The Writing of Canadian Banking History and the Canadian Banking Stability Legacy Reconsidered

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Abstract

The difference in the political cultures of the United States and Canada is a classic topic that has attracted the attention of generations of scholars. This difference is often said to be captured by the contrasting values expressed in their respective constitutions: “Life, Liberty and the pursuit of Happiness” in the United States *Declaration of Independence* and “Peace, order, and good government” in Canada’s *Constitution Act, 1867*.

Some of the literature reflecting on the relative stability of Canada’s banking sector compared to that of the United States (US) in the wake of the 2007-08 Global Financial Crisis (GFC) suggests a correlation between the difference in the political cultures of the two countries and the difference in their approaches to banking regulation. The comparison of the Canadian and American banking history literature in this thesis tentatively confirms that hypothesis. However, the more intriguing and unexpected discovery is the under-developed state of the research and scholarship on the history of Canadian banking and the possible impact of this on the uncritical but prevalent assumption in much of the post-GFC literature that Canada’s banking industry has always been crisis-free (referred to in the thesis as Canada’s “banking stability legacy”). This is where the core originality of the thesis lies.

After American R. M. Breckenridge and Canadian Adam Shortt laid the foundation at the turn of the 20th century, there was a clear decline in the writing of Canadian banking history within a meaningful political economy context. There was a moderate revival in the 1970s, reflecting the emergence of the social history school, and the recent GFC provided fresh impetus to banking historical research, with several substantial works in the business history tradition published in the past two years. But overall, the country’s banking history is underdeveloped and there is an evident under-appreciation of the historical works that do exist.

In contrast, American scholars continued to produce a rich and sustained banking history literature with Bray Hammond’s *Banks and Politics in America: from the Revolutionary War to the Civil War* consummating the fusion of banking and political history. The award of the 1958 Pulitzer Prize for History to Hammond’s book testifies to the value of the political-economic approach to banking history.

By examining Canadian intellectual history, this thesis concludes that the dominance of Harold Innis’s staples thesis beginning in the early 1930s was the major reason for the decline of banking history in the Shortt tradition in combination with the separation of political science and economics from traditional history as a result of the unstoppable trend toward specialization of social studies after WWII. The thesis further posits that the underdeveloped state of Canadian political-economic banking history invites reconsideration of the Canadian banking stability legacy.

The shift in focus of the thesis to the state of the Canadian banking historical scholarship and a reconsideration of the banking stability legacy is the result of, or even the reward for, the surprise element inherent in historical research. It does *not* signify abandonment of the hypothesized relation between the contrasting political cultures of Canada and the United States and their respective approaches to banking regulation. On the contrary, the study of Bray Hammond's banking history in comparison to the Canadian banking historiography sheds much light on that relationship. However, a thorough test of the hypothesis would need a larger framework than a doctoral thesis provides. Thus, the findings on the interaction between political culture and banking regulation are interwoven with, and subordinate to, the discussion on banking historiography as reflected in the framework of the thesis.

Résumé

La différence entre les cultures politiques des États-Unis et du Canada est un sujet qui a attiré l'attention de générations de chercheurs. On dit souvent que cette différence est exprimée par les valeurs divergentes exprimées dans leurs constitutions respectives: «Vie, liberté et la quête du bonheur» dans la Déclaration d'indépendance des États-Unis et «Paix, ordre et bon gouvernement» dans la Loi constitutionnelle du Canada, 1867.

Une partie de la littérature traitant de la stabilité relative du secteur bancaire canadien par rapport à celle des États-Unis après la crise financière mondiale (CFM) de 2007-2008 suggère une corrélation entre les cultures politiques divergentes des deux pays, d'une part, et de l'autre part les divergences entre leurs approches à la réglementation bancaire. La comparaison des ouvrages sur l'histoire des banques canadiennes et américaines dans cette thèse confirme cette hypothèse en partie. Cependant, la découverte la plus importante et inattendue est l'état sous-développé de la recherche et de l'écriture sur l'histoire des banques canadiennes. Ce sous-développement a une incidence possible sur la présomption peu justifiée mais répandue dans la plupart des ouvrages post-CFM que le secteur bancaire canadien a toujours été exempt de crise (appelé dans la thèse «l'héritage de la stabilité bancaire» du Canada). Cette observation donne lieu à l'originalité de la thèse.

Après que R. M. Breckenridge et Adam Shortt aient jeté les bases au tournant du XXe siècle de l'histoire des banques canadiennes, une écriture explicitement contextualisée dans l'économie politique n'était plus à la mode. Une renaissance modérée dans les années 1970, reflétant l'émergence de l'école de l'histoire sociale, a donné un nouvel élan à la recherche historique sur le secteur bancaire. Mais dans l'ensemble, l'histoire bancaire du pays est restée sous-développée et il existe une sous-appréciation évidente des quelques travaux historiques existants.

En revanche, les universitaires américains ont continué à produire une littérature riche et soutenue sur l'histoire bancaire, notamment *Banks and Politics in America: from the Revolutionary War to the Civil War Banks* de Bray Hammond, qui réussit la fusion de l'histoire bancaire et politique. L'attribution du prix Pulitzer de l'histoire de 1958 au livre de Hammond témoigne de la valeur de l'approche politico-économique de l'histoire bancaire.

En examinant l'historiographie canadienne, cette thèse souligne la prédominance des écrits de Harold Innis au début de années 1930 sur les produits de première nécessité («staples thesis»). Ĺ´influence de Innis, combiné avec la séparation entre les sciences politiques, de l'économie et de l'histoire, résultat de la tendance imparable à la spécialisation des études sociales après la Seconde Guerre mondiale, formait la principale raison du déclin de l'histoire bancaire dans la

tradition de Shortt. La thèse postule en outre que l'état sous-développé de l'histoire politico-économique du système bancaire canadien invite à reconsidérer l'héritage de la stabilité du secteur bancaire canadien.

Le recentrage de la thèse sur l'état des connaissances historiques concernant les banques canadiennes et son réexamen de l'héritage de la stabilité bancaire est le résultat, voire la récompense, de l'élément surprise inhérent à la recherche historique. Cela ne signifie pas l'abandon de l'hypothèse reliant la divergence de cultures politiques canado-américain avec leurs approches respectives en matière de réglementation bancaire. Au contraire, l'étude de l'histoire bancaire de Bray Hammond en contraste avec l'historiographie bancaire canadienne éclaire bien cette relation. Cependant, un test approfondi de l'hypothèse nécessiterait un cadre plus large que celui proposé par une thèse de doctorat. Ainsi, les conclusions de la thèse sur l'interaction entre les cultures politiques et la réglementation bancaire sont intimement liées à sa discussion de l'historiographie bancaire.

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Chapter I
Introduction

1. Political Culture as an Approach to Banking Regulation: The Hypothesis

In her January 2010 *Financial Times* article titled "What Toronto can teach New York and London," Chrystia Freeland[1] asked why Canada was the only G7 State to survive the 2007-2008 Global Financial Crisis (GFC) relatively unscathed. "The first argument you are likely to hear," she observed, rests on Canada's relatively conservative banking culture compared to more aggressive capitalist States, notably the United States which of course was the epicentre of the GFC. For this explanation, she quoted Roger Martin, then Dean of the Rotman School of Business at the University of Toronto,[2] who pointed to the different founding philosophies on which the respective political and financial systems of the United States and Canada rested: "We are 'peace, order and good government'. They are into the pursuit of

[1] Chrystia Freeland, "What Toronto Can Teach New York and London?" *Financial Times*, January 29, 2010, available at https://www.ft.com/content/db2b340a-0a1b-11df-8b23-00144feabdc0, accessed June 30, 2019. In 2013, Freeland left journalism to enter Canadian politics. She was elected as a Member of Parliament in the 2015 federal election. She has served in Prime Minister's Justin Trudeau's cabinet from the beginning, as Minister of International Trade from November 2015 to January 2017, and as Minister of Global Affairs from January 2017 to date.

[2] Martin earned his A. B. from Harvard College and his MBA from Harvard Business School and has professional experience on both sides of the border. His biographical information is available on the website of the Rotman School of Management at the University of Toronto, available at http://www.rotman.utoronto.ca/FacultyAndResearch/Faculty/FacultyBios/MartinR, accessed June 30, 2019.

happiness." As Freeland went on to observe, Martin's views on the political cultural difference between the US and Canada were shared by Mark Carney, another Canadian who was then Governor of the Bank of Canada,[3] and Ed Clark, then CEO of TD Canada Trust (which competes with the Royal Bank of Canada for the place of the largest financial group in Canada and has a long established substantial presence in the US).

The GFC provoked the worst recession in the United States since the Great Depression. American banks experienced failures and bailouts in the wake of the Crisis and Wall Street bankers were increasingly seen as a group of villains worthy of public censure and government discipline especially when law suits exposed misbehavior and a broad range of violations of law in the years leading up to the Crisis.

In contrast, the Canadian financial system projected an image of resilience from the outset of the GFC and Canada's economy rebounded quickly. Its banking system was rated as the soundest globally by the *World Economic Forum* in 2008, and it monopolized the top position for the next eight years[4] until the risks posed by an overheated real property market were factored into the rating in 2015.[5]

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[3] Mark Carney is a former Governor of the Bank of Canada (2008-2013) and has been the Governor of the Bank of England since July 1, 2013, the first foreigner to take the helm of this internationally renowned central bank. A Canadian citizen, Carney completed his higher education in the US (Harvard, BA) and in the UK (OX, Master and PhD). His biographical information is available on the website of the Bank of England, available at https://www.bankofengland.co.uk/about/people/mark-carney/biography, accessed June 30, 2019.
[4] Doug Alexander, "Canadian Banks Ranked World's Soundest for Eighth Straight Year," *Bloomberg News*, September 29, 2015, available at https://www.bloomberg.com/news/articles/2015-09-29/canadian-banks-ranked-world-s-soundest-for-eighth-straight-year, accessed October 11, 2018
[5] Yalman Oraran, "Canadian Banks Fall Behind US, Europe Lenders in Strength Gauge," *Bloomberg News*, May 10, 2016, available at https://www.bloomberg.com/news/articles/2016-05-10/canada-banks-fall-behind-u-s-europe-lenders-in-strength-gauge, accessed October 11, 2018.

Nonetheless, it has remained in the very top group, ranking second in the most recent 2018 survey.[6]

In the years immediately after the GFC, Canada's prosperity and confidence, in contrast to the economic contraction and low morale in the US, was a phenomenon rarely seen in continental history. Their celebrated financial system signified a period of national pride for many Canadians, a people known for being moderate and reserved compared with the more ostentatious American people.

The relation between political culture and banking regulation in the US and Canada, as identified by Freeland's interviewees, largely resonates with the initial hypothesis that the author had developed in 2011 for the current thesis.

The space constraints of a newspaper article did not allow detailed exploration by Freeland of the exact interplay between political culture and banking regulation in Canada and the US. Apart from the elusiveness of concept of "political culture" and the complexity of the envisaged historical interaction with banking regulation, a solid grasp of the two countries' respective 200 years of banking history poses a formidable intellectual challenge for this thesis.

The hypothesis initially developed in 2011 was primarily based on the author's observation of the GFC as it unfolded in the US and Europe and on a preliminary study of the post-GFC banking regulation literature, mainly that produced by a diverse group of scholars from academe and government or private research organizations as well as mainstream journalists. The author's observation

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[6] World Economic Forum, "Soundness of Banks," *The Global Competitiveness Report 2018*, available at http://reports.weforum.org/global-competitiveness-report-2018/competitiveness-rankings/#series=EOSQ087, accessed June 30, 2019.

of the reform of the banking system in his native China, in the decade before the GFC also played a formative role in shaping this inquiry.

The author's perspective was that of an outsider who was not native to either Canada or the US (or any Western civilization). It was informed by ongoing reflections on the causes of the GFC,[7] moderate knowledge of American history and politics and the American banking industry landscape and an even more limited knowledge about Canada.

Long before this doctoral project was conceived, the author had witnessed the transformation of the Chinese banking system from being in the pocket of the government under the planned economy when it was widely believed to be technically insolvent because of decades of accumulated losses, to a modernized banking system embodied in the legal form of joint stock banks listed on China's main exchanges. The Chinese government's reorganization and recapitalization of the existing banks was part of its systemic reform of the state-owned economy, although the Chinese government maintains a controlling stake in each of these reorganized banks.[8] Part of the author's knowledge about this transformation was

[7] Numerous economists and scholars from other fields of social study who have contributed to the post-GFC reflection literature. More familiar names include, but not limited to, Paul Krugman, Simon Johnson and his co-author James Kwak, Thomas I. Palley, Jeffery Sachs, Joseph Stieglitz and Richard Posner. For the works that are more carefully referenced for this research, see Paul Krugman, "How Did Economists Get It So Wrong?" *New York Times*, September 6, 2009; Thomas I. Palley, *From Financial Crisis to Stagnation: The Destruction of Shared Prosperity and the Role of Economics* (Cambridge University Press, 2012); Simon Johnson and James Kwak, *13 Bankers: The Wall Street Takeover and the Next Financial Meltdown* (New York: Pantheon Books, 2010); and Charles Calomiris and Stephen Haber, *Fragile by Design: The Political Origins of Banking Crises and Scarce Credit* (Princeton University Press: 2014).
[8] For general reading on the reform of the Chinese financial system from the planned economy approach to a modernized system subject to greater market discipline, see Charles Calomiris, ed., *China's Financial Transition at a Crossroads* (Columbia University Press, 2007). On the reorganization

gained from frontline law practice experience in China representing foreign strategic investors from Wall Street, London, and continental Europe who were competing for stakes in these newly reorganized banks in the period from 2001 to 2006.[9] Since then, and especially in the years after the GFC, these Chinese state-controlled banks have been ranked at the top of the largest banks in the world in terms of market capitalization and total assets.[10]

The Chinese transformative experience is mentioned as an example of how international financial markets had become highly integrated before the GFC as part of the then seemingly unstoppable tide of globalization, which would only later recede. Although the Chinese banks are not a subject of study in this thesis, their story contributed to conceiving its hypothesis in terms of illustrating how past Chinese political-economic dynamics had shaped the old banking system, while China's opening up to the world economy almost four decades ago, accelerated by its admission to the WTO in 2001, transformed the old banking system into a powerful new system. In short, my experience in China allowed me to observe a

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and recapitalization of the four largest banks and the spin-off of non-performing loans in the late 1990s, see Chapter 1, "China's Financial Markets: An Overview," 36-37.

[9] In the author's role as legal advisor to international investors, he was personally involved in Citigroup's strategic investment in the Shanghai Pudong Development Bank in 2003 aimed at forming the first Sino-foreign credit card joint venture. This was the first foreign strategic investment in a listed Chinese bank. He was also involved in Goldman Sachs' securities firm joint venture in China in 2004, and the investment by a consortium headed by the Royal Bank of Scotland in the Bank of China in 2005.

[10] Martin Arnold, "How US Banks Took Over the World?" *Financial Times*, September 16, 2018. This article is mainly about the loss of competitiveness of European banks after the GFC compared with the quick recovery of the Wall Street banks. It also contains a chart ranking the largest banks in the world. The four largest are Chinese banks: ICBC, the China Construction Bank, the Bank of China, and the Agricultural Bank of China. Adding the Bank of Communications, Chinese banks occupy five of the top ten spots. Four Wall Street banks (JP Morgan Chase, the Bank of America, Wells Fargo, and Citigroup) occupy the fifth through eighth places, while HSBC, in ninth place, is the only European bank in the top ten.

banking system in a period of rapid transformation and instability tending to a new model.

More directly relevant to the topic of banking stability, China is also a country immune from financial crisis, before and after the opening of its economy, including during and after the GFC. The reason for this immunity is not a well-run banking regulatory system, especially before the recent reform, but a combination of the following: a political-economic system that will not allow any substantial bank to fail for fear of causing social unrest, a foreign exchange system that tightly controls capital account movements, and a currency that is not freely exchangeable.

From the beginning, this author has not attributed the celebrated success of the Canadian banking system during the GFC solely to a technically superior "banking regulation" system. Rather I saw it as the result of a more complicated process of interaction among multi-layered and multi-dimensional factors: notably, political culture and political-economic institutional arrangements, the incentives of the regulator(s), the degree of international cooperation, the soundness of risk control at the major financial institutions, the general public's awareness and participation in the debate, the real economy's feedback on the adequacy of financial services, and intra-financial industry competition. While all these factors, including the regulators' contribution, were indispensable to the overall success, the most fundamental seemed to be the political will and vision of the nation regarding how the affairs of the financial system should be managed, or, put it in another way, the fundamental ideational approach to banking regulation. Should banking be treated as a special industry requiring intense government regulation with stability high on the list of regulatory priorities (as the Canadian system seems to emphasize)? Or should it be treated like any other industry where *laissez faire* is the capitalist orthodoxy (as the American model seems to reflect, especially for most of the 19th century and extending into the 20th century before the New Deal, and again in the decades preceding the GFC). The discussion of banking regulation under this hypothesis would place "political culture" [11] and its interaction with the "fundamental approach to banking regulation" at its center. That is what has been intriguing to this author, and what Chrystia Freeland's article touched on but did not elaborate.

The strands of the hypothesis that has directed the research for this thesis can be summarized as follows:

(i) Modern banking started as a privilege-based business, meaning that in the beginning, it was not a *laissez faire* business, but a business entangled with national politics and class politics. The Bank of England was created in 1694

[11] According to Encyclopaedia.com, "political culture" refers to "a set of attitudes, beliefs, and sentiments which give order and meaning to a political process and which provide the underlying assumptions and rules that govern behavior in the political system… [It] encompasses both the political ideals and the operating norms of a polity." See https://www.encyclopedia.com/social-sciences-and-law/sociology-and-social-reform/sociology-general-terms-and-concepts/political-culture. Political culture originates from, or is changed by, powerful political ideas entangled with economic interests. A political idea is therefore embedded in economic arrangements as a premise, or implies a change in the existing economic order. Fundamental political ideas are rarely if ever alienated from the economic interests of the contending parties. Political culture shapes a political-economic institutional arrangement; in contrast, political institutions have an impact on the evolution of political culture. In this thesis, "political institution" first falls under the umbrella of "political culture," or "politics"; in the discussion of the interaction with banking regulation, however, it is differentiated where necessary – for example in the discussion about how, in US banking history, state bankers and politicians successfully resisted the branching of banks from economic centers such as New York, Boston, and Chicago in order to protect their own existence in the form of unit community banks. Indeed, the U.S. state-federal sharing of power in banking regulation since Andrew Jackson won the Bank War is a typical example of how, by entrenching the influence of *laissez faire* and the states' pushback against federal power, a political-economic institutional arrangement can become an insurmountable hurdle to the emergence of a more rational banking system.

to finance England's war against France when King William III could not raise enough funds to build a navy. It thereafter became the most influential model across the Atlantic, including being the example for the early American and Canadian banking systems.[12]

(ii) Even though Canada and the US have many similarities because of their historical ties, geographical proximity, highly integrated continental economy, the significant cultural influence of the US on Canada, and the two-way flow of their populations, their political systems are still distinct from each other.[13] The more salient differences include the following:

- The migration of tens of thousands of Loyalists to British North America (Canada) during and after the US Revolutionary War separated Americans and Canadians by their different political-cultural preferences: the majority of Americans who remained behind were for a new Republic governed by a president and Congress, while the minority that migrated to what was to become Canada were for a constitutional monarchy governed by a prime minister and a parliament.[14]
- Since the early 20th century, the parliamentary system in Canada has been based on multi-party participation in contrast to the American Republican

[12] On the founding of the Bank of England, see A. Andreades *History of the Bank of England*, trans. Christabel Meredith.(London: P. S. King & Son, Orchard House, Westminster, 1909), 43-71.
[13] Seymour Martin Lipset, an influential American sociologist of the 20th century, did most of the foundational work comparing the political and cultural differences between the US and Canada from the perspective of political sociology. See S. M. Lipset, *Continental Divide: the Values and Institutions of the United States and Canada* (Routledge, 1990).
[14] For a brief history of the Loyalists in Canada, see Arthur Lower, *From Colony to Nation: A History of Canada* (Longmans, Green & Company, 1946), 113–23.

system which has been dominated by the same two major parties since almost the beginning of the Union.

- The social democratic character of the Canadian system has become quite obvious since the mid-20th century with the cautious unfolding of the welfare state in the wake of the Great Depression and World War II, whereas the US features a center-right and more conservative liberal system (for example, in Canada, a relatively complete social safety-net has been in place for decades, including a universal single-payer healthcare system while in the US, healthcare remains almost entirely private although the Obama administration in 2010 did seek to establish universal access – so-called 'Obamacare' is now in jeopardy under the Trump administration, since the Republican Party is generally hostile to the idea of universal access to medical insurance).
- In Canada, a significant socialist party, the New Democratic Party (NDP)[15] has been in existence for almost a century; it has at times been the governing party in several provinces and held the balance of power in the federal Parliament. In contrast, in the US, the influence of socialism has been politically negligible and indeed stigmatized since WWII, and there has never

[15] Established in 1932, the Cooperative Commonwealth Federation (CCF) was reorganized into the current NDP by merger with the Canadian Labour Congress in 1961. On the history of the CCF, see Seymour Martin Lipset, *Agrarian Socialism: The Cooperative Commonwealth Federation in Saskatchewan* (University of California Press, 1950); Walter D. Young, *The Anatomy of a Party: The National CCF 1932–61* (University of Toronto Press, 1969); and Gad Horowitz, *Canadian Labour in Politics* (University of Toronto Press, 1968).

been a socialist party on the American political stage that has exerted as much political influence as the NDP in Canada.[16]

(iii) The difference in the political systems of Canada and the US from as early as the Revolution to more recent times appears to be substantial enough to create different dynamics in the political process of creating a banking system and in the continued shaping and reshaping of that system as the industry has evolved.

(iv) It is common knowledge that banking as an industry is intrinsically unstable.[17] The stock market crash in 1929 and the closing of thousands of American banks during the Great Depression were probably the worst collective human experience ever provoked by a financial crisis. In the near century that has passed since the Great Depression, we have had the GFC and many smaller crises before it in both emerging and more developed markets. Given the entanglement of politics and banking regulation, such crises opened a window for reform of the industry. There is no reason the political culture of a country would not have subsequently exerted influence on the overhauling or even remolding of the industry.

(v) Canada and the US practice democratic politics. If their different approaches to banking regulation reflect their political-cultural differences, then it is

[16] On the failure of socialist ideas to take hold in the US, see John H. M. Laslett & S. M. Lipset, eds., *The Failure of a Dream: Essays in the History of American Socialism* (University of California Press, 1984); and Daniel Bell, *Marxian Socialism in the United States* (Cornell University Press, 1996).

[17] Hyman Minsky's "financial instability theory" is one of the most enlightening explanations of the building up and unfolding of a financial crisis. See Hyman P. Minsky, "The Financial Instability Hypothesis," Levy Economics Institute of Bard College, Working Paper No. 74, 1992, available at http://www.levyinstitute.org/pubs/wp74.pdf, accessed April 30, 2019.

likely that the way in which the political forces in each country work out a new regulatory scheme also reveals the collective political temperament of each. The study of the interaction between political culture and the approach to banking regulation at some of the more critical moments in history might contribute to understanding differences in the political systems or political temperaments of the two nations.

(vi) Some of the literature reflecting on the GFC goes as far as to connect the financial industry's failures with longstanding problems of the capitalist system, in particular income inequality and the so-called revolving door between Wall Street and Washington.[18] The US has been the primary victim of criticism both for its failed regulation of Wall Street and its more severe income inequality compared to most other developed countries.[19] The excesses of the financial industry in the years leading to the GFC exacerbated inequality and stirred up strong public resentment when the fall of Wall Street severely injured Main Street.[20] It is therefore hoped that the study of the interplay between political culture and the powerful financial industry will help to shed light on our understanding of the state of democracy in the US as well as in Canada.

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[18] See, for example, Palley, *Crisis to Stagnation*, and Thomas Piketty, *Capital in the Twenty First Century*, trans. Arthur Goldhammer (The Belknap Press of Harvard University Press, 2014).

[19] Among developed countries, the US has consistently been at the top of the OECD's income inequality index based on Gini index tracking, while Canada typically places between the Anglo-American countries and the developed European countries, with income inequality being more severe in the former than the latter group. https://data.oecd.org/inequality/income-inequality.htm.

[20] The Occupy Wall Street movement that broke out in September 2011 is one of the concrete revelations of public resentment and activism against financial industry abuses and global income inequality.

2. The Testing of the Hypothesis and an Adjustment to the Focus of the Thesis: A Banking Historiographical-Historical Approach

Performing a thorough test of the original hypothesis would require a significant multi-disciplinary and cross-cultural comparative study. After years of exploration, it became clear that the volume of findings would need a much larger framework to fully display the different dynamics, as demonstrated from the pursued historical interaction between political culture and banking regulation in Canada and the US through their respective 200-year histories. The inherent time and space constraints of a doctoral program did not allow the author to proceed further in that direction.

Although the current thesis is a scaled-back version of the initially outsized ambition of a scholar in training, it does not abandon attention to the influence of political culture in shaping the approach to banking regulation which was at the core of the original hypothesis. That said, the adjustment was not only about reducing the scope but also about the structure and the overall methodology of the thesis. It can be described as a shift from a complicated "banking historical" study (i.e. a study of the historical facts regarding the interaction between politics and banking regulation in two highly related countries) to a two-pillared structure comprising a "banking historiographical" study (i.e. the writing of banking history, especially the writing of political-economic banking history in Canada) as well as a preserved but more refined "banking historical" study. These structural and methodological changes were primarily driven by one major finding, namely the underdeveloped state of Canadian banking history.

After Adam Shortt, the recognized co-founder (together with R. M. Breckenridge) of banking history in Canada, stopped writing in this area in 1925 (a few years before his death in 1931), for almost half a century no professional historian attempted to write about Canadian banking history in a systemic way, especially in the political-economic tradition exemplified by Shortt.

In the 1970s, reflecting the emergence of the social history school and the influence of the New Left, there was a moderate revival of banking history that sought to uncover the relationship between politics, business, and the banking industry in the period from the late 19th century to the creation of the Bank of Canada in the 1930s. However, this revival proved to be intermittent.

Many gaps in Canadian banking history have been filled by institutional histories commissioned by the major banks themselves, biographies of influential bankers and public servants who had an impact on the banking industry in the 19th century and at the turn of the 20th century, a number of popular-style banking histories written by non-historians, and the works of economists and political scientists with collateral historical (political-economic) content. Despite this, overall, the country's banking history remains underdeveloped.

The underdeveloped state of Canadian banking history is exacerbated by the evident under-appreciation of the historical works that do exist. This under-appreciation is manifested in the limited reference made to these sources and in the vague and uncritical but prevalent assumption that Canada's banking industry has been crisis-free throughout its history (referred to in this thesis as Canada's banking stability legacy).

The well-known contrast between the relative stability of the U.S. and the Canadian banking systems finds an intriguing parallel in the volume and maturity of the respective banking historical scholarship in the two countries. In the US, persistent banking instability seems to have inspired a large body of banking historical scholarship with divergent focuses, rich methodologies, energetic debates, and even enviable craftsmanship in balancing banking history and political history. Overall, the rich American scholarship in this branch of history provides persuasive explanations for the problems that have plagued the American banking system at different times. In contrast, the relative stability of Canadian banking appears to have dampened the enthusiasm of the historical community for probing the country's banking history in a more critical way. The main consequence of this is that the banking stability legacy has not been the subject of vigorous examination by the Canadian historical community.

The exploration of the banking history literature in the two countries does confirm the close relation between political culture and the approach to banking regulation. This is especially visible in the US. In the first half-century of U.S. banking, Jeffersonian/Jacksonian Republicanism engaged in a prolonged struggle against Hamiltonian elitism. Andrew Jackson and his populist supporters ultimately won the "Bank War," thereby successfully dismantling a fairly stable banking system of Hamilton's design, which had been modeled after English and Scottish banking system, and ushering in the "free banking era" based on state as opposed to federal jurisdiction over banking and the widely adopted unit banking model. The application of *laissez faire* to the banking industry had consequences. It created a crisis-laden banking system that plagued the country into the 20th century.

By surveying the Canadian banking historical literature and weaving together its many scattered threads, this thesis provides a different perspective on the Canadian banking stability legacy: a preponderance of evidence exists that the Canadian banking stability legacy has long been somewhat overstated. This legacy was created by the banking industry from the turn of the century through the Great Depression to blunt public scrutiny and to push back government regulation. That it was sustained through the 20th century until today is attributable to a less integrated and visionary banking historical literature, a less critical readership, and the unstoppable trend towards specialization of the social sciences initiated in the early 20th century and continuing today.

The "banking historiographical" approach in this thesis was stimulated by Carl Berger's famous *The Writing of Canadian History: Aspects of the English-Canadian Historical Writings since 1900.*[21] For a student from a non-history background, Berger's systemic study of English-Canadian historiography provides a vital source to gain a summary understanding of Canada's intellectual history in a relatively short period. Berger's work led the author to pay particular attention to the following points: the late arrival of Canadian intellectuals to the scene; Adam Shortt's transitional character (in particular his Social Darwinism tendency, which explains in part his uncritical attitude to the political and banking elites); and

[21] Carl Berger, *The Writing of Canadian History: Aspects of English-Canadian Historical Writing since 1900* (Toronto: University of Toronto Press, 1986).

Canadian nationalism, which had different manifestations throughout history and also had a significant impact on Canada's fundamental political-economic policy, from the National Policy of the late nineteenth century to the imposition of foreign ownership restrictions on the banking industry in the 1960s.[22]

Berger's historiographical discussion provided the author with a well-defined road map of the evolution of the Canadian historical community's central concerns. However, as a result of the unstoppable trend toward specialization in the social sciences, the relationship between history and political economy was eventually redefined in Canada (decades to half a century after the much earlier specialization in US higher education), and these two cornerstones of social studies would gradually splinter in the post-WWII decades into academic history, economics and economic history, political science, and sociology.[23] Today, in the second decade of the 21st century, the exploration of the interaction between political culture and banking regulation, by default, first falls within the discipline of political science (or, arguably, sociology) and economic (financial) history. However, "history" is "interdisciplinary" by nature. The tension between comprehensive historical understanding and the explosion of knowledge and specialization has long been with us and will continue.

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[22] On Canadian nationalism from Confederation to WWI, for example, see Carl Berger, *The Sense of Power: Studies in the Ideas of Canadian Imperialism, 1867–1914* (Toronto: University of Toronto Press, 1970). On the so-called New Nationalism in the post-WWII Canada, see Stephen Azzi, *Walter Gordon and the Rise of Canadian Nationalism* (McGill-Queens University Press, 1999). On Canada's restrictions on foreign ownership in Canadian banking, see Eric J. Gouvin, "The Political Economy of Canada's 'Widely Held' Rule for Large Banks," *Law and Policy in International Business* 32 (2001): 391-426. The discussion of this topic in this thesis can be found in Chapter VII.

[23] Chapter IV of the thesis discusses the much later development of the social sciences in Canada, as compared with the US, and the consequential later specialization that occurred in the post-WWII decades.

By combining the mainstream historiographical discussion (which provides the necessary understanding of political ideas, ideological contentions, and the evolution of political culture in Canada) and the banking historiography (especially banking history with a meaningful to rich political-economic context), the author finds a route to a holistic understanding of the path of Canadian banking development and its regulation through the industry's 200-year history. Even the more fragmented parts of banking history could also be reintegrated into this framework created through the fusion of mainstream historiography and political-economic banking history.

Transformative political-economic events have usually defined the different stages of banking development and regulation in Canada. For example, the 1837 currency crisis in Canada was the result of both the American 1837 financial crisis (which occurred shortly after Andrew Jackson dismantled the Second Bank of the United States) and the uprising in Upper and Lower Canada which led to the Durham Report of 1839-40. The collapse of the Bank of Upper Canada and the Commercial Bank, which were two of the three largest banks in Canada before Confederation, in 1866-1867 was closely related to the phasing out of the old colonial regime and the beginning of self-government as a Dominion. The next round of profound change in banking industry regulation occurred in a cascading manner but culminated in the founding of the Bank of Canada during the Great Depression, while the approximately half-a-century-long period around the turn of the 20th century was a period of great political-economic and social transformation in both Canada and the US. In the more open and much more globalized environment of the post-WWII decades, broader political-economic currents and cross-currents influenced domestic debates on the direction of Canadian banking regulation, from the debate between neo-liberalism and nationalism (for example, Harry Johnson's criticism of Canadian nationalism as "diverting Canada into a narrow and garbage-cluttered cul-de-sac"[24] to the debates on the globalization of the financial markets (for example, the Canadian banks' severe losses from the Latin-American Debt Crisis in the 1970s to 1980s and the push by the major Canadian banks for mergers and global expansion in the late 1990s). Canada was not immune from the impulse towards deregulation pushed by the industry itself and neo-liberalism forces; however, Canadian nationalism (as demonstrated by the pushback against Wall Street's possible takeover of Bay Street) and the domestic political culture and structure helped to contain this impulse and to maintain a highly stable banking system.

On the US side, it is also through this "banking-historiographical" method that American scholar Bray Hammond's banking historical scholarship, epitomized by his *Banks and Politics in America from the Revolution to the Civil War*[25] which won the 1958 Pulitzer Prize for History, is rediscovered as an example of mature banking history, fusing banking history with political-economic history (or vice versa). Hammond, who is widely recognized, provides the best single account of the long, turbulent formational age of U.S. banking, where the multiple turns of political ideological debates left a deep mark on the fundamental approach to banking

[24] Harry G. Johnson, *The Canadian Quandary: Economic Problems and Polices* (McGraw-Hill, 1963), 12.
[25] Bray Hammond, *Banks and Politics in America from the Revolutionary War to the Civil War* (Princeton University, 1957).

regulation in the US.

For these reasons, in this thesis, Hammond's ground-breaking scholarship is used as both a benchmark to measure the state of the writing of Canadian banking history and a source to illustrate how the interaction between political culture and banking regulation in the US was so intense and consequential. In this way, the comparative nature of the original hypothesis for this thesis is preserved.

3. The Structure of the Thesis

Part One: Introduction and Background

In addition to this introductory chapter, Part I comprises Chapter II, *A Survey of the Canadian Banking Historical Literature*, which examines the subjects and authors of this branch of Canadian history. It will be seen that after the foundational work of R. M. Breckenridge and Adam Shortt at the turn of the 20th century, only a small volume of traditional narrative banking history with a meaningful political-economic context by academic historians was produced. Amidst this limited scholarship, at least two important doctoral theses completed in the 1970s did not even see publication. The largest volume of the later banking history is in the form of institutional histories commissioned by the major banks in Canada. They filled important gaps but generally avoided more sensitive discussion about the impact of politics on banking development and its regulation. Banking history written by economists, industry practitioners, and even journalists is also helpful to fill gaps and corroborate others' studies. For the much less documented post-WWII decades, a number of journal articles and doctoral theses are also included in the survey to gain an understanding of banking regulation in this period; they are written from the perspective of public policy and cover more focused topics within the overall domain of financial regulation in Canada.

In sum, the survey in Chapter II unequivocally reveals the generally underdeveloped state of Canadian banking history as well as the decline of the writing of banking history in a political-economic tradition since Adam Shortt.

Part II: The Writing of Canadian Banking History in an American Mirror

Part II comprises three chapters. Chapter III, *Bray Hammond's Banking History Revisited*, reintroduces Bray Hammond's scholarship as exemplified by his 1957 book, *Banks and Politics in America from the Revolution to the Civil War,* by interweaving this author's review of Hammond's book with those of his many peer reviewers in the 1950s and later. Hammond's work represents the peak of narrative banking history by striking a balance between banking history and political-economic history. His grand project recreates the turbulent, formational first half-century of U.S. banking from around the Revolutionary War to Andrew Jackson's Bank War and also studies the decades before the Civil War. As revealed by Hammond, it is difficult to overstate the impact of the conflict between Jeffersonian-Jacksonian Republicanism and Hamiltonian Federalism on the American political-economic institutional arrangement, including the shift in the fundamental approach to banking regulation in the US from Hamilton's "privilege" to Jackson's *laissez faire*.

This is a prime example of how seminal political ideas gain popularity and became powerful ideologies in the political process and then shape the banking industry.

Chapter IV, *Filling the 'Intellectual Vacuum': Breckenridge and other American Scholars Probe the Banking System of their Northern Neighbour*, is first dedicated to a discussion of the work of Roeliff M. Breckenridge, the pioneer and a co-founder of Canadian banking history with Adam Shortt. Though his family migrated from Ohio to Hamilton, Ontario when he was in high school in the 1880s, Breckenridge remained behind to complete his high school and higher education studies in the US, earning his undergraduate degree at Cornell University, and pursuing doctoral studies at the University of Chicago and Columbia College consecutively. Breckenridge studied Canadian banking history at a time of intense debate about the urgent need for profound reform of the American currency and banking system and his exploration of the Canadian banking system was likely driven by the topicality of the subject in the US. The more sophisticated American political-economic scholarship compared to Canada and the influence of the Progressive Era equipped him to write an advanced, comprehensive account of Canadian banking history.

Chapter IV supplements the discussion of Breckenridge's work with a survey of a handful of other American scholars' writings about the history of Canadian banking published from the turn of the 20th century up to the 1970s. The overall aim of this chapter is to do justice to both Breckenridge, who has not been the subject of an intellectual profile to date, and the important contributions of American scholars as a whole to our historical understanding of Canadian banking.

As its title indicates, Chapter V, *Adam Shortt and the Loss and Modest Revival of Banking History in Shortt's Political Economy Tradition*, discusses a broad range of issues. It first provides a biographical sketch of Adam Shortt, who was: a critical, transitional, intellectual figure around the turn of the 20th century; one of the two earliest professional writers of (English) Canadian history; founder of Canadian economic history and co-founder of banking history; and one of the earliest and most instrumental contributors to the work of the National Archives of Canada.

Adam Shortt was the subject of study by several historians in the 1970s. The most comprehensive examination is Bruce Bowden's unpublished doctoral thesis titled "*Adam Shortt*," completed at the Department of History of the University of Toronto in 1979 under the supervision of the renowned historian Carl Berger. Based on the works of Berger, S. E. D. Shortt,[26] and Bruce Bowden, Adam Shortt's intellectual life is the main thread of Chapter V, especially in the following respects: how he transformed himself from a top student of philosophy in the German idealism tradition under the tutelage of John Watson to a political economist of Social Darwinism tendency; how he found his life-long academic passion in political economy and Canadian economic history, especially banking history; and how his rather conservative political tendencies shaped his uncritical attitude to the banking elites, which is a defect detracting from his many strengths.

One of the pivotal aspects of this chapter is the exploration of the reasons behind the decline of the writing of banking history in a political-economic tradition

[26] S. E. D. Shortt, *The Search for an Ideal: Six Canadian Intellectuals and Their Convictions in An Age of Transition*, 1890–1930 (Toronto, Buffalo: University of Toronto Press, 1976), 95–116. S. E. D. Shortt is a descendant of Adam Shortt.

after Shortt. This chapter connects the intellectual life and times of Adam Shortt to Harold Innis, the most influential intellectual in Canada from the 1930s to early 1950s. The author argues that the development of professional history writing in Canada after the generation of Adam Shortt and George Wrong was overshadowed by the rise of Harold Innis' ground-breaking historical study of Canada's staple economy, which would dominate Canadian historiography and economic study for decades after the publication of Innis's path-breaking *Fur Trade in Canada: An Introduction to Canadian Economic History* in 1930. At a time when the Canadian intellectual community was small, when history and political economy were the center of gravity, united by the mission of the historical study of Canada's past, the impact of "staples thesis" was overwhelming. That said, emerging political economists – especially from Queen's University which was the seat of Shortt's higher education and intellectual life – would join the civil service of the federal government to become the core of the emerging Ottawa Men, the transformers of Canada's civil service system and the shapers of Canada's economic policy through the challenging Great Depression and WWII periods. It will further be shown in this chapter that in the post-WWII decades, specialization in the social sciences, especially the separation of history, economics, and political science (though it was slower to develop in Canada than in the US and Europe because of resistance to this trend by influential intellectuals including Harold Innis) further dampened the prospect of continued research and writing on Canadian banking history in a political-economic tradition.

Part III: An Overview of the Post-GFC Banking Regulation Literature and the Canadian Banking Stability Legacy Reconsidered

Chapter VI, *An Overview of the Post-GFC Banking Regulation Literature*, surveys the landscape constituted by approximately thirty works on banking regulation in Canada produced in the decade following the GFC. The aim of this survey is mainly to examine the volume of "history" that was written in this genre, especially in the political-economic history genre in contrast to modern economic or financial history, which has largely alienated itself from political economy discussion.

Before the emergence of two historical monographs in 2017 and 2018 written respectively by an academic historian (C. Ian Kyer) and two established business historians (Christopher Kobrak and Joe Martin), the majority of the post-GFC literature consisted of journal articles and working papers by "non-historians," typically, economists, public policy researchers (from an economic or a political science background), and industry practitioners. Most of these works endorsed the success of Canada's banking regulation system without examining the 2007 ABCP market debacle,[27] the great losses suffered by the Canadian Imperial Bank of Commerce in 2007-2008 from its holding of US sub-prime mortgage-based financial products, or the Canadian government's efforts to prop up market confidence by

[27] The ABCP market debacle has been the subject of analysis by writers from the media, law practice, public research organizations, and academe. John Chant, a leading Canadian financial economist and expert frequently commissioned by the Canadian government, provides a thorough analysis in this study: John Chant, "The ABCP Crisis in Canada: The Implications for the Regulation of the Financial Markets," research study prepared for the Expert Panel on Securities Regulation, 2008, available at http://risk.econ.queensu.ca/wp-content/uploads/2013/10/Chant-The-ABCP-Crisis-in-Canada-Chant-English.pdf, accessed October 17, 2018.

injecting unprecedented liquidity into the banking system.[28] In addition, a majority of these scholars saw the success of the Canadian banking regulation system during and after the GFC as an extension of the century-old Canadian banking stability legacy – Canada's banking history proudly maintains a crisis-free record, even during the Great Depression, when a record number of banks in the US failed.

The overview of the post-GFC banking regulation literature in this chapter confirms the existence of a rather prevalent, and overly comfortable understanding of the Canadian banking stability legacy, which is the subject of reconsideration in Chapter VII. This phenomenon seems to be the result of Canada's less developed banking history as well as a less critical readership of the existing banking history. Underlying it, as discussed earlier, might be a more formidable force, namely specialization in the social sciences.

Chapter VII, *The Canadian Banking Stability Legacy Reconsidered*, constitutes the second pillar of this thesis after devoting much space to banking historiography. After studying the written Canadian banking history and gathering together many scattered threads, "history" (or "historical facts") finally meets the "contemporary understanding of the Canadian banking stability legacy."

The author contends in this Chapter that a series of historical facts, in their totality, justifies a reconsideration of the banking stability legacy. This

[28] David Macdonald, "The Big Banks' Big Secret: Estimating Government Support for Canadian Banks during the Financial Crisis," working paper for Canadian Centre for Policy Alternatives, 2012, available at https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2012/04/Big%20Banks%20Big%20Secret.pdf, accessed on June 30, 2019.

reconsideration is not oriented towards overturning the banking stability legacy, but rather to embedding necessary qualifications. [29]

This contention is chiefly based on the following considerations:

1. Canadian banking was in an unstable state in the first half century of its existence (1818 to 1867); this culminated in the collapse of the Bank of Upper Canada and the Commercial Bank, two of the three largest pre-Confederation banks in Canada.[30]
2. There were multiple bank failures, and the banking industry was consolidated at the turn of the 20th century through mergers between the stronger banks and weaker ones, brokered by the CBA and supported by the Ministry of Finance – in this way, a number of banks that were either insolvent or on the brink of collapse did not fail but were absorbed.[31]

[29] Michael Bordo, Angela Redish, and Hugh Rockoff, "Why Didn't Canada Have a Banking Crisis in 2008 (or 1907, or 1930, or…)?" *Economic History* 68, No. 1 (2015): 218-243.

[30] On the failure of the Bank of Upper Canada and the Commercial Bank, see Adam Shortt, *Adam Shortt's History of Canadian Currency and Banking, 1600–1880* (Canadian Bankers Association, 1986), 583–606; Roeliff Breckenridge, *The Canadian Banking System 1817–1890* (New York: Macmillan & Company for the American Economic Association, 1895), 165–177, 185–188; and Peter Baskerville *The Bank of Upper Canada: A Collection of Documents* (McGill-Queen's University Press, 1987).

[31] Among the works addressing these events, the most concrete and vivid depiction is John Turley-Ewart's *Gentlemen Bankers, Politicians and Bureaucrats: The History of the Canadian Bankers Association, 1891–1924*, a doctoral thesis submitted to the Department of History at the University of Toronto in 2000. About a century ago, Henry C. McLeod, the general manager of the Bank of Nova Scotia from 1897 to 1910, exposed the various weaknesses and corruptions of the banking industry, including prevalent fraud in government filings by almost one third of the chartered banks., He diligently tracked the banks that had gone bankrupt and those on the brink that had been acquired by stronger banks with the brokerage of the CBA and the influence of the Ministry of Finance. McLeod became the most prominent voice from within the banking industry that persistently called for enhanced government regulation. Key industry information, especially from those not aligned with preserving the reputation for stability of the industry collected by McLeod would later be documented in a book by American scholar Benjamin H. Beckhart, a professor from Columbia University. Beckhart acknowledged that McLeod would have been named as co-author of the book to reflect his critical contribution had he not died before it was published. See Benjamin H. Beckhart, "The Banking System of Canada" in H. Parker Willis and B. H. Beckhart eds., *Foreign Banking Systems* (New York: Henry Holt and Company, 1930), 289-495.

3. In 1993, financial economists Lawrence Kryzanowski and Gordon Roberts challenged the no-bank-failure record during the Great Depression, and the ensuing debate on this, with economists Jack Carr et al. on the opposite side in defense of the banking industry's reputation of soundness, revisited the banking stability legacy.[32] This important debate is omitted in most of the contemporary discussion about the stability legacy. The debate, which persisted until the end of the 1990s and occurred between two groups with a total of five established economists, itself missed critical evidence about the performance of the Royal Bank during the Great Depression, as detailed by Duncan McDowall in his 1993 award-winning book *Quick to the Frontier: Canada's Royal Bank.*
4. The rise of nationalism in Canada after WWI, in particular as led by Walter Gordon as a champion of the so-called "New Nationalism," resulted in the "widely held rule" in the banking industry that decisively forestalled Wall Street from taking over any major Canadian banks. The significance of this rule in preserving the industry from becoming a cluster of subsidiaries of the much more risk-taking Wall Street has long been underemphasized.[33]

[32] For the debate about Canadian banking performance during the Great Depression, see Lawrence Kryzanowski and Gordon S. Roberts, "Canadian Banking Solvency, 1922–1940," *Journal of Money, Credit and Banking* 25, No. 3 (Aug., 1993): 361–376; Jack Carr, Frank Mathewson, and Neil Quigley, "Stability in the Absence of Deposit Insurance: The Canadian Banking System, 1890–1966," *Journal of Money, Credit and Banking* 27, No. 4 (Nov., 1995): 1137–1158; and Lawrence Kryzanowski and Gordon S. Roberts, "Perspectives on Canadian Bank Insolvency during the 1930s," *Journal of Money, Credit and Banking* 31, No. 1 (Feb., 1999): 130–136.
[33] The efforts of James S. Rockefeller and David Rockefeller, two stalwarts of the Rockefeller family representing the National City Bank and Chase Manhattan in their respective initiatives to take over the Mercantile Bank – a small Dutch-controlled bank in Canada – and the attempt to buy a controlling stake in the Toronto Dominion Bank (the predecessor of the current TD Canada Trust) involved some elements of arm-twisting. When Walter Gordon, then Minister of Finance, blocked them, they

5. The following facts are highlighted as modifying the belief that Canada was not immune to the trend of deregulation: the currents of Canadian deregulation of the country's financial system after the *Porter Commission Report* of 1964; the merger attempts of the major banks in the 1990s and the counter-currents of re-regulation triggered by the collapse of two smaller banks in Alberta in 1985; widespread consumer complaints about banking services; the backlash to the push by several of the largest banks for further consolidation of the industry by mergers in the late 1990s. The results of the deregulation movement in Canada were as follows: the development of the ABCP market, excessive holdings by major banks (notably as CIBC) in highly speculative financial assets; and the competition among several major banks in expanding their global investment banking business. However, the negative consequences of these results were not nearly as strong and sweeping as in the US because of consumer resistance to some political leaders such as Liberal Finance Minister Paul Martin.

Part IV Conclusion and Afterthoughts

Chapter VIII, *Conclusion and Afterthoughts*, brings the thesis to a close and highlights some areas for future study suggested by this thesis or for which it lays

attempted to use their access to then Prime Minister Lester Pearson to override Gordon, and later even persuaded the State Department of the US to pressure the Canadian government. On this episode, see John Fayweather, *The Mercantile Bank Affair: A Case Study of Canadian Nationalism and a Multinational Firm* (New York University Press, 1974); Walter Gordon, *Walter Gordon: A Political Memoir* (McClelland and Stewart, 1977), 211–218, 266–276; and Robert Macintosh, *Different Drummers: Banks and Politics in Canada* (Macmillan Canada, 1991), 158–169.

the foundation. On the U.S. side, future scholars could examine, for example, the extent to which Bray Hammond's historiographical thought, as revealed in *Banks and Politics*, is consistent with or different from the prevailing consensus history and whether it is possible to revive political-economic banking history in the post-Cliometrics banking history and post-GFC age. On the Canadian side, for example, some scholars might be interested to investigate how the governance of the chartered banks has evolved and interacted with the evolution of the governance of general business corporations.

4. The Scope of the Thesis

The turn to intellectual (banking) history spares this author from the overwhelming burden of retelling the Canadian banking history of two centuries.[34] At least two further qualifications on the scope of this study are worthy of being spelt out in this introduction.

A. Banking regulation vs. financial regulation

[34] In parallel to this study, Christopher Kobrak and Joe Martin, two senior Canadian business historians from the University of Toronto, explored the different paths of Canadian banking and their American counterpart, and crystalized their rich findings into one volume of sophisticate narrative - see Christopher Kobrak and Joe Martin, *From Wall Street to Bay Street: the Origins of American and Canadian Finance* (University of Toronto Press, 2018). As this excellent book was published after the research of this thesis had been concluded in 2017, it is regretful that the reference to this book is very limited in this thesis, though Prof Martin's earlier case study on some financial crises in Canadian banking history, which are not often talked about by other scholars, sheds important light to this author's reconsideration of the Canadian banking stability legacy. It is sad that Prof Kobrak passed away in 2017 before seeing the publication of this important book.

The historical study of this thesis mainly follows the development of commercial banking, typified by the scope of business of the Canadian chartered banks and their counterparts in the US.

In Canada, from the initiation of banking the early 19th century up to the Great Depression, the chartered banks (i.e. the Canadian commercial banks) occupied the dominant position of the whole financial system.[35]

In the post-WWII decades, the de-compartmentalization trend culminating in Canada's so-called "Little Bang" in the late 1980s eventually blurred the sectorial lines between different financial businesses and converted the chartered banks (whose aggregate market share in the broad financial system was in decline) into financial conglomerates, whose scope now effectively covers almost all financial businesses, from commercial banking, trust, and insurance to securities (conducted through its subsidiaries). Through this process, not only did the chartered banks restore their dominant position in the financial industry, but the federal government, through the Office of the Superintendent of Financial Institutions (OSFI), which is the regulator of banking, now also exerts much more regulatory power on the whole financial system.

The discussion in the thesis about the post-WWII decades in Canada is still concentrated on the federal government's interaction with the chartered banks and is only collaterally or indirectly relevant to financial business conventionally falling

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[35] It is commonly known that American investment banking played a critical role in fueling the railroad boom and the nation's industrialization in the decades immediately after the Civil War. American capital markets, for its much-envied depth and great influence, as compared to the country's fragmented commercial banking system based on unit-bank, constitutes a salient character of the American financial system as compared to that of Canada for the same period.

outside commercial banking (e.g., the limited discussion on the ABCP market freeze in 2007). Furthermore, the discussion about the US is historical and concentrated on commercial banking before the Civil War.

For these reasons, the thesis addresses "banking regulation" rather than the much broader concept of "financial regulation" which would add at least investment and "shadow banking" (i.e., forms of funds that are subject to much less regulation) into the analytical mix.

B. English Canada vs French Canada

The contention and (efforts of) harmonization of English-speaking Canada and its French counterpart is a central theme of Canadian historical study.

The Canadian banking industry, which traces its history back to the turn of the 19th century when some leading businessmen in the English speaking community in Montreal aspired to form the first chartered bank of the British North America emulating the First Bank of the united State. These efforts led to the founding of the Montreal Bank (i.e. the Bank of Montreal) in 1817. [36]

In the two centuries that followed, Canadian banking business continued to be dominated by a small number of institutions founded by the English-speaking community in the 19th century. The largest banks of today, namely the Royal Bank of Canada, TD Canada Trust, the Bank of Nova Scotia, the Bank of Montreal, and

[36] For the founding of the Bank of Montreal, see Roeliff M. Breckenridge, *The Canadian Banking System, 1817-1890* (New York: Macmillan for the American Economic Association, 1895), 21-27; and Merrill Denison, *Canada's First Bank: A History of the Bank of Montreal*, 2 vols. (Toronto and Montreal: McClelland & Stewart, 1966), 5-14.

Canadian Imperial Bank of Commerce, who collectively control more than 90% of the financial intermediary assets of Canada, all could trace back to the founding in the 19th century by the English speaking entrepreneurs. [37]

As a result of this basic historical fact, this study of the writing of Canadian banking history, though being a sprawling and unruly one for a doctoral enterprise, has to follow this mainline of historical development and further narrow its focus on the intellectual history aspect. The banking or the broader financial industry development in French Canada (for example, the Desjardins Group, which is built up on the basis of a massive federation of credit cooperatives (*caisse populaire*) in Quebec, was founded by Alphonse Desjardins and his wife Dorimène Roy Desjardins in 1900, and is now one of the largest financial groups in Canada[38]) is not given the consideration that it surely deserves. That is one of the many regrets of this limited study.

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[37] For a straightforward layout of the founding years of the named major banks in Canada, see Beckhart, *Foreign Banking Systems*, 324. According to Beckhart, the founding years of the several major banks are: the Bank of Montreal in 1817, the Bank of Nova Scotia in 1832, the Bank of Toronto (the major predecessor of TD Canada Trust) in 1855, the Canadian Bank of Commerce (the major predecessor of today's the Canadian Imperial Bank of Commerce (CIBC)) in 1867, the Royal Bank of Canada in 1869, and the Imperial Bank of Canada (the other predecessor of CIBC) in 1875. As discussed in later chapters of this thesis, most of the major banks have commissioned scholars to write their official history – some representative works referenced in this study include, Denison, *Canada's First Bank: A History of the Bank of Montreal*; Duncan McDowall, *Quick to the Frontier: Canada's Royal Bank* (McClelland, 1993); Joseph Schull and J. Douglas Gibson, *The Scotiabank Story: A History of the Bank of Nova Scotia, 1832-1982* (Toronto: Macmillan of Canada, 1982); and Victor Ross and A. St L. Trigge, *A History of the Canadian Bank of Commerce* (Toronto: Oxford University Press, 1920-1922).

[38] See Pierre Poulin and Guy Bélanger, Biography of Alphonse Desjardins, in *Canadian Dictionary of Biography*, available at http://www.biographi.ca/en/bio.php?id_nbr=7330, accessed March 17, 2020.

Chapter II
A Survey of the Literature on the History of Canadian Banking

As indicated in Chapter I, this thesis posits that the literature on the history of Canadian banking is under-developed and lacks sufficiently rich political economic context. It is still considerable, however, ranging from scholarly monographs, articles and doctoral theses, to the efforts of informed "amateur" historians, to government reports, policy working papers and conference working papers and conference speeches, to journalistic coverage, to more recent policy discussions bearing on the stability of the industry in the wake of the 2008—2009 Global Financial Crisis ("GFC"). The survey entailed in this chapter is not exhaustive of all the literature or even all the literature cited in this thesis but is intended to paint a broad canvas of the principal literature which depicts the landscape of Canadian banking history, especially those sources that shed light on the central theme of the thesis, (i.e. the historical interactions between political culture and banking regulation in Canada).

The task of testing the hypothesis of the influence of political context on the evolution of banking regulation in Canada determined the selection of, and weight given to, the sources surveyed in this chapter. An example may be illustrative. To celebrate its two hundred year anniversary in 2017, the Bank of Montreal (now

"BMO"), Canada's oldest chartered bank, commissioned business historian Laurence B. Mussio to write A Vision Greater Than Themselves: the Making of the Bank of Montreal, 1817-2017 (" A Vision").[1] At first impression, this work would seem to deserve a prominent place in this survey. However, as its title implies, Mussio's A Vision takes a "visually rich" historical approach using "carefully chosen images, themes, and objects" (to adopt BMO's description[2]). As reviewer Joe Martin notes, it is essentially a "coffee table book," albeit one that offers far "more depth and breadth" than "your typical coffee-table book."[3] As such, it has far less relevance to this thesis than Merrill Denison's context-rich narrative history of the same bank written half a century earlier for its sesquicentennial anniversary.[4] (To be fair, Mussio's *A Vision* was never intended to be a scholarly history of BMO; rather, it is Mussio's pending second volume that "aims to provide the definitive, scholarly history" with publication promised in 2019.[5])

This survey is dedicated to probing behind the façade of Canadian banking and thereby getting at its inner rhythms and drivers. To this end, an attempt at categorizing the existing historiography is warranted.

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[1] Laurence B. Mussio, *A Vision Greater Than Themselves: The Making of the Bank of Montreal, 1817-2017* (Montreal: McGill-Queen's University Press, 2016).

[2] The Bank of Montreal, "See How We Celebrated Our 200th Year," available at https://history.bmo.com/bmo-bicentennial/, accessed June 30, 2019.

[3] Joe Martin, review of *A Vision Greater than Themselves: The Making of the Bank of Montreal, 1817–2017*, by Laurence B. Mussio, Business History Review, 91, No. 3 (2017): 633-635.

[4] Merrill Denison, *Canada's First Bank: A History of the Bank of Montreal*, 2 vols. (Toronto and Montreal: McClelland & Stewart, 1966 -1967).

[5] Laurence B. Mussio, *Whom Fortune Favours: The Bank of Montreal and The Rise of Canadian Banking, 1817-2018*, (McGill-Queen's University Press, forthcoming – 2019), available at https://sierc.ca/publications/, accessed June 30, 2019.

1. Categorizing the Literature

The literature on the history of Canadian banking surveyed in this chapter comprises diverse categories.

First, there are scholarly studies dedicated to the subject. In this first category, there are two distinct streams of writers. Adam Shortt (1859—1931), a pioneering Queen's University political economist and co-founder of this branch of Canadian history, wrote in the period from the mid-1890s to the 1920s. Reflecting the approach characteristic of political economists of this period, Shortt's banking history scholarship made very little use of quantitative data and methods, and instead through meticulous archival research concentrated on the political and social contexts. Shortt applied the instincts of German empirical historical investigation with its intense interrogation of source material rather than an embrace of sweeping theoretical generalization. At that age, macroeconomic and microeconomic tools were not yet available to scholars. Nations did not begin to collect and publish incisive economic data until early into the 20th century (e.g. the creation of the Dominion Bureau of Statistics in 1918). So, Shortt worked with what was available in the archives to construct a narrative of the evolution of early Canadian history.

Shortt's intellectual successors are a small group of scholars, mainly trained as "academic historians" in the sense of earning their doctorates from departments of history (or political science) rather than economics (notably, Linda Grayson, Peter Baskerville, Duncan McDowall, and John Turley-Ewart), whose works are referenced later in this survey. These scholars followed the evolution of Canadian banking through the booms and busts of the Canadian economy.

The scholarship of the second group of dedicated banking historians reflects the impact of the "Cliometrics revolution" in economics on economic history, including banking history, in the latter part of the twentieth century and continuing in this century. Due to their economics and econometrics training, the scholarship of these modern "economic historians"[6] is typically focused on hard historical data and mathematical modeling, and gives limited space to qualitative analyses, especially narratives that seek to connect historical data with social, cultural and political perspectives. Their work, beginning in the 1960s, was greatly facilitated by the availability of intimate economic data and the power of electronic computing. Compared with academic historians, economic historians do not have the broad and in-depth grasp of political and social history which is mandatory for the training of academic historians nor are they trained in writing narrative history in which balancing "craft" and "science" has long been the standard for assessing quality in the humanistic tradition.[7]

Throughout this thesis, this author argues that the kind of narrative history exemplified by Adam Shortt in Canada and best represented by American scholar Bray Hammond (mainly though his ground-breaking work Banks and Politics in

[6] Economic historians who specialize in financial economics and financial history (for example, E. P. Neufeld in Canada, and Charles Calomiris in the US) are often sub-classified as financial historians.

[7] A. B. McKillop, "Engaging History: Historians, Story telling and Self," in Gerald Friesen and Doug Owram, eds., *Thinkers and Dreamers: Historical Essays in honor of Carl Berger* (University of Toronto, 2011), 33-52. In this essay McKillop recounts the "Trevelyan vs. Bury" debate on whether history is "craft" or "science". Another key point made by McKillip that is highly relevant to this thesis is his observation on the revival of narrative history since the explosion of social history in the 1970s and 1980s. This author's argument in Chapter IV is that in banking history, despite the "disruption" of the Cliometrics revolution, there is still need and ample space for the kind of narrative history with a rich political economic context exemplified by Bray Hammond.

America from the Revolutionary War to the Civil War[8]) strikes the optimal balance between banking and politics, craft and science, and that this should continue to be the dominant approach to banking history. In my view, this approach could also offer a window to a better understanding of its broader political and social context of Canadian banking. That said, the Cliometrics approach to banking history unquestionably will continue to be useful and add value.[9]

Some modern economic historians rejected the turn of economics to quantitative methods and models. In the context of Canadian banking history, R. T. Naylor is the prominent example. Naylor was trained in economics at the University of Toronto, the London School of Economics and Cambridge University in the 1960s to early 1970s (and is currently a professor in the economics department of McGill University). In his 1975 two-volume history of Canadian business in the period from Confederation to the onset of the First World War in 1914,[10] the first volume of which was dedicated to the banking and financial history of this period, Naylor departed sharply from the approach adopted by his contemporary economic historians.[11] His work was infused by an ideological critique of modern capitalism

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[8] Bray Hammond, *Banks and Politics in America from the Revolutionary War to the Civil War* (Princeton University Press, 1957).

[9] For a review essay covering five recent studies dealing with the methodology, practice, and future direction of economic history, and the apparent sharp border between the approaches of academic and economic historians, as well as the respective strengths and weaknesses of each, see Chris Godden, "In praise of Clio: Recent reflections on the study of economic history," *Œconomia* 3-4 (2013): 645-664.

[10] R.T. Naylor, *The History of Canadian Business, 1867-1914* (Toronto: James Lorimer & Company, 1975). A new edition was published in 2006: R. T. Naylor, *The History of Canadian Business, 1817-1914* (McGill-Queen's University Press, 2006). The 2006 edition contains a new Foreword by Mel Watkins, a new Preface by the author, and a new Introduction by Paul Phillip. Unless otherwise indicated, references to Naylor's book in this thesis are to the 2006 edition.

[11] In the Preface to the 2006 edition of his book, Naylor detailed his struggle with and ultimate rejection of the fundamental methodology of modern economics during his post-graduate studies at

and its consequences. For this reason and for reasons elaborated later in this survey, Naylor's book received at best mixed reviews at the time of its publication in 1975. That said, it was chosen by the Social Sciences Federation of Canada in the 1980s as one of the most influential twenty books of the two thousand texts that the Federation had subsidized over the previous fifty years.[12]

The works of amateur historians are a second category of sources covered in this survey. Despite their lack of formal training, amateur historians can still make a meaningful contribution to the history of banking. The principal examples discussed later in this survey are the works of banker Robert Macintosh (president of the Canadian Bankers' Association from 1980 to 1990) and investigative journalist Walter Stewart.

A third category of sources covered in this survey are scholarly works that were focused on contemporary banking regulation issues at the time of their publication, but which, due to the passage of time, have become historical sources for later researchers. A good example, discussed later in the chapter, is Manfred Bienefeld's 1992 article criticizing the neo-liberal push for deregulation of Canada's financial industry in the 1980s and early 1990s against the backdrop of the increased globalization of the financial industry, a push that had the support of most

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LSE and Cambridge, which led to his decision to instead address Canadian business history from a critical political economic approach: ibid, xxi-xxviii. In Naylor's view, in leaving out the policy and political considerations that informed traditional political economy methodology, economics had become essentially the agent of American neo-liberal "free market propaganda": ibid, xxii. In his Foreword to the new edition, Watkins echoes Naylor's harsh assessment of the impact of the Cliometrics revolution on economics and writing of economic history: "Econometricians, crunchers of numbers and crushers of good writing," Watkins writes, "having first captured economics, went on to take over economic history…" Ibid, xvii.

[12] Ibid, *Foreword*, xvii.

other mainstream economists.[13]

It is worth noting that since the early 1870s banking has been one of the most heavily regulated Canadian industries, thanks largely to the strictures of the Bank Act that require periodic revisiting and also as a result of an ongoing populist vigilance of the industry and its impact on Canadian life. However, the post-WWII deregulation of global banking as pushed by the neo-liberalism political-economic and intellectual alliance and the pressure of enhanced integration of the global financial markets has had a seismic impact on the working of the banking system in Canada as well (e.g. the gradual dissolution of Canada's long-standing four pillars of finance in the post-WWII decade).

Also included in this category are several political science doctoral theses completed in the 1990s and early 2000s that sought to dissect recent events like the takeover of other sectors of Canada's financial industry by Canada's major banks in the late 1980s and early 1990s (Canada's so-called "little bang"), and the (ultimately unsuccessful) push by Canada's major banks to permit mergers among them in the 1990s to early 2000s. Both these theses, as emphasized later in this survey, are highly relevant to understanding the climate of Canadian financial regulation in the decades preceding the Global Financial Crisis ("GFC") and provide valuable

[13] Manfred Bienefeld, "Financial Deregulation: Disarming the Nation State," *Studies in Political Economy* 37 (Spring, 1992): 31-58. The financial deregulation trend in Canada in the post-WWII decades, especially the gradual integration of banking with other sectors of the broader financial industry (savings and mortgage loans, trust, investment securities, non-life insurance, etc.) following the recommendations of the Porter Commission Report of 1964, played an important role in bringing new vitality to the industry while also exacerbating the high concentration of financial resources around the major banks. For the purposes of this thesis, recognizing that the financial deregulation trend was part of the neo-liberal economic deregulation movement does not necessarily imply a denunciation of the entire integration process in Canada.

perspectives for analyzing the political economy dynamics and the process of policy-making surrounding the critical events they address.

The evolution of Canadian banking over the decades has provoked a varied response in items of focus and methodology from its observers, each one of which has utility for the thesis at hand.

2. A Survey of the Canadian Banking Historical Literature

For ease of presentation, this survey organizes the relevant literature primarily according to chronological order (of publication), and then discusses the relative significance of the sources surveyed to the main theme of this thesis and to each other.

A. The scholarship of the pioneers and co-founders of Canadian banking history, R. M. Breckenridge and Adam Shortt, at the turn of the 20th century.

Roeliff Breckenridge authored *The Canadian Banking System, 1817-1890* as his doctoral thesis submitted to the Faculty of Political Science of Columbia College in 1894. This was the first attempt at a comprehensive study of Canadian banking history. Breckenridge is therefore regarded as the co-founder, with Adam Shortt at Queen's, of Canadian banking history scholarship. Breckenridge's thesis was initially published in four installments in the 1894-1895 volume of the *Journal of the Canadian Bankers' Association*,[14] and then republished in 1895 by Macmillan &

[14] R. M. Breckenridge, "The Canadian Banking System, 1817-1890," *Journal of the Canadian Bankers' Association* 2 (1894-1895): 108-196, 267-366, 431-502, 572-660.

Company in New York for the American Economic Association.[15] Breckenridge's thesis was along the chronological line of the evolution Canadian banking. His account of Canadian banking history features the expanding trend of empirical study - his book filled with charts and tables commonly used by modern economic research. Although, as a political economist of the late 1890s, Breckenridge tried to preserve the tradition of political observation in his narratives, because the age of systemic history writing in Canada had not come yet, the narratives and analysis of Breckenridge were more about industry features and legislative changes.

Adam Shortt's main contributions to Canadian banking and currency history were the lead articles he published in thirty-six successive quarterly issues of the *Journal of the Canadian Bankers' Association* from 1896 to 1906, and a further twelve articles published in the 1920s consisting of biographies of the principal bankers and public servants who had initiated chartered banking in Canada or played critical roles in shaping the industry in the 19th century. These articles were eventually collected and published as *Adam Shortt's History of Canadian Currency and Banking, 1600-1880*[16] by the Canadian Bankers Association in 1986.[17] Shortt wrote about

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15 Roeliff M. Breckenridge, *The Canadian Banking System, 1817-1890* (New York: Macmillan for the American Economic Association, 1895). Breckenridge's doctoral thesis was well received on its publication. As detailed in Chapter VI, under the auspices of publication by the National Monetary Commission, Breckenridge extended the period covered by his original thesis to 1910: Roeliff M Breckenridge, *The History of Canadian Banking* (National Monetary Commission, 1910). This later version significantly reduced the political economic contextual content of the original, which made his thesis read more like a dry recounting of developments in Canadian banking legislation. Consequently, this later version has less value for readers seeking a more comprehensive and contextual understanding of Canadian banking regulatory history.

16 Adam Shortt, *Adam Shortt's History of Canadian Currency and Banking, 1600-1800* (Toronto: The Canadian Bankers Association, 1986).

17 Ibid, *Introduction* by Nancy J. Leahmen, iv.

currency and to some extent banking in some of his other scholarly contributions.[18] In doing so, Shortt reflected the dawning adherence in Canada to empirically-driven history, a mode of inquiry heavily influenced by German scholarship at the time. However, these other contributions will not be the subject of further discussion in this survey either because they are not about chartered banking which is the focus of this study, or were eclipsed by the previously mentioned articles, or are mainly concerned with the evolution of banking legislation rather than the historical interplay between banking and political economic culture.

Drawing mainly on Breckenridge's and Shortt's scholarship, half a century later American historian Bray Hammond included an excellent chapter on pre-Confederation Canadian banking history in his 1958 Pulitzer Prize winning book, *Banks and Politics in America, From the Revolution to the Civil War*. Hammond's Canadian chapter, titled *Banking in Canada before Confederation, 1792-1867*,[19] is discussed in Chapter V of this thesis. As already noted, Hammond's scholarship on both Canadian and US banking history exemplifies an ideal balance between the approaches of academic and economic historians. For this reason, his scholarship provides a crucial mechanism for examination in this thesis, and especially features

[18] See, for example: Adam Shortt and A. G. Doughty, eds., *Canada and Its Provinces: A History of the Canadian People and Their Institutions*, 23 vols. (Toronto, 1914-1917); Adam Shortt, ed., *Documents relating to Canadian currency, exchange, and finance during the French period,* 2 vols. (Ottawa: Board of Historical Publication, Canadian Archives, 1925). See also Adam Shortt's Chapter VII in Victor Ross and A. St L. Trigge, *A History of the Canadian Bank of Commerce*, 3 vols. (Toronto: Oxford University Press, 1920, 1922, 1934): 398-471. The *Preface* of the book makes it clear that Adam Shortt authored Chapter VII, *The Legislative Development of Canadian Banking*, which provides a recount of banking legislative developments from 1867 to 1913.
[19] Hammond, *Banks and Politics*, Chapter 20, 631-670.

in the discussion in Chapter V on the interplay between political culture and the approach to banking regulation in the US in the 19th century.

Overlapping with or immediately following Shortt's career, a small group of Canadian political economists, notably W. W. Swanson, Clifford A. Curtis, A. F. W. Plumptre and Frank Knox, took up banking and currency as a major focus of their research, and were consulted by the federal government and Parliament in the 1920s and 1930s when Canada was in the process of remolding its political economic institutions. These scholars were associated with the Department of Political and Economic Sciences of Queen's University powerfully guided by Principal George Munro Grant and Adam Shortt, except for Plumptre, a student of Canada's preeminent political economist Harold Innis, who is mainly associated with the University of Toronto. Although they were some of the earliest successors to political economy research in Canada after Shortt, from a banking history perspective, the literature they produced is generally not helpful for studying the interaction between politics and banking. However, the map of Canada's economic structure, one based on staples exploitation, did provide undeniable guidance for those interested in the nation's general financial and economic unfolding. This understanding came powerfully to the fore as Canada sank into the depths of the Great Depression.

B. Post-WWII banking history (1950s-1960s)

R. M. McIvor and E. P. Neufeld stand out among the group of Canadian banking historians who emerged in the decades immediately following WWII. McIvor's *Canadian Monetary, Banking and Fiscal Development* published in 1958, and Neufeld's *The Financial System of Canada: Its Growth and Development* published in 1972,[20] took the study of banking history in a new direction. Reflecting their training as modern economists, both authors emphasized accurate description of the technical aspects of the banking and monetary system and the potential impact on the financial industry of increased competition, technological change and financial innovation, rather than offering a critical analysis of the politics surrounding historical banking regulatory developments.

Against the background that the post-WW II years saw a dramatic expansion in the diversity and sophistication of financial intermediation in Canada and the blur of the division lines between banking and the broader financial services, Neufeld's later scholarship is more sophisticated than McIvor's, and provides the most authoritative account of the evolution of the major components of the Canadian financial system up to the early 1970s.[21] Nonetheless, as Shearer concluded, for studying the origin of Canadian banking and its development in the 19th century, neither Neufeld or McIvor stepped out from under the shadow of Adam Shortt:

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[20] R. Craig McIvor, *Canadian Monetary, Banking and Fiscal Development* (Macmillan of Canada, 1958); *E. P. Neufeld, The Financial System of Canada: Its Growth and Development* (Macmillan of Canada, 1972). According to the introduction, McIvor's 1958 book was designed as a textbook for undergraduate students and was the template for later textbooks on Canadian banking and currency and the Canadian financial system aimed at undergraduate and graduate students. See, for example: Ronald A. Shearer, John F. Chant & David E. Bond, *Economics of the Canadian Financial System: Theory, Policy and Institutions* (Prentice Hall Canada, 1995); Gordon F. Boreham & Ronald G. Bodkin, *Money, Banking and Finance: the Canadian Context* (Harcourt Brace, 1988); and H. H. Binhammer, *Money, banking and the Canadian financial system* (Nelson Canada, 1993).

[21] Neufeld earned a PhD in economics from the London School of Economics in 1954 and was one of the leading Canadian financial economists in the post-WWII decades. His career featured experience in academe, government and industry: at different times, he was a professor of economics in the Department of Political Economy of the University of Toronto, an Assistant Deputy Minister of Finance in the federal government, and a senior banker and chief economist at the Royal Bank of Canada. See the biographical information on the dust jacket of his book *The Financial System of Canada* (ibid) and on the website of the C. D. Howe Institute, available at https://www.cdhowe.org/our-people/edward-p-neufeld, accessed November 1, 2018.

> Canadian monetary and banking has been much neglected, apart from the works of a small group of scholars (notably R. C. McIvor and E. P. Neufeld) … But the greatest historian of Canadian money and banking was undoubtedly Adam Shortt …[22]

C. Banking historical writing in the mid-1960s to the mid- 1980s

The period from the mid-1960s to the mid-1980s witnessed the explosion of social history in Canada. According to Carl Berger, "The outstanding features of Canadian historiography" in this period "were a sudden acceleration of research and publication, broadening of the scope and subject matter of history, and destruction of interpretations that had once given meaning to Canadian experience as a whole."[23] Berger attributed this transformation to "profound changes in the country's educational and intellectual life."[24] In Chapter IV of this thesis, I argue that the modest revival in the 1970s of a political economy approach to Canadian banking history similar to Adam Shortt's co-relates with the broader social history movement in this period rather than being simply coincidental.

As already noted, the literature produced in this period includes R. T. Naylor's *The History of Canadian Business, 1867-1914* (1975), the first volume of which was dedicated to the history of the Canadian banking and financial system during this period. Compared with McIvor and Neufeld, Naylor's approach was decidedly not value-neutral, being strongly critical of the financial elites and their

[22] Ronald Shearer, "Shortt Course in Banking History," Canadian Banker & ICB Review 88 (1981): 73-74. Shearer is a leading contemporary Canadian financial economist. His appreciation of political economic banking history scholarship is revealed in his admiration of Adam Shortt's scholarship in the afore-mentioned article.
[23] Carl Berger, *The Writing of Canadian History: Aspects of English Canadian Historical Writing Since 1900* (University of Toronto Press, 1986), 259.
[24] Ibid, 262.

power over national capitalist development. Indeed, Naylor's history is the first major work I encountered in the research for this thesis that explicitly set out to expose the darker side of the interface between business and government. In his reply to historian Michael Bliss's negative review,[25] Naylor freely admitted to the charge that his "tone and predilections" seem "to presuppose venality and corruption as the norm among Canadian financial and business elites."[26] In adopting this perspective, Naylor claimed to be inspired by Gustavus Myers (1872–1942),[27] the American Progressive Era investigative journalist and historian who sought to expose the social injustice that he saw as the inevitable companion of the creation of great individual wealth.[28] Naylor's disdain of the power of the banks echoed a deeply-rooted populist critique of the money power that dates back to the Upper Canadian Reformers and had been transmitted to the likes of the Alberta Social Credit Party in 1930s, CCF's Regina Manifesto, the *caisse populaire* movement in

[25] Michael Bliss, "Review of *The History of Canadian Business, 1867-1914*," by R. T. Naylor, Histoire sociale-Social History 9, No. 18 (1976): 446-449. See also Bliss's dismissive response to Naylor's reply to Bliss's original review, *infra* note 27: Michael Bliss, "The History of Canadian Business: Reviewer's Response," *Histoire Sociale-Social History* 10, No. 19 (1977): 160-163.
[26] R. T. Naylor, "The History of Canadian Business: A Reply," *Histoire Sociale-Social History* 10, No. 19 (1976): 159: "Throughout his review it is perfectly clear that Michael Bliss finds the tone with which and predilections from which I write offensive insofar as they seem to presuppose venality and corruption as the norm among a set of individuals whom Bliss himself fondly typed in *A Living Profit* as 'captains of industry' and 'the men who were building the nation'. In this regard I plead guilty."
[27] For Gustavus Myers' most influential works, see *The Great American Fortunes*, 3 vols. (Chicago: Charles H. Kerr & Co., 1909-1910); and *A History of Canadian Wealth* (Chicago: Charles H. Kerr & Co., 1914; and Toronto: Lorimer, 1972).
[28] Naylor, "A Reply," 159: "But this fundamental difference of ideological conviction between us [Bliss and Naylor] is not a new type of phenomenon. The one North American historian [Gustavus Myers] whom I truly admire (which is not to suggest I do not *respect* others - but I admire one) was charged with the same type of biases in his historical writing that Michael Bliss would impute to mine." Naylor reiterated the same point in somewhat more muted terms in his Foreword to the 2006 re-issue of his text: "Glancing back, it is clear that in writing this book I probably drew less inspiration from Marx or Innis, Schumpeter or Polanyi, important though they were, than from Gustavus Myers' *History of the Great American Fortunes* and perhaps from Joseph Heller's *Catch 22*, which, I am proud to say, I read 22 times." Naylor, *History of Canadian Business*, xxiv.

Quebec and many other "people's movements." Because of Naylor's perceived overly critical attitude to the finance and business communities and his unorthodox methodology, the publication of his book was delayed by the granting agency for a substantial time.[29]

On its publication, Naylor's book received at best mixed reviews from both economists and historians.[30] Naylor's reviewers did not object per se to his unorthodox Myers' inspired methodology. But while one reviewer thought that there would be "almost universal agreement about his [Naylor's] success in continuing the tradition started by Myers in both style and content,"[31] another found Naylor's effort to emulate Myers "inadequate" as lacking "the immediacy, style, and wit of Myers."[32]

In line with Myers, Naylor's unorthodox principal sources were reports of events drawn from the archives of the business press, especially the *Monetary Times*. Again, this was not a point of criticism per se among Naylor's reviewers. Even his harshest reviewer (Michael Bliss) acknowledged that by "industriously mining the pages of some trade journals," Naylor has uncovered "a wealth of information."[33] Paterson, who had also penned a generally negative review, nonetheless thought that Naylor's use of vignettes drawn from then-contemporary journalistic accounts

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[29] See Naylor's account of the delay in the publication of his book because of the concerns of the Social Sciences Federation of Canada about its controversial character, *supra* note 10, xxiii-xxvi.
[30] In addition to Bliss's *Review* and *Reviewer's Response*, some more reviews of Naylor's book that this study has referenced include; D.G. Paterson, "Review of *The History of Canadian Business, 1867-1914*," *Canadian Journal of Economics* 10, No. 3 (1977): 512; Richard W Pollay, review of *The History of Canadian Business: 1897-1914,*" Business History Review 50, (1976): 409; and Peter E. Rider, "Review of *The History of Canadian Business, 1867-1914,*" *Archivaria* 6 (1978): 212.
[31] Pollay, 209.
[32] Paterson, 515.
[33] Bliss, Review, 448.

"amply demonstrate the scope for profits due to imperfect capital markets, personal links between capitalists and governments, and the changing business environment."[34] Historian D. G. Paterson also considered that in his journalistic-based contextual discussions of changes in law and regulations, Naylor had succeeded in evoking "a sense of historical change" and acknowledged that "some [important] perspective is gained on the attitudes of businessmen when advocating or opposing changes in their legal environment."[35]

A more significant criticism advanced by Naylor's reviewers concerned his tendency to accept the facts as stated in contemporary press accounts or other secondary sources without verifying their accuracy from other primary sources. It is true that in the case of historical events and episodes related to the banks he did not have access to their restricted archives.[36] But Naylor's inability to cross-check the veracity of *some* of his sources does not excuse him from the criticism that he failed to consult those primary sources that were publicly available including public archives.[37] That said, Naylor admitted to certain "errors of detail and instances of misreading of sources" in his reply to Bliss's critical review[38] and the 2006 edition of his text includes an errata for both volumes.[39]

A more significant point of criticism is Naylor's tendency to conclusory reasoning. This criticism is echoed by all the reviewers. This includes Pollay whose review was otherwise generally positive, describing Naylor's book as "an impressive

[34] Paterson, 513.
[35] Ibid.
[36] Naylor, *Reply*,156-157.
[37] Bliss, *Response*, 162; , 213.
[38] Naylor, *Reply*,159.
[39] See Naylor, *History of Canadian Business*, 1: 297, and 2: 394

work, presenting much original research" and evidencing "detailed, painstakingly documented scholarship."[40] But while considering it "generally a well written book," Pollay thought that it suffered from one "distressing" weakness:

> Naylor has a tendency to present a wearying iteration of incident after incident and then leap to a conclusion without as much intervening analysis as is either possible or advisable. In many cases, the number of incidents could have been abbreviated, or aggregated, and the discussion expanded toward a more fully explicated synthesis and integration of his findings with the works of others.[41]

While acknowledging its shortcomings, the above 'review of the reviews' of Naylor's work shows that it shed much new light and provoked hitherto heated controversy on the historical entanglement between Canadian banking and politics and provided important new evidence of the historical scandals and failures suffered by the industry. Accordingly, in Chapter VII, in the context of reassessing the Canadian banking stability legacy, some of Naylor's sources and insights are referenced.

The Formation of the Bank of Canada, 1913-1938 by Linda M. Grayson,[42] and *Adam Shortt* by Bruce W. Borden,[43] are two unpublished doctoral theses completed at the Department of History of the University of Toronto in 1974 and 1978 and supervised by renowned historians Craig Brown and Carl Berger respectively. (The University of Toronto's history department has been the standard-setter for historical research in English Canada since the turn of the 20th century.)

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[40] Pollay, 409-410.
[41] Ibid, 411.
[42] Linda M. Grayson, *The Formation of the Bank of Canada from 1914 to 1938* (PhD thesis, Department of History, University of Toronto, 1974).
[43] Bruce W. Bowden, *Adam Shortt* (PhD thesis, Department of History, University of Toronto, 1979).

Grayson's thesis on the history of the Bank of Canada, the Canadian equivalent to the Federal Reserve in the US and the Bank of England in the UK, fills a longstanding critical gap in Canadian political economic and banking history. Established in the Great Depression, the Bank of Canada is one of the most important Canadian political economic institutions created after Confederation. It was a key part of Canada's response to the great transformation that it and most of the rest of the western world experienced at the turn of the 19th to the 20th century. Its establishment opened a new era for the Canadian banking industry and the operation of the Canadian monetary system.

In 1939, long preceding Grayson's thesis, the American scholar Milton L. Stoke published a monograph titled *The Bank of Canada: the Development and the Present Position of Central Banking in Canada*.[44] As discussed in Chapter III, Stoke (like many other US scholars interested in Canadian banking) was sensitive to the contrasting political economic context of Canadian banking, and correctly pointed out the role of populist forces from Western Canada in the creation of the Bank of Canada.[45] Shortt's account of the history of banking in the 19th century also treated the populist influence seriously.[46] While not the first scholar to explore the interplay

[44] Milton L. Stoke, *The Bank of Canada: The Development and Present Position of Central Banking in Canada* (Toronto: Macmillan Canada, 1939).

[45] Ibid, 27-50. In Chapter III, *Growth and Development of the Central Banking Idea in Canada 1913–1923*, there are explicit references to the push by Canada's West for some form of centralized or nationalized credit supply. That said, the concept of a Canadian central bank originated around the turn of the century in the banking industry itself, promoted especially by Edison L. Pease, the legendary former chief executive of the Royal Bank and then president of the Canadian Bankers Association.

[46] In an article published in July 1901, Adam Shortt provides a vivid account of the interest of the populist leader William Lyon Mackenzie in the banking affairs of Upper Canada. In 1832, Mackenzie sailed to England to petition for the repeal of the charter of the recently formed Commercial Bank of the Midland District in Kingston and the legislation that had approved an increase in the capital of the

between populist political forces and banking regulation, Grayson's thesis delivers a comprehensive account of how populist forces, represented by the smaller federal political parties (notably the Progressive Party of Canada and the Co-operative Commonwealth Federation (CCF)) and the more radical members of the Liberal Party, were the catalyst, because they held the balance of power in Parliament, in successfully nudging the mainline Conservative and Liberal parties towards a more regulated banking system.

Although Adam Shortt's contribution to Canadian intellectual development has been the subject of study by several other historians (for example, S. E. D. Shortt, Carl Berger, and Barry Ferguson[47]), Bowden's thesis eclipses these other contributions (even that of Ferguson, whose 1993 book was based on his 1982 doctoral thesis completed four years after Bowden).[48] Understanding Adam Shortt's life and intellectual legacy is important to the overall understanding of the strengths and limitations of his Canadian banking history scholarship. For this reason, Chapter IV reintroduces Adam Shortt and provides some critical analysis of his banking history scholarship, which has not been a subject of serious review to date.

