope that their study will help people in both countries better understand the building blocks of finance and the lessons that history can teach us and contribute to a better mix of stability and innovation.

Being an overview, the book does not deal with the laws of finance and banking and with government regulation and supervision in any detail. Certainly, the key legislation is discussed and major changes in regulation are noted. But law and regulation are not the principal focus of the book. That does not mean that the book will not be of interest and importance to lawyers and regulators. There is much that can be gleaned from its pages, insights that can be gained and comparative analysis that can prove helpful.

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<sup>1</sup> The authors do not devote much of their text to the different approaches to deposit insurance in the US and Canada, but those approaches very much reflect the trends and tendencies in the two countries that the authors outline. See C. I. Kyer, *From Next Best to World Class: The People and Events that Have Shaped the Canada Deposit Insurance Corporation 1967-2017*, (CDIC: Ottawa, 2017).

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