Bank of Upper Canada, the bank controlled by the Family Compact that had tried to preserve its banking monopoly in Upper Canada. The populist voices represented by Mackenzie and his colleagues played an important role in loosening the monopoly of the elites on banking in Upper Canada. See Adam Shortt, *Adam Shortt's History of Canadian Currency and Banking, 1600-1800* (The Canadian Bankers' Association, 1986), 295-316.

[47] S. E. D. Shortt, *The Search for an Ideal: Six Canadian Intellectuals and Their Convictions in an Age of Transition, 1890-1930* (University of Toronto Press, 1976); Berger, *Writing of Canadian History*; and Barry Ferguson, *Remaking Liberalism: The Intellectual Legacy of Adam Shortt, O. D. Skelton, W. C. Clark, and W. A. Mackintosh, 1890-1925* (McGill-Queens University Press, 1993).

[48] Barry Ferguson, *New Political Economy and Canadian Liberal Democratic Thought: Queen's University 1890-1925* (PhD thesis, Department of History, York University, 1982). As discussed in Chapter IV of this thesis, Ferguson's 1993 book and his 1982 doctoral thesis did not mention Bowden's earlier thesis. In my assessment, Ferguson's study of Adam Shortt contributes less value compared to the previous works of S. E. D. Shortt, Carl Berger and Bruce Bowden, especially the latter.

Peter Baskerville's *The Bank of Upper Canada: A Collection of Documents*[49] published in 1987, deepened and broadened Shortt's and Breckenridge's account of the fate of the Bank of Upper Canada, the second largest bank in the country before its failure in 1867. The most significant revelation of this book is probably the bank's extensive entanglement with public projects ranging from canals to railways, and its lending against the security of real estate, contrary to the imperially imposed "real bills" principle of commercial banking in its 1842 charter which confined lending to advances against assets readily convertible to money (commercial paper, government securities, bills of exchange etc.) and prohibited direct lending on the security of land.[50] These irregularities had been noted by Breckenridge and Shortt. However, Baskerville's dedicated and more comprehensive study, written more than half a century later, exposed the staggering scale of the bank's breach of its charter clauses and its eventual dissolution in 1866 after suffering a fatal struck during the 1857-58 crisis. It is important evidence from a banking regulation perspective of the real face of the interrelationship between the imperial authorities and Canada's 19th century pre-Confederation chartered banks – a mix of respect for and breach by the chartered banks of the imperially-imposed restrictions on their

[49] Peter Baskerville, *The Bank of Upper Canada: A Collection of Documents* (Toronto: The Champlain Society in Cooperation with The Ontario Heritage Foundation and Carleton University Press, 1987).
[50] On the evolution of the "real bills principle" in early Canadian banking history, see Ronald A. Shearer, *Imperial Regulation and the Constitution of Early Canadian Banking*, paper prepared for a conference of The Canadian Network for Economic History at Queen's University, Kingston, Ontario, April 2005, available at http://econ.queensu.ca/CNEH/2005/papers/Imperial_Regulation%2005.pdf, accessed April 30, 2019.

banking business in concert with the local government[51] and antagonism and compromise between the colonies and the Home authorities preceding self-government.

D. Biographies and institutional histories written over a broad span of time

As noted earlier, Adam Shortt published twelve articles in the *Journal of the Canadian Bankers Association* in the 1920s which portrayed eleven bankers or senior government officials who played an important role in shaping banking regulation in the 19th century. Victor Ross, a contemporary of Shortt, in his 1920 history of the Canadian Bank of Commerce,[52] included (in the form of footnotes throughout the book) brief biographical accounts of several dozen historical figures who had left their mark on Canadian banking. It is worth noting that in the late 19th century bankers were seen as nationally revered "captains of industry" who commanded wide public trust and respect. The project of the *Dictionary of Canadian Biography* now covers many bankers and public servants who are indispensable to understanding Canadian banking history. Included among the bankers are Edwin H. King, Byron Edmund Walker, George Hague, Thomas Fyshe, Edward S. Clouston, Henry C. McLeod, and Edson L. Pease. Included among the public servants, who are mostly associated with the Department of Finance, are Francis Hincks, Alexander T.

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[51] As will be seen in later chapters, the Commercial Bank of the Midland District in Kingston, which is customarily referred to as the "Commercial Bank," a competitor of the Bank of Upper Canada, walked down a similar path to failure.

[52] Victor Ross and A. St L. Trigge, *A History of the Canadian Bank of Commerce (With An Account of the Other Banks Which Now Form Part of its Organization)*, 2 vols. (Toronto: Oxford University Press, 1920-1922). According to the *Preface* to Volume II, P. C. Stevenson wrote Chapter III, *The Yukon Adventure*, while Adam Shortt contributed Chapter VII, *The Legislative Development of the Canadian Banking System*.

Galt, John Courtney, and Thomas White. Some individuals, notably Francis Hincks and Edmund Walker, were exceptionally influential in policy discussions. Others, like Henry C. McLeod, contributed to the ultimate strengthening of the regulation of banking in the 20th century. McLeod, who managed the Bank of Scotia between 1897 and 1910, waged a public campaign in the early decades of the century calling for increased governmental intervention in defiance of the Conservative majority government, bureaucrats from the Department of Finance and the Canadian Bankers' Association (speaking on behalf of most of the other major banks) who were then still trying to keep the government from becoming an active regulator.[53]

Over the past century, most of the major Canadian banks have commissioned historians to write a history of their respective institutions to mark important anniversaries.[54] Given that historically Canada's banking industry has been much more concentrated and oligarchic that its American counterpart (most of the banks created in the 19th century were absorbed by the major banks at the turn of the 20th century, and all the major banks can trace their history to the 19th century), these institutional histories form an important part of the overall banking history of Canada,

In addition to providing a detailed account of their founding and documenting the evolution of the business of banking in Canada, these institutional

[53] John A. Turley-Ewart, "Mcleod, Henry Collingwood," in *Dictionary of Canadian Biography*, available at http://www.biographi.ca/en/bio/mcleod_henry_collingwood_15E.html, accessed June 30, 2019.

[54] Ross, *Bank of Commerce*; Merrill Denison, *Canada's First Bank: A History of the Bank of Montreal*, 2 vols. (Toronto and Montreal: McClelland & Stewart, 1966); Joseph Schull and J. Douglas Gibson, *The Scotiabank Story: A History of the Bank of Nova Scotia, 1832-1982* (Toronto: Macmillan of Canada, 1982); and Duncan McDowall, *Quick to the Frontier: Canada's Royal Bank* (McClelland, 1993). The Canadian Bank of Commerce merged with the Imperial Bank of Canada in 1961 to form the current Canadian Imperial Bank of Commerce (CIBC).

histories shed valuable light on major aspects of the themes of this thesis. On the relationship with government, the history of the Bank of Montreal details its long-standing aspiration to become Canada's Central Bank, its decades-long role as Canada's fiscal agent in London and New York, and its enormous contribution to financing the transformative completion of Canada's transcontinental railroad. The history of the Royal Bank of Canada contributes an invaluable chapter on its performance during the Great Depression; it also provides a fresh perspective on the Royal Bank's singular support for establishing a central bank in contrast to the strong resistance of the other major banks. These kinds of revelations are either critical to understanding the interplay between politics and banking in Canada, or directly bear on the reconsideration of the Canadian banking stability legacy.

E. Diverse contributions by non-historians that cover important topics, or provide important perspectives, produced in the period from the 1990s to the years immediately preceding the GFC

Academic articles written in the 1990s by non-historians respectively questioned the credibility of the Canadian banking stability legacy during the Great Depression and analyzed the ongoing financial deregulation trend, which picked up speed after the 1980s. These contributions are worth highlighting because of their vital implications for the main themes of this thesis.

Manfred Bienefeld's 1992 article titled "Financial Deregulation: Disarming the Nation State"[55] unequivocally warned about the downside of financial deregulation and the fallacy of neo-liberal free market logic from a global political

[55] Manfred Bienefeld, "Financial Deregulation: Disarming the Nation State," *Studies in Political Economy* 37 (Spring, 1992): 31-58.

economic perspective. Research for this thesis did not find another article which comes as close to delivering the same message as wisely and as sharply accurate, whereas it is much easier to find multiple voices during this same period advocating deregulation.[56] Manfred Bienefeld's prescient insights and arguments were vindicated in the post-GFC reflections on the origin of the GFC and on the several substantial crises preceding it in emerging markets. His analysis was based primarily on Hyman Minsky's financial instability theory and Paul Krugman's research in the 1980s to early 1990s. The historical factors which delayed the pace of financial deregulation in Canada, which otherwise could have caused much greater trouble in the wake of the GFC, were complicated. They are discussed in the next part of this survey on the push by the banks to allow merger in the 1990s and early 2000s.

In their 1993 article on the interaction between the financial and real economies during the Great Depression, financial economists Lawrence Kryzanowski and Gordon Roberts challenged the Canadian banking stability legacy.[57] In their view, the commonly accepted explanation of the stability enjoyed

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[56] There is a preponderance of literature in the 1980s to 1990s in the form of journal articles, conference papers, speeches, etc., by some of the most recognized names in Canada in economic research, banking regulation and monetary policy, for example financial economists Thomas Courchene and John Chant, former and future Governors of the Bank of Canada David A. Lodge and Stephen Poloz, that expressed concern to differing degrees about Canada's slow response to global financial innovation, financial markets integration, and deregulation. See, for example, Thomas J. Courchene's speech *Crumbling Pillars: Creative Destruction or Cavalier Demolition* (with commentary by John Chant and George Lermer) at a conference organized by the Fraser Institute in 1989; Walter Blocker and George Lermer, ed., *Breaking the Shackles: Deregulating the Canadian Economy* (www.fraserinstitute.org); Thomas J. Courchene and Edwin H. Neave, ed., *Reforming the Canadian Financial Sector: Canada in Global Perspective*, proceedings of a conference hosted by John Deutsch Institute for the Study of Economic Policy at Queen's University, June, 1996 .

[57] Lawrence Kryzanowski and Gordon S. Roberts, "Canadian Banking Solvency, 1922-1940," *Journal of Money, Credit and Banking* 25, No. 3 (Aug., 1993): 361–376.

by the Canadian banks during this critical period which mainly "attributes the more positive Canadian experience to its branching system"[58] was not based on empirical study. They hypothesized that the Canadian banking industry, due to the sharp decline of general price levels and the shrinkage of GDP during the Great Depression, was technically insolvent, and the fact that there were no bank failures in this period was the result of government "regulatory forbearance" and the state's traditional implicit guarantee of banking stability. In 1995, economists Jack Carr, Frank Mathewson and Neil Quigley, who were associated with the University of Toronto, published a rebuttal article to defend the Canadian banking stability legacy.[59] In 1999, Kryzanowski and Roberts then published their counter-rebuttal. [60]

That there were no bank failures during the Great Depression is the most significant argument contributing to the legacy of banking stability in Canada, the "crown jewel" so to speak. Kryzanowski's and Roberts' arguments questioning the true stability of the Canadian banks in the 1930s are much more convincing than their challengers. The closing words in their 1999 counter-rebuttal article reflect this author's speculation at the beginning of this research:

> Given that GDP and prices fell by almost one-third during the 1930s in both Canada and the United States, a fair reading of the data leaves it highly improbable that all Canadian banks remained economically solvent during this period.[61]

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[58] Ibid, 361.
[59] Jack Carr, Frank Mathewson and Neil Quigley, "Stability in the Absence of Deposit Insurance: The Canadian Banking System, 1890-1966" *Journal of Money, Credit and Banking* 27, No. 4 (1995): 1137-1158.
[60] Lawrence Kryzanowski and Gordon S. Roberts, "Perspectives on Canadian Bank Insolvency during the 1930s," *Journal of Money, Credit and Banking* 31, No. 1 (1999): 130-136.
[61] Ibid, 135.

It is regretful that Kryzanowski and Roberts' research did not include McDowall's history of the Royal Bank of Canada which includes some critical revelations about the true state of the Bank during the Great Depression.[62] This debate and McDowall's revelations form a critical part of the reassessment of the Canadian banking stability legacy in Chapter VII.

Several doctoral theses from the fields of political science, financial economics and history covering important banking historical events and periods were completed in the last decades of the 20th century and the years preceding the GFC in the new millennium. Topics covered by these thesis include: the political processes involved in Canada's "Little Bang" in the late 1980s-early 1990s when Canada's chartered banks were allowed to enter the investment banking and stock brokerage industry,[63] the subsequent re-regulation of some aspects of the financial industry in the face of wide-spread consumer complaints; the objections of consumers and small business groups to the big banks' merger proposals in the 1990s to early 2000s; financial historical research on the merger, rescue and failure of banks in the decades before the Great Depression; and the history of the Canadian Bankers' Association during its first three decades.

[62] McDowall, *Frontier*, 260-261 – in Chapter VII of this thesis, there is a discussion on the so-called "Islmont" story in the history of the Royal Bank of Canada during the Great Depression.
[63] See the on-line *Canadian Encyclopedia*: "Canada's 'Little Bang' describes a series of provincial and federal regulatory changes between 1987 and 1992 that allowed the Canadian chartered banks to own investment dealers, mutual fund companies, insurance companies and trust companies…" available at
https://www.thecanadianencyclopedia.ca/en/article/chartered-bank, accessed June 30, 2019.

Stephen Harris's 1994 thesis[64] gives an in-depth account of the "little bang" in the late 1980s-early 1990s in the Canadian securities industry, and the interconnected further integration of the financial industry that has resulted in the major banks' dominance of most Canadian financial sectors except for life insurance.[65]

Marie Hélène Noiseux's 2002 thesis studies bank mergers in the first two decades of the 20th century in Canada by examining the mergers, failures and bail-out programs of that period.[66] It is an extension of Lawrence Kryzanowski's and Gordon Roberts's previously mentioned study on Canadian banking stability during the Great Depression and indeed was supervised by Kryzanowski.

John Turley-Ewart's 2000 thesis on the history of the Canadian Bankers Association,[67] supervised by the late Michael Bliss, one of the most well-known Canadian business historians, is another important contribution to understanding the history of Canadian banking.[68] According to Turley-Ewart, the Canadian Bankers

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64 Stephen Harris, *The Political Economy of The Liberalization of Entry and Ownership in the Canadian Investment Dealer Industry* (PhD thesis, Department of Political Science and School of Public Administration, Carleton University, 1994).

65 Harris's thesis focuses on the interaction between political culture and banking regulation. The financial deregulation trend in Canada in this period, especially the gradual breaking down of the traditional division between banking and other sectors of the financial industry following the recommendation of the 1964 Porter Commission Report, brought new vitality to the industry as well as causing the high concentration of financial resources around the major banks. For the purposes of this thesis, seeing the financial deregulation trend as part of the neo-liberal economic deregulation movement does not necessarily imply a denunciation of the entire integration process in Canada.

66 Marie Hélène Noiseux, *Canadian Bank Mergers, Rescue and Failure* (PhD thesis, John Molson School of Business, Concordia University, 2002).

67 John Turley-Ewart, *Gentlemen Bankers, Politicians and Bureaucrats: The History of the Canadian Bankers Association, 1891-1924* (PhD thesis, the Department of History of the University of Toronto, 2000).

68 Turley-Ewart's thesis would not have been as illuminating had he not been given full access to the CBA's archive to which earlier historians, for example, Linda Grayson in the 1970s, were denied. These archival materials shed important light on the interaction between the Department of Finance of Canada and CBA members, in particular, senior bankers from the Bank of Montreal, the Canadian

Association, created not just to provide a united voice for the industry but also to regulate competition among the banks, failed to perform the latter (impossible) task, instead only acting ex post to put out the fires caused by the crash of weak banks at the turn of the 19th to the 20th century. He further shows that most of the Association's substantial efforts to maintain an image of industry stability were conducted in close communication with the Department of Finance, mostly the minister himself, or the deputy-minister when the minister was not proficient in banking affairs. In addition, Turley-Ewart shares my observations on the underdeveloped state of Canadian banking historiography, though he does not address this issue extensively.[69]

Russell A. Williams' 2006 political science thesis[70] relies on sources ranging from Parliamentary proceedings, to task force reports, to scholarly works, to media coverage, to give a detailed account of how the merger proposals made by several of the most powerful banks in Canada in the 1990s were finally (after an arguably *ad hoc* and overly hyper-sensitive political process) rejected by Paul Martin, Minister of Finance in Jean Chrétien's Liberal government. Williams' work is a very helpful extension of Stephen Harris' thesis mentioned above. Martin's rejection of the mergers prevented Canada's large banks from growing to a big enough size to compete with the big global banks. This may have protected them from taking on

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Bank of Commerce, the Bank of Nova Scotia and the Royal Bank of Canada, around the turn of the century. Linda Grayson complained the CBA's rejection of her request to access its archive in her doctoral thesis, and her correspondence with the CBA is attached to her thesis - Grayson, 334-335.

[69] According to Turley-Ewart,"[i]n comparison to its counterparts in America, France and Britain, Canada's banking historiography is meager." Turley-Ewart, vi.

[70] Russell A. Williams, *Globalization, Reregulation and Financial Services Reform in Canada: Legislating Canada's Super-banks* (PhD thesis, Department of Political Science, Simon Fraser University, 2006).

the often excessive level of risk exposure assumed by larger global banks ahead of the GFC (the Royal Bank of Scotland being perhaps the most spectacular example of a bank that aspired to challenge Wall Street's global dominance by mergers and acquisitions but which failed during the GFC).

F. "Popular" historical or journalistic works written by non-historians

There have been other, less-focused and more free-ranging commentaries on Canadian banking from real life bankers and outside observers. Included in this category are Robert M. Macintosh's 1991 *Different Drummers*, and Walter Stewart's 1982 *Towers of Gold*" and 1998 *Bank Heist*. [71]

The late Robert Macintosh was a professional banker who joined the industry after obtaining a PhD in economics from McGill in 1953. Before being elected president of the Canadian Bankers Association in 1980, a position he held for ten years, he was a senior banker with the Bank of Nova Scotia where he started his career. *Different Drummers* covers the period from the beginning of chartered banking in Canada in the early 19th century to the beginning of the 1990s. In just under three hundred pages, Macintosh gives a lucid summary of the history of chartered banking in Canada, covering the major events that had an impact on the industry and beyond. Understandably Macintosh's point of view is that of an industry insider, not a professional historian, but this does not prevent him from

[71] Robert Macintosh, *Different Drummers: Banks and Politics in Canada* by (Macmillan Canada, 1991); and Walter Stewart, *Towers of Gold and Feet of Clay: The Canadian Banks* (Harper Collins Canada, 1982), and *Bank Heist: How Our Financial Giants Are Costing You Money* (Harper Perennial Canada, 1998).

recognizing missteps for which the industry deserved blame. Constrained by space, he only briefly touches on many of the historical events of high relevance to this thesis. Nonetheless, his book provided valuable leads to further sources.

The late Walter Stewart was called "Canada's conscience" in his 2004 obituary in *The Globe and Mail*.[72] A senior investigative journalist and editor, and a journalism professor in the later part of his career, Stewart authored a series of influential exposures of subjects ranging from corrupt bureaucracy, to the Canadian far-right, to the undue influence wielded by big corporations and the financial industry. His *Tower of Gold* and *Bank Heist* filled a critical gap in the banking literature by representing the perspective of the general public. The general Canadian public has interacted with the banking industry from day one and has long been one of its most important stakeholders, which could, as the broad public reaction to the proposed merger of RBC and BMO in 1998 illustrated, block the ambitions of bankers. The historical ups and downs of the industry have had great implications for the general public as depositors, farm credit debtors, mortgage borrowers, and consumers of credit cards, car leases and other financial services. Yet few books have been written to voice their concerns and to educate and mobilize them to influence the policy-making process on regulation of the industry.

Neither *Tower of Gold*, nor *Bank Heist* is an academic or even quasi-academic historical work. They were designed to be "popular," to reach the educated general public, but they are nonetheless committed to historical accuracy (Stewart was a drop-out from the Department of History of the University of Toronto). Like Naylor,

[72] Ron Csillagm, "He was Canada's conscience", *The Globe and Mail*, September 16, 2004, R7.

Stewart's investigative journalism of the nefarious side of the financial industry's history was influenced by Gustavus Myers.[73] Differing from Naylor, who strove to keep his work within the boundaries of academic constraints (while rejecting the influence of modern economics on business and financial history), Stewart took the greater liberty available to a journalist in exposing the interface between banking, business and politics, and in blending banking history with his investigation of contemporary issues (including even his personal disputes with the Royal Bank as a customer). The *Bank Heist* clearly was written to mobilize the Canadian public to participate in the process of revising the *Bank Act* in 1997. Stewart was probably the most articulate voice from the public's perspective in the re-regulation of the banking industry, including the establishment of the Financial Consumer Agency of Canada. [74]

For the purposes of this thesis, Walter Stewart's writing does not offer much historical scholarly value, because his sources were mostly secondary, and are already covered by the primary literature surveyed for this thesis. The value of his

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[73] Myers, *Canadian Wealth*, and its impact on Naylor's *History of Canadian Business* as discussed in footnote 30 of this chapter. The upsurge of investigative books in the 1970s-1980s written by influential journalists like Peter Newman and Walter Stewart reflected the admiration of many Canadian intellectuals for the cultural heritage of the American Progressive Era at the turn of the 20th century of which Myers was representative. When Myers's 1914 book was reprinted in Canada in 1975, Stanley B. Ryerson, an influential socialist intellectual, wrote in the *Introduction* that for Canadian readers in the 1920s and 30s it was "the one and only available interpretation of this country's history in terms of a radical social criticism… it helped shape the thinking of more than one generation of young activists and trade unionists." Myers, *Canadian Wealth, Introduction* by Ryerson, vii. In the 1970s to 1980s, there was a clear convergence of native Canadian muckraking, the explosion of social history, the rise of the New Left, and the Civil Rights and anti-Vietnam War movements, which in their totality formed a formidable counter force to the influence of neo-liberalism in Canada.

[74] The Financial Consumer Agency of Canada (FCAC) is a federal government agency established in 2001 by the *Financial Consumer Agency of Canada Act,* S.C. 2001, c. 9 to protect consumers of financial services and products.

work is more relevant to the political cultural context of banking regulation, exemplifying the role of journalism and public opinion in shaping banking regulation in the 1980s and 90s when the industry was at the peak of its influence since WWII and flanked by pro-deregulation forces from both academic and political circles.

G. The post-GFC Canadian Literature

This category of literature includes a dozen or so articles, written by senior financial reporters, financial economists, political scientists, banking practitioners, and law professors, that reflected on the performance of the Canadian banking industry, especially the perceived success of its regulatory framework, during and in the aftermath of the GFC. This body of literature can be divided into two categories: the first category gives a sweeping positive endorsement of Canadian banking regulation; the second category offers a more critical review pointing out some of the weaknesses exposed by the GFC (e.g. too much trust on ABCP).

The sharp division between these two groups is reviewed in Chapter VI. The purpose of the review is not to show how individual authors in the first group failed to acknowledge or address the problems with the banking regulatory system identified by the authors in the second group. Rather, the mere existence of the first group shows that not a small number of Canadian intellectuals uncritically accepted the effectiveness of Canadian banking regulation. This contributes to the overall theme that Canadian banking history is underdeveloped, and that a major consequence of this is a less critical and under-analyzed understanding of the stability legacy.

H. Other Contributions

Other authors have supplied chronicles of other revealing episodes in Canadian banking history. John Fayerweather's 1974 book is dedicated to the "Mercantile Bank Affair" which involved the attempt by First National City Bank of New York (later Citibank) in the early 1960s to acquire the Mercantile Bank, a small subsidiary of a Dutch Bank that had been established in Canada a decade earlier. [75] Citibank's attempted take-over occurred in a climate of rising Canadian nationalism concerned with protecting key Canadian industries, including the banking industry, from being controlled by American interests, a movement led by Walter Gordon, Canada's minister of finance at the time.[76] In response to Citibank's attempt to expand into the Canadian banking market, the 1967 revision of the Bank Act adopted the "widely-held rule", under which no single shareholder, or group of shareholders acting in concert, could hold more than ten percent of the shares in a major Canadian-chartered bank, with foreign interests in aggregate capped at 25 percent.[77]

The widely-held rule has been somewhat relaxed over the intervening years as a result of NAFTA and later trade agreements.[78] However, it still remains in place

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[75] John Fayerweather, *The Mercantile Bank affair: A case study of Canadian nationalism and a multinational firm* (New York: New York University Press, 1974).
[76] See generally Stephen Azzi, *Walter Gordon and the Rise of Canadian Nationalism* (McGill-Queens University Press, 1999).
[77] Denis Smith, *Gentle Patriot: A Political Biography of Walter Gordon* (Edmonton: Hurtig Publishers, 1973), 348-64. Specifically on the Mercantile Bank event, the trigger for the adoption of the "widely-held rule", see John Fayerweather, supra, note 78; Walter Gordon*, Walter Gordon: A Political Memoir* (McClelland and Stewart, 1977), 211-18; 266-76; and Robert Macintosh, *Different Drummers: Banks and Politics in Canada* (Macmillan Canada, 1991), 158-69.
[78] Under the current version of the widely-held rule, no single shareholder may own more than 20 per cent of any class of voting shares, or more than 30 per cent of any class of non-voting shares of a

and from a post GFC perspective clearly played a critical role in protecting the Canadian banking core from being acquired by foreign interests, especially the less risk-averse American banks. Yet its role in shielding the Canadian banking system from American dominance is rarely mentioned in the post-GFC literature. Again, this is likely attributable to the less fitful state of Canadian banking history.

Roeliff Breckenridge at the turn of the 20th century, Bray Hammond in the 1950s, and John Fayerweather in 1974 are three examples of a larger group of American scholars, reviewed in chapter III of this thesis,[79] that collectively made important contributions to the writing of Canadian banking history. As noted above, the rise of Canadian nationalism in the post-WWII decades helped to preserve the distinct character of Canada's banking industry (avoiding its possible conversion to the more laissez-faire Wall Street culture). But nationalism may also have led Canadian scholars to downplay or even fail to acknowledge the significance of the contributions of American scholars. Furthermore, the under-appreciation of American scholarship in Canadian banking history may be part of the general under-appreciation of the importance of this branch of history (as this author argues later in the thesis, especially in Chapter VII).

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large bank (a bank having equity of more than twelve billion dollars). A bank holding company may control a large bank, so long as the bank holding company is itself widely held. In addition, no person may acquire or increase a 'significant interest' in a bank (defined as more than 10 per cent of any class of shares) without the consent of the Minister of Finance. Bank Act, S.C. 1991, c. 46, ss. 1.1-12.2, 372-394.

[79] Roeliff M. Breckenridge, as detailed in Chapter VI, was born and raised in Ohio. His family emigrated to Hamilton, Ontario when he was in high school, but he continued his education in the US, including obtaining his bachelor degree from Cornell, pursuing graduate study first in the University of Chicago, and completing his PhD in Columbia College (now Columbia University). For this reason, he is counted as an American scholar.

Since the publication of the *Porter Commission Report* on Canadian financial industry reform in 1964, Canadian government, including commissions and taskforces established by the government, has produced various reports and proposals on the reform of the banking industry mainly in connection with the obligatory periodical review of the Bank Act, but also in response to specific events. Examples include the *Green Paper* (1985), the *Blue Paper* (1987) and the *White Paper* (1990),[80] the *Estey Commission Report* (1986),[81] and the *Mackay Task Force Report* (1998).[82] These are important sources of banking regulatory policy, and are revealing of the political-economic atmosphere of the time and in furnishing a highly-focused and authoritative window on the relation of banking to the needs of society. Reference will be made to some of these sources in later chapters of this thesis.

3. The State of Canadian Banking History: A Preliminary Assessment

The body of banking historical literature surveyed above covers many of the periods, events, topics, institutions and individual actors that constitute the moving

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[80] *The Regulation of Canadian Financial Institutions: Proposals for Discussion* issued by the Department of Finance of the Mulroney government in 1985 is commonly referred to as the "Green Paper"; *New Direction for Financial Services* issued by the Department of Finance under the Chrétien government in 1987 is known as the "Blue Paper"; *Reform of the Federal Financial Institutions Legislation: Overview of Legislative Proposals* issued by the Department of Finance under the Chrétien government is commonly referred to as the "White Paper." These three papers primarily dealt with breaking down the barriers between banking and other sectors of the financial industry, which eventually led to dominance of the financial industry by the financial groups controlled by the largest banks. See R. A. Williams, 209, footnote 14.

[81] Hon. Willard Z. Estey (Commissioner), *Report of the Inquiry into the Collapse of the CCB and Northland Bank* (Ottawa: Canadian Government Publishing Centre, August 1986). This report is often referred to as the "Estey Report." Its significance in Canadian banking regulatory history is mainly it paved way for the establishing of the Office of Superintendent of Financial Institutions (OSFI).

[82] The formal tile of the report is "The Future Starts Now: a Study of the Financial Services Sector in Canada", available at https://www.ourcommons.ca/DocumentViewer/en/36-1/FINA/report-15/, accessed November 2, 2018. Because the task force was headed by Harold Mackay, this report is also often referred to as the "Mackay Report."

picture of the history of Canadian banking and its regulation since the beginning of chartered banking at the turn of the 19th century to more recent times. However, we need to be cautious before rating it as comprehensive and mature.

Two criteria can be adopted to measure the sufficiency of the existing literature: first, a relative measure, i.e. using the banking historical literature in the US as the yardstick or mirror; second, a more "objective" independent measure based on an analysis of the existing literature that seeks to identify the not-yet-written, thinly covered, or insufficiently critically examined important historical periods and events.

Contemporary American financial historian Larry Schweikart surveyed the American commercial banking historiography in 1991.[83] In his informative article Schweikart collected half a dozen examples of historical works of considerable length on US commercial banking history authored before the Civil War, for example: *An Inquiry into the Nature of Value and Capital* (1813) by Alexander B. Johnson,[84] *A Short History of Paper Money and Banking in the United States* (1833) by William M. Gouge,[85] *The History of Banks: To Which is Added, A Demonstration of the Advantages and Necessity of Free Competition in the Business of Banking* (1837) by

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[83] Larry Schweikart, "U.S. Commercial Banking: A Historiographical Survey", *The Business History Review* 65, No. 3 (Autumn, 1991): 606-661.

[84] Alexander B. Johnson, *An Inquiry into the Nature of Capital, and into the Operation of Government Loans, Bank Institutions, and Private Credit* (John Forbes, Printer, 1813), available at https://archive.org/details/aninquiryintona00johngoog/page/n6, accessed October 29, 2018.

[85] William M. Gouge, *A Short History of Paper Money and Banking in the United States (to which is prefixed an inquiry into the principles of the system, with considerations of its effects on morals and happiness)* (Philadelphia: T. W. USTICK, 1833), available at https://archive.org/details/ashorthistorypa00gouggoog/page/n8, accessed October 29, 2018.

Richard Hildreth,[86] *A Treatise on Banking* (1850) by Alexander B. Johnson,[87] etc.[88] In Canada, chartered banking started with the Bank of Montreal (then called the Montreal Bank) in 1817 three and half a decades after the establishment of the first chartered bank in the US, i.e. the Bank of North America chartered in 1781 in Philadelphia.[89] Hence, it is understandable that the study of Canadian currency and banking began much later than in the US. James Stevenson, former president of the Quebec Bank and the first honorary president of the Canadian Bankers' Association established in 1893 is credited as probably the first to make insightful observations on the history of currency and banking in Canada.[90] His essays on this topic first appeared in the mid-1870s in *Transactions of the Literary and Historical Society of Quebec*.[91] As noted in the above survey, the first systemic writing of Canadian banking history is credited to Roeliff M. Breckenridge whose doctoral thesis was completed in 1894.

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[86] Richard Hildreth, *The History of Banks: To Which is Added, A Demonstration of the Advantages and Necessity of Free Competition in the Business of Banking* (Boston: Hilliard, Gray, and Company, 1837), available at https://archive.org/details/historybankstow00hildgoog/page/n22, accessed October 29, 2018.

[87] Alexander B. Johnson, *A Treatise on Banking: The Duties of a Banker and His Personal Requisites Therefor* (Published by Seward and Thurber, 1850), available at https://babel.hathitrust.org/cgi/pt?id=uiug.30112002421755;view=1up;seq=3, accessed October 29, 2018.

[88] For the other titles, see Schweikart, 609-610.

[89] On December 31, 1781, the Confederation Congress passed an ordinance incorporating the President and Company of the Bank of North America. According to Bray Hammond, "[t]his was the first real bank, in the modern sense, on the North American continent." See Hammond, *Banks and Politics*, 50. As for the beginning of chartered banking in Canada, see Breckenridge, *Canadian Banking System*, 21-27.

[90] A brief biography of James Stevenson by Jean-Pierre Paré appears in the *Dictionary of Canadian* Biography, available at http://www.biographi.ca/en/bio/stevenson_james_12E.html, accessed June 30, 2019.

[91] James Stevenson, "Currency, with reference to Card Money in Canada during the French Domination", *Transactions of the Literary and Historical Society of Quebec*, Sections of 1874-1875, 83-111; "The Currency of Canada after the Capitulation", *Transactions of the Literary and Historical Society of Quebec* (1876-1877): 105-134.

In terms of the volume of note-worthy U.S. commercial banking historical literature, Schweikart provides a 14-page (in a 55-page article) selected bibliography listing more than two hundred scholarly contributions published up to the beginning of the 1990s.

Granted, "size" does not necessarily equate to "quality." However, in the realm of banking historical writing, the volume of the American literature has indeed provided a broad and solid foundation for the production of more sophisticated scholarship in the area. Many important topics have attracted attention from successive generations of scholars, for example, the rise and fall of Hamilton's Bank of the United States, Andrew Jackson's Bank War, the formation of the Federal Reserve System, the Glass-Stegall Act, etc. Debates between historians of the same period, and revisions by later generations, are among the most effective tools to deepen historical understanding.

The most shining example of the maturity of American banking historical scholarship must be the works of Bray Hammond and Irwin Unger in the 1950s to 1960s. *Banks and Politics in America from the Revolution to the Civil War* ("Banks and Politics") by the former,[92] and *The Green Back Era: The Social and Political History of American Finance, from 1865-1879* by the latter, won the Pulitzer Prize for History in 1958 and 1965 respectively. The value and influence of Bray Hammond's banking history scholarship, culminating in *Banks and Politics,* was well regarded not only by economic historians but also by the general historical community for its "political

[92] Hammond, *Banks and Politics*; and Irwin Unger, *The Greenback Era: A Social and Political History of American Finance, from 1865 to 1879* (Princeton University Press, 1964).

historical" contribution from the unique perspective of banking history. Irwin Unger was influenced by Hammond, and he extended banking historical research beyond banking and politics to the social fabric in which, for example, the resistance to paper money and economic speculation fueled by the prevalence of bank credit was rooted. Chapter V of this thesis is dedicated to a discussion of Bray Hammond's banking historical scholarship.

As the above survey and the discussion in this chapter shows, banking history scholarship in Canada has never attracted a level of attention in the broader historical community comparable to that in the US. Adam Shortt's contributions to Canadian banking history were only collected and republished in book form in 1986, half a century after his death.[93] More importantly, the research for this survey has not encountered any significant efforts by later generations to revise any of the topics covered by Shortt. Debates among Canadian scholars committed to banking historical research are scarce – even though once there is a debate, more light is shed on the topic in question, for example in Chapter VII, there is a discussion of the Kryzanowski & Robert vs. Carr et al. debate over the performance of Canadian banking during the Great Depression referred to earlier.

As indicated earlier in this chapter, most of the limited number of theses by academic historians in the area of banking history completed since the 1970s to recently, were never published and are largely unknown to contemporary

[93] The *Introduction* to the collection opens with the following statement: "It is ironical that the most important work on the history of currency and banking in Canada prior to 1900 should have been the most inconvenient to use for 80 years." See Adam Shortt, *Canadian Currency and Banking*, ix.

researchers.[94] To this picture of seeming indifference to banking historical literature in Canada, one bright spot is probably Duncan McDowall's Quick to the Frontier, history of the Royal Bank of Canada.[95] Commissioned by the bank to commemorate its 125th anniversary, it won the 1994 National Business Book Award.[96]

At this point it seems justifiable to conclude, at least tentatively, that Canadian banking historical scholarship is less developed than its counterpart in the US. What are the implications of this tentative conclusion? The answer is provided mainly in Chapter VII. In Chapter VII, this author argues that because of the less developed state of banking history in Canada, there is a risk that contemporary scholars who are interested in banking regulation may regard the apparent success of Canadian banking regulation during the GFC as a logical extension of the banking stability legacy in Canada (which gained currency at the turn of the 20th century and was further boosted by the industry's record of no bank failures during the Great Depression), and may not be historically literate enough to subject that legacy to a more critical lens. In chapter VII, a review of the evidence assembled from this survey in aggregate seems to justify a reconsideration of the Canadian banking stability legacy – while not sufficient to justify overturning that legacy completely, it does show that it needs significant qualification, while a better understanding of the impact on that legacy of the interplay between Canadian politics and Canada's

[94] Here this author refers to the doctoral theses surveyed earlier in this chapter, including those of Linda Grayson's *Formation of the Bank of Canada*, Bruce Bowden's *Adam Shortt*, and John Turley-Ewart's *Gentlemen Bankers*.

[95] McDowall, *Frontier*. And see the glowing review by Ken Cruikshank in *Archivaria* 39 (Spring 1995): 153-154.

[96] See a brief introduction of McDowall and his *Quick to the Frontier* on the website of National Business Book Award: available at http://www.nbbaward.com/?page_id=285, accessed on June 30, 2019.

approach to banking regulation would make this research more meaningful.

Moreover, the analysis of the banking historical literature in Canada in this thesis provides a rare opportunity to obtain a holistic view of its evolution. To that end, Chapter IV discusses Adam Shortt's banking history scholarship from the perspective of how the Canadian banking historiography could have enriched mainstream historiography in the same manner as Bray Hammond's banking history scholarship has done for general American historiography if it was more developed. It also documents the decline of the writing of Canadian banking history in Shortt's tradition (a narrative banking history written in rich political economic context) since his death in 1931, and its modest revival since the 1970s.

Chapter III
Filling the 'Intellectual Vacuum': American Scholars Probe the Banking System of their Northern Neighbour

1. Breckenridge: An American Pioneer of Canadian Banking History

> *Canada reads much more about the United States than the United States reads about Canada, just as Scotland reads more about England than England reads about Scotland. This condition is inevitable when a nation with a small population lies side by side with a greater neighbour speaking the same language.*[1]
>
> George Wrong

The remarks quoted above were made in 1921 by George M. Wrong, Chair of the Department of History of the University of Toronto from 1894 to 1927, and a co-founder with Adam Shortt of the critical study of Canadian history.[2] Wrong's generalization was ventured in the modest tone typical of Canadian intellectual and political leaders when contrasting the emerging Canadian civilization with either the British Empire, the colonial Home Country, or the United States, the new super-

[1] George Wrong, *The United States and Canada: A Political* Study (New York, Cincinnati: Abington Press, 1921), 11.

[2] According to Canadian historian Carl Berger, "[t]he substantial beginnings of the critical study of the Canadian past . . . were laid in the years after 1894, when George Wrong was appointed to the Chair of History in the University of Toronto and Adam Shortt began his lectures on the early economic and social history of Canada at Queen's. See Carl Berger, *The Writing of Canadian History: Aspects of English-Canadian Historical Writing since 1900* (University of Toronto Press, 1986), 1.

power.[3] Though there is a lot of truth in his observation, it does not apply to the banking history of Canada. This branch of Canadian historical writing was pioneered by Roeliff M. Breckenridge, a young American scholar, in the early 1890s, and significantly enriched by the work of more than half a dozen other American scholars from the turn of the 20th century through the 1950s. This literature constitutes an indispensable contribution to the history of banking in Canada during its first century, whereas there is no comparable research on US banking by Canadian scholars. Not only was the discipline still too young in Canada at the turn of the century, but the US banking system was also notorious for its chronic problems of fragmentation and decentralization in contrast to the perceived stability of the Canadian system.

A. A Laughlin student

In 1894, the same year that Wrong was appointed Chair of the History Department at the University of Toronto, Breckenridge, a doctoral candidate in the School of Political Science of Columbia University (then Columbia College)[4] submitted his doctoral thesis titled "The Canadian Banking System, 1817-1890."[5]

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[3] See, for example, Joseph Howe's statement that "we are only the Englishmen on the wrong side of the Atlantic" in R. T. Naylor, *The History of Canadian Business: 1867-1914* (McGill-Queen's University Press, 2006), 1.

[4] According to the capsule history on the website of Columbia University, Columbia College was founded in 1754 as King's College by the royal charter of King George II. The American Revolution forced a suspension of instruction in 1776 and the college reopened in 1784 with a new name, Columbia College. In 1896, the trustees officially authorized the use of its current name, Columbia University. See https://www.columbia.edu/content/history, accessed June 30, 2019.

[5] Roeliff M. Breckenridge, *The Canadian Banking System, 1817-1890* (Toronto: 1894). Toronto is specified as the place of printing of the thesis no doubt because Breckenridge was by then residing in Hamilton Ontario; on this point, see below.

Breckenridge was awarded his doctorate the next year[6] and his thesis was published in four instalments in the 1894-1895 volume of the Journal of the Canadian Bankers' Association,[7] and in book form in 1895 by Macmillan & Company in New York for the American Economic Association.[8]

The 1890s saw growing curiosity in the United States about the workings of capitalism. The decade saw the first attempts to "bust the trusts" and to impose a modicum of regulation on the hitherto unbridled operation of capitalism in the so-called "Gilded Age." In choosing his doctoral topic, we can speculate that Breckenridge was intrigued by a Canadian banking system that already seemed regulated and centralized by instruments such as the federal Bank Act.

Born in Plymouth, Ohio in 1870,[9] Breckenridge finished high school in Norwalk, Ohio in 1888.[10] He then attended Cornell University — likely chosen because his maternal grandfather was a prominent Cornell faculty member[11]—

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[6] Breckenridge was recommended for the award of his doctorate at the January 22, 1895 meeting of the Columbia University Council: Columbia College, University Bulletin, No. X (March 1895), 8, available at https://play.google.com/books/reader?id=5yHiAAAAMAAJ&printsec=frontcover&output=reader&hl=en&pg=GBS.PA2, accessed June 30, 2019. His doctorate was awarded at the June 1895 Convocation: (1895) 36 Columbia Spectator, 138, available at https://babel.hathitrust.org/cgi/pt?id=nyp.33433000267496;view=1up;seq=318, accessed June 30, 2019.

[7] R. M. Breckenridge, "The Canadian Banking System, 1817-1890," *Journal of the Canadian Bankers' Association* 2 (1894-1895): 108-196, 267-366, 431-502, 572-660.

[8] Roeliff M. Breckenridge, *The Canadian Banking System, 1817-1890* (New York: Macmillan for the American Economic Association, 1895). This version corrects the typographical errors listed in the *corrigenda* to the original version of his thesis of 1894. In this thesis, unless specified otherwise, reference to this seminal thesis is made to this 1895 version.

[9] See http://www.bevier.us/genealogy/en/bevier_us/f_d2.html#1, accessed June 30, 2019.

[10] See the "Educational Institutions Attended by the Author" in the last page of Breckenridge's 1894 thesis.

[11] Breckenridge's mother, Mary Wilder, was the daughter of Burt Green Wilder, a Boston-born American comparative anatomist who was professor of neurology and vertebrate zoölogy at Cornell from 1867 to his retirement in 1910: available at http://www.bevier.us/genealogy/en/bevier_us/f_d2.html#1, accessed June 30, 2019. The Wilders

obtaining his PhB (bachelor of philosophy) in 1892.[12] The title of his bachelor thesis was "On the Style of Webster"[13] and his degree was awarded with "Special Mention in English" signifying "marked proficiency" in that field during the last two years of the course.[14]

In the 1892-1893 academic year, immediately following his graduation from Cornell, Breckenridge attended the Graduate School of the University of Chicago, with political economy listed as his principal subject (followed by sociology).[15] He was also appointed an associate lecturer in political economy in the University's extension division, with responsibility for a "course of lecture studies" on "American Banks and Banking."[16] The following year, he was awarded a Seligman Fellowship in Economics by Columbia[17]and, as noted above, ultimately obtained his PhD from Columbia, graduating in June 1895.

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are descendants of Thomas Wilder who came from England to the Massachusetts Bay Colony circa 1640: available at http://www.bookofthewilders.com/ and http://www.wilderfamilies.com/our-family-tree.html, accessed June 30, 2019.

[12] *The Cornell Era* 24, No. 30 (Ithaca NY: Andrus & Church, 1892): 9, available at https://ecommons.cornell.edu/handle/1813/22150, accessed June 30, 2019. Breckenridge's sister, Mary Grace Breckenridge, graduated the same year, earning a special mention in Latin: Waterman Thomas Hewett, *Cornell University: A History*, Vol. 3 (New York: The University Publishing Society, 1905), available at https://archive.org/stream/cornelluniversit03hewe/cornelluniversit03hewe_djvu.txt, accessed June 30, 2019.

[13] Ibid, *Cornell Era,* No. 13 (1892), 151. Breckenridge's thesis (or at least a version of it) was published under the same title in *Cornell magazine* IV, October 1891— June 1892 (Ithaca NY: Senior Class of Cornell University, 1892), 339-345, available at https://ecommons.cornell.edu/handle/1813/22192, accessed June 30, 2019.

[14] Ibid, *Cornell Era,* No. 30 (1892),10.

[15] University of Chicago, *Quarterly Calendar*, Issue 6 (Chicago: University of Chicago Press: 1893), available on-line at https://books.google.ca/books?id=FGzOAAAAMAAJ&source=gbs_navlinks_s, accessed June 30, 2019. Note that his name is misspelled as Breckinridge.

[16] University of Chicago, *Annual Register*, July 1, 1892-July 1, 1893 (Chicago: University Press of Chicago: 1893): 172, 177.

[17] See Columbia College, *University Bulletin* IX (December 1894), 74, available at https://books.google.ca/books?id=FFc_AAAAYAAJ&pg=RA1-PA74&lpg=RA1-PA74&dq=breckenridge+seligman+fellowship+columbia+college&source=bl&ots=UVcyVz3ZF-&sig=ACfU3U1Ue5GxEMKpD_92Z5Htepi9MsGVlQ&hl=en&sa=X&ved=2ahUKEwimw-

Breckenridge's publications before the completion of his doctoral thesis included two journal articles about Canadian banking and currency: "Paper Currency of New France" published in the *Journal of Political Economy* in 1893[18] and "Free Banking in Canada" published in the *Journal of the Canadian Bankers' Association* in 1894.[19]

Breckenridge's educational background and his immediate post-doctoral contributions reveal his connection with James L. Laughlin, a formative relationship that likely began as early as their common time at Cornell University.

Laughlin was born of pioneer stock in an Ohio village in 1850, "attended local schools and then worked his way through Harvard."[20] He excelled in his history major at Harvard and continued graduate study under the famous historian Henry Adams. In 1876 he obtained his doctorate for a dissertation on *The Anglo-Saxon Legal Procedure*.[21] In 1878 Laughlin was hired by Professor Charles Dunbar, the head of the Department of Political Economy, as an instructor in political economy.[22] In 1888, he resigned from Harvard to take up a senior position at a mutual fire insurance company in Philadelphia, first as the secretary and later the president of the company.[23] Two years later, in 1890, Laughlin accepted a professorship at

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KqvpjoAhVmmHIEHZeOBL0Q6AEwAXoECAwQAQ#v=snippet&q=seligman%20fellow%201894&f=false, accessed June 30, 2019.

[18] Roeliff M. Breckenridge, "Paper Currency of New France," *Journal of Political Economy* 1, No. 3 (1892-1893): 406-431.

[19] Roeliff M. Breckenridge, "Free Banking in Canada", *Journal of the Canadian Bankers' Association* 1, No. 3 (1894): 154-166.

[20] Wesley C. Mitchell, "J. Laurence Laughlin," *Journal of Political Economy* 49, No. 6 (1941): 875-881.

[21] Ibid.

[22] Ibid.

[23] Ibid, 876-877. According to Mitchell, the exact reasons for Laughlin's resignation from Harvard were not clear but it was likely caused by workload exacerbated by an increase in class size, which forced Laughlin "to resort to lectures, a method of teaching he deplored." Ibid, 876.

Cornell University where he would help build a strong Department of Political Economy.[24] Laughlin left Cornell two years later in 1892 when he was "raided" by William Harper, the first president of the newly reconstituted University of Chicago, to be its inaugural Head Professor of Political Economy.[25] Laughlin brought with him from Cornell several promising scholars like Adolph C. Miller and Thorstein Veblen.[26]

Laughlin is credited as belonging to the " small band of distinguished men who made it [the University of Chicago] overnight into one of the country's greatest universities."[27] During his tenure as head of the political economy department, Laughlin recruited a diversity of promising scholars, including some who held very different opinions such as "Davenport, Hoxie, J. M. Clark, Walton Hamilton . . . [and] Veblen."[28] It was during Laughlin's reign that several leading Canadian politicians and academics shaped their minds at the Department,[29] including Stephen Leacock,[30] W. L. Mackenzie King[31] and O. D. Skelton.[32] Veblen's powerful criticisms

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[24] Ibid, 877.

[25] John U. Nef, "James Laurence Laughlin (1850-1933)," *Journal of Political Economy* 42, No. 1 (1934): 1-5.. The Bronzeville campus of the "old" University of Chicago (1856-1890) was destroyed by fire in 1874, and eventually foreclosed on by its creditors. An extraordinary pledge by John D. Rockefeller enabled the University to be reconstituted on its current Hyde Park campus. William R. Harper, the Yale educated inaugural president of the "new" University of Chicago, was mandated to hire talented faculty and administrators from other established universities. Harper's "raids" caused great consternation among other university administrators. See generally: Mayer Milton, *Young Man in a Hurry: The Story of William Rainey Harper, First President of the University of Chicago* (Chicago: University of Chicago Alumni Association: 1941); and Richard J. Storr, *Harper's University: The Beginnings* (Chicago: University of Chicago Press: 1966).

[26] Mitchell, 877. Veblen was mentored by Laughlin at Cornell in 1891 and Laughlin brought Veblen with him as a teaching assistant when Laughlin was hired by the University of Chicago. Before this, Veblen had struggled to find an academic job after obtaining his PhD from Yale in 1884.

[27] Nef, 1.

[28] Ibid, 4.

[29] Mitchell, 879.

[30] Ibid. Stephen Leacock studied under Thorstein Veblen and obtained his PhD in 1903 from the Department of Political Economy of the University of Chicago. His doctoral thesis was entitled "*The*

of the American capitalist system probably strengthened the conviction of these future Canadian leaders that Canada should chart a different path.

Laughlin was a prolific scholar despite his heavy administrative duties and various social and political responsibilities. He published three-hundred-odd books and articles between 1876 and 1933.[33] His primary academic interest was currency and banking. Approximately two-thirds of his nineteen published books are about banking, currency and monetary policy.[34] His *History of Bimetallism in the United States* published in 1886 was rated as "the best account of American efforts to maintain a double standard"[35] even though he was a staunch opponent of bimetallism. As will be seen later in this chapter, he was the *de facto* chief spokesperson for US academe in calling for currency and banking reform in the 1890s, a decade in which there was growing public anxiety about the so-called

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Doctrine of Laissez-Faire." For Leacock's biography, including his connection with the University of Chicago, available at http://www.thecanadianencyclopedia.ca/en/article/stephen-leacock/, accessed June 30, 2019.

[31] According to H. Blair Neatby's account, W. L. Mackenzie King studied at the University of Toronto for his B.A. and one year on the LL.B. in the period 1891-1895: see Neatby, W. L. Mackenzie King, in *Canadian Dictionary of Biography*, available at http://www.biographi.ca/en/bio/king_william_lyon_mackenzie_17E.html). King subsequently obtained an MA from the University of Chicago Lyon, William, and R. MacGregor Dawson. W L Mackenzie King 1874-1923 (University of Toronto Press, 1958), 54-55.

[32] After graduating from Queen's in 1899, O. D. Skelton studied classics at the University of Chicago in the period from 1899 to 1901 under classicist Paul Shorey and Laughlin. After exploring other possibilities in England and Philadelphia, Skelton returned to the University of Chicago in 1905 to pursue a doctoral degree in the Department of Political Economy. He started to lecture at Queen's in 1907. In 1908 Skelton obtained his PhD from Chicago and was appointed the Macdonald Professor of Political and Economic Science to replace Adam Shortt who had just resigned from Queen's to take up the position of Civil Service Commissioner in Ottawa. Skelton is said to have been greatly influenced by Thorstein Veblen. See Barry Ferguson, *Remaking Liberalism: the Intellectual Legacy of Adam Shortt, O.D. Skelton, W.C. Clark, and W.A. Mackintosh,* (McGill University Press: 1993), 22-23; also see Norman Hillmer, *O. D. Skelton: A Portrait of Canadian Ambition* (McGill-Queen's University Press, 2015), 27.

[33] Mitchell, 875.

[34] See the list of Laughlin's books cited by Nef, 2, footnote 1.

[35] Mitchell, 876.

"money power" in American life. The money power was said to be draining the competition out of capitalism and using its capital to fashion huge trusts. Laughlin was also an important voice in support of the establishment of the Federal Reserve System after the turn of the century.

Though there is no direct evidence, because of their shared interest in currency and banking research, it is probable that Breckenridge, in his final two years of undergraduate studies at Cornell which coincided with Laughlin's tenure there, i.e. 1890-1892, was influenced by Laughlin, who also came from Ohio. Perhaps this influence persuaded Breckenridge to follow Laughlin to the University of Chicago in 1892 to pursue graduate studies.

Laughlin was known for being particularly committed to getting to know his students and their interests. John U. Nef, an economic historian whose tenure at the University of Chicago overlapped with Laughlin's final years there, made the following incisive observation about Laughlin's devotion to pedagogy:

> Serious students soon learned that behind Laughlin's reserve lay a desire to help them, arising out of an understanding of their particular problems and an interest in them. Persons attending his lectures were never simply a row of heads in a classroom. They were individuals; he commented at length on their papers, stopped them many months afterward on the campus to inquire what they were doing with some interest which they had revealed to him but had not expected him to remember. He never grew tired of talking with young students about the form as well as the content of essays they were writing.[36]

That Breckenridge was able to produce systematic research on Canadian banking history in only two years can only be explained by his being influenced by

[36] Nef, 3.

someone with Laughlin's strengths in this area. As noted above, Breckenridge published his first article ("Paper Currency in New France") in 1893 in the *Journal of Political Economy*, a journal founded by Laughlin on his appointment to the University of Chicago in 1892 and edited by him until his death in 1933.[37]

In 1893 Breckenridge left Chicago for Columbia College to complete his doctoral studies. Laughlin's Department of Political Economy at Chicago conferred only one PhD in 1894 and the program was suspended in 1895 and 1896 and did not resume conferring doctoral degrees until 1897.[38] Breckenridge seems to have retained a strong bond with Laughlin's department after moving to Columbia. His doctoral thesis was the subject of a positive (if rather summary) review in 1895 in the *Journal of Political Economy* by Adolph C. Miller[39] who, as mentioned earlier, had followed Laughlin to Chicago from Cornell in 1892.

After obtaining his doctorate from Columbia, Breckenridge did not pursue an academic career. His father had moved the family from Ohio to Hamilton, Ontario in Canada in 1885 where he apparently became engaged in the canning business.[40] Although Roeliff remained behind in Ohio to complete high school,[41] Hamilton is listed as his permanent home address throughout his undergraduate and graduate

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[37] Ibid, 1.
[38] Irwin Collier, *Chicago: Doctoral Dissertations in Economics, 1894-1926*, available at http://www.irwincollier.com/chicago-doctoral-dissertations-economics-1894-1926/, accessed June 30, 2019.
[39] A. C. Miller, "Review *The Canadian Banking System, 1817-1890*," by Roeliff Morton Breckenridge, *Journal of Political Economy* 3, No. 2 (1895): 243-244.
[40] This information appears in the obituary for Roeliff's father, Warren Cook Breckenridge, available at https://www.findagrave.com/memorial/100239915/warren-cook-breckenridge, accessed June 30, 2019.
Genealogical information indicating that Warren was Roeliff's father is available at http://www.bevier.us/genealogy/en/bevier_us/f_90.html, accessed June 30, 2019.
[41] As noted above, Roeliff graduated from Norwak High School in 1888.

studies,[42] and he settled in Hamilton after graduation from Cornell where he apparently became involved in the family's canning business.[43]

Breckenridge did, however, make two further scholarly contributions. The first was published in the April 1898 issue of the *Journal of the Canadian Bankers' Association,*[44] which provides a lengthy review of the influential 1898 *Report of the Monetary Commission of the Indianapolis Convention* authored by Laughlin.[45] The second was the publication in 1910 of an abridged version of his original 1895 text with an update covering legislative developments after 1890 prepared for inclusion in the National Monetary Commission's published reports.[46] Sadly, this was Breckenridge's last scholarly contribution. He died prematurely and tragically in 1914, the victim of fumes from the gas engine that operated the pumping station of "his fruit plantation" located just outside Hamilton.[47]

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[42] "Cornell Register 1891-1892," 230, available at *https://ecommons.cornell.edu/handle/1813/22326, accessed June 30, 2019. For the University of* Chicago, see University of Chicago, *Quarterly Calendar*, Issue 6, 98. For Columbia, see Columbia College Catalogue 1893-94, at 261, 280, available at https://babel.hathitrust.org/cgi/pt?id=nnc2.ark:/13960/t8nc6np4q;view=1up;seq=7, accessed June 30, 2019.

[43] See the Ten-Year Book of Cornell University, 1868-1908 (Ithaca Cornell University, 1908), available at https://archive.org/stream/ten-yearbookofco04cornuoft/ten-yearbookofco04cornuoft_djvu.txt, accessed June 30, 2019. The ten-year entry for Breckenridge gives a Hamilton Ontario address and lists his occupation as "can maker."

[44] Roeliff M. Breckenridge, "The Report of the Monetary Commission to the Executive Committee of the Indianapolis Monetary Convention: A Review," *Journal of the Canadian Bankers' Association* 5, No. 3 (1898): 291-319.

[45] James Lawrence Laughlin, *Report of the Monetary Commission of the Indianapolis Convention of Boards of Trade, Chambers of Commerce, Commercial Clubs, and Other Similar Bodies of the United States* (Chicago: 1898). This citation is taken from F.M. Taylor, "The Final Report of the Indianapolis Monetary Commission" *Journal of Political Economy* 6, No. 3 (1898): 293-294.

[46] Roeliff M. Breckenridge, *The History of Banking in Canada* (Washington: Government Printing Office, 1910). The other Canadian banking study published by the Commission was Joseph F. Johnson, *The Canadian Banking System* (Washington: Government Printing Office, 1910).

[47] See the excerpt from the *Plymouth Advertiser* (Plymouth, Richland Co., Ohio, U.S.A.): 09 May 1914, Vol. 61, No. 25, available at https://www.ancestry.co.uk/boards/thread.aspx?mv=flat&m=349&p=localities.northam.canada.ontario.wentworth. Breckenridge's death was noted in the 1914 report of the Secretary of the American

B. The reform age of US banking and currency

The aftermath of the American Civil War had witnessed accelerating industrialization, railroad construction on an unprecedented scale, continued westward migration, and the emergence of Wall Street as a global capital market on track to overtake London. On the other hand, this long stretch of economic growth and social economic transformation was marked by recurring recessions and financial panics for which the fragmented financial system was one of the key causes.

The 1893 Panic that occurred in the middle of Breckenridge's graduate studies would have vindicated any doubt he may have had about the value of his research on the Canadian banking system. It was a repeat of an old problem but with a new dimension, i.e. the culmination of renewed populist zeal for a return to "bimetallism" in place of the post-1875 gold standard defended mainly by the American business, banking and political elites. The 1893 Panic contributed to an economic depression that lasted until 1897, and greatly influenced the 1896 election, which was a historical battle between American agrarian populism represented by the Democrat candidate William Bryan Jennings and William McKinley, the Republican candidate of the "big business" establishment.

The concerns posed by the US financial system to reformers in the 1890s were not only the battle between the Sound Money (gold) and Free Silver

Economic Association: "Report of the Secretary for the Year Ending December 17, 1914," *American Economic Review* 5, No. 1 (1915): 305-307.

(bimetallic) standards,[48] and the lack of a reliable mechanism to provide elasticity of credit supply. Another serious challenge was the fragmented "unit banking" system, under which state-chartered banks were often prohibited from establishing branches either entirely or beyond a specified locality within the state, and nationally chartered banks were prohibited from interstate branching.

The antagonism between the two old parties accelerated in the lead-up to the 1896 election. Both sides sharpened their attacks on each other and pumped an unprecedented amount of money into their campaigns, especially the Republicans due to the financial support received from big business.[49] According to some scholars, the 1896 presidential election was a referendum on the gold standard, and, more importantly, a realignment of the political economic forces behind the two

[48] Bimetallism, or Free Silver, had long been a blend of monetary reform and populist movement in the American west (wheat belt) and south (cotton belt), which united the interests of debtor farmers and the silver mining industry in opposition to the majority Sound Money believers. From the 1873 *Fourth Coinage Act*, which demonetized silver, to the 1890 *Sherman Silver Purchase Act*, which conditionally reabsorbed silver as a supplement to gold to the monetary function, American history witnessed a long struggle between Sound Money and Free Silver in national politics. While developments at the beginning of 1890 were seen as big progress for Free Silver advocates, the resulting problems, at the core of which was the weak position of silver and the impact of the Gresham Law, contributed to the 1893 Panic, and led to the revocation of the 1890 Sherman Silver Purchase Act in 1896.

[49] Mark Hanna, a successful businessman and longtime friend of John D. Rockefeller, after gaining political experience working on Senator John Sherman's presidential bid in 1880s, became the right-hand man of William McKinley in his Republican primary and 1896 presidential election campaigns. He was called the "Kingmaker" mainly because of his spectacular fundraising success with big business. There was no legal requirement at the time for presidential candidates to disclose campaign fundraising numbers precisely and estimates of the amount raised by Hanna for McKinley ranged from the officially reported figure of $3.5 million to much higher figures - as high as $16.5 million - claimed by his detractors: see William Horner, *Ohio's Kingmaker: Mark Hanna, Man and Myth* (Ohio University Press, 2010), 197. Rockefeller's Standard Oil early on donated $250,000 but reports that J. P. Morgan handed McKinley a check for $5 million were likely wildly exaggerated according to *Ohio's Kingmaker*. Soon after McKinley's win, he appointed John Sherman Secretary of State in order to free up Sherman's Senate seat for Hanna. For a detailed account of Hanna's Senate career from1897to 1904, see *Ohio's Kingmaker,* 213-234. Hanna was once again appointed Chairman of the Republican National Committee in 1900 which made him the head of McKinley's reelection campaign: for details, see *Ohio's Kingmaker,* 257-292.

parties.[50] On the Democratic side, J.P Morgan and other major Wall Street financiers opposed the perceived capture of the Party by the populist William B. Jennings who rooted his platform in Free Silver, whereas the Party establishment still held to the Old Democratic belief in Sound Money based on the gold standard. On the Republican side, John D. Rockefeller and other business clans gradually abandoned their loyalty to Greenback inflationism to embrace the gold standard and to call for systemic banking reform. J. P. Morgan's and Rockefeller's alliance played a critical role in securing McKinley's win over William Bryan Jennings in the 1896 presidential election.

Despite McKinley's win in 1896, the Democrats still controlled the Senate. Consequently, Congress was still unable to appoint a nonpartisan commission to study the desperately needed banking and currency reforms hoped for by Wall Street and big business. Big business and financial interests, for the first time in US history, allied to call for banking and currency reform through the vehicle of the Monetary Convention in Indianapolis in January 1897. The display of unity and power of the business and banking worlds prompted historian James Livingston to describe the Convention as marking the emergence of a Ruling Class in America.[51] McKinley was not able to deliver on his promise until 1900 when the two chambers of Congress came under the control of the Republicans, and Congress passed the *Gold Standard Act*.

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[50] James Livingston, *Origins of the Federal Reserve System: Money, Class, and Corporate Capitalism, 1890–1913* (Ithaca, N.Y.: Cornell University Press, 1986).
[51] Ibid,16, 125, 215-34.

When Breckenridge's scholarship is placed in its historical context, it is clear that his interest in Canadian banking was not an isolated idiosyncratic endeavor. The intercourse between the US and Canada through trade, flow of money and knowledge, except for very short periods of war or hostility in the 19th century, can hardly be overstated. The turn of the 20th century was no exception. On the one hand, American banking ideology in the form of Alexander Hamilton's belief in central control of the monetary system had influenced pre-Confederation Canadian banking from the establishment of the first chartered banks in the early 19th century to the free banking trials in the 1850s. On the other hand, in the closing decades of the 19th century, the strengths of Canadian banking attracted the interest of American scholars and the American banking community in their struggle for banking and currency reform.

Canadian chartered banking, at the turn of the 20th century, was experiencing its own integrative transformation as will be reviewed in more detail later in the thesis. Suffice to observe here that in the early 1890s, a few significant changes were unfolding. In 1891 the Canadian Bankers' Association was founded. It was designed to be both the organ of self-regulation and the lobby for the banking industry. George Hague,[52] general manager of the Merchant Bank of Canada in Montreal

[52] Hague was somewhat overshadowed by Walker. No detailed biography of him was found in this research. However, by piecing together information about him from various sources, for example, from the website of the Canadian Bankers' Association, it is obvious that in addition to his success in the banking business, the peak of which was his tenure as the general manager of the Merchant Bank of Canada, a major bank in Montreal at the turn of the century which was later acquired by the Bank of Montreal in 1922, when the bank was in a liquidity crisis. He was also instrumental to the founding of the Canadian Bankers' Association. Hague was among the few like Walker who were committed to writing about Canadian banking practice. See, notably, George Hague, *Banking and Commerce: a practical treatise for bankers and men of business, together with the author's experiences of banking life*

became the first president, and Bryon Edmond Walker, the legendary general manager of the Canadian Bank of Commerce, was the first vice president, taking over as president in 1893.

Hague and Walker were the two major spokespersons for the Canadian banking industry at the turn of the century, and both enjoyed high regard among their US peers as a result of their participation in organizations like the American Bankers Association and boards of trade and chambers of commerce in various American business centers, especially in the Northeast and Midwest. Walker had in depth knowledge of the US banking system due to substantial personal exposure. After starting as a discount clerk at the Hamilton Branch of the Canadian Bank of Commerce and gaining solid experience at various other Canadian posts, Walker was sent to New York initially as a junior agent in 1873, and then from 1881 to 1886, as a senior manager in charge of the bank's foreign exchange business in New York. In 1886, he returned to the headquarters of the Bank of Commerce to take the helm as general manager. Under the leadership of Walker, i.e. from 1886 to 1915, the Bank was transformed into a modern corporation, its total assets and number of branches increased tenfold, and "[f]or 35 years financiers and economists in Canada and the United States would benefit from his annual review of the nation's financial and industrial 'pulse'."[53] In his prime from the 1890s to the 1920s, Walker was a dominant figure in Canadian banking and business at large. He was constantly

in England and Canada during 50 years (New York: The Bankers Publishing Co., 1908). This is a book of more than four hundred pages drawing on Hague's fifty years of banking and commerce experience.

[53] Biography of B. E. Walker by David Kimmel in *Dictionary of Canadian Biography* is available at http://www.biographi.ca/en/bio/walker_byron_edmund_15E.html, accessed June 30, 2019.

invited to speak in major centers of business and finance like London, New York and Chicago.[54] The strengths of Canadian banking and the alleged contribution of banking to the public good were the most constant themes of his speeches and writings.

Substantial elements of the Canadian banking experience advocated by Hague and Walker had already gained approval in some sectors of the US banking community before Breckenridge completed his thesis. For example, in 1894 the American Bankers Association adopted a resolution to promote the Canadian practice of issuing notes secured by the general assets of the bank rather than government securities.[55] In his review of the *Report of the Monetary Commission to the Executive Committee* of *the Indianapolis Monetary Convention 1898*,[56] Breckenridge pointed out the probable influence of Hague, Walker and other Canadians on this decision:

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[54] The first article published in the newly created *Journal of the Canadian Bankers' Association* was a paper by B. E. Walker that he had presented to the Congress of Bankers and Financiers at Chicago on June 23, 1893 as a Canadian delegate to the organization. See B. E. Walker, "Banking in Canada," *Journal of the Canadian Bankers' Association* 1, No. 1 (1893): 1-25. On June 13, 1912, Sir Walker, who had been knighted in 1910, delivered another speech to the New York Bankers Association at Buffalo, NY, entitled "*Banking as a Public Service,*" available at https://archive.org/details/bankingaspublics00walkuoft, accessed June 30, 2019. In this article there is, at page 11, a reference to Sir Walker's speech entitled "Banking in Canada" to the Institute of Bankers in London, England, in 1911. Walker contributed the chapter on Canada to vol. 3 of Editor of the Journal of Commerce and Commercial Bulletin, *A History of Banking in all the Leading Nations,* 4 vols. 1896, available at https://oll.libertyfund.org/titles/bulletin-a-history-of-banking-in-all-the-leading-nations-4-vols, accessed April 30, 2019. For further publications by Walker available online, accessed June 30, 2019.

[55] George Selgin, *New York's Bank: The National Monetary Commission and the Founding of the Fed* Cato Institute Policy Analysis No. 793 (June 21, 2016), available at https://www.cato.org/publications/policy-analysis/new-yorks-bank-national-monetary-commission-founding-fed, accessed June 30, 2019.

[56] R. M. Breckenridge, "The Report of the Monetary Commission to the Executive Committee of the Indianapolis Monetary Convention: A Review," *Journal of the Canadian Bankers' Association* 5, No. 3 (1898): 291-319.

> An example of the endeavor directed against particular defects can be found in the action taken by the American Bankers' Association in 1894, when they approved the Baltimore plan of note issue against general assets. It is probable that this vote and the subsequent agitation were due in part to the work of Walker, Hague and other Canadians, who, in print or on the platform, had criticized the faults of a specially secured issue and given their criticism point by discussing conditions at home.[57]

In his preface to *The Canadian Banking System*, *1817-1890*, Breckenridge acknowledged the help he had received from some of Canada's leading bankers and senior government officials. Among others, Breckenridge mentions Walker, James Stevenson (then general manager of the Quebec Bank and honorary chairman of the Canadian Bankers' Association in 1893), George Foster (then Minister of Finance and Receiver General), and J. M. Courtney (then Deputy Minister of Finance). That Breckenridge was able to obtain access to Canadian banking leaders and senior public servants would seem to reflect the perceived importance of his research to the Canadian banking community. The influence of Breckenridge's family in the business community in Hamilton, and the supervision of his dissertation by Laughlin whose reputation as a leading political economist in the currency and banking reform debates in the US was in ascendance, may also have helped to open doors for Breckenridge.

Though Breckenridge was strongly supportive of the branch banking system exemplified in Canada,[58] it was not politically practicable in the United States in the

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[57] Ibid.

[58] As discussed in more detail later in the thesis, Adam Shortt, based on his forensic investigation of the charters of the Bank of Montreal and the other early Canadian banks, noted that their charters had a common source in the articles of association of the First Bank of United States, and further observed that the Canadian branch banking practice was also derived from the practice of the First Bank: Shortt, Canadian Currency and Banking, 53. As will be seen later, this thesis argues that while

1890s without first demolishing the entrenched state banking system, the source of the fragmentation,[59] which has remained entrenched in the American national psyche ever since. However, reformers of the same mind as Breckenridge still tried to wiggle out a small space for branch banking within the existing system. Breckenridge observed in his review of the report of the Monetary Commission that "[a]s the third group in the series of bank reforms it is proposed that the organization of national banks with a minimum capital of $25,000 be permitted in places of four thousand population or less, and that provision be made whereby branch banks may be established with the consent of the comptroller of the currency and approval of the secretary of treasury."[60]

The Monetary Convention in Indianapolis, though significant for many reasons, did not lead to overnight change in US banking or currency. But it contributed over time to systematic reform, a direction clearly favoured by Breckenridge in his observation of banking systems. The 1900 *Gold Standard Act* permanently demonetized silver in America, which was one of the goals of the Indianapolis Convention. A nonpartisan Monetary Commission, which had been called for by the Indianapolis Convention and envisaged since the 1893 Panic, was

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Canadian branch banking was a copy of practices elsewhere, the historical evidence is more supportive of Breckenridge's claim that branch banking in Canada originated from Scottish banking.

[59] After the expiration of the charter of the Second Bank of the United State in 1836, the power of the states to regulate their own banks was not seriously challenged until the 1863 *National Bank Act*. Despite the re-emergence of banks incorporated under federal law since the Civil War, the fragmented state-regulated unit-banking system continued into the second half of the 20th century. According to Calomiris and Haber, "the coalition of small bankers and agrarian populists . . . dominate[ed] the politics of bank chartering and bank regulation" up to the 1980s: Charles W. Calomiris and Stephen Haber, *Fragile by Design: The Political Origins of Banking Crisis and Scarce Credit* (Princeton University Press, 2014),168.

[60] Breckenridge, *A Review*, 307.

established by the US Congress a decade later when the country was hit even harder by the 1907 Financial Crisis. The National Monetary Commission was established in 1908 by the *Aldrich-Vreeland Act* passed by a Congress controlled by the Republicans and signed into law by Republican president Theodore Roosevelt, a president known for his "square deal" agenda.

The Commission's work included delegation visits to multiple foreign countries led by Senator Aldrich, the chairman of the Commission, and the 30 reports it issued between 1909 and 1912 included detailed studies of the banking and currency systems of England, France, Germany, Italy, Switzerland, Belgium, Sweden, Canada, Mexico, Russia, Austro-Hungary, the Netherlands, and Japan, in addition to that of the United States.[61] The final report contained proposed recommendations and draft legislation to establish "a national reserve association" in the United States.[62]

The Commission's legislative proposal was not made public until January 1911, by which point it was doomed to fail since the Democrats had regained control of the House in the midterm elections.[63] As a result, Senator Aldrich embarked on a strategy of consultation with leading bankers and economists and

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[61] The reports were published by the U.S. Government Printing Office and are available online, under the title *Publications of the National Monetary Commission Series*, available at https://fraser.stlouisfed.org/series/1493#4959, accessed June 30, 2019. For a contemporary comprehensive review of the publications, see Wesley C. Mitchell, "The Publications of the National Monetary Commission," *Quarterly Journal of Economics* 25, No. 3 (1911): 563-593.
[62] National Monetary Commission, *Report of the National Monetary Commission* (Washington: Government Printing Office, 1912), available at https://fraser.stlouisfed.org/title/4958, accessed June 30, 2019.
[63] Selgin, 14.

submitted an amended version to the Senate a year later in January 1912.[64] But a Democrat President, Woodrow Wilson, was inaugurated in January 1913 and the Democrats also regained a majority in the Senate in addition to their control of the House. Although this spelled the defeat of the Aldrich proposal *per se*, many of its features ended up in the Democrats' own reform initiative, the banking reform bill sponsored by Democrat Congressman Carter Glass and Senator Robert L. Owen, which was passed and signed into law as the *Federal Reserve Act* of 1913. As William Dewald observed, that Act was "fundamentally the same" as the bill that had been proposed by Aldrich.[65] Paul Warburg, a leading Wall Street banker associated with the famous investment banking house Kuhn, Loeb and Co., who contributed to the Aldrich proposal,[66] and is credited as the architect of the "fundamental features" of the Federal Reserve System,[67] is said by Dewald to have conducted a point-by-point comparison of the Aldrich bill against the 1913 Federal Reserve Act and to have confirmed their similarity.[68]

The partisan distortions of the US two party system were exposed in this banking reform story:

> It was natural that the Democrats should try to differentiate their product from that of the Republicans; they accomplished this objective so well that the Federal Reserve Act was passed without official Republican support. The American Bankers Association in an uncharacteristic show of pique withheld

[64] Ibid,14-15.
[65] William G. Dewald, "The National Monetary Commission: A Look Back," *Journal of Money, Credit and Banking* 4, No. 4 (1972), 931. Selgin, at 22, describes Dewald's observation as "only" a "slight exaggeration."
[66] Selgin, 19-20.
[67] Dewald, 932, citing E. R. A Seligman, Introduction to Paul M. Warburg, *Essays on Banking Reform in the United States* (New York: Academy of Political Science, Columbia University, 1914).
[68] Ibid. Dewald's source for this seems to be Paul M. Warburg, *The Federal Reserve System: Its Origin and Growth* (New York: Macmillan, 1930), 178– 406, cited by Selgin, 22.

> support for the Glass-Owen Bill, even though it had supported banking reform legislation along the lines of the Aldrich plan for years. In supporting passage of the Federal Reserve Act, the Democrats reversed their long-standing opposition to a centralized Federal banking authority…[69]

It is worth noting that in this highly politicized environment, Laughlin, Breckenridge's mentor, successfully managed to navigate a nonpartisan path. Among the several economists who "were extremely influential in the background" to the work of the National Monetary Commission, Dewald singled out "J. Lawrence [sic] Laughlin from Chicago, who had drafted the report of the Indianapolis Monetary Commission in 1897 from which the Gold Standard Act of 1900 resulted... and which had also recommended issue of bank notes against bank credit. . . and establishment of a central monetary authority empowered to hold bank reserves and lend them during crises."[70] In Selgin's assessment, Laughlin was the "most important of the Indianapolis Monetary Commission's 11 members, and the uncredited author of its report."[71] Laughlin continued to hold the public trust in the years after the Indianapolis Convention, serving as chair of the National Citizens League for Promotion of a Sound Banking System founded in 1911[72] "to mobilize public opinion in support of banking reform legislation so that the swing to the Democrats in 1911 might not prevent passage of a bank bill along the lines recommended by the [National Monetary] [C]omission."[73]

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[69] Ibid, 931-932.
[70] Ibid, 932.
[71] Selgin, 8.
[72] Ibid, 21. Laughlin resigned his leadership of the League in 1913 and the extent to which he contributed to the drafting of the *Federal Reserve Act* of 1913 remains a matter of debate: ibid, 36, footnote 134.
[73] Dewald, 932.

In 1910, H. Parker Willis, Laughlin's former doctoral student and long-time aide, became a trusted advisor to Democratic Representative Carter Glass to assist him in drafting a Democratic banking reform proposal despite Parker Willis being "a protégé of the man [Laughlin]who had been among the chief advocates of that plan's Republican rival."[74] Parker Willis eventually became the chief drafter of the Federal Reserve Act of 1913 sponsored by Congressman Carter Glass, then Chairman of the House Committee on Banking and Currency, and was later appointed the first Secretory of the Board of Governors of the Federal Reserve.[75]

The research for this thesis did not uncover much information about why Breckenridge, after obtaining his Columbia doctorate, did not pursue an academic career. As noted earlier, his family had emigrated to Hamilton, Ontario before he had even finished high school in Ohio, and all the record shows is that he joined his family there after graduation from Cornell where he seems to have been more occupied by the family business.

However, as also noted earlier, after publication of his review of the Report of the Indianapolis Monetary Convention in 1898, Breckenridge's principal contribution to banking reform in the new century was the publication in 1910 of an abridged version of his original 1895 text with an update covering legislative

[74] Selgin, 22. According to Selgin, Representative Glass, the future Chairman of the House Committee on Banking and Currency, hired Parker Willis on the recommendation of his two sons who had studied under Willis when the latter was a professor of commerce and finance at Washington and Lee University but it is unknown whether this was "despite Willis's close connection to Laughlin, or because he was unaware of that connection."

[75] For more information about Parker Willis's role in the founding of the Federal Reserve System, see David Hammes, "Locating Federal Reserve Districts and Headquarters Cities," available at https://web.archive.org/web/20071219073811/http://www.minneapolisfed.org/pubs/region/01-09/hammes.cfm, accessed June 30, 2019.

developments after 1890 prepared for inclusion in the National Monetary Commission's published reports.[76] In this small way Breckenridge played an ongoing role in a continental debate over the nature of financial systems.

C. The American influence on Breckenridge's history of Canadian banking

American history and political economy scholars tend to see finance as a key political economic pillar and banking regulation as a political battlefield. This is a natural consequence of the political struggles that have characterized this area since the very beginning of the American Republic. The fight between the Founding Fathers — Jefferson and Madison vs. Alexander Hamilton — over the First Bank of the United States had implications much greater than the fate of a single albeit influential bank. It was about two different visions for the nation, an agrarian atomic society versus a society ruled by elites and representing a blend of the interests of agriculture, commerce and industry.[77] This debate perhaps reflects a cardinal difference between Canada and the US: Americans construe their banking system in ideological terms, whereas Canadians traditionally have seen banking in pragmatic terms – something to be adjusted as events dictate.

The battle over the fate of the First and the Second Banks of the United States unfolded in in the early decades of the Republic, culminating in the Bank War of 1832-36 between President Andrew Jackson and Nicolas Biddle, President of the

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[77] On the debate about the First Bank of the United States between the Jeffersonian Republicans and the Hamiltonian Federalists, and the "Bank War" between Andrew Jackson and Nicolas Biddle, see Hammond, *Banks and Politics*, chapter V, 114-43, and chapters XII-XIV, 369-450.

Second Bank of the United States, and the Whigs in the Congress who supported him. The post-Bank-War American banking system first featured an essentially free banking system anchored in state level regulation achieved by Jackson's victory in the Bank War. After 1864 a dual system of national banking operating in parallel to the state banking system emerged based on the 1863 and 1864 *National Bank Acts*. The American banking system in the 19th century up to the Great Depression was structurally weak and crisis-prone, chiefly because of the unit-based state banks. This fragility was not relieved by the expansion of investment banking and capital markets on Wall Street in the post-bellum decades. On the contrary, the convergence of commercial banking, investment banking and insurance capital in real investments and speculation significantly exacerbated the destructive power of a financial crisis. As noted earlier, by the late 19th century, US scholars, banking practitioners and policy makers were urgently searching for a cure. Because of the constitutional constraints mentioned earlier, and the antagonism between the two major parties in this period, also mentioned earlier, reform was described as akin to dancing with an iron shackle.[78]

The relative stability of the Canadian banking system as well as its capacity to serve the country's expansion became more attractive than ever for pioneering American currency and banking scholars like Laughlin and Breckenridge. As one reviewer of Breckenridge's book observed, "[i]n the course of the recent discussions

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[78] H. P. M. Eckhardt, a Canadian banker turned scholar residing in the US at the beginning of the 20th century, quoted the following statement of Senator Aldrich in referring to the impossibility of rationalizing the US banking system: "Whatever may be the advantages of a system of branch banking in other countries, I do not think it is possible to adapt it to existing conditions in the United States." See H. P. M. Eckhardt, *A Rational Banking System*: *A Comprehensive Study of the Advantages of the Branch Bank System* (New York and London: Harper & Brothers, 1911), 3.

touching on the reorganization of the national banking system of the United States, frequent reference has been made to the Canadian banking system as one that presented a remarkable record of success under general conditions similar to those that prevail in this country."[79] In the Preface to his book, Breckenridge referred to the urgent need for American domestic reform as one of the reasons why he had chosen to explore the history of Canadian banking: "[o]bservers from all quarters have noticed the growing necessity for reform in the currency and banking system in this country."[80] In the *Introduction* to his book, Breckenridge also set out quotations from contemporary American sources expressing strong admiration for the Canadian banking system, including the following:

> "[W]e know of no system that more closely conforms to the best and broadest economic ideals of banking; none better calculated to afford the largest possible public accommodation; none better adapted to insure a safe utilization of the surplus balances of the people; and none better qualified to supply the daily fluctuating wants of trade with a safe and convenient circulating medium."[81]

The traditional American political economy approach to banking regulation, the sophistication of the US financial system attributable to both its size and depth, and the complexity resulting from the fragmented federal and state regulatory system, gave US banking scholars like Breckenridge an edge in dealing with the Canadian banking system, which though of considerable size, was still a manageable target of

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[79] Miller, 243.
[80] Breckenridge, *Canadian Banking System*, 5.
[81] Ibid, 17, referring to the N. Y. Daily Commercial Bulletin, 18th January 1890.

study because of the uniformity achieved by the allocation of legislative power over "banks and banking" to the federal level under the Canadian Constitution.[82]

Breckenridge's approach to Canadian banking reflects the American Populism in ascendance in the 1890s when the Progressive Movement[83] was picking up momentum. As an American political economist in Laughlin's school, Breckenridge would have been sensitive to the interplay between banking regulation and politics. As a historian, he would have been curious about the impact of Canadian political forces (the composition of which were quite different to the US after its Independence) on federal legislative policy decisions concerning such matters as the chartering of new banks, renewing existing charters, and balancing the potentially competing interests of different stakeholders (i.e. shareholders, note-holders and depositors). Breckenridge thus found himself as a scholar situated at a lively ideological and nationalistic crossroads when he took up his study of banking across the border in the 1890s.

[82] *The Constitution Act, 1867*, 30 & 31 Vict, c 3, expressly allocates legislative power over "Currency and Coinage," "Banking, Incorporation of Banks, and the Issue of Paper Money," and "Savings Banks" to "the Parliament of Canada."

[83] The Progressive Era is conventionally designated to the period from 1890 to 1920: see, for example, John D. Buenker, John C. Burnham & Robert M. Crunden, *Progressivism* (Rochester, VT: Schenkman, 1986), 3–21. However, some scholars see an unbroken connection between the Progressive Era and the spirit of Progressivism from the beginning of the Union: see Ransom E. Noble Jr., "Henry George and Progressive Movement," *American Journal of Economic Sociology* 8, No. 3(1949): 259 ("Progressive was but one of those recurrent upsurges of protest which, from the time of Jeffersonian Democracy through Jacksonian Democracy and Bryanism, kept alive a hope that the American dream of liberty and plenty could yet be attained."). Noble's premise is that Henry George's *Progress and Poverty* published in 1879, during the Gilded Age, was a critical and monumental link between the old and new Progressive eras.

D. Review of Breckenridge's Canadian banking history scholarship

Breckenridge's pioneering role in the scholarship on the history of Canadian banking is undisputed. His account of the establishment of the Bank of Montreal in 1817,[84] for instance, is invariably referred to by successive generations of writers whenever they touch on the origin of chartered banking in Canada. While he is recognized as having written the first systematic history of Canadian banking, there were few reviews of his text when it was published, the most serious being Adam Shortt's to be discussed shortly.

Breckenridge's doctoral thesis was an ambitious project, particularly since, as noted earlier, it was written in a tight time frame of two years (assuming Breckenridge had not started work on it during his time at Cornell). As indicated by the title, Breckenridge's thesis covered the history of chartered banking in Canada from when the Bank of Montreal (then the Montreal Bank) opened for business in 1817 to 1890. Divided into ten chapters, the thesis is more than four hundred fifty pages in length, excluding multiple appendixes. It covers pre-Confederation banking developments in Lower Canada and Upper Canada, in the original Province of Canada, and in the Maritimes, as well as post-Confederation banking reforms, including the 1890 revision of the *Bank Act*. It concludes with a chapter that draws out the characteristics of Canadian banking and its significant regulatory developments.

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[84] Breckenridge, *Canadian Banking System*, 25.

The precise origin of chartered banking in Canada could be puzzling even for historians. Based on James Stevenson's earlier study in the 1870s[85] and his own research, Breckenridge documented the three attempts over a period of two and half decades by some of the leading merchants in Quebec engaged in trans-Atlantic trading to establish a banking business.

The first attempt by three merchant groups based in Montreal in 1792 failed for unknown reasons.[86] A second try in 1808 by a group of merchants based in Quebec City and Montreal led by John Richardson, who had been one of the sponsors of the 1792 attempt, failed to secure a provincial charter. In 1817, after significant delay and worry about the fate of their charter application, Richardson and his co-founders decided to open the Montreal Bank (which very shortly thereafter adopted Bank of Montreal as its official name) without waiting for a charter, even though this meant that the bank had to take the legal form of a partnership instead of the ideal of a limited liability corporation.

The Bank of Montreal ultimately secured royal assent to its charter from the British authorities, but it was not the first bank to do so — the Bank of New Brunswick obtained its charter in 1820, two years ahead of the Bank of Montreal.[87] However, it was the first to open for business and it later successfully secured a provincial charter and was then converted into a joint stock corporation.

[85] According to Breckenridge, Stevenson authored the earliest reference to the 1792 attempt to establish a banking concern in Montreal in a lecture to the Literary and Historical Society of Quebec published in: James Stevenson, "The currency of Canada after the capitulation," *Transactions of the Literary and Historical Society of Quebec* (1876–1877): 105-134.
[86] Ibid, Stevenson, 122.
[87] In addition to the Bank of New Brunswick and the Bank of Montreal, Quebec Bank and the Bank of Canada, whose charters were secured in 1822, are also among the "first banks" identified by Breckenridge. See Breckenridge, *Canadian Banking System*, 26-27.

Recognition of the Bank of Montreal as the first chartered bank in Canada and the sequence of events leading to this as sorted out by Breckenridge are widely accepted by banking historians, including being incorporated in the official history of the Bank of Montreal commissioned by the Bank in 1967 to commemorate its 150-year anniversary.[88]

Breckenridge's path-breaking effort was extraordinary given that native Canadian professional history writing was in its infancy in the 1890s, and there was hardly any existing work that qualified as Canadian banking history. The small Canadian historical community in the late 19th century was instead preoccupied with political history – the crucial task of explaining a bicultural nation trying to find national cohesion. Economic history was largely on the margin.

Breckenridge aimed higher than simply recounting the legislative developments that occurred during the greater part of the industry's first century. Subject to the constraints of available information (for example, there was still no national archive) and the very tight timeframe for his doctoral study, he ventured to shed light on the broader context, and to tell some of the dramatic background stories to major developments, especially those concerning early Upper Canadian banking history.

[88] For a more elaborate account of the three attempts to establish the first chartered bank in Canada, i.e., the Bank of Montreal, see Merrill Denison, *Canada's First Bank: A History of the Bank of Montreal* (McClelland & Stewart: 1966),16-73. Merrill Denison credits Adam Shortt for writing the early history of the Bank of Montreal without mentioning Breckenridge's foundational work.

Adam Shortt's review of Breckenridge's book[89] was his first published contribution to Canadian banking scholarship. Although he acknowledged Breckenridge's pioneering contribution — "Dr. Breckenridge's book…is the first attempt to give an adequate and systematic account of the legislative development of Canadian banking"[90] — he then devoted most of his review to a ferocious attack on Breckenridge's limitations and mistakes.

On Breckenridge's understanding of Canadian historical context, Shortt wrote: "Dr. Breckenridge lays no claim to a special acquaintance with the economic environment of the Canadian Banks, and although he does attempt here and there to give a brief outline of the commercial atmosphere in which the banks operated, yet these are commonly the least satisfactory portions of his book."[91]

Shortt's detailed critique of Breckenridge's account of the "pretended" Bank of Upper Canada in Kingston occupies more than half of his review. Kingston was the most important business center in Upper Canada in the early nineteenth century.[92] In anticipation that Royal assent to the charter granted to the so-called Bank of Upper Canada by the local legislature might not be forthcoming in a timely fashion, Kingston's merchants opened the Bank for business as a private

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[89] Adam Shortt, "The Canadian Banking System, 1817-1890, Some Critical Observations," *Journal of the Canadian Bankers' Association* 3, No. 1 (1895-96): 100-106. As an important contribution of the Canadian Bankers' Association to public knowledge, Shortt's review of Breckenridge's thesis, together with another 47 articles on Canadian currency and banking history published in the afore-mentioned journal in the period from 1896 to 1925, were eventually compiled in *Adam Shortt's History of Canadian Currency and Banking, 1600-1880* (Canadian Bankers' Association, 1986).
[90] Ibid, 100.
[91] Ibid.
[92] L. David Bergeron, "Early Banking in Kingston and the Story of the 'Pretended' Bank of Upper Canada (1810-1822)" (Bank of Canada Museum, 2006),18, available at https://www.bankofcanadamuseum.ca/wp-content/uploads/2014/08/Pretended-Bank-of-Upper-Canada.pdf, accessed June 30, 2019.

corporation in 1818, emulating what the sponsors of the Bank of Montreal had done in 1817. The bank's unchartered status and internal conflicts forced it to suspend operations in late 1821. Breckenridge attributed the Bank's failure to its illegal formation and the dishonesty of its management, basing his account on a pamphlet produced in 1840 when the Bank remained in prolonged liquidation owing to government intervention. Shortt correctly pointed out that Breckenridge's attack on the legality of the Bank's formation conflicted with Breckenridge's account of the equally shaky history of the Bank of Montreal and other early banks in Lower Canada, all of which had initially opened for business as private partnerships or corporations in anticipation of their royal charter later taking effect, enabling them to be converted to imperially sanctioned "banks."[93] Shortt also challenged Breckenridge's sweeping accusations that the management of the bank had "neither honor or honesty" as largely lacking convincing evidence: "[e]xcept as regards Bartlet, Whiney and Dalton, there is no authentic ground for such an assertion; and even in the case of the two latter… such language is too strong…the majority of the directorate of the bank were men who enjoyed, both then and afterwards the confidence and respect of their fellow citizens."[94]

For Shortt, these specific inaccuracies meant that Breckenridge's work lacked overall credibility. In the conclusion to his review, he stated: "[t]hese defects necessarily render the book, especially in its historic portions, of rather uncertain

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[93] Shortt, *Critical Observations*, 102-103.
[94] Ibid, 104.

value as a work of reference."[95] Shortt can be accused of a certain parochialism in his criticisms. He seemed to fail to recognize the ground-breaking wider context of Breckenridge's work. His harsh review could have driven away some readers, who might otherwise have profitably utilized aspects of Breckenridge's work, but who accepted Shortt's negative verdict of its overall value.

In addition to his efforts to set the evolution of Canadian banking in its political economy context, Breckenridge's work reflects significant empirical study, which was transforming political economy and economic history research at the turn of the century. He was aided in this by the requirement imposed on Canadian chartered banks to make mandatory filings published in the official government Gazette.[96] Utilizing this data, Breckenridge reproduced or compiled more than three dozen balance sheets, tables and charts to demonstrate the state of individual banks as well as the state and trend of the banking community in a province both before and after the formation of the Dominion. This information would be of great assistance for more informed readers, especially banking scholars and industry veterans, to gain a more concrete grasp of many aspects of the Canadian banking system, and to make a more meaningful comparison with its counterpart in the US and beyond. Breckenridge was not necessarily the first to adopt an empirical approach to the study of Canadian banking or the wider Canadian economy. However, his conscious comprehensive use of this technique in the first systematic

[95] Ibid, 106.

[96] In his summary of the characteristics of Canadian banking in its first decades, Breckenridge noted that the chartered banks were held accountable to the government by being required to file monthly return to the Minister of Finance. See Breckenridge, *Canadian Banking System*, 35.

study of the Canadian banking system created an obvious landmark in this cross-section of banking regulation and history.

Another example of Breckenridge's solid foundational work, on which Adam Shortt advanced the research and presented a more complete picture, is his account of the disastrous failures of the Bank of Upper Canada and the Commercial Bank. Because the fate of these two banks, which by the time of Confederation decades later would have become the second and the third largest banks in Canada, is central to the discussion of the Canadian banking stability legacy, it is worth taking a closer look at the reasons for their collapse.

The birth of the chartered Bank of Upper Canada (in York, later Toronto) was the result of the bold maneuvering of the Family Compact, the dominant political economic force in Upper Canada at the time.[97] It opened for business in 1823.[98] The Bank's charter, largely a copy of that of the First Bank of the United States, contained a provision that allowed "the governor or lieutenant-governor, or person administering the government of the province for the time being, to subscribe and hold the capital stock of the said bank, for an on behalf of this Province."[99] Based on this provision, the government of Upper Canada became a shareholder of the Bank and maintained the government account exclusively with it.

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[97] According to Adam Shortt, of the first fifteen directors of the bank, "nine were either members of the Executive or Legislative Council, or held important offices under the government, while most of the other six are found in similar positions a few years later." Shortt, *Canadian Currency and Banking*, 103.
[98] Ibid.
[99] Ibid, 94.

Breckenridge mainly relied on Lord Durham's Report to construct his description of the volatile political economic environment of the 1820s, the first decade of operation of the Bank of Upper Canada. Breckenridge wrote that:

> Politics in the Province were violent and bitter, the struggle of a Reform party against the Conservatives. At the center and head the Conservatives was the 'Family Compact,' a Junto armed with official patronage and influence, strengthened by the control of the Crown Lands, and entrenched in Church, Bar, Bench and Government.[100]

The unmatched business and political clout commanded by the Bank of Upper Canada provided it with a great advantage in the development of its banking business. It enjoyed easier access to the most promising business ventures sponsored by the more trustworthy businessmen, while the government's relations with it, from maintaining the government's account to engaging the Bank as its financial agent in London, further strengthened its preeminent position over its competitors. In its defence, the Family Compact needed a reliable fiscal agent – the colony was young, trade dependent and fragile.

The control of the Bank by the Family Compact did not go uncriticized: "It was accused of distributing its patronage according to the partisan activity, rather than the business ability of candidates for position, and of discriminating, when it granted credit, in favor of the dominant party."[101] Due to the control of the Legislative Council by the Family Compact, "[i]n 1830 and 1831, the Legislative

[100] Breckenridge, *Canadian Banking System*, referring to Lord Durham's Report at 64.
[101] Ibid, 51-52.

Council rejected a bill proposing to incorporate a competitor to the bank. And again, in 1833, it rejected two charters passed by the Assembly."[102]

In his discussion of the failure of the Bank of Upper Canada, Breckenridge provides many details of the undisciplined extravagant practices that eventually led to its failure when the business climate turned unfriendly after an extended period of growth in the 1850s. From the early days of the Bank, to support the infrastructure development and commerce of the province, it acted contrary to the Imperial prohibition against engaging in land banking, i.e. loans solely or mainly secured by land: "Land was the single valuable security possessed by its customers it was therefore necessarily more or less a land bank in a disguised form."[103] In this analysis, Breckenridge revealed a sophisticated understanding of the role of a bank in a pioneer society.

The Bank's staff, from managers to clerks, were not appreciative of the necessity for prudential banking:

> Its managers and clerks were often British immigrants who lacked the intimate knowledge of Canadians and Canadian trade…they failed to exhibit acquaintance with the simplest of banking principles. Discounts were freely extended to lawyers and legislators, the gentry and professions.[104]

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[102] Ibid, 51.

[103] Ibid, 166. Peter Baskerville confirms that the flexibility in the charter of the Bank of Upper Canada regarding taking land as security appears to have been abused by the Bank and exposed it to too much risk owing to the very illiquid character of this type of collateral: see Peter Baskerville, *The Bank of Upper Canada: A Collection of Documents* (McGill-Queens' University Press, 1987), 43-44. Further discussion of the land banking practice of the early chartered banks and their involvement in financing Canada's infrastructure and industrialization is provided in Chapter VII of this thesis.

[104] Breckenridge, *Canadian Banking System*,166.

In the decades before its demise, the Bank engaged in a series of reckless practices which would eventually erode the foundation of a seemingly well positioned bank:

> [It] paid high rates of dividend when it could ill afford… it failed to write off accrued losses… it impaired its capital by extravagant bonuses… its internal organization was defective, and its management was often blind, reckless and ignorant.[105]
>
> Dividends of 6, 7, 7, 8 and 7 percent were paid in the period 1852-1857. The Capital was increased in 1855, and a 12 ½ percent bonus paid to the old shareholders.[106]

It appears that these high rates of dividends were used as bait by management to raise more capital for the Bank. Though 1857-58 was a turning point according to Breckenridge, the Bank's paid-in capital reached a staggering $3,118,000.[107] "The dividend that year was 8%, and the rest [fund] was reduced by $40,000, to meet the loss of 1857."[108] In the years between 1858 and 1863 when the Bank lost its position as the holder of the government account to the Bank of Montreal, among various measures adopted to turn around the bank, the bank's board of directors once acknowledged a total loss of capital of $1,900,000 and the par value of a share was adjusted down from $50 to $30 in 1861.[109] Then, "[b]y an Act approved the 15th August, 1866, permission was granted further to reduce the capital to $1,000,000, in fully paid up shares of $20 each."[110]

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105 Ibid.
106 Ibid.
107 Ibid. Breckenridge further notes at page 169 that "we find the prime cause of the trouble, the collapse of 1857-1858 in the real estate of Canada West."
108 Ibid, 167.
109 Ibid, 169.
110 Ibid.

It was clear to the management and controllers of the Bank that the government's continued support would be critical to maintain the public's confidence. On the Bank's efforts to solidify or prolong their relationship with the government, Breckenridge did not go into details, but Adam Shortt filled the gap. For example, Shortt described how Alexander Galt, the Finance Minister since 1858, denied the bank's representative claim that the government had committed to maintain a minimum balance of $600,000 with the Bank in 1860. In a 1861 correspondence between Galt and the bank's management, Galt noted the Bank's weakened position in its filed return and the waning public confidence in it, and expressed frustration with the embarrassment for the Government of not being able to draw on the large balance it maintained with the Bank. Galt declared that the Bank must give a full explanation of its situation for the Government to make a judgment on its future policy in relation to the Bank. In 1863, however, Galt admitted to the Financial Commission that "with reference to the Bank of Upper Canada, the unfortunate position in which that institution stood, rendered it for nearly the first three years after my acceptance of office, dependent upon the course adopted towards it by the Government.'"[111]

Galt's resolve to steer the Government clear of the Bank pushed the Bank to change its management in 1861. However, that did little to change the Bank's fate. When the Bank's reputation was damaged in London and New York, which threatened its function as the Government's financial agent, the Government was forced to rescue it again:

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[111] Shortt, *Canadian Currency and Banking*, 588.

> The Finance Minister came to the rescue of the bank, in order, as he said, to 're-establish its credit and relieve the Government and the country from anxiety and alarm…' The assistance asked for was an increase, on the account deposited by the Government, of at least £120,000 stg., and an additional credit in London of £80,000 stg., in order to enable the bank to continue to perform the function of fiscal agent of the government. At the time of this request the balance in the bank at the credit of the Government was $1,176, 925.[112]

When the Reformers came to power in May 1862, after defeating Macdonald-Cartier's coalition government, the Bank had to plead with the new government to honor their arrangement with the previous government to maintain its credit balance at about $1,200,000. According to Shortt, these arrangements with different governments were kept as state secrets.[113] In the context of its relationship with the government, the position of the Bank of Upper Canada was the pre-Confederation Canadian version of "too big to fail."

The last rescue effort of the Government was a special loan of $100,000 at the beginning of September 1866 but this failed to stave off the hemorrhage of deposits. The Bank's final day came on 18 September 1866 when it stopped payment. [114]

Shortt's account of this historical event fortified Breckenridge's revelation of the relationship between land speculation in Upper Canada and the demise of the Bank of Upper Canada, and the gamesmanship between the growing local forces and the British Government. For example, Shortt pointed out that the Bank of Upper Canada's land banking practice became an example for the other chartered banks:

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[112] Ibid, 589.
[113] Ibid.
[114] Ibid, 601. For the exact date of the close of the Bank of Upper Canada, see Breckenridge, *Canadian Banking System*,169.

> As indicated, the Bank of Upper Canada was to a greater extent than most of the other banks connected with the extensive speculation in land…In the latest forms of their charters, the banks were permitted to hold land as collateral security for their discount. As pointed out by the officials of the British Treasury, these amended charters gave to the Canadian banks the opportunity to lend money on what was in the end nothing else than security on Land. The Canadian authorities, however, declined to take the warning…[115]

As for the negative impact of land speculation on the agricultural business of the country, Shortt noted that "the crisis of 1857-8 was very considerably aggravated from the fact that though the country had a fair crop, it could not be brought to market for lack of banking accommodation."[116]

Breckenridge's probing of this historical event continued to the liquidation stage. He justifiably drew attention to the Government's efforts, as the largest creditor of the bank, to bring the whole episode to a quiet close. It is said that the Government "had secured the 'opinion of the best legal authority' that any contribution from the shareholders under the double liability clause could not be enforced by law until the entire estate had been realized."[117] Eventually, for the political and moral considerations summarized by Breckenridge in the following excerpt, the double liability of the shareholders was not pursued:

> There is no doubt that all four factors, the contributory responsibility for the failure which the government could scarce avoid, certain political motives, never yet revealed, of the party in power, the distressed condition of many shareholders, and the opinion of the Government's legal advisor, combined to prevent the effort to enforce the double liability.[118]

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[115] Ibid, Shortt.
[116] Ibid, 590.
[117] Breckenridge, *Canadian Banking System*, 175.
[118] Ibid, 176.

The liquidation process lasted beyond 1882. Breckenridge outlined the treatment received by the different stakeholders. He took note that "the liabilities of the bank to the Canadian public (deposits and note circulation) stood in November, 1866, at $1,117,826, and were reduced by the end of 1868 to $468,583 (including certificate of deposit issued by the trustees); by 1870 to $99,161, and by 1882 to $5,000 (estimated)."[119] "The Government continued to redeem its liabilities at 75 cents on the dollar after the property was vested with the Crown."[120] He concluded that:

> . . . the Canadian Creditors of the Bank of Upper Canada lost at least $310,000 by the failure. The stockholders lost the whole of a capital which was once $3,170,000; the Government, and through it the taxpayers, lost all but $150,000 of deposits amounting to over $1,150,000. For proprietors and creditors combined the results of the failure was the disappearance of a principal which cannot be reckoned at less than five millions of dollars, a sum equal to 17 percent of the entire banking capital of the Province. Such a loss to the Canada of those days… was not merely severe; it was enormous.[121]

The ruin of the Bank of Upper Canada, as observed by Breckenridge, was a chilling warning to the general public and the industry:

> Blind popular belief in the safety of banks as banks, was corrected, and a popular criticism was created and thereafter applied to the management and accounts of the banks served the province. To managers and directors it gave a wholesome warning, not only to look to the inner organization of their banks, but also to guard against loans whatever on real estate security.[122]

This is the virtue of Breckenridge's study – out of failure a better banking system would emerge. These traumatic events were no doubt on the mind of the framers of Canada's first Bank Act in 1870-71. Breckenridge understood the value of

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119 Ibid, 174
120 Ibid.
121 Ibid.
122 Ibid, 177.

studying initial failure. His was a kind of proto-case study as used today in business schools.

Following the demise of the Bank of Upper Canada, the Commercial Bank in Kingston, the second largest bank in Upper Canada, failed in October 1867, shortly after Confederation. The bank's birth in the early 1830s was the result of the Reformers' persistent effort to break the Family Compact's monopoly on chartered banking business in the province through the vehicle of the Bank of Upper Canada. This political drama, due to its representative value in understanding the relationship between the elite and the democratic upsurge in 1830s in English Canada, will be discussed in [Part II] in the context of assessing Adam Shortt's political economy approach to banking history.

Breckenridge did not devote the same detailed attention to the reasons for the failure of the Commercial Bank as to that of the Bank of Upper Canada. He mentioned the bank's long struggle with the Great Western Railway after it had extended too much credit to it and to ventures in the US associated with it, but the legal nature of these transactions was later disputed. As with the Bank of the Upper Canada, the Government became involved in attempting to coordinate a rescue by industry, including the Bank of Montreal, the largest bank in the country. However, due to disagreements among the banks, the rescue failed.

According to Shortt's more detailed research, notwithstanding problems with the bank's operation, at the time of its failure, the bank was solvent. The failure was caused by the panic of depositors alarmed by the recent failure of the Bank of Upper Canada. The failure of the Commercial Bank became a clear example of the failure of a substantial bank caused by illiquidity of assets. The otherwise devastating consequences for at least the bank's creditors were averted when the Dominion Parliament authorized its amalgamation on December 21, 1867. Based on a three for one share swap, the Commercial Bank merged into the Merchants' Bank of Canada in May 1868, and "[a]ll its liabilities were redeemed in full," though the shareholders lost the majority of their investment.[123]

The failures of the Bank of Upper Canada and the Commercial Bank around the time of Confederation are of critical value in assessing the legacy of Canadian banking stability. Because of the size of these two banks, especially the Bank of Upper Canada, and the latter's deep entanglement with the government of Upper Canada and later the Provincial Government, as well as with the Grand Trunk Railway, these failures typified how improper government involvement could greatly complicate business-government relations and endanger the public interest. At the beginning of his own account of these two failures, which was more detailed than but did not significantly deviate from that of Breckenridge, Shortt wrote:

> Few passages in Canadian financial history are more instructive, if not altogether encouraging, than that connected with the failure, in the later sixties, of two of the three great Canadian banks of the first half of the nineteenth century. The Bank of Montreal, the Bank of Upper Canada, and the Commercial Bank had long divided between them the honors of the Canadian financial world, but the Bank of Montreal was the only one which survived the disastrous effects of overconfidence and inflation born of the speculative fevers of the fifties and sixties.[124]

As an American scholar at the forefront of currency and banking reform related research at the turn of the century, it was instinctive for Breckenridge to

[123] Ibid, 188.
[124] Shortt, *Canadian Currency and Banking*, 583.

compare the two systems wherever he thought a comparison would be helpful to shed light on either system. As he wrote, "It is possible, at least, from some account of the Canadian banking system an American will obtain some instructive contrasts, as well in history, as in present organization and methods of operation, to the system of banking and banking legislation which has obtained in the United States of America."[125] For example, his comparison of the performance of the US national banks with the Canadian chartered banks adopted a critical perspective that showed his more prudent and balanced approach. He first used the liability to capital ratio to place the efficiency of capital utilization of the two systems into perspective. According to the data he collected, "[t]he liabilities of the Canadian banks to shareholders and public are about 4.94 times their paid-in capital, those of the National banks 4.58 times of their capital."[126] He then questioned the wisdom of downplaying the record of stability of Canadian chartered banks by merely comparing the number of insolvent banks to the total number of banks during the relevant periods because he believed that the size of the failed banks as compared with the total mattered more:

> [T]the comparison of 248 insolvent National banks out of the 4930 organized with the ten insolvent Canadian banks out of 55 some time in operation since 1867, is no comparison at all. The thirty-eight surviving banks have over 500 different establishments, and to be fair, the comparison must be made between the numbers of establishments affected by insolvency. With one exception the Canadian banks in question were small and their branches few in number. [127]

[125] Breckenridge, *Canadian Banking System*, 5.
[126] Ibid, 371.
[127] Ibid, 372.

> As to security, an exact comparison on the basis of loss suffered by creditors is not possible. The affairs of 123 insolvent National banks are not yet finally closed. Even if the proportion borne by total loss of principal in thirty years to the total liabilities of the existing banks of the National system, should appear to be less than that borne by Canadian losses in the last twenty-seven years to the present liabilities of the Canadian banks to the public, the conclusion as to security would not be unreservedly in favor of American Banks.[128]

Admittedly, if Breckenridge had had all the relevant data, his comparison could have been more complete. However, he laid solid groundwork for further empirical exploration, and in doing so, he made stability a crucial ingredient in a banking system's success.

Breckenridge's comparative assessment set him up for a more confident overview of the key features of the Canadian banking system, to which he assigned an "oversized" final chapter of almost one hundred pages (as compared to the thirty to fifty page length of the other chapters of his book). His observations in this final chapter are sound and insightful and are mostly focused on the sources of the strengths of the system, which are the basis of the legacy of financial stability in Canada.

These interconnected positive features, as summarized by Breckenridge, were mainly large banks, the branch system, the principle of commercial banking, and effective internal inspection, but his penetrating analysis of them is most illuminating. For example, regarding the large size of the Canadian banks, he first contrasted the average size of the capital of US and Canadian banks as of 1884:

> [I]n the United States, there is a population of thirteen times as numerous as that of Canada, there are in operation of 3796 banks of the national banking

[128] Ibid, 374.

> system alone, that is to say, one hundred times as many banks as in Canada. Their average paid-up capital is $143,648; that of Canadian banks is 1,619,986, or twelve times (11.9) as large; their total capital is … not quite nine time of that of Canadian banks…[129]

He then offered a nuanced analysis of the implications of large banks. He noted that while their dominance had meant no new entry into the market since 1885, these large banks, "as they grow older, they usually gain strength and stability."[130] "Eight of the ten failures since 1867," he continued, have been banks lately organized… the principle of large banks have been adopted by almost all the countries of Europe."[131]

In addition to more familiar arguments about the virtues of large banks, like supporting an extensive branching system to achieve higher efficiency, affording the hiring of talented management, offering superior stability for creditors, Breckenridge further pointed out the effective role of public opinion in the supervision of large banks: "Public criticism, a valuable restraint in any system, is more acute and concentrated when banks are large."[132] This public scrutiny, he noted, was facilitated by the evolution of the mandatory filing requirement. By the 1890s, according to Breckenridge's assessment, "to date, not only the character of each bank's assets and debts, how many are secured by real estate, how many are overdue, etc. practically its exact condition, but also in great measure, their relations to each other, may be ascertained from the 'statement of banks acting under

129 Ibid, 365.
130 Ibid.
131 Ibid, 368.
132 Ibid, 360.

charter.'"[133] He further observed that, in contrast to the thousands of smaller banks in the US, in Canada, "[p]ublic, press, and competitive banks are watchful critics of the Return, and conclusions reached by outside observers or newspaper writers are given prompt and full expression each month… where [in the US] banks are small and many, the attention of the critics tends to be dissipated, their interest to be diminished."[134] In Canada, public sentiment over the operation of the banks is reflected in the Bank Act's long-standing provision for a mandated ten-year revision of the Act to reflect public opinion and changed conditions.

Breckenridge's analysis of public scrutiny confirms the positive value contributed by Canadian media to social economic development, and to the evolution of a workable democracy in 19th century Canada, including its reporting and supervision of banking developments. Breckenridge's observation appears to be one of the earliest vindications of Canadian business media by an "outsider" scholar. It assisted later Canadian banking historians like R. T. Naylor, who draw substantial information from contemporary newspapers like the *Monetary Times*.

Breckenridge was a broadly focused scholar of both ability and integrity. Though his *Canadian Banking System, 1817-1890* was harshly reviewed by Shortt, he faced this criticism with grace, and it did not prejudice his admiration of Shortt's subsequent contribution to the field. In the abridged and updated version of his doctoral thesis published by the National Monetary Commission in 1910,[135] he

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[133] Ibid, 361

[134] Ibid, 373.

[135] Roeliff M. Breckenridge, *The History of Banking in Canada* (Washington D. C.: Government Printing, 1910).

wrote on the first page in the note of "Authorities and Source": "[b]y far the most accurate, painstaking and thorough discussion of the developments to be reviewed is in the series of chapters contributed by Professor Adam Shortt, sometime of Queen's University, Kingston, Ontario, to the *Journal of the Canadian Bankers' Association*…"[136] Not only did Breckenridge greatly stimulate Shortt's intellectual commitment to currency and banking in Canada,[137] he provided a solid basis and a blueprint for Shortt to further build the history of Canadian banking.

In his review criticizing the deficiencies in Breckenridge's treatment of the political economic background to the development of Canadian banking, Shortt wrote:

> Even the legislative development of our banking system, not to speak of the place and influence of the banks in the commercial development of the country, cannot be confidently interpreted without a pretty thorough acquaintance with both the economic and political history of the country… the necessary acquaintance with its economic conditions is only to be acquired by considerable practical knowledge of the country and years of patient research among the raw materials of history…[138]

However, Shortt concluded his review with a decent and more generous acknowledgement: "I am well aware that the only adequate criticism of a work of this kind is a more accurate treatment of the subject..." and "Dr. Breckenridge's book

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[136] Ibid, 1.

[137] In Chapter IV of the thesis, in the context of reviewing the intellectual life of Adam Shortt, it is noted that the publication of Breckenridge's doctoral thesis on Canadian currency and banking in the *Journal of the Canadian Bankers' Association* coincided with the shift in Shortt's interests from political economy to Canadian political economy history. It is likely that Breckenridge's writing further stimulated Shortt's shift.

[138] Shortt, *Canadian Currency and Banking*, 2-3.

has, in many respects, made a more accurate treatment much easier than it was before…"[139]

Breckenridge's observations and analysis, from his examination of the major bank failures up to Confederation, to his comparison of the performance of Canadian chartered banking after Confederation with the US national banking system created in 1864 up to the early 1890s, provide significant concrete historical facts which are highly relevant to the ongoing assessment (or reassessment) of the legacy of Canadian banking stability for the first century of the industry's existence.

2. Other American Scholars Who Contributed to Canadian Banking History

Following Breckenridge's path-breaking work in the 1890s, other American scholars advanced the research on Canadian banking from the turn-of-the century to the 1950s.

This scholarship includes both works that examine the structural and operational aspects of Canadian chartered banking to identify the sources of its strengths and weaknesses and works that focus more on the historical aspects. The literature in the first category provides an important complement to the historical research, i.e. it provides more detailed information about the state of Canadian banking at the turn of the century for later generations of historians. Joseph French Johnson and James Holiday are scholars in the first group, while Milton L. Stokes and Bray Hammond fall within the historians' group. Benjamin H. Beckhart's work

[139] Ibid, 8.

straddles history and banking and currency research. In this section of the chapter, while brief introductions to all these writers and their work are provided, Beckhart, Stokes and Hammond occupy the most space because their scholarship bears the greatest relevance to the theme of this thesis and will also occasionally be referred to in later chapters. These writers and their scholarship are introduced in chronological order.

A. Joseph F. Johnson: The Canadian Banking System (1910)

Joseph French Johnson was professor and Dean of the School of Commerce, Accounts and Finance of New York University as of 1903. He was politically well-connected, mainly due to his past experience as a professor and financial journalist in Chicago and his close association with Lyman Gage and Frank Vanderlip who would serve William McKinley's presidency as Secretary and Assistant Secretary of the Treasury respectively in the age of currency and banking reform.[140]

Johnson was commissioned to write his monograph on *The Canadian Banking System*[141] by the National Monetary Commission. It was published in 1910 as a sister publication to the abridged 1910 version of Breckenridge's *The History of Canadian Banking*. Under the direction of the National Monetary Commission, Breckenridge shortened his 1895 book to focus on legislative developments in the Canadian chartered banking system from 1817 to 1908, leaving its structural and operational features for Johnson to elaborate. Their contributions, together with

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[140] "The careers of Lyman Gage, Frank Vanderlip, and Joseph French Johnson, whose importance in the movement of reform cannot be exaggerated, are quite instructive…" - see Livingston, 23.
[141] Joseph F. Johnson, *The Canadian Banking System* (Washington: Government Printing Office, 1910).

interviews with nine senior executives, mostly the general managers (the equivalent of today's chief executive officer) of the six Canadian chartered banks and one mortgage company, and the response from the Office of the Minister of Finance of Canada,[142] were published as part of the package of research on Canadian banking produced by the National Monetary Commission.

The introduction to Johnson's book specifically mentions the Canadian practice of issuing notes secured by the general assets of the bank rather than government securities as a feature that had proved to be not only safe but also elastic. The topics covered by Johnson are the expected ones like the requirements and procedures for incorporation of a bank in Canada, the management of a branch bank, loans and liabilities, note issue and reserve, call loans in New York, how the system works under the coordination of the Canadian Bankers Association through the clearing house system, etc. The 1907 Panic which had also impacted Canada was given proportionately greater (but still very brief) attention. Overall, Johnson's contribution is modestly sized (138 pages) and its presentation of the basic features of the Canadian chartered banks follows a more conventional order than Breckenridge's original text.[143]

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[142] Edward Butterfield Vreeland, National Monetary Commission, *Interviews on the Banking and Currency systems of Canada* (Washington: Government Printing Office, 1910). The interviews were conducted by a sub-committee of the National Monetary Commission led by Republican Representative Edward Vreeland. The Canadian banks represented in the interviews were the Bank of Nova Scotia, the Canadian Bank of Commerce, the Imperial Bank, the Bank of Montreal, the Standard Bank of Canada, and the Banque d'Hochelaga. The only mortgage company represented was the Canadian Permanent Mortgage Company. The Canadian Minister of Finance at the time of the interviews was William Stevens Fielding.

[143] In his acknowledgement, Johnson stated that he visited Canada for a few weeks for his research. His book does not reveal much about the sources of his information; his minimal footnotes mainly elaborate the points made in the body of his text rather than providing sources. However, it is

B. Benjamin H. Beckhart: *The Banking System of Canada* (1930)

Benjamin Haggott Beckhart was an Assistant Professor of Banking in the School of Business of Columbia University when his insightful "The Banking System of Canada" was published in New York in 1930 as a chapter in the text *Foreign Banking Systems* jointly edited by H. Parker Willis and him.[144] His chapter was reprinted as a separate monograph at about the same time under the same title. It will be referred to here as Beckhart's book.

Beckhart's book benefitted not only from the work of American scholars like R. M. Breckenridge and Joseph F. Johnson, but also that of Canadian scholars like Adam Shortt. Even more fortunately, Beckhart was able to collaborate with Henry C. McLeod, a well-known Canadian banker who served as the general manager of the Bank of Nova Scotia from 1897 to 1910.

Due to his knowledge of the prevalent practice of filing false returns by many chartered banks, McLeod stood out among his peers in the Canadian Bankers Association as the most vocal Canadian banker to call for the government to intervene to establish an inspection mechanism, an old practice in Scottish banking. He persisted in his efforts for almost two decades and was so annoying to many of

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assumed that he must have benefited from Breckenridge's 1895 book and the writing of other Canadians, including B. E. Walker, George Hague and Henry C. McLeod.

[144] Benjamin H. Beckhart, "The Banking System of Canada" in H. Parker Willis and B. H. Beckhart, *Foreign Banking Systems* (New York: Henry Holt and Company, 1930), chapter V, 289-495.

his peers and embarrassing for the government that he was ridiculed by then Minister of Finance George Foster as a "poppycock."[145]

McLeod's vision and courage were not vindicated until many years after he first broke with his CBA peers at the beginning of the 20th century. In 1913, a requirement for a shareholder's audit was included in the amendments to the *Bank Act*. A decade later, in 1924, the Office of Inspector General of Banks, the first designated governmental body for inspection of chartered banks, was established in the wake of the disastrous failure of the Home Bank in Toronto in 1923. This is another example of the periodic realignment of Canadian banking in response to changing times.

Beckhart acknowledged his heavy indebtedness to McLeod. His *Preparatory Note* notes that "McLeod… placed at the author's disposal his voluminous accumulations and writings on the Canadian banking system and so generously and unsparingly gave his time and strength."[146] Beckhart further wrote that he had "suggested that he [McLeod] become a joint author of the chapter and had Mr. McLeod lived to make this possible, the monograph would have been greatly enriched."[147]

Were it not for McLeod's efforts, the public would have known much less about the true state of the Canadian banking industry, especially in the period from Confederation to the turn-of-the-century. The critical information supplied by

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[145] See John A. Turley-Ewart's short biography of McLeod in *Canadian Dictionary of Biography*, available at http://www.biographi.ca/en/bio/mcleod_henry_collingwood_15E.html, accessed June 30, 2019.
[146] Beckhart, 289.
[147] Turley-Ewart notes that McLeod "spent his time writing articles on banking and working on his book, which had grown to a thousand pages by 1924": Turley-Ewart, *Gentlemen Bankers*, 148.

McLeod that otherwise would have been unavailable included a list of banks that failed or only survived by being amalgamated with larger banks during the period from 1817 to 1926,[148] and his observations of the serious fraud in the monthly returns to the government by a number of chartered banks, estimated as about one third of the total.[149]

Like his predecessors, Beckhart had to strike a balance between incorporating the relevant historical materials and offering a more detailed examination of the important aspects of a sophisticated banking system. His approach was closer to Breckenridge's: that is, in addition to reviewing and interpreting the implications of important legislative developments, he also tried to expose the contentious aspects of the legislative process. For example, his account of the 1871 Bank Act details the efforts of John Rose, then Minister of Finance, and E. H. King, general manager of the Bank of Montreal at the peak of its influence, to adopt the note issuing practice of the US national banking system while transforming the Bank of Montreal to a role like the Bank of England or the First Bank of the United States. Though the maneuvering of Rose and King was skillful and gathered some support, the opposition of the other banks was intense, ultimately leading to the collapse of trust, the resignation of Rose from cabinet, and the final defeat of the

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[148] Beckhart, 334-337.

[149] Turley-Ewart quoted the following statement of McLeod in his doctoral thesis: "A few hours examination by an experienced banker would have disclosed an insolvent condition…years before its collapse…" - see Turley-Ewart, *Gentlemen Bankers*, 167, referring to a commentary by McLeod on *The Globe*, November 22, 1906.

long term ambition of the Bank of Montreal to assume a special place among the chartered banks.[150]

Beckhart's book shed light on the characteristics of Canadian banking in a way that no one had done before, and this was at least partially attributable to McLeod's inside knowledge of the industry. Beckhart organized his book in a less unconventional way than Breckenridge, Shortt, and Johnson. For example, he discussed the concentration of power in the industry under the subject of "fewer and larger banks" and then brought in the related subject of "bank mergers," offering a comprehensive discussion of the proponents and opponents of mergers and the government's attitude. In total these two subjects occupied twenty pages of his text.[151]

Beckhart employed multiple charts and tables to present the critical information that McLeod had accumulated and provided. His book addressed a number of other subjects like the decline in ratio of capital to total liabilities,[152] how Canadian chartered banks deal with overdue loans to farmers, the composition of the chartered banks' assets (i.e. the balance between loans and investments), shareholder audit and government inspection, the role of the Canadian Bankers Association, many of these topics being examined for the first time. Reflecting his background as a professor in the Business School of Columbia University, Beckhart employed charts to illustrate the trend of developments on many issues. In addition, he incorporated excerpts from the parliamentary hearings on Bank Act amendments

[150] Beckhart, 298-300.
[151] Ibid, 325-346.
[152] Ibid, 351-354.

to demonstrate the arguments of the most experienced bankers on some major issues as well as the opinions of influential politicians.

Beckhart's book covers one of the most fascinating periods in Canadian banking history and Canadian history more broadly. Although it addresses many issues preceding and immediately following Confederation, the focus of the book is on developments from the turn of the century to the late 1920s. The turn-of-the-century was part of a great transformation in western civilization, and Canada's political economy and its banking system experienced their own great transformation as well. Yet this critical period is barely addressed by banking historians. Breckenridge and Shortt only cover developments to the turn of the century mainly by recounting legislative developments.[153] As mentioned in Chapter II, R. T. Naylor's financial history of Canada, entitled *The Banks and Financial Capital*, the first of the two volumes of his *The History of Canadian Business, 1867-1914*,[154] as the book the title indicates, covers the period from 1867 to 1914. However, it was rejected by many in mainstream academia (as acknowledged by Naylor himself) largely because of his militantly antagonistic attitude to the historical role of Canadian business and financial interests and the weakness of his sources. Naylor's book also does not cover the period from 1915 to the early 1930s, when the Canadian banking regulatory system was modernized through the establishment of the Office of Inspector General and the Bank of Canada.

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[153] Adam Shortt contributed chapter VII, *The Legislative Development of the Canadian Banking System* to Victor Ross's *The History of the Canadian Bank of Commerce*. His account ends at the 1913 revision of the Bank Act. See Victor Ross and A. St L. Trigge, *The History of the Canadian Bank of Commerce*, (Toronto: Oxford University Press, 1922), 389-471.

[154] See, R. T. Naylor, *The History of Canadian Business, 1867-1914*, vol. one (McGill Queen's University Press, 2006).

Beckhart's book was not designed to be another Canadian banking history. It is primarily a research work on the structure and operation of Canadian chartered banking and its regulatory system although the discussion of many topics does contain a substantial historical dimension. In his review of legislative developments, Beckhart included, wherever possible, substantial political economy context to reveal the historical controversies surrounding some important reform initiatives. Due to McLeod's critical assistance, his predecessors' scholarship, and the general sophistication of US financial history research, Beckhart's book made a substantial contribution to the record of the state of Canadian banking at the turn of the century. His methodology blended a traditional narrative approach with empirical analysis. Overall, his insightful exposition exposes a banking system in transformation at the turn of the 20th century.

C. James Hollady: *The Canadian Banking System* (1937)

James Holladay was a professor of finance at the University of Alabama. His book *The Canadian Banking System*[155] was written in the middle of the Great Depression that engulfed both the US and Canada and provoked a deep probing examination of the workings of capitalism. Since the performance of the Canadian banking system during the Great Depression is the linchpin of its legacy of stability, Holladay's assessment of the true picture of Canadian banking during this challenging period is particularly relevant to this thesis.

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155 James Holladay, *The Canadian Banking System* (Boston: Bankers Publishing Company, 1937).

In addition to agreeing with the conventional consensus about the features of the Canadian banking system that contributed to its stability and efficiency, notably branch banking and the flexibility of Canada's note issuing practice, Holladay emphasized Canadian commercial banking practice (to primarily lend to real commercial activities, the loan terms of which are usually shorter, rather than to longer term projects or transactions, let alone to lend to speculative land investments) as a critical characteristic that helped the Canadian chartered banks to remain relatively healthy.

Chapter VII of this thesis reconsiders the Canadian banking stability legacy, piecing together the understated historical evidence of instability, and the role of government in incentivizing the banking industry to contribute to nation-building and providing it with an implicit or even explicit stability guarantee. It will be seen that the Canadian banking system at the turn of the 20th century through the Great Depression was much more complicated than Holladay and other scholars portrayed. In sum, Holladay's account of the Canadian banking system was not even as sophisticated as that of Breckenridge writing decades earlier.

That said, in his preface, Holladay correctly pointed out the importance of the British Government, through the Colonial Office, in the early days of chartered banking in Canada (i.e. when the shape of Canadian chartered banking was still more malleable). The Colonial Office's paternal insistence on applying its mature judgment, though resented, in hindsight saved Canada from many unsound schemes.

D. Milton L. Stokes: *The Bank of Canada: The Development and Present Position of Central Banking in Canada* (1939)

> *In short, there is little criticism to be offered of what Dr. Stokes has written, apart from his paying too much attention to minor points, and the repetition, perhaps inevitable from the way the book is organized. But that he should have confined himself so closely to readily available printed documents makes his survey of opinion much less useful than it might have been; that he should have omitted any extended treatment of the economic circumstances out of which the demand for a central bank arose and which now condition its operations, is hard to condone. It greatly reduces the value of his contribution to the far too scanty literature on this most important aspect of the financial history of Canada.*[156]
>
> Frank A. Knox

The words quoted above are taken from F. A. Knox's 1940 review of Milton Stokes's 1939 book *The Bank of Canada: The Development and Present Position of Central Banking in Canada.*[157]

A professor of economics at Lebanon Valley College in Pennsylvania, Stokes was the first to recount the history of the birth of the Bank of Canada, Canada's central bank and one of the most important new institutions created in the 20th century to regulate the supply of credit nationally, to act as the lender of last resort for the banking system and as the government's fiscal agent. Again, an American scholar took the lead in writing the history of a critical Canadian institution before the dust of this historical event had hardly settled.[158]

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[156] F. A. Knox, "Review of *The Bank of Canada: The Development and Present Position of Central Banking in Canada*," by Milton L. Stokes, *Canadian Journal of Economics & Political Science* 6, No. 2 (1940): 302.

[157] Milton L. Stokes, *The Bank of Canada: The Development and Present Position of Central Banking in Canada* (Toronto: Macmillan Canada, 1939).

[158] As a new state institution, the Bank of Canada faced a rocky road in it is initial years, culminating in the Coyne Affair, the struggle between the second Governor of the Bank, James E. Coyne, and Prime

Knox was a professor of economics at Queen's University from 1924 to 1964 and head of the Department of Economics from 1951 to 1956.[159] His review was not at all superficial. He gave a detailed critique of the book, even noting the number of pages that Stokes had devoted to each major subject. Knox's review reveals his strengths as a celebrated Canadian economist and demonstrates his deep understanding of Canadian banking and currency affairs and the political economy background to the contentious birth of the Bank of Canada in 1935 and its nationalization in 1938.

Knox was not alone in offering a critical review of Stokes's book. In the same year, there was also a review by Irene M. Spry, a contemporary economist, the opening paragraph of which read as follows:

> A study of the origins, organisation and pre-war operations of the Bank of Canada is to be welcomed. It is therefore the more to be regretted that Dr. Stokes has contented himself with assembling a mass of material without subjecting it to any very searching analysis. It is convenient to have this material thus collected, but it remains largely raw material.[160]

Minister Diefenbaker. This was a turning point in defining the independence of the Bank while still clearly leaving the ultimate power and responsibility with the federal government. On the "Coyne Affair" and the evolving status of the Bank of Canada in the 1950s and early 1960s, see James Powell, *The Bank of Canada of James Elliot Coyne: Challenge, Confrontation, and Change* (McGill-Queen's University Press, 2009).

[159] Professor Knox, like many of his predecessors in the Queen's Department of Political and Economic Science (notably Adam Shortt, O. D. Skelton, William C. Clark and William A. Mackintosh), was actively involved in important government projects, including the Royal Commission on Dominion-Provincial Relations and the Rowell-Sirois Report of the 1930s. For more information on his background, see Alan Green, *The Life of Frank Knox*, available at http://www.econ.queensu.ca/alumni/past/knox, accessed June 30, 2019.

[160] Irene M. Spry, "Review of *The Bank of Canada: The Development and Present Position of Central Banking in Canada*," by Milton L. Stokes, *Economics Journal* 50, 200 (1940): 511. Spry was one of Canada's first female economists. She was educated mainly at Cambridge University at a time when influential figures, including John Maynard Keynes, were teaching there. For further biographical information, see Duncan Cameron, "A Tribute to Irene Mary Biss Spry," *Study of Political Economy* 30 (1999): 6.

Spry was a relatively new immigrant to Canada when her review was published in 1940, barely a decade after she had been recruited from England by the Department of Economics of the University of Toronto. Her review and that of Knox, plus Shortt's earlier review of Breckenridge's book, coincidentally or not, showed a less tolerant attitude on the part of Canadian scholars towards the incursion by American scholars into Canadian economic history.

The reviews of Stokes's book by US scholars were generally more positive (while also acknowledging certain problems, notably Stokes's tendency to repetition).

Of the American reviewers, Donald M. Marvin from Penn State University wrote the most comprehensive review.[161] He began with the statement that "[m]any people in the United States who have a firm admiration for the people, the traditions, the laws, the business customs, and the firmly established banking system of Canada will take special interest in the circumstances and conditions which led to the establishment of a central bank in that country in I935."[162] He went on to praise Stokes's overall contribution as "an excellent description of the interplay of the political and economic forces, which created a central bank and moulded it during its early and formative years," as a "carefully documented and scholarly presentation of the history of the Bank of Canada," and as "an adventure in business history."[163] In emphasizing Stokes's focus on the "interplay between

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[161] Donald M. Marvin, "Review of *The Bank of Canada: The Development and Present Position of Central Banking in Canada*," by Milton L. Stokes, *Journal of Political Economy* 48, No. 5 (1940): 762.
[162] Ibid.
[163] Ibid.

political and economic forces" in the creation of the Bank of Canada, Marvin's review reflects the classic approach of US scholars to the history of banking and currency, resonating with the work of Breckenridge and Laughlin (and that of Bray Hammond as noted in the next section).

Marvin applauded Stokes for finding, from an "obscure source," "references to those who first advocated the establishment"[164] of the Bank (i.e. the Progressives and CCFers), in contrast to Knox's review which had criticized Stokes's framing of the political struggles between the two major parties and the CCF.[165] Stokes also documented the objections of Canadian bankers (e.g. Sir John Aird, president of the Canadian Bank of Commerce from 1924 to 1929) and academics (notably Professor Swanson from the University of Saskatchewan[166]), who had appeared as witnesses at the Parliamentary hearings on the idea of establishing a central bank. In documenting the conflict between radical political forces from the Canadian West and the establishment Conservative and Liberal Parties, eastern bankers and Canadian economists, Stokes and his reviewer Marvin recognized a story of political conflict in Canada in relation to banking regulation that resonated with US banking history.

[164] Ibid.

[165] Knox, 159: "Anyone who has had occasion to review parliamentary opinion on monetary problems during the depression will realize that both leaders and members of the two great parties were seriously disturbed by the plight of the people, and that some credit ought to be given them for an honest endeavor both to understand what all this 'money business' was about, and to seek the right solution, even were it to be one advocated by a group of monetary reformers in the general soundness of whose views they had slight confidence."

[166] Swanson was a student of Adam Shortt at Queen's and continued his graduate study at the University of Chicago. He, together with O. D. Skelton, returned to teach at Queen's in 1908, later moving to become Head of the Department of Economics at the University of Saskatchewan. Consistent with the possible influence of Adam Shortt, currency and banking were his major research interests, available at https://www.cambridge.org/core/services/aop-cambridge-core/content/view/S0315489000009117, accessed June 30, 2019.

Although the other two US reviews of Stokes's work, by Lucile Bagwell and J. K. Horsefield, were less comprehensive, their generally positive appraisals are reflected in the following quotations:

> In this volume the author faithfully presents a clear story of the organization of the Bank of Canada, from the preliminary factual background and the wide range of controversies in the general text to the legal documents in the Bank of Canada Act itself in 1934 and the subsequent amendments in 1936 and 1938. His account is illuminating for any general reader and should be invaluable to students of central banking history.[167]

> This is the story which Dr. Stokes has to tell, and though his exposition is marred by repetitions, the main issues are clearly stated. He has written an illuminating contribution to banking history.[168]

Despite the criticisms of his Canadian contemporaries, Stokes's book is an important contribution to the research on the history of the Bank of Canada. No serious effort by native Canadian scholars to shed light on the subject was made until more than three decades later, when Linda Grayson, a doctoral student in the Department of History in the University of Toronto, wrote her thesis *The Formation of the Bank of Canada: 1913-1938*. Grayson's thesis contains comprehensive research on the political debates surrounding the founding of a central bank in Canada. It unequivocally vindicates Stokes's approach by revealing, among other things, the interplay of political and economic forces surrounding the reform of Canada's monetary and banking system during the Great Depression.

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[167] Lucile Bagwell, "Review of *The Bank of Canada: The Development and Present Position of Central Banking in Canada*," by Milton L. Stokes, *Annals of American Academy of Political and Social Science* 212 (1940): 261.

[168] J. K. Horsefield, "Review of *The Bank of Canada: The Development and Present Position of Central Banking in Canada*," by Milton L. Stokes, *Economica*, New Series 26, No. 7 (1940): 215.

E. Bray Hammond: "Banking in Canada before the Confederation, 1792 to 1867" (1957)

As already discussed in Chapter I, Bray Hammond's *Banks and Politics in America*: *from the Revolution to the Civil War*[169] was awarded the 1958 Pulitzer Prize for historical writing. More than half a century later, his book remains the classic account of American banking history.

Hammond is also probably the best of the American scholars who wrote on the history of the Canadian banking system. Chapter 20 of his book, entitled "Banking in Canada before the Confederation, 1792 to 1867,"[170] reviewed pre-Confederation Canadian banking history.

The best evidence of the significance of Hammond's Canadian chapter is its inclusion in *Approaches to Canadian Economic History.*[171] First published in 1967, *Approaches* was co-edited by William T. Easterbrook, a leading Canadian economic historian at the time,[172] and Mel Watkins, an influential Canadian economist with strong socialist/nationalist connections and a former student of Easterbrook at the University of Toronto.[173] Easterbrook earned the first doctorate in political economy

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169 Bray Hammond, *Banks and Politics in America from the Revolution to the Civil War* (Princeton University Press, 1957).

170 Ibid, 631-670.

171 W. T. Easterbrook and M. H. Watkins, eds., *Approaches to Canadian Economic History* (Ottawa: Carleton University Press, 1984), Carleton Library Series #31.

172 For a concise biography of W. T. Easterbrook, see Mel Watkins's recollection of him available at https://sce.library.utoronto.ca/index.php/Easterbrook,_William_Thomas_James, accessed June 30, 2019.

173 Watkins is an influential political economist and political activist, mainly associated with the political left in Canada. He was the chief drafter of the 1968 Watkins Report commissioned by Walter Gordon, Minister of Finance in the Pearson government. This report was a landmark in the post-WWII Canadian nationalist movement aimed at maintaining Canadian control over vital areas of its economy. He was a member of the National Democratic Party (NDP) and one of the founders of the

awarded by the University of Toronto in 1938, supervised by the famous Canadian political economist Harold Innis.[174] Together with Hugh G. J. Aitkin, he wrote *Canadian Economic History*[175] published in 1956 that won him wide recognition.[176] He wrote a short thirty-page chapter about Canadian banking in that book.[177]

Part Three of Easterbrook and Watkins's book is dedicated to the history of Canadian banking and capital markets and they selected Hammond's chapter for the Canadian banking history aspect.[178] It seems obvious that they saw Hammond's concise, sound and even artful account as the most suitable exposition of pre-Confederation banking history in preference to the work of the handful of Canadian banking historians, from R. M. Breckenridge and Adam Shortt to R. C. McIvor, and E. P. Neufeld As reviewed in greater detail in Chapter V on Hammond's banking scholarship, compared to these other contenders, Hammond's work stands closer to Easterbrook's vision of the ideal economic historian, i.e. balancing the characteristics of architect and craftsman.[179] Easterbrook and Watkins's choice of Hammond might also reflect some dissatisfaction with the state of Canadian banking history scholarship by native historians.

Waffle group, the splinter radical group that became a major force in the NDP in 1969. For more information about Watkins, see Hugh Grant and David Wolfe, "Mel Watkins, as Teacher, Scholar and Activist," in Jim Stanford, ed., *Staple Thesis at 50: Reflections on the Lasting Significance of Mel Watkins' 'A Staple Thesis of Growth'* (Canadian Center for Policy Alternatives, 2014), available at https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2014/03/Staple_Theory_at_50.pdf, accessed April 30, 2019.

174 Watkins, *Recollection*.

175 W. T. Easterbrook and Hugh G. J. Aitken, *Canadian Economic History* (Toronto: Macmillan, 1956).

176 Easterbrook was invited to give the Marshall Lecture at Cambridge University after the publication of *Canadian Economic History*: Watkins, *Recollection*.

177 See Chapter XIX, "Money and Banking in Canadian Development," in Easterbrook and Aitken, *Canadian Economic History*, 445-514.

178 Bray Hammond, "Banking in Canada before Confederation, 1792-1867" in *Approaches to Canadian Economic History*, 127–168.

179 Watkins, *Recollection*.

Compared with pioneers like Breckenridge and Shortt, Hammond had several advantages. First, in addition to writing well after the dust had settled for the period that he examined (1792-1867), he benefited enormously from the foundational work done predominantly by Breckenridge and Shortt. Two-thirds of the fifty-four footnotes in the chapter refer to Breckenridge and Shortt's works.[180] Second, by the 1950s archival resources were also more plentiful. Finally, he also benefited from his thorough grasp of the much more complicated banking developments in the US and its even more complicated political economy context. As mentioned in earlier parts of this chapter, from the beginning of chartered banking in the US to the monetary reforms at the turn of the 20th century, the political struggles around banking policy in the US were much more intense than what Canada ever experienced. Hammond's adept handling of American banking history paved the way for his excellent and well-balanced chapter on Canadian banking history.

Hammond's chapter on Canadian banking history is beautifully written, living up to the Pulitzer Prize to the same extent as the majority part on US banking history. That Canada's banking system was less complicated and more centralized than that of the US no doubt helped Hammond to write a more lucid and reader-friendly text. While Hammond did not engage in significant original research, mainly

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[180] In addition to the references to Breckenridge and Shortt's works, there are about fifteen references to Victor Ross and A. St L. Trigge, *A History of the Canadian Bank of Commerce* (Toronto: Oxford University Press, 1922). However, as stated in the Preface to Ross's book, Adam Shortt contributed Chapter VII *Legislative Development of the Canadian Banking System*, which was an overview of Canadian banking legislative developments from the beginning of Canadian banking to 1913 when the *Bank Act* underwent another periodic revision. Approximately half of Bray Hammond's references to Ross's book are to Shortt's chapter.

relying on secondary sources, this "weakness" is overwhelmingly compensated by the strength of his writing. Hammond correctly located Canadian banking history in the ongoing triangular interactions between Britain, the US and Canada, which were clearly the major forces that shaped Canadian banking prior to Confederation.

3. Summary

From R.M Breckenridge to Bray Hammond, American scholars contributed more than half of the scholarship on the history of Canadian banking from its origin at the beginning of the 19th century to the 1930s when the Bank of Canada was created. As discussed in later chapters of the thesis, due to the sharp decline in writing by Canadian scholars on this branch of history after Adam Shortt, the analysis of the Canadian banking system by contemporary scholars, even by the minority of authors that take a clear historical perspective, tends to depict the Canadian and US systems as operating on parallel tracks with minimal and inconsequential interaction.

However, careful reading of the banking history written by Breckenridge, Shortt and Hammond tells us that banking is no exception to the long standing cultural, economic and social intercourse between Canada and the US. The uniqueness of Canadian banking is to some extent a product of the combined influences of English, Scottish and American banking practices. It is true that the English and Scottish characteristics became more obvious after the US banking system became more populist and fragmented in the wake of the Bank War. Nonetheless, the American influence has always been an undercurrent. Consider, for example, in the second half of the 19th century, the free banking trial in Canada in the 1850s and the rapid increase in the total number of Canadian chartered banks after Confederation. Even in the twentieth century, the US Federal Reserve System created in 1913 and the US deposit insurance system launched during the Great Depression had an impact on the Canada's own banking system reform. Does the influence of the US on Canadian banking regulation reflect its influence on Canada's general political economy?

The incursion by American scholars in writing the early history of Canadian banking, and in banking economic and policy research, is undeniable evidence of the interactions between these two countries through the symbiotic exchange of knowledge by the emerging intellectuals (the US group was both much larger and more advanced than its Canadian counterpart at that time). In addition to the urgent need to reform its banking and currency system at the turn of the 20th century in the US, this incursion was partly caused by the intellectual vacuum that existed before and at the turn of the century when the native Canadian intellectual circle was still very small and faced with a vast field to explore. The US contribution to Canadian studies is therefore more understandable.

Chapter IV of this thesis explores the reasons for the decline of Canadian banking history after Adam Shortt. That chapter contains an extensive discussion of Canadian intellectual developments from around the turn of the 20th century to the outbreak of World War II in which the US influence is again highlighted.

Chapter IV
Adam Shortt and the Loss and Modest Revival of Banking History in Shortt's Political Economy Tradition

It would be a mistake to represent Adam Shortt as a great master in the social sciences. There have been but a few, and none in Canada. He achieved no distinctive body of doctrine nor any brilliant synthesis. Yet, he was a journeyman who wrought mightily in his chosen craft, and whose work will have enduring influence in Canada. As a teacher, more than anyone he helped to establish the place of Economics and Political Science in Canadian universities.[1]

William A. Mackintosh

1. Introduction

Carl Berger's *The Writing of Canadian History: Aspects of English-Canadian Historical Writing since 1900*[2] was first published in 1976 and won the Governor-General's Award for English-language non-fiction that year. It probably remains the most important contribution in English to Canadian intellectual history to date.[3]

[1] W. A. Mackintosh, "Adam Shortt, 1859-1931," *The Canadian Journal of Economics and Political Science* 4, No. 2 (May 1938): 175.

[2] Carl Berger, *The Writing of Canadian History: Aspects of English-Canadian Historical Writing since 1900*, 2nd ed. (University of Toronto Press, 1986). The second edition of the book published in 1986 included the entire original text but replaced the original short conclusion with a lengthy chapter in which Berger analyzed "the major trends in contemporary historical writing in English about Canada." Unless otherwise indicated, references in this dissertation are to the 2d edition.

[3] Ramsay Cook, "*Carl Berger: "Ironic Man as Historian*," in *Thinkers and Dreamers: Historical Essays in Honour of Carl Berger,* Gerald Friesen and Doug Owram, eds. (Toronto: University of Toronto Press,

Berger devoted the first chapter of his book to Adam Shortt and George Wrong who he regarded as the founders of academic history in Canada, introducing principles of critical history, empirical verification against original sources and "objective" judgment and analysis.[4]

As observed in Chapter II of this dissertation (*A Survey of the Canadian Banking Historical Literature*), Adam Shortt (along with R. M. Breckenridge) was a pioneering scholar in Canadian economic and banking history, and his contributions to the history of banking and currency still have value today. In the decades following Shortt's last publication in this area in 1925 (a few years before his death in early 1931), there was a sharp decline in Canadian banking history scholarship in the what might be called the Shortt Tradition (i.e. banking history with rich political economic context), until its modest revival in the 1970s. W.A. Mackintosh's 1938 evaluation of Shortt's lifetime achievement, cited above, reflects this cooling of esteem.

The primary aim of this chapter is to explore the reasons behind that decline and more recent modest revival. The need for such an exploration is underscored by the findings in Chapter VII (*The Canadian Banking Stability Legacy Reconsidered*). That chapter critically reviews the literature on banking regulation published after the Global Financial Crisis of 2008-2009 (GFC). It highlights its lack of historical depth and the apparent non-recognition or indifference of contemporary writers on

2011), 13: "Modern Canadian intellectual history in English takes most of its inspiration and approach from Carl Berger whose work, since the 1970s, has defined the field and sets its standard." As Cook further observed: "Although ideas were central to his studies, he always insisted that both individual biographical details and general sociocultural context were necessary to a full understanding of the ideology under his microscope."

[4] Berger, *Canadian History*, 1-31.

Canadian banking regulation, including some economic historians, to the under-developed state of Canadian banking historiography and their under-appreciation of the (admittedly sparse) existing banking history.

The next section of this chapter provides a brief intellectual profile of Shortt. Although based largely on the existing scholarship on Shortt's life and achievements, the chronic under-appreciation of his contribution to Canadian banking history and Canadian history generally justifies a reintroduction.

2. Adam Shortt: A Path-Breaking Intellectual

Adam Shortt (1859-1931) was an influential figure in Canadian intellectual history from the 1880s to the 1920s on multiple fronts. An economist and historian, he influenced the evolution of the social sciences in Canadian academe, contributed with Dominion Archivist Arthur Doughty to the work of the Public Archives of Canada (now Library and Archives Canada)[5] and undertook a diversity of public service responsibilities after leaving academe. He greatly influenced his younger Queen's political economy colleagues, and together they played a significant role in transforming Canada's federal institutions.

[5] Established in 1872, the Public Archives of Canada was renamed the National Archives of Canada in 1987 and merged with the National Library of Canada in 2004 to become Library and Archives Canada. See Lorraine Snyder, "National Archives of Canada," *The Canadian Encyclopedia*, 19 December 2016, available at https://www.thecanadianencyclopedia.ca/en/article/national-archives-of-canada, accessed April 25, 2019.

A. A Survey of the Biographical Literature about Adam Shortt

In addition to the short obituaries published on Shortt's death in 1931,[6] the *Queen's Quarterly* that year included Andrew Haydon's lengthy account of Shortt's life and contributions.[7] Haydon was a student of Shortt's in the 1890s and became his life-long friend. A lawyer and later a Senator from 1924 to his death in 1932, Haydon was interested in Canadian political history. His 1931 article tracked almost every significant aspect of Shortt's life, from his family background, education, and academic life at Queen's, to his later public service and continuing contributions to Canadian historical scholarship. It provides a solid foundation for future scholars interested in Shortt to build on.

The next important contribution to the literature on Shortt was an article by William A. Mackintosh published in 1938.[8] Mackintosh attended Queen's University from 1912 to 1916 and obtained a PhD in economics from Harvard in 1922. In 1920 he returned to Queen's to teach in the Department of Political and Economic Sciences co-founded by George M. Grant and Adam Shortt at the end of the 1880s. Though Shortt had left Queen's for Ottawa in 1908, a few years before Mackintosh enrolled as a freshman, Shortt's legacy and continued influence over the affairs of the university inevitably had an impact on Mackintosh as student and later faculty member.

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[6] "Dr. Adam Shortt is Stricken at 71 – Canada Loses Outstanding Economist and Historian," *The Globe*, January 15, 1931, P. 2; "Adam Shortt," *Journal of the Canadian Bankers' Association* 38, No. 3 (April 1931): 247-250.

[7] Andrew Haydon, "Adam Shortt," *Queen's Quarterly* 38 (1931): 609-623.

[8] W. A. Mackintosh, "Adam Shortt, 1859-1931," *Canadian Journal of Economics and Political* Science 4, No. 2 (1938): 164-176.

Mackintosh's 1938 article was the text of a lecture he had delivered earlier in the year at the University of Toronto as part of a series of lectures celebrating the 50th anniversary of the founding of the Department of Political Economy at that University.[9] A second lecture[10] in the series was devoted to Sir William Ashley, the Oxford scholar who appointed to the inaugural chair of political economy at the University of Toronto in 1888.[11] As Mackintosh noted, while Shortt and Ashley collectively initiated the place of economics and political science in Canadian universities, "Ashley moved on to Harvard and Shortt stayed to make a deeper mark."[12]

In addition to addressing Shortt's contributions to the study of political economic research in Canada, Mackintosh documents the shift in focus of Shortt's research and teaching to historical study. His in-depth knowledge of political economy and meticulous academic standards warranted the objectivity of his assessment of Shortt's intellectual contributions: the quotation from his article at the beginning of this Chapter is penetrating and sharply accurate.

Adam Shortt did not re-emerge as a major figure of research in Canadian intellectual history until the early 1970s. The first few pieces dealt with specific aspects of Shortt's career and contributions: his key role in the spectacular success of the first boards established under the watershed 1907 Industrial Disputes

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[9] Ibid, 151, footnote 1.
[10] For the published version of the lecture, see A. P. Usher, "William James Ashley: a Pioneer in the Higher Education," *Canadian Journal of Economic & Political Science* 4, No. 2 (1938):151.
[11] Berger, *Canadian History*, 22-23.
[12] Mackintosh, *Adam Shortt*, 175.

Investigation Act (1972),[13] his service as inaugural co-chair of the Civil Service Commission of Canada (1973),[14] and his contributions and achievements in relation to the work of the Public Archives of Canada.[15]

Published in 1976, S. E. D. Shortt's *The Search for an Ideal: Six Canadian Intellectuals and their convictions in an age of transition, 1890-1930*[16] portrays Adam Shortt as a transitional figure in the shift from nineteenth century idealism to empiricism. His chapter on Shortt[17] sketches his unconventional educational background at Queen's and later at the Universities of Glasgow and Edinburgh in Scotland where he combined studies in philosophy and the humanities with the physical and natural sciences. It offers a penetrating analysis of Shortt's transformation, after his appointment to Queen's, from a promising young philosopher in the German idealist stream, to a competent political economist and then a pioneering economic and banking historian. S. E. D. Shortt also explored why Adam Shortt left Queen's in 1908 for public service: he (Adam Shortt) had ultimately come to see the academic study and analysis of political and economic public issues as "impractical and theoretical" and "merely a voice from the wilderness,"[18] and had

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[13] James. J. Atherton, *The Department of Labour and Industrial Relations 1900-1911* (M. A. thesis, Carleton University, Department of History, 1972), 221-228, 236.
[14] J. E. Hodgetts, William McGloskey, Reginald Whitaker, and V. Seymour Wilson, *The Biography of an Institution: The Civil Service Commission of Canada*, 1908-1967 (McGill-Queen's University Press, 1972).
[15] Ian Wilson, *Shortt and Doughty: The Cultural Role of the National Achieves of Canada, 1904-1935* (M. A. thesis, Queen's University, Department of History, 1973).
[16] S. E. D. Shortt, *The Search for an Ideal: Six Canadian Intellectuals and Their* Convictions in An Age of Transition, 1890-1930 (Toronto, Buffalo: University of Toronto Press, 1976). According to its introduction, at viii, this book was based on the author's doctoral thesis submitted to the Department of History of Queen's University in 1973.
[17] Ibid, "The Emergence of the Social Scientist: Adam Shortt," 95-117.
[18] Ibid, 99.

instead become keen to apply his knowledge of political economy to practical matters.

Carl Berger's masterpiece *The Writing of Canadian History* was also first published in 1976. Berger echoed S. E. D. Shortt's view of Adam Shortt as a transitional intellectual figure and a key member of the political economy community in Canada at the turn of the 20th century (along with William Ashley, this community included James Mavor who was Ashley's successor at the University of Toronto after Ashley departed for Harvard in 1892, Stephen Leacock at McGill University, and O. D. Skelton who succeeded Shortt as head of the Department of Political and Economic Sciences at Queen's). These scholars mainly relied on a critical reading of theories and methods developed in Britain, continental Europe and the United States in their teaching and research; none can be claimed to be original political economy theorists. Proportionately, Berger attributes more value to Adam Shortt's work with Arthur Doughty in building up the Public Archives of Canada and their editing and publication of historical materials (notably, *Documents relating to the Constitutional History of Canada*, *The Makers of Canada*, and *Canada and Its Provinces*). In his view, these constitute Shortt's main contributions of enduring value to Canadian historical studies.

Bruce W. Bowden, a doctoral student supervised by Carl Berger in the Department of History of the University of Toronto in the 1970s, dedicated his doctoral thesis to a study on Adam Shortt. It is unfortunate that his comprehensive thesis, completed in 1979, was never published.[19] His thesis not only covers all the contributions made by Shortt noted by predecessors, but also provides original insights on how the more personal aspects of Shortt's life affected the evolution of his career (notably, Shortt's relative poverty in his college years, his history of scholarly diligence, the influence of his early religious upbringing, his relationship with his future wife Elizabeth Smith, a pioneering woman doctor in Canada, his depression following his return to Canada from Scotland in the summer of 1885, and his family tragedy mainly associated with his son George Shortt[20]). These personal aspects help to understand the times in which Shortt lived as well as his values and temperament, which in turn shed light on why, for example, Shortt ultimately chose government and public service over a purely academic life. Bowden's account of Shortt's self-learning experience at a young age and his diverse interests, including botany and chemistry, also help to understand why Shortt was so intellectually open.

Bowden is also the first writer to provide a meaningful analysis of Shortt's contributions to Canadian banking historical scholarship. His research and insights

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[19] Bruce W. Bowden, *Adam Shortt* (PhD thesis, Department of History, University of Toronto, 1979).

[20] George Shortt was the second born of Adam Shortt's and Elizabeth Smith's three children. He was regarded as "alien" or "atavistic" by his parents. At the age of ten, he recklessly climbed off a streetcar in Kingston, tripped over the track and was struck by an oncoming train. His life was saved but both of his legs had to be amputated below the knee. Despite this, George showed great perseverance. He even enlisted in the army during the First World War in a non-combat role based in the UK, and in 1925 earned a PhD in history from the University of Michigan based on the Baring Papers secured by Adam Shortt. But George's temperament was unstable, and he had no control over his financial affairs. His parents had to support their adult son from time to time over many years. This emotional and financial burden weighed heavily on Adam Shortt, causing him to cut back significantly on his academic work. Ibid, 280-290.

are incorporated in the next section of this chapter, where Shortt's intellectual perspective and its impact on his banking history scholarship are reviewed.

Although Bowden's dissertation is the most thorough study of Adam Shortt, this does not mean it is flawless. The imperfections, however, are mainly about style; for example, Chapter V on Shortt's tenure as Civil Service Commissioner, while as consistently informative as the other chapters, is not as well organized.

In 1986, the Canadian Bankers' Association republished in book form all 48 articles that Adam Shortt had published in the Journal of the Canadian Bankers' Association in the period from 1895 to 1925. Titled *Adam Shortt's History of Canadian Currency and Banking 1600-1880,*"[21] this collection made Shortt's scholarship in banking and currency history much more accessible for students interested in this area. The introduction by Nancy Leahmen, then the Chief Librarian of the CBA, offers a helpful synthesis of the existing research on Adam Shortt, including all the articles and chapters mentioned above except for Bowden's doctoral dissertation. Owing to her background and the purpose of the publication, Leahmen's Introduction focuses on Shortt's contributions to banking and currency history. In particular she points out that Shortt held an obvious affection for and was uncritical of the banking elites,[22] a point addressed later in this chapter.

1993 saw the publication of Barry Ferguson's *Remaking Liberalism: The Intellectual Legacy of Adam Shortt, O. D. Skelton, W. C. Clark, and W. A. Mackintosh, 1890-1925*. As reflected in the title, Ferguson's book focuses on the intellectual

[21] Adam Shortt, *Adam Shortt's History of Canadian Currency and Banking 1600- 1880* (The Canadian Bankers' Association, 1986).
[22] Ibid, xix.

legacy of Adam Shortt and the other three Queen's political economists named in his title.[23] It seeks to correct what Ferguson perceives to be an overemphasis in Canadian histories of ideas published in the preceding two decades on the influence of Christian Social Gospel, German idealism, the social democratic movement and even Marxism on Canada's turn-of-the-century and the early 20th century intellectual reform environment, neglecting the influence of the secular new political economy of these four "Queensians" whose scholarship he sees as rooted in "a vigorous, distinctive, and coherent new liberalism."[24]

Ferguson's overall theme could introduce a fascinating new perspective. However, some flaws compromise its aspired intellectual value.

First, there is an attenuated span of 36 years in the birthdates of the four Queen's political economists who are the subjects of Ferguson's study (the oldest, Adam Shortt, was born in 1859, and the youngest, Mackintosh, was born in 1895). The last part of the 19th century and the first part of the 20th century were a period of rapid social socio-economic transformation in Canada, from the Victorian to the modern age, from an agrarian to a more industrialized economy, and from English Canadian pride in being within the orbit of Britain to emerging Canadian nationalism and Canada's aspirations to greater independence. Although they no doubt shared common values and views, it does not seem credible to present these four Queen's political economists as representing a uniform political economy

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23 Barry Ferguson, *Remaking Liberalism: The Intellectual Legacy of Adam Shortt, O. D. Skelton, W. C. Clark, and W. A. Mackintosh, 1890-1925* (McGill-Queen's University Press, 1993). According to the introduction, this book was based on his doctoral thesis entitled "*The New Political Economy and Canadian Liberal Democratic Thought: Queen's University 1890-1925*" completed in 1982 at York University under the supervision of Ramsay Cook.
24 Ibid, xv.

perspective on the broad spectrum of complicated social and political issues involved in the complex evolution of Canada's liberal democracy over this time period, especially since none were known for their interest in or aptitude at political theorizing.

This author sets out below some examples of the problems that he has with Ferguson's attempt to treat them collectively and cohesively as representing a new and unified political economy.

First, Ferguson claims that "Shortt, Skelton, Clark and Mackintosh studied economics and politics in order to assess both the legitimacy and the possibilities of liberal-democratic political and economic institutions in the late nineteenth and early twentieth centuries."[25] But Bowden's study of the life of Adam Shortt shows that Shortt encountered economics teaching *by chance* – he was assigned to give Reverend Campbell's existing economics course within the department of philosophy at Queen's "a decent burial" – but instead found it of great interest not just because of his insatiable intellectual curiosity but also his belief in the "usefulness" of economics within philosophy. In sum, I did not get a sense from Bowden's study, or the work of Shortt's predecessor biographers, that Shortt pursued political economy with the kind of defined mindset bent towards the kind of grand abstract goal perceived by Ferguson.

Second, Ferguson claims that these four men were more influenced by "John Stuart Mill, Thorstein Veblen, H. T. Hobhouse, John Hobson and R. H. Tawney… than

[25] Ibid, 222.

… Hegel and Marx and Rauschenbusch, or their Canadian devotees."[26] But the first group of British and American thinkers are too diverse to be classified together: they belong to classic liberalism (Mill), New Liberalism (Hobhouse and Hobson), Christian and Fabian Socialism (Tawney) or are uncategorizable (Veblen). Certainly, it is unlikely that Tawney was an important influence. It is true that Mackintosh approached Tawney, whose work concentrated on the relation between religion and economic growth, in 1924, who was then teaching at the London School of Economics and an executive member of the Fabian Society, to be a "special lecturer" at Queen's. But this was done more because of expediency than a shared political economic view. At the time the Department of Political and Economic Sciences at Queen's was seriously understaffed owing to the departure of Clark in 1923 for a business career in Chicago and Skelton's one-year leave of absence in 1924 preceding his departure for a public service appointment in Ottawa. Moreover, based on the studies of S. E. D. Shortt, Berger and Bowden, Adam Shortt's liberalism was coloured by Social Darwinism, which made his overall political perspective conservative. Consequently, he was much less critical of capitalists than of farmers and labourers around the turn of the century. It is hard to reconcile Shortt's admiration of business elites with Tawney's Christian-Socialist perception of the capitalist society on both sides of the Atlantic as "the Acquisitive Society." [27]

Third, Ferguson's cut-off time of 1925 seems somewhat arbitrary. While that date makes sense for Adam Shortt, who died in January 1931, the work of the other

[26] Ibid, xiii.
[27] R. H. Tawney, *The Acquisitive Society* (New York: Harcourt, Brace and Company, 1920).

three, especially Clark and Mackintosh, was far from mature in 1925. It is true that Clark already had made a significant mark during his tenure at the Department of Political and Economic Sciences from 1905 to 1922 when he left for Chicago to pursue a ten-year business career in real estate finance before returning to Canada during the Great Depression. However, Clark's main legacy was his work in remoulding federal institutions during the Great Depression and WWII, including his role in the founding of the Bank of Canada. In the case of Mackintosh, he was barely 30 years old in 1925 and only five years into his academic career. Mackintosh's major accomplishments were all made after 1925, during the Great Depression and WWII as one of the most important economic policymakers in the federal government.

In terms of its value in understanding Shortt, Ferguson's book does not add much mainly because his study is organized around a series of subjects on which Shortt's position, as compared with that of Skelton, Clark and Mackintosh, was more ambivalent and conservative, although this is obscured by the overall design of the book. Ferguson's ambition to analyze these four intellectuals collectively leaves his study of Adam Shortt ultimately wanting. He does not make adequate use of the existing literature on Short. For example, S. E. D. Shortt's intellectual profile of Shortt is only referred to twice on minor points.[28] Ashley, who according to Berger influenced Adam Shortt's turn to economic history and inspired Shortt to deliberate on the role of government in social economic reform, is mentioned only once and

[28] Ferguson, 52, 83.

then only tangentially in the context of Ferguson's background discussion of the beginning of political economy at the University of Toronto.[29]

Ferguson's collective approach arguably leaves a misleading impression of Shortt's political economy thinking. For example, Ferguson writes that these four Queen's social scientists were "deeply committed to the idea of liberal democracy."[30] Adam Shortt's attitude to democracy was carefully studied by S. E. D. Shortt. According to him, Adam Shortt shared certain convictions with the Victorian idealists, "among which were a mild distrust of democracy, a respect for the cultural aspect of imperialism, and a belief that the academic expert could fulfill an important political function."[31] As discussed in the next section of this Chapter, Adam Shortt's political and social convictions were more conservative than suggested by the label "New Liberalism."

Ferguson also claims that "Adam Shortt did not discredit the patronage approach to public-service appointments or the brokerage approach to policy-making…"[32] But Bowden's study of Shortt's tenure as inaugural Co-Commissioner of the Civil Service Commission of Canada details Shortt's efforts to set more objective standards for filling governmental positions, and his push-back against governmental appointments tainted by political patronage and political expediency. It is a mystery why Ferguson's 1993 book, or his 1982 doctoral thesis for that

[29] Ibid, 10.
[30] Ibid, 233.
[31] S. E. D. Shortt, 116.
[32] Ferguson, 234.

matter, does not mention Bowden's 1979 thesis, especially since Ferguson says that his manuscript was read by Carl Berger who supervised Bowden's thesis.[33]

B. The path of Adam Shortt and his various accomplishments

Adam Shortt was born in 1859 to a Scottish family in a small pioneer village near London, Ontario. The family was of Presbyterian heritage and Shortt entered Queen's University (before 1912 it was "Queen's College") with the initial intention of becoming a Presbyterian minister. Queen's was then a denominational institute led by principal Reverend George M. Grant. Scottish by origin and education, Grant had once made a fundraising visit to Shortt's community where he left a deep impression on Shortt and his parents.[34]

Shortt's early formal education was intermittent. When the family relocated to a village near Walkerton, Ontario, Shortt was denied entry to the local school for a time because they lived outside the incorporated area. As a result, he stopped attending school in 1867 when he was nine years old and did not resume formal studies until high school.[35] During this period he educated himself by reading books from the tiny library of the Mechanics Institute near his home.[36] This self-teaching experience gave Shortt a wider knowledge than regular school instruction could have offered, and helped cultivate his diverse interests and independent character.

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33 Ibid, vii.
34 Bowden, 10; Mackintosh, *Adam Shortt*, 164-165.
35 Ibid, Bowden, 6-7; Mackintosh, 164.
36 Ibid, Bowden, 7; Mackintosh, 164.

When Shortt was later admitted to high school, he finished at the bottom in the entrance examinations but at the top on graduation.[37]

When Shortt first arrived at Queen's in 1879, he was greatly disappointed by the campus of only two small buildings. But within a couple of months, he had dropped his initial plan to transfer to the University of Toronto due to the interest and enthusiasm he found in the Queen's community. "Compared with its physical condition," Bowden observed, "Queen's had a strong staff at that time."[38] S. E. D. Shortt also notes that the main reason why Shortt gave up the idea of transferring was that he was impressed by faculty members "such as George Grant, John Watson and Nathan Dupuis."[39]

At Queen's Shortt was particularly fortunate to study under Watson, the most influential Canadian philosopher of that time. "Queen's students," Bowden writes, "received an introduction to the subject which was probably as thorough as at the best British or American institutions."[40] Shortt excelled in Watson's classes. His essay *Recent English Psychology* was praised by Watson as a most comprehensive critique of Herbert Spencer.[41] On Shortt's graduation in 1883 as University medallist in Philosophy (and winner of the prestigious Governor General's Medal[42]), Watson remarked: "the extent of his [Shortt's] knowledge of the literature of philosophy

[37] Ibid, Bowden, 10.
[38] Ibid, 14.
[39] S. E. D. Shortt, 96.
[40] Bowden, 17-18.
[41] Ibid, 36.
[42] Ibid, 15.

surpasses that of any student who has attended this university in my time, and as I believe, is seldom equalled in any university."[43]

After graduating from Queen's, Shortt sailed to Scotland for post-graduate studies. He attended diverse courses at both Glasgow and Edinburgh Universities, from philosophy to botany, biology and chemistry. The core was still philosophy, including classes under Edward Caird, the Scottish idealist philosopher and Watson's former teacher. Shortt excelled in all three of his philosophy classes and "gained the medal and was awarded the Bruce prize, the most distinguished in the Faculty of Arts."[44]

Shortt's job search after returning to Canada in the summer of 1885 was probably the most frustrating period of his life. Due to the generally underdeveloped state of Canadian higher education at the time, he encountered serious difficulty in finding a teaching job. Shortt's confidence and dignity were crushed during this period and he doubted the usefulness of his knowledge. According to Bowden:

> His unusual optimism flagged…For months Shortt lived at home and wrestled with uncertainty and frustration fearful that he too might have to become a miller. Frequently… he sank into fits of self-doubt and lassitude… These months were perhaps the only extended period when his self-confidence failed him.[45]

Principal Grant and John Watson brought a decisive upturn to Shortt's life by hiring him as a teaching assistant in January 1886. Shortt instantly put his talents

[43] Ibid, 36, footnote 73.
[44] Ibid, 64-65.
[45] Ibid, 50-52. Adam Shortt's fear that he might have to become a miller no doubt refers to his family's livelihood having been earned from his father's operation of a grist mill.

and energies into good use, from assisting Watson in teaching philosophy to coaching the debate team, to instructing in botany and demonstrating in chemistry.[46]

In the spring of 1887 Shortt "stumbled" into economics. Reverend R. Campbell, a special lecturer from Montreal who had been assisting Queen's in delivering the course in Political Economy, had been driven out of the classroom mid-semester by his students for incompetence in teaching the subject.[47] Shortt, who had never seriously studied economics, was assigned to take his place and give the course a "decent burial."[48] At that time, "economics" was more commonly known as "political economy," which in turn was used interchangeably with "political science."[49]

Shortt's previous exposure was limited to a "cursory study of John Stuart Mill's political economy under Watson and Caird as a division of philosophy."[50] Bowden notes that "he [Shortt] simply informed the class that they would learn the material together."[51] But he quickly grasped the spirit of Adam Smith's *The Wealth of Nations* and soon impressed the students with both his ability and personality. Shortt salvaged economics as a promising subject of study at Queen's and his political economy class flourished. Equally importantly, Shortt discovered his passion for the subject and quickly became a commanding professor of political

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46 Ibid, 52
47 On the students' revolt against Reverend Campbell and Shortt's conscription as his replacement to teach economics, see ibid, 56-57.
48 Ibid, 57.
49 According to Berger, the terms "political economy" and "political science" were used interchangeably at the turn of the century - see Berger, *Canadian History*, 22.
50 Bowden, 52.
51 Ibid, 58.

economy. “Within a few years,” Bowden notes, “he had found a new more comfortable, more concrete and practical academic home, certainly better suited to his personality…” [52]

Shortt gradually built a sophisticated undergraduate political economy curriculum, adding Honours and advanced Honours offerings to the basic introductory course.[53]

In 1889, Principal Grant and Adam Shortt formed a new Department of Political and Economic Sciences, and political economy was transferred to it from the Department of Philosophy. Queen’s was the second university in Canada to have a separate department of political economy, shortly after the University of Toronto in 1888.[54] In 1891, Shortt was appointed the inaugural Sir John A. MacDonald Chair of Political Science, and he held that position until 1908 when he left the university for the post of Civil Service Commissioner in Ottawa.

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[52] “Within a few years,” Bowden noted, “he had found a new more comfortable, more concrete and practical academic home, certainly better suited to his personality…” Ibid, 58.

[53] According to Bowden, Shortt's “Honours course made a more complete study of classical economic theory…Besides Smith, Malthus, Ricardo and Mill, students read Marshall’s *Principles of Economics*, Walker’s *First Lessons in Political Economy*, Cairnes’ *Leading Principles of Political Economy* and Ingram’s *History of Political Economy*”; his advanced Honours course covered “Marx, Jevon’s *Money and Mechanism of Exchange*, Bagehot’s *Lombard Street*, Walker’s *The Wage Question*, Brentano’s *Guilds and Trade Unions*, Trant’s *Trade Unions*, and Toynbee’s *Industrial Revolution*.” Ibid, 61.

[54] It is an interesting question whether the University of Toronto or Queen’s was the first university in Canada to establish an independent department of political science (or political economy). Most sources are vague on the year for Queen’s although the website of the current Department of Political Studies states that “in 1889, Adam Shortt, another professor of philosophy, convinced the university to create a Department of Political and Economic Science and to appoint him as the first full-time professor of politics and economics.” See “About the Department of Political Studies,” available at https://www.queensu.ca/politics/about, accessed April 17, 2017. This places the University of Toronto first because it is clear that William J. Ashley was appointed the inaugural chair of the Department of Political Economy in 1888: see Berger, *Canadian History*, 22-23; also see, “Former Chairs at the Department of Political Economy/Political Science 1888-2017,” available at https://politics.utoronto.ca/department-chairs/, accessed April 17, 2019. Bowden puts the time of inauguration even earlier, to the “fall of 1887”: Bowden, ,205.

A significant number of Shortt's students during his two decades of teaching at Queen's went on to become influential academics, business leaders and politicians in the early part of the 20th century. Among them, there were political economists such as O. D. Skelton and W. W. Swanson who returned to Queen's in 1908 after post-graduate study in the University of Chicago, historians Duncan McArthur and W. L. Grant, who also came back to teach at Queen's, M. W. McLaren, who went on to study at Harvard and later taught history at Williams College, W. B. Munro, who became a professor of history at Harvard after pursuing further studies at the University of Edinburg and Harvard, A. B. Brisco, who succeeded Shortt as Civil Service Commissioner after completing graduate studies at Columbia, and Sir Edward Peacock, who became senior partner of the legendary merchant bank Baring Brothers in London and a director of the Bank of England.[55]

In parallel to his classroom teaching, Shortt joined Principal Grant and John Watson in their efforts to turn Queen's into a modern secular university (like the University of Toronto) by separating it from the Presbyterian Church although this was only accomplished in 1911 (the act of Parliament followed in 1912 approving the change of name), three years after Shortt had left Queen's.[56] Shortt also sought to improve the standard of national debate on issues of public concern. With this

[55] Ibid, Bowden, 77-78.

[56] On Queen's separation from the Presbyterian Church, see Robert A. Wardhaugh, *Behind the Scenes: The Life and Work of William Clifford Clark* (The University of Toronto Press, 2010), 8; also see https://www.queensu.ca/religion/about-us, accessed April 21, 2018.

goal in mind, he helped found "*Queen's Quarterly*, the Kingston Historical Society, the Canadian Political Science Association and the National Art Gallery."[57]

Started in 1893, *Queen's Quarterly* was the earliest university-based secular intellectual journal in Canada.[58] Queen's faculty members were encouraged to contribute "a few pages of news commentary" to a column titled *Current Events*. Shortt is credited with providing effective stewardship of the column, and he and James Cappon, the head of the Department of English Literature, were the leading contributors for ten years.[59] These articles became a significant source for later scholars to study Shortt's social and political economic thinking.

After Shortt's appointment to the John A. Macdonald Chair in 1893, the same year the *Queen's Quarterly* was founded, Shortt began to write for an audience beyond academe.[60] Over the next decade, he contributed numerous commentaries and articles to an array of business press and industry publications, including *The Globe*, *The News*, *Canadian Magazine*, the *Monetary Times*, *The Financial Post* and *the Journal of the Canadian Bankers' Association*.[61]

After this engagement with a growing audience, the recognition of Adam Shortt as an influential intellectual entered a new phase. "By the turn of the century," Nancy Leahmen observes, "Shortt's reputation was spreading outside the academic circles."[62] His "essentially pragmatic and inherently Canadian viewpoint," Leahmen further notes, "his thorough grasp of economic conditions and his ability

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57 Bowden, 82.
58 Berger, *Canadian History*, 22.
59 Bowden, 292.
60 Ibid, 88.
61 Ibid, 82.
62 Adam Shortt, *Canadian Currency and Banking*, xii.

to see current situations in their historical contexts, made him attractive to both civic groups and governments as speaker and consultant."[63] Carl Berger likewise notes that at the turn of the century, "Shortt was called upon more and more by the governments, Canadian Clubs, reform groups and newspapers…" [64]

In 1903, Shortt was appointed as one of three members of the Railway Taxation Commission of the Province of Ontario to study how to tax railway property and profits.[65] The Commission travelled extensively in the United States to study the different practices in different regions. The Commission's 1905 report was largely written by Shortt: "His detached examination of a complicated problem," Bowden commented, "was impressive and left little doubt that he was becoming a very well informed student of these matters."[66]

Shortt attracted the national spotlight for his work in 1907-1908 chairing the first Boards of Conciliation set up under the *Industrial Disputes Investigation Act* designed by William Lyon Mackenzie King, then the Deputy Minister of Labour and later Prime Minister. In this period Shorrt successfully chaired eleven conciliations between some of the largest employers in the country and the emerging trade unions. Shortt greatly impressed the public with "his patience, independence, integrity, and fair-mindedness" [67] and his success soon opened new doors for him in the public service.

[63] Ibid, xii.
[64] Berger, *Canadian History*, 22.
[65] Bowden, 83.
[66] Ibid, 87.
[67] Ibid,115.

In 1907, Shortt was appointed to the *Historical Manuscripts Commission*, a body established to advise Arthur Doughty, the Dominion Archivist. This appointment marked the beginning of Shortt's long association with the Public Archives of Canada, and his accomplishments there are a major part of his contributions to Canadian historical research. Working with Doughty on a part time basis, "Shortt's practice as a historian come more and more to resemble the archivist's ideal: the acquisition, ordering and accurate reproduction of sources."[68] The access to a growing collection of historical materials greatly stimulated Shortt's passion for historical research and publication. Shortt and Doughty's first collaboration was *Documents relating to the Constitutional History of Canada, 1749 to 1791* published in 1907.[69] In 1908, based on the materials collected by Doughty, during a period when the centre of Shortt's intellectual activities was changing from Kingston to Ottawa, he finished *Lord Sydenham*,[70] one of the volumes in the *Makers of Canada* series.[71] Although the original series overall was criticized as deficient (in part for its partisan choice of subjects), Shortt's contribution received high praise for its thoroughness of research and originality.[72] Berger describes it as "by far the

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[68] Berger, *Canadian History*, 29.

[69] Adam Shortt and Arthur G. Doughty, eds., *Documents relating to the Constitutional History of Canada, 1759-1791* (Ottawa: S.E. Dawson, 1907).

[70] Adam Shortt, *Lord Sydenham* (Toronto: Morang, 1908).

[71] *The Makers of Canada* was a series of books designed to present a history of Canada through a study of its major figures. The original series contained 20 volumes which appeared between 1903 and 1908; an index volume was added in 1911 and a 21st volume in 1916. In 1926, Oxford University Press published a thoroughly revised 12-volume edition of *The Makers of Canada*, edited by historian W.L. Grant. See *The Canadian Encyclopedia*, https://www.thecanadianencyclopedia.ca/en/article/the-makers-of-canada, accessed June 30, 2019.

[72] See W.S. Wallace, "Review of *The Makers of Canada Series,"* by W. L. Grant, ed., *Canadian Historical Review* 7, No. 4 (1926): 325 - "The [original] series contained several volumes of outstanding merit, notably Professor Shortt's *Sydenham*, and Miss Mcllwraith's *Haldimand*."

best and the most durable volume in the *Makers of Canada* series."[73] Bowden also has high regard for it: "Unlike most of the other volumes of *The Makers of Canada*, *Lord Sydenham* clearly advanced historical knowledge, mostly because of Shortt's commitment to thorough research."[74]

Also in 1908, Shortt was appointed by Prime Minister Laurier to be one of the two Civil Service Commissioners of Canada. In that position, Shortt would strive to transform the Canadian federal public service from a partisan, patronage-based system to a modern merit-based system. Shortt's appointment meant his resignation from Queen's. Despite multiple offers of university presidencies in the years to come, he never returned to academe.[75]

Though Shortt brought a lot of energy, effort and high expectation to the Civil Service Commission, he was eventually worn down by the struggle with the Borden administration (1911-1920), whose cabinet members wanted more flexibility to fill posts, as well as by chronic disagreements with his co-commissioner M. G. La Rochelle.[76] Reforming the federal bureaucracy required greater political will on the part of the governing party than merely adopting a scientific merit score system for

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[73] Berger, *Canadian History*, 28.

[74] Bowden, 232. Bowden further notes that Shortt's admiration of Lord Sydenham was rooted in his conviction that the short period from 1839 to 1841 during which Lord Sydenham governed Canada "was a fundamental turning-point in the Canadian experience, probably more important than Confederation." Ibid, 233-234.

[75] After Shortt left Queen's in 1908, Shortt was offered four university presidencies, at Queen's, and at the University of Saskatchewan, the University of British Columbia and the University of Manitoba. For the first three offers, see S. E. D. Shortt, 98, 100; for the Manitoba offer, see Bowden, 271.

[76] Bowden dedicated a lengthy chapter of more than fifty pages to the study of Shortt's experience as Civil Service Commissioner: Bowden, 150-204. As noted earlier, unfortunately this chapter is not as well written as the others. Overall, it reads more like a rough compilation of research notes.

different governmental positions. Ultimately, Bowden concludes, "no one has thought Shortt made much impact in his ten years on the Commission."[77]

When his work at the Civil Service Commission frustrated Shortt, he found an escape at the Public Archives. His second major collaboration with Doughty was the 23-volume encyclopedic work *Canada and its Provinces* published in three instalments in 1913, 1914 and 1917. This ambitious project involved more than 100 Canadian writers and Shortt played the critical role of chief editor. Describing Shortt's contributions as some of "the strongest writing" in the series, Bowden considers that "his interpretation of Canadian economic history from 1791 to 1867, of New France, and his chapters on banking and municipal organization were the best articles he produced."[78] "Shortt demonstrated," Bowden further observed, "an ability to present an analytical framework with exactness and disarming simplicity."[79]

In 1917, on his departure from the Civil Service Commission, Shortt was appointed chair of the Board of Historical Publications of the Public Archives of Canada by Prime Minister Robert Borden. Created to promote historical publications, the Board was never fully established. As the sole member of the Board, Shortt enjoyed much greater freedom in this last stretch of his productive life, though his productivity declined. In the 1920s, he completed the biographical sketches of eleven founders and shapers of Canadian banking in the 19th century that were mentioned earlier. These were useful historical sources until eclipsed by

[77] Ibid, 160.
[78] Ibid, 234.
[79] Ibid.

more comprehensive accounts in the *Dictionary of Canadian Biogeography* which began in 1959.[80] Relative to his earlier banking history writing, they "constitute postscripts," in Bowden's view, "not expansions on the body of his interpretive writing."[81]

In 1925, on a trip to Europe to represent Canada at a conference in Geneva, Shortt secured the famous *Baring Brothers Papers* for the Public Archives of Canada. In this he had the decisive help of Edward Peacock, his former student at Queen's, who was then senior partner of Baring Brothers. Baring Brothers was the British financial institution that played the most important role in financing various landmark infrastructure projects in Canada and the United States in the 19th century.

In these years, with the assistance of historian Arthur Lower, Shortt also worked on compiling and editing historical documents relating to currency, exchange and finance in early French Canada and the Maritimes. The first was published in 1929[82] and the second only in 1933,[83] two years after Shortt's death in 1931.[84]

Shortt's collaboration with Doughty at the Public Archives had another critical dimension: this is his most lasting impact on the emerging generation of academic historians. In 1926, the historian A. L. Burt described what was happening

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[80] Ibid, 238.
[81] Ibid.
[82] Adam Shortt, ed., *Documents relating to Canadian Currency, Exchange, and Finance during the French Period*, 2 vols. (Ottawa: Public Archives. 1925).
[83] Adam Shortt, ed., *Documents Relating to Currency, Exchange and Finance in Nova Scotia with Prefatory Documents, 1675-1758* (Ottawa: J. O. Patenaude, Acting King's Printer, 1933).
[84] Berger, *Canadian History*, 29.

at the Archives as the "actual renaissance of Canadian history in the course of preparation."[85] As Berger noted:

> [The] list of the scholars who frequented the Archives in the 1920s reads like a roll-call of the men who were to shape Canadian historical writing…[and] included Burt himself, unraveling the complicated motivations behind the passing of the Quebec Act; Daniel Harvey, working on the early history of Prince Edward Island; Arthur Morton…Lester Pearson…George Glazebrook researching the biography of Sir Charles Bagot; and J. B. Brebner exploring British policy towards the Acadians…also students like Harold Innis, Arthur Lower, George Wilson, George Brown…preparing senior theses for American graduate school.[86]

W. A. Mackintosh is not mentioned in Burt's roll call but his historical study on the staples thesis clearly benefited from the growing Archives and his onsite interactions with Shortt. In his 1938 article on Shortt, Mackintosh warmly recalls Shortt's influence:

> My own generation remembers him chiefly at the Archives, as one who was always interested, always ready to give advice and to share his knowledge. We remember engaging him in argument as he sat in his familiar Morris chair with his desk board across his knees, his white Van Dyck beard and his heavy fingers punctuating his sentences. The arguments all followed one course: a carefully-nourished and cherished generalization on the part of the youth which fell into fragments under a barrage of information so wide in origin and so precise in form that youth subsided smothered but admiring.[87]

3. Shortt's Intellectual Perspective and its Impact on his Banking History Scholarship

The literature on Adam Shortt surveyed above, especially the contributions of Mackintosh, S. E. D. Shortt, Berger and Bowden, collectively help us to understand

[85] Berger, *Canadian History*, 30, quoting from A. L. Burt's letter to his wife of July 13, 1926.
[86] Ibid.
[87] Mackintosh, 175.

Shortt's political economy approach to the history of Canadian banking, as well as why he was generally uncritical of the political and business elites who dominated the political process in shaping Canadian banking in the 19th century.

The turn of the 20th century saw great social-economic transformation in Canada.[88] As explained in more detail in the next section of this chapter, the small group of academic historians and political economists who were most responsible for Canadian historical writing in the first half of the 20th century simply had too much to reckon with: the transformation of Canada from colony to nation, ever increasing immigration, the prevalent urban problems, Canada's involvement in successive global wars, and a shifting political landscape. The challenges they faced were compounded by the prevailing climate of anti-intellectualism,[89] and their modest financial compensation.[90] They were pushed and pulled between the demand for historical study and the demand for solving the pressing social economic problems of the day, and between the need to master and transplant existing paradigms developed in Europe and the need to develop from scratch a new paradigm that would truly fit Canada. Neither Adam Shortt nor Harold Innis could escape these dilemmas. As discussed later in this chapter, Innis spent almost two decades tenaciously pushing the staples thesis to its limits (and then shifted to

[88] See generally R. C. Brown and Ramsay Cook, *Canada, 1896-1921: A Nation Transformed* (McClelland and Stewart Limited, 1974).
[89] Shortt was troubled by the general climate of anti-intellectualism and indifference to learning at the turn of the century. See Bowden, 80.
[90] Describing the financial situation of the faculty of Queen's University, S. E. D Shortt noted: "Except at the professional level, academic salaries remained largely static from 1890 to 1910 though general wage and price levels rose almost twenty percent. Perhaps the only economic benefit gained by faculty in this period was the introduction of the Carnegie Foundation pension scheme." See S. E. D. Shortt, 5.

political philosophy). Shortt's intellectual interests were more eclectic and his contributions more workmanlike, skillful but not outstanding or original, although he still left a significant mark on every direction he seriously explored. Many would argue that the staples theory was a genuine contribution to understanding how developing economies either prospered or were stunted.

The modernization of economics in the 20th century and the final separation of political science from economics went against the convictions of both Innis and Shortt.[91] In the 1920s, when Adam Shortt was invited to Parliament to testify on monetary reform, he and his former student W. W. Swanson, who by then was a professor of political economy at the University of Saskatchewan, were unable to understand the quantitative monetary theory of Irwin Fisher from Yale University who was a leading monetary economist equipped with exceptional mathematical ability.[92] Innis was also very vocal in his opposition to what he saw as an increasing overreliance on mathematics in economics research, even though the University of Chicago, the institution from which he had obtained his PhD and that pursued him seriously with a lucrative offer in 1946,[93] would become the centre of the new value-neutral modern economics.

A. **More of An Empiricist than Idealist**

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[91] As discussed in this section on Adam Shortt and the following section on Harold Innis, both were against the trend towards narrow specialization in the social sciences. For example, Harold Innis wrote in 1946: "Universities are menaced by specialization …The social sciences have been particularly exposed to the dangers of specialization…" – see Harold Innis, *Political Economy in the Modern State* (Toronto: The Ryerson Press, 1946), viii.

[92] Ronald Shearer, "Porter Commission Report in the Context of Early Canadian Monetary Documents," *The Canadian Journal of Economics* 10, No. 1 (Feb, 1977): 41, footnote 8.

[93] See later this chapter for more information on the University of Chicago's offers to Innis.

Bowden's reconstruction of Shortt's intellectual path provides a great deal of information about his shift from moral philosophy to political economy after he was assigned to teach the subject in 1887. "With Shortt's hardening resolve to teach political economy," Bowden notes, "he immersed himself in one subject for the first time…His graduate studies had not narrowed his horizons and thus it was his teaching and academic research which imposed greater discipline upon his thought." [94] Shortt had the ability and diligence to quickly grasp the mainstream economics theories developed by Anglophone luminaries from Adam Smith to John S. Mill, from Ricardo to Marshall.[95]

The arrival of William J. Ashley from Oxford to chair the new Department of Political Economy at the University of Toronto gave Shortt another important perspective about political economy. Both Berger and Bowden believe that Ashley had a substantial influence on Shortt by introducing the German Historical School with its abiding concern with empirical investigation to him. Ashley's inaugural public lecture, dedicated to the German political economist Gustav von Schmoller, was widely reported and subsequently published as a pamphlet entitled "What Is Political Science? An Inaugural Lecture." It endorsed the contention of the German Historical School that the state had a greater role in the economy than being merely a guardian of "life and property." According to Berger, Ashley also stressed that "economics, history, administration, public finance and political institutions should all be studied in the same objective spirit that the natural scientists brought to the

[94] Bowden, 74.
[95] Bowden traces Shortt's study and teaching of economics at Queen's in the first few years after he was assigned to teach in this area in considerable detail - ibid, 58-62.

observation of organisms and specimens, and political science must be addressed to practical applications."[96] As Bowden notes,

> By 1893, Shortt had enunciated a broad inclusive definition of his new subject not dissimilar from that presented by W. J. Ashley…Besides insisting that politics and economic were interrelated components of a wider entity or discipline, Shortt argued that by investigating social conditions he sought to analyse both the 'means and the aims of civilization' and not simply study the science of government or that of wealth.[97]

As for the importance of history to political economy, Shortt stated his empiricist view that "the point of view from which I approach…the subject is that of the historical development. I personally can never understand what a thing means until I have asked myself and others where it began, how it grew up, why it grew up, and what it means today…"[98] He also emphasized that history was "a source of morality and the ultimate guide for all questions of social policy."[99] By the mid 1890s, Shortt had become "the first native-born economist to adopt a historical approach to the Canadian economy, and his decision to cultivate that field coincided with the beginning of a period of intense economic development that involved the settlement of the prairies, the industrialization of central Canada, the growth of urban centres, and massive railway construction."[100] Mackintosh also points to 1895 as the time when Shortt revealed his strong interest and commitment to Canadian historical research as his new academic direction. "The change which came about 1895," Mackintosh wrote, "was strongly marked both in his teaching and in his

[96] Berger, *Canadian History*, 23.
[97] Bowden, 64.
[98] S. E. D. Shortt, 103.
[99] Ibid, 105.
[100] Berger, *Canadian History*, 22.

interests. More and more he turned from the philosophical to the historical approach and his teaching, his examination papers, his publications, are all coloured by this change."[101]

Late 19th century Canada still saw anti-intellectualism prevalent and entrenched. "Shortt was more grieved by society's lack of interest," Bowden notes, "than he was satisfied by his university rank… For John Watson or James Cappon, academic service might be achieved within Queen's or by contributing to international journals, but once Shortt had rejected political and economic theory as being too esoteric, he felt little alternative but to demonstrate the "utility," a key term, of his discipline to decision makers outside the university."[102] Shortt's engagement with contemporary issues caused him to come to view his discipline "as an instrument for analyzing Canadian institutions and presenting options for informed discussion,[103] while the political economist must take a "detached, non-ideological position," and "must deal with the practical, the actual…"[104]

Shortt's reputation as a political economist spread to business and government leaders with the expanded circulation of his publications. "Those who did meet Shortt," Bowden notes, "seemed impressed by his grasp of economic trends. His marshaling of facts, and historical allusions together with his confident delivery earned him respect."[105] Shortt's increased interactions with business and government leaders inspired him to invite that world into academe. He formed a

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[101] Mackintosh, 168.
[102] Bowden, 80.
[103] Ibid, 81.
[104] Ibid, 65.
[105] Ibid, 79.

current affairs club at Queen's to which were invited guest speakers "such as W. Cockshutt, M.P. and ex-president of the Manufacturer's Association; C. M. Hays, General Manager of the Grand Trunk Railway; W. E. Rundle, a manager with the National Trust Company; J. B. Bonar, Master of the Mint and Mackenzie King, Deputy Minister of Labour."[106]

S. E. D. Shortt identified in Adam Shortt two intellectual strains: the first was "idealistic and speculative," and the second was "practical and empirical."[107] Berger clearly concurred on this, while Bowden's thorough study further bolsters this assessment. Shortt's Presbyterian family heritage, and his systemic idealist philosophy training at Queen's under Watson and in Scotland under Caird, were the sources of the first strain. However, the second strain soon became the dominant one as his academic career at Queen's unfolded.

In Shortt's writings it is easy to see his emphasis on "facts" and equally his disdain for "sentiment" or "belief." For example, he wrote, "greater numbers of men… hold their views by faith and not by knowledge…I am not one of those who believe in running a country or a great organization on theory…You have to run it on facts…I have no faith whatever in a policy built on sentiment."[108] Shortt's obsession with facts may have gone too far for some. His student W. B. Munro, who became a historian after post-graduate study at Harvard, complained of Shortt as a teacher: "Shortt was never cut out to be a historian. He got swamped with details and was inclined to pour out great masses of not well digested historical materials upon the

[106] Ibid, 76.
[107] S. E. D Shortt, 102.
[108] Ibid, 102-103.

hapless denizens of his classroom."[109] Although Shortt clearly had the ability to balance "craft" and "facts" in his writing, *Lord Sydenham* being an excellent example, Munro's criticism underscores Shortt's "fact-grubbing" empirical tendency.

Even though the German Historical School may have strengthened Shortt's views on the importance of the historical study of economics, he did not share Schmoller's belief in the role of the state in the "ethical and humanitarian dimensions of economic life," let alone "the potentialities of the state as the guardian of the national welfare."[110] As Berger concludes, "Shortt had an ingrained scepticism about proposals for social reform."[111] Fundamentally Shortt adhered to the virtues of the capitalist self-made man ideal and distained any redistributive role for the state. This tendency revealed itself as early as when he was a student, and did not change much in his maturity, although that does not necessarily mean he did not struggle with this. In the following excerpt from one of Shortt's weekly letters to his future wife Elizabeth Smith while he was studying in Scotland, he described his visits to Edinburg's slums — it is evident that "sympathy" as a sentiment was not big in his mind:

> [F]rom what you see on the street you may imagine the state of matters in these wretched tenement houses – houses in which lived knights, Earls and nobles of various degree when no one was safe without the city walls. I have stood many a time and looked at some of these poor wretches and wonder

[109] Berger, *Canadian History*, 29. Munro was being hyperbolic here. In his correspondence with W. A. Mackintosh, Munro recollected Shortt's positive impact on him and his fellow students, his fairness and impartiality, his accuracy, and his practical knowledge of the world. See Bowden, at 78.
[110] On Schmoller's view of the state's role in improving social welfare, see ibid, 22. Berger also notes that American economists like Richard T. Ely were influenced deeply by the German historical school and brought this stream of thought back to the US, where it became an important influence in shaping the progressive economists. As noted in section 4 of this chapter, Richard T. Ely was one of the founders of the American Economic Association in 1903.
[111] Ibid, 23.

> how they could exist. I have looked on some of the men and wondered if their nature was human. I have looked on some of the women and wondered that such as you and they should be called the same name for I know not a wider gap in all nature than there is between you and them. Of all these miserable creatures these women are the most repulsive and it makes my very flesh creep to look at some of them.[112]

Mirroring this coldness is Shortt's view on government, which was rooted firmly in 19th century British liberalism:

> To teach people how to help themselves is one of the highest and most legitimate functions of government; while the most demoralizing and illegitimate function of a government is either to step in and do the people's work for them, as in undertaking to market their products for example, or in forcing one portion of the people to contribute to the support of another, where the others are not helpless paupers.[113]

Shortt's social conservatism was evident in his attitude to women's rights even though his own wife Elizabeth Smith was one of the earliest women medical students in Canada and a leading feminist. "Eventfully women will be allowed these privileges of voting," Shortt once lamented, "but I cannot see that any good result will follow."[114]

Shortt was not shy in siding with the elites who in Canada represented the self-made men that he admired. In one of his 1897 commentaries, he "dismiss[ed] working-class socialism as 'the most individualistic self-interest' imaginable, and treated 'the socialist of the chair' as idle dreamers, 'theorists, agitators and extremists'."[115] In 1899 Shortt published an article titled "In Defense of Millionaires"

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112 Bowden, 39, quoting from a letter from Adam Shortt to Elizabeth Smith on July 18, 1884.
113 S. E. D. Shortt, 109. The exact source of Adam Shortt's statement about the role of government was not provided by S. E. D. Shortt. It was likely uttered by Adam Shortt in the late 1890s.
114 Berger, *Canadian History*, 23.
115 Ibid.

in *Canadian Magazine*,[116] in which he rigorously defended the capitalism system. "For him," Berger summarizes, "the great magnate was not only the end product of the 'operation of natural selection'; like the scientist, the artist, or the statesman, he was motivated by a desire to create."[117]

In discussing the similarity between Shortt and the English economist Alfred Marshall, Bowden notes that both "were particularly attracted to business as almost the worthiest endeavor where the accumulation of wealth was a by-product, not the sole aim."[118] "Part of Shortt's respect for Sir Edmund Walker," Bowden further notes, "grew from the fact that he thought that Walker realized this."[119] For most citizens of the time the "Captain of Industry" was a national leader. In 1913, in his role as co-founder and inaugural president, Shortt described the purpose of the *Canadian Political Science Association* in the following terms: "One does not attempt fine work through the instrumentality of a mob…It is through a select, active minority that the most effective and progressive ideas as to political and social welfare must be introduced."[120]

Adam Shortt was not an imperialist, but he befriended their leaders in Canada, including Sir Edmund Walker, the long-serving general manager and later president of the Canadian Bank of Commerce. Shortt also became a good friend of his former student Edward Peacock. Peacock, sometime senior partner of Baring Brothers, director of the Bank of England and a rare example of a Canadian who

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[116] Adam Shortt, *In Defense of Millionaires*, Canadian Magazine XIIII (Oct 1899): 493-498.
[117] Berger, *Canadian History*, 24.
[118] Bowden, 70.
[119] Ibid.
[120] Berger, *Canadian History*, 24.

achieved remarkable success in the financial world in London, was also a leader of the imperialist Round Table movement in Canada.[121]

The above discussion of Shortt's intellectual perspective is extracted from the comprehensive studies of the several scholars mentioned above. It exposes Shortt's evolution as well as his limitations. Overall, Adam Shortt was an empiricist with Social Darwinism leanings —the idealism gained in his studies under John Watson and Edward Caird was easily replaced by his more natural empirical intellectual tendency after he gained his academic footing at Queen's. This empirical tendency was later greatly strengthened by the demand for political economists to devote their attention to contemporary affairs and practical solutions. Shortt's conservative attitude to social reform and his affection for the elites ordered his historiography, or vice versa, and resulted in the one fundamental weakness in his banking history, i.e. his uncritical attitude to the shapers of industries, from able politicians like Lord Sydenham and Francis Hincks to founders and successful managers of the major chartered banks like John Richardson, Horatio Gates, E. H. King and many others.

Part of the overall argument of this thesis is that banking history, in both Canada and the US, offers an irreplaceable venue to observe the interactions between politics and banking regulation. Shortt's banking history scholarship was loyal to this general theme but his elitism compromised a fuller exposure of the complexity of historical events and figures, including the horse-trading, backroom maneuvering, and even outright corruption that occurred in the process of shaping

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[121] On the role of Sir B. E. Walker and Sir Edward Peacock in the imperialist Round Table movement, see Carl Berger, *The Sense of Power: Studies in the Ideas of Canadian Imperialism 1867-1914* (University of Toronto Press, 1970), 41.

the industry in the early days. Although this is a defect of Shortt's banking history, the same attitude afflicted many of Canada's intellectuals at the turn of the 20th century. As Berger points out, "Shortt's economic thinking reinforced both a pre-existing bias in Canada against theory and a certain satisfaction with capitalism that was characteristic of early academic political economy."[122] Indeed, at the age when the "Captain of Industry" as national hero, banking history appealed therefore to Shortt because it showed what fuelled economic growth – where capital came from and how it was circulated. "There was," Berger continued, "no established tradition of criticism of either the economy or society in the newly created department of political economy in Canada, and no real parallel to that group of American economists, German trained and inspired by the social gospel, who provided some of the intellectual equipment of the early progressive movement."[123] In addition, with the whole of English Canadian history yet to be written, including a more mature political history, Shortt could not possibly have written a comprehensive Canadian banking history as Bray Hammond did of US banking history in the 1950s building upon the much more developed American historical literature in the US.

As Bowden carefully documents, despite his shortcomings, Adam Shortt was a pioneer, a versatile scholar, and a formidable intellectual of his time. He was instrumental in the elevation of the stature of the intellectual in Canada and strove hard to promote and improve the national dialogue on a wide array of pressing social, political and economic issues facing Canada, including Prairie settlement,

[122] Berger, *Canadian History*, 25.
[123] Ibid.

Chinese immigrant workers in British Columbia, relations with Britain and the United States, taxation, tariff, etc.[124] And despite being tainted by the conservatism and racism of his time,[125] it would be an unfair oversight to fail to note that Shortt's thinking and arguments were nuanced, always considerate of both sides, or of multiple different dimensions —that is why he was often mistaken as an ally by many diverse groups.[126] On his historical writing, Bowden gives Adam Shortt the following assessment:

> So much have later observers of Shortt emphasized the importance of his archival work, there has been a tendency to pass over the fact that very likely the three most lasting achievements in Canadian history from 1900 to 1920 were *Constitutional Documents 1759-1791*, *Lord Sydenham* and *Canada and Its Provinces* – all of them the legacy of Shortt's pioneering work ...[127]

B. **Review of Shortt's Banking History Scholarship**

The above sub-section discussed Shortt's uncritical attitude to the political and business elites who shaped Canadian banking. It should be reiterated that there was a pervasive trust at the turn of the 20th century in the commanding presence of business – the term "captain of industry" was a badge of honour. Market liberalism was the lodestar of the Laurier Liberals. So it is no surprise that Shortt joined the fan club. This sub-section looks at some technical problems with his banking history scholarship. These problems do not change the fact that as the co-founder of this

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124 Bowden's discussion of Shortt's views on these issues are mainly found in Chapter III, *Sane Observer,* of his thesis, 87-103.
125 Bowden discusses Shortt's racism in the context of reviewing Shortt's views on the settlement of immigrants in Canada's West: ibid, 92-95.
126 Ibid, 112.
127 Ibid, 298.

branch of history with R. M. Breckenridge, Shortt's scholarship is still the most important source of the history of Canadian banking in the 19th century.

As discussed in the preceding sub-section, not long after he began teaching political economy at Queen's, Shorrt began to connect his study of contemporary issues with his study of history. As Bowden notes, Shortt's interest in banking history specifically was sparked by his investigation into the early activities of the Cartwright family who were active in business and politics in the Kingston area from the 1780s forward. As Bowden further notes, as a result of this research, Shortt "came to appreciate many of the obstacles militating against commercial success, and found that financial institutions were created by local commercial elites." "Realizing that commercial and political progress were inexplicable without attention to institutions that facilitated growth," Bowden continues, "Shortt began to look at the efforts of the business elites of Montreal, Kingston and York to charter banks."[128] It is worth noting that Shortt's interest in banking coincided with the period (1900-25) in which modern Canadian banking took its modern form through failures and mergers. By 1925, we were left with essentially the same big banks as we have today.

As discussed in the survey of Canadian banking history scholarship in Chapter II, Adam Shortt's contributions to banking and currency history were published over a period of three decades from 1895 to 1925, mainly in the form of articles in the *Journal of the Canadian Bankers' Association.* Interestingly, Shortt's

[128] Ibid, 206-207.

first article in the Journal was a review of Breckenridge's *The Canadian Banking System 1817-1890*.[129]

Shortt's preliminary study of historical materials about the early days of chartered banking in Upper Canada enabled him to pick up some errors in Breckenridge's work about certain historical facts relating to the political economic environment in Upper Canada in the 1820s-30s when the first banks were established in the province. However, these errors must be weighed in proportion to the comprehensive and original history that Breckenridge had effectively constructed from scratch through his prodigious work. Moreover, at the time of the review, Shortt was not an expert in Canadian banking history, nor was he in a sufficiently informed position, as he acknowledged, to review more thoroughly Breckenridge's entire book. In light of this, Shortt's sweeping judgement of Breckenridge's work, i.e. "[t]hese defects necessarily render the book, especially its historical portions, of rather uncertain value as a work of reference,"[130] was too harsh, compromising its objectivity and misleading Breckenridge's potential readers.

In this connection, Bruce Bowden does important justice to Breckenridge in his assessment of Shortt's review. "An important review," Bowden observes, "Shortt's analysis of Breckenridge provides useful indications of his own strengths and weaknesses." As Bowden laments about Shortt: "As this review suggests…, 'putting other people down' was an entirely characteristic pose for Shortt. That

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[129] Adam Shortt, "*The Canadian Banking System, 1817-1890*, Some Critical Observations," *Journal of the Canadian Bankers' Association* 3, No. 1 (1895): 100.
[130] Shortt, *Canadian Currency and Banking*, 8.

pose, however, resulted from his commitment to accuracy and solid research every bit as much as from predisposition."[131] In sum, relative to the framework of Canadian banking history constructed by Breckenridge and his insightful comparison of the Canadian and the US banking systems, Breckenridge's errors were not as serious as Shortt's sweeping assessment suggested.

Bowden also sheds light on the response (more accurately, the lack of response) by Adam Shortt's contemporaries to his banking history scholarship:

> The fact that Shortt wrote these articles in the *Journal of the Canadian Bankers' Association* demonstrated that he was working alone. No indication remains that they evoked much interest from fellow economists – James Mavor and Stephen Leacock – or historian George Wrong who paid scant attention to them beyond regretting the absence of footnotes…the only readers to whom he could address his enquiry into the origin of national banking practices and institutions were the bankers themselves… Self-trained in both economic theory and historical methods, Shortt lacked a critical audience, for before 1900, he worked alone.[132]

Among the writers on Adam Shortt, Bowden is the first and remains the only one to seriously assess Shortt's banking and currency history. To illustrate its strengths and weaknesses, Bowden uses the example of Shortt's exploration of the Scottish influence on Canadian chartered banking.[133] In an 1895 article, Shortt convincingly rebutted the then prevalent belief, one shared by Breckenridge, that the Canadian banking system was directly modeled on the Scottish banking system by showing that the original charter of the Bank of Montreal was almost a verbatim

[131] Bowden, 207, referring to Arthur Lower, "Adam Shortt, Founder," *Historical Kingston*, No. 17 (1968), 3-15.
[132] Ibid, Bowden, 215.
[133] Ibid, 210.

copy of the articles of association of the First Bank of the United States.[134] It is worthy noting that the centralism of Hamilton's bank was soon quashed by Jacksonian decentralization. The beauty of Scottish branch banking was that it maintained strong central control while allowing flexibility on the periphery which became the ethos of Canadian banking. Shortt's painstaking section-by-section comparison of the charters testifies to his commitment to "fact-based" historical research and writing. Nevertheless, as Bowden correctly points out, this commitment "did not always curb his [Shortt's] delight in sweeping judgement."[135] In explaining the origin of the common misconception that the Scottish system was the only institutional model for the Canadian banking system, Shortt pointed to the association of Scottish names with Canadian banking from its very beginnings. Shortt then attributed the reason why the system was dominated by Scottish managers (with the consequence that the system reflected a Scottish influence) to the Scottish national character: "It is a matter of common observation that the pronounced individuality of the Scotchman is almost invariably accompanied by the widest cosmopolitanism."[136] Bowden expressed amused frustration that Shortt did not provide any evidence or analysis to support his view of the Scottish national character and the consequential influence of the Scots on Canadian banking: "a conclusion from his studies? From personal acquaintances? Or a bias from his own family upbringing? Shortt's concrete criticism of Breckenridge had produced a

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[134] Adam Shortt, *Canadian Currency and Banking*, 9-27.
[135] Bowden, 212.
[136] Ibid, 212-213.

useful historical conclusion; his own explanation of his predecessor's mistake remained mere speculation."[137]

On the front of "facts," Shortt was not immune from error. Canada's long-established branch banking system[138] is widely recognized as a fundamental strength of Canadian banking compared with the unit-banks which became the predominant model in the US after Andrew Jackson's Bank War in the 1830s. Yet in the same article referred to above,[139] Shortt claimed that in the period from 1797 to 1821, the two oldest Scottish chartered banks, the Bank of Scotland and the Royal Bank of Scotland, only had one office each in Glasgow and that it "was only after 1816, and mainly through the action and example of the National Bank of Scotland, started in 1824, that the transition was gradually made to the present system of a few large banks with numerous branches."[140] Based on this, Shortt concluded that "before this experience [of branching] was available [for the Scottish banking system] the Canadian system [i.e. the Canadian branch system] had been already determined."[141] It appears that Shortt's source informed him that branch banking began in Scotland in 1824, or in the period from 1816 to 1824. However, according

[137] Ibid, 213.

[138] On the origin of Canadian branch banking, the discussion in the body of the text is based on this author's own research, not Bowden's, and this author intends to write a separate essay on it. But the facts are clear that branch banking was established in Scotland by the 18th century, while the earliest attempt to establish bank branch was in the 17th century shortly after the Bank of Scotland was chartered.

[139] This was Shortt's first article on Canadian banking and currency history after his review of Breckenridge's *The Canadian Banking System, 1917-1890* in 1895. See Shortt, *Canadian Currency and Banking*, 9-27.

[140] Ibid, 11.

[141] Ibid.

to Kerr's *History of Banking in Scotland* first published in 1894,[142] in the "first year of their active existence," the Bank of Scotland, the oldest chartered bank in Scotland, "established branches at Glasgow, Aberdeen, Dundee and Montrose."[143] Although this first attempt in 1696 and a second attempt in 1730 both failed,[144] "[i]n 1774 the Bank of Scotland made a third and successful attempt to establish a branch system in the provinces."[145]

When Adam Shortt started to write Canadian banking history, few were ahead except Breckenridge, who would soon give up further study in this area as discussed in Chapter III (*Breckenridge and the American Invasion in Writing Canadian Banking History*).[146] In addition, a more mature writing of Canadian political and economic history in Canada was developing slowly in parallel to Shortt's endeavours in this sector. Without a scholarly community, Shortt was working alone, lacking both support and constructive critics, making his contributions even more remarkable.

4. The Loss of the Shortt Tradition in Canadian Banking History

[142] Andrew William Kerr, *History of Banking in Scotland* (Glasgow: David Bryce & Son, 1884; and London: Adam and Charles Black, 1902, 2nd ed.). The discussion in this thesis is based on the reading of the second edition.
[143] Ibid, 28.
[144] Ibid, 57.
[145] Ibid, 115. The success of the third attempt by the Bank of Scotland to launch its network of branches in Scotland is corroborated by Neil Munro, *The History of the Royal Bank of Scotland: 1727-1927* (Edinburgh: Priv. Print by R & R Clark, Limited, 1928), 143.
[146] This author argues in this Chapter that it is likely because of the political institutional reality in the US, which would not allow the structural reform of banking regulation, especially the adoption of branch banking to replace the unit-bank model based on state jurisdiction over banking regulation after Andrew Jackson won the Bank War in the1830s, that Breckenridge's effort to promote the Canadian banking model in the US was short-lived after the initial excitement it brought to the debate in the US in the closing years of the 19th century.

In 1981, on the fiftieth anniversary of Adam Shortt's death, Ronald Shearer, a leading Canadian financial economist, said: "He [Adam Shortt] taught us almost all that we know about the origins and early development of the banking system."[147] Shearer further claimed: "Canadian monetary and banking history has been much neglected, apart from the works of a small group of scholars (notably R. C. McIvor and E. P. Neufeld)…But the greatest historian of Canadian money and banking was undoubtedly Adam Shortt…" Shearer attributed the dearth of banking history scholarship after Shortt to the modern disciplinary divide between economists and historians: "the history of money and banking in Canada is rich in material, both for monetary economists and popular historians. But popular historians seldom understand the intricacy of monetary economics; and monetary economists seldom have an interest in history or the ability to write for a broad audience."[148]

Shearer is a financial economist who obviously cares about Canadian banking and finance history and the quality of the writing of it.[149] His assessment is largely consistent with this author's conclusions in the survey of Canadian banking historical literature in Chapter II and the critical review of the post-GFC literature on banking regulation in Chapter VI (although his terminology is not in line with that of the historical community, notably, his dichotomy between "monetary economists" and "popular historians"). In rating Adam Shortt as the greatest Canadian banking

[147] Ronald Shearer, "Shortt Course in Banking History," *Canadian Banker & ICB Review* 88, No. 5 (October 1981): 73.
[148] Ibid, 74.
[149] See Ronald Shearer, John Chant and David Bond, *Economics of the Canadian Financial System: Theory, Policy and Institutions* (Prentice Hall Canada Incorporation, 1995), particularly Chapter 12 *The Development of the Canadian Financial System*. That chapter provides a concise review of the major developments in the Canadian financial system in which the evolution of the banking system occupies a predominant place.

historian, notwithstanding Neufeld's and McIvor's later enlightening contributions, Shearer underscores the decline of the writing of Canadian banking history soon after its emergence in Canada.

Shearer's appreciation of Shortt is based, among other reasons, on his approval of Shortt's political economy contextual approach to banking history and his reservations concerning the technical approach to banking history of modern economists and their indifference, or reluctant abandonment, of the political economic framework, which is the critical reason for the separation of banking history from the broader historical community. As discussed below, this is a manifestation of the relentless trend towards specialization and compartmentalization of the social sciences in higher education which emerged at the turn of the 20th century and had become the norm by mid-century in Canada and even earlier in the US.

One of the major tasks of this chapter is to explore the reasons for the sharp decline in Canadian banking history scholarship since Adam Shortt ceased to write in this area. Some discussion is also assigned to the moderate revival that began in the 1970s. Whilst these questions are tremendously intriguing, my exploration is not exhaustive due to the very nature of the questions as well as the constraints of the thesis framework. To explain the decline of banking history after Shortt is to attempt to capture something that did *not* happen in Canadian intellectual history: why did the general historical community not pay significant attention to banking history in Canada, including Shortt's work, and why did so few historians appreciate the contributions of Breckenridge and Shortt or build upon the foundations they laid? It is of course not possible to reconstruct in a concrete way the mentality of the generations of Canadian historians who did not show much interest in banking history, or that of the larger intellectual circle whose interaction with the historical profession influenced the direction of history writing. My interpretation is thus more in the nature of informed speculation, based on observations of several aspects of Canadian intellectual development after the turn of the 20th century that I believe to be highly relevant to the decline and much later revival.

Before embarking on that discussion, a brief mapping-out of the overall argument seems warranted given that the intellectual history discussion that follows could seem rather discursive due to its inter-disciplinary nature compounded by the comparison with the US, and the shift from a panoramic view to a focus on individual scholars.

First, I will establish that when Canadian professional history, as a major component of modern Canadian social sciences, emerged at the turn of the 20th century, it was a latecomer compared with the US and would have been overwhelmed by the challenges of the times. In the early days of Canadian professional history, telling the story of the nation and addressing the mechanics of national unity were the principal task of it –– something that was primarily political in focus. In the US, the Transcendental generation of historians of the 19th century laid a solid foundation for the launch of the Progressive historians at the turn of the 20th century. The emergence and professionalization of Canadian historians also came in parallel to the great social economic transformation in the first half of the 20th century, accentuated by the two world wars and the Great Depression. The attention of scholars was drawn to the explorations they believed to be needed most for the country, to define its national identity, to delineate and adjust its critical relations with Britain and the US, and even to solve the more pressing social economic problems associated with industrialization, immigration, urbanization, and crisis in the farming sector, particularly during the Great Depression.

Comparatively, banking history was not at the top of the research agenda of most intellectuals. It was seen as a mainstay of the nation, a timber that required no close study. The industry had long maintained a reputation for soundness, and the limited number of political economists who could claim some expertise in banking and monetary issues tended to believe that the status quo plus natural evolution was the only viable way forward. This conservative Social Darwinist approach to banking regulation, of which Adam Shortt was a leading proponent,[150] is best illustrated by the decade long debate through the 1920s over whether Canada needed a central bank.[151] The history of the formation of the Bank of Canada tells us that it was mainly the political pressure accumulated during the Great Depression from Canada's West, the parliamentary advocacy for change to the banking system led by the CCF, the new third party formed in the 1930s in company with some radical liberals, that pushed the two major parties to ultimately change their position. This prong of the discussion is mainly addressed in Chapter VII (*The Canadian Banking Stability Legacy Reconsidered*) in the context of discussing the

[150] See, for example, Adam Shortt's testimony at the House Committee on Banking and Commerce, *Proceedings of Select Standing Committee on Bill No. 83: An Act Respecting Banks and Banking* (Ottawa, 1923), 647-695.

[151] In Chapter VII, *The Canadian Banking Stability Legacy Reconsidered*, there is more discussion on the formation of the Bank of Canada as a landmark in the development of Canadian banking regulation.

instability that Canadian banking experienced around the turn of the 20th century and how the Canadian Bankers' Association and the Department of Finance strove to cover up that instability in order to blunt public pressure for more government intervention in the banking system, and the long process of founding the Bank of Canada. The discussion of the interactions between politics and banking regulation in the US in my chapter on Bray Hammond's exemplary banking historical scholarship also helps to appreciate why the lack of significant political debate regarding banking regulation in Canada could have caused scholars to conclude that a study of the country's banking regulatory history was not urgently needed.

It will be further argued that due to the concentration of historical and overall intellectual influence in only a handful of universities in the 1920s to the 1940s, mainly at the University of Toronto and to a lesser extent Queen's, the research agenda of Canada's small historical and intellectual community was greatly overshadowed and shaped by Harold Innis's economic history, i.e. the staples thesis, while the leading Queen's political economists after Adam Shortt mostly chose to serve the nation in policy-making. That is, the dominance of the staples thesis in economic historical research in the 1920s through the 1930s, and the commitment of the leading Queen's political economists to public service, left the Canadian historical community with only the historians, predominantly housed in the Department of History of the University of Toronto, to continue the more traditional political/constitutional approach to Canadian history.

The general trend of specialization in the social sciences in the 20th century, and the growing complexity of the financial industry, also worked against the political economic approach to banking history. In the US, the rise of Cliometrics banking history in the 1970s and 80s led by economists trained in the neo-classical tradition, especially influenced by Friedrich Hayek, broke the influence of political economic banking history that had peaked in the 1950s-1960s.[152] In Canada, the decline of banking history in Shortt's tradition continued in the post-WWII decades and became even more entrenched with the formal separation of "political science" and "economics" into distinct disciplines housed in separate departments in more and more universities — economics would further factionalized into macro and micro economics. It was against this backdrop that there emerged financial historians with an economics background like R. Craig McIver and E. P. Neufeld who were committed to writing Canadian banking and financial history but would not be constrained by the tradition established by Adam Shortt half a century previously. The revival of the political economic approach to banking history in Canada in the 1970s was part of the explosion of social history, that is, the upsurge of reflection on and protest against the dominance of Canadian elitism in the country's political economy history. This type of political economic approach to banking history was not an outright extension but more of a transformation of the Shortt tradition. As discussed in the preceding sub-section, Shortt's banking history generally portrayed the business and political elites in positive terms as the makers of the banking

[152] Larry Schweikart, "US Commercial Banking: A Historiographical Survey," *The Business History Review* 65, No. 3, Financial Services (Autumn, 1991), 606-661. Hugh Rockoff, Arthur J. Rolnick, Warren Webber, and Lawrence H. White are among the emerging economists who popularized the Cliometrics approach to banking history in the 1970s and 80s.

industry, while the writers in the 1970s were more focused on the darker side of elitism.

The first two sub-sections that follow are devoted to a sketch of the intellectual landscape in Canada in comparison with the US in the first half or so of the 20th century, and then to a discussion of Harold Innis's "outsized" influence on the direction of Canadian historical scholarship. The third sub-section is a brief discussion of the revival of political economic banking history in the 1970s.

A. The Canadian Historical Profession: a late comer in the 20th century

In the United States, the 19th century witnessed the emergence of great historians like George Bancroft (1800-1891), Richard Hildreth (1807-1865), Francis Parkman (1823-1893), and Henry Adams (1838-1918) — men dedicated to narrating the growth of the nation. Their works inevitably became the subject of critique and revision by the Progressive historians at the turn of the 20th century. Despite this, there is no doubt that the scope and depth of the works of the earlier historians meant that history had already emerged as a serious discipline within the American social sciences by the opening of the 20th century.

Berger identified George Wrong and Adam Shortt as the founders of "critical history" in the English Canadian historical community.[153] Though Wrong, educated at the University of Toronto and Oxford, does not stand out for his historical writing, he is credited with fostering and steering the first and strongest Department of

[153] As background to his chapter on Wrong and Shortt, Berger briefly sketches Canadian historical writing in the 19th century when there emerged a handful of amateur historians, noteworthy not only by their background but also by the strength of their works. See Berger, *Canadian History*, 1-8.

History in English Canada at the University of Toronto. In the absence of a Canadian equivalent to the foundations laid by the 19th century transcendental historians in the US, the historical writing of Wrong and Shortt as well as the later generation of historians that emerged between the two great wars (notably, Chester Martin, W. P. M. Kennedy, Frank Underhill, A. L. Burt and Arthur Lower), cannot be put on an equal footing with the work of the American Progressive historians represented by Frederick J. Turner, Charles A. Beard, Vernon Parrington and Carl L. Becker at the turn of the 20th century.

The transcendental generation of historians in the US mainly came from affluent New England family backgrounds which afforded them access to the best education available in the US and expensive tours and post-graduate studies in Europe. This is true at least for key members such as George Bancroft and Henry Adams who continued their education in German universities followed by a scholarly career free of financial worries. This is both a symptom of as well as a reason for the difference in the development of professional history writing in the US and Canada. Canada's population and economy were and remain much smaller, roughly one-tenth the size of that of the United States. George Wrong and Adam Shortt, Canada's first two academic historians, came from a family background that barely qualified as middle-class, and their university teaching jobs were their primary livelihood. In comparison, their American contemporary Charles Beard could afford to resign from Columbia University in 1917 to protest the Board of Trustees' interference in academic freedom and to become an independent intellectual without worrying about his finances. Not only he was from an affluent

Ohio family, the much larger American readership for a commanding historian like him meant that his historical publications, the total circulation of which reached ten million, secured him a more than adequate income.[154]

A comparison of the emergence of the several major disciplines of social sciences in the US and Canada, from history to political science, economics and sociology, from the creation of their respective professional associations to their becoming independent departments in the leading universities, offers another perspective on the different dynamics in the intellectual landscape of the US and Canada from the concluding decades of the 19th century through a large part of the 20th century.

The *American Historical Association* (AHA) was created in 1884 and incorporated by Congress in 1889.[155] From the beginning the AHA's leaders were the most prestigious educators and historians in the US, for example, Andrew D. White, historian and first president of Cornell University, Herbert Baxter Adams, historian and founder of the Department of History of John Hopkins University, Charles K. Adams, historian and second president of Cornell and eighth president of

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[154] On Charles Beard's family background, see Richard Hofstadter, *The Progressive Historians* (New York: Alfred A. Knopf, 1969), 167-169. Howard Beale, historian and disciple of Charles Beard, compiled the following impressive numbers about the circulation of Beard's historical works: "In all, 270,097 copies of his European histories, 5,500,782 copies of American histories not counting texts, 24,177 copies of his books on the social sciences, and 5,557,107 copies of his history text books were sold." See Howard K. Beale, "Beard's Historical Writings," in Howard Beale, ed., *Charles A. Beard* (University of Kentucky Press, 1952), 262. On Charles Beard's resignation from Columbia University, see "Charles Beard's Resignation Letter, October 8, 1917," available at https://edblogs.columbia.edu/histx3570-001-2014-1/readings/charles-a-beard-resination-letter-october-8-1917/, accessed April 14, 2019.

[155] See a brief history of the American Historical Association on the website of it at https://www.historians.org/about-aha-and-membership, accessed April 30, 2019.

the University of Wisconsin at Madison, George Bancroft, etc.[156] In Canada, inspired by the AHA, the *Canadian Historical Association* (CHA) was created in 1922 on the basis of the *Historical Landmark Association*. To survive and gain national stature in its first two decades, the CHA had to rely on the influence of various political figures with no expertise in historical scholarship by installing them in leadership roles: for example, Rodolphe Lemieux, a former Speaker of the House of Commons, served as president in 1929, and former Prime Minister Robert Borden was the president in 1930.[157] During WWII, the CHA had to fight for the very existence of history as a profession in the face of a serious call to close all or a large part of the Arts faculties in Canada's universities to conserve resources for the war efforts. [158]

The *Canadian Political Science Association* (CPSA) faced an even more challenging existential struggle. The CPSA was "founded in 1912 in Boston at a meeting of the American learned societies," with Adam Shortt elected as the first president and O. D. Skelton as secretary-treasurer.[159] In the several decades after it's founding, the CPSA experienced two periods of voluntary suspension.[160] The first suspension lasted from 1914, the beginning of WWI, to 1929, 15 years in total, and the second from 1931 to 1934 coincident with the onset of the Great Depression. These suspensions testify to the fact that the hardship that the country experienced

[156] Ibid.
[157] Donald Wright, "The Canadian Historical Association: A History," Canadian Historical Association, Historical Booklet No. 62 (Ottawa, 2003): 8-9, available at https://cha-shc.ca/_uploads/5c38afc84b2fb.pdf, accessed June 30, 2019.
[158] Ibid, 16.
[159]See Alain Noël, "A Century Old Association, with a Youthful Bent," available at https://www.cpsa-acsp.ca/news01.php, accessed April 30, 2019; also, Hugh Grant, *W. A. Mackintosh: The Life of a Canadian Economist* (McGill Queen's University Press, 2015), 121.
[160] Ibid, Noël.

during these decades took a heavy toll on the development of political economy (as already noted, this term was used interchangeably with "political science" at that time in Canada) when the discipline was still at its fledgling stage.

Because of their overlapping academic interests and their still relatively small size, the CHA and the CPSA held a joint session as part of their respective annual meetings in the period from 1933 to 1960. Berger noted this phenomenon: "One of the most striking features of the intellectual scene in the thirties was the close co-operation of scholars from the various social sciences. This was symbolized by the joint meetings of the *Canadian Political Science Association* and the *Canadian Historical Association* and it was partially due to the relatively small number of political economists and historians in the country."[161] The joint sessions came to an end when the growing sizes of the two associations did not allow them to continue the practice.[162] According to Berger, "at the beginning of the boom of higher education," which was largely in the early 1950s, "there was only about 160 professional historians in Canada, while in 1976 that number increased to near 1000."[163] Political studies and economics were in particular demand as policy devisors as the welfare state was growing.

In the US, the trend of specialization in the social sciences began to take root at the turn of the 19th to the 20th century. Though the teaching of "political economy" as a division of philosophy can be traced to the first half of the 19th century at

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[161] Berger, *Canadian History*, 100.
[162] Wright, 13-15.
[163] Berger, *Canadian History*, 262.

Columbia College,[164] it became separate from philosophy or history in 1880.[165] In 1885 the *American Economic Association* (AEA) was founded by three progressive political economists trained in the German historical school, Richard T. Ely, Edwin R. A. Seligman and Katherine E. Coman. Ely and Seligman were Columbia University alumni and had become influential political economists by the turn of the century and leaders of the Progressive movement. In 1892, when the University of Chicago reopened after relocating to its current address at Hyde Park, "political science", "political economy", and "sociology" began to be operated as separate disciplines, and in 1925 the name of the Department of Political Economy was changed to "the Department of Economics."[166] In 1897, Harvard University created the division of Government, Economics and History, in which Government (i.e. political science), Economics and History were separate departments.[167] In 1903, the founding of the *American Political Science Association* formalized the split of political economy into economics and political science as a national intellectual reality.[168] The next year,

[164] The current name "Columbia University" was officially adopted in 1896. See "History of Columbia University in the City of New York," available at https://www.columbia.edu/content/history, accessed March 30, 2019.
[165] John William Burgess was credited for being chiefly responsible for founding the Department of Political Science (interchangeably, "political economy" at that age) at Columbia College in 1880, the first of the nation – see John W. Burgess, available at http://c250.columbia.edu/c250_celebrates/remarkable_columbians/john_burgess.html.
[166] The brief history of the Departments of Political Science, Economics and Sociology of the University of Chicago is available at https://political-science.uchicago.edu/content/department-political-science-history-timeline, https://economics.uchicago.edu/content/historical-information, and https://sociology.uchicago.edu/content/history-culture, accessed April 30, 2019.
[167] On the division of history, government and economics into separate departments at Harvard after 1897, see https://economics.harvard.edu/pages/about, accessed April 30, 2019.
[168] See "About APSA," available at https://www.apsanet.org/ABOUT/About-APSA, accessed April 30, 2019.

Columbia University created the Department of Social Science (i.e. sociology),[169] and in 1905 the *American Sociological Association* was formed.[170]

In Canada, specialization in the social sciences and the formal separation of political science and economics happened several decades later than in the US. The CPSA continued to house political scientists, economists, sociologists and anthropologists up to the mid-1960s. In 1965, the *Chapter of Sociologists and Anthropologists* of the CPSA formed the independent *Canadian Sociology and Anthropology Association*;[171] two years later, Canadian economists split from the CSPA and formed the independent *Canadian Economics Association*.[172]

At the University of Toronto, as noted earlier, the Department of Political Science was founded in 1888 with William J. Ashley being appointed as the founding chair. This department's name was changed to "the Department of Political Economy" in 1924. It was not until 1982 that this department, the home of the great political economist and economic historian Harold Innis, who was the leader of the resistance to specialization in the social sciences in Canada, was finally divided into the Department of Economics and the Department of Political Science.[173] At Queen's, as mentioned earlier, the Department of Political and Economic Sciences was founded by Principal George M. Grant and Adam Shortt in 1889, shortly after the

169 See Shamus Khan, "A Brief History of Sociology at Columbia University," available at https://sociology.columbia.edu/content/brief-history-sociology-columbia-university, accessed April 30, 2019.

170 See "The ASA Story," available at http://www.asanet.org/about-asa/asa-story, accessed April 30, 2019.

171 See "History of the Canadian Sociological Association," available at http://www.csa-scs.ca/introduction, accessed April 30, 2019.

172 Noël, *Century Old Association*.

173 See "About the Department of Economics," available at https://www.economics.utoronto.ca/index.php/index/index/about, accessed April 30, 2019.

University of Toronto. This department would host political science and economics until 1964 when it was split into the Department of Political Studies and the Department of Economics.[174] In 1969 a separate Department of Sociology was hived off the Department of Political Studies.

As for sociology, C. A. Dawson, a PhD trained at the University of Chicago, founded the department of sociology at McGill University as early as 1922. According to S. D. Clark, one of the major Canadian sociologists of the 20th century mainly associated with the University of Toronto, under British influence there was at the time "a deep rooted attitude of hostility to sociology as it was now developing… in the United States."[175] Clark described Dawson's years at McGill as "lonely,"[176] noting that "in the years from 1925 or thereabouts until about the Second World War American sociology found in Canada a foothold only at McGill University."[177] By 1938, according to Clark, the total number of trained sociologists in Canada was only about ten whereas by 1974 their ranks had swelled to over six hundred.[178]

In summary, the modern disciplines of the social sciences emerged much earlier in the US than in Canada. This is especially the case for history. The

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[174] See "History of the Department," available at https://www.queensu.ca/politics/about, accessed April 24, 2019.

[175] S. D. Clark, "Sociology in Canada: A Historical Overview," in *Canadian Society in Historical Perspective* (McGraw-Hill Ryerson Limited, 1976), 135.

[176] S. D. Clark wrote that "Any biographer of C. A. Dawson would have to recount the lonely years he spent, at McGill University and the larger Canadian academic community, in his effort to establish sociology as an accepted discipline." Ibid, 136.

[177] Ibid. At another point, S. D. Clark explained that due to the German origin of sociology and the historical influence of German ideas on major American universities, sociology developed in the US earlier than in Canada. Ibid, 134.

[178] Ibid, 141.

systematic historical writing achievements of the learned gentlemen from the "satisfied classes" in New England in the 19th century[179] meant that history had become a more mature and popular subject of instruction and then a separate department in the major American universities around the turn of the 20th century. In Canada, the lack of any equivalent to the American Transcendental historians due to Canada's relatively smaller population and economy, and its consequential slower-paced social economic development, put the emerging historical community at a much humbler starting point at the beginning of the 20th century. Historical knowledge increases by incessant accumulation, expansion (into novel territories) and re-examination by successive generations of writers. On the other hand, history is interdisciplinary: continued improvement cannot be achieved solely by the efforts of historians. Developments in other sectors of the social sciences, from political and economic theories, sociology, psychology and anthropology, etc. would help as well as to constrain the pace of growth and the quality of historical scholarship.[180]

The time lag between the formation and maturation of the professional associations in the major disciplines of the social sciences in the US and Canada underscores the much smaller size of the Canadian academic community. In the first decades of the 20th century, the small group of academics employed in the various sectors of the social sciences were scattered across a handful of major universities.

[179] Richard Hofstadter described the Transcendental historians as coming from the "satisfied classes": see Richard Hofstadter, *The Progressive Historians*: *Turner, Beard, Parrington* (New York: Alfred A. Knopf, 1969), xvi.

[180] History could not avoid the increasing complexity of the economic system after industrialization, and the need to incorporate economic interpretations of historical developments; developments in political theories and sociology opened new dimensions for historiographical thinking; the psychology breakthroughs at the turn of the 20th century offered analytical historians new tools to interpret individual and collective human motives.

This was a turbulent period when the country was wrestling with one after another challenge, from the Boer War in Africa to the First World War, from the demographical changes resulting from immigration to the deep concern about the country's cultural identity (the predominant them being always English-French harmony), from the Great Depression to the Second World War. The emerging academic historians as well as their political economist colleagues, the two more sizable streams of scholars, who were also most responsible for writing the country's history and were in constant interaction due to the small size of the community and the less-specialized state of their academic pursuits, were confronted with a set of daunting tasks posed by the times. Studying the country's past to find hints for the future, or even answers to contemporary questions, was the most pressing and obvious direction for most. While acknowledging the critical importance of studying and writing Canada's political and economic history, some were pulled in the direction of putting their knowledge into practical use beyond the ivory tower by helping to transform the federal government which they saw as critical to lead the country towards a better democracy. Queen's political economists, from Adam Shortt to O. D. Skelton and William C. Clark to William A. Mackintosh became the champions of this cause. A second group, represented by Frank Underhill, Frank Scott, David Lewis and Eugene Forsey, plunged into political activism. They founded the League for Social Reconstruction (LSR), the Canadian offshoot of the English Fabian Society, and were founding members of the Co-operative Commonwealth Federation (CCF).

While Canada at the time was in grave need of informed scholarly contributions, her overall economic situation was not in constant flux. At the turn of the 20th century, Great Britain began to lose its predominant position as a destination for Canadian graduate students when the elite American universities began to open their arms to the top Canadian students. Not only did the most talented Canadian students increasingly head south for graduate degrees at universities like Chicago, Columbia, Harvard, Princeton, and Michigan, most remained to launch their professional careers in the US. "The academic migration to the United States," Berger observed, "was one aspect of an entrenched pattern that moved Canadians from all social classes and professional groups to seek a living south of the border." "In 1905," according to Berger, "there were three hundred graduates of Canadian universities holding chairs in American universities, a fact generally regarded as attesting to the high standards of Canadian education; by 1925 nearly six hundred former students of Canadian universities held academic appointments across the line."[181] "Only a small portion of Canadian students," Berger continued, "who received advanced degrees in the United States could be absorbed into the Canadian university departments."[182] This was "an exile of some of the nation's most talented people and a testament to Canada's material scarcity and cultural meagerness."[183] A good example would be Canadian economic historian Norman Gras at Harvard, who studies the rise of cities and their economic clout. He also developed the case study approach to teaching business. The thriving of

[181] Berger, *Canadian History*, 140-141.
[182] Ibid, 141.
[183] Ibid, 143.

Canadian graduate students in US universities led to the phenomenon that much more graduate research on Canadian history was conducted from American universities than in their Canadian counterparts. "In 1927," Berger noted, "the editor of the Canadian Historical Review listed 54 doctoral dissertations underway, or nearly completed, on Canadian topics; 44 of these were being done in the United States, 32 by students whose first degree was Canadian. By 1933 the number of Ph.D. theses on Canadian subjects had increased to 109; seventy were being written for American universities and twenty for Canadian."[184] Interest in the study of Canada was not exclusive to Canadian expatriates in American universities. "By the mid-thirties," Berger continued, "there were more courses on Canada's past being given regularly in the United States than there were universities in Canada."[185]

The enormous financial resources amassed by American industrialist family dynasties such as Rockefeller, Carnegie, Guggenheim, and Ford at the turn of the 20th century directly supported Canadian social sciences and letters and arts through the philanthropic foundations they established. In the period from the 1920s to the 1950s, Canadian academic history greatly benefitted from their support. According to Berger, "American foundations had for a long time made substantial and generous donations to support Canadian scholarship and educational activity. Between 1911 and 1935 the Carnegie Corporation gave $6,241,126 to Canadian libraries, universities, museums, and research projects. Almost the same amount came from the Rockefeller Foundation. The combined

[184] Ibid, 141.
[185] Ibid.

figure of between twelve and thirteen million dollars was about thirty percent of the total endowment of Canadian universities.[186] These American foundations continued to provide financial support into the 1950s. In 1951, according to the Massey Commission, "the Carnegie Corporation…has spent $7,346,188 in Canada since 1911 and the Rockefeller Foundation . . . $11,817,707 since 1914…"[187] In 1977, Donald Creighton, who in the post-WWII decades was one of the fiercest critics of the trend towards the Americanization of Canada, wrote that throughout "nearly the whole of the 1950s, it was to the great American institutions – the Guggenheim Foundation, the Rockefeller Foundation, and the Carnegie Endowment for International Peace that Canadian Scholars had to turn for financial help."[188] More discussion of this aspect of American financial support is found in the next sub-section on Harold Innis's influence on Canadian historical writing because of the unique role Innis played in channeling these funds into Canada's social sciences and humanities for more than two decades preceding his death in 1952.

In Canada, during this period, general financial constraints on post-secondary education and the consequential shortage of human resources relative to the magnitude of the tasks to be tackled, over-stretched the capacity of the small number of available scholars, the more ambitious ones, even more so. Biographies of the most influential intellectuals of the period — Adam Shortt, O. D. Skelton, W. C. Clark, William A. Mackintosh, and Harold Innis — tell a story of challenging, and

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[186] Ibid, 151.
[187] See Jeffrey D. Bison, *Rockefeller, Carnegie, and Canada: American Philanthropy and Arts and Letters in Canada* (McGill-Queen's University Press, 2005), 1.
[188] Donald Creighton, *Harold Adams Innis: Portrait of A Scholar* (The University of Toronto Press, 1977), ix.

from time to time, crushing workloads. In 1937, when he was 43, Harold Innis experienced a collapse from "nervous exhaustion" connected not just to the depression he was prone to since serving in WWI but also to the excessive workload he had taken on in his first year as chair of the Department of Political Economy at the University of Toronto.[189] "Overwork" was very likely an important common factor contributing to the early deaths of Innis, Skelton and Clark.

What sustained these Canadian talents to work so hard toward the social transformation of Canada? In addition to personal ambition, different shades of Canadian nationalism were a persistent motivation. A mix of idealism, ideology and sentiment, nationalism was particularly strong among Canada's political and intellectual elites, who were seeking to bring Canada out from under the shadow of the British Empire to become a truly sovereign nation while also being alarmed by the potential threat of absorption by the US, the new super-power of the 20th century. Harold Innis emphatically warned his fellow Canadians about the risk of Canada going from "colony to nation to colony."[190] Canada's search for her cultural identity and place in the world was a paramount call on her intellectuals in the first half of the 20th century and continuing,[191] while was the horrendous malfunctioning of capitalism in the 1930s was another powerful motivator.

In a demanding era of great social economic transformation, Canada's intellectuals faced a difficult choice between pursuing academic research and

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[189] Alexander J. Watson, *Marginal Man: The Dark Vision of Harold Innis* (University of Toronto Press, 2006), 172.
[190] Ibid, 22, 391.

serving the public as experts or civil servants. Their individual choices reflected their judgement on the priority of the nation's needs competing for their attention. By re-examining the preoccupations of the most influential historians and political economists, from O. D. Skelton, Frank Underhill, Harold Innis, to Arthur Lower and Donald Creighton, the generation that grew up under the watch of Shortt's generation or shortly after in the period from the 1920s to the 1940s, we may gain some understanding of why Shortt's banking historical writing did not attract much attention from them. Ironically, like Shortt's decision to link academic skills to the practical needs of the banking industry, these men opted to link their skills to solving the disaster of the Depression and the stresses on confederation and Canada's social fabric.

B. The Impact of Innis's Staples Thesis and "Apolitical" Approach

The above sub-section provided a big picture of the gap in maturity and size between the development of social sciences, including history, in Canada compared to the US in the first half of the 20th century. This subsection revisits the major themes of historical writing in English Canada from the 1920s to the 1940s, as a further step in exploring the reasons behind the decline of banking history in Shortt's tradition. I argue that given the small size of the Canadian historical and social sciences academic community in this period as discussed above, it was natural for their scholarship to influence each other and for a couple of dominant themes or approaches to emerge. The dominant theme in Canadian historiography in this period was Harold Innis's "staples thesis," with traditional political/constitutional history continuing to play a stable supporting role. The preoccupation of scholars with these two themes left minimal room for the continuance of banking history in Shortt's tradition. Also, as noted earlier, Canadian banking around the turn of the 20th century up to the Great Depression was perceived as stable – no banks folded in the Depression – so why study something that seemed to work when so much else was faltering?

Harold Innis, a monumental figure in Canadian intellectual history, played an outsized role in influencing the direction of Canadian historiography and even the agenda of Canadian social sciences. He was called the "international scholarly statesman" of the age,[192] a position that no Canadian intellectual had attained before or would thereafter. This underscores the small size of the Canadian social sciences and humanities circle before WWII. Furthermore, Innis's "apolitical approach" to Canadian economic history, in trying to push economic history research to its aspired "scientific" limits, constituted a fatal blow to banking history in Shortt tradition, i.e., banking history in its organic political economic context.

Much research on Harold Innis has been published in the more than six decades that have passed since his premature death in 1952 at the age of 58. The more representative sources referenced in this thesis are *Harold Adams Innis: Portrait of a Scholar* by Donald Creighton published in 1957,[193] Carl Berger's study of him from the perspective of the evolution of Canadian historiography in *The Writing of Canadian History*, Eric Havelock's *Harold Innis: A Memoir*, portraying Innis as a profound as well as self-contradictory intellectual published in 1982 on the 30th

[192] Ibid, 208, 235.
[193] Creighton, 189.

anniversary of Innis's death,[194] and the more recent *Marginal Man: The Dark Vision of Harold Innis* by Alexander J. Watson published in 2005.

Harold Innis was born in 1894 to an evangelical Baptist family living on a livestock and dairy farm in Otterville in southwestern Ontario. Growing up with very limited means, Harold Innis is said to have been molded by his family's farming routine and Church life.[195] After attending McMaster University, Innis served with the Canadian Expeditionary Forces in France during the First World War where he was wounded physically and psychologically. His Christian faith was shaken by the trauma of the war, and he would afterwards struggle with depression.[196] As for many others, the war experience awakened Innis's nationalism and influenced his intellectual leanings throughout his career as will be discussed shortly.

During his post-graduate studies at the University of Chicago from 1918 to 1920, Harold Innis solidified his interest in economic history, which had originated at McMaster University under the influence of W. S. Wallace, W. J. A. Donald, and others. Creighton noted that Innis "tucked away in his mind a statement of his [McMaster] history lecturer, W. S. Wallace, to the effect that the economic interpretation of history was not the only interpretation of history but was the

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[194] Eric A. Havelock, *Harold A. Innis: A Memoir* (The Harold Innis Foundation, 1982). This memoir was based on Havelock's lectures delivered in 1978 at the Innis College in the University of Toronto. Before his immigration from Britain to Canada at the beginning of the Depression, Havelock had been influenced by Fabian Socialism. Havelock became a left-wing political activist while teaching Classics at the University of Toronto, and he was a co-founder of the League for Social Reconstruction in 1927. After seventeen years of teaching in Toronto, he was hired to teach at Harvard University and Yale University and became an authority in Greek literature and philosophy.

[195] Creighton believed that Innis's farming and Baptist Church family background played a great role in shaping his temperament and character, including his "capacity for continuous hard work, his fund of rather cynical down-to-earth common sense, and his ability to communicate understandingly with people in a wide variety of walks of life." See Creighton, 19.

[196] On Innis's transformation from a Baptist to an agnostic, see Watson, 33; on his struggle with depression after the trauma of war, see Watson, 5.

deepest."[197] Innis's doctoral thesis, a history of the Canadian Pacific Railway, was published in 1923,[198] three years after his appointment as a lecturer in the Department of Political Economy at the University of Toronto.

In 1923, Queen's political economist W. A. Mackintosh, who had joined the Department of Political and Economic Sciences of his *alma mater* in 1920 after post-graduate study at Harvard, published his well-known article *Economic Factors in Canadian History*, which was based on lectures he gave in 1922.[199] Mackintosh's article is credited for making an important contribution to Canadian historiography because of "his explicit recognition of the overriding importance of staple exports, or primary production for external markets, to colonial development."[200] Mackintosh acknowledged the influence of Frederick J. Turner and G. S. Callender, two American historians, in the formation of his view of the staples economy.[201]

In parallel Harold Innis at the University of Toronto was gravitating towards the same approach to Canadian economic history, which would come to be called the "staple approach", or "staples thesis," and he would soon use it to launch an unprecedented attack on what he saw as many myths in Canadian history. If Mackintosh was the first to clearly present a hypothesis on the historical importance of Canada's staples economy, it was Innis who would consummate the

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[197] See Creighton, 28.
[198] Harold A. Innis, *A History of the Canadian Pacific Railway* (London: P. S. King & Son; Toronto: McClelland and Stewart, 1923).
[199] W. A. Mackintosh, "Economic Factors in Canadian History," *The Canadian Historical Review* IV, No.1 (March 1923): 12-25.
[200] W. T. Easterbrook and M. H. Watkins, eds., *Approaches to Canadian Economic History* (Ottawa: Carleton University Press, 1988), ix-x.
[201] On Turner's and Callender's influence on Mackintosh, see Mackintosh's acknowledgement in his article, supra, note 201, 12; Berger also has a brief discussion on the influence of Callender's 1909 *Selections from the Economic History of the United States* – see *Canadian History*, 90-91.

testing of that hypothesis. Innis wrote the two most important works on the staples thesis, i.e. *The Fur Trade in Canada: An Introduction to Canadian Economic History* published in 1930 followed by *The Cod Fisheries: The History of An International Economy* published in 1940. “Though it took fifteen years to sell the first printing of one thousand copies,” Carl Berger marveled, “Innis’s *Fur Trade* was one of the few books in Canadian historical literature that truly deserve to be described as seminal.” [202] Based on almost a decade of patient and painstaking research, *The Fur Trade in Canada* decisively made Innis the most capable and promising social scientist of his time. “Together with his essays of the thirties,” Berger observed, “it had widespread implications and ramifications for economic historians and, later, for the theoreticians of economic development.” [203]

The Fur Trade in Canada also helped Innis win the respect and trust of American foundations. He was hired by the Carnegie Endowment for International Peace as the editor of the Canadian part of the monumental *The Relations of Canada and the United States Series*, a decade-long systematic research project on Canadian economic history. The series was finished in the early 1940s and comprised twelve volumes focusing on different industries in the light of the staples thesis. Innis’s *The Cod Fisheries*[204] was the best of the twelve and the one that rounded out the staples thesis economic history literature. As the overall architect of the Canadian part,

[202] Ibid, Berger, *Canadian History*, 97.
[203] Ibid.
[204] Harold A. Innis, *The Cod Fisheries: The History of an International Economy* (New Haven, Yale University Press; Toronto, The Ryerson Press; for the Carnegie Endowment for International Peace, Division of Economics and History, 1940).

Innis also wrote the prefaces for four of the volumes.[205] The Carnegie series, together with the *Canadian Frontier Settlements Series*, an 8-volume project led by W. A. Mackintosh focusing on Canadian frontier history completed in 1940,[206] and the 1939 findings of the Royal Commission on Dominion-Provincial Relations, constitute the main body of the staples thesis economic history in Canada.

"Before the 1920s," claimed W. T. Easterbrook and Mel Watkins in the 1960s, "research in Canadian economics had been scattered, piecemeal, conducted with a few notable exceptions by those lacking analytical interest or historical grasp."[207] "It was left to such scholars as Mackintosh of Queen's and Innis of Toronto," Easterbrook and Watkins continued, "to bring order out of chaos and to create in the process a national economics adequate for the analysis of the problems of a nation moving slowly out of a prolonged phase of economic colonialism."[208]

Though the production of scholarship on the staples thesis peaked at the outbreak of WWII, its influence lasted much longer. Two decades later, when Mel Watkins, Kari Polanyi Levitt, Wallace Clement and other Canadian political economists revived political economy in Canada, they were not only still relishing "the international recognition earned by the scholarship of the 1920s to 50s" as

[205] Watson, 165.
[206] This project was initiated by the Canadian Pioneer Problems Committee and sponsored by the Social Sciences Research Council of Canada. Mackintosh was the coordinator of the project. It started as early as 1927 but did not wrap up until 1940. Innis contributed the volume *Settlement and the Mining Frontier*. See Hugh Grant, *W. A. Mackintosh: The Life of a Canadian Economist* (McGill-Queen's University Press, 2015), 114-115; see also Harold A. Innis, "Canadian Frontiers Settlement: A Review," *Geographical Review* 25, No. 1(Jan 1935): 92-106.
[207] Easterbrook and Watkins, 260.
[208] Ibid, 260-261.

represented by Innis and Mackintosh,[209] they clearly identified the staples approach as the foundation of their new political economy.[210]

Indeed, in the dynamic pre-WWII debate between mainstream neo-classical capitalist economics and the revolution-oriented Marxist political economy as the formidable challenger and disrupter, the staples approach consummated by Harold Innis's scholarship emerged as a unique alternative.[211] Drawing on the deep insights of Thorstein Veblen at the turn of the century and his own thorough research in Canada, Innis warned that Canada's dependence on the extraction of a series of staples throughout its history and the resultant danger of a compromised incomplete industrialization would make the country's economy and overall well-being vulnerable to exploitation by more industrialized economies.[212] This was probably the most important and consequential scholarly insight in Canadian economic history in the 20th century, and the revival of political economy in Canada in the 1970s is a testimony to the soundness and timelessness of the staples thesis, particularly as exemplified by Innis's scholarship.

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[209] Wallace Clement and Glen Williams, eds., *The New Canadian Political Economy* (McGill-Queen's University Press, 1989), 3.

[210] At the center of the revived political economy of the 1970s, the Naylor-Clement thesis is effectively a modernized staples thesis. See, ibid, Chapter One, *The Political Economy of Growth*, by Mel Watkins, 16-35.

[211] In their Introduction, Wallace and Williams provide a concise overview of Innis's scholarship, including Thorstein Veblen's influence: ibid, 7-8. In Alexander J. Watson's biography of Harold Innis, he devotes ten pages to Veblen's influence on Innis: Watson, 153-163.

[212] See Daniel Drache, "Harold Innis and Canadian Capitalist Development," *Canadian Journal of Political and Social Theory* 6, No. 1-2 (Winter/Spring, 1982): 35-60; also, Clement and Williams,16-35.

Though Innis was notorious for a heavy-going writing style that Carl Berger assessed as "awkward at best,"[213] his penetrating, formidable and systematic methodology won him widespread recognition and respect among historians and social sciences scholars more generally. Donald Creighton, who set the high water mark in writing history as fine literature and is widely regarded as one of Canada's foremost historians, considered Innis to be "the greatest Canadian national historian."[214] His assessment drives home the point that Innis's historical insights and contributions to Canadian self-understanding were achieved because of, and not despite, his political economy background.

In the 1940s, Innis turned to the study of the relation between politics and communication and this became the primary focus of the second part of his academic career.[215] Since this phase is not as relevant to the discussion of the decline of banking history in Canada as Innis's economic history, his contributions in this area are not discussed further in this thesis. Instead, the discussion that follows seeks to explain why Innis's dominance of Canadian historiography could have crowded out interest in banking history and history generally in Shortt's tradition. The elements which combined to create Innis's exceptional influence included his

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[213] Berger derived his detailed observations on Innis's difficult writing style from various sources, including his high school teacher and the leading historians of his time such as George Wrong, W. S. Wallace and J. B. Brebner: see Berger, *Canadian History*, 107-108.
[214] Creighton, 103.
[215] Innis's contributions to the study of the dynamic interaction between communications and political order, together with those of other contemporary scholars from the University of Toronto such as Eric Havelock, Northrop Frye, and Marshall McLuhan, would form the so-called "Toronto School of Communication." The second half of Eric Havelock's *Harold Innis: A Memoir* deals with Innis's explorations in this area.

"apolitical" commitment to economic history research as "science,"[216] his fierce nationalism, his strong commitment to the overall advancement of the social sciences in Canada, and the social and economic context – Canada in the Great Depression – in which he was working.

On the reasons for Innis's dominance of economic history, Carl Berger believed the Depression was critical: "The Depression had the immediate effect of intensifying, and in certain respects deflecting, the main impulse of the cultural nationalism of the twenties. The collapse of the economy strengthened the determination of scholars to concentrate on the material factors in history."[217] The publication of Innis's *The Fur Trade in Canada* in 1930 immediately "caught the attention of younger scholars at a moment when their dissatisfaction with constitutional and political history was most pronounced and when the Depression made the economic interpretation of the past seem more appropriate than the Britannic idealism of the previous generation."[218]

Innis called his approach to the study of Canadian economic history "dirt" research, by which he meant to stress the importance of intense fieldwork. Berger described Innis's dirt research over almost two decades across the great landmass of Canada as follows:

> In the summer of 1924 Innis and a friend – John Long, a Toronto high school teacher – canoed two thousand miles down the Mackenzie River… [In] 1926 he visited Yukon and the next summer travelled through northern Ontario, Quebec and Maritimes. He went down into the Hollinger Mines at Timmins

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[216] Berger noted Harold Innis's "conception of economic history as a genuine 'science'": see Berger, *Canadian History*, 101.
[217] Ibid, 100.
[218] Ibid, 97.

> and spent days in the grain elevators at Port Arthur. In 1929 he went west and then up the newly completed Hudson's Bay Railways to the port of Churchill; in 1930 he was in Newfoundland investigating the outports and techniques of the fisheries. By the early 1940s the only places in the country Innis had not visited were the western Arctic and the east side of Hudson's Bay.[219]

Innis's pilgrim-like approach to economic history seems to have had several rationales. The first is the critical insight he learned from Scottish geographer Marion Newbigin regarding the far-reaching implications of the Laurentian Shield and the St Lawrence waterway to the sustaining of Canada as a political economic body independent of the US. According to Berger, Newbigin's *Canada: the Great River, the Lands and the Men*, published in 1926 "anticipated – perhaps even prompted" a major theme of Innis's economic history.[220] Several years later Innis introduced Newbigin's work to Donald Creighton, who made it an indispensable part of the core plot of his famous *The Commercial Empire of the St Lawrence: 1760-1850*.[221]

A second rationale for Innis's "dirt" approach was his belief that Canada needed an indigenous political economic paradigm which required painstaking work from the bottom up. He feared that "scholars who borrowed pre-existing paradigms from Keynes, Marx, the Fabians, and others had betrayed their scholarly calling."[222] For Innis, Canada's economic history, offered Canadian scholars the

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[219] Ibid, 89-90.
[220] Ibid, 92.
[221] Berger noted that Innis "admired Creighton's articles on the conflict of agriculture and commerce in Lower Canada and took a personal interest in his work…[and] suggested, for example, [that] Creighton read Marion Newbigin's *Canada: the Great River, the Lands and the Men* and in it Creighton found a lesson on how to write a study around a geographical entity." Ibid, 212.
[222] Watson, 166.

opportunity "to [look] at subjects far beyond Canada, and to [make] a genuinely Canadian scholarly contribution to universal knowledge."[223] Innis was, "above all," wrote Alexander Watson, "convinced that scholars should work from the specifics to the universal, from the concrete to the abstract."[224]

Innis's commitment to indigenous Canadian historical scholarship is unequivocally admirable and must surely have been inspirational to emerging scholars. Within his power, Innis rigidly enforced his dirt research approach on younger scholars. For example, according to Alexander Watson, "[h]e directed the travel of younger researchers who were completing the review of Canada's staples industries."[225] Nonetheless, his objections to borrowing European paradigms suggests dogmatism or self-contradiction — how could Innis be so confident that knowledge extrapolated from the Canadian specifics would contribute to universal knowledge when he was dismissing at the same time the universality of the theories of Karl Marx and John M. Keynes?

A third rationale behind Innis's commitment to "dirt" research seems to relate to his temperament and in turn to his farming and Baptist familial upbringing. According to his wife, Innis had much more affection for rural people than city dwellers,[226] and Creighton believed that Innis's "strict sense of values and feeling of devotion to a cause" was at least in part attributable to the "instruction imparted so

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[223] Ibid.
[224] Ibid.
[225] Ibid.
[226] Mary Quayle Innis, Innis's wife, said that Innis had "a deep preference for country people as against city people." See Berger, *Canadian History*, 85-86.

zealously and unquestioningly inside the severely unadorned walls of the Baptist Church of Otterville."[227]

Arthur Lower and Donald Creighton, two of the five Canadian historians to whom Carl Berger dedicated individual chapters in *The Writing of Canadian History*,[228] were clearly influenced by the staples thesis advanced by Innis and Mackintosh in the 1920s-1930s when their own careers in history were just taking off. According to Berger, Lower's three major works in the 1930s after his post-graduate study at Harvard, i.e. *The Trade in Square Timber* (1932), *Settlement and the Forest Frontier in Eastern Canada* (1936) and *The North American Assault on the Canadian Forest* (1938), were all "set within the familiar framework of the staples thesis that had been suggested by William Mackintosh and elaborated by Innis."[229] *Settlement and the Forest Frontier in Eastern Canada* was published in one volume along with Innis's *Settlement and the Mining Frontier* as their contribution to the *Canadian Frontiers of Settlement* series edited by William Mackintosh. [230]

Creighton, after obtaining a B. A. from the University of Toronto, continued post-graduate study at Balliol College, Oxford. He joined the Department of History of his *alma mater* in 1927. According to Berger, George Wrong, the long-term chair of the Department of History, liked to fill his department with alumni from Balliol College.[231] Financial constraints frustrated Creighton's interest in researching the French revolution, which would have required him to invest much more in research

[227] Creighton, 19.
[228] The other three historians were Frank Underhill, Harold Innis and William L. Morton. See generally, Berger, *Canadian History*.
[229] Ibid, 116.
[230]Ibid, 116; and Watson, 165.
[231] Berger, *Canadian History*, 10, 141.

in Europe. But Creighton did not follow the orthodox path of the senior members of his department to write constitutional history. Instead, he was influenced by Innis from the Department of Political Economy to follow an economic history path: "Creighton became increasingly fascinated with…the merchant community and its political allies" which had not been examined in Canada.[232] "He quickly found," Berger noted, "that behind the familiar constitutional exchanges lay a more profound conflict over land tenures, taxation, immigration, tariffs, canals, and commerce." Shortly thereafter, Creighton encountered Innis's 1930 *The Fur Trade in Canada* and in 1931 he reviewed this important book "in his father's journal."[233]

Though Creighton's wide reading and deep research for his first major work exposed him to diverse influences, notably that of Charles Beard, the great American progressive historian,[234] Berger concludes that "Innis's study of the formative role of the fur trade in shaping Canadian development" was "the most important single intellectual influence on the evolution of Creighton's own views of Canadian history."[235] *The Commercial Empire of the St. Lawrence*, published as one of the volumes in *The Relations of Canada and the United States series*, articulated the so-called Laurentian Thesis credited to Innis and Creighton, which stressed that the St. Lawrence waterway and Great Lakes system established the geographical foundation that integrated Canada's east to west direction and connected it to England and other European economic centers independent of the United States.

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[232] Ibid, 210.
[233] Ibid, 212. According to Berger, Creighton's father William B. Creighton was a Methodist pastor and an editor of a Christian journal *New Look* in the 1930s: ibid 208-209.
[234] Ibid, 211.
[235] Ibid, 212.

Creighton's temperament, skill and historiographical conviction made him exceptionally fit for the history profession and well equipped to carry out the classic historical aspiration, i.e. to strike a fine balance between science and literature. While he was greatly influenced by Innis, their relationship was one of mutual admiration, which made it natural for him to be appointed as Innis's biographer after his death.

Scholarly accounts of Innis's role in channeling financial support for emerging and established scholars from the American philanthropic foundations founded by the Rockefeller, Carnegie and Guggenheim families reveal important aspects of Innis's influence and character, from the high regard in which he was held by these Foundations, to his nationalism and sense of duty to facilitate financial support for Canadian social sciences and humanities projects, to his unusual tenacity in holding to his intellectual beliefs.[236]

By the late 1920s, Innis had established his credentials with the chief officers working for the major American foundations in their Canada projects. The publication of *The Fur Trade in Canada* elevated him to a matchless place. "The chief officers representing the Rockefeller Foundation, the Carnegie Endowment for International Peace and Guggenheim Foundation," according to Donald Creighton, "probably know Harold Innis better than any other academic figure in Canada…Henry A. Moe, the Secretary-General of the Guggenheim Foundation, asked

[236] See Bison, particularly Chapter 5, *American Philanthropy and Canadian Letters*, 151-196. There is also an extensive discussion on this aspect of Innis's career, particularly his interactions with James T. Shotwell who represented the Carnegie Endowment in International Peace in Canada, in Watson, 198-215.

his advice in awarding fellowships…James T. Shotwell, the Director of the Division of Economics and History in Carnegie Endowment, had made Innis his chief Canadian advisor…"[237] "On the basis of his influence in the Carnegie and Rockefeller organizations," Alexander Watson wrote, "he went on to wield similar power in the Canadian programs of the Guggenheim and Nuffield foundations and of other foundations as well."[238]

The Relations of Canada and the United States series sponsored by the Carnegie Endowment for International Peace best illustrates the extent to which Innis had won the respect and trust of the American foundations. James T. Shotwell, the chief representative of the Carnegie Endowment in Canada, was an outstanding scholar in his own right.[239] His Canadian background helped him to form a robust bond with Innis which would outlast the challenges posed by this decade-long project. Shotwell went to great lengths to accommodate the strong-willed Innis. The overall project was designed to enhance relations between the two North American countries by exploring their cultural and economic bonds. As the editor for the Canadian part, Innis was bold and steadfast enough to take it in another direction: to explore Canadian economic history totally in the light of his staples thesis, underlying which, as *The Fur Trade in Canada* had demonstrated, there was

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[237] Creighton, ix.
[238] Watson, 200.
[239] James T. Shotwell was born in 1874 in Ontario to an American Quaker immigrant family. He became one of many Canadian student migrants to the US after completing undergraduate study at the University of Toronto. After obtaining his doctorate from Columbia University under the supervision of the historian James Harvey Robinson, he taught at that institution and developed close relations with Robinson and Charles Beard. See Lisa Anderson, "James T. Shotwell: A Life Devoted to Organizing Peace," *Columbia Magazine* (winter, 2005), available at https://magazine.columbia.edu/article/james-t-shotwell-life-devoted-organizing-peace, accessed March 30, 2019.

Canada's west-east integration and its independent identity separate from the US. Shotwell's colleagues in the US initially pushed back vehemently against this change of direction. Innis was perceived as "bending the project to his own end" and it was suggested that he should be eliminated from the project.[240] More than that, the budget of the Canadian part was threatened to be cut to only 25 percent of the original grant. When Shotwell pushed Innis to cut back on his ambition in the face of the much-reduced budget, Innis refused. "Ruthlessly fixed on pursuing his project," Alexander Watson wrote, "Innis wrote back suggesting that all the studies be pursued as planned, with their authors receiving proportionately less funds (and Innis none at all)." With Shotwell's unwavering support, Innis overcame the opposition.[241] After this decisive win, Innis successfully wrestled back from Yale University Press the publication right over the Canadian volumes and gave it to Ryerson.[242]

If the nationalism ignited in Innis during WWI began from a sentiment of deep frustration with the old order and a vague belief in Canada's independent identity, a decade later, the findings from his study in economic history had transformed his nationalism into a conviction greatly fortified by "scientific truth." At the core of Innis's findings, Berger observed, was his conclusion "that Canada developed not in spite of geography but because of it, and that there was a naturalness and solidity to the very structure of the country that lay far deeper than

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[240] Watson, 203.
[241] Ibid, 203-204. It is not totally clear if the original budget was restored, or if the project was carried out at a much lower budget. Watson only states vaguely: "In the face of such zeal, and the continued backing of Shotwell, the opposition to Innis's outline seems to have been overcome."
[242] Berger, *Canadian History*, 109.

political arrangement."[243] Jeffery Bison put it another way: "Over time it has been Creighton and Innis's 'Laurentian thesis,' not Shotwell's Continentalism, that has dominated Canadian historiography.[244]

"American historians," Havelock wrote, "have lately turned their attention to their Canadian counterparts, noting the nationalist bias of their work."[245] In the case of Innis, the abrasiveness of his nationalism was somewhat mitigated by his authority, selflessness and integrity.[246] When Innis prematurely passed away in 1952, Anne Bezanson, the chief representative of the Rockefeller Foundation in Canada, eulogized him: "With his prestige, the advice of Innis was sought without his initiative, because he was thought as 'Innis of Canada.'"[247] The Rockefeller Foundation contributed a grant of $215,000 for a program of "research on the problems of Canadian development" in honor of Innis.[248]

With Innis as the exemplary leader, the Canadian scholars who collectively were greatly indebted to the financial support of the American philanthropic foundations maintained the independence of their research intact. "That Innis, Creighton, Lower, Carl Dawson, Clark, and scores of others Canadian academics relied heavily on the support of the Rockefeller Foundation and the Carnegie

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243 Ibid, 97.
244 Bison, 164.
245 Havelock, 19. As discussed in Chapter IV, *Breckenridge and the American Invasion in Writing the History of Canadian Banking*, from Shortt's 1895 review of Breckenridge's published doctoral thesis to Frank Knox's and Irene Biss Spry's 1939 review of American Milton Stokes's history of the Bank of Canada, there is a discernable attitude of dismissal by Canadian scholars to the contributions of American researchers to Canadian banking history.
246 "On large matters and small," Berger also notes, "Innis was a prickly nationalist who could become incensed at aspersions on Canadian scholarly effort." Berger, *Canadian History*, 109.
247 Bison, 193.
248 Creighton, x.

Corporation," Jeffery Bison observed, "does not make them puppets whose work was 'animated' by American wealth." In this sense, there is some truth to the description of Harold Innis as an "international scholarly statesman" from Canada.[249]

In 1937, Innis was elected president of the *Canadian Political Science Association* and appointed dean of the prestigious Department of Political Economy at the University of Toronto. In the 1940s Innis reached the peak of his influence. In addition to his continuing role as the Canadian point man for the American foundations, he was appointed to two Royal Commissions, was involved in setting up the Canadian Social Science Research Council (CSSRC) in 1940 and the Humanities Research Council of Canada in 1944, both modeled after their American counter parts, and served as chairman of the CSSRC's grants-in-aid committee from 1940 to 1948.[250] In 1946, he was elected president of the Royal Society of Canada. In 1947, he became dean of Graduate Studies at the University of Toronto. In the late 1940s, he received honorary degrees from prestigious universities on both sides of the Atlantic, and delivered lectures at Oxford, University of London and Nottingham University. In 1946, when he was twice solicited by the University of Chicago with lucrative offers, Innis explained his refusal to his wife: "I can't leave Canada. I have all the threads in my hands."[251]

The last but not the least substantial aspect of Harold Innis's influence was his "apolitical approach" to scholarship. This is highly relevant to the discussion on

[249] Bison, 194.
[250] Watson, 200.
[251] Berger, *Canadian History*, 109.

the decline of banking history in Shortt's tradition. Innis's efforts to drive politics out of his economic history to pursue the deeper economic, geographical and technological forces that he perceived had shaped Canada's past posed an anti-thesis to Shortt's political economic approach, even if Shortt's political economic approach was largely one-sided in favor of the political and banking elites. It was argued forcibly by Innis "that a depoliticized intellectual elite is useful as a reserve of neutral investigators for royal commissions and other agencies."[252] In the discussion that follows I argue that the influence of Innis's "apolitical approach" on scholarship was amplified by his dominant position in both history and political economy since the beginning of the 1930s, the small-size of the academic community as mentioned earlier and the over-concentration of power at the University of Toronto. The general oppressive political environment was congenial to Innis's approach and to discouraging involvement in politics, especially left-leaning politics by mainstream academia.

Innis was not overall an elusive person to deal with. In the then small Canadian academic community, he "not only knew what nearly everyone in the fields of political economy and history was doing but he was invariably encouraging."[253] But on issues of principle, he was consistently rigid, even stubborn: being "apolitical" was one such cardinal principle. He adhered to it not only throughout his own life but also enforced it on others to the extent within his power, though sometimes the backlash could be troubling. Havelock, a colleague at the

[252] John Porter, *The Vertical Mosaic: An Analysis of Social Class and Power in Canada* (University of Toronto Press, 1965), 503.
[253] Berger, *Canadian History*, 109.

University of Toronto, recollected that Innis issued a "cardinal injunction to members of own department that they eschew political involvement and stick to scholarship." In the *Marginal Man*, Watson details Innis's efforts to influence Irene Biss, his junior colleague and protégée, who was originally from South Africa and had joined the Department of Political Economy at the University of Toronto in 1929 after studying at Cambridge University at a time when intellectual luminaries like John M. Keynes and A. C. Pigou were teaching there.[254] Biss doubted the potential of Innis's staples thesis to lead to the aspired universal knowledge and rejected Innis's request for her to withdraw from left-leaning politics, straining their relationship. This greatly troubled Innis and was a factor in his nervous breakdown in 1937.[255]

Frank Underhill from the Department of History at the University of Toronto, an outspoken left-wing intellectual and co-founder of the LSR and the CCF, was one of Innis's primary targets. Innis called Underhill and his fellow LSR intellectuals "Hot Gospellers," or "Political Adventurers in Universities, using language which suggested they resembled travelling salesmen peddling nostrums."[256] Innis's attack on the LSR and the CCF did not remain private; he went "as far as to attack them publicly and in print."[257] Eric Havelock saw Innis's attack on Underhill and left-leaning politics generally as the most revealing example of Innis's self-contradictions. Canada's experience of the Great Depression showed that "the

[254] Jeanne K. Laux, "Irene Spry: More Than a Life of the Mind," *Atlantis*, No. 2 (Spring/Summer, 1999): 39-41.
[255] Watson believes that Innis, although a married man with a family, had fallen in love with Biss. On Innis's efforts to push Biss to follow his "dirt" research and "apolitical" approach and their complicated relationship, see Watson, 192-198.
[256] Havelock, 24.
[257] Ibid, 17.

Canadian economy was obviously being mismanaged, with great injustice to the wage earners, and considerable suppression of free speech."[258] To the dismay of many who were either left-wing activists or sympathizers, "Innis stood against the rising tide of demands on scholars to participate more directly in the political life of he country."[259] "At one time," Havelock lamented, "he got carried away to the point of seeming to advocate a replacement of democracy by more authoritarian forms of government."[260] More than just attacking the left, as Berger observed, Innis also attacked "the case for centralization of the Rowell-Sirois Report, and he came to see the participation of academics in radical politics, or even their joining the state bureaucracy, as disastrous threats to Canadian scholarship."[261]

Havelock emphasized that in an age when political conservatives were entrenched in power, Innis's position helped his academic ascent. In the 1930s, freedom of speech in Canada was still oppressed to a great extent. "The doctrines not only of Marx," Havelock recollected, "but also of Freud were under a virtual ban in Toronto."[262] In 1931, when Underhill and 68 other University of Toronto professors published an open letter protesting the Toronto police for suppressing the leftists' rights of free speech, Sir John Aird, then President of the Canadian Bank of Commerce, one of the largest banks in the country based in Toronto, reacted in an

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[258] Ibid, 16.
[259] Berger, *Canadian History*, 101
[260] Havelock, 17.
[261] Berger, *Canadian History*, 101.
[262] Havelock, 24.

anti-intellectual and condescending way, suggesting that professors should "stick to their knitting."[263]

Almost a decade later, not much had changed: in 1939-1940 when Frank Underhill, a veteran of the First World War, publicly questioned Canada's involvement in the war in Europe, he drew vehement attacks from the imperialists and found himself on the verge of being driven out of the University of Toronto on several occasions.[264] (It should be noted here that Innis, who was a war veteran himself and had a good relationship with University of Toronto president Henry J. Cody, defended Underhill vigorously on one occasion.[265])

Havelock believed that Innis's conservative position and "apolitical approach" gave Innis a great advantage in gaining power in the academic community. "His public reputation as a political conservative," Havelock claimed, "buttressed by his polemics against the brain trusters of the CCF, was of considerable assistance to him in attaining the influence he sought."[266] "The radical in Canada was the outsider," Havelock furthered, "very firmly so… Innis in his day and age became an insider."[267] For Havelock, it is ironic that while Innis in his speech and writing unequivocally denounced power as "poison",[268] in his

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[263] Jamie Bradburn, "Free Speech Controversies on Campus – 1930-style," available at https://www.tvo.org/article/free-speech-controversies-on-campus-1930s-style, accessed April 1, 2019. About John Aird, see The Canadian Encyclopedia, available at https://www.thecanadianencyclopedia.ca/en/article/sir-john-aird, last retrieved on April 1, 2019, accessed April 1, 2019.

[264] The series of events from 1939 to 1940 involving Frank Underhill has been much written about: see, for example, Havelock, supra, note 196, 19-21; and Watson, supra, note 190, 228-231.

[265] On Innis's defence of Frank Underhill in 1939, see ibid, Havelock, 21.

[266] Ibid, 24

[267] Ibid, 25

[268] For such denunciation of power by Innis, see, for example, Harold A. Innis, *Political Economy in the Modern State* (Toronto: The Ryerson Press, 1946), xiii.

intellectual circle, he summoned the most power as an individual scholar – "Take him all in all…" Havelock commented, "in the specific categories of his achievement, and you will not, I think, find, up to this point of our times, his equal among his fellow Canadians."[269]

On the exceptional influence of Innis and his "apolitical approach," sociologist John Porter makes essentially the same observation. In his landmark work *Vertical Mosaic* published in 1961, Porter concludes:

> No one played a more important role in the depoliticizing of higher learning in Canada than Harold Innis. His position as the head of the Department of Political Economy at the University of Toronto, his own prodigious scholarship, and the numerous scholarly offices which he held made him, until he died in 1952, one of the most powerful figures in Canadian academic circles. A generation of Canadian trained social scientists came under his influence and acquired his attitudes, among which was the opinion that political parties were nasty things for scholars to play around with.[270]

C. The New Priorities of Queen's Political Economists

As shown above, the "staples thesis" was not only the pivot of Canadian economic research but also the dominant theme in Canadian historical writing for almost two decades following its emergence in the 1920s. When the country was battered by economic difficulties in the late 1920s and most of the 1930s, Canadian constitutional history, the orthodox subject of historical writing retreated to a secondary place.

[269] Havelock, 26.
[270] Porter, 503.

After Shortt's departure in 1908, the Queen's Department of Political and Economic Sciences co-founded by him, though still small,[271] hired several outstanding scholars who left their marks on Canadian history. The most notable in the immediate post-Shortt age were O. D. Skelton, W. C. Clark and W. A. Mackintosh, all of whom have been the subject of serious biographies in recent years: *Behind the Scenes: The Life and Work of William Clifford Clark* by Robert A. Wardhaugh published in 2010, *O. D. Skelton: A Portrait of Canadian Ambition* by Norman Hillmer published in 2015, and *W. A. Mackintosh: The Life of a Canadian Economist* by Hugh Grant published in 2015. Much earlier, Mackintosh had penned brief intellectual biographies of Shortt, Skelton and Clark.[272] These older and newer biographies are the primary sources for the discussion that follows.

Having received their undergraduate education at Queen's at the turn of the century, Skelton, Clark and Macintosh were inevitably influenced by Adam Shortt directly or indirectly. Although high achievers in their own right after graduate study at the best American universities, Skelton at Chicago, and Clark and Mackintosh at Harvard, none came close to being as devoted to Canadian historical research as Innis, or even Shortt; only Mackintosh, as a co-founder of the "staples thesis," had some substantial exposure to historical study. They were instead pressured by the prevailing political economic environment to take on the

[271] When W. C. Clark returned from Harvard to join the Department in 1915, it had four permanent faculty members, O. D. Skelton, W. W. Swanson, Humphrey Mitchell, and Clark. See Wardhaugh, 16.
[272] See: "Adam Shortt, 1859-1931," *Canadian Journal of Economics and Political Science* 4: 164-76; "O. D. Skelton," *Canadian Journal of Economics and Political Science* 7: 270-8; "O. S. Skelton," in Robert L. McDougall, ed., *Canada's Past and Present: A Dialogue, Our Living Tradition* (University of Toronto Press in association with Carleton University Press, 1965), 59-77; "William Clifford Clark: A Personal Memoir," *Queen's Quarterly* 60 (1953): 1-6.

challenges of the day in a much more practical way through public service, from foreign policy and economic policymaking to founding modern institutions and transforming older ones. By pursuing these priorities, they did not inject new life into Shortt's banking history, but neither did they betray Shortt; after all, Shortt had already led the way by leaving Queens' for public service at Ottawa in his prime.

Skelton studied English and Classics at Queen's as an undergraduate in the period from 1896 to 1899, graduating with a M. A., which emulated the Scottish tradition to award a masters' degree to those exceptional undergraduates who finished two honours courses and earned a double first. He stayed at Queen's to study Latin for the 1899-1900 academic year and won a medal for excellence. Skelton's interest in language took him to the University of Chicago in 1900 to study Greek. After a few years exploring different directions, he returned to Chicago in 1905 to pursue a doctoral degree in political science and economics where he was influenced by Thorstein Veblen, Laurence Laughlin and other scholars.[273] In 1907, on the eve of completing his doctoral studies, Skelton was invited by Shortt to join his department as a lecturer. In 1908 Skelton submitted his doctoral thesis and was hired as a full professor at Queen's. In the same year, Shortt resigned from Queen's to take up the post of Civil Service Commissioner, and Skelton took over the John A. MacDonald Chair of Political and Economic Sciences.

Building on Shortt's foundation, Skelton is credited for bringing Queen's to national prominence in political economy. "He was in many ways the most publicly

[273] Thorstein Veblen had much more influence on Skelton than anybody else at Chicago, but Laurence Laughlin, the head of the Department of Political Science, was the supervisor of his doctoral thesis on socialism. See Hillmer, 27.

recognized and most influential of the collection of scholars who have become known as the 'Queen's political economists.'"[274] Skelton's first book, based on his doctoral thesis, *Socialism: A Critical Analysis* published in America in 1911, "was widely read and praised." "Vladimir Lenin," Norman Hillmer noted, "the Russian revolutionary, wrote Skelton to say that his indictment of Socialism was the finest ever mounted by a scholar from the bourgeois camp."[275] At Queen's Skelton wrote extensively on economic issues. "His General Economic History of the Dominion," according to Marvin McInnis, "written to be a long chapter in the multi-volumed history *Canada and its Provinces*, was . . . incisive, and for the time remarkably quantitative…"[276] Mackintosh, Skelton's student, mentee and good friend, admired Skelton for his "gift for casting larger patterns into sharp relief."[277] It was clear to Mackintosh that "Skelton elevated the study of political economy at Queen's to new heights."[278]

In 1919 Skelton became Dean of Arts. In his years at Queen's, Skelton led the university to become the first in Canada to open practical courses preparing students for careers in banking and commerce. After its establishment in the early 1890s, the Canadian Bankers' Association (CBA) had aspired to gain a platform to provide courses to train banking personnel to fulfill the human resources needs of the then rapidly expanding industry. Skelton cooperated with the CBA by providing

[274] Marvin McInnis, "Oscar Douglass Skelton (1878-1941)," *Past QED Faculty* provided by the Department of Economics of Queen's University, available at https://www.econ.queensu.ca/alumni/history/past-qed-faculty, accessed June 30, 2019.
[275] Hiller, 6, 32-33.
[276] McInnis, *Skelton*.
[277] Grant, 386.
[278] Ibid, 42.

courses from his faculty:[279] "Commencing in 1914, three correspondence courses were offered… an advance course and a supplementary course, taught by Queen's."[280] After WWI, when the banking courses stabilized and gained popularity, Skelton and Clark introduced further business training courses such as *Marketing*, *Commercial law and Accounting*, and *Money and Banking.*[281] The CBA courses were money-makers for Queen's, especially during times when regular enrolment dropped.

Skelton's prolific scholarship on political economy, including Canada's international relations, gained him an increasing reputation beyond academe. His ambition and ability brought him to the attention of national leaders. He became an advisor to Prime Minister Wilfrid Laurier and future Prime Minister Mackenzie King. His insights on international relations and his commitment to public service eventually landed him the job of the first Under Secretary of the Department of External Affairs. From 1925 to 1941, Skelton oversaw the crafting of Canada's foreign policy and the establishment of Canada's system of foreign service, and he became the most powerful civil servant of the time.[282]

The overwhelming workload of Canadian intellectuals during this period was previously noted. Skelton is another tragic example; he died in 1941 at the age of 63.

[279] This shows that Skelton was practical and flexible enough to meet the needs of the CBA. He originally had wanted to provide this type of practical education at the post-graduate level, emulating the practice at Harvard. See, "Oscar Douglass Skelton (1878-1941)," available at https://www.econ.queensu.ca/alumni/history/past-qed-faculty, accessed April 30, 2019.
[280] Grant, 91.
[281] Ibid.
[282] There are also many references to Skelton's influence on Clark and Mackintosh in the biographies of the latter two: *Behind the Scenes: The Life and Work of William Clifford Clark* and *W. A. Mackintosh: The Life of a Canadian Economist*.

Mackintosh recorded that "[t]hroughout the last years, Skelton persisted to carry out his full duties in precarious health… He relinquished few of his responsibilities… Day after day, through his dinner hour or late at night, he waited unutterably weary and pale for the War Committee or Cabinet to end their long discussions in order that he might be available to the Prime Minister, transmit the results, or set the wheels in motion."[283]

As a more junior political economist who had keenly observed his senior Queen's colleagues, Mackintosh offers a useful perspective on Shortt and Skelton and Skelton's clear departure from Shortt's approach to historical study. Mackintosh's perspective, according to his biographer, reveals Skelton's bias for the utility of historical knowledge to solve pressing current problems: "Despite Shortt's 'profound knowledge of the detail of Canadian history, he had little capacity to digest or to mark out essential line of development. In contrast Skelton added to his remarkable breadth of knowledge the 'amazing powers of synthesis and balanced judgement,' and a pen that 'ran swiftly and with a craftsman's sure precision.'"[284]

If Skelton's knowledge was mainly deployed in the foreign relations sphere, Clark was the first Queen's political economist to master economic policymaking. Clark entered Queen's in 1906 and spent four years studying Latin and French. Like his mentor Skelton, he was awarded an M.A. for completing two full honours courses and earning a double first.[285] Clark continued his studies at Queen's for two more years enrolling in the other three full honours courses, English, History and

[283] McDougall, 76.
[284] Grant, 42.
[285] Wardhaugh, 8.

Economics. He was probably the first student to finish all five full honours subjects in the history of the university.[286] Skelton and his colleagues were impressed by Clark's exceptional talents. Skelton saw in Clark "the making of a brilliant scholar and teacher. He has a quick and wide grasp of facts, power to analyze and correlate them in a systematic fashion..."[287] On Skelton's recommendation, Clark pursued doctoral studies in economics at Harvard under the famous Frank W. Taussig.

In 1915, three years into his doctoral program, Clark accepted Skelton's offer to return to teach at Queen's deferring the completion of his doctorate, though he never did return to Harvard to finish it. In the years that followed, in the small department of only four full-time professors, "Clark handled the bulk of the economics courses, including Introduction to Economics, second-year course on Agriculture Economics, Money and Banking, and the Canadian Banking System, and an upper-level course, Corporate Finance."[288] Shortly after joining Queen's, Clark also entered into collaborations with various departments of the Canadian federal government which was in dire need of help from economists to formulate policy responses to the economic challenges facing the country.[289]Clark thus became one of the earliest Canadian applied economists.

In his early days teaching at Queen's, Clark joined with Skelton to defend the introduction of the banking and commerce courses which were ridiculed as "vocational courses" by J. M. Macdonnell. According to Wardhaugh, Macdonnell was

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[286] Ibid.
[287] Ibid, 11.
[288] Grant, at 91.
[289] On Clark's collaborations with the various government agencies in the late 1910s, see Wardhaugh, 20-21.

"Queen's first Rhodes Scholar, a member and later chair of the Board of Trustees, and a senior officer of National Trust…"[290] For Macdonnell, the introduction of these practical courses was "a sign of the deterioration in education."[291] In Macdonnell's view, Wardhaugh continued, "vocational studies would render the classical subjects useless and impractical: 'It is so easy for the aggressively practical students to make the student who is pursuing purely intellectual things feel that he is a dreamer, impractical, almost unmanly to spend his time at Latin or Greek or Philosophy!'"[292]

Clark's rebuttal of Macdonell's criticisms reveal his empirical perspective. Clark pointed to evidence that the quality of the education had not deteriorated but improved: "standards of class, essay, and examination work were rising."[293] He emphasized that the program at Queen's was not solely based on technical courses but was blended with classic liberal arts courses so that students learned the principles of business administration while at the same time receiving the training necessary for a career. Clark also criticized the traditional university lecture method: "The best lecturer may incite the admiration of his students by the range and profundity of his thought or the beauty of his language or the masterly arrangement of his ideas, but in actual practice the lecture system fails because while the professor's mind is or may be, active, it is the student's arm, not his mind which is active."[294] Clark argued that Macdonnell "was railing against a narrow

[290] Ibid, 29.
[291] Ibid.
[292] Ibid.
[293] Ibid.
[294] Ibid.

technical program that did not exist"[295] and defended commerce as a worthy university subject: "Those in the ivory tower maintained a traditional condescension towards the business world; they turned their noses up at the thought of commerce courses running alongside those of ancient philosophy or the literary classics. But commerce was changing and that positive transformation could continue if the scientific methods now being applied to other subjects could also be applied to business."[296]

Clark's defense of commerce as a "noble profession" reveals his pragmatic worldview and his embrace of the business world: his next move proves this. In 1922 Clark left Queen's to spend a decade in real estate finance in Chicago and New York working for the famous S. W. Straus and Company before returning to Queen's in 1931. The next year he joined the Department of Finance during the depths of the Great Depression. Before offering this important appointment, Richard B. Bennett, the conservative Prime Minister, had shrewdly tested Clark's ability, appointing him as an advisor on monetary and exchange policy to the Canadian delegation to the Imperial Conference of 1932. Though the Conference did not produce much concrete policy, Clark impressed Bennett: "I want him. He stood out head and shoulders above any but the tops of the U. K. delegation here. He's one of the few men in the country who think and talk their language."[297]

In Bennett's letter appointing Clark as Deputy Minister of Finance, he expressed his confidence in Clark, ranking his ability ahead of any of his

[295] Ibid, 30.
[296] Ibid.
[297] Ibid, 69.

predecessors, even John Courtney, the famous 19th century civil servant who had held the same position.[298] Clark delivered. By combining his excellent academic background in economics and his formidable front-line knowledge of real business, in particular his mastery of the much more sophisticated American financial system, Clark made an indispensable contribution to economic policy making and the architecture of the federal government during the Great Depression, WWII and the post-WWII years. "Clark," according to Mackintosh, "was a pioneer in bringing applied economics to the art of government."[299] From the post of Deputy Minister of the Department of Finance, Clark led the transformation of the federal bureaucracy and established his historical reputation as one of the most important "Ottawa Men" of his era.

Clark died of a heart attack in 1952 while in Chicago to attend a conference accompanied by his fellow Queen's alumnus, economics professor Frank Knox. He was then only 63 years old, the same age that his mentor Skelton had died at. "In the aftermath of Clark's sudden death," according to Hugh Grant, "his colleagues were convinced that, as with O. D. Skelton, it was the burden of war that had played assassin…Prime Minister Louis St Laurent admitted that Clark's 'constant devotion and sheer overwork in the war years impaired his health and undoubtedly contributed to his early death.'"[300] The alarm about the health hazards faced by people like Skelton and Clark had sounded much earlier. In 1938, one of Clark's colleagues had asked him: "why cannot something be done to prevent our best

[298] Ibid, 70.
[299] Ibid, 375.
[300] Ibid, 373.

officials in Ottawa from being half killed by the demands made upon them?"[301] In regretful hindsight, Wardhaugh observed: "the demands of the Great Depression were heavy, the demands of the Second World War were staggering…the war killed him [Clark] as much as any one killed at the front."[302]

In the following tribute based on Mackintosh's writing, Wardaugh succinctly summarizes Clark's remarkable contributions to the remolding of Canada's key political economic policies and institutions:

> Indeed, he deserved credit for so many impressive achievements including the response to the Great Depression, the establishment of the Bank of Canada, the development of housing policy, the expansion and restructuring of the banking system both domestically and internationally, the development of inter-governmental finance, the evolution of federalism, the construction of the Canadian welfare state, the improvements in the system of tax policy and administration… the successful handling of Canada's economy during the Second World War, and the reconstruction efforts in the post-war period.[303]

Mackintosh was the youngest of the four notable Queen's political economists who established their reputation before WWII. Born in 1895, Mackintosh entered Queen's in 1912 to study history and graduated in 1916 with both a BA and an MA. Like Clark, under Skelton's influence, Mackintosh pursued graduate studies at Harvard under Frank Taussig, and started to put his economic knowledge to practical use by taking summer jobs at the Department of Labour and the Dominion Bureau of Statistics.[304] In 1917, two years into his doctoral program,

[301] Ibid, 374.
[302] Ibid.
[303] Wardhaugh, 375-376.
[304] Grant, 65.

Mackintosh accepted a lectureship at Brandon College and taught there for two years before returning to Harvard to complete his PhD.

Unlike Clark who never did return to Harvard to complete his doctoral thesis "Agriculture Cooperation in Western Canada" was published in 1924. In the preface, Mackintosh acknowledged the help of several colleagues from Queen's in addition to that of his supervisor Taussig: "Dean Skelton originally suggested the subject…Professor W. C. Clark…generously shared the results of his own researches in the grain trade…Principal Bruce R. Taylor…undertook the dull work of reading the manuscript." [305] In addition to reflecting the coziness of the Queen's community, Mackintosh's choice of topic revealed both his and Skelton's commitment to research contemporary issues and their "pragmatism", the latter becoming the "watchword" ingrained in Mackintosh's legacy.[306]

In 1920, Mackintosh returned to Queen's to teach in the Department of Political and Economic Sciences, joining Skelton and Clark in strengthening the department and bending it more towards applied economics. Shortly after, as mentioned earlier, he crossed paths with Harold Innis in co-founding the staples thesis, which dominated Canadian historiography for more than two decades. Despite their agreement on the staples thesis, Innis and Mackintosh had very different perspectives.

In concert with Skelton and Clark, Mackintosh saw the value of historical research as helping to solve current problems; none of the three emulated Shortt's

[305] Grant, 74.
[306] Ibid, 391.

focus on the descriptive but instead sought to draw out trends and even general rules from historical research that would provide guidance for current problems.

In contrast, Innis deliberately suppressed this goal of finding solutions to present problems from historical studies, not because his ambition was less grand than that of Mackintosh but because his interests were much more theoretical and philosophical. As Ian Parker argues, "Innis's staple studies were not about the specific characteristics of each export commodity *per se*, but with its relationship to the general social and economic structure, and the qualitative differences in its capacity to reproduce these systems over time, or in the opposite case, to specify the contradictions that led to a system's collapse."[307] The "dialectics of historical change" that Innis drew from the Canadian staples experience,[308] independent of the paradigms created by the European social scientist masters, provided an organic continuity to Innis's later studies on the interrelation between politics, communications and technologies.

The other aspect of Innis's dogmatic rejection of European paradigms was his ambition to build a new paradigm from the "dirt" of Canadian history. His single-mindedness in pursuing the universal truth that governs human history puts him squarely in the camp of one-overarching-truth "hedgehogs." In contrast, Skelton, Clark and Mackintosh believed in and exemplified pragmatism rather than grand theories. They were the "foxes" that worked to find specific strategies and solutions

[307] Ibid, 11, referring to Ian Parker, "Harold Innis: Staples, Communications, and the Economics of Capacity, Overhead Costs, Rigidity, and Bias," in *Explorations in Canadian Economic History: Essays in Honour of Irene M. Spry*, ed. Duncan Cameron (Ottawa: University of Ottawa Press, 1985).
[308] Ibid.

to the endless problems that the Great Depression and the Second World War posed for the nation.

As noted earlier, Mackintosh's article *Economic Factors in Canadian History* of 1923 is widely recognized as the path breaker for the famous staples thesis. Mackintosh was both the coordinator and the author of two volumes of enduring impact for the decade long *Canadian Frontiers of Settlement series*. His Volume 1, *Prairie Settlement: The Geographical Setting*, and Volume 4 *Economic Problems of the Prairie Provinces*, were reviewed by Harold Innis and Irene Biss who both held it in high regard.[309]

Mackintosh became head of the Queen's Department of Political and Economic Sciences in 1927, two years after Skelton had left for Ottawa to lead the Department of External Affairs. In 1929 he worked with Skelton to revive the Canadian Political Science Association, which was founded by Shortt and Skelton in 1912 but lapsed into dormancy almost immediately in 1913. Skelton became president of the revived CPSA and Mackintosh served on the executive committee. Utilizing the increasing influence of the Queen's political economists in Ottawa, Mackintosh sent his colleagues and students to the capital to undertake various research projects reflecting his applied economics aspiration.

1936 saw another turn in Mackintosh's career. He was recruited to the National Economic Commission (NEC) created to address the grave unemployment problem. In 1935, unemployment across the country and especially in the west had caused wide social unrest, protests and even occasional violence, making these what

[309] Ibid, 115-121.

Frank Underhill called "dangerous times."[310] In this new role, Mackintosh faced an unprecedented test of his faculty as a political economist. "Whatever the NEC may have lacked in policy innovation," Hugh Grant wrote, "it made up for in political intrigue."

Working with committee chairman Norman M. Rogers, the labor minister and rising star in Mackenzie's cabinet, and fellow commissioner, the prominent business leader Arthur B. Purvis, the final report mainly drafted by Mackintosh set off a firestorm. The report's core recommendation was to concentrate the responsibility for unemployment relief in the federal government. This was regarded as a betrayal by Prime Minister Mackenzie King's Liberal government which had appointed the commission, not only because it would trigger the "hoary matter of dominion-provincial relations,"[311] but because the suggestion that the Dominion should take on greater expenditures went against Mackenzie King's promise to balance the budget in time for the next election. Mackenzie King regarded the NEC's proposal as "more disturbing than anything I have seen in my public life" for it could lead to electoral defeat.[312] King was petrified that it would provoke fractious constitutional debates with the provinces. He directed his anger at Mackintosh: "This is really a scheme of Mackintosh's of Queen's, who may be a good professor of economics, but knows nothing about politics."[313] By the end of 1937 pressure from the Prime Minister had broken the resistance of the Commission and

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310 Ibid, 153.
311 Ibid, 149.
312 Ibid.
313 Ibid.

led to a revision of the report. The most controversial part, i.e. the financial responsibility for unemployment relief, was referred to the newly appointed Royal Commission on Dominion-Provincial Relations.

The NEC experience was critical in transforming Mackintosh from a leading academic political economist to an effective policy-maker who had learned the critical importance of the "art" of policy-making, i.e. he had come to appreciate that persuading political leaders to make a directional change was indispensable to success as well as the many uncertainties inherent in transforming knowledge and wisdom into policy. The NEC's efforts were not a failure for Mackintosh and his colleagues: "Canadian economic policy was nudged towards a more enlightened path…"[314]

Notwithstanding his earlier troubles with the Prime Minister, Mackintosh was placed on the research staff of the new Royal Commission on Dominion-Provincial Relations. Popularly known as the Rowell and Sirois Commission, it was a landmark in Canadian "federalism." Its mandate was to re-examine "the economic and financial basis of Confederation and the distribution of legislative powers in the light of the economic and social developments of the last seventy years."[315] The overall result was a systemic realignment of the allocation of powers between the Dominion and the provinces: the federal government assumed massive new taxation powers as well as fiscal responsibilities, and federal-provincial cooperation

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[314] Ibid, 171.

[315] Richard Simeon, "Royal Commission on Dominion-Provincial Relations," *The Canadian Encyclopedia,* available at https://www.thecanadianencyclopedia.ca/en/article/royal-commission-on-dominion-provincial-relations, accessed April 12, 2019.

became much more complicated. The NEC's proposal for unemployment relief was largely incorporated into the federal unemployment relief structure recommended by the Commission.

The unilateral approach of the federal government and its perceived aggressiveness caused fierce resistance from several provinces, and unexpected changes in key Commission personnel compounded the disarray in the operation of the commission, including the many necessary public hearings. In these circumstances, "the research staff assumed a more significant role in determining the outcome of the proceedings."[316] Aside from Mackintosh, at least three other Queen's alumni were on the roster of the research team: Alexander D. Skelton, son of O. D. Skelton, was the director of research, John J. Deutsch was assistant director, and Frank Knox, Mackintosh's departmental colleague at Queen's who specialized in banking and monetary research, was a member of the research staff.

The very able Mackintosh eventually outshone the rest of the team. Among the multiple volumes of background reports, his paper entitled *The Economic Background of Dominion-Provincial Relations* was rated by C. B. Macpherson in the 1950s as the best single synthesis of Canada's economic development.[317] In the 1960s, at a time when many Canadian economic history works were being reconsidered, J. H. Dales hailed Mackintosh's volume as a landmark in Canadian economic studies that "will long stand as a major contribution to our knowledge of

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[316] Grant, 176.
[317] Ibid, 12, 195-196, quoting C. B. Macpherson, "Social Sciences," in Julian Park, ed., *The Culture of Contemporary Canada* (Toronto: Ryerson, 1957).

ourselves…"[318] Effectively, Mackintosh's report drew on the findings of the staples thesis historical research to make them ready for national economic policy-making. It also solidified Mackintosh's position as the Canadian economist best positioned to serve the country on the front of economic policy making during the challenging WWII period.

From 1939 to 1946, from the beginning to the end of the Second World War, Mackintosh put aside his teaching job at Queen's to take up various senior positions in Ottawa, including Special Assistant to the Deputy Minister of Finance (1939-44), Director of Research for the Department of Reconstruction (1944-45), and Acting Deputy Minister of Finance (1946).[319] The exceptional number of committees that Mackintosh served on during this period,[320] and his leading role on the Canadian delegation to the 1945 Bretton Woods conference in support of the plan of John M. Keynes is telling of the value of his contributions and his indispensability.[321]

Among the many policies that Mackintosh played a substantial role in researching and drafting,[322] the most remembered and celebrated is the White Paper, *Employment and Income, with Special Reference to the Initial Period of Reconstruction*, written by Mackintosh in 1945. The significance of this document

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[318] J. H. Dales, "Canadian Scholarship in Economics," in R. H. Hubbard, ed., *Scholarship in Canada* edited (University of Toronto Press, 1968).
[319] Grant, 389.
[320] These committees included the "Economic Advisory Committee, Reconstruction Committee, Labour Supply Committee, Unemployment Insurance Commission, Joint US-Canada Economic Committee, Foreign Exchange Control Board, and the National Joint Council of Public Service of Canada." See Grant, 392.
[321] Grant claims that Mackintosh "was the single most important official in Ottawa when it came to the economic organization of the country's war efforts." See Grant, 392.
[322] In 1941 when Harold Innis was assigned to introduce Mackintosh at a conference, he emphasized Mackintosh's "chief economist" position during the war: "We now say among ourselves after any major pronouncement has been made that Mackintosh did that or Mackintosh wrote that and we refuse to believe him when he says he didn't." See Grant, 197.

was noted by John K. Galbraith: "Canada was probably the first country formally to declare an adherence to Keynesian stabilization policy."[323] This was not a quick jump by Mackintosh onto the wagon of Keynesian economics. As his biographer documents, Mackintosh started to read Keynes in the 1920s and Keynes's *Treatise* was on the reading list for his course at Queen's in 1936. His embrace of Keynesian economics was the product of long term careful study and exchanges with other economists influenced by Keynes, especially when the Depression and the Second World War created the domestic and international conditions to produce a growing consensus that no alternative was more compelling.[324]

Mackintosh's "White Paper" was perceived as wedding Canada's native staples thesis to Keynesian economics, which in the dark days of the Great Depression and the great disruption of WWII particularly emphasized the government's role in countering the business-cycle by using fiscal and monetary policies to achieve full employment. In contrast, "Innis from the ivory tower" never seriously studied Keynesian economics due to his rejection of European paradigms, Marxian or Keynesian, as a panacea for Canada. By temperament and conviction, Innis, according to Berger, was a "strong individualist, a pluralist, and a old fashioned liberal whose family's political tradition was Grit."[325] The idea of a powerful central government would always be repelling to Innis.

In 1946, Mackintosh returned to Queen's to resume his teaching responsibilities. After a series of senior positions, Mackintosh was inaugurated as

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323 Grant, 14.

324 Ibid, 14-17, 145-151.

325 Berger, *Canadian History*, 104.

the 12th principal of the university in 1951. Prime Minister Louis St Laurent travelled to Kingston to grace the event in company with many other dignitaries. In the decade before his retirement in 1961, Mackintosh oversaw the unprecedented growth of Queen's as part of the broader national expansion of higher education.

D. Summary of the Decline of Banking History in Shortt's Tradition

In the preceding parts of this Section, I argued that the dominance of the staples thesis in Canadian historiography in the 1920s and 1930s was the major reason why the stream of Canadian banking history co-founded by R. M. Breckenridge and Adam Shortt fell to the sideline. Shortt and Innis belonged to two consecutive generations of Canadian intellectuals whose primary academic interest was political economy and both emphasized the critical importance of historical study.

Shortt, both because of his temperament and the demands at the turn of the 20th century, when political economy, economic history, banking history, and even systemic political/constitutional history were in a virgin state, explored many of these areas and left deep marks. Not content to work from the ivory tower and keen to improve the quality of public debate on current affairs and to put the rich knowledge he had gained from philosophy, political economy, general economic history and banking and currency history into practical use, he plunged into public service. Triumphant as a labor conciliator but frustrated by the setbacks in his work as Civil Service Commissioner, he eventually returned to history writing and publication and building the Public Archives.

Shortt's prudent scientific approach to every subject he encountered, and his political and social conservatism, put him on a track that moved much slower than the course of events in the early turbulent decades of the 20th century. On the other hand, his decades of study of the interaction between (political) institutions and (commercial) interests since the early 1890s, chiefly in the context of the development of the Canadian banking and monetary system,[326] put him by the 1920s in the middle between the two major streams of historiography in Canada: the entrenched orthodox constitutional history housed in the Department of History of the University of Toronto and the soon to dominate staples thesis of economic history led by Harold Innis of the Department of Political Economy at the same university. "In that approach," Bowden notes, "Shortt did not find universal approval: later Harold Innis was to characterize Shortt as a constitutionalist while George Wrong thought him too much the economist." [327]

Bowden summarized Shortt's intellectual stature in the 1920s when he was in the twilight of his life and career as follows:

> Unlike contemporaries such as Macphail or Cappon, he [Shortt] did not express himself as holding views rejected by his society. His views of Innis's first books clearly showed he failed to understand what the young economist was attempting. Indeed, Shortt seemed to have little inkling that the theoretical underpinning of his historical economics had been rejected for twenty years as he was always able to convince himself that economists all considered New Economists, such as Keynes, to be wrong-headed. Shortt still commented upon urban expansion or Social Credit theories, but in fact, just like his humanist colleagues, he had been passed by.[328]

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[326] "Convinced that commercial and political progress were inexplicable without attention to institutions that facilitated growth, Shortt began to look at the efforts of the business elites of Montreal, Kingston and York to charter banks." Bowden, 208.
[327] Ibid.
[328] Bowden, 241-42.

The far-reaching implications of the staples thesis, Innis's thorough scientific research method and his pilgrim-like commitment were discussed above as some of the key factors that contributed to Innis's influence. One major Innis theme that has persisted in the national sentiment as well as being ingrained in Canadian historiography is nationalism.

At the end of the Second World War, a new chapter of nationalism opened in Canada. Worry about Canada's subordination to the US owing to its reliance on American military support against the backdrop of the Cold War and the threat of the dominance of American business interests and popular culture produced a long wave of Canadian nationalism. It was supported by a broad coalition composed of political conservatives, who still cherished British high culture and were repelled by what they perceived as a more indulgent and hedonistic American society, socialists and social-democrats who continued to abhor the buccaneer DNA of the American capitalist system and the hostility of the American right (represented by the new Red-Scare and the McCarthyism of the 1950s), and many liberals who defended the welfare state ideal and shared concerns about the threat of American cultural imperialism to varying degrees.

Donald Creighton's two-volume biography of John A. Macdonald, *The Young Politician* of 1952 and *The Old Chieftain* of 1955, symbolized the second peak of his celebrated career as a historian and a revival of the 19th century great man theory of history.[329] The popularity of these books and their wide-spread recognition revealed the renewed Canadian nationalism, particularly against the tide of Continentalism. William L. Morton, another major Canadian historian whose career was mainly established in the post-WWII decades, took the opportunity offered him as the Paul Knaplund Professor of Commonwealth History at the University of Wisconsin in Madison in 1960 to deliver a series of lectures on Canada's identity. His lectures were published in 1965, together with his 1960 presidential address to the CHA, in a book titled "*The Canadian Identity*."[330] "Canadian history is not a parody of American," declared Morton, "as Canada is not a second-rate United States, still less a United States that failed. Canadian history is rather an important chapter in a distinct and even an unique human endeavor, the civilization of the northern and arctic lands."[331] "From its deepest origins and remotest beginnings," Morton continued, "Canadian history has been separate and distinct in America."[332]

Morton's argument and Donald Creighton's attack on Continentalism, albeit from different angles, resonate with Innis's conclusions from his staples thesis studies that Canada's unity was achieved not in spite of its geography but because of it. The persistence of a strong nationalist sentiment among intellectuals, especially these leading historians, reminds us to give proper weight to how nationalism may have significantly elevated the perceived value of Innis's historiography in the

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329 "During the fifties and early sixties," according to Berger, "some of Canada's leading historians and younger scholars as well, devoted their best efforts to political biography." Berger, *Canadian History*, 221.
330 W. L. Morton, *The Canadian Identity* (Madison & Toronto: The University of Wisconsin Press and The University of Toronto Press, 1965), 93.
331 Ibid.
332 Ibid.

1920s and 1930s. The history profession is not immune from national sentiment, nor can it escape being "reactionary." Consider in this respect the rise of the Consensus School in the 1950s in the United States at a time when national pride was at its height for winning the Second World War, and its collapse in the 1960s when the country entered into a new, turbulent, even violent political period associated with the quagmire of the Vietnam War and the Civil Rights movement.

Comparatively, Shortt's banking history tradition is dull. It lacks the intensity of political conflict, it lacks "urgency" because of the failure to connect it to the real economy (for example, the collapse in the price of wheat during the Great Depression, the panic caused by the disappearance of the forest due to timber exportation, or the unrest caused by chronic unemployment), and it lacks the effect of elevating national pride. On the latter point, though the banking elites strove to convince the public of the value of their services to the nation by comparing the relatively stable Canadian banking system to the crisis-plagued American system, Shortt's articles were published in the *Journal of the Canadian Bankers' Association* whose readership was largely confined to the industry.

Later Queen's political economists were more influenced by O. D. Skelton, who turned their research to more practical issues, rather than academic history. Skelton, Clark and Mackintosh all aspired to apply their knowledge to tackle urgent national political economic challenges. Serving the country was the noblest cause, enough to justify their leaving their teaching posts for public service permanently, or at least during the war period. The shift to public policy-making and civil service by these leaders set the example for a much larger group of political economists and their students to follow. Just as J. M. Macdonnell was concerned about the "crowd-out" effect, or the effect of Gresham's law, of the banking and commerce courses offered by Queens in the mid-1910s, the trend of turning the field of political economy towards applied modern economics left Shortt's banking and currency history out in the cold.

Mackintosh once characterized Innis's scholarly pedigree as "by Veblen, out of Shortt"; Mackintosh's own biographer Hugh Grant characterized him as "by Skelton, out of Shortt."[333] Shortt's main influence on junior Queen's political economists and even Innis in Toronto was his historical approach, his scientific history aspirations, and his meticulousness with facts. Comparatively, Skelton's intellectual faculties, at least partly due to his exposure to the very dynamic state of economics research at the University of Chicago in the early 20th century, was more modern than Shortt's. Together with his ambition in public service and personal affinity, Skelton exerted more influence on Clark and Mackintosh.

In 1978, Erick Havelock paid a visit to Innis College at the University of Toronto (which he had left in 1947 for Harvard after seventeen years of teaching there) to deliver two lectures about Harold Innis. The first, which was about Innis as a historian, was entitled "A Man of His Times." Innis responded to the calling of his times with his commitment to a scientific understanding of Canada's history, which seems to put him closer to Shortt. However, Innis was born more than thirty years after Shortt, and his career was defined by the two Great Wars and the Great Depression. As discussed above, behind Innis's single-minded devotion to staples

[333] Grant, 6.

thesis history, nationalism was blended with his individualism, while the undertone of his scholarship was pessimistic determinism.[334] His deep concern about the "colony to nation to colony" trap gave Innis's search for truth the sense of urgency, but his willpower or conviction transformed that urgency into a commitment to research not seen before or since.

Equally, the Queen's political economists, including the founder Adam Shortt, were all men of their respective times. The small size of the intellectual community meant that the impact of their times, especially the Great Depression and the Second World War, placed extraordinary burdens on Shortt's successors. Shortt's prime preceded the Great Wars and the Great Depression: his historical scholarship was mainly written before the First World War, after which Canada's national politics entered into a much more turbulent phase, and this seems to be the reason Innis described him a "constitutionalist." For the younger generation, Skelton, Clark and Mackintosh, their times called for them to provide practical solutions to pressing national problems.

Beginning with Adam Shortt's rapport with the banking elites and formalized by Skelton's collaboration with the CBA in training banking employees from the platform of Queen's, the Department of Political Economic Sciences (and its successor, the Department of Economics) at Queen's has maintained a strong bond with the Canadian banking industry and the broader financial system. It is worth

[334] The sense of fatalism and determinism in Innis's economic history... suited the mood of the early thirties when people felt themselves at the mercy of overwhelming forces beyond their control." Berger, *Canadian History*, 97; "His writing stressed the primacy and potency of the deterministic factors of geography, staples and especially transportation technology..." Berger, *Canadian History*, 101.

noting in this respect that four Queen's professors, Skelton, Mackintosh, Frank Knox, and David Slater, served as successive editors of the *Journal of Canadian Bankers' Association* between 1919 and 1967.[335] It is hard to expect these professors to play the adversary with the Canadian banking industry.

That said, before being appointed advisor to the Canadian government to the Imperial Conference of 1932, Clark, then a professor at Queen's, drafted a memo on monetary reform which was essentially in line with Keynesian monetary theory to counter the business cycle and inevitably involved more government intervention in the banking and monetary system. This was before the Bank of Canada was created and at a time when the banking industry was firmly opposed to government intervention. Mackintosh's memo was circulated by Prime Minister Bennett for comments to thirteen economists. Not long after, Clark received a protest from the bankers through his ex-colleague Humphrey Mitchell:

> They are quite perturbed and have got it firmly fixed in their minds that you are unfriendly to the banks…like Queen Victoria, they are not amused…What they want now is for the whole thing at Ottawa to be discussed amicably without any definite decisions being arrived at, and then to thrash it out afterwards at length. They rather resent it having been fired at them at such short notice and would have liked to have the report in their hands a couple of months ago when they say they could have got to work on it…[336]

[335] Grant, 102. Queen's also produced numerous leaders in the Canadian financial industry. Clark was called by some the "father of the Bank of Canada." Mackintosh was a director of the Bank. Alexander D. Skelton, son of O. D. Skelton, B.A. in economics and Rhodes Scholar to Oxford, was the first Research Director of the Bank of Canada. To date, three of the nine governors of the Bank of Canada have come from the Queen's Economics department: Gerald Bouey, David. A. Dodge, and Stephen Poloz. The John Deutsch Institute for the Study of Economic Policy in the Queen's Economics Department has been the host of a major forum for Canadian financial regulation policy discussion since its inception in 1976.
[336] Wardhaugh, 63-64.

The last point to stress is the power of the University of Toronto. It is safe to say that before the 1970s no institution came close to the University of Toronto in influencing the direction of Canadian historiography. In his ground-breaking *The Vertical Mosaic*, the revelations of John Porter, a preeminent sociologist of Canada, are breathtaking: "Section II of the Royal Society, which was the section for Social Sciences and Humanities (excluding French literature and civilization), had 104 members in 1961. Among these 104 members, 85 were from universities across Canada, of which the University of Toronto contributed 37 (43 percent), while the University of British Columbia, McGill and Queen's had respectively 9, 8 and 7."[337]

The institutional concentration of intellectual power in the social sciences and humanities at the University of Toronto is in line with the influence of its departments of history and political economy on Canadian historiography. It further strengthens the argument that, as a historical situation in Canada, in the period of 1920s to the end of WWII, Innis's influence was outsized and disproportionately in the small community of social studies and was consequential for the decline of banking history in the Shortt tradition.

5. The Modest Revival of Banking History in the Shortt Tradition Beginning in the 1970s

In the article mentioned at the beginning of the preceding section of this chapter, Ronald Shearer made a wish: "Perhaps this article will stimulate interest in

[337] Porter, 497.

the rest of Shortt's work —and perhaps it will stimulate economists and historians to pick up where Adam Shortt left off. There is still much that we did not know about Canadian money and banking."[338] It appears that Shearer, a financial economist, failed to respond to his own challenge. The revival of banking history in the 1970s, as highlighted in Chapter II, is instead represented by *The Formation of the Bank of Canada*, Linda Grayson's 1974 unpublished doctoral thesis, and Volume One, *Banks and Finance Capital*, of Naylor's 1975 two-volume *The History of Canadian Business, 1867-1914*. In addition to these two important works of the 1970s, there are Duncan McDowall's 1993 *Quick to the Frontier: History of the Royal Bank of Canada* and John Turley-Ewart's 2000 unpublished doctoral thesis titled "The History of the Canadian Bankers' Association, 1892-1924." Collectively, these works constitute a modest revival of banking history in the political economic tradition.

This judgement of "modest" is based on several considerations. First, it is arguable that none of these works surpasses Shortt's contributions in terms of historical breadth and comprehensiveness. On the other hand, one critical improvement is that these later writings have been liberated by the time of their birth to incorporate overdue criticisms on the influence of the political and business elites in shaping the industry; this is at least the obvious orientation of the two works of the 1970s.

Second, compared with the more mature American banking history scholarship, especially the contributions of Bray Hammond and Irwin Unger, which brought the American scholarship in this area to a high peak in the 1950s and 60s,

[338] Shearer, *Shortt Course*, 74.

and was well accepted by the mainstream historical profession, the Canadian banking history scholarship has not commanded comparable attention from Canada's mainstream historical community.

Third, on the overall influence of these works, two of the four are unpublished theses with the result that they are rarely referred to by contemporary scholars. Even the two published works, as shown in my chapter reviewing the post-GFC literature on banking regulation, are unfortunately rarely referenced. To be clear, these works were not written exclusively for historians; they are all generally readable by an educated audience, although a basic knowledge of the critical role of the monetary and banking system to the well-being of a nation would definitely increase the reader's appreciation, especially the interaction between banking and politics, and the implications of that for democracy.

This overall indifference to banking history scholarship, i.e. the lack of both a general readership and the attention of contemporary scholars, is at least attributable to three factors considered in this research.

The first is the explosion of history writing after the emergence of social history in the mid-1960s.[339]

The second is the general stability of the Canadian banking system as well as the efforts of industry leaders and the political system to maintain the image of stability.[340] That stability, which is taken by this research as a time-tested fact

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[339] Berger's Chapter XI, "Tradition and the New History of The Writing of Canadian History," discusses the age of social history: Berger, *Canadian History*, 259-320.

[340] Some important revelations in Duncan McDowall's *Quick to the Frontier* and John Turley-Ewart's doctoral thesis *Gentlemen Bankers* are the best examples of the covering up efforts of some individual

compared with the instability in the US, appears to have deflected the attention of the general public from this industry, whereas in the US the frequent painful financial panics and crises, and the stubborn historical currency woes (chiefly the "free silver" movement in the 19th century) stirred up and persisted much more public attention.[341] That said, Chapter VII (*The Canadian Banking Stability Legacy Reconsidered*) discusses the need for greater qualification and nuance in considering Canada's banking stability legacy.

The third factor is related to the second but from a different perspective. The Canadian banking system is considered in this thesis as a vital political economic function that was born out and has operated at the intersection of national politics and the powerful business community. To some extent, as argued throughout this thesis, in both the US and Canada, the regulation of the industry is closely related to the political culture of each country. Political elitism in Canada, as addressed in Chapter VII, has obscured public scrutiny of the activities of the elites in managing many affairs of national importance including the regulation of the banking industry. This elitism was most obvious in the 19th century and the early 20th century. The rise of socialist and social democratic forces in Canada during the Great

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banks as well as the alliance between the CBA and the Department of Finance at the turn of the 20th century and up to the Great Depression. This is one of the major points of discussion in Chapter VII (*The Canadian Banking Stability Legacy Reconsidered*) of this thesis.

[341] The major arguments that this author makes through Chapter V of this thesis (Bray Hammond's Banking History Revisited) are: in the history of the United States of America, banking and currency issues were entrenched at the center of the national political economic contention since the beginning of the Union up to the turn of the 20th century (while the repercussion of the old contention lasted through the 20th century and is still ringing today). As a consequence of that, the writing of American banking history in the light of the national political economic debate, especially on the wrestling for power between the federal government and the states, has a strong tradition – Bray Hammond's *Banks and Politics* represents the pinnacle of this stream of history writing and has shed great light on the American self-understanding of the interplay between its political culture and banking and currency regulation.

Depression fundamentally altered the political landscape and brought more public scrutiny to banking regulation, especially through the creation and nationalization of the Bank of Canada. However, the increased complexity of the financial industry in the 20th century, especially in the post-WWII decades, and the concentration of the industry in the several largest banks, has once again obscured public understanding of it, which had led to the phenomenon of "esoteric" financial regulation. The decline of the writing of banking history in the Shortt tradition in Canada for about half a century before the 1970s appears to have had great relevance to the perceived "stability", "obscurity" and "esotericism" of banking regulation in Canada. Further reflections from the perspective of comparing the political culture of the US and Canada, based on the observations in this thesis of the historical interaction between political culture and banking regulation are provided in Chapter VIII (*Conclusion and Afterthought*).

Chapter V
Bray Hammond's Banking History Revisited

1. Introduction

In his 1991 overview of US commercial banking historiography, Larry Schweitkart opens his lengthy and information-intensive essay with the following comments about banking history Bray Hammond and his representative work:

> Thirty-five years ago, with the publication of Bray Hammond's seminal work on antebellum banking, *Banks and Politics in America from the Revolution to the Civil War* (1957),[1] the topic of banking history emerged as a central issue in economic history debate. Scholars and practitioners alike revived discussions of banking systems and structures, which hitherto had been overshadowed by biographical studies of individual bankers. Hammond's Pulitzer Prize-winning work had special importance because it represented the first comprehensive analysis of banking published since the Great Depression.[2]

Bray Hammond was born on November 20, 1886, in Springfield, Missouri. He started a career as a cashier in a state bank in Iowa at the age of 21. After about two years, in 1909, he was enrolled in Stanford University where he earned his B.A. in 1912. In the following three years he taught at the State College at Pullman,

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[1] Bray Hammond, *Banks and Politics in America from the Revolution to the Civil War* (Princeton University Press, 1956).

[2] Larry Schweikart, "US Commercial Banking: A Historiographical Survey," *The Business History Review* 65, No. 3 (Autumn, 1991), 606.

Washington State. During the First World War, he served in the Army where he was advanced from second lieutenant to captain. In the years after he was discharged, he was a businessman who also invested time on historical research and writing. He joined the Federal Reserve System in 1930, and from 1944 to 1950 he was an assistant secretary of the Federal Reserve Board of Governors in Washington DC. Hammond received grants from Guggenheim Foundation in 1950 and 1955. He died in 1968 in Vermont. [3]

The 771-page *Banks and Politics* was finished when Bray Hammond was 71 years old in his retirement from the Federal Reserve System. It is said to have taken him more than ten years to complete. This dense book testifies to Hammond's resolve to chronicle the US banking history in its long, turbulent and consequential formation age. It stages, among others, the Jeffersonian Republicanism vs. Hamiltonian Federalism contention surrounding the chartering of the Frist Bank of the United States, Andrew Jackson's Bank War against the Second Bank of the United States, the "free banking" era, and the Civil War period. "It combined political with financial analysis," as commented by its publisher, "highlighting not only the influence politicians exercised over banking but also how banking drove political interests and created political coalitions." [4]

This chapter is dedicated to a probing of Hammond's banking history as primarily unfolded in the groundbreaking *Banks and Politics*. As explained in

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[3] The biographical information about Bray Hammond hereof is mainly from Heinz-Dietrich Fisher and Erika J. Fisher, eds., *The Pulitzer Prize Archive: American History Awards 1917-1991* (K. G. Sar, 1994), 7: 189.

[4] See the synopsis of the book provided on the website of the publisher, the Princeton University Press, available at https://press.princeton.edu/titles/1109.html, accessed April 30, 2019.

Chapter I, the examination of the historical interactions between banking regulation and political culture in the US and Canada is usually conducted in the context of discussing the interactions between the writing of banking and mainstream political economic histories, meaning that it would be subject to the "historiographical-historical" structural arrangement.

That Hammond's scholarship is a focal point of this thesis is determined by both Hammond's general intellectual achievement (i.e., his overall contribution to American historical self-understanding) and his scholarship's special value for comparison between the two countries in their respective efforts to chronicle their banking history. On the latter count, Hammond's historical banking scholarship does not have an equivalent counterpart in Canada in terms of its overall maturity and high recognition by the historical community, a feat only recently attempted by the work of Christopher Kobrak and Joe Martin.[5]

Following this section of introduction, this chapter is divided into four sections. The first mainly revisits the many reviews that *Banks and Politics* received from Hammond's contemporaries in the 1950s and 1960s. It highlights the impact that Hammond's book had on American banking and mainstream historiography, which can still be felt today. This author takes these academic historians' strong approval of the book as concrete evidence of the transcendence of Hammond's book from the status of the history of a branch to an autonomous category of analysis. Additionally, in winning the 1957 Pulitzer Prize for History, *Banks and Politics* was

[5] See Christopher Kobrak and Joe Martin, *From Wall Street to Bay Street: The Origins and Evolution of American and Canadian Finance* (University of Toronto Press, 2018).

arguably the first economic historical work and unequivocally the first banking historical work to achieve this prestigious recognition for historical scholarship in America. Hammond's success is attributable to its analytical focus (i.e. the central position of banking and currency affairs in the political-economic life of the US), his mastery of the subject, and his mature writing.

The second and third parts of this chapter form a brief review of two critical periods in American history that are well covered in *Banks and Politics*, namely the birth of the Union in great turbulence, featuring the contention between the Jeffersonian Republicans and the Hamiltonian Federalists, and the age of Andrew Jackson, which was in large part defined by his second-term presidential campaign, the central issue of which was to dismantle the Second Bank of the United States. These two periods had enormous implications for both banking regulation and the shaping of the fundamental political economic order of the young United States. These have been subjects for the writings and debates of generations of historians. The discussions of these two periods in this chapter are oriented toward exposing how in the formation and fledging evolution of the federation (i.e. from the Revolutionary War to the 1830s) the American approach to banking regulation was greatly impacted by the unsettling ideological struggles in response to the need to transform ideas and theories into governing policies in a volatile age; to the threat by the superior foreign power (i.e. the British Empire); to the fast social and economic change driven by competition, industrialization, and immigration; and to the continued westward and southward extension of the frontiers. Jefferson's era passed on to Jackson's the spirit of Republicanism and the ethos of *laissez faire*, while the rapid changes in a couple of decades produced in the latter a very different dynamics. If the era of Jefferson can be portrayed as a time when the yeoman ideal-based agrarianism could still win big politically over the commerce-and-industry-oriented elitism represented by the Federalist minority, the age of Jackson saw, in parallel with the growth of yeomanry farms, southern plantations, land development companies, and cycles of boom and bust in land speculations - the great expansion of commerce and artisanry; emerging manufacturers and spreading banking business. By the age of Jackson, the intricacy of interest groups; the diversity of ethnicities, cultures, and religious sects; and the divisions and competitions among the older and newer states much compounded the complications of the political economic game compared with the era of Jefferson.

While by the publication date of *Banks and Politics* a rather sophisticated understanding of these two periods had been achieved, especially through the efforts of the Progressive historians led by Fredrick J. Turner, Charles A. Beard, and Vernon Parrington, the historiographical and historical "frontiers" were still open to curious and committed historians, many aspects of previously written history were still subject to improvement and new interpretation, and more comprehensive histories were still to be written. Hammond was one of the many who contributed to the post-Progressive historiography. His scholarship was mainly from the perspective of banking development, which was not totally new, but the innovative side of his scholarship was that he was probably the first one to successfully fuse banking history with political history, and he transformed his banking history into political and economic history told through the prism of banking development.

The review of these two periods in this chapter is mainly based on the historical facts and basic analysis provided by Hammond in *Banks and Politics*. Hammond's account of these two periods in *Banks and Politics* fits the purpose of this thesis squarely in terms of proving the existence of strong correlation between American political culture (in evolution) and the nation's approach to banking regulation in history, and Hammond's scholarship has stood the test of time in both banking history and the involved political history. In terms of political history, Hammond was standing on the shoulders of giants from Henry Adams and Turner to Beard; at the front of banking and currency history, his insights benefited enormously from synthesizing numerous previous historians' contributions. Additionally, Hammond, an amateur historian, undertook a painstaking long-term foray into a considerable amount of first-hand materials, as a committed academic historian would usually be expected do. As a result, Hammond's historiography readily fits in with post-Progressive historiographical thoughts. For example, when Richard Hofstadter's writing about Jefferson and Jackson is blended into Hammond's depiction of the Jefferson versus Hamilton contention and Jackson's Bank War, there is a high degree of harmony.

The fourth section of this chapter provides a brief summary of the interactions between political culture and banking regulation in the first half a century of the American Republic as drawn from Hammond's *Banks and Politics*. It also emphasizes that Hammond's banking history sets an example of mature banking historical scholarship, which transforms itself into a mainstream historical contribution due to its organic integration with the political economic historical contexts.

2. The History Community's Embracing of *Banks and Politics*

In the several years following the publication of *Banks and Politics*, enthusiastic reviews poured in from across the country, appearing in journals of different specialties from political economy, general history, and economic history to political science. Most of these lengthy reviews overflowed with praise that reveals some reviewers' sentiments to salute the commitment underlying Hammond's monumental work.

Among a legion of contemporary American historians, Hammond was one of a kind. "Unlike some historians," Walter Smith claims, "Hammond knows what banks really do; and unlike all too many economists, he has been willing to do the laborious research which is necessary for insight into historical development." [6] Hammond's in-depth knowledge of the US banking system cannot be separated from his long career as a senior staffer working for the Federal Reserve Board of Governors in Washington, D.C.

Hammond's deliberate and artful balancing of banking history and political economic history attained a level where these two streams organically intertwined into one. His approach to the writing of banking history could be described as either that he unfolded banking history in a rich political economic context, or, by reversing it, he used the prism of banking development to get unique insights into

[6] Walter B. Smith, "Review Works: Banks and Politics in America from the Revolution to the Civil War by Bray Hammond," *The Pennsylvania Magazine of History and Biography* 82, No. 2 (Apr., 1958): 231-232.

the American political economic transformation, which is irreplaceable by another venue of observation. On the latter aspect, Hammond wrote in the *Preface* of his book:

> It seems to me that this book, whatever it should have been, is not simply a history of banking. Instead, banking is used in it as an approach to certain phenomena of early American history – or, better perhaps, as a point of observation whence one looks over the landscape and spies out things not to be so clearly seen from any other angle.[7]

Thomas P. Govan from New York University, who wrote the most elaborate, passionate but still discriminating review, marveled at Hammond's success in balancing banking history and political history:

> There has been no other area of political debate in which there has been so much ignorance, prejudice, and misunderstanding exhibited both by those who have made the effective decisions and by historians. Bray Hammond's study of banks and politics is thus doubly needed. First and most importantly it is needed as a guide for those who will make decisions about money and credit in the future, and secondly as a corrector of erroneous interpretation of the American past.[8]

Charles Hoffman struck a very similar tone in his review:

This is a book which is rich in facts, insights, and interpretation; its

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[7] Hammond, at vii. Irwin Unger, who won the 1964 Pulitzer Prize for History for his *The Greenback Era: A Social and Political History of American Finance,* took a similar approach to his currency history as Bray Hammond's banking history. Unger explicitly emphasized the political history nature of his *Greenback Era*:

> This is primarily a political, not a financial history. Although fixed to a skeleton of financial events, my story is largely concerned with the decision making process in American society. I do not wish to compete with the existing excellent surveys of financial history. I shall examine the politics of money between the end of Civil War and the resumption of specie payments in 1879...

Furthermore, Bray Hammond was the second scholar to whom Unger acknowledged "indebtedness," standing between two renowned historians, David Donald and Richard Hofstadter. See Irwin Unger, *The Greenback Era: A Social and Political History of American Finance, 1865-1879* (Princeton University Press, 1957), 7, 10.

[8] Thomas Govan, "Review Works: Banks and Politics in America from the Revolution to the Civil War by Bray Hammond," *The Mississippi Valley Historical Review* 44, No. 4 (Mar., 1958): 722.

> discerning treatment of some of the crucial events in the Republic's life up to the Civil War is a delight to behold... Bray Hammond blends, in a most felicitous manner, the political, constitutional, legal, financial, and economic issues surrounding the growth of banking and credit institutions. The result is not a history of banking but a dynamic interpretation of the transformation of a rich agrarian economy into one of anxious business accumulation. [9]

Hammond's readership extended to the other side of the Atlantic. Four years after the publication of the book, J. Potter from London School of Economics commended Hammond's reinterpretation of American early economic history, in particular in the age of Andrew Jackson. Potter wrote:

> From time to time a book appears which makes obligatory a re-drafting of old lecture notes, a re-writing of old text books and worse still, rethinking of old thoughts... Such are the impositions placed upon the ungrateful reader by Professor Bray Hammond's Banks and Politics in America, a book which presents a convincing re-interpretation of American economic history in the first seventy years of the Republic, and of the Jacksonian period in particular.[10]

When American historians were polled in the early 1970s to rank the most influential books in American history since 1945, two of the top five books were dedicated to the research on the age of Jackson.[11] To many historians, it is clear that the age of Jackson was both pivotal for its profound historical implications and

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[9] Charles Hoffmann, "Review Works: Banks and Politics in America from the Revolution to the Civil War by Bray Hammond," *The Annals of the American Academy of Political and Social Science* 315 (Jan 1958): 165-166.

[10] J. Potter, "Review Works: Banks and Politics in America from the Revolution to the Civil War by Bray Hammond," *The Economic History Review* (New Series) 13, No. 3 (1961): 517.

[11] According to Allan Bogue, the top five books were *The Age of Jackson* (1945) by Arthur Schlesinger Jr., *The American Political Tradition* (1948) and *The Age of Reform: From Bryan to FDR* (1955) by Richard Hofstadter, *The Concept of Jacksonian Democracy* (1961) by Lee Benson, and *The Origins of New South, 1877-1913* (1951) by C. Vann Woodward. See Allan G. Bogue, "The New Political History in the 1970s," in Michael Kammen, ed., *The Past Before Us: Contemporary Historical Writing in the United States* (1980), 231-232.

deeply intriguing for its complexity. "There was no other period in American history," Walter Smith claimed by quoting seminal sentences from *Banks and Politics*, "one would hope, when language was more idealistic, endeavour more materialistic, and the tone of the public life more hypocritical than during the Jacksonian revolution." [12]

Indeed, Andrew Jackson and the Bank War was a focal point of *Banks and Politics*, and the success of Hammond's book was critically hinged on his enlightening revelation on the Bank War through which Andrew Jackson dismantled the Second Bank of the United States. According to Hammond's research, under the leadership of Nicolas Biddle, the third president from 1823 to 1836, the Second Bank of the US had became the American equivalent of the Bank of England, a powerful central institution as first envisioned by Alexander Hamilton but would later be substantially more clearly defined by Nicolas Biddle. Andrew Jackson's Bank War ended not only a powerful financial institution but destroyed a relatively stable financial system and replaced with an irrational and disastrous free banking system based on thousands of small unit banks.

Before *Banks and Politics*, through a series of articles published on some major historical publications, Hammond, as staffer of the Federal Reserve System, had made sound contribution to the American banking and currency historical scholarship, with particular interest in the struggle between the seventh president Andrew Jackson and the Second Bank of the US.[13]His critical review of the Pulitzer

[12] W. B. Smith, 232.

[13] The following are the major historical journal articles published by Bray Hammond in the period

winner book *The Age of Jackson* (1945) by Arthur Schlesinger Jr., which was the 1946 Pulitzer Prize for History winner and was among the most influential historical monographs of the 20th century,[14] drew immediate attention from the historical community. Hammond's forceful criticism on Schlesinger Jr. for two serious problems with his book: "Manichaean naivete with respect to the nobility of all things Jacksonian and the sordidness of all things opposed… The other is a fumbling treatment of economic matters and particularly of the Bank of the United States." This was a harsh treatment to a would-be Pulitzer Prize winner book. Richard Hofstadter would later praise Hammond's critiques as "judicious" in his *The American Political Tradition*,[15] and rated Hammond's article "Jackson, Biddle and the Bank of the United States" as "the wisest and best-balanced estimate of the bank controversy…"[16] It is natural that Hammond's scholarship on the Bank War enriched Richard Hofstadter's chapter "Andrew Jackson and the Rise of Liberal Capitalism" in *The American Political Tradition* (1948), one of the most influential historical works in the post-WWII decades.

Paper currency and the availability of credit was another important aspect of

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from 1930s to 50s: "The Banks, The States and the Federal Government", *American Economic Review* 23, No. 4 (Dec. 1933): 622-636; "Long and Short Term Credit in Early American Banking", *The Quarterly Journal of Economics* 49, No. 1 (Nov., 1934): 79-103; "Free Banks and Corporations: The New York Free Banking Act of 1838," *The Journal of Political Economy* 44, No. 2 (Apr. 1936): 184-209; "Review of the Age of Jackson," *Journal of Economic History* VI (May 1946): 79-84; "Jackson, Biddle, and the Bank of the United States," *The Journal of Economic History* VII (May 1947): 1-23; "The Chestnut Raid on Wall Street, 1839", *The Quarterly Journal of Economics* 61, No. 4 (Aug., 1947): 605-618; "The Second Bank of the United States", *Transactions of the American Philosophical Society* 43, No. 1 (1953): 80-85; and "Banking in the Early West: Monopoly, Prohibition, and Laissez Faire", *Journal of Economic History* 8, No. 1 (May 1948): 1-25.

[14] Arthur M. Schlesinger, *The Age of Jackson* (Little Brown, 1945).

[15] See Richard Hofstadter, *American Political Tradition and the Men Who Made It* (New York: Alfred A. Knopf, 1973), 466.

[16] Ibid.

the revelation in *Banks and Politics*. Hammond made a convincing argument that before the Civil War, the agrarian population was not for paper money or credit, while the land speculators and merchants were the main proponents of them, which provide the demand for banking services. Hammond wrote that "from Colonial times to the Civil War the real pressures for paper money and the expansion of banking credit came largely from commercial interests – the merchants and speculators, the forward-looking, ruthless, and ambitious businessmen in the rising urban centers who, exploiting natural resources and labour, transformed the agrarian economy of the eighteenth century into the commercial-industrial complex of the latter nineteenth."[17] This was seen by Hammond's reviewers as one important correction to the long held view that associated paper currency and cheap money with the agrarian population. "Mr. Hammond has one thesis to which he returns with persistent enthusiasm throughout the book," commented by George Taylor, "namely, that most historians including Frederick Jackson Turner have seriously misinterpreted one aspect of American history… Led astray by the Populist demand for paper money in the latter nineteenth century, these historians have mistakenly supposed that the pressures throughout our history for paper money and easy bank credit have come chiefly from agrarians…" [18]

Howard Smith rightfully identified another trait of Hammond as a scholar - his courage. "While it is often characteristic of scholarship to be cautious and tentative," Smith claimed, "and while Mr. Hammond's work could hardly be

[17] Ibid.

[18] George R. Taylor, "Review Works: Banks and Politics in America from the Revolution to the Civil War by Bray Hammond," *Political Science Quarterly* 73, No. 1 (March 1958): 153.

described by either of these terms… it is nonetheless the fate of much scholarly writing to be so thoroughly qualified that it is difficult to be certain just where the author does stand… this, however, is a complaint which will not be made of *Banks and Politics in America*."[19] Thomas Govan echoed Smith on the same point: "Written with spirit and with a rugged kind of courage too often lacking in historical work, it provides at the same time a reliable work of reference and a provocative interpretation of American history." [20]

On the overall value of *Banks and Politics*, Walter Smith, who also wrote about early US banking history, concluded: "This is a piece of mature scholarship in the best sense of the word".[21] Similarly, Thomas Govan announced: "The preface, perhaps the whole book, should be required reading for every person who attempts to study and understand the history of the United States, for in it the author correctly indicts the great body of historical literature, including the work of the most noted scholars, as inadequate and misleading."[22]

The major reservation on *Banks and Politics,* as voiced by historians like Govan and Taylor, was mainly about the attitude of agrarians to paper money and banking. Hammond believes that the agrarian population was the main opponents of paper money and banking from before the Revolution to the years before the Civil War, and the situation was only changed after the Civil War. Govan thought

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[19] Howard R. Smith, "Review Works: Banks and Politics in America from the Revolution to the Civil War by Bray Hammond," *Southern Economic Journal* 24, No. 4 (Apr., 1958): 502.
[20] Hofstadter, 155.
[21] W. B. Smith, 231.
[22] Govan, 722.

Hammond accepted "another unfounded historical myth,"[23] while Taylor thought Hammond's assertion was "too sweeping,"[24] mainly because the agrarians were not necessarily holding one unified view on paper money and banking – some farmers were also land speculators and, therefore, their mentality could be more like the merchants and land speculators who were the main proponents of banking and easier access to abundant credit. These reviewers did not think their disagreement with Hammond on this issue would affect their overall strong approval of the Hammond's scholarship. Goven concluded his review with the following:

> Hammond's great contribution to the reinterpretation of the American past should not be undervalued because he has accepted this view [i.e. the agrarian opposition to paper money and banking before the Civil War]…this oft-repeated but erroneous theory has had little effect upon his treatment of the basic material, and what he has to say concerning the actual development in the history of banks, money and credit, is so refreshingly honest, clear and helpfully corrective that the appearance of the book should be a cause for enthusiastic rejoicing.[25]

It is clear that these reviews of Hammond's book demonstrated the seismic nature of his contribution: Hammond had placed banking history, hitherto marginal to American historical consciousness, at the centre of debate over the young republic's unfolding and mad it an ideological telltale of American capitalism and society.

3. Republicanism vs. Federalism: the fate of the First Bank of the US

[23] Govan, 723

[24] Taylor, 154.

[25] Govan, 723-724.

Of all the events that shaped the political life of the new republic in its earliest years, none was more central than the massive personal and political enmity, classic in the annals of American history, which developed in the course of the 1790s between Alexander Hamilton and Thomas Jefferson…The character and quality of national life in the 1790s are thus not to be understood aside from the warfare of Hamiltonian Federalists and Jeffersonian Republicans.[26]

Stanley Elkins and Erick McKitrick

A. The Bank of North America: the first modern bank in North America

The Bank of North America chartered in 1781[27] was the first modern bank in the continental North America. For the purpose of this research, the significance of this bank was mainly the opportunity to study how the elites in business and politics, which were highly intertwined at that time, and the agrarian majority that formed the rock bed of early American society, interacted in the early unfolding of the banking function in the American economy. From such interactions (i.e. the political economic debates of the time, from very crude to more rationalized), a taste of American political culture of the time can be gained. Such political culture was not static, but was in motion of an accelerated social-economic evolution. The American society was being transformed from a pre-dominantly agrarian society of the 18th century into a blend of agrarian, commerce and industry since roughly the beginning of the 19th century, to the late 19th century when the agrarian ethos would lose its dominance to a new set of values adapted to the age of industrialization. In the study of the targeted interactions between banking regulation and political culture, the latter is more protean and complicated, and, therefore, of more strategic

[26] See Stanley Elkins and Erick McKitrick, *The Age of Federalism* (Oxford University Press, 1993), 77.
[27] According to Bray Hammond, this bank was chartered on the last day of 1781 - see Hammond, 50.

value; Thus, in the efforts to recount the major periods of banking regulation in this chapter, more attention can be paid to the political ideas of the opinion leaders and the political debates after having thus set the basic facts about banking regulation straight.

Though Hamilton left record of being the earliest to consider establishing modern bank as an indispensable institution for the emerging republic, Robert Morris, another Foundering Father versed in finance and once more senior than Hamilton in the rank of leadership, became the principal architect of the Bank of North America. From the position of the Superintendent of Finance of the Confederation, equivalent to the later Secretary of Treasury of the United States, Morris proposed to Congress to create the Bank of the North America as a "national bank" in 1781 to help relieve the financial stress of the new and struggling republic. The bank was to have a moderate capital of $400,000 to be paid in gold and silver, while the "national bank" in Hamilton's mind, according to the correspondence to Morris, was to have a grand capital of £3,000,000.[28] Congress passed the act to charter the Bank of North America according to the recommendation of Robert Morris in Philadelphia on the last day of 1781. [29]

Though the chartering of the Bank of North America was supported by most of the members of Congress, its constitutionality was in serious doubt among many from the beginning. James Madison, the foremost constitutional scholar among the Founding Fathers, was the most authoritative voice against this bank – Congress

[28] Ibid, 47-48.
[29] Ibid, 50.

does not have power to incorporate bank. The bank's directors were also concerned about this uncertainty. To remedy the constitutional doubt, Robert Morris wrote "circular letter to the Governors of the thirteen states, with which he transmitted copies of the congressional ordinance and of the resolutions 'recommending to the several states to pass such laws and they may deem necessary for giving the said ordinance its full operation.'"[30] As the result of such a reasoning letter and the lobbying efforts of the bank's sponsors and stockholders, it managed to convince the states of Pennsylvania, New York and Massachusetts to endorse the charter of Congress by either issuing new charter at the state level to mirror the charter of Congress, or passing state law of such effect.[31] In Pennsylvania, where the bank was located, after "considerable opposition and debate, one [charter] identical with that granted by Congress was enacted 1 April 1782 and accepted by the bank as the authority under which its operations were to be conducted."[32] In the act of New York state which accepted the bank as a lawful corporation, there was qualification in it which pronounced the state's doubt about Congress's power to charter any corporation, not limited to banks: "That nothing in this act contained shall be assembled to imply any right or power in the United States in Congress assembled to create bodies politic or grant letters of incorporation in any case whatever."[33] This uncertainty with the Congressional power to charter any bank would later become the major point of contention on the chartering of the Bank of the United

[30] Ibid.
[31] Ibid, 51.
[32] Ibid.
[33] Ibid.

States at the federal level after Independence. But before these later dramas, the Bank of North America would go through a roller-coaster process with its legal status.

In 1785, three years after the incorporation of the Bank of North America, the agrarian majority in the legislature of the Pennsylvania received and supported the so-called "the gentlemen from the country" case, which called for repealing the state charter of the bank. The accusations against the bank were mainly about the bank's high interest rate, favouritism, "comity with commerce," refusal to lend on the longer terms to honest borrowers, discrimination against husbandmen and mechanics, admission of foreigners to invest in America,[34] etc.

In addition to these accusations, this time the agrarians particularly focused their attack on the bank's threat to democracy due to its corporation status. "The agrarian charges were numerous," Hammond noted, "but their gravamen lay in the complaint that the bank was a monstrosity, an artificial creature endowed with powers not possessed by human beings and incompatible with the principles of a democratic social order."[35] The attacks of this spirit quoted by Hammond are many:

> The accumulation of enormous wealth in the hands of a society who claimed perpetual duration will necessarily produced a degree of

[34] The Revolutionary War heightened the well-known American patriotism. There were European investors in the stock of the Bank of North America; vise versus, it was not uncommon among the early American elites to have investments in Europe, for example George Washington once held stock in the Bank of England for 26 years gained from his marriage before selling it in 1786 – ibid, 104. Stephen Girard, the largest individual shareholder of the First Bank of the United States had a portfolio of investments for almost $1,000,000 in Europe by the time the First Bank of the United States was to be converted to a private bank wholly owned by him in 1811 – ibid, 226. Going forward, the issue of foreign investment in the federal banks, i.e. the First Bank of the United States and the Second Bank of the United States, would continue to cause genuine concern for many patriots, or simply being used by the political opponents of federal banks as ground for their attack.

[35] Ibid, 54.

> influence and power which can not be entrusted in the hands of any set of men whatsoever without endangering the public safety.
>
> We have nothing in our free and equal government capable of balancing the influence which the bank must create.
>
> The government of Pennsylvania being a democracy, the bank is inconsistent with the bill of rights thereof, which says that government is not instituted for the emolument of any man, family, or set of men … This institution, having no principle but that of avarice, which dries and shrivels up all the manly, all the generous feelings of the human soul, will never be varied in its object and if continued will accomplish its end, vis., to engross all the wealth, power and influence of the state. [36]

After months of struggle between "the country" and "the city," or the agrarian forces against the bank and the Philadelphia mercantile class supporting the bank, the bank's charter issued by the legislature of Pennsylvania was repealed. The bank was immediately crippled by this repeal because there was little chance "that the state court would allow the bank any corporate rights or protect its shareholders from its creditors, and the charters from Congress, from New York, and from Massachusetts were of little or no help."[37] This move decisively dented the public confidence in the bank, which in turn soon caused the bank to shrink its business: its notes were not ~~be~~ accepted as before, and its deposits dwindled.

When the Bank of North America's survival was on the line, a new turn in the political arena emerged in early 1786 as the composition of the legislature was

[36] According to Bray Hammond, these quotations were from a 1785 Assembly report that recommended the repeal of the charter of the Bank of North America in Pennsylvania. Ibid, 54-55.
[37] Ibid, 54.

altered by some new elections. The pro-bank supporters and the agrarians consequentially engaged in another round of debate in the Assembly.

In addition to the aforementioned accusations of the 1785 debate, some agrarian representatives saw the bank as having crowded out the state Loan Office, an alternative source of finance beneficial to the agrarian population, because the circulation of the bank's notes cramped the state paper money issued through the Loan Office. On the other hand, the bank's credit was offered for a term of 45 days or less, which did not meet the needs of the agrarians.

Robert Morris and Thomas Paine were two leaders in the defence of the Bank of North America. The banks defenders tried to establish two general facts: "One was that the merchants of the community had a right to maintain a bank for their own convenience; the other was that the bank was useful as well to everyone else."[38] Hammond gave a detailed account of their arguments in *Banks and Politics*.[39] These arguments were mainly used to present the facts that were for people with only rudimental familiarity with commerce and banking of the time, such as how commerce financed by the bank through bank note issuing or how discounting could help the agrarian population to move their produce to faraway markets and bring back popular imported goods like rums and sugar from overseas. Such arguments were educationally valuable to the much less informed agrarian population who constituted an indispensable part of the democratic process. Regarding the accusation that the bank squeezed the Loan Office, Morris made a point that the

[38] Ibid.
[39] Ibid, 56-62.

Loan Office and the bank should have different specialties: the former should provide longer term finance to farmers to meet their needs to cultivate their lands, and the latter should continue to provide short-term financing for commercial activities. In response to the accusation that aliens were holding substantial stakes in the bank, Paine's argument was mainly to dispel the mythical worry among the agrarians that the foreign ownership in the bank would harm Americans.[40] The defenders of the bank also thought the agrarians were just using the Loan Office and the state paper money as instruments to attack the bank because "it is notorious that they will not sell the produce of their farms for it [i.e. the paper money issued by the state Pennsylvania through the Loan Office]." They believed the agrarian forces "were one in their hatred of the corporate nature of the bank."

Though the undoing of the repeal was not achieved in 1786, the supporters of the bank were gaining more ground for restitution. For example, according to Hammond, Richard Bache, who was Benjamin Franklin's son-in-law and a director of the bank, became the president of the state of Pennsylvania while Franklin was a stockholder of the bank. In March 1787, the bank regained its charter from the legislature of the state. The agrarian opposition did not retreat with empty handed. The new charter was "more explicit and restrictive than the old had been; it was good for only fourteen years and not forever … it reduced the 'wealth' of the bank to two million dollars instead of ten, it forbade the bank to trade in merchandise and to hold more real estate than was needed for its place of business … copies of the by-

[40] For these arguments of Robert Morris and Thomas Paine, ibid, 56-62.

laws [were] deposited with the state authorities."[41] Hammond further pointed out that the compromise between the defenders of the bank and the agrarian opposition ensured "keeping the corporation closely within the reach of the state … these limitations were prophetic of a tendency for corporate powers to be more narrowly defined at the same time that their effectiveness was to be increased."[42]

Because of the federal government's failure to pay up the portion of stock it had subscribed, Robert Morris arranged for the sale of the government stake in the Bank of North America. This move officially ended the unrealized aspiration of a "national bank," meaning a bank that the federal government had a stake in and would exert significant influence over, and the Bank of North America became a purely private concern.[43] A crucial battle over the ideological inclination of the new republic had been played out. A precedent had been established. However, it was not long before Alexander Hamilton made a new attempt to create a powerful national bank at the federal level patterned after the Bank of England. [44]

B. The First Bank of the United States: the Republicanism vs. Federalism contention

During the Revolutionary War, as early as 1779 Alexander Hamilton began to study the prospect of creating a national bank for the new republic. [45] He left plenty of historical records concerning his long-term deliberation on this subject,

[41] Ibid, 63.
[42] Ibid, 63.
[43] Ibid.
[44] For the influence of the Bank of England on Hamilton's the design of the First Bank of the United States, see ibid, 128-142.
[45] According to Bray Hammond, most likely in November 1779, when the Revolutionary War was in one of its darkest periods, Hamilton first shared his plan in a letter to General John Sullivan to create the "Bank of the United States" to help solve the finance difficulties faced by the Confederation. The authorized capital of the bank would be $200,000,000. Ibid, at 41.

particularly regarding his study of the Bank of England. After being appointed the secretary of the treasury in 1789, Hamilton soon put the founding of a National Bank into his reports to Congress regarding the construction of a series of political economic institutions for the new federal government in 1790 to 1791.[46] The institutions and programs Hamilton proposed included a treasury system on the basis of funded public debt, a powerful national bank, excises, nationally subsidized manufactures, and eventually a standing army. "Hamilton's program," Hammond marveled, "combined magnitude and comprehensiveness, on one hand, with, on the other, meticulousness in detail and a thorough understanding of all he was talking about."[47]

The bill on the National Bank easily passed the Senate controlled by Hamilton's allies, but it received vehement rejection in the House from the members whose values were aligned with those of the agrarian population and would mostly follow Thomas Jefferson and James Madison to form the Democratic-Republican Party in 1792, the archrival of Hamilton's Federalist Party formed in 1791. For the opponents of the National Bank, more than a bank was at stake: the broader issue was that under the constitutional arrangement, the sovereign power was with the states while the federal government did not have any power that was not spelled out in the Constitution, including the power to incorporate any corporation, bank or not. Madison, now a House member, pointed out that the proposed institution "was

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[46] "The plan," according to Bray Hammond, was embodied in the second of the several great reports prepared by him during the early years of his secretary-ship of the Treasury, the others being on manufactures and on public credit." Ibid, 114. Among these are the First Report on the Public Credit, Operations of the Act Laying Duties on Imports, Report on a National Bank, On the Establishment of a Mint, Report on Manufactures, and the Report on a Plan for the Further Support of Public Credit.
[47] Ibid.

condemned by the silence of the Constitution; was condemned by the rule of interpretation arising out of the Constitution; was condemned by its tendency to destroy the main characteristic of the Constitution … was condemned by the apparent intentions of the parties which ratified the Constitution."[48]

Many arguments against the National Bank were similar to those launched against the Bank of North America several years earlier; for example, Georgia representative James Jackson emphasized that the forefathers of American people were driven to the New World by the ecclesiastical corporations and perpetual monopolies in England and Scotland. According to Jackson, the bank in question was "calculated to benefit a small part of the United States – the mercantile interest only; the farmers, the yeomanry of the country, will derive no advantage from it." After days of heated debate in the House, the bill still passed due to the strength of the majority from New England, New York, and New Jersey – the areas where mercantile interests had much more sway than the agrarian population – while the objection was mainly from the agrarian south. Before his signing of the bill into law, President George Washington took the maximum time allowed to listen to his cabinet's opinions, particularly those of Jefferson and Hamilton.

Jefferson had long been known for his staunch agrarian position.[49] He once proclaimed, "Those who labour in the earth are the chosen people of God, if even he had a chosen people, whose breasts he has made his peculiar deposit for substantial

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[48] Ibid, 116.
[49] "Benjamin Franklin conjectured," according to Bray Hammond, "after the Revolution that for one artisan or merchant in America there were at least a hundred farmers." See ibid, 6.

and genuine virtue."[50] In 1785, he wrote a letter from Paris expressing his wish for the Unites States "to practice neither commerce nor navigation but to stand, with respect to Europe, precisely on the footing of China."[51] In 1787, Jefferson wrote, "I think our government will remain virtuous for many centuries, as long as they remain chiefly agricultural; and this will be as long as there shall be vacant lands in any part of America."[52]

Jefferson was not the inventor of this line of agrarian worldview. Benjamin Franklin, the versatile sage and the oldest Founding Father, preceded Jefferson as the spokesman for agrarian values. Despite being a successful businessman, he once cautioned others not to borrow to do business because "[h]e that goes a-borrowing goes a-sorrowing."[53] Franklin also observed that there are three ways for a nation to acquire wealth: "by war, which was robbery; by commerce, which was generally cheating; and by agriculture."[54] Franklin believed the latter to be the only honest way because "man receives a real increase of the seed thrown into the ground, in a kind of continual miracle wrought by the hand of God in his favour as a reward for his innocent life and his virtuous industry."[55] Jefferson would only amplify Franklin's view with more passion and a sense of urgency and righteousness, the latter of which was rooted in the prevailing Christian belief, although neither Franklin nor Jefferson was known as a pious Christian.

Technically, banking and currency (mainly about "paper money" at that time)

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[50] Ibid, 7.
[51] Ibid,121.
[52] Hofstadter, 36.
[53] Hammond, 6.
[54] Ibid, 7.
[55] Ibid.

are two separate issues. However, for the yeoman farmers in the 18th century and early 19th century, they were two sides of one coin, and their opinion leaders were not motivated to separate them in their political debates. Similarly, the agrarians saw corporation as an artificial instrument of the privileged minority to exploit the majority in order to rake in more wealth while corrupting society.[56] Hammond highlighted in *Banks and Politics*:

> The agrarian dislike of banking under the Republic continued the agrarian dislike of paper money in colonial days, for the distinct mark of banks was their circulating notes, and these notes were a variety of paper money … The dislike was aggravated by the recent experience with continental bills during the Revolution and by the fact that banks were corporations … The agrarians saw well that banks belonged to an order of things incompatible with their own and differentiated from it by predilections and moral choices that were basic.[57]

By the time the National Bank was put forward as one of the several pillars of Hamilton's plan to construct a mighty all-seeing federal government, the contention on the banking and currency issue was elevated to a higher level in that it was part of the broader division between two divergent visions for the new republic: Jefferson's yeoman republican ideal versus Hamilton's more realistic embracing of commerce, industry, and modern finance in preparation for a hierarchical society ruled by the commercial elites based on a blended economy where commerce, industry, and agriculture all have their places. This division was clearly not new because it had already occurred in 18th century Britain and was brought to the New

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[56] Up to the time of Andrew Jackson, he would refer to his reading of the "South Sea Bubble" as the basis of his objection to corporation, including the incorporated Second Bank of the United States. Bray Hammond quoted Jackson's words: "But ever since I read the history of the South Sea Bubble I have been afraid of banks." See ibid 3, 373.
[57] Ibid, 35.

World by the incessant waves of settlers.[58]

When Jefferson was consulted by President Washington on the bill for the National Bank, he added his staunch objection to Madison's verdict on the bill's unconstitutionality:

> Can it be thought that the Constitution intended that, for a shade or two of convenience, more or less, Congress should be authorized to break down the most ancient and fundamental laws of the several states, such as those against mortmain, the laws of alienage, the rules of descent, the acts of distribution, the laws of escheat and forfeiture, the laws of monopoly? Nothing but necessity invincible by any other means can justify such a prostration of laws which constitute the pillars of our whole system of jurisprudence."[59]

In his final argument, Jefferson emphasizes the states' sovereignty as well as the superiority of a simple society composed "as wholly as possible of individual human beings and as little as possible institutions."[60]

Article I, Section 8 of the Constitution provides the Congress with the following powers: "To regulate Commerce with foreign Nations, and among several States, and with the Indian Tribes; To establish an uniform Rule of naturalization, and uniform Laws on the subject of Bankruptcies throughout the United States; To coin Money, regulate the Value thereof, and of foreign coin, and fix the Standard of Weights and Measures." The prohibition is recorded in Section 10 of Article I: "No State shall … coin Money; emit Bill of Credit; make anything but gold and silver Coin

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[58] The contention between the Jeffersonian Republicanism and the Hamiltonian Federalism was compared with the "Country-Court" contention in Britain in the 18th century, particularly, the Robert Walpole administration. The "Country" represented the landed interests, while the "Court" represented the commercial, industry and finance interest groups that were concentrated in London. See Stanley Elkins and Eric McKitrick, *The Age of Federalism* (Oxford University Press, 1993), 13-29.
[59] Hammond, 117.
[60] Ibid.

a Tender in Payment of Debts; pass any Bill of Attainder, *ex post facto* Law, or Law impairing the Obligation of Contract."[61] According to Madison, the prohibition on impairing the obligation of contract was also important for the monetary clause because "the violation of contracts had become familiar in the form of depreciated paper money made legal tender."[62]

According to Hammond, during the Constitutional Convention the draft clause that authorized the federal government to issue bills of credit was struck out by a vote of nine to two among the delegates. At that time, the intention of the Constitution was to prohibit "paper money," although bank notes were not regarded as "paper money" because bank notes were supposed to be fully backed up by gold or silver maintained at the issuing bank.[63] The power to "coin money" and to regulate the value of it as explicitly vested with Congress became the critical legal basis for John Marshall's Supreme Court to defend the power of Congress to charter the Second Bank of the United States in the 1819 *McCulloch vs. Maryland* case.[64]

President Washington was convinced by Jefferson and Madison, and even instructed Madison to prepare a veto message. However, Washington still gave Hamilton a last chance to present his case, and Hamilton seized the opportunity to

[61] See "The Constitution of the United States: A Transcription," National Archive, available at https://www.archives.gov/founding-docs/constitution-transcript, accessed 20 February 21, 2019.
[62] Hammond, 91-92.
[63] Ibid, 92-93.
[64] Article I, Section 8 of the Constitution: "The Congress shall have Power ... To make all Laws which shall be necessary and proper for carrying into Execution the foregoing Powers, and all other Powers vested by this Constitution in the Government of the United States, or in any Department or Officer thereof." In this case, the Supreme Court established the "Necessary and Proper" principle in interpreting the legislative power of Congress. The chartering of the Bank of the United States, a federal incorporation, was interpreted as the "necessary and proper" measure taken by Congress to carry out the duty to "Coin Money" and to "regulate its value" as explicitly provided for the federal government. See https://supreme.justia.com/cases/federal/us/17/316/, accessed January 22, 2019. See Section III of this chapter for more discussion on this case.

reverse the President's imminent decision. Hamilton believed the purpose of the Constitution was to create a workable federal government in which sovereignty was vested. Therefore, "every power vested in a government is in its nature sovereign and includes, by force of the term, a right to employ all the means requisite and fairly applicable to the attainment of the ends of such power and which are not precluded by restrictions and exceptions specified in the constitution."[65] Eventually, Washington abandoned the veto and signed the bill incorporating the Bank of the United States on February 25, 1791 (to differentiate it from the latter organization of the same name chartered in 1816, it is conventionally called the First Bank of the United States, while the later one is called the Second Bank of the United States).[66] On December 12, 1791 the bank opened for business in Philadelphia, then the seat of the federal government.[67]

The implications of this constitutionality debate over the First Bank of the United States went beyond this bank: it was more about the constitutional relationship between the new federal government and the states. The Tenth Amendment – part of the Bill of Rights ratified on December 15, 1791 – was designed to further clarify the relationship between the states and the federal government. It reads, "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States

[65] Hammond, 118.
[66] Ibid.
[67] Ibid, 125.

respectively, or to the people." Hamilton's interpretation was accepted as the principle for the judicial interpretation of the Tenth Amendment.[68]

The battle over the First Bank of the United States was one of a series of conflicts within the broader contention between Jeffersonian Republicanism and Hamilton's Federalism when the path of the new republic was being shaped through a highly democratic process. Indeed, the passion involved in this banking contention was intense, probably more so for the bank's opponents due to their deep moral concerns. The fear of a tyranny by an artificial creation, which was rumored or clearly understood to wield power like that of the Bank of England, is understandable due to how widespread and deeply rooted the Jeffersonian yeoman ideal was among the agrarian population. "It is obvious," Hammond commented, "that in the beginning the political prominence of banking in the United States outstripped its economic importance … The proposed National Bank became so much a political and constitutional issue that far more was said of it as such than is of record respecting its operations and economic significance."[69]

The First Bank of the United States had an authorized capital of $10 million, of which the federal government subscribed $2 million, while the remaining $8 million was open to the public for subscription. The demand for the Bank's stock was strong, and speculators pushed the price of the stock from $25 to $300 or more

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[68] The Tenth Amendment reads as "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people." See "The Constitution of the United States: A Transcription," *National* Archive, https://www.archives.gov/founding-docs/bill-of-rights-transcript, accessed February 21, 2019.

[69] Banks and Politics at 118. According to Bray Hammond, the internal records of the First Bank of the United States was lost after its liquidation following the expiration of its charter in 1811, while the records kept by the Treasury may be destroyed in a fire in 1833 – see the note on the same page.

in approximately one month.[70]

Against the advice of Hamilton, who wanted to maintain sound management and not divide the bank's strength, the First Bank of the United States adopted the branch-banking model that at that time was featured by Scotland's banking system.[71] By 1805, the Bank had eight branches in total spreading from Boston, New York, Baltimore, and Charleston to New Orleans. This means that branch banking was briefly adopted in the US in the beginning of its commercial banking system. As discussed in the following section on the age of Jackson, following the Bank War there followed a long time period during which the US banking system was based on unit banks while branching was prohibited or heavily restricted in many states. The result of such prohibitions and restrictions was a severely fragmented banking system that was particularly vulnerable to financial shocks.

The Federalists' victory on banking and other fronts from assumption of the states' debts, a powerful national treasury system, and tariffs to the federal power to regulate interstate commerce set the country up for a spurt of growth that was further fueled by territorial expansion and healthy immigration. Notably, the growth of the non-agrarian sectors outstripped the pace of agrarian sections. "It was the end of the 18th century," claimed Hammond, "after the Revolution, that enterprise suddenly shot forward into a place of commanding influence. Under the spokesmanship of Alexander Hamilton, it achieved political dominance as the party

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[70] Hammond, 123.

[71] As for Hamilton's objection to the plan of branching, see Banks and Politics at 126. In the early stage of planning banking in the United States, Hamilton was for branching, for example in his letter to Robert Morris about constructing a National Bank in April 1781, before Morris to sponsor the Bank of North America, he suggested the bank should have three office in Pennsylvania, Massachusetts and Virginia respectively. Ibid 47-48.

of nationalism, wealth, and power."[72]

In his book *The American Political Tradition,* Richard Hofstadter summarizes the change that Hamilton's programs brought to the new republic:

> The Federalists during Hamilton's service as Secretary of the Treasury had given the government a foundation of unashamed devotion to the mercantile and investment classes. Through his method of funding the national debt, through his national bank, and through all the subsidiary policies of the government, Hamilton subsidized those who invested in manufactures, commerce, and public securities, throwing much of the tax burden as possible on planters and farmers. Federalism exhausted its nursery function for the social economic change at the turn of the century from pre-dominant agrarian to a blended economy based society.[73]

Though the Federalists played a pivotal role in unlocking the economic potential of the nation, history made a rather cruel joke of them. The growth of the non-agrarian sectors did not turn out to be an asset to enhance the party's political fortune. Instead, many new and emerging businessmen would identify themselves with the *laissez-faire*-spirited Republicans than with the Federalists, who were perceived to be a domestic threat to the equality promised by the Constitution and the *laissez-faire* ethos of the time. "The result," as Bray Hammond observed, "was an alignment of the new generation of business men with the genuine agrarians, whose rugged individualism constituted the Jeffersonian democracy's professed faith and required very little alteration to fit enterprise as well." [74]

At the turn of the 18th to the 19th century, when the American society was still predominantly agrarian and Christianity (in its diverse forms) was still a

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[72] Ibid, 8.
[73] Hofstadter, 42.
[74] Hammond, 145.

commanding force in the sphere of social life, under the agitation of leaders such as Jefferson and John Taylor of Caroline, the yeoman ideal was still held as the most virtuous. Bray Hammond made the following observation in *Banks and Politics* about the appeal of the agrarian values and lifestyle:

> In the rivalry of yeoman and merchant… the yeoman had more than the advantage of numbers. They had on their side the ancient prestige of pastoral and georgic poetry, the ideas of unworldly philosophers, the fervour of evangelical Christianity, and the brilliant contemporary influence of French physiocrats…From all this and eventually from the eloquent spokesmanship of Thomas Jefferson, agrarianism derived an arsenal of distinguished and moving sentiments, ethical rather than economic, deeply cherished, and loyally obeyed – so long as considerations of gain were not too strong.[75]

On the strength of the yeoman ideal, not only did Jefferson and his followers survive in the battle over the First Bank of the United States and other advances by Federalists, but the Democratic-Republican Party organized around Jefferson and Madison in 1792 would also eventually defeat the Federalist Party in a decisive way in the 1800 presidential election. From then on, the Republicans and their heir Democrats would dominate American politics for the first four decades of the 19th century.

The expansion of the non-agrarian sector at the turn of the 19th century did not work to stifle the yeoman ideal, although it would inevitably influence the purity thereof – many yeomen could not resist the lure of quick profits from land speculation. While the general decline of the yeoman ideal in the 19th century was undisputed, it took a long time because of the unique American experience and would hind perpetuation in populist politics to this day. Continued geographical

[75] Ibid, 6.

expansion to the West and the South for most of the 19th century would allow the United States to provide arable land to millions more migrants, which sustained, among a large portion of the population, the pursuit of the yeoman ideal as articulated by Jefferson and other like-minded leaders. This reciprocal development of agrarian and commerce, artisanry, manufacturing, and transportation infrastructure would continue deep into the 19th century. For this fundamental reason, rivalry between the agrarian worldview and its non-agrarian counterpart would persist in that century – the Populist movement led by William Bryan Jennings at end of the century denoted the last peak of agrarian-based movement in that century, although the relative power swayed by the agrarian force was experiencing a clear trend of decline.

As for the success of the Republican party in retaining the loyalty of older agrarians, while a major part of the new generation of entrepreneurs was brought into its fold as well, Bray Hammond quoted the following words of the historian Charles Beard: "Jefferson's academic views pleased the one group, and his practical politics propitiated the other. It was also because equality of opportunity in business and the principle of *laissez faire* could be advocated with a Jeffersonian vocabulary." [76]

Once having attained a governing position, Thomas Jefferson displayed his flexibility and pragmatism, far from the tendency of a physiocratic ideologue that his

[76] Ibid, 145–146. Regarding free trade, according to Hofstadter, while Jefferson was influenced by J. B. Say, he would later be a "convert to the doctrine of Adam Smith" after reading *The Wealth of Nations*. See Hofstadter, 48.

earlier writings and rhetoric had unequivocally suggested.[77] When Jefferson and Aaron Burr were in a deadlock in the presidential election of 1801, it was up to the Federalists in the House to decide who would be the president. At that juncture, Alexander Hamilton made a shrewd judgment on the personality of Jefferson and swayed the votes of his party to Jefferson. Hamilton believed Jefferson would "temporize – to calculate what will be likely to promote his own reputation and advantage; and the probable result of such temper is the preservation of systems, though originally opposed, which, being once established, could not be overturned without danger to the person who did it."[78] The events that unfolded after Jefferson was sworn in occurred exactly as Hamilton predicted. After 12 years in operation, the Hamilton system had taken formidable roots in the American economy and had transformed society. In Jefferson's first inaugural address, Jefferson declared: "We are all republicans – we are all federalists…"[79] The Jefferson Republicans, as observed by Richard Hofstadter, "upon attaining power, find themselves the managers of a going concern that they fear to disrupt." [80]

In terms of the attitude towards banking, the Republicans wasted no time in "flirting with the financial interests they had sworn to oppose."[81] "Republican state legislatures issued charters liberally to local banks," Hofstadter further noted, "which in turn, turned to cleave to the Republican Party in politics." [82]John Taylor of Caroline, the more dogmatic agrarian voice among the Republicans, would condemn

[77] Ibid, 44.
[78] Ibid.
[79] Ibid, 45.
[80] Ibid.
[81] Ibid, 47–48.
[82] Ibid, 48.

his fellow Republicans for embracing mercantilism and "enriching and strengthening federalists at the expense of the public."[83] "In short," Taylor said, "a power in the individuals who compose legislatures, to fish up wealth from the people, by nets of their own weaving… will corrupt legislative, executive and judicial public servants…"[84]

Jefferson's change of attitude to the Federalists' heritage of economic institutions embodied the conflicts and compromise between the two visions for American society, namely the agrarian vision and the mercantile and industrial one. "Jefferson was a complex person," Hofstadter warned, "who must be measured in whole, not in part, in action as well as thought." "There were deep ambiguities in his thinking," he further observed, "which made any effort at consistency impossible."[85] Indeed, it is difficult to connect the following statement on his approach to banking with the Jefferson many people had known as the chief defender of agrarian life – the statement reveals his and his fellow Republicans' embracing of commerce and adoption of *laissez faire* for banking:

> I am decidedly in favour of making all the banks Republican by sharing deposits among them in proportion to the disposition they show… It is material to the safety of Republicanism to detach the mercantile interest from its enemies and incorporate them into the body of its friends. A merchant is naturally a Republican, and can be otherwise only from a vitiated state of things. [86]

By comparing the rhetoric of Jefferson at the beginning of the 19th century

[83] Hofstadter, 47.
[84] Ibid, 47–48.
[85] Ibid, 32.
[86] Ibid, 47.

with that before the 1790s, the transformation from being rooted in atomic yeomanry to becoming a budding atomic capitalist is evident. As the foremost leader of the nation, Jefferson had to address the role of government, which he was now leading, in the socio-economic transformation process. Furthermore, in his first inaugural address, Jefferson called for a "wise and frugal government, which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned."[87] In his second inaugural address in 1804, Jefferson stressed that government should maintain "that state of property, equal or unequal, which results to every man from his own industry or that of his fathers." These values powerfully echo down to today in America.

It is clear that the governing principle of Jefferson during his presidency was the small government principle molded by the yeoman ideal.[88] On the overall character of the Jeffersonian political economy, as Hofstadter summarized, "[t]he predominant strain in their [the Jeffersonian Republicans since 1800] economic thinking was *laissez faire*, their primary goal essentially negative – to destroy the link between the federal government and the investing class." [89]

From inspiring an agrarian society to steering a nation in transformation while still under threat from outside, Jefferson's adaptation would inevitably entail

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[87] The first inaugural address of Thomas Jefferson, available at https://avalon.law.yale.edu/19th_century/jefinau1.asp, accessed April 30, 2019.
[88] Hofstadter, 49, footnote 8.
[89] Ibid, 48.

trial and errors. Though he became a convert to manufactures as early as 1805,[90] a lack of systemic thinking about economy and a great deal of naiveté were revealed in the 1807 Embargo Act dictated by Jefferson. "This was the one doctrinaire and impracticable measure of his career," Hofstadter noted, "and it proved a miserable failure." [91] Nevertheless, history could sometimes reward a failure with its unintended consequences. "The Embargo and the War of 1812," Henry Adams, one of the foremost historians of the 19th century, remarked in an ironic tone, "proved to be the seedtime of American industrialism…"[92] "American manufacturers," he continued, "owed more to Jefferson than to northern statesmen who merely encouraged them after they were established."[93]"The Napoleonic Wars," Hofstadter further observed, "destroyed the Jeffersonian dream of an agrarian commonwealth… these wars also erased the practical distinction between Republicans and Federalists." In 1814, Jefferson declared: "We must now place the manufacturer by the side of the agriculturist." [94]

The charter of the First Bank of the United States would expire in 1811. By that time, the total number of banks in the United States was 90, and "in the next five years, it would increase to 250; by 1820 it exceeded 300…"[95] Bray Hammond continued to offer a detailed account of the debate over whether Congress should re-charter this bank. The key arguments on both sides of the debate were not new –

[90] Ibid, 52
[91] Ibid, 51
[92] Henry Adams' comments were quoted by Richard Hofstadter without identifying the exact source – ibid, 52.
[93] Ibid.
[94] Ibid, 53.
[95] Hammond, 145.

the constitutionality of this federal bank was brought up again after two decades, and the ambiguity of the Constitution on banking would continue to be a source of contention for a long time. A major new complexity was associated with the emergence of interest groups as the old, clear-cut partisan division over the bank (i.e., the Hamiltonian Federalists vs. Jeffersonian Republicans) slowly dissipated and became blurred. Both Republicans and the much-weakened Federalists were influenced by local banking interests. Many senators and congressmen were stockholders in the state banks, and these banks were generally against the re-chartering of the First Bank of the United States chiefly for two reasons: The first was that they wished to eliminate the constraint this federal bank imposed on the expansion of their note circulation; the second was their jealousy over the special relation between the bank and the Treasury – the federal government's funds were exclusively deposited with the Bank. The force in support of the federal bank was marginally overcome by the opponents of it. James Madison, the incumbent president, believed the constitutionality issue was settled by both wide acceptance of the bank in the country and its apparent utility to the federal government and the public. However, when state banks were already prevalent and mostly against the federal bank, Madison did not demonstrate strong motivation to save that Bank. However, a few years later, after the country was ravaged by the War of 1812, which lasted until 1815, and the federal government was under significant financial distress again, Madison would play an active role in chartering the successor of the First Bank of the United States. The old schism between the values of country and city was about to resurface with a vengeance.

4. The Bank War: Opening the Era of Liberal Capitalism

> *The rise of Andrew Jackson marked a new turn in the development of American political institutions. During the period from 1812 to 1828 the two-party system disappeared and personal, local, and sectional conflicts replaced broad differences over public policy.*[96]
>
> Richard Hofstadter

In 1811, Congress, controlled by the Republicans, allowed the charter of the First Bank of the United States to expire with no strong intention to renew it. As said, by that time, at the state level, 90 banks were in operation. Stephen Girard, one of the richest businessmen in American history, acquired the Philadelphia head office of that bank and part of its assets. The acquired part of the bank was converted into an unincorporated private business wholly owned by Stephen Girard. [97]

When the country was hit hard by the 1812 War, which lasted until 1815, the federal government was embattled by the lack of financial service it once enjoyed from the old First Bank of the United States – "The Treasury now had no one responsible place to turn for quick loans," Bray Hammond noted, "but must negotiate here, there, and everywhere, encountering varying dispositions and abilities….Its funds were no longer available where it needed them, as the Bank's branch organization had made possible, but must be transported by such means as could be found…"[98] Many people began to miss the days when the federal government had the service of the First Bank of the United States. "Soon Republican

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[96] Hofstadter, 64
[97] Hammond, 226.
[98] Ibid, 229.

newspapers," according to Hammond, "were reprinting Alexander Hamilton's arguments in favor of the constitutionality of the First Bank of the United States!"[99]

The Second Bank of the United States, whose structure was like its predecessor, was chartered by Congress in 1816, when James Madison was in the final years of his second term of presidency. The Bank had a total capital of $35 million and the federal government had a stake of $7 million.[100]"By the end of that year," Hofstadter noted, "Jefferson's party had taken over the whole complex of Federalist policies – manufactures, bank, tariffs, army, navy, and all….under Jefferson's friend, neighbour, and political heir, James Madison."[101] Republicanism was even regarded as "out-Federalized Federalism."[102] Regarding a letter in 1823 written by Jefferson to Albert Gallatin, the former Secretary of the Treasury who had served Jefferson's administration and that of Madison from 1801 to 1814 and who was another master of banking and finance from the rank of public servants following Alexander Hamilton, Richard Hofstadter noted that " [Federalism] had changed its name and hidden itself among us… as strong as it has ever been since 1800." [103]

By 1816, the total number of banks in the United States reached 250, while in five years, it would exceeded 300 – "an increase of more than one hundred-fold in the first thirty years of the federal union."[104] The spirit of *laissez faire* also saturated the banking industry - "Each borrower interest," according to Hammond, "wanted a

[99] Hofstadter, 53.
[100] Hammond, 408.
[101] Hofstadter, 53-54.
[102] Ibid, 54.
[103] Ibid.
[104] Hammond, 145.

bank of its own." [105]

In *Banks and Politics*, a book of more than 770 pages, Bray Hammond devoted five chapters, almost 200 pages, to a discussion about the fate of the Second Bank of the United States (not including this bank's afterlife in the name of the United States Bank under the charter of the state of Pennsylvania). These chapters covered the background of the chartering of that bank after the 1812 War up to its final winding-up in 1836 as a result of President Andrew Jackson's veto of the renewal of its charter. As said, in *Banks and Politics*, Bray Hammond committed to strike a balanced between banking history and political history, and the result was lauded by the history community. To explain his devotion to Jackson and the Second Bank of the United States, Hammond said the following:

> Some readers may think that the attention I give the episode is inordinate, considering the merit of Professor Catterall's history of the Bank, and of Professor Walter B. Smith's recent account. But neither of these studies meets my purpose. Professor Smith's study is economic, whereas my interest is political, and Professor Catterall's, though also political, antedates a concept, relatively new, which gives the Bank a different significance from what it formerly had. This is the concept of central banking, a concept that distinguishes the regulation of bank credit as a function of critical importance in the economy…[106]

In this passage, Bray Hammond pointed out one central issue of his scholarship surrounding the Second Bank of United States that he had first picked up in his earlier writing in the 1940s, and he would provide a more comprehensive account of the issue in *Banks and Politics* – it is about the central banking function

[105] Ibid, 147.

[106] Ibid, 286. For the works of Catterall and Smith that Hammond referred to, see Ralph C. H. Catterall, *The Second Bank of the United States* (University of Chicago Press, 1903); and Walter B. Smith, *Economic Aspects of the Second Bank of the United States* (Harvard University Press, 1953).

that the Bank exercised with considerable success under the leadership of Nicolas Biddle, the long-serving third president of the bank, before it was attacked and destroyed by President Jackson and his allies.

The central banking function, once exercised by the Second Bank of the United States, was mainly to control inflation by its restraint on state banks' note-issuing power (by controlling the pace of redeeming the state bank notes it received as income of the federal government and deposits), and the unfortunate, abrupt end of the bank, ironically through a nation-wide democratic process, has the most relevance to this research. It demonstrates that almost a century before the emergence of the Federal Reserve System in 1913, the young United States was once on the track of developing a sophisticated banking system with a commanding federal enterprise playing the role of an emerging central bank, which would not only mirror the Bank of England but also have a fair chance to make ~~some~~ unique contributions to both central banking and the exploration of private-public collaboration (the federal government had a 20% stake in the bank at the beginning, while the rest of the stock was held by private investors, including foreign investors) based on the American experience.[107] However, the history of the age of Jackson and the Bank War, and the resulting crisis-prone banking system for the remainder of the 19th century and up until the New Deal time, indicate how the interactions between an "interest" and an "idea" in a specific historical setting could produce highly consequential "irrational" historical choices – as for irrationality, the

[107] For the distribution of stockholding in the Second Bank of the United States when the Bank was set up, see Hammond, *Banks and Politics*, 408.

emphasis is on the overall less-enlightened political debate and the act of "destroying" the Second Bank of the United States, which was a well-run banking giant of great public utility. The Bank's irreplaceable contribution to the nation had been proven by the 20-year existence of its predecessor, namely the First Bank of the United States, from 1791 to 1811, and that contribution was further proven by its own 15 years of operation by the time Jackson launched his determined war to dismantle it. That was the fundamental reason the congressional majority voted to re-charter the Bank, while the "death penalty" imposed by Jackson through his veto on the bill of re-chartering was based much on demagogy and sham arguments driven more by prejudice, personal animosity, and tribal interests than genuine moral concern about the public interest or sound analysis of the overall impact with or without this important enterprise.

The Bank War, at the core of the age of Jackson, has been a common place of study for generations of historians and political scientists as another critical turn of American democracy – the evolution of American political culture, the rebalancing of power among the most important institutions (the states, the federal government, and the executive and judicial branches), and a further unleashing of *laissez-faire* capitalism to pave the way for the full display of the epoch of industrialization. For this research, it provides one of the few most informative venues in American history to study the interactions between political culture (in a heated dramatic moment of its evolution) and the nation's approach to banking regulation. Compared with the contention between Jeffersonian Republicanism and Hamiltonian Federalism when the fate of the First Bank of the United States was on the line, President Jackson's war against the Second Bank of the United States, as revealed by the writings of Hammond and other historians, carried a modicum of genuine moral contention and hardly any new articulable ideology. The dynamics in the Bank War pertained primarily to competition between different interests: 1) competition between the privileged few, who had a perceived eminent opportunity to perpetuate their unjustified advantageous position, and the many who came from a plain background, such as Jackson, craving riches and respect based on the equal opportunity that they saw as promised by a young republic,[108] and 2) competition between the old entrenched group in Philadelphia and the young and more dynamic one in New York. On the other hand, if the earlier contention among the founding fathers once featured two different visions, the struggle in the age of Jackson no longer cared much about visions, because the absorption of Federalism by Republicanism had been accomplished. Furthermore, if the prevailing force of the Jefferson vs. Hamilton contention was about construction (as discussed, Hamilton's vision to build a powerful federal government won, but because of the demise of the Federalists as a party, the Republicans inherited the fruits of the Federalist programs), the prevailing force in the Bank War displayed the power of destruction. As for Jackson's political platform, Richard Hofstadter observed, "upon the time of his inauguration Jackson had contributed neither a thought nor a deed to the

[108] With regard to the ethos of the nation when the Second Bank was to be chartered, Bray Hammond wrote, "[t]he sober pace of the 18th century business was giving way, on the wave of *laissez faire* and Industrial Revolution, to a democratic passion to get rich quick – an ambition which America seemed designed by Providence to promote." See ibid, 253.

democratic movement."[109]

In *Banks and Politics*, Hammond also presented several other important aspects of the Bank War of Jackson. These aspects included new findings, or the expansion of earlier ones made by Hammond himself or other scholars. For example, this perspective highlighted the major individual allies of Andrew Jackson within and outside his cabinet, from Amos Kendall, David Henshaw, and Martin Van Buren to Roger Taney, who played an important role in developing and executing the strategy to destroy the Second Bank of the United States; the rivalry between New York City as a new financial center and Philadelphia as the older one, especially the state banks in New York city who most wanted to end the privilege of the Second Bank of the United States, headquartered in Philadelphia, as the exclusive depository of the revenue of the federal government as well as to eliminate its restraint on the state banks' note issuance; and Biddle's bewildering interactions with the Jacksonians. Overall, when these aspects are applied to the reconstruction of the Bank War, Hammond convincingly displayed to his readers a great deal of the character of American democracy in the age of Jackson, including how the American political system was (made to be) susceptible to the agitation of political machines built up by Jackson, who was a military hero admired widely across the nation, and his allies.

The analysis in this Section follows the pattern of the preceding one; in other words, the basic facts and interpretations are mainly drawn out from Hammond's

[109] Hofstadter, 71.

Banks and Politics, with some additional reference to his earlier works and other historians' insights, especially those of Richard Hofstadter. In this way, Hammond's history is continued to be demonstrated as exemplary of how insightful political history could be written in the form of dynamic banking history. This in turn provides the best available avenue by which to study the interactions between American political culture in evolution and the nation's turn in its approach to banking regulation since the Jefferson vs. Hamilton contention. By integrating some important insights from historians such as Richard Hofstadter, who was one of the standard-setters for American historiography in the post-WWII decades, with those of Hammond, the interplay of sound banking history and mainstream political history is also revealed. These efforts aim to prove that Hammond's scholarship, as representative of mature American banking historical scholarship, stands as a mirror in which the much less developed status of banking history in Canada is clearly revealed.

A. The Second Bank of the United States: Nicolas Biddle and central banking exploration

> *I think that experience has demonstrated the vital importance of such an institution to the fiscal concerns of this country and that the government, which is so jealous of the exclusive privilege of stamping its eagles on a few dollars, should be more tenacious of its rights over the more universal currency, and never again abandon its finances to the mercy of four or five hundred banks, independent, irresponsible and precarious.*[110]
>
> Nicolas Biddle

[110] Hammond, *Banks and Politics*, 301.

In the gap years between the First and the Second Banks of the United States, as mentioned earlier, the number of banks in the country continued to increase at a rapid pace. "With the restraint of the Old Bank out of the way," Hammond wrote, "private banks had rushed into business, extended too much credit, and suspended *en masse* when trouble came." [111] Though the country was in serious need of a mechanism to regulate the credit supply of the banking industry, as mentioned earlier, the creation of the Second Bank of the United States was primarily driven by the exigency of meeting the funding needs of the federal government financially embattled by the 1812 War. The clear vision of a central bank, the sophisticated techniques required for central banking, and even the proper governance structure of such a bank were to be developed at a much slower pace.

Even though William Jones, the first president of the Bank as well as a merchant and politician, once served as the Secretary of Navy and acting Secretary of the Treasury, he had neither banking experience nor a sound record of business. He revealed his liberal approach to dispensing credit in his letter to the Secretary of the Treasury, William Crawford, the chief supervisor of the bank in the Cabinet – he was "not at all disposed to take the late Bank of the United States as an exemplar in practice; because I think its operations were circumscribed by a policy less enlarged, liberal, and useful than its powers and resources would have justified."[112]He did not appreciate "conservatism" or "prudence" as being critical for banking much more than most other trades of business. With the same mentality as the president of the

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[111] Ibid, 251. For the suspension of payment of specie by banks during the 1812 War, see ibid, 227–228.
[112] Ibid, 253.

bank, even James McCulloch, who was the cashier of the branch in Baltimore, joined in to criticize the deceased First Bank of the United States, saying that, "[i]nstead of extending its operations as to embrace every real demand of commerce; instead of expanding its views as the country and its trade grew, it pursued a timid and faltering course."[113] Less than three years into its creation, the bank had already run into deep financial trouble and was in danger of suspension in 1818 because of both incompetence and corruption. In October of that year, Congress instructed a House committee to investigate the situation of the bank, and this led to a shake-up of the management team. [114]

Langdon Cheves, a prominent attorney and once the speaker of the House, was appointed the second president of the bank in 1819; he was said to have taken the position with reluctance because of his aspiration to be on the bench of the Supreme Court.[115] Hammond credited Cheves for his austere measures to cut costs and to revamp management. "He procured the appointment of new officers and directors," Hammond recounted, "and made the conservative minority dominant."[116] However, the bank's self-rescue efforts led to a contraction of its credit supply and wide-scope foreclosure, which would pull back its central bank aspiration and fuel the traditional hatred towards banks, especially the federal bank. "The Bank," Bray

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[113] Ibid.

[114] According to Bray Hammond, Stephen Girard, who was the most influential businessman of the time and a veteran proprietor banker, held a major stake in the Bank. He commanded great respect among the lawmakers, and as the supervisor of subscription to the stock, he contributed to the setting up of the Bank. He was one of the government-appointed directors on the board; however, he resigned in less than one year. Given the cap on votes of a single stockholder (30 votes) regardless of how much stock he held, Girard protested but was not able to bring a quick fix to the management of the Bank. For more details about the troubling initial years of the Bank, see ibid, 251–259.

[115] For Langdon Cheves' profile, see ibid, 262–263.

[116] Ibid, 263.

Hammond wrote, "was forced in self-preservation to do exactly the opposite of what a central bank should do: it should check expansion and ease contraction… As lender of last resort and keeper of ultimate reserves, it should have those reserves in readiness…"[117] quoted William Gouge, an influential journalist and amateur banking historian of the 1830s: "The Bank was saved, and the people were ruined."[118] "Its violent efforts at recovery," Hammond continued, "created a popular conviction of its power, when in fact they were compelled by a convulsive weakness."[119]

In this context of the agrarians' hatred towards the bank, Hammond made an important revelation that was not discussed, or not addressed clearly enough, in other research: the prevalent frustration suffered by the frontier population in chasing its yeoman dream. In theory, though a frontier man and his family could normally obtain a tract of land large enough to sustain their life, before the land became productive, the investment to cultivate it (i.e., the money borrowed from the government [or the land development company] to purchase the land and the money borrowed from the bank to purchase tools and livestock and to feed and clothe the family) constituted the chief financial risk for a farming family. Many of these frontier families suffered financial loss simply because their debts were due long before the cultivation process was completed. "On all frontiers," Hammond summarized, "the cost of pioneering – in effort, in spirit, and in cash – tended to

[117] Ibid, 258. These comments about the readiness of "reserves" pointed to the Bank's severe shortage of specie reserve compared with its liabilities. This shortage of specie could be traced back to the time when the stock was subscribed and paid – because of the general shortage of specie for both government as a stockholder and private investors, the Bank compromised on the payment for the subscription and accepted too many alternative payments in paper. See ibid, 253–255.
[118] Ibid, 259.
[119] Ibid.

exceed expectations tragically…"[120] In addition to the general picture of the West, Hammond also used the case of Amos Kendall, a core member of the Kitchen Cabinet of President Andrew Jackson, to prove that the hardship and frustrations of yeomen on the frontier were nation-wide. Kendall wrote about his siblings' experience in Vermont: After years of toiling, "they could never meet the payments for their land and were making improvements upon it for the benefit of others." These siblings, with their sizable families, would eventually return to their father's place after the long suffering in the North.[121] "The cost of pioneering," Hammond stated, "was borne by all generations."[122] Hammond could not help including his own family's experience – from 1800, when his great-grandfather left Maryland for Kentucky and then moved to Indiana, to his grandfather's move to Iowa, until his father settled in California and lost all his means on a tract of land on which he aspired to make orange orchards but that turned out not to be optimal for agriculture at all. [123]

In the age when specie was the only real money but in grave shortage, typical banks of the early 19th century were small and designed only to offer short-term finance determined by their business model. These banks would typically be vulnerable to financial shocks since there was no lender of last resort to provide them with a backstop. The Second Bank of the United States had a vaguely defined mandate. It competed with the state banks wherever it opened a branch to do

[120] In this context, Hammond correctly carved out the South "where the large-scale production of cash crops prevailed and where slave labor had made a large capital investment customary." See ibid, 282.
[121] Ibid, 281
[122] Ibid.
[123] Ibid, 281–282.

business,[124] although the primary drive for its branching out was to serve the federal government's needs to collect tax and to raise funds through selling government bonds. To obtain as much specie as it could for the federal government, the branch of the Second Bank of the United States would ask for quick redemption (usually weekly) of state banks' notes that it received as payment to government – this placed the specie-starving state banks under substantial pressure. "The federal Bank preyed on the state banks," Hammond noted, "and the federal courts defended it."[125] As a result of such an underdeveloped financial infrastructure, too many frontier men, after years of toiling and trying to turn wilderness into arable land, were forced to leave before the land reached maturity. The promise of the yeoman ideal was difficult to realize, and the frontier population had reason to be resentful and to resort to seeking assistance from the state government for relief, typically asking the state government to push back the foreclosure by creditor banks. According to Hammond, many of the state bank stockholders were state politicians. "The dearth of capital was the worst where the illusion of cheap land prevailed; it made relief for agrarian distress a dominant issue for years in the politics of Ohio, Kentucky, Tennessee, and other parts of the West in the early decades of the 19th century."[126] Those state politicians would easily channel the anger of their constituents toward the Second Bank of the United States and the federal government. Hammond's patient explanation of this structural difficulty of the time

[124] As discussed in the followed text, after Nicolas Biddle became the third president of the Bank in 1823, 7 years after the Bank's chartering, he intentionally steered the Bank in the direction of a central bank. However, even so, the Bank could still be regarded as a superior competitor by the state banks because a substantial amount of overlap existed in their businesses.
[125] Ibid, 283.
[126] Ibid, 282.

offered the seemingly unhealthy agrarian "hatred" towards corporations and banks some grounds for justification. [127]

As Hammond noted, "[a]lthough the hostility most responsible in the end for the destruction of the Bank of the United States was that of the state banks and of allied business interests requiring credit – and more particularly those in New York – the chief hostility in the beginning had been agrarian and strongest in the Ohio valley."[128] Not only would this sentiment of the frustrated agrarian population be a critical factor in the upcoming Bank War, but it would also re-emerge with great dynamism in the waves of Populist movement in the remainder of the 19th century. Beyond that, from the perspective of American political culture, the yeoman ideal of the 18th century, as most powerfully advocated by Jefferson, and the agrarian population's innocence, frustration, and anger toward the "moneyed power" and the federal government, which seemed to aid and abet, or even conspire with, the "moneyed power" rather than to work for the people, would be transformed into a perpetual suspicion of the political system, especially at the federal level, and become ingrained in the American political culture.

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127 Ibid, 279–285.

128 Ibid, 279. However, Hammond's *Banks and Politics* seems to suggest that there is another way of assessing how large a role agrarian hostility played in the Bank War. The climax to the drama of the Bank War was the veto of the re-chartering of the Second Bank of the United States and the 1832 presidential election in which this re-chartering was the central issue. Jackson's win of the election by a landslide was a populist sanction of the veto. The national support Jackson garnered suggests that when the majority of the population was agrarian, this population's general hostility was decisive in the Bank War – the more critical part of this prolonged war was the approval and mandate Jackson obtained from the second-term election than the veto in his first term. If he lost the presidential election to Henry Clay, a major supporter of the bank, then the bank would surely to be re-chartered with more support than before the election.

When the bank was retrenching, the famous case of *McCulloch vs. Maryland,* as mentioned earlier, was brought to the Supreme Court in 1819. In brief, the state of Maryland attempted to impose a tax on the bank, which was operating a branch in Baltimore. Maryland and several other states had been questioning the bank's constitutionality since its chartering. State banks were generally hostile toward the federal bank, which was their superior competitor. However, the John Marshall's Supreme Court turned this high-profile litigation into an opportunity to proclaim the court's "sweeping affirmation of federal powers."[129] "Let the end be legitimate," Marshall wrote, "let it be within the scope of the Constitution, and all means which are appropriate, which are plainly adapted to that end, which are not prohibited but consist with the letter and spirit of the Constitution, are constitutional."[130] This decision clarified the constitutional standing of the Second Bank of the United States. Although, *McCulloch vs. Maryland* was clear enough regarding the position of the Supreme Court, the intransigency at the state level in the West and South continued for a few years before it became more settled as to the legality of the Second Bank of the United States as well as the authority of the federal government in banking and currency.[131]

In 1823, Langdon Cheves would resign from the post of president because of stockholders' protests regarding low dividends. In 1837, long after leaving the bank, Cheves would confess that his conservative approach to the management of the

[129] Ibid, 265.
[130] Ibid.
[131] More information about the states' challenge to the Second Bank of the United States and the federal government, see ibid, 266–276.

bank's business was driven by his belief that the Bank was not designed "to conduct its business with a view to the largest possible profits…" More intriguing was the following statement by Cheves: "I am free to declare that I am opposed to a national bank in any shape. I always believed it to be unconstitutional, and my experience and observation had satisfied me that it is inexpedient, unnecessary, and dangerous."[132] If what Cheves claimed was true, then his case first embodied a fairly typical American self-contradiction, or pragmatism – he did not like the bank philosophically, but for years, he could still be the head of the bank for political reasons and even lead the bank's turnaround. Cheves' confession also revealed some genuine confusion about the status of the Second Bank of the United States for even the political elite. It highlighted that the bank's success was not warranted, although it enjoyed the advantages, such as an unparalleled large amount of capital and the position of monopoly at the federal level as the depository of federal funds. The bank faced a broad range of challenges, from the generally tough business environment, effective governance, and internal risk control (e.g., measures to prevent self-dealing, favoritism, and embezzlement) to the balancing of the implications of its private ownership and its public duty – the last aspect, namely to balance stockholders' quests for profit and the public duty to regulate the currency of the country, was the most challenging because even the basic parameters of such a unique public duty were not available. On the other hand, the bank's monopoly position would continue to subject it to the hostility of the state banks.

[132] ibid, 278.

After having sat on the board as a government appointed director for 5 years,[133] Nicolas Biddle took over the helm from Langdon Cheves in 1823 when he was only 37 years old. Born in 1786 in a prominent family of politics and business in Philadelphia, Biddle was known as a prodigy. He was educated at the Universities of Pennsylvania and Princeton. Thereafter, he traveled around Europe and briefly worked as secretary for James Monroe, who was then the Minister to the United Kingdom. His literary talent quickly made him well known among the elites – he was praised by Thomas Jefferson, and later by the American literary community, for his writing up of the voyage of Lewis and Clark to the Pacific coast (a legendary expedition commissioned by President Jefferson after the Louisiana Purchase in 1803).[134] He revealed his prodigious understanding of banking in 1811 when he was a freshman in the legislature of Pennsylvania, addressing the crowd on the issue of the First Bank of the United States, whose request for re-chartering had been declined by Congress and which was pursuing a state charter from Pennsylvania. [135]

Hammond did what a historian is tasked to do – indulge in important aspects of history that he found relevant to his broad theme. In the 1940s, he established his

[133] According to Hammond, in January 1819, Biddle was nominated by President Monroe and was confirmed by the Senate to be one of the five government directors of the Bank. See ibid, 291.
[134] Ibid, 288–289.
[135] Hammond provided an informative biographical sketch of Nicolas Biddle by the time of his appointment as the president of the Bank in 1823, including an analysis of Biddle's temperament. Hammond believed that while Biddle was exceptionally talented as a visionary and was able to execute on the exploration of the central banking function of the Bank, he also proved, by putting together the observations of Biddle from various persons – some being highly penetrating – that Biddle was surprisingly naïve and inept in politics. Ibid, 287–298. Nonetheless, Hammond acknowledged that regardless of how politically savvy and resilient the president of the Second Bank of the United States might be, he would succumb to the war of Jackson – for example, Hammond considered Albert Gallatin, the admired Secretary of the Treasury of Jefferson and a top banker of the time, who had declined the job, and believed that Gallatin would have "withdrawn in dignity" when faced with Jackson's blundering challenge. Ibid, 277.

credentials in the historical community with his study on the Second Bank of the United States and Nicolas Biddle as a historical figure whose life he believed was worthy of a decent profile. *Banks and Politics*, which was said to have taken more than 10 years to finish writing, consolidated and expanded Hammond's previous study on this important business organization and its outstanding leader, Nicolas Biddle. As a part-time historian with a full-time job at the Federal Reserve System, Hammond understandably displayed interest in his findings around the emerging central banking function one century earlier than the founding of the Federal Reserve System in 1913. Equally intriguing to him was Biddle, who so consciously and prodigiously led the largest business organization of the country to pursue the goal that the Bank of England had set out to reach more than one century earlier but had not yet attained.[136] In a note in *Banks and Politics*, Hammond made it clear that before him, "Dr. Fritz Redlich in his *The Molding of American Banking* has pioneered in the study of Nicolas Biddle as a central banker."[137] "In other historical accounts of banking and central banking theory," Hammond continued, "Biddle is scarcely mentioned, though ample attention is given [to] his less important

[136] Here this author means in the 18th and 19th centuries up to the Great Depression. Although the Bank of England was widely respected for being one of the few earliest banks that had consciously assumed the function of a central bank, the satisfactory performance of such a duty by it, a privately owned corporation (though of superior financial strength and more respectful governance than the rest of the industry) was not always attainable. For example, Hammond quoted the words of Professor Jacob Viner to criticize this old central bank's performance: "From about 1800 to about 1860 the Bank of England almost continuously displayed an inexcusable degree of incompetence or unwillingness to fulfill the requirements which could reasonably be demanded of a central bank." See ibid, 324. The Bank of England was nationalized in 1946 by the Labor Party's administration, which eliminated once and for all the conflict between private ownership and its public function. The Federal Reserve System of the United States created at the turn of the 20th century was designed to be a delicate modern hybrid of private ownership and public function. This structure is another example of the influence of American political culture on shaping its critical political economic institution – it is a compromise, a hybrid, and a vestige of self-contradiction.
[137] Ibid, 325.

contemporary."[138] Dr. Redlich, who held a PhD in economics, was trained in his home country, Germany, in the 1910s, was a migrant to the United States in 1935, and established himself as a pioneer in studying the history of entrepreneurship, had sought to study the persons and their ideas that had shaped banking in the US from 1781 to 1940 through his two volumes of *The Molding of American Banking: Men and Ideas* published in 1947 and 1951 respectively.[139] Redlich deserves credit for this pioneering effort. However, Anna J. Schwartz, a foremost authority in American monetary history, was far from satisfied with Redlich's synthesis, including his handling of the episode about the Second Bank of the United States and Nicolas Biddle. [140]

As said, Hammond's interest in the Second Bank of the United States and Nicolas Biddle began in the 1930s–40s, largely in parallel to Dr. Redlich's

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[138] Ibid, 325. The book of Dr. Redlich mentioned hereof is *The Molding of American Banking: Men and Ideas, 1781–1840* (New York: Hafner Publishing Company, 1947) Volume I, and *The Molding of American Banking: Men and Ideas, 1840–1910* (New York: Hafner Publishing Company, 1951) Volume II.

[139] According to Kenneth E. Carpenter and Alfred D. Chandler Jr., who knew Dr. Redlich in person at Harvard University, Redlich's life-long primary academic interest and the orientation of the book in question was "entrepreneurship." See Kenneth E. Carpenter and Alfred D. Chandler Jr., "Fritz Redlich: Scholar and Friend," *The Journal of Economic History* 39, No. 4 (Dec., 1979): 1003–1007.

[140] Anna J. Schwartz was best known as the co-author – alongside Milton Friedman, Nobel Laureate in economics – of the landmark book *A Monetary History of the United States, 1867–1960* (University of Chicago, 1963). Dr. Schwartz wrote a 10-page long review of volume I of Redlich's book in 1947 – see Anna J. Schwartz, "An Attempt at Synthesis in American Banking History," *The Journal of Economic History* 7, No. 2 (Nov., 1947): 208–217. This book review is the longest encountered in this research, and it goes a long way to testify to the strength of Schwartz as the foremost expert in American monetary history. The overall assessment of Dr. Redlich's book is that he was too ambitious to cover the American banking history for more than 100 years, and the result was an uneven treatment of the many subjects and persons involved, with many verifiable mistakes. In terms of historiography, Redlich assigned too much weight to individual persons and their ideas while downplaying the broader social economic trend. For this author, the defense of Dr. Redlich's scholarship could be that he intended to depict the major persons and ideas that played important roles in shaping the banking industry in the US, rather than to use his efforts to replace comprehensive banking history from 1781 to 1910.

research.[141] Without doubt, Hammond benefited from Redlich's book – it was referenced in *Banks and Politics*, while Hammond's account of the Second Bank of the United States and Nicolas Biddle's career at the Bank are more detailed and more accurate.[142]

Hammond divided Biddle's career as the head of the Bank into two periods: before and after President Jackson's first attack on the Bank in public in 1829.[143] For the former period, when Biddle was not distracted by the political troubles, he "displayed," Hammond commended, "a thorough command of his responsibilities in terms both of understanding and of leadership."[144] By drawing on the rich record of the bank, especially a large collection of Biddle's letters kept in the Library of Congress, Hammond went a long way to explore Biddle's mind and many important aspects of the bank's operation. Hammond was especially interested in how Biddle developed such an *avant-garde* understanding of the mission of the Second Bank of the United States as the American equivalent of the Bank of England, and even aspired to do a better job than the much older and widely respected "Old Lady on the Threadneedle Street";[145] how he managed to prioritize the central banking duty

[141] For Bray Hammond's earlier writings published as academic journal articles in the 1930s and 40s, see footnote 11 of this chapter.
[142] Anna Schwartz, though briefly, endorsed Hammond's different interpretation of Biddle's career in his 1947 article "Jackson, Biddle and the Bank of the United States" and the proper understanding of the Jacksonian attack on the Bank for failing to create a "uniform and sound currency," as compared with those provided in Redlich's book. See Schwartz, 217 – supra, note 140.
[143] Hammond, *Banks and Politics*, 300.
[144] Ibid, 323.
[145] In 1826, in a long letter addressed to a writer named Peter Paul Frances Degrand, who was writing an essay about the Second Bank of the United States, Nicolas Biddle described several important aspects of the bank's policy and operation, including his comparison of the bank with the Bank of England in dealing with the 1825 monetary contraction, in which event Biddle believed the bank's proper anticipation and the measures taken to remedy the situation were much more effective than the performance of the Bank of England. See ibid, 306–307.

over profit-making without irritating the private shareholders; how he could maintain effective internal control over the branches, which reached a total of 25 at the peak time in 1832, stretching from Burlington, Vermont to New Orleans, from Augusta, Georgia to Cincinnati, and from New York City to Nashville, when these branches were enjoying great independence, when sufficient competent branch officers of reliable moral integrity were difficult to find and conflict of interests were common, and when, in the age before the telegraph, he could only rely on dispatching countless letters to issue delicate instructions on monetary-policy-oriented operations based on the gathered market intelligence and his experience; how he handled the fast increasing volume and sophistication of inter-state and cross-border exchange of various payment instruments to achieve higher efficiency and in the meantime to lower the cost to customers;[146] and how he managed to adopt bank drafts to meet the demand for bank note issuing, without which he and his cashier would have to work 10 hours per day and 365 days per year to sign up to 400,000 pieces of bank notes while left with no time to do anything else.[147]

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[146] Hammond recorded the explosion-like increase in the volume of domestic bills used in trading transactions that the Bank handled in the period from 1819 to 1832 – it started at zero and increased to $2,378,980 in 1824, and further to $23,052,972. See ibid, 318. In the midst of a fragmented banking system, many smaller state banks and businessmen could make money from handling the inter-regional exchange of payment instruments because of their better market intelligence and patchy correspondence relations with their partners in other regions. With the extension of the network of the Bank of the United States, many of these transactions would be absorbed by the platform of the federal Bank. The Bank could easily eliminate its small competitors with lower charges and a more efficient handling service. This could become another reason of the general hatred of the bank's unusual power. See ibid, 322.

[147] For Hammond's examination of the business of the Second Bank of the United States, including some important correspondence from Biddle to the branch offices, see Banks and Politics, at 300–325. For legal challenges on the Second Bank of the United States' adoption of bank drafts, including the 1831 case of the United States vs. Shellmire, see ibid, 398–404.

Together, the answers that Hammond found for these questions portrayed a well-managed banking organization that overcame many of the treacherous challenges arising from outside and from within in the 1820s to the beginning of the 1830s. Hammond praised the performance of Biddle as the leader of the bank for both his ability and his moral standing – "the Biddle papers show the Bank's president intimately and indefatigably engaged in all its affairs, an alert, intelligent, and conscientious executive."[148] Of all the attacks by the Jacksonians over the years, the allegation of corruption in Biddle's bank was the most frequent, offensive, and arousing one – the "hydra of corruption" was the favorite sling of President Jackson. In this regard, according to the Yale sociologist and historian, William G. Sumner, as Hammond quoted, "[i]t is not proved that the deposits were used by the Bank of the United States for any political purpose whatever." While the more important banking historian, Catterall, would say, as Hammond also quoted, "there never has been any evidence produced to show that the Bank…ever spent a dollar corruptly."[149]

For this research, the overall record of the Second Bank of the United States as synthesized by Hammond was strong enough to substantiate the potential of a "National Bank" as first envisaged and laid foundation for by Alexander Hamilton at the turn of the 19th century. In Hammond's assessment, Nicolas Biddle, a man of outstanding intelligence in entrepreneurship and business management, and, more importantly, a man with a commitment to innovative public service, achieved

148 Ibid, 312.
149 Ibid, 425.

considerable success in testing and formalizing some essential principles and techniques of central banking of his time through his management of the Second Bank of the United States. However, as is strikingly relevant to the hypothesis of this research, banking regulation was never a technocratic game insulated from political influence – it is a special business of profound political-economic implications. Biddle's public service through the Second Bank of the United States, though a highly powerful banking organization, was subject to the turn of national political climate. This banking organization's fate, on which hinged the first central banking function in exploration in North America, would be congenitally vulnerable to the turmoil of national politics – the budding of central banking of Nicolas Biddle, a clear public good, would soon be ravaged by the raw power of rivalry interests, biased public sentiments, and the powerful political demagogue of the Jackson clan. For the young American republic, which was a democracy for mass participation, even though Biddle's administration carried plenty of rationality for the more informed and sober souls, it was too *avant-garde* to be appreciated by the times.

Hammond seized this opportunity to praise Biddle's early trial on central banking and to reflect on the nation's squandering of this previous asset as the result of the Jacksonians' dismantling of the institution. The ensuing trek the country had to take, and the suffering that generations of American people had to bear from the periodical financial crises, stung Hammond so sharply that he, who was supposed to be detached from the subject of his writing as a historian, could not hold his lament:

> In view of these two things – central banking performance of the Bank of the United States and Nicolas Biddle's lucid running commentary thereon – it is

> remarkable how Americans have abstained from considering any experience of their own in central banking prior to establishment of the Federal Reserve Banks and any comment of their early central banker about it. But the disasters which overtook Mr. Biddle after President Jackson's assault upon the Bank diverted attention from what had gone before and from the bigotry and self-interest of that assault. [150]

"In reflecting on the stupidity, self-interest, and cost of the Jacksonian blunder," Hammond continued, "one may well remember how intelligently Nicolas Biddle played his responsible part in that order and how loyally, though not so intelligently, he tried to prevent its destruction."[151]

B. The Jacksonians, *laissez faire*, and the rise of New York

"For Bancroft [the great historian of the early republic]," Donald Cole observes, "the American Revolution was a prelude to Jacksonian Democracy; for [Arthur] Schlesinger, Jacksonian Democracy, including the contributions of Bancroft, was a prelude to the New Deal."[152] Among generations of historians, it has been a consensus that the transformation in the age of Jackson paved the way for the "take off" of the United States as a new world power in the second half of the 19th century, and the new order of "liberal capitalism" it ushered in (i.e., a capitalist system with little interference from the government) would govern the country for most of the 19th century until the rise of the anti-trust movement in the closing decade of that century.

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[150] Ibid, 324-325.
[151] Ibid, 325.
[152] *See* Donald B. Cole, "Review: The Age of Jackson: After Forty Years," *Reviews in American History* 14, No. 1 (Mar., 1986): 149–159.

Among the historians who wrote comprehensively about the second quarter of the 19th century, Arthur Schlesinger Jr. stood out for his influential book *The Age of Jackson*, which offered an unprecedented survey of this transformative time period in the light of Progressive history. Without diminishing the many merits of the book – for example, the British historian Marcus Cunliffe commented that "[t]he verve, the scale and the dexterity of his survey were enough to guarantee the book a long life…" – it must be noted that the book make some rather serious mistaken interpretations or omissions on the economic side of the time, and it granted Jackson and his allies too much sweeping approval. As noted in Section I of this chapter, Bray Hammond's competent review of Schlesinger Jr.'s book in 1945 was credited by Richard Hofstadter as akin to his understanding of the times in question.[153] Ten years after, in *Banks and Politics*, Hammond offered a comprehensive new perspective about the whole Bank War, which stood at the heart of the age of Jackson, and the many actors of the episode.

Indeed, by the middle of the 20th century, non-agrarian economic functions had long been dominant in the American economic landscape, while the yeoman ideal tenaciously held a place in the minds of many Americans. The writing of American history called for a proper understanding of the economic system as well as a new form of history that could accommodate and balance economic history and the more traditional political history. Hammond's success in *Banks and Politics* constituted a landmark success in this new direction.

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[153] Hofstadter, 466.

The 1940s and 50s, the prime time of Hammond's historical endeavors as well as the period during which he wrote *Banks and Politics*, constituted a transitional time period for American mainstream historiography, from Progressive history to so-called Consensus history. Through this transition, the torch of the writing of American history was relayed from the generation of Turner and Beard to the generation of Hofstadter, Higham, Woodward, Potter, and many others. Through history, American historiography never has one unified voice, including the first one and a half decades post-WWII when the Consensus School was indeed occupying center stage. Identification of the rise of the Consensus School and challenges thereof by historians such as John Higham were clear signs of contention. One would not risk too much to call Hammond's prime time, from the perspective of American historiography, the "post-Progressive" era. It would be interestingly debatable whether Hammond's historiography as manifested in *Banks and Politics* stands closer to Progressive or Consensus history. Nevertheless, Hammond's historiography was mature and well grounded. To a large degree, the strengths and maturity of Hammond's scholarship were founded on his penetration of the age of Jackson and the Bank War.[154]

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[154] While it is fascinating, this author must leave the discussion about how Hammond's banking history could be connected with (but still different from) the historiography of Richard Hofstadter and political scientist Louis Hartz, two of his contemporary leading intellectuals who were identified as the core members of the Consensus School, for future study. For Progressive history, Richard Hofstadter's *The Progressive Historians* offers an enlightening introduction as well as critiques of the history written by the three major Progressive historians, Fredrick J. Turner, Charles A. Beard, and Vernon Parrington – see Richard Hofstadter, *The Progressive Historians: Turner, Beard, Parrington* (Alfred A. Knopf, 1968). As for the discussion on Consensus history, or Consensus School, see, for example, John Higham, "The Cult of the 'American Consensus': Homogenizing Our History," *Commentary*, 28 (Feb, 1959): 93-100, and "Changing Paradigms: The Collapse of Consensus History," *The Journal of American History* 76, No. 2 (Sep., 1989): 460–466; Samuel P. Huntington, "Paradigms of American Politics: Beyond the One, the Two, and the Many," *Political Science Quarterly* 89, No. 1

The age of Jackson was a critical but long-misunderstood period. One of the core elements of the misunderstanding was the lack of appreciation of the public service of the Second Bank of the United States and Nicolas Biddle, especially the central banking trial discussed above, as a result of the general lack of more specialized knowledge about the functioning of the modern banking system in the historian community. Historians such as Schlesinger Jr. consequently portrayed the bank as the symbol of autocracy, and such a portrait had been widely accepted. Apart from banking, the expansion of non-agrarian economic sectors, from general commerce, construction, and transportation to manufactures, whose development greatly expanded the influence of urban areas and would absorb a growing chunk of the population, would steeply compound the intricacy of the history of this period, including the transformed social and political culture – for example, the change of people's attitudes towards non-agrarian endeavors, their views on the economic heritage of Hamilton, and their evolved understanding of the relation between the federal government and the states.

(Mar., 1974): 1–26; and Daniel Joseph Singal, "Beyond Consensus: Richard Hofstadter and American Historiography," *The American Historical Review* 89, No. 4 (Oct., 1984): 976–1004. Louis Hartz "earned" his position in the Consensus School through his bold interpretation of American political tradition in his ground-breaking work *The Liberal Tradition in America: An Interpretation of American Political Thought since the Revolution* (New York: Harcourt, Brace and World, Inc, 1955). This book won him the prestigious Woodrow Wilson Prize (1956) and the Lippincott Prize (1977). Commentary articles on Hartz's theory are numerous and have continued to emerge in recent years. More recent examples include Roger M. Smith, "Beyond Tocqueville, Myrdal, and Hartz: The Multiple Traditions in America," *American Political Science Review* 87, No. 3, (Sep., 1993): 549–566; James T. Kloppenberg, "In Retrospect: Louis Hartz's 'The Liberal Tradition in America,'" *Reviews in American History* 29, No. 3 (Sep., 2001): 460–478; Carol Nackenoff, "Locke, Alger, and Atomistic Individualism Fifty Years later: Revisiting Louis Hartz's Liberal Tradition in America," *Studies in American Political Development*, 19 (Fall 2005): 206–215; and Philip Abbott, "Still Louis Hartz after All These Years: A Defense of the Liberal Society Thesis," *Perspectives on Politics* 3, No. 1 (March., 2005): 93–109.

Hammond chose to focus on banking (inseparable from currency discussions in this period), which was then the most prominent economic function as a result of the great influence of the Second Bank of the United States and the overall banking system and because of their deep entanglement in the national politics as no other industry at that time could match. Hammond's knowledge of banking and its history, accumulated through his career at the Federal Reserve System, was greatly elevated by his decade-long research that led to Banks and Politics. As a special economic function, banking served almost every segment of the real economy from agrarian to non-agrarian. Hammond inevitably also gained a firm grasp of the overall economic situation, and for this reason, he was uniquely positioned in the history community to tackle the many challenging topics covered in his book.

In Banks and Politics, Hammond's strengths on the economic front were manifested in his patient and detailed discussion about banking developments over a long span of time for historical writing – from the Revolutionary War to the Civil War. One of those strengths is his ability to describe the "settings" of the specific time periods that he chose for substantial examination. By integrating the consequential political events and major banking developments into a general social and economic background, he ably honored a classic duty of the historical profession, namely to be able to create a broader picture for his readers, especially those who were not from the community of academic historians, to help them not to lose touch with the framework when following him to dive into details and dissect intricacies in the cross-area of banking and politics. Similarly to what he did at the beginning of Banks and Politics, where a whole chapter was devoted to sketching out the historical background from 1694 to 1781 before the birth of the first chartered banks during the Revolutionary War, [155]the social economic change the country experienced between the Revolution and Jackson's presidency was dramatic enough to call for a meaningful summary thereof for the purpose of highlighting a transformed landscape in the United States.

The strong and steady increase of banking business handled by the Second Bank of the US and the expansion of its branch network, as discussed in the preceding section, made up one of the many façades of the fast-changing American society in the early decades of the 19th century, driven by economic growth, geographical expansion, and a high inflow of migrants. "During the half century that ended with General Jackson's election," Hammond observed, "America underwent changes, perhaps the most radical and sweeping it has ever undergone in so short a time." [156] He believed that in this period, the American society passed the "climacteric separating a modern industrial economy from an older one of handicraft; it passed from colonial weakness through bare independence to actual power and from and unjostled rural culture to the complexities of populousness,

[155] Throughout the first chapter of the book, Hammond provided a helpful description of the situation of the British government's regulation of banking and currency affairs in the colonial America from 1694–1781. Apart from the paper currency issue, which was a key focus of the chapter, this chapter answered several important questions Hammond would anticipate from his more curious readers about banking development in this period. The following are examples of such questions: 1) Before the emergence of the first chartered bank during the Revolutionary War, would the colonial Americans attempt to establish some chartered banks, particularly given the fact that the Bank of England had been chartered as early as 1694; if not, what was the obstacle for it; and did colonial America see any banking activities through private banks? In short, the Bank of England Act of 1694 (or, the Tunnage Act) and the Bubble Act of 1720 established the legal basis for the British government to control banking incorporation in colonial North America – without the British government's approval, no bank was allowed to be chartered, while there was no record of private banks of significance that ever existed. See Hammond, *Banks and Politics*, 3–6.
[156] Ibid, 326.

sectionalism, urban slums, mechanized industry, and monetary credit."[157] In short, a national economy emerged. Railways and steamships emerged and spread quickly in this period, helping the nation overcome the spatial challenge as the frontier continued to be pushed in the West and the South. The population of the country grew from 4 million in 1790 to 17 million in 1840. [158]

Economic growth, technology innovation and application, demographical change, labor concentration in non-agrarian businesses (e.g. construction and manufacturing), urbanization, ethnic and cultural fusion and conflicts, and interaction with one another inevitably altered the outlook of American society as well as the "zeitgeist" of it – on account of the latter, "yeoman republicanism," which was paramount at the beginning of the Union as advocated by Thomas Jefferson, was clearly replaced by a kind of raw energetic "liberal capitalism." While the agrarian population was still the majority in this period, it was on the track for a steady decline in the percentage of the total population, and the agrarian population would eventually lose its majority status in the post-bellum decades as industrialization in the US led to faster growth of non-agrarian population.[159] Likewise, although the yeoman ideal was still inspiring a large portion of the

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[157] Ibid, 326.
[158] Ibid, 326.
[159] This study does not encounter a more definitive source which tells the exact year when agrarian population was surpassed by the non-agrarian population in the US. However, according to a New York Times article of 1988 based on a survey by the Census Bureau and historical records, in 1820, American engaged in "farm occupations" were about 72 percent of the total 2.9 million work force, while, it is estimated by the Agriculture Department that American farm population peaked in 1916 but was only 32 percent of the population of 101.6 million population. By the time of the article, farm population only claimed about 2 percent of American population. See "Farm Population Lowest Since 1850s," *New York Times*, July 20, 1988, available at https://www.nytimes.com/1988/07/20/us/farm-population-lowest-since-1850-s.html, accessed April 30, 2019.

population and would continue to do so until the end of the century, a new understanding of the proper social economic order – one that did not hinge on farming – was surging. "People," Hammond noted, "were led as they had not been before by visions of money-making… Liberty became transformed into laissez faire."[160] The new immigrants that were "pushing into the country from Europe," as Hammond observed, "had more impatient economic motives than their 18th century predecessors."

By this point, Hammond compared the patriotic yeoman republicanism, which was morally and culturally rooted in Christianity and further coated with a layer of righteousness from Thomas Jefferson's political rhetoric, with the emerging "liberal capitalism" which was much more materialistic and degenerated in its moral sensitivity. "A conception of earned wealth arose," as Hammond observed, "which rendered the self-made man as superior morally to the hereditary well-to-do as the agrarian had been."[161] It appears that in the new era, the old agrarian moral understanding, which pitted mammon as the enemy of God, was retreating and making space for a new current under which people who had become much more secularized either disregarded the perceived conflict between the pursuit of wealth and God or, similarly to the old Puritans in New England, found a way to reconcile the two or lived in a state of paradox.[162] "A violent, aggressive, economic

[160] Hammond, *Banks and Politics*, 327.
[161] Ibid, 328.
[162] According to Max Webber's famous theory regarding the relation between the rise of capitalism and Protestantism, the Puritans who became rich by engaging in various trades other than an agrarian life – mainly cross-Atlantic commerce in the 17th and 18th centuries before the Revolution – treated their business activities as a calling from God. Their frugality and industriousness, which were key characteristics of the teaching from their belief, played a critical role in their business

individualism," according to Hammond, "became established. The democracy became greedy, intolerant, imperialistic, and lawless." [163]

Hammond's reading of the era was inseparable from his careful examination of the members of Jackson's clan, or the "Jacksonians" – some being more essential than others – through the lens of their correspondence, autobiographies, rhetoric, and tactics used in the political struggle against the supporters of the Second Bank of the United States to their gains from dismantling the banking giant and the implications of their destruction of the banking system for the country's political-economic future. Consistent with what Hammond had perceived one decade earlier, but with more persuasive power because of the deepening and expansion of his investigation of the study, for him, the Jacksonians were a group of hardheaded economic individualists mostly from plain backgrounds, adventurous in business, savvy, and ruthless in political game. No doubt, their collective resolve to fight and kill the powerful Second Bank of the United States was elevated by Jackson, the storied and awed war hero of the time, known for his "savage and implacable patriotism."[164] This is in stark contrast to Schlesinger's portrait of the group in 1945;

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success. These Puritan families would become the earliest rich people in the lands of the later United States. They tried to live humble lives without an ostensible showing of their wealth. However, the respect they gained from their community would be inseparable from their success in their material endeavors. It is difficult to determine whether they live in harmony or in paradox in the sense of handling the relation between mammon and God. See Max Weber, *The Protestant Ethic and the Rise of Capitalism*, trans. by Talcott Parsons (New York: Charles Scribner Sons, 1976) and Robert W. Green, ed., *Protestantism, Capitalism and Social Science: The Weber Thesis Controversy* (D. C. Heath and Company, 1973).

[163] Hammond, *Banks and Politics*, 327.

[164] "He inherited…from the Revolution," according to Richard Hofstadter, "a savage and implacable patriotism." See Hofstadter, at 60.

Bray Hammond had complained in his review that "Mr. Schlesinger's vocabulary purrs over his friends."[165]

Hammond clearly identified approximately two dozen allies of Jackson[166] and portrayed several hardcore members, such as Amos Kendall, David Henshaw, Roger Taney, and Martin Van Buren. Among these allies, many had connections with the state banks, either as stockholders or as directors;[167] most of them, except for Roger Taney, were or would become men of wealth. None of them was representative of labor or farmers, but rather veterans in journalism (editors and/or proprietors of newspapers), land speculators, manufacturers, bankers, lawyers, and politicians, although they had mostly grown up in log-cabin families.

Andrew Jackson, as the chief of this group, is known for the complexity of his legacy – his personality was a key reason for this complexity. James Parton, the first

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[165] By examining the phraseology used by Arthur Schlesinger Jr., Bray Hammond complained about him for one-sided praise of the Jacksonians as well as one-sided blame assigned to their opponents: "The Jacksonian leaders have a 'pervading insight,' their wrath is 'magnificent,' one or another of them is 'handsome,' 'grave,' 'masterly,' 'erudite,' 'thoughtful,' 'quiet,' 'intelligent,' 'brilliant,' etc., etc., and the old hero himself is touchingly fond of children. The opposition is a sorry outfit. They are Bank 'lackeys,' they 'roar' and 'snarl,' they deal in 'hullabaloo,' they are 'phony,' they have 'fantasies,' they work 'backstairs,' their best minds are 'opaque,' and one gets the impression that Mr. Schlesinger never thinks of them as loving little children at all...." See Bray Hammond, "Review of the Age of Jackson", *Journal of Economic History* VI (May 1946): 79–84.

[166] In *Banks and Politics*, Hammond referred to this group of people as Jacksonians, which include "his 'Kitchen Cabinet', some of his official Cabinet, and a number of others." A list of them, provided by Hammond in order of their appearance in the book, included Duff Green, Samuel Ingham, Isaac Hill, Martin Van Buren, Amos Kendall, Francis Preston Blair, Churchill C. Cambreleng, Roger B. Taney, and David Henshaw. Others of importance, but less than the forgoing group, included at least another eight people, such as Thomas Hart Benton, a Senator from Missouri; James K. Polk, speaker of the House, governor of Tennessee, and, in the future, the 11th President; William Gouge, a well-known journalist and a leading critic of the Second Bank of the United States; and James A. Hamilton, a son of Alexander Hamilton, a land speculator, and a real property developer. See Hammond, *Banks and Politics*, 329–330.

[167] For example, Roger Taney was director of two state banks - see ibid, 335; Martin Van Buren was once an associate of a well-known Wall Street banker, Jacob Barker - see ibid, 331; David Henshaw owned a bank in 1830 in Massachusetts - see ibid, 339; and Thomas Hart Benton was once a stockholder or director of two state banks, which closed in 1819 and 1821 respectively - see ibid, at 340).

person to write a biography about Jackson in the 1860s, depicted Jackson in a dramatic way:

> He was a patriot and a traitor. He was one of the greatest of generals, and wholly ignorant of the art of war. A writer brilliant, elegant, eloquent, without being able to compose a correct sentence, or spell words of four syllables. The first of statesmen, he never devised, he never framed a measure. He was the most candid of men, and was capable of the profoundest dissimulation. A most law-defying, law-obeying citizen. A stickler for discipline, he never hesitated to disobey his superior. A democratic autocrat. An urban savage. An atrocious saint. [168]

Later historian writers would be much more discreet in choosing their words to describe Jackson. His overall character, being mercurial, self-contradictory, determined, and cool and cruel in killing, would consistently be conveyed in their writing. “Andrew Jackson’s masterful personality,” according to Charles G. Sellers Jr., “was enough by itself to make him one of the most controversial figures ever to stride across the American State.” [169] “Not only was the ‘Hero of New Orleans’ one of the most striking personalities ever to come to the White House,” as Albert Somit commented, “but his entire life had a dramatic and colorful quality ordinarily found only in some masterwork of fiction.”[170]

Richard Hofstadter also made plenty of sharp comments on the personality of Jackson based on a psychological analysis that considered his experiences while growing up, the culture of his time in the South, and his extensive military experience. For example, Hofstadter writes that at Charleston, after inheriting

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[168] James Parton, *Life of Andrew Jackson*, 3 vols. (New York, 1861) 1: vii.
[169] Charles G. Sellers Jr., “Andrew Jackson vs Historians,” *The Mississippi Valley Historical Review* 44, No. 4 (Mar., 1958): 615–634.
[170] Albert Somit, “Andrew Jackson: Legend and Reality,” *Tennessee Historical Quarterly* 7, No. 4 (Dec., 1948): 291–313.

hundreds from a relative when he was a teenager from a poor family, Jackson "aped the manners of the seaboard gentry and developed a taste for gambling, horses, and cock-fighting."[171] In the process of establishing himself as a new gentleman living on land speculation and slave plantations, and later being a lawyer serving the new upper class of the Southwest whose wealth relied on the slave cotton economy, he would gain the combined "qualities of the frontier roughnecks and the land gentry."[172]It appears natural to draw from Hofstadter's and Hammond's analyses that the self-making process of Andrew Jackson in the Southwest, by way of speculation, litigation, and being tough, transformed the agrarian-based Jeffersonian worldview of many persons such as Jackson into a spirit of *laissez faire*. Hammond called Jackson "a rugged individualist in all directions."[173]

Both Hofstadter and Hammond emphasized the dueling tradition of the time, Jackson's embracing of it, and its deep impact on his conduct of his public office. "The same violent, self-assertive subjectivism of the duelist," Hofstadter observes, "can be found in Old Hickory's conduct as a public man."[174] He quoted a line from Jackson to prove that once Jackson made a decision to attack, it would be carried it out at any cost in an irreversible manner – "I have an opinion of my own on all subjects, and when that opinion is formed I pursue it publicly, regardless of who goes with me." [175]Hammond used almost a page to detail how Jackson shot and killed Charles Dickinson with exceptional willpower after being shot near the heart

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[171] Hofstadter, 60.
[172]Ibid, 61.
[173] Hammond, *Banks and Politics*, 347.
[174] Hofstadter, 61.
[175] Ibid.

by Dickinson – Jackson would carry the bullet in his body and suffer the pain from it for the rest of his life. In light of Jackson's strong personality, Hofstadter's explanation of Jackson's motivation to launch the Bank War appears to be fitting: "Historians have never been certain how much his [Jackson's] policies were motivated by public considerations and how much by private animosities."[176]

Though Schlesinger Jr. and several other Progressive historians portrayed the Jacksonians as the representatives of common people fighting against the autocrats to defend democracy, the abundant historical facts that Hammond gathered and sorted out clearly tell a different story. In terms of the motivation, the attack on the Second Bank of the United States was a move after the Jacksonians failed to gain control of the Bank – before Jackson won the presidency, they might have disliked the federal Bank for the traditional reasons; however, once they won, they wanted first to turn it into a spoil. According to Hammond, in January 1829, even before Jackson's first inauguration, "proposals came to Philadelphia from Kentucky that directors be chosen from both parties, the names of eligible Democrats being furnished therewith. Biddle refused to let party membership influence selections either way…"[177] Biddle's refusal to cooperate caused instant trouble for him. According to Hammond, through Samuel D. Ingham, Jackson's Secretary of the Treasury, who had the legal power to supervise the federal bank, Biddle would soon receive complaints from several states accusing the bank of being partisan. The exchange between Biddle and Ingham was so sharp and disturbing

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176 Ibid.

177 Hammond, *Banks and Politics*, 369.

that Hammond wondered whether another person in Biddle's position would have resigned.[178] Although there was unequivocal evidence that Jackson intended to either control the federal Bank or create a new one outside of Philadelphia,[179] Jackson still denied that he intended to capture the Second Bank of the United States – Jackson claimed that he was always against the federal bank on "constitutional grounds as well as expediency and policy…" and denounced the charge on him as "the foulest and basest calumnies ever uttered…"[180] In less than two years, David Henshaw would devise a plan to set up a new federal bank with "Jacksonian" capital to the value of US$50 million after dismantling the Second Bank of the United States.[181]

Amos Kendall, the "foremost in the Kitchen Cabinet," was a thorough capitalist. On the pro-Jackson press, there was one sentence Kendall would repeat – "The world is governed too much."[182] Hammond wrote that "as early as 1820," Kendall "was denying that labor was a source of value." "He [Kendall]," Hammond continued, "had always taken a harsh, puritanical view of things and scorned governmental relief in the days of western distress."[183] However, when the Jacksonians needed the poorer people's help to fight the "aristocratic force," they would recruit those people by playing the hate card without hesitation. Hammond

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[178] Ibid.
[179] Bray Hammond referred to Jackson's correspondence with Senator Felix Gundy after inauguration in March 1829 "about a whole new 'national bank' to replace the existing federal Bank." Ibid, 370.
[180] Ibid.
[181] "Henshaw's remarks about the Bank of the United States in 1831 and his proposal in 1832 for a new bank with Jacksonian capital to the value of $50 million, which should replace the aristocratic monster in Philadelphia that had a capital of $35 million, were echoed in the message President Jackson sent to Congress when he vetoed the federal Bank's charter in 1832." Ibid, 338.
[182] Ibid, 333.
[183] Ibid, 344.

observed that David Henshaw and his associates, "in order to develop political influence over the poorer classes, they themselves made capital of their hostility towards the wealthy." [184]Henshaw would eventually become wealthy and own a bank. In 1830, at the post of Collector of the Port of Boston, as appointed by Jackson, Henshaw would deposit the public funds that he collected into his own bank instead of into the account of the federal government at the Second Bank of the United States.[185]

In connection with the Jacksonians' attack on the "monopoly" enjoyed by the Second Bank of the United States, in addition to the aforementioned attempt to take over the bank as a spoil, Hammond pointed out that Amos Kendall, after serving as the Post Master, as appointed by Jackson, would join Samuel F. B. Morse in his telegraph venture and would develop it into the American Telegraph Company, which became an infamous monopoly in the 1840s. Kendall and his partner would be called "autocrats of the telegraph."[186] The Jacksonians hated "monopoly" when it was the "monopoly" of others; however, they would embrace it when they were in control of such a "monopoly."

On the substance of the accusation of monopoly against the federal Bank, as discussed earlier, the Second Bank of the United States had the legal authority, based on the Constitution, to regulate currency. Under the leadership of Biddle, it was performing this duty in an admirable way so that the state banks' over-expansion of credit was effectively curbed. As for the constitutionality of the bank,

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[184] Ibid, 338.
[185] Ibid, 339.
[186] Ibid, 333.

the Jacksonians simply chose to ignore the *McCulloch vs. Maryland* case that had settled the issue at the Supreme Court.

When these puzzle pieces began to fall into place, it would be difficult to maintain the claim that the Jacksonians were champions of democracy – rather, they were champions of *laissez faire* with less worry about being hypocritical. Hammond quoted the following from Professor Thomas P. Abernethy's perceptive summary of Jackson's relation to "democracy:"

> Not only was Jackson not a consistent politician, he was not even a real leader of democracy. He had no part whatever in the promotion of the liberal movement which was progressing in his own state…He was a self-made man…he always believed in making the public serve the ends of the politician. Democracy was good talk with which to win the favour of the people and thereby accomplish ulterior objectives. Jackson never really championed the cause of the people; he only invited them to champion his. He was not consciously hypocritical in this. It was merely the usual way of doing business in these primitive and ingenuous times.[187]

Hammond thought Jackson may still be regarded as a champion of the "common man," except that the common man was "no longer either frontier-man or farmer but speculator, capitalist, or entrepreneur…"[188]

William Lyon Mackenzie, a member of the Reform Party which took an agrarian line in opposition, the Canadian revolutionary who was a fugitive in the United States for more than a decade after leading the defeated 1837 Upper Canada Rebellion, was once an admirer of President Jackson and the American democracy. Mackenzie would gradually become upset with the atmosphere of speculation in the US, even though he had obtained citizenship in 1843. He thought the American

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[187] Ibid, 348.
[188] Ibid, 349.

frontier had been transformed from an aspiring yeoman ideal to capitalism, which made "speculation as extensive as life" and transformed "a Jeffersonian democracy into a nation of gamesters and our land into one great gaming house…"[189] At another place, Bray Hammond noted that Mackenzie, who was a journalist by profession, obtained some private correspondence between prominent New York Jacksonians, including that of Martin Van Buren, Cambreleng, and others – "Reading it, he asked himself, 'Is this, can it be, free, enlightened, democratic America?' The America of my early dreams it surely is not."[190]

Bray Hammond emphasized the rise of New York City and its overtaking of Philadelphia in terms of the scale of economy and population, and it constituted a major finding that added to the comprehensive understanding of the reasons behind the Bank War. By the mid-1820s, it became evident that New York, boosted by its much larger population, the superior harbor, and the newly opened Erie Canal, would play a much more important role than Philadelphia in American economic life, including in financial activities – Wall Street was on track to surpass Chestnut Street. The New York state banks, particularly the Wall Street banks, and the business community in general strongly objected to the Second Bank of the United States' privileged position, which afforded it too much of an advantage in business competition. For example, the tariff revenues collected at the Port of New York were higher than the total revenues of all the other ports combined, and all these revenues would be put into the Second Bank of the United States' New York branch

[189] Ibid.
[190] Ibid, 363.

on Wall Street.[191] At another place, Hammond quoted Jabez Hammond, who was a supporter of both Martin Van Buren and Andrew Jackson and a writer of the history of New York state politics and who stressed the fact that the New York state banks had long coveted the deposits of the federal government:

> More than two-thirds of the revenue for the United States, amounting to many millions, was paid into the United States Branch Bank and, when there, was under the absolute control of [the] mother Bank at Philadelphia. The state banks believed that if the United States Bank should be annihilated, these immense deposits would be made in their own vaults…[192]

Moreover, the federal Bank's checking on the New York state banks' ability to expand credit was abhorred by both these banks and the businessmen who desired more available credit for commerce, investment, and speculation. On the other hand, at the regional and state levels, mainly in New England and New York, the able state governments were developing their own banking regulatory systems, for example the famous Suffolk Banking System of New England since 1824 and the Safety Fund system of New York State, which was established in 1829.[193] This state-level

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[191] Ibid, 353.
[192] Ibid, 357.
[193] The Suffolk Bank was incorporated in Boston in 1819. The Suffolk Bank System was a bank note settlement network initiated by the Suffolk Bank by absorbing many small country banks to participate. Under this system each of the participant country banks was required to maintain a balance of specie with the Suffolk to secure the redemption of its circulating bank notes that were received by the Suffolk as deposits or from discount business. Six Boston-based city banks, who were regularly receiving a large volume of bank notes of various country banks joined the network since 1824 – the Suffolk became the exclusive redemption agent of their notes. This further significantly expanded the coverage of the system. In this way, member banks' bank notes were redeemed within the network at par value. Effectively, in New England, a unified currency eventually formed, and this system lasted until 1858. Bray Hammond discussed the Suffolk Bank system in *Banks and Politics*; see Hammond, *Banks and Politics*, 549–556. As a major topic for currency research, there are many journal articles discussing this system – some examples include Wilfred S. Lake, "The End of the Suffolk System," *The Journal of Economic History* 7, No. 2 (Nov., 1947): 183–207; George A. Selgin and Lawrence H. White, "Competitive Monies and the Suffolk Bank System: Comment," *Southern Economic Journal* 55, No. 1 (Jul., 1988): 215–219; and Randall S. Kroszner, "Comment on The Efficiency of Self-Regulated Payment Systems: Learning from the Suffolk System," *Journal of Money,*

banking regulatory development would enhance the states' sense of autonomy as well as fortifying their objection to the intrusion of the Second Bank of the United States, which operated in their territories with superior competitive power while not being subject to state laws.

Martin Van Buren, Jackson's future Vice President from 1833–1837 and the eighth the President of the United States following Jackson, was another powerful Jacksonian. Van Buren was the governor of New York before joining Jackson's Cabinet as the Secretary of State in 1829, and it was under his watch that the New York State passed the *Safety Fund Act*. Van Buren was the most polished and skillful politician around Jackson. As a result of his great influence in New York State politics, he became the channel of communication between President Jackson and New York politicians, bankers, and businessmen. The New York force would be critical for Jackson in sustaining his veto of the re-chartering of the Second Bank of the United States and to win the presidential election of 1832.

Credit and Banking 28, No. 4, Part 2: Payment System Research and Public Policy Risk, Efficiency, and Innovation (Nov., 1996): 798–803.

The Safety Fund system of New York State was another important regulatory initiative at the state level that had great implications. Since the 1819 financial panic, New York State legislature had begun to deliberate measures to protect bank note holders and other creditors of the state banks. The 1829 *Safety Fund Act* was signed into law by then governor Van Buren. Under the Safety Fund system, member banks were required to put 0.5% of their paid-up capital into the fund to secure the bank creditors' interest, primarily to redeem the notes issued by failed banks. Since the volume of deposits was then significantly smaller than the volume of bank notes as major sources of liability to the banks, priority was assigned to the note holders. To address the moral hazard inherent in this system, a supervisory commission was established to exercise the power of prudential regulation of banking business. This system ran well until 1837 when free banking was ushered in after the Bank War. The New York Safety Fund system is the precursor of the Federal Deposit Insurance Corporation founded in 1934 when the country was deep in the Great Depression. For more historical details about the New York Safety Fund system, see Robert R. Chaddock, *State Banking before Civil War and The Safety Fund Banking System in New York, 1829–1866* (National Monetary Commission, 1910); Hammond, *Banks and Politics*, 556–563; and Howard Bodenhorn, "Zombie Banks and the Demise of New York's Safety Fund," *Eastern Economic Journal* 22, No. 1 (Winter, 1996): 21–33.

C. The Bank War and its impact

Nicolas Biddle, though weak or even naïve in political maneuvering, as compared with his wisdom in banking business, still commanded substantial power in politics and business; this power could not be separated from the great power wielded by the Second Bank of the United States. Since Jackson's inauguration, Biddle used his connections in Washington and New York to gather intelligence on the Jacksonians possible moves on his bank. Biddle received plenty of mixed information from various sources, and he displayed an inclination to refuse any omnipotent perspective. Even after his personal meeting with the President in November 1829, where Jackson's message was quite clear (though coated with some compliments about the Bank's service), Biddle was not adequately alarmed – in the meeting, Jackson said the following to Biddle:

> I do not think that the power of Congress extends to charter a Bank out of the ten mile square. I do not dislike your Bank any more than all banks. But ever since I read the history of the South Sea Bubble I have been afraid of banks. I have read the opinion of John Marshall, who I believe was a great and pure mind – and could not agree with him…

Shortly after that meeting, before Jackson delivered his message to Congress in December 1829, Alexander Hamilton, Jr.[194] wrote to Biddle that in the President's message, he would express his unfavorable view on the re-chartering of the Bank. Biddle wrote back to Hamilton, Jr. that "[t]he rumour to which you allude I have not

[194] Alexander Hamilton Jr. and James A. Hamilton were sons of Alexander Hamilton, the founding father and the father of the First Bank of the United States. According to Bray Hammond, Alexander was a supporter of John Calhoun, a statesman and senator from South Carolina who broke away from President Jackson from the position of Vice President in 1832, while James was an advisor to President Jackson. Ibid, 373.

heard from any other quarter… is entirely without foundation. "[195]

Andrew Jackson's first public attack on the Second Bank of the United States was included in his first message to Congress in December 1829, in which he repeated the old challenges to the bank, from its constitutionality to its monopoly, and added a count that the bank failed to "establish a sound and uniform currency."[196] Bray Hammond expressed great distaste for these attacks as a historian who, as demonstrated in the earlier discussion, cared more than anybody else about the historical facts relating to the legality and performance of the Second Bank of the United States. He points out that "Thomas Jefferson, had as President acknowledged its constitutionality by acquiescence, and another, James Madison – the foremost authority on the Constitution – had specifically abandoned his former objections to the Bank, had recommended re-establishment, and had approved the act effecting it. The Supreme Court had twice affirmed the Bank's constitutionality."[197] On the failure of its duty to regulate currency, Hammond referred to historian William Sumner at the turn of the century; Sumner's assessment was that "the currency had never been so good as when President Jackson spoke, and that it had never been so good since."[198]He also refers to his

[195] Banks and Politics, 373. Bray Hammond lamented Nicolas Biddle's political naiveté a number of times. Another example of Mr. Biddle's "egregious naiveté" was his written answer to a Senate committee in 1832 when asked if the federal Bank ever oppressed the state banks. "There were very few banks which might not have been destroyed by an exertion of the power of the Bank. None have ever been injured. Many have been saved. And more have been, and are, constantly relieved when it is found that they are solvent but are suffering under temporary difficulty." Hammond emulated the situation as Biddle flashed a pistol in the Senators' faces but assured them that he did not intend to shoot. "He could scarcely have produced a worse impression," Hammond said, "than he did with these well meant words." Ibid, 297.
[196] Ibid, 374.
[197] Ibid.
[198] Ibid.

contemporary banking historian Walter B. Smith, who believed that the U.S. currency was the best in the period from 1826 to 1832 since 1789.[199]

Congress took President Jackson's attack on the Second Bank of the United States seriously and formed two committees to investigate: one in Senate and one in the House. The two committees' reports were finished in March 1830, and both were unequivocal rebuttals to Jackson's attack on the bank.[200] However, they did not sway Jackson in his hostility. Based on the substantial correspondence between Jackson and Biddle in this period, Hammond noted that while Biddle continued to monitor developments at the White House, what he could gather was mixed at best. Hammond thought this could be because of Jackson's tact – while "the General privately breathed animosity for the hydra of corruption, Mr. Biddle was let think [*sic*] by the General's friends that all was well."[201]

Shortly, in the second annual message to Congress in December 1830, "the President disparaged the Bank somewhat more harshly," Hammond noted, "saying that nothing had occurred that lessened 'the dangers which many of our citizens apprehend from what institution as at present organized.'"[202] When Jackson made a further step to offer his alternative, the Jacksonians' great economic ignorance bordering on brazen sham was exposed – Jackson proposed folding the function of

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[199] Ibid.
[200] Ibid, 378. According Bray Hammond, the way in which Biddle handled the Congressional reports further exposed Biddle's political dumbness – he ordered reprints of the reports at the cost of the bank and distributed them, which Hammond believed would vex President Jackson even more than the reports themselves. Ibid.
[201] Hammond noted that in a letter from Jackson to James A. Hamilton in June 1830, Jackson called the Bank a "hydra of corruption" three times and identified it as "dangerous to our liberties by its corrupting influence everywhere and not the least in the Congress of the Union." Ibid, 380.
[202] Ibid, 381.

the federal bank under the Treasury – "Not being a corporate body, having no stockholder, debtors, or property, and but a few officers, it would not be obnoxious to the constitutional objections which are urged against the present bank." [203] At the state level, Jackson believed "the states would be strengthened by having in their hands the means of furnishing the local paper currency through their own banks, while the Bank of the United States, though issuing no paper, would check the issue of state banks by taking their notes in deposit and for exchange only so long as they continue to be redeemed with specie." [204] As a modern banking expert and historian, Hammond sees Jackson's proposal as a "hollow political affair," [205] similar to what occurred in some western-American states at that time and which "exemplified banking at about its worst." [206] Without doubt, readers would echo Hammond's question: How could an office with a few officers in the Treasury at Washington regulate the hundreds of state banks across the country without maintaining a broad network like that of the Second Bank of the United States? [207]

Hammond went to great lengths to reconstruct the continued interactions between Jackson and his advisors since the first public attack on the Second Bank of the United States in Congress in December 1829 up until the time when the Jacksonians transferred government deposits from the bank to "pet banks" (i.e., state banks associated with Jacksonian interests that were selected to receive the

[203] Ibid, 381.
[204] Ibid.
[205] Ibid.
[206] Ibid, 382.
[207] Jackson's ignorance in banking history was startling. James A. Hamilton, one of the two sons of Alexander Hamilton and close advisor to Jackson recorded his conversation with Jackson about the father of the Bank of the United States – Jackson told James A. Hamilton, "Colonel, your father was not in favour of the Bank of the United States." Ibid, 345.

federal government deposits) after the veto on the bill to re-charter the bank in 1832. The level of detail of Hammond's examination is testament more to his commitment to clear the stubborn myth around the Bank War (i.e. "the fiction that the attack on the bank was on behalf of agrarians against capitalists, of humanity against property, of the poor against the rich, and of 'the people' against the 'money power'…")[208] than to a historian's curiosity. Elsewhere, he continues to lament:

> That many historians still follow the Jacksonian formula points to its effectiveness. In the words of one, for example, 'The poor men of the East and the West were asserting the power of their mass strength and, putting Andrew Jackson in the presidency, were smashing that symbol of financial autocracy, the great Bank of the United States.' I take this quotation not as the isolated judgement of one historian but as typical of the view that seems in recent years to have gained in conventional favour, despite the record of the conspicuous business interests of the leading Jacksonians, of the accomplishments of the federal Bank, and of the disposition of the state banking interests towards it, especially in New York and Boston." [209]

In the period from 1830 to 1831, cabinet members held different views on how the administration should treat the potential re-chartering of the Second Bank of the United States (whose charter would expire in 1836), and there was discussion between Jackson and Biddle, through agents, to reconcile on the basis that Biddle agreed to incorporate the changes to the terms of the charter instructed by Jackson. However, it was either, again, Jackson's tactical treatment (i.e. pretending to reconcile to buy peace for the election in 1832 and then to veto the re-chartering of the Bank in his second term) or a push from more staunch enemies of the bank for Jackson to kill the bank anyway that the reconciliation did not materialize.

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[208] Ibid, 359.
[209] Ibid, 363–364.

In this context, Hammond emphasized the influence of Roger Taney, who joined the Cabinet from the post of the Attorney General of Maryland as Attorney General and later briefly the Secretary of the Treasury and who would become the Chief Justice of the Supreme Court in 1836. Among the Jacksonians, Hammond reserves some of the harshest criticism for Taney, for example "his command of the arts of sycophancy and misrepresentation…" [210] Roger Taney either genuinely did not know that banking is a different economic function, or he simply disregarded it – "there is perhaps no business," as Taney claims, "which yields a profit so certain and liberal as the business of banking and exchange; it is proper that it should be open as far as practicable to the most free competition and its advantages shared by all classes of society."[211] In the struggle with the Second Bank of the United States, Hammond believes Taney "succeeded in filling the General's mind with a vindictiveness that Martin Van Buren or Amos Kendall would probably not have produced."[212] Letters written by Taney support Hammond's judgement well; for example, in a letter from June 1832, Taney wrote, "[w]hen a great monied institution attempts to overawe the President in the discharge of his high constitutional duties, it is conclusive evidence that it is conscious of possessing vast political power which it supposes the President can be made to feel." [213] Later, when discussing the disastrous impact of transferring the federal government deposits to the state banks, Hammond writes that "the old gentleman preferred the sycophantic advisors

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[210] Ibid, 337–338.
[211] Ibid, 338.
[212] Ibid, 360.
[213] Ibid.

who stimulated his suspicions and prejudices, blinded him to facts, confused him about the nature of the federal Bank's usefulness, diverted his attention from the possibility that it be amended and corrected instead of being destroyed…" – Taney was clearly the main target of this criticism.[214]

As the war against the Bank unfolded, Taney's exposure to the conflict regarding his capacity as the Attorney General and later as the Secretary of the Treasury overshadowed most other Jacksonians. His total ignorance of, or deliberate disregard for, the vital function exercised by the Second Bank of the United States, as well as his gross incompetence in appreciating the vulnerability of the banking system of his time, was disturbing. Moreover, his unethical operations were particularly troubling. For example, Hammond notes that when John Marshall took up the *McCulloch vs. Maryland* case to determine the constitutionality of the federal Bank in 1819, Marshall sold his interest in the federal bank; in contrast to Marshall, when the Jacksonians were arranging the federal government's deposits to be transferred to pet banks, Taney not only retained his stockholding in the Union Bank of Baltimore but also bought additional stocks, though as a nominee for his family members.[215] Another example of one of his novel actions was that in his capacity as the Secretary of the Treasury, to support the pet banks who gradually received federal deposits as a windfall, he would secretly issue treasury drafts to these banks to stave off the possible, sudden redemption request from the Second Bank of the United States. As an attorney, his arguments against the federal bank

[214] Ibid, 361.
[215] Ibid, 419.

lacked honesty but were rich in distortion and even laughable self-contradiction. "In Mr. Taney's legalistic mind," Hammond complains, "there was no room for economic consideration, and fluctuations in the Bank's balance sheet had only a political significance. If she lent, it was merely to corrupt and enslave the people; if she did not lend, it was merely to starve them."[216]

Back to 1831, after two public attacks in Jackson's speech to Congress in the two preceding years, with the mediation of a new Secretary of State, Edward Livingston, and a new Secretary of the Treasury, Louis McLane, who were in favor of the Bank's re-chartering, it appeared that Jackson and Biddle formed an "informal compact:" "the secretaries to work for re-chartering, Jackson to remain 'quiescent' for the present but to sign a bill in the long run if his wishes were met, and the Bank on its part to wait until after the election before presenting its petition for a charter and to accept the modifications desire by the President."[217] Following these events, Jackson's December message to Congress "was so far subdued that he merely affirmed his adherence to the opinions he had already expressed…and left the question 'to the investigation of an enlightened people and their representatives.'"[218] Secretary McLane recommended the re-chartering of the bank in his report to Congress. Though many enemies of the bank around Jackson were "shocked at the weakness of their hero's words and the assurance of his Secretary's," Biddle was said to be disappointed because Jackson was still "reminiscent of past pronouncement." Bray Hammond points to Roger Taney, then

[216] Ibid, 424.
[217] Ibid, 383.
[218] Ibid.

the new Attorney General who interposed in the message of the President. Hammond's opinion is clear: "I find Jackson so much committed by his own prejudice to the program of Taney, Kendall, and Cambreleng that he could not have been persuaded in any probable circumstances by McLane, Livingston… he listened to the latter partly out of politeness to old friends but mainly for the tactical purpose of confusing and deceiving the enemy. He was in combat."[219]

A more dramatic turn occurred in a short time ~~span~~ after Jackson's early December message to Congress. On the one hand, the Jacksonian press, which was concerned about the softening of the President's position, became more venomous towards the Bank. On the other hand, the National Republican Party, later the Whig Party, was formed, and it nominated Henry Clay for president and John Sergeant, who was "counsel for the Bank and one of Biddle's closest advisors, for Vice President." [220]These political rivals of Jackson in the 1832 election pushed Biddle to apply for a re-chartering of the bank immediately, thereby making the re-chartering the central issue of the 1832 presidential election.

In response to the re-chartering application of the Second Bank of the United States, the Jacksonians proposed to Congress the establishment of "a new national bank with a capital of $50,000,000 to supersede the wicked Philadelphia mammoth that had a capital of $35,000,000."[221] The chief sponsor of the new bank was David Henshaw, "the Jacksonian political boss in Massachusetts, banker, capitalist,

[219] Ibid, 386.
[220] Ibid, 385.
[221] Ibid, 387.

newspaper publisher…interested in three banks."[222] This is only one aspect of the many tactical assaults on the Second Bank of the United States. As Senator Thomas Benton, a Jacksonian from Missouri, would declare, "Our course of action became obvious, which was to attack incessantly, assail at all points, display the evil of the institution, rouse the people, and prepare them to sustain the veto."[223]

Shortly thereafter, Judge Clayton, a Jacksonian Representative from Georgia, as part of the coordinated campaign, initiated a legal challenge to the Second Bank of the United States in Congress, petitioning Congress to investigate a series of charges against it; in the meantime, the Jacksonians and supporters of the bank would resume efforts of reconciliation half-heartedly at best. The accusations made by Judge Clayton would lead to a committee report divided between a majority of four and a minority of three, where the majority recommended not re-chartering the bank, though the arguments of the majority report were inadequate, according to a study by Bray Hammond. The accusations focused on two major evils of the bank, namely its unconstitutionality and its antagonism toward free enterprise. With regard to the former, the issue had long been settled; while with the latter, the majority ignored the "Bank's quasi-governmental nature…"[224] Using the counter arguments of the minority report and his own analysis, Hammond challenges the poor quality of the majority report on too many fronts to be recounted here – for example, "[o]ne would suppose from some passages of the report that the

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[222] Ibid.
[223] Ibid, 388.
[224] Ibid, 396.

management of the Bank was stupid, from others that it was malignly intelligent;"[225] "[a] perusal of the majority report," Hammond stresses, "must correct any supposition that only in the 20th century have legislative committees devoted their powers to bigotry and demagogy."[226]

The majority report did not stop Congress from re-chartering the Second Bank of the United States in early July 1832, and President Jackson, as expected, vetoed it on 10 July. Hammond comments that the message accompanying the veto, which was prepared by Amos Kendall and finalized by Roger Taney, "is a famous state paper. It is legalistic, demagogic, and full of sham."[227] The message did not contain much more than old accusations aimed at the bank and its predecessor. Foreign investment in the country was a relatively new item "frequently implied in the message" as objectionable. This was included to set up the attack on foreign ownership in the bank. Hammond criticizes this scheme as "only [having] been intended to impress the ignorant, who were numerous."[228] Hammond believes that the message made was absurd and cites the following attack from it:

> Of the course which would be pursued by a bank almost wholly owned by the subjects of a foreign power and managed by those whose interests if not affections would run in the same direction there can be no doubt… Controlling our currency, receiving our public moneys, and holding thousands of our citizens in dependence, it would be more formidable and dangerous than the naval and military power of the enemy.[229]

These attacks were based on passion and speculation, not on evidence – they

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[225] Ibid, 395
[226] Ibid.
[227] Ibid, 405.
[228] Ibid, 407.
[229] Ibid.

seem to be resonating with the "conspiracy theory" that had held much weight in the populist attack on the financial system in the 19th to 20th century.[230]

At the time of the Bank's incorporation, of the total capital of $35 million, the government owned $7 million, and foreign shareholders held $8 million, while the remaining $20 million belonged to domestic shareholders.[231] "Though a substantial part of this was held by stockholders in Philadelphia," according to Hammond, "the shares were widely distributed and actively traded."[232] With regard to foreign shareholders' influence on the bank's policy, though the message recognized that foreign stockholders did not have a right to vote, it still believed the foreign stockholders to be a threat to the national interest of the United States. The effect of the argument of the message, as Hammond understands it, was that foreign stockholders "were on the one hand a menace because they might control the Bank; they were also a menace because they could not."[233]

Regardless of the flaws and sham of it for people who understand banking and currency affairs, especially the central banking role undertaken by the Second Bank of the United States, President Jackson's veto message turned out to be "prodigiously popular" among the public, as anticipated by the political machine of Jackson. This was simply because it resonated with the ethos of the time – the supporters of the Second Bank of the United States "could not reply effectively

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[230] During the Great Depression, there was the popular conspiracy theory of Father Coughlin, a Roman Catholic priest based near Detroit. In brief, Coughlin attributed the economic woes that the working class suffered in the United States to the financial system that was said to be controlled by a broad network of greedy Jewish bankers across the Atlantic. See Alan Brinkley, *Voices of Protest: Huey Long, Father Coughlin and the Great Depression* (New York: Knopf Publishing Group, 1982).
[231] The stockholding status at the incorporation of the Second Bank of the United States - Ibid, 408.
[232] Ibid.
[233] Ibid, 407.

because they could get down to no fundamental disagreement with the materialistic, laissez faire, everybody-get-rich philosophy of the message. "[234]

The veto message boosted Andrew Jackson's popularity. On 12 July 1832, the Washington *Globe* commented, "It is difficult to describe in adequate language the sublimity of the moral spectacle now presented to the American people in the person of Andrew Jackson." In November, Andrew Jackson won the election against Henry Clay by a landslide.

Even though the election sealed the defeat of the bank, a few events that took place after the election are still worth mentioning for a more complete understanding of the implications of the Bank War and the character of the age of Jackson – especially when some of them resonate loudly with contemporary politics of the 21th century, and such resonation is quite revealing with regard to the overall character of American democracy and the persistence of American political culture.

To make the defeated Second Bank of the United States suffer more from the disgrace, as well as to allow the winner to enjoy the spoils, as envisaged by the Jacksonians, the federal deposits that were once kept at the federal bank, including its branches across the country, would soon be transferred to the selected state banks. This move required the action of the Treasury, which had exclusive power to give direction to the bank. However, Secretary McLane objected to this move because of concerns about violating the charter of the bank – "The charter authorized the Secretary of the Treasury to remove the deposits from the Bank,"

[234] Ibid, 410.

according to Hammond, "though if he did so, he must tell Congress why."[235] McLane would soon be kicked out of Cabinet as a result of a reshuffle triggered by something not relevant to this disagreement. The new Secretary of the Treasury, William Duane, a seasoned attorney from Philadelphia who had experience working with the Girard Bank of Stephen Girard, was not shy to demonstrate his independence. He was incensed by the direction of President Jackson to move the deposits against his understanding of the charter, especially when Jackson's instruction was delivered to him by Amos Kendall, a subordinate in the Treasury. Duane would eventually be fired as well. Then, Roger Taney, one of the most faithful Jacksonians, was installed as the new Secretary of the Treasury to execute the transfer of the deposits. [236]

The state banks that were selected to receive the federal deposits, namely the Girard Bank in Philadelphia, the Commonwealth Bank in Boston, the Merchants Bank in Boston, the Bank of the Manhattan Company in New York, the Mechanics Bank in New York, the Bank of America in New York, and the Union Bank of Maryland in Baltimore, were all controlled by or associated with the key Jacksonians, with the exception of the Bank of America.[237]

As Hammond's continued discussion reveals, the eight years of Jackson's presidency from March 1829 to March 1837 entailed a period of economic expansion but ended in the 1837 financial crisis.[238] On the point of the out-of-control nature of the bank note issue, according to Hammond, in the three years

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[235] Ibid, 413.
[236] For the struggle with the Treasury on the transfer of deposits out of the Second Bank of the United States, see ibid, 412–419.
[237] For a discussion on the selected state banks, see ibid, 419.
[238] Hammond assembled data of revenues, generated from land sale and tariffs on importation, and expenses of the federal government in the period from 1828 to 1937. Ibid, 451–452.

before 1836, "the expansion of credit in the East increased 50%, in the West 100%, and in the South 130%," when in the same period, the country's total number of banks increased from about 200 to a total of near 600. [239] In 1833, the transfer of a large number of federal deposits to the state banks, which had already been in a state of over-extension of their credit supply, furnished these banks more ammunition to make more money instead of keeping such money as a reserve. In contrast, as a result of years of political attack and the deprival of federal deposits, which constituted an important lever for central banking, the Second Bank of the United States lost its ability to contract credit supply when the economy became overheated – wild land speculation and over-issuing of bank notes were among the chief evils.[240] In June 1836, Congress passed an act to implement the distribution of surplus income from the federal government back to the states. Albert Gallatin first took this operation as a positive sign, but he later realized that it was feeding the nation-wide investment and speculation mania. He saw the situation as worse than a civil war because there "was the rapid decline in public economy and morality; the shameless scramble for public money; the wild mania for speculation; the outburst of every one of the least credible passions of American character."[241] When the economy was flooded with bank notes, a large amount of which had no specie to backup, in July 1836, the Jackson administration issued a "specie circular," which ordered federal land agents to accept only gold and silver in payment for public

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[239] Ibid, 453.

[240] In *Banks and Politics*, Chapter 15, "Panic, Suspension, Resumption," was devoted to the discussion on the 1837 financial crisis. Ibid, 451–499.

[241] Ibid, 454.

lands. This measure conflicted with distribution to the states because the distribution would direct the specie to the more populous East, while the land sale was mainly in the West. "The monetary affairs of the whole country were convulsed – millions upon millions of coins were in transit in every direction and consequently withdrawn from useful employment. Specie was going up and down the same river to and from the South and North and the East and West at the same time."[242]The convulsion in the banking and monetary sector was manifested chiefly in the acute shortage of specie compared with the overall debts, and it triggered the collapse of the bubbles caused by years of debt expansion. The American specie shortage would soon spread to Britain, which was the major trading partner of the United States and which relied on the American market for export of industrial products and surplus capital while being the main destination of American agricultural exports, especially cotton. "Britain had stopped buying," Hammond writes, "had stopped lending, and expected payment of what was due them. The Americans found themselves unable to sell, unable to buy, unable to borrow, unable to pay."[243]

Before the crisis broke out, in February 1836, the federal charter of the Second Bank of the United States expired, and based on a new charter issued by the state legislature of Pennsylvania, it became the United States Bank in Pennsylvania, a state bank.[244] Biddle continued to lead the bank; however, his aura in running an emerging central bank was gone.

The end of the Second Bank of the United States was the beginning of the

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[242] Ibid, 456.
[243] Ibid, 459.
[244] Ibid, 439.

"free banking" era. The situation of the 1837 crisis – a crisis triggered by monetary system disorder – would be repeated many times with varying severity in the history of the United States from then on to the Great Depression. In his own words, to conclude the far-reaching impact of the Bank War on the banking industry and the overall social economic well-being of the country for a century to come, Hammond says:

> The Jacksonians gloried in what was a triumph for *laissez faire* in a field where *laissez faire* had no place. Sovereign and unified control of the monetary system is needed in any economy… from possession of what was generally considered one of the best monetary systems in the world, the country fell back into one of the most disordered.[245]

5. Interactions between Political Culture and Banking Regulation in the Early U.S.: as Revealed in Hammond's Banking History

For this thesis, Hammond's scholarship, especially his *Banks and Politics,* has a critical function of providing an off-shore benchmark for measuring the status of the writing of Canadian banking history as well as acting as a mirror for observing the different dynamics in the interactions between political culture and banking regulation in Canada. With regard to the latter aspect, even though Hammond's scholarship only covers a limited period (but for a monograph of a single historian, *Banks and Politics* is a giant book that fulfilled an outsized ambition), namely the first half a century of the founding of the American Republic, this period was the most consequential and had a defining impact on both the fate of the banking industry and the political character of Americans as a nation.

[245] Ibid, 741.

Building upon the works of generations of scholars who had preceded him in writing about American banking and currency history, Hammond consummated the writing of this branch of history by applying a genuine political-economic approach to it. Though the time and the topics covered have long been commonplace for historians and political scientists, the contention between Jeffersonian Republicanism and Hamiltonian Federalism and the turbulent age of Jackson were, through the prism of Hammond's *Banks and Politics*, brought to the forefront again and were particularly enlightening in improving the American self-understanding due to Hammond's unique hybrid approach to banking history. His more than ten years of toiling not only successfully integrated banking history into political economic history but also exemplified the possibility of transforming a branch of economic history into an integral part of mainstream history. This "transformation" was as much the result of a historian's mastery of his craft as a fundamental facts uncovered by him at the intersection of politics and banking regulation: When the political institutions of the young Republic were in the process of being created and shaped, the question of how to approach the regulation of the banking industry was at the core of the contention between the two different political economic world views. The Jeffersonian Republicanism was a combination of Christian-agrarian value-set and a yeoman ideal based on Lockean liberalism, which aspired earnestly to achieve equality in both political and economic terms on this promising land. The Federalism represented the embracing of a much more materialistic world riding on wheels of commerce and industry, underpinned by the rule of elites and a hierarchical social structure. The struggles between these two worldviews were manifold. At some point, the politically much more popular Jeffersonians struck a truce with the Federalists. However, the violent energy of the populists was only in the process of accumulation for a stronger eruption in the age of Jackson. When it did come, the very visionary and delicate central banking function, which was exercised by the Second Bank of the United States under the leadership of Nicolas Biddle and which once held the promise of being the Bank of England in North America and laying a foundation for a stable banking system, was shattered by the violent force of populist democracy. The raw power of the will of the majority was rooted in a belief in the moral superiority of a yeoman society held by the agrarian population as well as the "get-ahead" impulse in a competition for wealth and stature, or simply a decent life, on level ground as held among many of the urban population, including a large portion of new immigrants. Many of the well-to-dos and elites who also joined Jackson's coalition rode and even manipulated the tide of public sentiment in order to topple the more entrenched group. A new, free banking system that had been ushered in since the conclusion of the Bank War quickly spread throughout the country. The popularity of free banking was generated from its wedding with the ideology of state sovereignty and the aspirations of a decentralized yeoman society. What was defeated and buried was the attempt at a more regulated banking system resting upon a federal chartered national bank as the precursor of a modern central bank, boldly envisioned first by Alexander Hamilton and once artfully and fleetingly carried out by the same aristocratic Nicolas Biddle.

The first phase of the forging of the American banking industry featured a bold innovation by Hamilton based on a careful study of the British and Scottish banking systems. This phase was oriented toward a strong federal government surrounded by commercial, industrial, financial, and landed elites – these were the first movers in the framing of the constitutional structure. However, the more fundamental factors prepared by the times since the long colonial age, from social economic, cultural, political, and the geographical endowment to continued immigration into North America, and even to the continued hostility toward Britain since Independence, set the American Republic on a course much closer to the direction pointed by Locke than Burke. Andrew Jackson and his allies did not bother to learn or cherish the art of central banking; they had a good grasp of the public's repellence to aristocracy, and then they framed and sledgehammered the Second Bank of the United States as the evil tool of the entrenched elites. This decisive move ended the first phase of the molding of American banking and took it into the second phase by a drastic turn, which did not have precedent in the more developed world – the state-based unit banks would emerge by the hundreds and thousands, the prevalence of which lasted into the 20th century. Although the consensus is that the state-based unit banking system, which is subject to minimal regulation, including the age of the dual banking system (the co-existence of state banks and national banks since the 1863 and 1864 National Bank Act during the Civil War), was a major source of the chronic instability of the American financial system for almost a century up until the Great Depression, the dismantling of the Second Bank of the United States and the rise of free banks officially opened the age of liberal capitalism. The powers of industrialization and the American entrepreneurship that had been unleashed since the Bank War propelled the grand takeoff of the nation as a new world power in the second half of the 19th century and profoundly solidified the American political character: American Exceptionalism based on unprecedented individualism and populist democracy among the western civilizations – without the vast economic expansion and rapid advancements in infrastructure and technology, this sense of Exceptionalism could not have arisen or sustained.

Hammond's *Banks and Politics*, which is now a classic, highlights some of the major findings, as mentioned above, in connection with the exploration of the interactions between political culture and approach to banking regulation. It satisfies this author that in the early age of banking development in the United States, when national political economic institutions were in the founding age and more malleable, ~~the~~ political ideological contentions once had great impact on the formation of the fundamental approach to banking regulation. The Hamiltonian vision for American banking was Anglo-centric and elitist, and it became the direct model for Canadian banking. The long-lasting nature of this model in Canada was determined by the conformity of such a banking system to the delicacy of the contemporary Canadian political culture, one that demanded, in the minds of the framers of the Confederation, a strong central hand. To achieve that, they turned to the British model of unitary governance as epitomized in the Bank of England and the Scottish branch banking system. The American Republic, which features a populist democracy that impressed Alexis de Tocqueville as a large-scale trial of the Lockean vision of democracy, would eventually knock out the Hamiltonian privilege-based bank chartering system. Andrew Jackson, the ruthless general-turned-populist hero, defeated the Whigs soundly and pressed the reset button for the banking industry order. Under the new order, the industry would consequently be subject to periodical shocks and crises and would thus affect the social economic well-being of the general public with many exuberant expansions and sudden painful downturns. Nonetheless, the repercussion from such a problematic banking system was not strong enough to break the path determined by the overall strong state-power-oriented constitutional arrangement through the 19th century.

As indicated in Chapter II, and to be further examined in the remaining chapters of this thesis, Canadian banking history is much less developed than that of the US. Bray Hammond's *Banks and Politics* represents the peak of the political-economic banking history. It is a proper example of mature banking historical scholarship. By comparing against it, one can better appreciate both the strengths and the weaknesses of Canadian banking history.

Chapter VI
An Overview of the Post-Global Financial Crisis (GFC) Literature on Banking Regulation in Canada

1. Celebration or Cause for Alarm? A Missed Dialogue between Freeland and Coyne, and a Secret in Plain View

As acknowledged in Chapter I, Chrystia Freeland's 2010 article in the Financial Times, "What Toronto can teach New York and London,"[1] provided the initial road map when the author, a newcomer to the study of Canadian history, began his exploration of the much hypothesized relationship between political culture and the approach to banking regulation that led to this thesis. Freeland's interviewees attributed the reason why Canada was the only G7 State to survive the 2007-2008 Global Financial Crisis relatively unscathed to the following factors: the influence of Canadian political culture on its comparatively conservative approach to banking regulation, Canada's historical record of maintaining a stable banking industry, the Canadian regulatory system's effective job in reigning in the excesses of the industry, and the industry's relatively risk-averse business culture.

[1] Chrystia Freeland, "What Toronto can teach New York and London," *Financial Times*, January 29, 2010.

However, not long after, the author came across another newspaper article titled "Our So-Called Genius Banks"[2] by Andrew Coyne. Written almost one year earlier than Freeland's, Coyne's article was sharply critical of the industry and the regulators at a time when they the "toast of five continents."[3] As reflected in the following excerpts from his article, the major problems identified by Coyne were the collapse of the Assets-backed Commercial Paper (ABCP) market in 2007, CIBC's significant losses from assets associated with the U.S. subprime mortgage market and the Canadian government's contingent support of the banking industry in the form of purchases of mortgage assets through aegis of the Canadian Mortgage and Housing Corporation (CMHC):

> The banks also played a small but pivotal role in the collapse of the asset-backed commercial paper (ABCP) market in Canada. What turned a debacle into a full-blown crisis was the Canadian banks' refusal to honour their commitments to the issuers of these products to be the buyers of last resort. That was no doubt prudent, but it's probably not the sort of thing the banks' new-found fans have in mind.
>
> It's true-ish that Canada's banks have not had to be rescued by their government, if you don't count the $25 billion—later raised to $75 billion, then $125 billion—in government purchases of mortgage assets through the Canada Mortgage and Housing Corporation: not a bailout, as such, since the CMHC was on the hook as the insurer of the mortgages anyway, but not quite laissez-faire either.
>
> But their [Canadian banks] record is hardly unblemished. If Canada's banks did not issue the dodgy sub-prime mortgages that were at the root of the crisis, they did buy them, or rather derivative products based on them: CIBC,

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[2] See Andrew Coyne, "Our so-called Genius Banks," MacLean's, April 6, 2009, available at https://www.macleans.ca/news/canada/our-so-called-genius-banks/, accessed June 30, 2019. Andrew Coyne is a well-known senior commentator on political and economic affairs. He is the son of James E. Coyne (1910–2012), the second Governor of the Bank of Canada, whose governorship helped further transform the central bank and the Canadian banking system. The famous "Coyne Affair" that led to James Coyne's resignation is seen as a critical milestone in defining the independence of the Bank of Canada.

[3] Ibid.

for example, was forced to take a $3.5-billion charge on its portfolio of mortgage-backed securities last year. All told, the banks have taken some $20 billion in write-downs since the crisis began—nothing on the U.S. scale, but hardly chicken feed.[4]

Coyne's criticism was based on publicly available information. For this reason, it is intriguing that the facts he relied on in his sharply worded critique did not feature in Freeland's later article.

Coyne's 2009 commentary alerted the author for the first time not to abandon skepticism of the Canadian banking regulation success story. David Macdonald's later study in 2012, *The Big Banks' Big Secret*, documented the 2007 ABCP market debacle, the CIBC's life-threatening exposure to toxic subprime mortgage-based financial products in the US, and the unprecedented (in peacetime) market intervention by the Canadian government during the GFC.[5] Macdonald's analysis exposed a disconnection between his facts (which pointed out the weaknesses in the Canadian banking and broader financial regulatory systems as well as the indispensable role of government in maintaining a stable banking system in the face of a crisis of a magnitude not seen in decades) and the post-GFC literature much of which uncritically celebrates the success of Canadian banking regulation.

Whereas the ABCP market debacle attracted significant attention from the media and policy analysts[6] and moderate attention from academia, Macdonald's

[4] Ibid.

[5] David MacDonald, *The Big Banks' Big Secret: Estimating Government Support for Canadian Banks during the Financial Crisis*, working paper of Canadian Center for Policy Alternatives, April 2012, available at https://www.policyalternatives.ca/publications/reports/big-banks-big-secret, accessed April 30, 2019.

[6] In addition to the new impetus given to the long-existing initiative for unified securities regulation in Canada, John Crow, the fifth governor of the Bank of Canada from 1987 to 1994, called for

article was a lonelier voice. Macdonald pieced together his data from various sources (mainly, the limited information disclosed by the Bank of Canada and the Canadian Mortgage and Housing Corporation [CMHC], the chartered banks' mandatory disclosure, and numbers published by the Federal Reserve). His report sketched the Canadian government's extraordinary intervention through the Bank of Canada and the CMHC, as well as that of the US government through the U.S. Federal Reserve (several major Canadian banks have substantial business in the US, for example TD Canada Trust, the Royal Bank of Canada, the Bank of Montreal, and the CIBC).

According to Macdonald, at its peak, the total amount of contingent government support issued to the banking system was estimated to be $114 billion, which was mainly carried out in two forms: loans from the Bank of Canada and the CMHC's purchase of mortgage-based securities from the chartered banks. The two largest recipients of government support were TD Canada Trust (at a peak of $26 billion) and CIBC (at a peak of $21 billion); by a relative measure, the latter received much more support than any other financial institutions in Canada: 1.49 times the total market capitalization of the bank.

Macdonald characterized the intervention of the Canadian government as a "bailout" of the big banks in Canada (not much different from the U.S. government's bailout of the Wall Street "villain" banks whose gambling on the housing bubble

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enhanced regulatory power to be given to the Bank of Canada in the wake of the ABCP market fiasco: see John Crow, "A Bank for All Seasons: The Bank of Canada and the Regulatory Challenge," C. D. Howe Institute, available at https://www.cdhowe.org/bank-all-seasons-bank-canada-and-regulatory-challenge, accessed June 30, 2019.

pushed the system to collapse). However, the Ministry of Finance rebutted this characterization and called the intervention necessary "liquidity support."[7] This author believes "liquidity support" is indeed a more accurate characterization. Although some of the major Canadian banks, especially CIBC did have varying degrees of exposure to and suffered loss from U.S. subprime mortgage-based financial products, none experienced a net loss in the relevant financial years (the housing mortgage market in Canada had much less of a bubble in those years) and none received a direct payment or debt forgiveness from the state.

However, the "bailout" versus "liquidity support" debate should not obscure the fact that the stability of the Canadian banking system during the GFC was not owed simply to the Canadian banks' relatively more prudent risk-management or the Bank of Canada's and OSFI's well-documented and highly praised tight regulation of the banking industry's capital adequacy and overall leverage. When the "Canadian fixed income markets, the Repo markets, the core funding markets seized up during the crisis,"[8] it was necessary for the Canadian government to step in to take politically prudent and legally mandated measures to prevent the contagion of panic and restore the normal functioning of the credit system.

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[7] See Peter J. Thompson, "Did Canadian Banks Receive a Secret Bail-out?" April 30, 2012, *Financial Post*, available at https://business.financialpost.com/news/fp-street/did-canadian-banks-receive-a-secret-bailout, accessed June 30, 2019.

[8] See a report from *The Canada Press* on an interview with Mark Carney, who was then governor of the Bank of Canada, regarding the Canadian Bankers' Association's request to "pause" the proposed global financial regulation reform on April 4, 2012: "Carney fires back at bankers who wanted global finance reforms paused", *Canadian Press*, April 4, 2012, available at https://ipolitics.ca/2012/04/04/carney-fires-back-at-bankers-who-wanted-global-finance-reforms-paused/Mark Carney is firing back at Canadian bankers for requesting a pause on global financial reforms aimed at averting a repeat of the 2008 crisis, accessed June 30, 2019.

Furthermore, when a substantial number of scholars see the recent banking regulation success as a natural extension of the long-celebrated record of stability through Canada's banking history without reckoning with the government's intervention,[9] it poses a deeper question that connects the state of the writing of Canadian banking history and the proper understanding of the banking industry's past. That question is as follows: If it is believed that history matters for proper self-understanding, then when the banking history in Canada was not written in an entirely candid fashion (and not widely read, especially the several important, unpublished doctoral theses surveyed in Chapter II and to be highlighted shortly), can the banking stability legacy embraced by many live up to rigorous examination?

2 From Triumph to Sober Observation: An Overview of the Post-GFC Canadian Banking Regulation Literature

In the decade since the GFC, especially in the first few years thereafter, a number of journal articles, as well as working and conference papers, emerged to reflect on the Canadian banking regulation success, many in comparison with the US experience. Some of these works echo the key points of Freeland's article, for

[9] It is true that the ABCP market seizure in 2007, after more than a one-and-a-half-decade run in Canada, was not primarily a problem of the banking system, as Julie Dickenson, then the Superintendent of OSFI, argued before Parliament – see "Remarks by Superintendent Julie Dickenson to the House Standing Committee on topic of Asset-Back Commercial Paper" on June 16, 2008, available at http://www.osfi-bsif.gc.ca/Eng/Docs/ABCP_Hearing_Opening_Statement.pdf, accessed June 30, 2019. It was clear that Canadian banks were important players in the market. More importantly, it exposes a severe gap in Canada's broader financial regulatory system between the mandate of OSFI and the securities authorities at the provincial level, which are primarily responsible for the ABCP market regulation, especially the securities regulatory authority in Ontario. Though the ABCP market debacle gave new impetus to efforts to unify the securities regulation in Canada, there has been a clear prospect to accomplish it in the near future.

example, the impact of Canadian political culture on its comparatively conservative approach to banking regulation, Canada's historical record of maintaining a stable banking industry, the regulatory system's effective job in reigning in the excesses of the industry, and the industry's relatively risk-averse business culture. Scholars from Canada and the US have contributed most of the literature. However, the stark contrast between the experience of Wall Street and the resilience of its Canadian counterpart also attracted the interest of scholars from other parts of the world.

The body of post-GFC of literature is too large to permit a comprehensive detailed review in this chapter (a list of the more substantial articles and books is included as Appendix I for interested readers. However, a selected number of the more historically oriented studies are examined in the discussion of the reconsideration of the Canadian banking stability legacy in Chapter VII that follows this chapter.

The focus on the historical studies is driven by this thesis's overall emphasis on banking history and historiography. Parts I and II of the thesis showed that Canadian banking history experienced a sharp decline after R. M. Breckenridge and Adam Shortt co-founded this genre at the turn of the 20th century. The post-GFC banking regulation literature therefore provides an ideal opportunity to examine whether the underdeveloped state of banking history in Canada has had an impact on the understanding of the path of Canada's banking industry against the inherited sense of its political-economic evolution.

With this task in mind, the post-GFC literature covered by this research is classified into several groups based on the different approaches (or points of emphasis) of the authors:

(i) A clear majority of these articles and papers are dedicated to one or a limited number of features of the Canadian banking system, which the respective authors believe to have played a substantial role in maintaining the banking stability in Canada. Good examples of this genre are: David Min's article "True North: The Facts about the Canadian Mortgage Banking System,"[10] which focuses on the much more conservative and tightly regulated Canadian housing finance system; Anita Anand and Andrew Green's article "Regulating Financial Institutions: The Value of Opacity," which discusses the deliberate opacity of the regulatory authority exercised by the Office of the Superintendent of Financial Institutions (OSFI) in dealing with the regulated financial institutions when market-sensitive information is involved;[11] and

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[10] See David Min, "True North: The Facts about the Canadian Mortgage Banking System," Research Report of the Center for American Progress, 2010, available at https://www.americanprogress.org/issues/economy/reports/2010/08/26/8294/true-north/, accessed June 30, 2019.

[11] See Anita Anand and Andrew Green, "Regulating Financial Institutions: The Value of Opacity," *McGill Law Journal* 57, No.3 (2012): 399–427. The article's persuasive power, on the value of opacity in the regulation of financial institutions, especially banks, is hinged on the assumption that OSFI was highly effective in maintaining the stability of the Canadian banking system during the crisis. The authors carefully referred to the available evidence, which gives credit to OSFI's regulation before the Crisis. However, such reference did not release the authors' from their duty to examine and weigh the important facts that pose substantial challenges to the effectiveness of OSFI's supervision, especially

Ellen Russell's paper "Why are Canada's 'Too Big To Fail' Banks Risk Averse?" which discusses the beneficial and necessary strategic ambiguity of the overall principle-based banking regulatory system.[12]

(ii) Echoing Andrew Coyne's article mentioned above, a few papers discuss the present and pasty weaknesses of the Canadian banking system as exposed during the GFC, and the Canadian government's intervention during the crisis. For example, John Chant's "The ABCP Crisis in Canada: The Implications for the Regulation of Financial Markets" provides an anatomy of the ABCP market seizure in 2007;[13] David MacDonald's "The Big Banks' Big Secret: Estimating Government Support for Canadian Banks during the Financial Crisis" details the Canadian government's unprecedented (in peace time) injection of liquidity into the financial system through the operations of the Bank of Canada and the state-owned CMHC; and Virginia Torrie's "Weathering the Global Financial Crisis: An Overview of the Canadian Experience" provides a useful

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the ABCP market debacle and the CIBC's life threatening loss from investments in American subprime mortgage-based financial assets. Given the silence of the authors on these disproving pieces of evidence, the pervasive power of their main arguments are compromised.

[12] See Ellen Russell, "Why are Canada's 'Too Big To Fail' Banks Risk Averse?" Regulatory Governance Brief No. 6, School of Public Policy and Administration of Carleton University, September 2009.

[13] John Chant, "The ABCP Crisis in Canada: The Implications for the Regulation of Financial Markets. Research report," available at http://www.expertpanel.ca/documents/research-studies/The ABCP Crisis in Canada – Chant.English.pdf, accessed June 30, 2019.

account of the ABCP market seizure, also mentioning the Canadian government's intervention.[14]

(iii) A few authors have attempted a more comprehensive assessment of the current Canadian banking regulatory system. John Chant's "Keep the Genie in the Bottle: Grading the Regulation of Canadian Financial Institutions"[15] and Lev Ratnovski and Rocco Huang's "Why Are Canadian Banks More Resilient?"[16] are two examples. The difference between this group and the next group, is mainly the historical orientation of the latter.

(iv) A handful of articles have attempted historical reviews of the evolution of Canadian banking regulation, especially to identify the critical turning points that dictated the different paths of Canadian and U.S. banking regulation. These historical studies share a similar historical orientation with this thesis.[17] Lawrie Savage's article "From Trial to Triumph: How Canada's Past Financial Crises

[14] Virginia Torrie, "Weathering the Global Financial Crisis: An Overview of the Canadian Experience," *Law and Business Review of the Americas* 16, No. 1 (2010): 25-51.

[15] See John Chant, "Keep the Genie in the Bottle: Grading the Regulation of Canadian Financial Institutions," the School of Public Policy of the University of Calgary Research Paper 7, No. 6 (March 2014), , available at https://journalhosting.ucalgary.ca/index.php/sppp/article/view/42460/30352, accessed June 30, 2019.

[16] Lev Ratnovski and Rocco Huang, "Why Are Canadian Banks More Resilient?" IMF Working Paper 09/152, 2009, available at https://www.imf.org/external/pubs/ft/wp/2009/wp09152.pdf, accessed June 30, 2019.

[17] As explained in the Introduction, this thesis was originally intended to explore the political-cultural impact on banking regulation in Canada in comparison with that in the US as the central task. This emphasis on the political-cultural influence on banking regulation differentiates this thesis from most of the post-GFC historical studies on banking regulation in Canada. However, the thesis took a directional change after identifying the underdeveloped status of the writing of Canadian banking history. This shift to intellectual history is materialized in this final version. The overall "historiographical plus historical" approach of this thesis is another significant distinction between this thesis and the historical works discussed in this chapter.

Helped Shape a Superior Regulatory System;"[18] David Ciuriak's "Canadian and US Financial Sector Stability Over Long History: is there a unifying explanation?"[19] Andrew Smith's "Continental Divide: The Canadian Banking and Currency Law of 1871 in the Mirror of the United States;" Donald J. S. Brean, Lawrence Kryzanowski, and Gordon S. Roberts's article "Canada and the United States: Different Roots, Different Routes to Financial Sector Regulation;"[20] and Michael Bordo, Angela Redish, and Hugh Rockoff's article "Why didn't Canada have a Banking Crisis in 2008 (or 1930, or 1907, or…)?"[21] are the most representative ones.

(v) Two recent historical monographs are C. Ian Kyer's *From Next Best to World Class: The People and Events That Have Shaped the Canada Deposit Insurance Corporation*, published in 2017,[22] and Christopher Kobrak and Joe Martin's *From Wall Street to Bay*

[18] See Lawrie Savage, "From Trial to Triumph: How Canada's Past Financial Crises Helped Shape a Superior Regulatory System," the School of Public Policy at the University of Calgary Research Paper 7, No.15 (May 2014), available at https://journalhosting.ucalgary.ca/index.php/sppp/article/view/42460/30352, accessed June 30, 2019..

[19] See Dan Ciuriak, "Canadian and US Financial Sector Stability Over Long History: Is There a Unifying Explanation?" Ciuriak Consulting Working Paper, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2246150, accessed June 30, 2019.

[20] See Donald J. S. Brean, Lawrence Kryzanowski & Gordon S. Roberts, "Canada and the United States: Different roots, different routes to financial sector regulation," *Business History* 53, No. 2 (2011): 249-269.. The three authors are or were professors of financial economics associated with the Rotman School of Management at the University of Toronto, the John Molson School of Business at Concordia University and the Schulich School of Business at York University, respectively. Professor Robert passed away in 2017.

[21] See Michael Bordo, Angela Redish and Hugh Rockoff, "Why didn't Canada have a banking crisis in 2008 (or 1907, or 1930, or…)? *Economic History Review* 68, No. 1 (2015): 218–243. The first version of this paper was published as a working paper of the National Bureau of Economic Research in 2011 (working paper 17312, available at https://www.nber.org/papers/w17312, accessed June 30, 2019).

[22] See C. Ian Kyer, *From Next Best to World Class: The People and Events That Have Shaped the Canada Deposit Insurance Corporation* (The Canadian Deposit Insurance Corporation, 2017).

Street: Origins and Evolution of American and Canadian Finance, published in 2018.[23] These two books add substantial weight to the post-GFC literature on banking regulation in Canada.

A clear majority of the post-GFC authors consider the Canadian experience during the GFC to be a "wholesale success." Only a small minority of the contributors embed caution and balance in their reflections or focus on the "problems" of the Canadian banking regulation that need to be improved going forward.

It is also the case that most of this body of literature focuses on the recent past without or with only minimal discussion of the historical evolution of the Canadian banking system or certain specific feature(s) thereof. For a number of the scholars in this majority, Canada's banking regulation success during the GFC is referred to as an extension of the stability legacy that the banking industry has long enjoyed; however, most of these scholars have not engaged in a substantial discussion about the origin or maintenance of this legacy through the many challenging time periods in history.

The last two itemized groups of literature identified above attempt to perform a more systemic historical study. A majority of these two groups have engaged particularly in a comparison with the experience of the US to explore the fundamental factors that placed the banking regulation of the two countries on different paths either since the beginning of the 19th century or at a later point such

[23] Christopher Kobrak and Joe Martin, *From Wall Street to Bay Street: Origins and Evolution of American and Canadian Finance* (University of Toronto Press, 2018). Professor Christopher Kobrak passed away in 2017, shortly before the publication of this work.

as Confederation (or the Civil War in the US), the turn of the 20th century (for example, David Ciuriak believes the revisions of the Bank Act in 1890 and 1900 were critical turning points for Canadian banking stability),[24] or even later (Bordo et al. believe that Canadian banking left behind an extended period of instability in the early decades of the 20th century after the fall of the Home Bank in 1923). [25]

Concerning the authors' backgrounds, the first group reflects a heavy concentration of economists (including those specializing in financial historical research) except for Andrew Smith, who is a business historian with a PhD in history.[26] The authors of the two historical monographs are "historians" by training or trade: Kyer is an accomplished lawyer and a historian who obtained his PhD in history in Canada in the 1970s, while Kobrak and Martin are established business historians.[27] Given that the bulk of the research underpinning this thesis predates the publication of these two monographs, they are not the focus of examination.

3. Why (Political Economic) History Matters (even for Banking Regulation)

The above-mentioned historical studies by economists unequivocally attribute the different approaches to banking regulation in the US and Canada to a

[24] Ciuriak, 5.
[25] See Michael Bordo, Hugh Rockoff, and Angela Redish, "A Comparison of the Stability and Efficiency of the Canadian and American Banking System, 1870-1925," *Financial History Review* 3, No. 1 (1996): 49-68.
[26] See Andrew Smith's CV on the website of the University of Liverpool, available at https://www.liverpool.ac.uk/management/staff/andrew-david-smith/, accessed June 30, 2019.
[27] According to his biographical information, in the late 1970s, after obtaining his PhD in history from the University of Toronto, C. Ian Kyer had difficulty in finding a teaching job, and he had to study law and then embarked on a remarkable legal career – see Ian Kyer's biography at the website of the University of Waterloo, available at https://uwaterloo.ca/arts/alumni-friends/alumni-awards/alumni-achievement-award/c-ian-kyer, accessed June 30, 2019.

range of factors deeply embedded in the two countries' history, such as their foundational political-economic institutions and the effect of path dependence (Bordo et al.)[28] or "different tolerances for industry concentration and state involvement," which trace back to the late 19th century to the early 20th century (Brean et al.).[29] However, the narratives and analysis employed are closer to a recounting of milestones in banking regulation in the US and Canada, and lack political economy contextual discussion. Dan Ciuriak and Savage's articles are no exception (although Ciuriak's overall assessment of the Canadian banking stability legacy significantly overlaps with this author's reconsideration of that legacy in Chapter VII). While absence of extensive discussion about the political economy context may be owed in part to the length constraints of journal articles, it is also the result of a deliberate "choice" by these economist authors.

As already demonstrated in Parts I and II, this author finds that the most persuasive account of banking history must be set within a more elaborate political economy framework, as was done, for example in Bray Hammond's US banking history, and to a lesser degree, in Breckenridge's and Adam Shortt's histories of banking in Canada. Modern economists' penetration of the economic factors or trends would help to further define the picture – for example E. P. Neufeld's contribution to the understanding of the Canadian financial system, including the banking industry, in his classic work *The Financial System of Canada*.[30] However,

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[28] Bordo et al., 218.
[29] Brean et al., 249.
[30] As this author echoes financial economist Ronald Shearer in Chapter II, E. P. Neufeld's masterpiece, *The Financial System of Canada: Its Growth and Development* (Macmillan of Canada, 1972), was not

without fleshing out the interactions between political culture mainly manifested in the prevailing ideologies, as well as the more subtle cultural preference, for example the French Canadians' much less intensive pursuit of business ventures, including banking business, than the English community and banking regulation, the way in which the former has played an influential role in Canada (as Jeffersonian Republicanism vs. Hamiltonian Federalism and Jacksonian populism influenced U.S. banking regulation for more than one century) could remain elusive.

Exploring the impact of political culture on banking regulation, rather than the narrowly defined data-analysis-oriented modern economic studies, can be expected to cause modern economists and economists-turned-economic historians to face a dilemma: their strengths are in empirical economic study rather than in measured narrative on political economic events or the assessment of the complexity of the minds of historical figures – excursions into political cultural discussion as Bray Hammond did so long ago would compel these scholars to adopt new and unfamiliar tools. As demonstrated in the collection of post-GFC literature on banking regulation, the results of these economists' efforts are respectable and informative but less satisfying in meeting the objective of this thesis (i.e., to explore the hypothesized interactions between political culture and the basic approach to

designed to provide a political-economic account of the development of the Canadian financial system as Adam Shortt's works did. This authoritative book consolidated the many important numbers available about the development of banking and other financial sectors in Canada since the beginning, and it put them into a highly readable framework. Indeed, the text is enlightening, for example his clear illustration of the contrast between the fast growth of the banking industry and the comparative steady shrinkage in its share of the total private financial assets from 1870 to 1970 – see pages 90–91. However, Neufeld's sparing of the political process involved in the banking and broad financial system development was the major deficiency that readers such as Ronald Shearer and this author feel is regretful.

banking regulation in the US and Canada). For example, the political-economic banking history co-founded by Breckenridge and Shortt and the banking history of the revived Shortt tradition since the 1970s have rarely, or merely tangentially, found their place in the post-GFC literature, including the historical studies authored by these contemporary economists and economists-turned-economic historians.

More importantly, many of the twists and turns, not to mention the nuances, of political-economic history surrounding Canadian banking development have been ignored or insufficiently explored by many authors. As is argued further in the reconsideration of the Canadian banking stability legacy in Chapter VII, the maintaining of a stable and efficient banking system in Canada, as well as in the US (or any other modern economy since the start of industrialization), has always been a critical political issue, though the dynamics in Canada have been different to those of the US. The century-old Canadian banking stability legacy, the financial system's resilience during the GFC, and the connection between the two could not be understood comprehensively without appreciation of the historical process of the past and present, in which the so-called interactions between economic, ideological, and cultural forces have unfolded and brought the industry to one new phase of development after another through legislative activities with different levels of contention.

Lastly, as exemplified by Bray Hammond's scholarship, banking history is an irreplaceable window through which to observe the evolution of the nation's political character and to learn about the process of democracy-making from a unique perspective. Mirroring the U.S. experience, some critical turning points in

Canada's banking history "coincided" with some monumental events in the country's long road from colony to nation as well as in its pursuit of a more efficient , self-adjusting and transparent economic democracy. For example, the very first banking acts, namely the 1870 and 1871 Bank Acts, were two of the major legislative achievements of the newly formed Confederation, while the Bank of Canada was founded during the Great Depression through the 1934 Bank of Canada Act when the rise of Canada's West and small parties in the worst economic crisis in modern history catalyzed a systemic overhaul of Canada's political-economic institutions. Depoliticized banking history, which abstracts banking development from its political economy context, would turn what should be a dynamic sub-genre of history into a dry recount of technical evolution in the banking industry, or a summary of legislative developments, to the extent of filtering out many of the political economy elements that drove change – for example, the social injustice associated with the impact of the violent contraction of the credit market on Western wheat farmers (such as the 1907 credit crisis in Canada's West[31]) or simply the hardship caused to the many individual depositors and small shareholders because of the collapse of a mismanaged bank (such as the Home Bank in 1923). Though perhaps not as dramatic as the American experience staged by Bray Hammond in his *Banks and Politics*, Canada's banking history was still often at the core of the nation's political-economic history. Therefore, the comprehensive

[31] See Joe Martin and Darren Karn, "The Forgotten 1907 Credit Crisis," case study material prepared under Canadian Business History, Rotman School of Management of the University of Toronto, 2014.

banking history of Canada was also about the country's nation-making, albeit in a less dramatic and ideological fashion than that of Brother Jonathan.

The publication of *From Next Best to World Class: The People and Events That Have Shaped the Canada Deposit Insurance Corporation* (2017) and *From Wall Street to Bay Street: Origins and Evolution of American and Canadian Finance* (2018) –two recent works that fall squarely in the category of evolutionary banking history – matters enormously for the evaluation of the current state of the writing of Canadian banking history. The emergence of these two works can be seen as the welcome continuation of the revival of political-economic banking history since the 1970s, as identified in Chapter II. They also testify to the fact that narrative banking history still has a vibrant life in Canadian historical and broader intellectual communities. These two monographs, along with Andrew Smith's earlier article "Continental Divide: The Canadian Banking and Currency Law of 1871 in the Mirror of the United States (2012),"[32] are complementary to the contributions of scholars

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[32] Andrew Smith, as a historian, successfully recreates the political-economic background of the 1870 and 1871 Bank Acts. However, his overemphasis on the single factor of the branch banking system's contribution to Canadian banking stability oversimplified the complicated story of a long process of evolution through different phases. The stability of a modern banking industry relies on a sophisticated regulatory system constituting several lines of defense: from an individual bank's strong internal risk control and the designated regulator's regulation and supervision, to the central bank's necessary powerful intervention when the whole system is under threat of breakdown. Branch banking began and persisted through the half-a-century banking practice before the Confederation in Canada. It has the inherent strength of being more resilient to regional shocks than the American unit-banks – but it needs to reach a certain scale and level of diversity. The 1870 and 1871 Bank Acts only codified this practice into law – in Canada, no legal uncertainty existed regarding chartered banks' branching practice even before this act. On the other hand, many chartered banks with branches could still fail (through outright closure or by being taken over when they were on the brink) in the 19th century (the Bank of Upper Canada in Toronto and the Commercial Bank in Kingston), the 20th century (the Union Bank in Winnipeg, the Merchants Bank of Canada in Montreal, and the Home Bank in Toronto), or the 21st century in Canada or in the US. According to penetrating studies by financial economists, branch banking was not a key factor in keeping Canadian banking stable during the recent GFC (for example, Lev Ratnovski and Rocco Huang in their "Why Are Canadian Banks More Resilient?") – during the recent Global Financial

from other disciplines, including the aforementioned historical studies by economists and economists-turned-economic-historians. The overall historical depth of the post-GFC banking regulation has thus significantly elevated the quality of Canadian banking history, some compensation for the traumas of the 2008 financial crisis on both sides of the border.

In Chapter VII, continued discussion of the aforementioned historical studies – in particular Bordo et al.'s *Why Didn't Canada Have a Banking Crisis in 2008 (or 1930, or 1907, or…)?* – is blended into a reconsideration of the Canadian banking stability legacy.

The foregoing blending of the selected review of the post-GFC historical studies on Canadian banking regulation and the reconsideration of the banking stability legacy in Canada is designed to further examine how the underdeveloped Canadian banking history in a political economy tradition since its first blossoming under Adam Shortt and its revival since the 1970s, has attracted moderate attention from the broader history community but minimal attention beyond this community. This inability to consistently place Canada's banking history in a broader, more politicized context has at times sadly echoed Canadians' understanding of their national evolution. As a result of the at times too easily and too narrowly accepted validity of the stability legacy, the problems exposed by the 2008 crisis were underappreciated or met with predetermined assumptions. Considering this, the author would argue that the absence of Canadian banking history with a consistent

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Crisis, the largest failed American and European banks, such as Washington Mutual, the Royal Bank of Scotland, and Northern Rock, or the major banks that were bailed out, such as Citibank and the Bank of America, boasted coast-to-coast or even global branching networks.

and vigorous political-economic thrust has compromised understanding of the full causation and evolution of the central financial institutions of the nation.

Appendix

Post-GFC Banking Regulation Literature Collection (Chapter VI)

Author	Title	Form of Circulation	Year
Jeffrey Carhart and Jay Hoffman	Canada's Asset Backed Commercial Paper Restructuring: 2007-2009	Journal article	2009
John Chant (Economist)	"The ABCP Crisis in Canada: The Implications for the Regulation of Financial Markets."	Research paper	2009
John Crow	A Bank for All Seasons: The Bank of Canada and the Regulatory Challenge	Research paper	2009
Lev Ratnovski and Rocco Huang	Why Are Canadian Banks More Resilient	Working paper	2009
Ellen Russell	Why Are Canada's "Too Big To Fail" Banks Risk Averse?	Research paper	2009
Stephen L. Harris	The Global Financial Meltdown and Financial Regulation: Shirking and Learning – Canadian International Context	Working paper	2009
Russell A. Williams	Exogenous Shocks in Subsystem Adjustments and Policy Change: The Credit Crunch and Canadian Banking Regulation	Journal article	2009
Suzanne J. Konzelmann, Marc Fovargue-Davies, and Gerhard Schnyder	Varieties of Liberalism: Anglo-Saxon Capitalism in Crisis?	Working paper	2010
David Min	True North: The Facts about the Canadian Mortgage Banking System	Research paper	2010
Tony Porter	Canadian Banks in the Financial and Economic Crisis	Conference paper	2010
Virginia Torrie	Weathering the Global Financial Crisis: An Overview of the	Journal article	2010

	Canadian Experience		
Marcel Boyer	Growing out of the Crisis through Prudential Regulation of Large Financial Institutions and Redefined Government Responsibilities	Conference paper	2011
Donald Brean, Lawrence Kryzanowski, and Gordon Roberts	Canada and the United States: Different Roots, Different Routes to Financial Sector Regulation	Journal article	2011
Christopher Kobrak & Mira Wilkins	The '2008 Crisis' in an Economic History Perspective: Looking at the Twentieth Century	Journal article	2011
Patrick Leblond	A Canadian Perspective on the EU's Financial Architecture and the Crisis	Research paper	2011
Anita Anand, Andrew Green	Regulating Financial Institutions: The Value of Opacity	Journal article	2012
David McDonald	Big Banks' Big Secret: Estimating government support to Canadian banking during the financial crisis	Research paper	2012
Andrew Smith	Continental Divide: The Canadian Banking and Currency Laws of 1871 in the Mirror of the United States	Journal article	2012
David Ciuriak	Canadian and US Financial Sector Stability Over Long History: Is There a Unifying Explanation?	Working paper	2013
Ian Roberge	Explaining Canadian Resilience to the Global Financial Crisis: The Role of Policy Networks	Conference paper	2013
Ian Roberge	Canada and the Global Financial Crisis: A Model to Follow?	Conference paper	2013
John Chant	Keep the Genie in the Bottle: Grading the Regulation of Canadian Financial Institutions	Research paper	2014

Poonam Puri and Andrew Nichol	Developments in Financial Services Regulation: A Canadian Perspective	Research paper	2014
Mehdi Beyhaghi and Chris D'Souza and Gordon S. Roberts	Funding Advantage and Market Discipline in the Canadian Banking Sector	Journal article	2014
Michael Bordo, Angela Redish, Hugh Rockoff	Why Didn't Canada Have a Banking Crisis in 2008 (or in 1930, or 1907, or…)	Journal article	2015
Lev E. Breydo	Structural Foundations of Financial Stability: What Canada Can Teach America about Building a Better Regulatory System	Law journal article	2015
Kimberley E. Pernell	The Causes of Divergent Development of Banking Regulation in the U.S., Canada and Spain	PhD thesis	2016
C. Ian Kyer	From Next Best to World Class: The People and Events that Have Shaped the Canadian Deposit Insurance Corporation, 1967-2017	Book	2017
Christopher Kobrak and Joe Martin	From Wall Street to Bay Street: The Origins and Evolution of American and Canadian Finance	Book	2018

Chapter VII
A Reconsideration of the Canadian Banking Stability Legacy

1. Introduction: The Imprint of the Canadian Politics-Business Dynamic on Canadian Banking Regulation and Its Transformation around the Turn of the 20th Century

As the preceding chapters have shown, this thesis strives to knit together an exploration of the writing of banking history and the interaction between political culture and the fundamental approach to banking regulation. At this point in the thesis, the relative imbalance of the two lines of investigation is evident: far more discussion is devoted to the banking historiography in Canada and the US. By contrast, the discussion of the correlation between political culture and banking regulation – the initial hypothesis that led to this research – retreats to a subordinate position. While this concluding chapter continues that pattern, more weight is given to the interactions between politics and banking regulation in Canada in the 19th century up to the Great Depression, given that the focus of the chapter is on the need for a reconsideration of the Canadian banking stability legacy.

The discussion in this chapter presents a series of historical facts drawn from classic and more recent banking histories written in the political-economic tradition, supplemented by the important findings and perspectives of modern economists. It is contended that these historical facts and sources, considered collectively, challenge the contemporary depiction of the Canadian banking stability legacy. It will be shown that that legacy was created and given currency by the banking industry from the turn of the 20th century through the Great Depression in order to blunt increasing public scrutiny and silence calls for tighter government regulation of the banking industry.

As reflected in the selected works from the post-GFC banking regulation literature examined in this chapter, alienation exists between contemporary studies by scholars in the non-history disciplines and Canadian banking history. The underdeveloped and fragmented state of banking history in Canada, this thesis argues, combined with the formidable late twentieth-century explosion of knowledge and the specialization of social studies in history, political science, economics, and banking, has left Canada's banking history structurally flawed. This thesis attempts to rectify this weakness by questioning the historical accuracy of the stability reputation of Canadian banking.

A. Banking under the Public-Private-Partnership model in Canada in the 19th century

The main thread in the reconsideration of the Canadian banking stability legacy is the tight and collegial relation between the Canadian government and the evolving banking industry. In the 19th century and through to the Great Depression, this relationship, as part of a broader politics-business affiliation, was particularly close with complicated implications. This chapter argues that the lessons garnered from the 19th century fall of major banks such as the Bank of Upper Canada explains the relative stability of Canadian banking in comparison with American banking.

In the 19th century, first under British colonial rule and then under self-government, one of the tools of nation-building (crystallized in the 1879 National Policy) were infrastructure projects – from the canals connecting the St Lawrence Seaway with the Great Lakes to strategic national railroad projects such as the Canadian Pacific Railway. These infrastructure projects sought to facilitate and promote east-west expansion and populating of the west with migrants from the east and from Europe as a strategic priority to contain the possible advance of the US to the north. Canada, in the 19th century to early 20th century, was thus a nation still "under construction." As compared to its much more powerful neighbor in the south, Canada's small population and less developed economy faced the challenge of vast empty territories with diverse and much tougher natural environments. The Canadian government and local and international entrepreneurs desperately needed off-shore capital (mainly from Britain, the Home Country) and Canada's political and business elites were perforce obliged to engage in a prototype of today's Public-Private–Partnerships (PPP) to achieve mutually beneficial goals. In this delicate partnership, the government played a critical role to hold them all together and thereby orchestrate the nation's growth. In this environment, Canada's fledgling banks played a crucial role.

Throughout most of the 19th century, this partnership was subject to constant challenges from multiple directions. Aside from the need to overcome the obvious geographical, technological, and fiscal obstacles to westward expansion, the most severe and constant challenge came from the untamable boom-bust business cycles, and the financial shocks imparted from the US and Europe. For a small open economy that relied primarily on the export of staples, this economic instability was acutely painful and placed significant financial stress on the already debt-laden infrastructure projects and ultimately on the government as either the constructor itself or the primary third-party guarantor of private entrepreneurs. Whenever this partnership teetered, not only was great financial loss and Canada's reputation in international capital markets threatened, but also the fate of the government, or at least the political future of ambitious politicians.

The Canadian banks' interests in these infrastructure projects were usually oversized bets from an internal risk-management perspective (accumulating over the long term due to the lengthy duration of the projects, the lure of higher profit margins, or even the "hostage-like" nature of the projects), breaching the short-term finance governing principle of commercial banking. In these circumstances, the interests of the banks became subordinate to the fate of the projects and of the banking houses from London (Barring Brothers and Glyn, Mills and Company) which for a long time were the primary capital investors in or the underwriters of the external debt incurred by Canada for these projects. This invidious rank in the pyramid of power was determined by the grand international political economic order or the "grand bargain" between the parties of the time.[1]

[1] American financial economist Charles W. Calomiris and political scientist Stephen H. Haber use "grand bargain" to describe an equilibrium reached between the relevant parties, chiefly the politicians, bankers, and their respective constituents, on banking regulation. In this "game" or "bargain," politicians are seen as "political entrepreneurs" to emphasize the similarity of their

Subject to this over-arching order, there subsisted a rather incestuous banking/business and government relationship, the antithesis of the "arm's length" principle for proper government-business dealings that has been accepted as orthodoxy for so long. At the core of this distortion was the trade-off between lawmakers and public officeholders and the business community over the "privilege" to do a certain type of lucrative business, from railway monopolies to bank charters. The most powerful business elites were willing to bet their fortunes on these strategic projects, not only because of the potential to realize gigantic financial returns, but also because they possessed the leverage to bargain with the government for increased support or even rescue if the projects became financially unfeasible or were in danger of collapse.

The cozy relationship, often leading to corruption, between politics and business/banking in nineteenth century Canada is well documented. One of the most disturbing cases relates to John A. Macdonald. While he demonstrated admirable political wisdom and achievements, Macdonald appears to have inhabited a world of loose business ethics in his dealings with businessmen. His tolerance of murky business relations in aid of national development lasted through his storied

personal motivations to those of business entrepreneurs including in reaching a "grand bargain" on banking regulation that achieves order for a shorter or longer duration. See Charles W. Calomiris and Stephen H. Haber, *Fragile by Design: The Political Origins of Banking Crises and Scarce Credit* (Princeton University Press, 2014). This author sees a lot of truth in their theory of the relation between politics and banking regulation although it can never take the place of political-economic banking history, which tells the "stories" of complicated historical process and the historical role of key individuals and collectivities.

political career, starting from before Confederation, through the "Pacific Scandal" in the 1870s, to at least the completion of the Canadian Pacific Railway in 1885.[2]

In short, Canada's early development as a nation rested on the removal of lines of demarcation between politics and business, especially the banks and infrastructure enterprises, in the interest of national survival. By this measure, it is no surprise that Canada's formative Bank Act placed financial authority squarely in the hands of Ottawa.

B. The Transformation of Canadian banking regulation as part of Canada's national political economic transformation at and after the turn of the 20th century

By the turn of the 20th century, reflecting the growth of Canada's population and economy resulting from westward expansion, the Canadian banking community had increased significantly[3] and the industry landscape was transformed. The dominance of the industry by a couple of elite banks, notably the Bank of Montreal and the Bank of Upper Canada (before its collapse in 1866), was replaced by a more competitive order. A handful of large, up-and-coming banks (i.e. the Royal Bank, the

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[2] According to the history of the Bank of Upper Canada, Macdonald was a debtor of the Bank up to its final collapse. In the process of its prolonged liquidation, in 1870, Macdonald's debt of $17,195 was quietly forgiven by the bank's liquidator - see Peter Baskerville, *A History of the Bank of Upper Canada: A Collection of Documents* (McGill-Queen's University Press, 1987), cxlvi. In 1885, when the Canadian Pacific Railway infrastructure project was once again in financial crisis, Macdonald held back release of new government support until his request for a benefit was satisfied by George Stephen, one of the principal investors in the CPR and a prominent entrepreneur in the 19th century Canada. It is said that Stephen bought a necklace worth £40,000 for Macdonald's wife in addition to his numerous other "bonifications" to government officials: see David Cruise & Allison Griffiths, *The Lords of the Line: The Men who Built the CPR* (New York: Penguin Group, 1988),157.

[3] According to E. P. Neufeld, in the fifty-year period after Confederation, the average growth rate of the assets of the chartered banks in Canada was about 4.78% (1870-1920), which resulted in a 10 fold increase in the total assets of the industry: see Neufeld, *The Financial System of Canada: Its Growth and Development* (Macmillan of Canada, 1972), 89-90.

Canadian Bank of Commerce, the Merchants' Bank of Canada, the Bank of Nova Scotia, and the Toronto Bank), located not only in business centers like Montreal, Quebec City, and Toronto but also in frontier villages and towns, gradually closed the gap with the Bank of Montreal, the old guard of Canadian banking. In the early 20th century, these new larger banks squeezed many of their smaller competitors out of business and absorbed dozens of others to form a banking oligarchy. By the 1920s, the Bank of Montreal would come to compete with the Royal Bank of Canada, a latecomer from Nova Scotia, for top place in the industry.

The turn of the century saw the nation faced with new challenges, from the Boer War to the Great War and the economic consequences of immigration-fueled growth. The Public-Private-Partnership remained a cornerstone of the Canadian political economic order. The political and business elites took this partnership for granted and made it the centerpiece ethos of the famous Laurier Boom. Crucial to this formula, the federal government relied heavily on the coast-to-coast branch networks of the largest banks to expedite national financial intermediation and to sell bonds to raise capital for the war efforts as well as for continued support of infrastructure projects and other public expenses.

Intensified competition prompted change within the banking industry. The Canadian Bankers' Association (CBA) was formed in 1891[4] and aimed first to

[4] The CBA was incorporated in 1900 by a special act of Parliament. For a brief history of this association, please refer to the website of CBA, available at https://cba.ca/cba-history, accessed June 30, 2019.

regulate "over-competition" to protect the lucrative margin of banking business.[5] Its other critical function was to project a unified voice in the political arena to fend off increasing public scrutiny. From its beginning, the CBA, controlled by the largest banks, worked in close cooperation with the Ministry of Finance.[6]

This revamped alliance (in contrast to the competition between the Bank of Montreal and the Bank of Upper Canada for special relations with the government before Confederation) between the political and banking elites endeavored to maintain internal cohesion in the banking industry in an age of great socio-economic transformation.[7] The CBA first tried to stifle criticism from within. Henry C. McLeod, the maverick general manager of the Bank of Scotia from 1897 to 1910, vigorously protested the wide-spread misrepresentation by many Canadian banks in their financial disclosures. Underlying his protest was the fact that many banks at the time were created and staffed by incompetent or even fraudulent managements.

[5] Competition mainly took the form of higher interest to lure depositors from competitors, the offer of more flexible accommodation to borrowers, and the race to open new branches on the frontier or following the expansion of urban centers.

[6] In 1914, Thomas White, then minister of finance, formed an advisory committee to advise him on the fiscal challenge presented by WWI. The committee was composed of trusted bankers from the several largest banks, notably Frederick Williams-Taylor from the Bank of Montreal, Edson Pease from the Royal Bank of Canada, B. E. Walker from the Bank of Commerce, and Daniel Wilkie from the Imperial Bank. Given that the many banks housed under the CBA could hardly be expected to agree on everything, this committee functioned as the "elite circle" of the CBA to advise the minister on the most critical issues. See John Turley-Ewartd, *Gentlemen Bankers, Politicians and Bureaucrats: The History of the Canadian Bankers Association, 1891-1924* (PhD thesis, Department of History, University of Toronto, 2000), xvi, 225-239.

[7] Much of the 20th century literature on the history of Canada is devoted to the study of its socio-economic and political transformation around the turn of the 20th century. The representative works that have informed this thesis include: R. C. Brown and Ramsay Cook, *Canada 1896-1921: A Nation Transformed* (McClelland and Stewart Limited, 1974); John English, *The Decline of Politics: The Conservatives and the Party System 1901-20* (University of Toronto Press, 1977); and Richard Allan, *The Social Passion: Religion and Social Reform in Canada 1914-1928* (University of Toronto Press, 1971).

McLeod was the first influential insider to call for an independent audit of Canadian banks and the establishment of a government agency to supervise the industry.[8]

An increasing number of procedural problems in the Canadian banking system, especially insolvency and financial distress caused by business cycles, tough competition, and incompetence or plunder by management, could not be covered up or absorbed by bank mergers between the larger healthier banks and the weaker banks brokered by the CBA and supported by the Ministry of Finance. As a result, some banks were left to fail, causing substantial social unrest. Facing significant public censure, the CBA and the government retreated from their previous rejection of demands for regulatory reform. Thus, shareholder audits were introduced in 1913, and the Office of Inspector General of Banks, the designated banking regulator, was established in 1925 albeit only after the devastating failure of the Home Bank in 1923.[9]

However, the industry's primary concern was the call by some progressive voices, beginning in the mid-1910s, for nationalization of the credit system. A more enlightened and realistic approach – the establishment of a central bank to regulate

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[8] McLeod's call for regulation of the banking industry was opposed not only by the other major bankers but also by the Ministry of Finance. Indeed, minister of finance Fielding dismissed his call for regulatory reform as "poppycock" - see John A. Turley-Ewart, "Henry Collinwood McLeod," *Dictionary of Canadian Biography*, available at http://www.biographi.ca/en/bio/mcleod_henry_collingwood_15E.html, accessed June 30, 2019. On the various contributions of McLeod to Canadian banking regulation documenting many important historical facts, see Benjamin Beckhart, *The Banking System of Canada*, in Parker Willies and Benjamin Beckhart, eds., *Foreign Banking Systems* (New York, Henry Holt and Company, 1929), 289, 329-338

[9] The Office of Inspector General was for a long time a one-person office without sufficient resources to police the ever expanding banking industry. This reveals the continuing reluctance of the banking industry and sympathetic lawmakers to impose real regulation on the industry. This agency did not have much regulatory impact, and was eventually replaced by the Office of Superintendent of Financial Institutions (OSFI) created in 1987 after the collapse of the Canadian Commercial Bank (CCB) and the Northland Bank in 1985 and the resulting investigation by the Estey Commission.

the supply of credit – was later suggested. These reforms were initially urged primarily by political forces from Canada's West, which represented the new broad-based political Populism, especially because of its affinity to Fabian socialism. However, in 1918, Edson Pease, the legendary general manager of the Royal Bank of Canada from 1899 to 1922 who transformed the Bank to become a rival of the Bank of Montreal for the industry's top position through organic growth and audacious mergers and acquisitions, became the first prominent banking insider to vocally support the creation of a central bank.[10] The old close relationship of banking and the state was beginning to fray.

There is general agreement that the emergence in national politics of small populist parties from Canada's West representing farmers and laborers was a critical turning point in Canada's democracy. From the Progressive Party of the 1920s to the Co-operative Commonwealth Federation (CCF) in 1932-33, [11] these small parties often held the balance of power in Parliament and were a catalyst for change on many important occasions, especially in nudging Canada onto the path of

[10] On Edson Pease's call for a central bank, which was rejected by the Executive Council of the CBA, see Linda Grayson, "*The Formation of the Bank of Canada*, 1913-1938" (PhD thesis, Department of History, University of Toronto, 1974), 20, 361. That Graham Towers, a rising star from the Royal Bank, was tapped as the first governor of the Bank of Canada in 1935 reflected the increased influence of the Royal Bank, including the close relation of the Royal Bank with then Prime Minister R. B. Bennet – see Douglas H. Fullerton, *Graham Towers and His Times* (McClelland and Stewart, 1986)

[11] The formation of the Progressive Party in 1920 led by former Liberal Party and Cabinet member Thomas Crerer broke the hold on Parliament of the Conservative Party and the Liberal Party. In the 1921 federal election, the Progressive Party won 65 seats to become the second largest party. Due to the incoherent positions taken by members, the Progressive Party's influence had declined by the mid-1920s. Many former members of the Liberal Party were reabsorbed, while the more radical members joined the Co-operative Commonwealth Federation (CCF) formed in 1932. See William L. Morton, *The Progressive Party in Canada* (University of Toronto Press, 1950).

social democracy. The founding of the Bank of Canada was one of the major legislative achievements initiated and pursued by them or precursor movements.

William C. Clark drafted the preamble to the 1934 *Bank of Canada Act*[12] that established Canada's central bank. Clark was one of the so-called "Ottawa men," i.e., the academics-turned senior civil servants who organized the federal mandarin system during the Great Depression and WWII and laid the institutional foundations for Canada's embrace of the Keynesian welfare state after WWII. The preamble to the 1934 Act gave the new institution a solid mandate to keep the credit system in order and Clark referred to the Act as the "Most important Statute since

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[12] The preamble to the 1934 Bank of Canada Act read as follows:

> Whereas it is desirable to establish a central bank in Canada to regulate credit and currency in the best interest of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion…

The preamble to the current version of the Act, Bank of Canada Act, RSC 1985, c B-2, reads the same (except that "Canada" replaces "Dominion"). Reflecting the broad mandate in the preamble, sections 18 (g) and (h) of the Act provided a clear legal basis for the Bank of Canada to intervene during the GFC:

> 18. The Bank may…
>
> (g) for the purposes of conducting monetary policy or promoting the stability of the Canadian financial system,
>
> (i) buy and sell from or to any person securities and any other financial instruments — other than instruments that evidence an ownership interest or right in or to an entity — that comply with the policy established by the Governor under subsection 18.1(1), and
>
> (ii) if the Governor is of the opinion that there is a severe and unusual stress on a financial market or the financial system, buy and sell from or to any person any securities and any other financial instruments, to the extent determined necessary by the Governor;
>
> (h) make loans or advances for periods of not more than six months to any member of the Canadian Payments Association on taking
>
> (i) security in any property, including in any real property or immovable situated in Canada, or
>
> (ii) an assignment or transfer of the member's right, title or interest in any real property or immovable situated in Canada, including any mortgage or hypothec on that real property or immovable;…

Confederation."[13] The Bank has largely fulfilled its mandate through its eighty-odd years history, including in its recent powerful intervention in response to the Global Financial Crisis of 2007-2008 (GFC).

That members of the elite such as Edson Pease and William C. Clark eventually recognized that Canada needed a central bank was precipitated by the wide-spread social injustice associated with banking instability (the losses for depositors and shareholders, and the closure of neighborhood branches). The political pressure to act was fueled by Western populist resistance to the perceived monopoly of credit supply by the Eastern banking elites and the successive and severe credit squeezes that occurred when the banking industry reacted to business cycles or financial panics. The dire economic situation during the Great Depression ultimately provided the needed environment for reform and the Conservatives and the Liberals were finally moved to act.[14]

The formation of the Bank of Canada in 1934[15] accomplished the last and the most decisive step in the transformation of the nineteenth-century ethos behind

[13] Robert A. Wardhaugh, *Behind the Scenes: The Life and Work of William Clifford Clark* (Toronto: University of Toronto Press, 2010), 90.

[14] Linda Grayson's doctoral thesis documents how representatives of the farmers and laborers, such as William Irvin, W. C. Good and J. S. Woodsworth, championed the cause of a nationalized credit system or a central bank, and also details how their efforts were initially ridiculed by the banking industry and mainstream Conservative and Liberal Members of Parliament: see Grayson, *Formation of the Bank of Canada*, 71, 75-86.

[15] To help then Canadian Prime Minister R. B. Bennet in his efforts to establish the Bank of Canada, the British government sent Lord Macmillan and Sir Charles Addis to occupy two seats of the five-person *Royal Commission on Banking and Currency* ("Macmillan Commission") with the former being the chairperson. In the 3 to 2 thin majority vote calling for the formation of the Bank of Canada, the only domestic vote to join the positive votes of the two British members was cast by J. E. Brownlee, Premier of Alberta. Sir Thomas White, former Minister of Finance (1911-1919) and then vice president of the Bank of Commerce, and Beaudry Leman, general manager of Banque Canadienne, voted against. Before the Bank of Canada opened for business, in September to November, Graham Towers travelled to Europe to establish rapport with the central banks in in Paris, Stockholm, Basil,

Canada's banking industry. The Bank was at first privately owned but was nationalized not long after its formation in 1938. It is worth noting that the Bank of England, the model for the Bank of Canada and one of the world's oldest central banks incorporated in 1694, was only nationalized in 1946, eight years after Canada took the lead.

Contemporary scholars are sometimes tempted to try to identify the point in the moving picture of Canadian banking history when the industry entered a stable phase. As explored in the next section of this chapter, some studies point to the early decades of the 20th century, especially the 1920s, when the banking industry completed its major waves of consolidation and the first wave of procedural reforms were instituted. The total number of banks was reduced from 51 in 1874-1875 to 11 by the end of the 1920s as a result of bank failures and amalgamations.[16] By that time, several of the largest banks, which have become the pillars of the Canadian financial system today, controlled an overwhelming majority of the market share of banking assets. The top seven banks had a total market share of 93.5% in 1930.[17] Canada's absence of bank failures during the Great Depression was inferred to be the result of the enhanced strength of the industry as a result of this consolidation (the remaining largest banks had achieved by then true regional diversity through coast-to-coast branch networks) and improved regulation of the industry.

Brussels, Amsterdam and London. He stayed longest in London to study central banking at the Bank of England and to mingle with the Bank of England's management, including J. A. C. Osborne, the Secretary of the Board of the Bank of England, who not only had helped the Macmillan Commission, but later become Deputy Governor from 1934 to 1938 to help Towers launch the Bank of Canada: see Fullerton, *Graham Towers*, 58-59.

[16] Neufeld, 78-79.

[17] Ibid, 99.

In assessing the Canadian banking stability legacy, this thesis benefits from these scholars' findings and perspectives. Industry consolidation was unquestionably important as it helped consummate the acclaimed coast-to-coast branch networks of the largest banks. Other well-accepted strengths of the Canadian system were developed at different stages during the preceding century, notably, the conservative approach to housing mortgage, the importance of the Canadian banks' reliance on retail funding from public depositors in contrast to the US banks' reliance on wholesale funding before the GFC, and the effective work of the Office of the Superintendent of Financial Institutions (OSFI since its founding in 1987.

However, this thesis offers a different interpretation of the Canadian banking stability legacy, placing greater emphasis on the important role played by the Canadian government in protecting the industry's bottom-line during difficult periods. It is argued that the contribution of this critical factor to the resilience of the Canadian banking system has been under-appreciated by many contemporary scholars and the general public.

During the Great Depression years, the Public-Private-Partnership was still strong, and Canada's business, financial and political elites were still motivated to maintain it. However, they faced a challenge that had fermented since the opening of the new century from the bottom of the social strata, especially, as noted earlier, from the country's West, newly populated by generations of immigrants from eastern Canada and Europe. The transformative political movements and new political parties mostly came from the West. This powerful political-economic force was susceptible to political agitation from both American-style populism (in Alberta in the Social Credit movement) and Social-Gospel-based Fabien Socialism (in Saskatchewan, Manitoba, and British Columbia).

Another indispensable force in the transformation was the emergence of modern Canadian intellectuals who would write the history of the country, found social studies departments in the universities, educate younger generations, and even plunge into party politics or civil service. Regardless of whether they had completed their advanced degrees in the UK or the US, few were sympathetic to American liberalism (i.e. Lockean liberalism). The more idealistic among them embraced Fabian Socialism; the more conservative clung to the British tradition and the Victorian worldview; the more pragmatic professed a new pragmatism which rested on Keynesianism as its intellectual foundation but was emboldened by the New Deal ideas of Franklin D. Roosevelt in the US.

The marriage between the Canadian populist movement and the idealistic intellectuals led to the rise of the CCF, which constituted the most conspicuous chasm of difference between Canada and the US in the 20th century. In the US., the end of WWII was also the last effective stirring of socialism in American national politics. In contrast, in Canada, although the Conservative and Liberal Parties continued to hold the majority in Parliament in turn in the post-WWII decades, the growing influence of socialism enlarged the role of government, which had already firmly embraced Keynesianism during and in the wake of the Great Depression.

In sum, the first half of the 20th century saw a strengthening of the role of the Canadian government, reflected in the injection of a new dynamic in Parliamentary politics, the founding of new governmental institutions (notably in the context of this thesis the Bank of Canada), the establishment of a federal civil service sympathetic to the welfare state model and a much-strengthened concept of the rule of law and governmental accountability. The Public-Private-Partnership thus entered a new era.

C. The much-needed meeting between narrative banking history and empirical studies

To a great extent, the reconsideration of the Canadian banking stability legacy in this thesis is informed by Lawrence Kryzanowski's and Gordon Roberts's examination of the performance of the Canadian banking industry during the Great Depression in their 1993 article "Canadian banking solvency, 1922-1940." [18]

Employing sophisticated statistical methods, Kryzanowski and Roberts questioned the performance of the Canadian banking industry during the Great Depression, the crown jewel of the Canadian banking stability legacy. Their conclusion was based on three major contentions: (i) the major Canadian banks were technically insolvent during the Great Depression; (ii) their financial disclosures were doctored (i.e. "window dressing" in the words of Kryzanowski and Roberts') to disguise the dire state of their assets; and (iii) the Canadian government was aware of the reality but engaged in "regulatory forbearance" towards banks in

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[18] Lawrence Kryzanowski and Gordon Roberts, "Canadian Banking Solvency, 1922–1940," *Journal of Money, Credit and Banking* 25, No. 3 (1993): 361–376. Kryzanowski and Roberts were not the first to challenge the Canadian banking stability legacy. R. T. Naylor, in *The History of Canadian Business* (Vol. I *The Banks and Financial Capital*) first published in 1975, attacked the Canadian banking stability legacy as "propaganda" citing the numbers about Canadian bank failures in the half century after Confederation: see R. T. Naylor, *The History of Canadian Business 1867-1914* (McGill-Queen's University Press, 2006), 1:118-119. Chapter II of this thesis discusses some historians' criticisms of Naylor's book, mainly his failure to refer to archival materials and perceived over-reliance on contemporary media reports of historical events.

distress for to preserve social stability, while many of the mergers in the decades before the Great Depression were encouraged by the government to absorb failing banks.

In 1996, Jack Carr, Frank Mathewson, and Neil Quigley published a rebuttal to Kryzanowski and Roberts,[19] relying on three major arguments. First, the 1944 audit of the Bank of Nova Scotia for the period 1928-1944 showed that the bank was solvent during the Great Depression. Second, archival materials and the transaction prices appeared to show that the bank mergers in question were market-driven and that the target banks were not insolvent. Third, they disagreed that the stability of Canadian banking during the Great Depression was a result of government intervention (i.e., encouraging bank mergers and applying regulatory forbearance). In their view, it rather reflected the industry's strength (i.e. the largest banks were the fittest that survived the competition and had established sophisticated internal governance and risk-control), while shareholders' audit and depositors' vigilance to bank safety was also important for reining in the banks' impulse to take on too much risk.

Although Kryzanowski and Roberts responded with two related articles in 1998 and 1999,[20] the debate has still not been settled. The uncertainty hinges on the reliability of the audit of the Bank of Nova Scotia and the accounting practices of the

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[19] See Jack Carr, Frank Mathewson and Neil Quigley, "Stability in the Absence of Deposit Insurance: The Canadian Banking System, 1890-1966," *Journal of Money, Credit and Banking*. 27, No. 4 (1995): 1137-1158.

[20] Lawrence Kryzanowski and Gordon Roberts, "Capital forbearance: Depression-era experience of life insurance companies," *Canadian Journal of Administrative Sciences* 15, No. 1 (1998): 1–14; Lawrence Kryzanowski and Gordon Roberts, "Perspectives on Canadian Bank Insolvency during the 1930s," *Journal of Money, Credit and Banking* 31, No. 1 (1999): 130–136.

major banks during the Great Depression. In their 1999 reply, Kryzanowski and Roberts relied on the spectacular failure of Olympia and York, which led to a loss of over $1 billion for each of the two largest Canadian banks in 1993, to show that the risk to banks posed by large debtors could be severe. They also referred to the application of "questionable accounting practices to hide loan losses and keep them off the balance sheet" by two small banks in Alberta – the Canadian Commercial Bank (CCB) and Northland Bank – that had failed in the mid-1980s.[21] In referring to these two cases, they sought to establish that during the Great Depression, when Canada's GNP in Canada fell 30%, there would have been widespread default by borrowers from the chartered banks and if the true state of the loans were reflected on their balance sheets, the banks would have been shown to be in a financially precarious position.

In short, while the authors do not trust the general accounting practices of the chartered banks during the Great Depression, they do not have any direct sources to verify their contention.[22] It is worth pointing out, however, that doctored

[21] Ibid, *Perspectives*. The failure of Olympia & York, a global real estate developer headquartered in Toronto, was the largest private company failure in Canadian history. According to a research paper prepared by Darren Karn under the direction of Professor Joe Martin, when the company entered bankruptcy in May 1992, it owed a total of $18.5 billion to 91 lenders from across the world - see "The Commercial Real Estate Crisis of the 1980s and 1990s," Research Paper, Rotman School of Management, University of Toronto, 2017.

[22] In her thesis, Linda Grayson recounts the CBA's denial of her request to access its archives for the purpose of her research on the formation of the Bank of Canada: Linda Grayson, *The Formation of Bank of Canada* (PhD thesis, Department of History, University of Toronto, 1974), 360. In his 2000 thesis, John Turley-Ewart also takes note of the difficulties faced by scholars seeking to access archival materials maintained by the CBA and Canada's financial institutions, including referencing Grayson's experience. It appears, however, that Turley-Ewart was given access to the CBA archives for his doctoral thesis on the history of the Association: see John Turley-Ewart, *Gentlemen Bankers, Politicians and Bureaucrats: The History of the Canadian Bankers' Association, 1891-1924* (PhD thesis., Department of History, University of Toronto, 2000), vi, 227, 394. In their recent book, Kobrak and Martin likewise observe in an end-note that in the course of their research they realized "how much

accounting books and government filings was a prevalent practice in the 19th century as demonstrated in the case of the Bank of Upper Canada, and at the turn of the 20th century, as Henry McLeod protested and as revealed in the case of most of the failed banks and even those banks that were amalgamated with the larger banks.

As for the allegedly fair market share price of the banks involved in the bank mergers in the decades preceding the Great Depression, which is an important element in Jack Carr et al.'s rebuttal, the share price information must be taken with a grain of salt. After all, in the absence of any real risk of regulatory sanction, the management and board of directors had sufficient motivation for manipulating the share price, either to attract fresh investors when the bank needed additional equity funding or to enable insiders to offload their shares.

Despite the fragmented and underdeveloped character of the narrative history of Canadian banking, successive generations of historians agree on the close government and business/banking relationship and the interactions between politics and banking regulation in the 19th century through to the Great Depression. Adam Shortt at the turn of the 20th century, Linda Grayson in the 1970s, Peter Baskerville in the 1980s, McDowall in the 1990s, and John Turley-Ewart at the turn of the new millennium all examined the archival materials and all saw this partnership and interaction as a central theme of their banking history scholarship.

The reconsideration of the Canadian banking stability legacy that follows is based mainly on these narrative histories supplemented by enlightening empirical

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financial history has been impeded by lack of or closed archives, especially in Canada": see Christopher Kobrak and Joe Martin, *From Wall Street to Bay Street*: *The Origins of American and Canadian Finance* (University of Toronto Press, 2018), 301.

studies by several economists. Relying on these sources, the author provides in the sections that follow a snapshot of three periods in the evolution of Canadian banking regulation in light of the Public-Private-Partnership: (i) the failure of two major banks around Confederation; (ii) the wave of bank failures and merger around the turn of the 20th century and the true performance of the Canadian banking industry during the Great Depression; and (iii) the post-WWII experience. The Kryzanowski et al. vs. Jack Carr et al. debate fits well into this political-economic framework.

2. "Crisis-Free" or "A Long Road to Stability"? Salient Examples from before Confederation to the Great Depression

Among the historically oriented scholarly works in the post-GFC banking regulation literature, "Why didn't Canada have a Banking Crisis in 2008 (or 1930, or 1907, or…)"[23] is the most vocal in extolling the success of Canadian banking regulation. The article is authored by Michael D. Bordo, Angela Redish, and Hugh Rockoff, three established American and Canadian economists who individually or collectively have been at the forefront of the field of comparative Canada-US empirical financial history for decades.

According to their article, Canada had not only ably managed its banking

[23] Michael Bordo, Angela Redish, and Hugh Rockoff, "Why didn't Canada have a banking crisis in 2008 (or 1907, or 1930, or…)? *Economic History Review* 68, 1 (2015): 218–243. The first version of this paper was circulated as a working paper by the National Bureau of Economic Research in 2011 (working paper 17312, available at https://www.nber.org/papers/w17312, accessed June 30, 2019). In the years immediately after the GFC, when many scholars were prompted to write about banking regulation in the US and Canada, the 2011 version became a popular source of reference for other scholars. For example, it was referenced by Calomiris and Haber in *Fragile by Design* as one of the major sources for their study of Canadian banking regulation.

system in the years leading up to the 2007-2008 GFC but the relative stability of the Canadian banking system in the wake of the GFC was "not a one-off event." [24]As the title of their article suggests, the authors view the Canadian banking industry as having been relatively crisis-free throughout most of its history and see the resilience of the Canadian banking system during and in the aftermath of the GFC as fresh testimony in support of the Canadian banking stability legacy.

However, their article also sets these three veteran scholars up for the task of reconciling their position with problematic qualifying evidence, notably the $32 billion Assets-Backed Commercial Paper (ABCP) market debacle in 2007,[25] CIBC's more than $10 billion in write-downs due to its exposure to subprime-mortgage-based financial products in 2007 and 2008,[26] the more than $20 billion in write-downs of all Canadian banks, and the Canadian government's liquidity support to the banking system during and after the GFC.[27]

In addition, the three authors need to reconcile their latest views in this article with the earlier view they expressed in "A Comparison of the Stability and Efficiency of the Canadian and American Banking Systems, 1870-1925" published in

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[24] Ibid, Bordo et al (2015).

[25] See Ogilvy Renault LLP, "The Collapse and Rehabilitation of the $32 billion Canadian Asset Based Commercial Paper Market," available at http://www.cba.org/cba/cle/PDF/Reyes_paper.pdf, accessed June 30, 2019; and John Chant, "The ABCP Crisis in Canada: The Implications for the Regulation of Financial Markets," http://www.expertpanel.ca/documents/research-studies/The ABCP Crisis in Canada – Chant.English.pdf, accessed June 30, 2019.

[26]See Duncan Mavin, "CIBC's Writedown Woes not Over," *Financial Post*, June 23, 2008, available at http://www.financialpost.com/cibc+writedown+woes+over+analysts/608460/story.html, accessed June 30, 2019; and Andrew Coyne, "Our so-called Genius Banks," *MacLean's*, April 6, 2009, available at https://www.macleans.ca/news/canada/our-so-called-genius-banks/, accessed June 30, 2019.

[27] See David MacDonald, "The Big Banks' Big Secret: Estimating government support for Canadian banking during the financial crisis," Research Report of the Canadian Center for Policy Alternatives, 2012, available at https://www.policyalternatives.ca/publications/reports/big-banks-big-secret, accessed June 30, 2019.

1996. In this earlier article, they convincingly portrayed the path of Canadian banking from 1870 to 1925 as "a long way to stability,"[28] emphasizing that the stability of Canadian banking was only achieved after the fall of the Home Bank in 1923 through industry consolidation, which strengthened Canadian banking by creating a concentrated industry around a handful of large banks.

A. Crises in Canadian banking history: 1837-1839, 1857-1858, and 1907

When business historian Christopher Kobrak and his collaborator Mira Wilkins reviewed the rich collection of literature submitted in response to their call for papers for a special issue of the Journal of Business History "On History and the Economic Crisis", they entered into a "fruitful, but by no means conclusive, debate on the relationship of financial and economic crises."[29] The debate between the two scholars soon narrowed to the definition of "economic crisis" and "financial crisis." They determined that even "the Oxford dictionary of economics gives no definition of 'crisis, economic or financial'…"[30] They were unable to source a clear definition, even from an authority like Charles P. Kindleberger, a towering figure in 20th-century economic history who specialized in financial and economic crises. Kindleberger acknowledged that "financial crisis" or "economic crisis," like many other key terms, "may be beyond some sort of Socratic precise and generally agreed

[28] Michael Bordo, Hugh Rockoff, and Angela Redish, "A Comparison of the Stability and Efficiency of the Canadian and American Banking Systems, 1870-1925," *Financial History Review* 3, No. 1.(1996): 49-68. It appears that this article was originally entitled "Two Long Roads to Stability: Canadian and American Banking 1870-1925," see the CV of Angela Redish, available at https://economics.ubc.ca/files/2013/05/RedishCV.pdf, accessed June 30, 2019.
[29] Christopher Kobrak and Mira Wilkins, "The '2008 Crisis' in an Economic History Perspective: Looking at the Twentieth Century," *Business History* 53, No. 2 (2011): 175-192.
[30] Ibid, 176.

clarification."[31]

Neither of the articles by Bordo et al. discussed above defines the concept of a banking or financial crisis and this author will not attempt to improvise a definition. However, Kobrak's and Wilkins's debate reminds us that defining a seemingly "obvious" thing like a "financial or economic crisis" can be difficult. The concept of what constitutes a "financial crisis" might also vary over time. The financial crises of the late 19th century, the 20th century, and the early 21st century were associated with the collapse or dramatic fall of the stock market or commodity prices and sometimes with political crises. However, the first two or three quarters of the 19th century in Canada presented a very different setting: banking operations were rudimentary, there was no formal modern stock exchange, other elements of a sophisticated modern financial system were absent, and trading in the stocks of the chartered banks and other corporations was conducted "on the street…" or in a coffee shop. In this context, what would a "financial crisis" or "banking crisis" look like?

a. The Crisis of 1837-1839

Historians R. M. Breckenridge, Adam Shortt, and Peter Baskerville wrote about the system-wide suspension of banknote redemption in 1837-1839 in Lower and Upper Canada. In March 1837, after the New York banks suspended conversion of notes to specie, the US Panic of 1837 rippled across the border and the three banks in Montreal, including the Bank of Montreal, agreed to suspend conversion of

[31] Ibid, 176.

notes to specie and to continue to accept each other's notes at par value. The banks in the City of Quebec soon followed suit.

The situation in Upper Canada evolved somewhat differently. Lieutenant-Governor Sir Francis Bond Head strongly objected to the idea of suspension, believing it to be a betrayal of the fundamental principle of banking and an amoral act. As a result, there was a delay in the adoption of suspension. The Bank of Upper Canada, which then had a strong specie reserve, wanted to enhance its relationship with the government and solidify its premier position over its competitors. It therefore initially supported the Lieutenant-Governor's objection to suspension. However, in September 1837, under great pressure to contract business, the Commercial Bank of the Midland District in Kingston (commonly known as the "Commercial Bank") obtained an Order-in-Council authorizing it to continue its business "notwithstanding the suspension of cash payment."[32]

According to Adam Shortt, by early 1838, the Bank of Upper Canada's cash reserve was significantly reduced compared to its large note circulation, alarming management. Breckenridge believed that the Commercial Bank and other banks that had earlier suspended specie conversion had taken advantage of the Bank of Upper Canada's free conversation, resulting in the drain of the latter's cash reserves. In any event, the Bank of Upper Canada reversed its objection and joined the other banks to successfully petition for suspension in March 1838.[33]

The system-wide suspension of note redemption continued into 1839. It was

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[32] See Adam Shortt, *Adam Shortt's History of Canadian Currency and Banking, 1600-1880* (The Canadian Bankers Association, 1986), 347.
[33] Ibid, 349-350.

extraordinary for the government to intervene in the operation of the banking and currency system, and implementation of the suspension caused confusion and panic among noteholders and other constituents of the banking system. The shortage of specie across the border and on both sides of the Atlantic pushed the cost of foreign exchange to an unprecedented high level.[34] The Bank of Upper Canada, when it was still holding out against suspension, was accused of exploiting the scarcity of specie by moving much of its specie to New York to earn a higher return at the expense of its local discount business, the lifeline for many merchants. This practice exacerbated the trading environment and led to political backlash. William Lyon Mackenzie, the leader of the 1937 Rebellion in Upper Canada, used the suspension as one of his causes for agitation.

While Upper and Lower Canada might not have suffered as severely as many parts of the US, the disruption of the monetary system nonetheless caused widespread disruption to economic life. Were it not for the government's willingness to intervene and adopt a system-wide suspension, the panicked drain of specie (fundamentally, because of the inherent weakness of inflexible gold-standard-based note-issuing mechanism) would likely have caused most banks to close their doors. Breckenridge, Shortt and Baskerville all explicitly consider this episode to have been a "crisis."[35]

[34] According to Adam Shortt, for cross-Atlantic merchants, the rate at New York for exchange to London was increased to 21 percent, while in Montreal it was 1 or 2 percentage higher: *Canadian Currency and Banking*, 336.

[35] The uprisings in the two provinces led by William Lyon Mackenzie and Joseph Papineau from 1837 to 1838 were intertwined with the commercial and banking woes. However, according to Adam Shortt, it is clear that the commercial and banking crisis preceded the Mackenzie's rebellion: "When the commercial and banking crisis loomed up," Shortt wrote, "Mckenzie [*sic*] saw his opportunity,

b. The Crisis of 1857-1858

The first half of the 1850s saw a prolonged period of economic expansion in North America as part of a broader trans-Atlantic boom. Canadian banking enjoyed a robust expansion in this period; new banks emerged, and the existing banks significantly increased their capital and assets.

In 1857-1858, however, a US financial crisis – in this case provoked by a commodity price downturn –once again spread to Canada. In the fall of 1857, many American banks suspended specie payment. Although the Canadian chartered banks did not follow suit, they significantly contracted their lending (note issuing, discounting, or loans) to protect their specie reserves. The economic sector most affected was probably agriculture. "The result was that," Adam Shortt wrote, "during the autumn of 1857 the usual movement of the crops could not and did not take place."[36] As is typical in a crisis, a severe chain reaction ensued, as recounted by Shortt:

> The farmers could not meet their obligations to the retail merchants, and these could not pay the wholesalers, importers, and manufacturers. Thus the policy pursued by the banks resulted in largely paralyzing the trade of the country and preventing the normal processes which alone could make the recovery. It was akin to the practice of keeping a bankrupt in prison till he paid his debts… [37]

The 1857-58 crisis was a turning point for Canadian banking. As discussed in

and determined that no effort of his should be spared to discredit the banks in the eyes of the public…." Ibid, 340. The two articles by Shortt that covered banking and currency development in Upper and Lower Canada in the 1830s, from which the cited description is taken, were entitled "Further Expansion and Crisis" and "Crisis and Resumption" respectively: ibid, 315-359.

[36] Ibid, 530.

[37] Ibid.

a later section of this chapter, two of the largest banks in colonial Canada would soon thereafter decline and eventually fail.

c. The Crisis of 1907

The 1907 US financial crisis was triggered by the collapse of a large trust company, Knickerbocker, owing, it was said, to its "botched attempt to corner the copper market."[38] J.P. Morgan "saved the street" in a legendary act (by boldly walking across the floor of the stock exchange to demonstrate his confidence in the system and mobilized a group of New York bankers to join him in bailing out many of the Wall Street banks that had been ravaged by a run by deposits.

More importantly, the financial panic eventually spread throughout the US and beyond, causing a significant economic recession and numerous bank and trust company failures. That was the turning point in the US on the long-debated issue of whether to establish a central bank. Due to the momentum generated by the crisis, the founding of a central bank became a policy priority. Congress established the National Monetary Commission in 1908. The Commission's comprehensive research, despite political struggles between the Republicans and the Democrats, ultimately led to the creation of the Federal Reserve System in 1913.[39]

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[38] Joe Martin, "The Forgotten Credit Crisis of 1907," case study material for the Canadian Business History course at the Rotman School of Management of the University of Toronto, 2014.

[39] The origin of the Federal Reserve System has been the subject of studies by generations of scholars. This author has relied mainly on the following sources: James Livingston, *Origins of the Federal Reserve System: Money, Class, and Corporate Capitalism, 1890-1913* (Cornell University Press, 1986); Ron Chernow, *The Warburgs* (Random House, 1993), 85-101; 130-140; and William G. Dewald, "The National Monetary Commission: A Look Back," *Journal of Money, Credit and Banking* 4, No. 4 (Nov., 1972): 930-956.

Canada, once again, could not avoid the impact of the crisis in the US given the high level of economic integration between the two countries at the time, especially in banking systems. Yet it is only in recent decades that this crisis in Canada is studied seriously. On this point, Joe Martin writes:

> As recently as the late 1920s, the events of 1907 were described as a "financial crisis" in Canada. Sometime between then and now, these events fell off the public radar. The 1907 credit crisis, with its accompanying sharp decline in GDP per capita and stock market values, has been mostly forgotten.[40]

The rapid spread of the panic from Wall Street to Canada was due to the long-existing close connection between the financial markets in New York and banking headquarters in Montreal and Toronto. The crisis occurred during the harvest season, and Canada's western farmers, because of the reactionary contraction of lending by the banking system, could not obtain credit and were unable to move their crops to the international market. With wheat rapidly becoming Canada's number one staple export, the urgency of the situation in the West demanded immediate government intervention. In the following excerpt, William S. Fielding, then Minister of Finance, described the western farmers' pleas for help:

> The matter is represented to us as one of extreme gravity; indeed, this is generally admitted. We have received deputations and telegrams from Winnipeg urging upon the seriousness of the matter. There is, undoubtedly,

[40] Martin, *Crisis of 1907*. George Rich's article, "Canadian Banks, Gold and the Crisis of 1907," *Exploration in Economic History* 26, No. 2 (1989): 135-160, confirmed the prior lack of study on the Canadian side of the 1907 Crisis. His meticulous study primarily debates the interpretation of this event by American economist Joseph F. Johnson in 1910.

a crisis.[41]

By late November 1907, the Canadian government had implemented a $10 million emergency relief program, explaining that because "the [grain] crop had suffered frost damage, it could not be stored over the winter in grain elevators and therefore required immediate shipment by boat."[42] Because the relief program was improvised and did not have a sound legal basis (the government did not have enough gold reserve to support the creation of credit), it was only officially explained by Fielding in his March 1918 budget report to Parliament.

The banking community was initially cool to the idea of cooperating with the government in its intervention for two reasons. First, the lending rate to farmers was capped at 7%, and the banks were required to put up security for drawing on the special fund. They therefore did not have enough economic incentive to participate. Second, it is said that the banks were concerned that drawing on the government fund would be construed as showing financial weakness. Despite this, with the government's support, the program materialized at least in part,[43] and succeeded in significantly mitigating the deleterious impact of the crisis on Canada's West.

The 1907 Crisis led to a reform of the Canadian note-issuing mechanism achieved in the 1908 revisions to the *Bank Act*. Under the new scheme, Canadian banks could issue

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[41] Ibid, Martin, 10.
[42] Rich, 138; ibid, 11.
[43] According to Joe Martin, about $5.1 million was drawn from the special fund of the government (but this does not include the possible voluntary lending by the banks using their own funds): Martin, *Crisis of 1907*, 11.

notes 15% in excess of the value of their unimpaired paid-up capital plus reserve fund in the October to January period to meet farmers' seasonal borrowing needs.

B. The Failures of the Bank of Upper Canada and the Commercial Bank: the unstable pre-Confederation Canadian banking experience and the origin of the Public-Private-Partnership

> *Few passages in Canadian financial history are more instructive, if not altogether encouraging, than that connected with the failure, in the later sixties, of two of the three great Canadian banks of the first half of the nineteenth century. The Bank of Montreal, the Bank of Upper Canada, and the Commercial Bank had long divided between them the honors of the Canadian financial world, but the Bank of Montreal was the only one which survived the disastrous effects of overconfidence and inflation born of the speculative fevers of the fifties and sixties.*[44]
>
> Adam Shortt

a. The Failure of the Bank of Upper Canada and the Commercial Bank

R. M. Breckenridge and Adam Shortt devoted substantial energy to recording the failures of the Bank of Upper Canada in Toronto and its rival, the Commercial Bank, shortly after Confederation. The Bank of Upper Canada was sponsored by the famous Family Compact and was once the major depository bank of the government of the Province of Upper Canada and the fiscal agent of the government of the Union from 1850 to 1864.[45] The Commercial Bank mainly represented commercial interests based in Kingston.

These two banks were chartered in 1822 and 1832, respectively. They

[44] Shortt, *Canadian Currency and Banking* 583.
[45] Ibid, 583-606; Breckenridge, *Canadian Banking System*, 165-177, 185-188. According to Peter Baskerville, the reason for the Union government to switch its account from its joint-agents, the Bank of Montreal and the Bank of British North America, to the Bank of Upper Canada in 1850 were mainly that the two agent banks knew of the declining financial health of the government and refused to match the advance promised to the government by the Bank of Upper Canada – see Baskerville, *Bank of Upper Canada*, cvi.

accumulated their fatal bad loans mainly during the 1850s when railroad construction, fixed capital investment in industrial ventures (like shipbuilding, milling, tannery, brewage, etc.), and land speculation boomed. Consequently, these major bank failures, even though they occurred at almost the same time as Confederation, should be classified as belonging to the pre-Confederation period.

The Bank of Upper Canada closed its doors in September 1866 after a prolonged struggle to turn around its fortunes after its prospects sharply declined in the wake of the 1857-58 crisis.[46] The failure of the Bank is a prime example of the dangers of entanglement between banking and government infrastructure projects in the 19th century. According to Breckenridge's calculation,[47] the loss suffered by the Bank's non-government creditors, mainly note-holders and depositors, was about $310,000, not a significant number compared to the size of the bank. The brunt of the loss fell on the shareholders and the government which was the Bank's single largest creditor. In addition to a 40% equity reduction in 1861,[48] the shareholders "lost the whole of a capital which was once $3,170,000;[49] the government, and through it, the taxpayers lost $1,150,000."[50] The total loss, Breckenridge noted, "cannot be reckoned at less than five millions of dollars…"[51]

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[46] Shortt, *Canadian Currency and Banking*, 601. Its liquidation lasted for many years, according to Breckenridge, well into 1882: Breckenridge, *Canadian Banking System*, 173.
[47] In general, Adam Shortt was far less empirical than Breckenridge in their respective approaches to Canadian banking history. After detailing the fall of the Bank of Upper Canada, Shortt stopped short of discussing the result of the liquidation: "The subsequent stages of its liquidation," Shortt said, "are of comparatively little interest to the history of banking." Ibid, Shortt, 602.
[48] The par value per share was reduced from $50 to $30, which translated to a $1,274,440 reduction in shareholder equity in the Bank: ibid, 597.
[49] The shareholder loss, according to information provided by Henry C. McLeod, was $3,266,666: see Beckhart, Banking System of Canada, 334-335.
[50] Breckenridge, *Canadian Banking System,* 174.
[51] Ibid.

"Such a loss to Canada of that time," Breckenridge states, "was not merely severe, it was enormous."[52]

The founding of the Commercial Bank was initially resisted by the Bank of Upper Canada, the only chartered bank in the Province of Upper Canada. The latter was chartered in 1822, the year when the Bank of Upper Canada of Kingston, which had operated without a charter since 1819, failed.

The Family Compact in York, the controlling force of the Bank of Upper Canada, attempted to stifle the chartering of the Commercial Bank sponsored by Kingston merchants led by the Cartwright family. According to Adam Shortt, nine of the 11 directors of the Bank of Upper Canada were members of the Legislative Council. As a compromise between the two groups of merchants, the Commercial Bank gained its charter while approval was given to the Bank of Upper Canada to increase its capital in 1832, the year it was required to renew its charter.

The Commercial Bank did not exercise the same influence as the Bank of Upper Canada. However, it is likely that the two banks pursued a similar business model under which neither could resist the risky but lucrative business of financing government-sponsored infrastructure projects, industrial ventures, and land developments, in addition to the more traditional business of financing staples

[52] Ibid. In discussing the failure of the Bank of Upper Canada, Christopher Kobrak and Joe Martin stated that "its bankruptcy caused little concern" (i.e. the bank's failure had minimal impact): kobrak and Martin, Bay Street, 87. The statement cited in the body of the text above is from R. M. Breckenridge's *The History of Banking in Canada* (Washington D. C.: Government Printing, 1910), 79, which, as mentioned in Chapter II of this thesis, is an abridged version of Breckenridge's doctoral thesis *The Canadian Banking System, 1817-1890*. However, it updated legislative development in banking regulation in Canada to 1908. It was published in 1910 as part of the reports of the 1910 US National Monetary Commission. As corroborated by Adam Shortt and later by Peter Baskerville in the 1980s, it is clear that Breckenridge's earlier assessment of the failure of the Bank of Upper Canada is more accurate.

trading.[53]

Both Breckenridge and Shortt confirm that when the Commercial Bank suspended business in October 1867, it was solvent but seriously lacked liquidity. The Great Western owed the bank $1,800,000, almost half of the paid-up capital of the bank. The bank's legal struggles with Great Western dragged on for years and the negative publicity affected shareholders and creditors. Though the exact moment when the panicked run on the Commercial Bank by its note-holders and depositors began was not clearly identified by Breckenridge or Shortt, the prior failure of the Bank of Upper Canada and the Commercial Bank's own forced proposal to reduce its capital stock by 25% likely triggered the run.[54] The Dominion government attempted to save the bank with an advance of $300,000 through the Bank of Montreal which had taken over the role of fiscal agent for the government from the Bank of Upper Canada in 1864. When a turnaround seemed unlikely, the Bank of Montreal ceased further efforts. The government summoned the banking industry to attempt a rescue. However, the banks failed to reach an agreement because the Bank of Montreal had asked the other banks to guarantee on a *pro rata* basis its lending to the Commercial Bank.[55] In early 1868, the shareholders finally

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[53] Adam Shortt, who was an admirer of the Cartwright family, tried to differentiate the business model of the Commercial Bank from the more troublesome one of the Bank of Upper Canada. For example, he wrote that "[i]n most respects the Commercial had acquired a wider connection with the regular mercantile business of Western Canada than the Bank of Upper Canada, and it was slightly involved in the wild land and other real estate speculations…": *supra* note 38 at 602. The fact that the Commercial Bank wasted no time to embrace Great Western, a major railroad company that broke with the Bank of Upper Canada and later became the chief source of the financial woes that caused the Commercial Bank's downfall, is evidence that counters Shortt's assessment: Shortt, *Canadian Currency and* Banking, 602-604.

[54] On the Commercial Bank's proposal to reduce the book value of its capital stock by 25 percent, ibid, 604.

[55] Ibid, 603-605.

accepted a fire-sale offer from the Merchants Bank of Canada in Montreal, one of the largest banks in the Confederation: one Merchants Bank share was exchanged for three Commercial Bank shares. The amalgamation was approved by Parliament in December 1867. At the time, the total paid-up capital of the Commercial Bank was $4,000,000.[56]

The magnitude of the failures of the Bank of Upper Canada and the Commercial Bank, the second and the third largest banks in colonial Canada before Confederation,[57] can be measured by comparing the relative size of the lost shareholder value to the total paid-up capital of the banking industry. According to Breckenridge, the total paid-up capital of the industry in 1867 was $27,618,440 (compared to a total authorized capital of $37,466,666).[58] The total lost shareholder value of the two banks was $5,810,000 (for Commercial, a loss equal to two-thirds of its total paid-up capital of $4,000,000), 21 percent of the industry's aggregate paid-up capital.[59]

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[56] On the share swap between the Merchants Bank and the Commercial Bank and its approval by the Dominion Parliament, see Breckenridge, *Canadian Banking System*, 188. Adam Shortt's description of the transaction as "Merchants Bank of Montreal took over the assets of the Commercial Bank at one-third of their par value…" appears to be a misunderstanding from an accounting perspective: ibid, 606.

[57] If the Bank of British North America, founded by Royal Charter in London in 1836 and operated from its Montreal headquarters, is counted, it would be the second largest bank at Confederation. According to Andrew Smith, by 1867, the paid-in capital of the Bank of British North America was $4,867,000: see Andrew Smith, "Continental Divide: The Canadian Banking and Currency Laws of 1871 in the Mirror of the United States," *Enterprise and Society*, 3, No. 3 (Sep., 2012): 455-503. The Bank of British North America was acquired by the Bank of Montreal in 1911: see Beckhart, *Banking System of Canada*, 338. According to Robert MacIntosh, the Bank of British North America did not report to the government of Canada: see Robert M MacIntosh, "Origin of Financial Stability in Canada: the Bank Act of 1871," in Joe Martin, ed., *Relentless: A Case Book for the Study of Canadian Business History* (University of Toronto Press, 2010), 34.

[58] Breckenridge, *Canadian Banking System*, 195.

[59] The ratio is largely consistent with the number calculated based on the aggregate market share of the two banks (i.e. total assets of the individual banks against the total of the industry). According to the numbers used by Robert MacIntosh, the Commercial Bank's market share in 1871 was about 12%

Breckenridge's and Adam Shortt's accounts of the birth to the failure of the two major banks in Upper Canada reveals the significant instability of Canadian banking prior to Confederation. Both authors also sketched the immense influence of government and public works on the banking industry. The next section of the chapter discusses the Bank of Upper Canada from the perspective of the impact of the Public-Private-Partnership on the Bank's rise and fall. The partnership, as argued in this thesis, defined the dynamic between Canadian politics and Canadian banking regulation through the 19th century and probably up to the Great Depression.

C. Confederation to the turn of the 20th Century: the continued Public-Private-Partnership, the art of accounting, the lack of "accountability," and resistance to government inspection

> *When the Grand Trunk followed suit in October 1865 [in abandoning the Bank of Upper Canada], this did not signal the end of the financial system which had evolved in the 1850s. Rather, the traditional bank-government-railway connections had re-emerged with but one change in the cast: the Bank of Montreal had replaced the Bank of Upper Canada*.[60]
>
> Peter Baskerville

The preceding section, by looking into the long forgotten failure of the Bank of Upper Canada as primarily recounted by R. M. Breckenridge, Adam Shortt and Peter Baskerville, portrayed the "Public-Private-Partnership" surrounding westward expansion, especially the infrastructure development sponsored by

(the Bank of Upper Canada was slightly larger than the Commercial Bank before its reduction of stock value to acknowledge shareholder equity loss) while the Bank of Montreal, the largest bank, was 25 percent: see MacIntosh, *Origin of Financial Stability*, 34. Since the Bank of Upper Canada was larger than the Commercial Bank, the combined market share of these two banks was no less than 24 percent of the industry.

[60] Baskerville, cxlv.

government. As pointed out by many historians, including economic historians, this partnership was critical to the carrying out of the 1879 National Policy and precursor policies through most of the 19th century. Rooted in the defensive mindset of the British government in the wake of the American Revolution, the expansion policy had taken a more concrete shape by middle of the19th century and was consolidated in the early decades after Confederation. The government, British capital, local entrepreneurs, local banks, and the Canadian people all contributed to the implementation of this protectionist nation-building policy.

The failure of the Bank of Upper Canada provides a lens to observe the complicated relationship between the banking industry and its political economic environment, especially its relationship with government. In an age when politics was rough and conflict of interest lines were blurred, Canada's formation largely proceeded on the basis of a pragmatic Public-Private-Partnership that contributed to the building-up of the canals, the railways, the bridges and tunnels, the expansion of the urban areas and the emergence of towns and villages in the west and the north. Canada also experienced boom-bust cycles, financial shocks from the south and off-shore, and economic recessions. Inevitably the regulation of the banking industry took place in the loosest of ethical and political circumstances.

Confederation did, however, mark a new era in Canada's nation-building. Banking regulation was regularized with the passage of the 1870 and 1871 Bank Acts. On the other hand, as Baskerville observes, the "bank-government-railway" relationship continued through the 19th century – the only change was the Bank of Montreal taking the place of the Bank of Upper Canada. In the history of the legendary Bank of Montreal, many fascinating episodes unfolded - the Bank's entanglement with the CPR, from the 1870s to completion of the railway in 1885, being one of the most, if not the most, thrilling story.[61]

As this thesis further observes, although the era of railway construction peaked with the completion of the CPR in 1885, the 19th century "Public-Private-Partnership," the epitome of the alliance of the country's political and business elites, continued through the turn of the 20th century when war efforts would especially increase the government's reliance on the cooperation of the banking system. The old elite-rule would not be challenged and altered until the rise of Canada's West, which symbolized the rise of the people at the bottom of the social strata and the great transformation of the western world at the turn of the 20th century.

As shown in the discussion in the following section, the basic order of Canadian banking system in the fifty years surrounding the turn of the 20th century still rested on cooperation between the government and the banking elites. This order was superior to the much more turbulent US banking system, which continued the crisis-ridden pattern that had been prevalent since the Bank War. Nonetheless, it would be wrong to treat this period as an age of banking stability. It is true that the Canadian government, and the whole political system, was steadily if

[61] For the complicated relationship between CPR and the Bank of Montreal, see Merrill Denison, Canada's First Bank: A History of the Bank of Montreal (McClelland and Stewart, 1966), Volume 2nd, 200-230. The Bank of Montreal's history is another unequivocal case that big Canadian banks did not mainly do financing "real bill" commercial transactions, although that was a part of its business. Since the Confederation, the Bank of Montreal was both a powerful commercial bank and an investment bank (trading gold, underwriting government and railroad bond issuing, and holding company stocks and government bonds) under the leadership of E. H. King and later presidents and general managers.

not dramatically adjusting to the new banking industry dynamics as part of its adjustment to a political-economic and social environment in transformation. However, the overall approach was still much like the approach in years before Confederation. In balancing market discipline (let mismanaged banks fall) and social-economic stability, the government's instinct was to protect the bottom-line of the industry, and not allow an individual bank failure to trigger a chain reaction and cause a broader and more devastating crisis.

Maintaining the façade of stability was the most effective way for the banking industry to fend off public clamor for strengthened government regulation. The banking industry worked hard to do this, from forming the Canadian Bankers Association to regulate competition, to establishing the Bank Circulation Redemption Fund to ensure note-to-specie conversion of failed banks, to brokering many bank mergers. The government, chiefly through the Ministry of Finance, supported the self-regulatory efforts of the banking industry rather than strengthening direct government supervision.

However, that was not enough to prevent state intervention for two fundamental reasons. First, the measures adopted by the industry did not fix the "accountability" issue. The earlier examination of the history of the failed Bank of Upper Canada exposed the absence of adequate legal tools to deal with accounting fraud, self-dealing, or insider trading by management; it also exposed the creeping lack of deterrence to corruption of political elites. The John A. Macdonald case is a critical example of the lack of "accountability" of politicians. Because of his political influence, Macdonald was able to borrow from the Bank of Upper Canada without having to post security and was then relieved of his significant debt by the government-controlled trustee in charge of liquidation.

At the turn of the 20th century, accounting fraud in the banking industry was still prevalent. Accounting is an art, not a science and the accounting fraud problem continued to trouble capitalist business through the 20th century. As late as the early 21st century, accounting deviance brought down Enron, Worldcom and Arthur Anderson, one of the most known names in the professional accounting service business.

Historically, Canadian bankers do not stand out for being particularly honest in handling their books as shown by the example of the Bank of Upper Canada. Had they been reformed significantly by the turn of the 20th century? The answer seems to be no.

In 1910, Edward Vreeland, vice-chairman of the famous National Monetary Commission in the US which helped usher in the Federal Reserve System, traveled to Toronto to hold a hearing attended by the senior executives of several of the Canadian large banks. On this occasion, Henry McLeod told Vreeland that the financial returns filed by some Canadian banks with the government were "not worth the paper they are written on"[62] due to the absence of regulatory supervision:

> I do not regard them as worth the paper they are written on because there's no supervision. In the case of the failed banks they have made them with every degree of falsification and there's no check or supervision.[63]

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[62] See Robert MacIntosh, *Different Drummers: Banking and Politics in Canada* (Macmillan Canada, 1991), 37.
[63] Ibid, 38.

Archival materials referenced by contemporary historians and economists corroborate and exonerate Hendry McLeod's observation. These histories not only expose the problems of the banking industry at the turn of the century but also reveal the great reluctance of government to strengthen banking regulation. As the debates during the periodical revamping of the Bank Act show, generations of ministers of finance, influential MPs, and Prime Ministers consistently took the position that government would be better off not taking on the responsibility of inspecting the banking industry or regulating the credit supply: this should be the business of the industry and managed by the largest banks and the captains of industry at their helms. The politicians and their bureaucratic officials did not want to be held accountable for any faltering of the banking industry.

Just as Alexander Galt and his predecessors had indulged the Bank of Upper Canada, William S. Fielding, Thomas White, and R. B. Bennet indulged many other banks around the turn of the 20th century. Protecting the industry's bottom-line to avoid economic dislocation coincided with their own personal and political interests and could be argued by them to be in the interest of the public and the nation.

The public's knowledge about the performance of the banks depended on their filings with the government. Through the 19th century up to the Great Depression, the government never proactively pursued any false return filed by a bank or held any bank or its executives accountable even though the examination of each failed bank showed unsettling frauds and false financial disclosures to the government. When the business of the many banks that disappeared by way of being acquired by other banks began to struggle, and there was no hope of reversal of the decline, their management acted just as the management of the Bank of Upper Canada had: they doctored the accounting records filed with the government and offloaded their shares quietly before the market sensed their problems.

By the time of the devastating collapse of the Home Bank in 1923, there had been more than 30 bank mergers since the beginning of the new century. Most of these mergers were brokered by CBA and supported by the Ministry of Finance in order to preserve industry stability. It was clear to the CBA and the Ministry that many of the acquired banks had been involved in accounting fraud. In 1922 the sudden collapse of the Merchants' Bank of Canada, "which was considered to be one of the oldest and soundest of banks," and its absorption by the Bank of Montreal, sounded the alarm on the urgent need to improve the quality of the industry's financial disclosure. The major change effected in the decennial review of the Bank Act in 1923 was the enhancing of the shareholder audit introduced in the 1913 Bank Act as advocated by Henry McLeod, After the 1923 reform, "[i]t became mandatory for a bank to have two auditors, each appointed for three years; moreover, the eligible list had to be drawn up from professional members of the provincial accounting institutes."[64] Despite this reform, the banking elites and the government still rejected the overarching idea of government inspection of the banking industry's accounting practice and financial disclosure.

Robert MacIntosh, a trained economist and a senior executive of the Bank of Scotia before his tenure as President of the CBA from 1980 to 1990, does not hold back his criticism of his industry and the government's historical resistance to the

[64] Ibid, 49.

idea of strengthened banking regulation, especially governmental inspection of the industry. MacIntosh notes that during the legislative process leading to the 1913 Bank Act revision, Thomas White, Minister of finance and an influential member of the Conservative Party, told the House of Commons "that the evidence before the banking and commerce Committee had indicated that government inspection would be practically impossible in the case of the Canadian banking system."[65] Ten years later, in another round of Bank Act revisions, the Ministry of Finance was led by a Liberal member of Parliament, William S. Fielding. Fielding told the House of Commons that he would follow the consistent view of his predecessors, whether Liberal or Conservative:

> Every Minister of Finance who has preceded me reached the conclusion that it was not wise to adopt a system of government inspection. I have myself taken that view and I adhere to that view at present.[66]

On the same occasion, John Aird, president of the Bank of Commerce, cautioned MPs that the government would be better off not taking on too much responsibility for fear of the political damage should they fail to ensure accountability:

> The Government inspection of banks would throw a responsibility upon the government and naturally people would say in the event of trouble, well, the government inspector or auditor signed this statement as correct, and we naturally look to the government to protect us.[67]

The failure of the Home Bank was a telling moment when the consequences of grossly inadequate bank regulation and skeletal corporate and securities laws

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[65] Ibid, 49-50.
[66] Ibid, 50.
[67] Ibid.

tipped the balance in favour of regulation. The Bank's failure involved serious managerial incompetence, self-dealing and accounting fraud,[68] but also inaction by Thomas White, the then Minister of Finance, after he had received multiple and credible warnings or queries beginning as early as 1916. The failure panicked and caused hardship to the Home Bank's nearly 47,000 depositors whose individual deposits were less than $500 each. Even after receiving government relief offered as a "moral duty," the depositors were collectively still owed approximately $6 million in 1927. The Bank's 1,686 shareholders not only lost their investment, but were subject to double liability, and the liquidator had collected $1.1 million from them by 1931.

On the "accountability" side, in 1924, the one-person Royal Commission chaired by Chief Justice Harrison A. McKeown did not cast any blame on Minister White. Though the management (i.e. the president and the general manager) and the board of directors were charged, the president was exonerated because he had joined the bank after the problem had occurred and the general manager had died before the bank was closed. Moreover, all the directors were ultimately exonerated at their second trial after their successful appeal.[69] The overturning of the lower court's initial verdict against the directors by the Ontario Appellate Division stunned the Attorney General, W. F. Nickle, K.C., who commented:

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[68] G. T. Carlson, a well-known accounting professional and liquidator of the Home Bank, commented that: "Never at any time in its career [the Home Bank] was an experienced and trained banker at the head of the bank and in control of its affairs": ibid, 57. " It is stunning and puzzling for a bank of twenty years of history, while its predecessor, as Toronto Saving Bank, started as early as 1854": ibid, 50.

[69] Robert MacIntosh provides a good account of the Home Bank saga, especially the political backlash and the serious legal loopholes in prosecuting corporate fraud that its failure revealed: ibid, 51-64.

> The less a director knows about the bank's business and the more careful he is not stay away from director's meetings, the less chance there is of his being found liable. Where ignorance is bliss 'tis folly to be wise.[70]

In accordance with the recommendation of the McKeown Commission, the Office of Inspector General was founded in 1925. This one-person office had no mandate to examine the books of the bank branches but had to rely on examining the books kept at the head office of the banks and the shareholders' audit to keep informed. Not surprisingly, the creation of this office had little impact on the existing dynamic between the government and the banking system.

There is an illustrative side note to the persistent hold of the stability tradition documented in this section. Thomas White came to politics and government service from the post of senior executive at the National Trust Company. After his retirement from politics in 1921, he rejoined the financial industry. In 1933, when he was appointed to the prominent five-person Macmillan Commission, he was a senior vice-president at the Bank of Commerce. He and Beaudry Leman, general manager of Banque Canadienne de Montreal, were the two royal commissioners who objected to the Commission's recommendation to establish a central bank. Old attitudes, it seemed, died hard.[71]

D. From Confederation to the Great Depression: Additional perspectives

[70] Ibid, 63.
[71] On Thomas White's and Beaudry Lehman's objection to the establishment of a central bank in Canada, see Grayson, *Formation of the Bank of Canada*,, 134, 207.

a. The comparison between the Canadian Charter Banks and the US national banks

Canada's Confederation in 1867 overlapped with the end of the American Civil. In the US, the 1863 and 1864 National Banking Acts had created a system of national banks under the supervision of the Office of Comptroller of Currency to deal with the financial stress imposed on the federal government by the War.[72] In 1894, in his doctoral thesis *The Canadian Banking System 1817-1890*, R. M. Breckenridge compared the stability of the Canadian chartered banks with the US banks. It appears that at the time of Breckenridge's study the proper US counterparts for comparison were these national banks, rather than the *laissez faire* unit banks under state jurisdiction.

Breckenridge questioned the wisdom of downplaying the record of stability of the Canadian chartered banks by comparing the number of insolvent banks to the total number of banks during the relevant period. He believed that the size of the failed banks as compared with the total mattered more:

> The comparison of 248 insolvent National banks out of the 4,930 organized with the ten insolvent Canadian banks out of 55 some time in operation since 1867, is no comparison at all. The thirty-eight surviving banks have over 500 different establishments, and to be fair, the comparison must be made between the numbers of establishments affected by insolvency. With one

[72] The national banking system was created to solve the extreme financial stress of the federal government of the United States of America in the middle of the Civil War. As the condition for bank note issuing, the national banks were required to deposit a corresponding amount of federal government bonds as security. The federal government then sold bonds to raise cash for the war efforts. The Office of Comptroller was in charge of inspecting the national banks chiefly to ensure compliance with the note issuing control – not to exceed 90% of the market value of the deposited bonds. National banks were still constrained by state laws and were not allowed to branch. Therefore, they were largely unit banks. For more information on the US national banking system, see "National Bank of 1863," available at https://www.encyclopedia.com/history/encyclopedias-almanacs-transcripts-and-maps/national-bank-act-1863, accessed June 30, 2019.

exception the Canadian banks in question were small and their branches few in number.[73]

In the 1970s, R. T. Naylor stressed the importance of comparing the Canadian chartered banks with the US national banks:

> Of the 72 banks [chartered banks in Canada] that operated in the period 1867 to 1914, 26 failed, or 36%. Loss to creditors reached $11 million; to shareholder $31 million. Furthermore, these reported losses are from unambiguous failures only, from suspensions followed by permanent closing. They do not include those cases where failure was averted by selling the bank at a bargain price to some other concern….At the same time, over the roughly equivalent period from 1863 to 1908, the American banking system, with its reputation for extreme instability, showed a rate of failure of *all* banks of 22½%. If one examines only American national banks, the proper comparison with Canada's federally chartered banks, the rate of failure is five percent, and the total loss to stock holders about $100 million. In per capita terms, even taking only the unambiguous failures, Canadian losses to shareholders ran at three-and-one-half times the rate of American.[74]

Contemporary scholar Dan Ciuriak also emphasizes the importance of finding a more enlightened way to compare the Canadian and US banking stability experience. He believes that just comparing the absolute number of bank failures in the two countries to be "at least somewhat misleading:"

> The great number of US bank failures reflects in good measure the fact that the US system had evolved for much of its history with unit banks. By contrast, Canada, like most other countries, had branch-banking systems. Accordingly, Canada had far fewer banks than the United States while the number of branches of Canadian banks was generally similar to the number of unit banks in the United States on a per capita basis. For example, in 1910, when Canadian bank branch density reached what proved to be a relatively

[73] Ibid, 372.
[74] Naylor, *History of Canadian Business*, 119.

> stable level of about one branch per every 3,000 Canadians, there was one bank for every 3,770 Americans.[75]
>
> Considered in this light, the failure of the Home Bank in 1923, which involved the closure of over 70 branches, scaled up by a factor of 10 to account for the relative sizes of the two economies, would be roughly equivalent to the closure of over 700 US unit banks—a figure that would not be out of place in the litany of US bank failures during the 1920s.[76]

Bordo et al's 1996 article, mentioned above, which covered the period from 1870 to 1925, offers a comparison of the two systems from the perspective of the loss to depositors:

> The Canadian system enjoys an edge for the whole period, but 1881 -1900 is an exception. Loss rates for Canada and for the United States banking system as a whole were similar over the period 1881-1900, but the loss rate for Canadian banks was higher than for United States national banks. The most important conclusion to be drawn from these comparisons is that losses on deposits and notes in Canada were on occasion quite large by United States standards.[77]

Measured by its susceptibility to banking crises, it is true that the Canadian system was clearly stronger. But measured by the losses experienced by depositors and note-holders, the differences are less clear-cut: the Canadian chartered banks were more stable than the US state banks, but less stable than the US national banks.[78]

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[75] See Dan Ciuriak, "Canadian and US Financial Sector Stability Over Long History: is there a unifying explanation?" Working Paper, Ciuriak Consulting Co., 2013. Ciuriak has an economics background and once worked in the Ministry of Finance in the section on financial industry legislation.
[76] Ibid.
[77] Bordo et al, *Stability and Efficiency*, relies on the data from *Benjamin Beckhart*'s *Banking System of Canada* and *Historical Statistics of Canada*.
[78] Ibid.

b. The Islemont Story: a revelation from the Great Depression years

Duncan McDowall's discussion of the precarious situation of the Royal Bank of Canada in the early 1930s in his book, *Quick to the Frontier: Canada's Royal Bank*,[79] has been referred to by several scholars. However, the most reveling episode about the Bank's experience during this period, one that is highly relevant to the Kryzanowski et. al. vs. Carr et al. debate referred to earlier, is rarely referenced:

When the stock price of the Royal Bank tumbled from its 1929 high of $298 to $120 in 1932, rumours began to spread about the Bank's financial health, placing management under great pressure. To prevent the Bank's stock from sinking further, Albert Brown, one of the bank's directors, devised a scheme to shore up the stock price. Islmont Securities Corporation (Islmont) was the special purpose holding company established and registered in Montreal to carry out the share price rescue. Herbert Holt, president of the Bank and one of the country's most influential industrialists, together with two other members of the management, contributed $5 million in equity to Islmont from "private resources", while the Bank lent another $7,993,780 to it. As a result of this loan, Islmont became one of the largest of the Bank's debtors. "With this capital," McDowall writes, "Islmont bought large blocks of Royal Bank shares from the bank's beleaguered debtors…[and] paid them

[79] Duncan McDowall, *Quick to the Frontier: Canada's Royal Bank* (McClelland and Stewart, 1993).

$4,000,000 in excess of their then market value."[80] The plan succeeded as hoped but the loan to Islmont remained on the books of the Banks until well after the WWII.

The Islmont episode was a best-kept secret of the Royal Bank. That said, according McDowall, at the time "Prime Minister Bennet clearly knew about it, and there was a good deal of scuttlebutt 'on the street' about it…"[81]

E. A Summary of the Canadian banking stability experience from before Confederation to the Great Depression

Contemporary understanding of the Canadian banking stability legacy, even among scholars of banking regulation, has suffered from formidable obstacles: the specialization of social studies, the contemporary explosion of knowledge, and the fragmented banking history are the major ones. Banking history written in the Shortt tradition and exemplified by Bray Hammond's scholarship is a rarity today.

As one of the small number of comparative historical studies written in the post-GFC years, Bordo *et al*'s article "Why Didn't Canada Have a Banking Crisis in 2008?" not only once stimulated the interest of this author, it also left a clear mark on the work of other scholars. Calomiris and Haber's 2014 book, *Fragile by Design*, includes a chapter dedicated to Canadian banking regulatory history, the tone and conclusion of which is in harmony with this article.[82] However, the examination of

[80] Ibid, 260.
[81] Ibid, 261.
[82] In addition to its sweeping approval of the Canadian banking stability legacy, at least one of two factual details that are wrong in Bordo et al's article was replicated in *Fragile by Design*. Lord Hugh Macmillan is referred to as a "banker" from the Bank of England in both the 2011 version of Bordo et al's article as well as in *Fragile by Design*. Lord Macmillan, a famous jurist from Scotland, chaired several important commissions, including the 1929 *Macmillan Commission on Finance and Industry* in the UK and the 1933 *Royal Commission on Banking and Currency* in Canada, the latter of which led to

the many historical facts above suggests that Bordo *et al*'s earlier 1996 article, "A Comparison of the Stability and Efficiency of the Canadian and American Banking Systems, 1870-1925," is more consistent with the real picture of the Canadian banking stability legacy.

3. The Post-WWII Experience: The History yet to Be Written

The reconsideration of the Canadian banking stability legacy in this chapter is mainly about the historical performance of the industry from Confederation to the Great Depression which is the period covered by the more mature Canadian banking histories. While the decades after WWII up to the GFC are not the focus of the reconsideration, two compelling reasons oblige the author to offer his basic views on this period.

First, the evolution of the banking industry in the period after WWII unquestionably had a direct impact on the current structure and approach to banking regulation in Canada, including, presumably, being more consequential for the stability achieved during the GFC.

More importantly, this thesis offers new qualifications on the stability legacy for the period from the 19th century up to the Great Depression from the perspective of understanding Canada's overall political-economic evolution,

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the establishment of the Bank of Canada. Although Lord Macmillan served on the House of Lords as a law lord after 1930, he is referred to as a "lawyer" from Scotland in both sources. In addition, Bordo et al mixed up B. E Walker and George Hague, two prominent bankers around the turn of the 20th century – in the epigraph at the very beginning of Bordo et al's 2015 article, they quoted the words of "George Walker," who is supposed to be B. E. Walker.

especially the interaction between politics and business/banking. The suggested reinterpretation must have a meaningful connection with the author's understanding of the more recent history. To put it another way, no historical interpretation can claim merit if its advocate fails to show its relevance to the present, and to test his historical interpretation against present experience. That said, the author must acknowledge this is an unfinished project – as explained in the Introduction to this thesis, it needs a much larger framework than a doctoral thesis provides.

However, based on the even more scattered and tentative historical works addressing this period, combined with studies written from a public policy perspective, some connecting threads can be found with what has been discussed in the preceding parts of the thesis. These are mainly about the banking industry's temptation to enter new types of business to pursue profit and the Canadian government's continued use at times of "regulatory forbearance" to maintain industry stability. This explains why the Office of Superintendent for Financial Institutions (OSFI), created in 1987 to replace the Office of Inspector General (which had been created in the wake of Home Bank Failure but was long under-resourced), was given a broad regulatory mandate, and has been quite consistent in maintaining tight regulation – it has had real pressure to perform in the face of the challenge from Parliament and operates in the shadow of the much more powerful Bank of Canada.[83]

[83] In the wake of the ABCP fiasco, John Crow, a former governor of the Bank of Canada (1987-1994), proposed to increase the Bank of Canada's regulatory power: see John Crow, "A Bank for All Seasons:

In his book *Different Drummers*, Robert MacIntosh, a career banker, gave the following title to his chapter on the decade when he was the president of CBA (1980-1990): "The Disasters of the 1980s." That chapter discusses how the major Canadian banks suffered a debt crisis after getting deeply involved in lending Petro-dollars to the Latin American countries. The debts accumulated in the 1970s and the crisis broke out in the early 1980s. Although this period also saw the failures of CCB and Northland Bank in Alberta (1985) and the trust company crisis (late 1980s),[84] the most serious was the Latin debt crisis. In 1982, the major Latin American countries, Mexico, Brazil, Venezuela, and Argentina owed the international commercial banks $285 billion in total, including $24 billion to the Canadian banks.[85]

Referring to this episode, David Ciuriak emphasizes how the Canadian government had to exercise "regulatory forbearance" to accommodate the technical insolvency of the major banks:

> During the Latin Debt Crisis, the Inspector General of Banks exercised "regulatory forbearance" to avoid triggering action when the entire banking system was technically insolvent due to excess exposure to non-performing sovereign debt.[86]
>
> During the developing country debt crisis of the 1980s, the major Canadian banks at the time had loan exposure to the LDCs that exceeded their base capital, engaged in involuntary lending to provide the debtor countries with funds to meet interest payments, rescheduled short-term loans as longer-term loans to dress their balance sheets, and took advantage of rules

The Bank of Canada and the Regulatory Challenge", C. D. Howe e-brief, 2009, available at https://www.cdhowe.org/bank-all-seasons-bank-canada-and-regulatory-challenge, accessed June 30, 2019.

84 MacIntosh, *Different Drummers*, 189-227.

85 Ibid, 195.

86 Ciuriak, 14.

> allowing averaging of loan losses over five years to soften the blow of nonperforming loans on their balance sheets. [87]

The turbulent 1980s in Canada coincided with the American saving bank and trust company crisis. In hindsight, while the US continued down the road of deregulation, Canadians would benefit from the regulatory response to this troublesome period. Not only was OSFI created to carry out a broad regulatory mandate, the political system also retained a good memory of the lessons learned. In the late 1990s, when global banks emerged in the US, Europe and other parts of the world as a result of relentless mergers and acquisitions, the major Canadian banks could not resist the temptation to grow in order to be able to compete with them. However, their aspirations were dashed when Paul Martin, then Minister of Finance in the Liberal government, rejected what would have been two huge mergers in the late 1990s – RBC with BMO, and CIBC with TD – not based on complicated calculations but because of concern that further consolidation of the industry would leave the government with no choice but to intervene to save a bank on the brink. The GFC proved that this was a correct and consequential political decision.

The final point concerns the "widely-held rule" adopted in the 1960s under the influence of the so-called New Nationalism. This legislative development was pushed by Walter Gordon, then finance minister, who was a staunch nationalist alarmed by the prospect of US control of strategic Canadian industries (as were many other politicians and intellectuals from different parts of the Canadian

[87] Ibid, 29.

political spectrum).[88] Gordon rejected both First National City Bank's (later Citibank) proposed acquisition of Mercantile Bank (a small Canadian subsidiary of a Dutch Bank established a decade earlier), and later Chase Manhattan Bank's attempted take-over of the Toronto Dominion Bank. He did so even though both these powerful Wall Street banks were represented by Rockefeller family members who had access to Lester Pearson, then Prime Minister.[89]

To legalize the protection of the Canadian banking industry from foreign control, Walter Gordon pushed for adoption of the "widely-held rule" in the 1967 revision of the Bank Act, under which no single shareholder, or group of shareholders acting in concert, could hold more than 10 percent of the shares in a major Canadian-chartered bank, with foreign interests in aggregate capped at 25 percent.[90] Although the formula has changed somewhat over the years, the "widely-held rule" remains in place today and has clearly played a critical role in protecting the Canadian banking core from being acquired by foreign interests, especially the less risk-averse Wall Street banks.

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[88] See generally Stephen Azzi, *Walter Gordon and the Rise of Canadian Nationalism* (McGill-Queens University Press, 1999); and Denis Smith, *Gentle Patriot: A Political Biography of Walter Gordon* (Edmonton: Hurtig Publishers, 1973), 348-64. Specifically on the Mercantile Bank event, the trigger for the adoption of the "widely-held rule," see John Fayerweather, *The Mercantile Bank affair: A case study of Canadian nationalism and a multinational firm* (New York: New York University Press, 1974); and Walter Gordon*, Walter Gordon: A Political Memoir* (McClelland and Stewart, 1977), 211-18, 266-76.

[89] Ibid, Fayerweather; and Macintosh, *Different Drummers,* 158-69.

[90] See Eric J. Gouvin, "The Political Economy of Canada's "Widely Held" Rule for Large Banks," *Law and Policy in International Business* 32 (2001): 391-426.

Chapter VIII
Conclusion and Afterthoughts

1. Conclusion

As a much smaller neighbor, in many respects Canada lives in the shadow of the powerful United States. But as a result of the remarkable resilience of Canada's banking system during the 2008–2009 Global Financial Crisis (GFC), in stark contrast to the chaotic situation in the US and many other advanced economies in Europe, Canada was pushed to the center stage of the global forums on banking regulation. It is likely no coincidence that in 2013 England invited Mark Carney, a Canadian who was the Governor of the Bank of Canada during the GFC, to become the first foreign-born governor of the Bank of England since its foundation in 1694.

This thesis was conceived to explore the political origins of the different approaches to banking regulation in Canada and the US. It was later realized that a thorough examination of the hypothesized interaction between political culture and banking regulation through the industry's 200-year history in both countries was beyond the capacity of a doctoral thesis. However, several observations drawn from the underlying interdisciplinary research may still shed new light on banking regulation, banking history, and the political characters of the two countries.

A. The Writing of Canadian banking history

The most important and informative finding of this thesis concerns the underdeveloped state of Canadian banking history.

Before the emergence of Adam Shortt as a Canadian banking historian, R. M. Breckenridge, driven by a young scholar's curiosity and prompted by the urgent need for banking and currency reform in the US, wrote the earliest yet systemic and prodigious banking history of Canada as his Columbia doctoral thesis in 1894. Chapter III of this thesis explored Breckenridge's intellectual path and contributions and sought to reintroduce him to the Canadian banking historical community along with his mentor, the influential American political economist and educator James L. Laughlin who made important contribution to ground-breaking reforms in the US (notably the de-monetization of silver and the formation of the Federal Reserve System).

As Chapter III goes on to recount, Breckenridge was only the first of a series of American scholars to contribute to the study of the Canadian banking system and its history. (Although Breckenridge's family migrated to Hamilton, Ontario from Ohio in the late 1880s, Breckenridge completed his education in the US, including his doctoral studies at Columbia.) In addition to Breckenridge, this study identifies, from the turn of the 20th century to the first few decades after WWII, many other American scholars, from Joseph F. Johnson, Benjamin Beckhart, and Milton Stoke to Bray Hammond. This finding highlights the fact that by the turn of the 20th century, the US – a parallel civilization with a population and economy ten times larger than Canada – had achieved a higher level of economic prosperity and, consequentially, a much stronger scholarly research capacity.

The life and contributions of Adam Shortt, who pioneered with Breckenridge the writing of professional Canadian banking history in English, is the focus of Chapter IV of the thesis. Bruce Bowden's unpublished 1979 doctoral thesis, written under the supervision of Carl Berger, provides the most detailed and convincing account of Shortt's intellectual and public service contributions, and Chapter IV of the thesis draws significantly on his work. Shortt's tendency towards social Darwinism is emphasized in this Chapter mainly because his banking history scholarship reveals his generally uncritical attitude to the Canadian banking and political elites. Without disparaging his generally solid contribution this attitude is a major defect of his banking historiography.

One pivotal contribution of this chapter is the study of the decline of banking history in the political-economic tradition, as exemplified by Shortt in Canada. The chapter concludes that the rise and dominance of Harold Innis's staples history from the beginning of the 1930s to the end of the 1940s was a primary reason for this decline. The decisive impact of this factor is owed to two considerations. First, before the end of WWII, Canada's intellectual circle was small, and the country's finances were insufficient to significantly fund the growth of its higher education system. Second, the rise of the US, the decline of British influence in the world, the competition among European powers for regional and global influence, and ultimately the devastating Great War claimed the prior attention of Canadian intellectuals. Understanding the main lines of economic development of the country in the past and finding a way to grow the economy and address the country's political and cultural challenges had to be the top priorities of scholars like Innis.

As this chapter goes on to observe, in the post-WWII decades, despite the resistance of scholars such as Innis, Canada eventually succumbed to the trend of specialization in the social sciences. After already having been sidelined by the dominance of Innis's s "staples thesis," attention to political-economic banking history thus continued to suffer as a result of the separation of history, political science, economics, and sociology. While the 1970s saw a moderate revival of this genre of history with the emergence of the social history school, this revival has proven to be intermittent and fragmented to date.

Revisiting the scholarship of Bray Hammond, the focus of Chapter V, helped to preserve the comparative features of the thesis. Hammond's *Banks and Politics in America: from the Revolutionary War to the Civil War* (*Banks and Politics*) successfully fused American banking history with political history and broadened the scope of the central concerns of American historiography. Awarded the 1958 Pulitzer Prize for History, Hammond's book covers the dynamic formative years of US banking, from the Revolutionary War to the Civil War, a period which featured fierce ideological debates first between Jeffersonian Republicanism and Hamiltonian Federalism, and then between Jacksonian populism and Whig elitism which led to the decline of Federalism. The Jacksonians' decisive win of the Bank War opened the floodgates in the US for *laissez faire* liberal capitalism no more so than in the banking system. Chartered banking became free banking, and a dynamic but crisis-laden financial system was ushered in. The US constitutional arrangement on the allocation of power between the federal government and the states – a compromise between the elite minority and the republican majority – had a profound effect on the path of US banking regulation through the 19th century and well into the 20th century.

Though constrained by the framework of this thesis, in which the exploration of US banking history stops at the Civil War, Hammond's scholarship clearly demonstrated how, in the first half century of the Union in the US, the nation's approach to banking regulation was driven by political ideological contentions to a far greater extent than in Canada. Hammond's scholarship also provides a benchmark to measure the state of the writing of Canada's banking history. Against that benchmark, the decline of banking history in Shortt's tradition is all the more to be regretted.

B. The Canadian banking stability legacy reconsidered

The reconsideration of the Canadian banking stability legacy constitutes the second pivotal contribution of this thesis. The GFC provided strong impetus for the continued study of banking regulation in Canada. As reflected in the survey of the post-GFC literature in Chapter VI, this stream of research is dominated by modern economists, many of whom see the apparently successful Canadian experience during the GFC as an extension of the country's century-old banking stability legacy. But the banking history of the country is fragmented at best, and the banking history that does exist is only lightly or tangentially referenced in much of the post-GFC literature. How then has the banking stability legacy gained so much currency among so many contemporary scholars in Canada and beyond?

Chapter VII of the thesis offers a new interpretation of this Canadian banking stability legacy. The easier part of this reinterpretation, or the prelude to it, is to counter the sweeping claim that the Canadian banking system has been crisis-free going back to the 19th century. Based on the historical scholarship, this chapter shows that the Canadian banking industry's historical "crisis-free" narrative is misleading.

The second part of this interpretation requires a judgement on the relative stability of the Canadian banking industry from around the turn of the 20th century to the Great Depression. In contrast to the abnormal unit-banking system in the US (no other substantial economies from the 19th century to today rely or have relied on unit banking as the core of their banking system), the branching networks of the Canadian chartered banks, especially the larger banks, made the Canadian system relatively more resistant to regional shocks during this period. However, the historical and economic studies assembled in this thesis demonstrate that during this period Canadian banking was not stable: many banks failed, while others in a financially precarious condition were acquired by their healthier competitors. The resultant waves of mergers around the turn of the century, especially in the first two decades of the 20th century caused deep industry consolidation. It is critical to note that the Canadian Bankers' Association and the Ministry of Finance played indispensable roles in brokering and even pushing for these mergers in order to blunt public scrutiny of the bank failures and to project an image of industry stability in order to push back the increasingly louder calls for government inspection of banks.

The core of the reinterpretation of the banking legacy in Chapter VII is in two parts. On the one hand, the anatomy of the fall of the Bank of Upper Canada and the Commercial Bank, especially based on the political-economic banking histories written by Breckenridge, Shortt, and Peter Baskerville, reveals the historical Public-Private-Partnership (PPP) between the government, infrastructure projects, international financiers, and the large domestic banks. This PPP was a key institution for the implementation of the 1897 National Policy (and predecessor policies) and was critical for the survival and development of Canada as a nation in the shadow of the United States. On the other hand, the relations between public officeholders and private entrepreneurs and bankers were incestuous. The government's exploitation, accommodation, and protection of the bottom line of the banking industry (i.e., not allowing a large bank to fail before undertaking substantial rescue efforts) was intertwined with lax regulation of banks and the soliciting and even racketeering of illicit gains from those banks. The liquidation of the Bank of Upper Canada exposed all the unsettling elements of the PPP in Canadian banking history.

This relation, based on old and new PPPs, continued after Confederation through the rest of the 19th century and up to the Great Depression. The interpretation of the stability legacy in chapter VII stresses that because the banks and their management were not held accountable for cooking their books and doctoring their financial disclosures to the government, many, if not most, were guilty of this practice during this period. Another piece of evidence of instability was the use by the Royal Bank's management and leading shareholders of a special-purpose holding company to shore up the bank's share price during the darkest days of the Great Depression with the passive assistance of government insofar as R. B. Bennett, the then prime minister, as well as the finance minister, were well aware of the scheme.

This thesis argues that the founding of the Bank of Canada was a watershed in Canadian banking history – it separated the evolutionary "old" and the remoulded "new." The founding of this important institution was a result of the rise of Canada's populace – mainly from its West, through the farmer and labour movements and later the Progressive Party and the Cooperative Commonwealth Federation; the simultaneous emergence of Canadian intellectuals, especially the pragmatic political economists (who had a will to govern) and the idealistic humanists (who were passionate about leading social reform movements) was another indispensable contributing condition.

From a more general perspective, this thesis emphasizes that, as part of the Western world's great transformation, Canada and the US experienced the Great Depression at the exact same time and this rupture of the capitalist system provided the "ideal" conditions for systemic change. F. D. R.'s new deal experiment and the quick spreading of Keynesianism were critical external factors that prodded Canada to change while the populist movements in Canada, including the emergence of the socialist oriented parties in the West, helped to nudge the major political parties in the direction of social democracy.

Before the Great Depression, banking regulation changes did not stop but underwent an evolution. When the whole political-economic system was revamped during the Great Depression and the ensuing WWII, as a key component of the system, banking regulation could not be isolated – it changed in sync with the whole system. However, this change was a "leap," or a remolding, compared with before, similarly to the unfolding of welfare state reforms.

2. Afterthoughts

The research opens the way to several areas of potential research. The most obvious relates to the acknowledgement that the thesis could not accommodate a more complete test of the hypothesized interaction between political culture and banking regulation in the US and Canada. On the US front, Hammond's scholarship ends at the Civil War. He later wrote *Sovereignty and Empty Purse: Banks and Politics in the Civil War*,[1] dedicated to the study of the civil war period, which did not create as much of a stir as his *Banks and Politics*. However, the remaining decades of the 19th century were no less dynamic than the formative years, with the main focus of banking shifting from "commercial banking" to "investment banking" with the rise of legendary financers such as Jay Cook, J. P. Morgan, the Warburgs, and many others. Their investment houses catered to the even larger railroad construction projects in the US and fueled the rise of industrial empires such as Standard Oil and US Steel. The way in which US politics interacted with the surge of Wall Street investment banking houses and continued its interaction with the crisis-laden commercial banking system is both fascinating and intimidating for researcher,

[1] See Bray Hammond, *Sovereignty and Empty Purse: Banks and Politics in the Civil War* (Princeton University Press, 1970).

given the complexity of the subject and the sheer volume of the existing literature on the fronts of both political history and banking history. Would it still be possible today for a scholar like Hammond to consolidate the history of this later half century into a coherent narrative?

On the Canadian front, given that this thesis provides a new interpretation of the Canadian banking stability legacy, further tests are required to determine how this interpretation fits with the post-WWW experience.

As a student in the Faculty of Law, this author is aware of how his research could potentially contribute to legal study. The development of Canadian banking regulation, especially from the perspective of the protection of shareholder interest, would eventually overlap with the development of the country's mainstream corporate law and securities law. Tracing these two lines of development, particularly their convergence, while maintaining some necessary, special rules for the banking industry, would also be an interesting project for further study.

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[1] Whilst a number of materials referenced in this study could fall within "primary sources" for a historical study, this study is based predominantly on secondary sources. For this reason, this author decides not to differentiate primary and secondary sources in this bibliography.

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