# "The *Little* Bank in the *Big* Building"

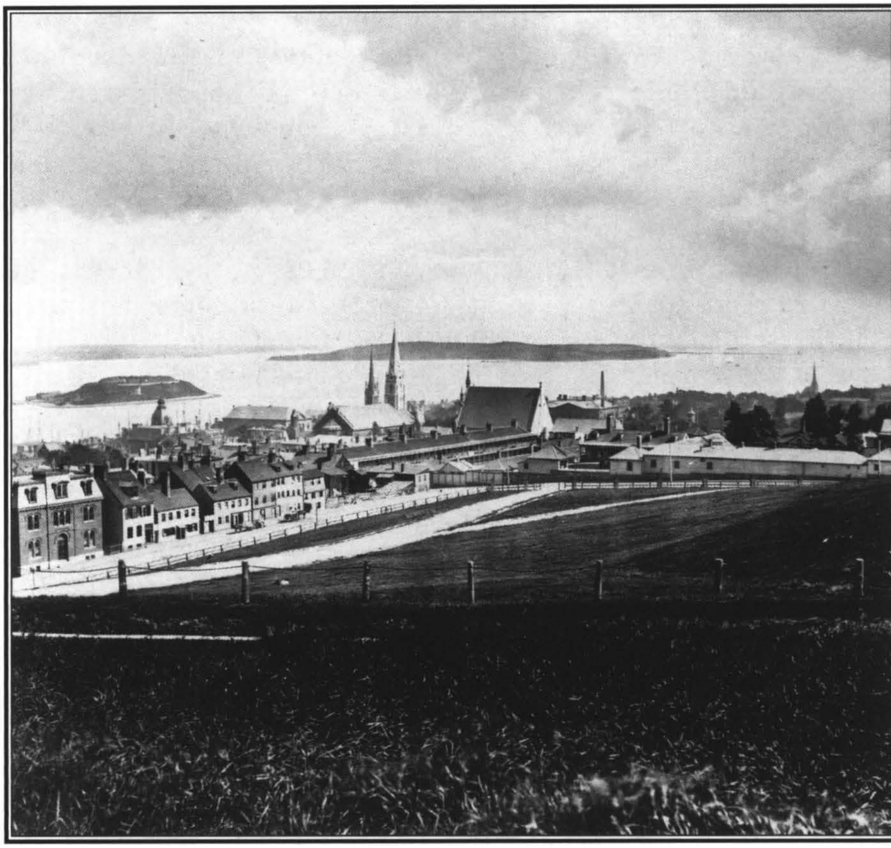
EVERY SPRING THE ARRIVAL OF THE TRADE SHIPS FROM EUROPE BROUGHT the harbour to life. It was a magnificent harbour, ice-free, sheltered, and unrivalled on the Atlantic seaboard north of Boston. Along its narrow neck, the merchants' wharves protruded like stubby fingers into the tide of commerce. They bore the names of the merchants – Cunard, Collins, Kinnear, and Tobin – and of the trade routes – such as Bermudian – which had made Halifax in the early 1860s a port of colonial prominence. Of these, no name was better known than Cunard: since the War of 1812 Samuel Cunard had thrived on the timber and West Indian trades, leaping the Atlantic in the 1840s to establish himself as a steamship operator in Liverpool. Just beyond the wharves lay the merchants' warehouses, crowded along Upper and Lower Water streets and north along Bedford Row, Hollis, and Granville. Through the doors of buildings like T. & E. Kenny & Co.'s "magnificent granite warehouse," dominating eighty feet of Granville Street, ebbed and flowed the wholesale trade of the colony.

The rhythms of the trade were easily discernible. Spring brought the inflow of European goods ordered the previous winter in the showrooms of London, Manchester, and the Continent. Most Haligonians could readily identify the silhouettes of familiar barques and steamers as they slipped into port. Ships of the Cunard, Allan, Anchor, Boston and Colonial, and Quebec and Gulf Ports lines all frequented Halifax's docks. To alert consignees of the impending arrival of their cargo, the ships displayed jaunty little pennants on their masts. T. C. Kinnear & Company boasted a red star on white, bordered in red; T. & E. Kenny & Co. a proud blue "K," bordered in red. The seasoned observer could quickly put cargoes and merchants together: the Glasgow ships generally bore goods for William Stairs Son & Morrow, while Manchester and Liverpool vessels serviced the Kenny dry-goods firm.[1]

Thus, after months of winter slackness, the port of Halifax hummed with the frantic business of unloading and warehousing goods ranging from basic cottons to exotic teas. Having safely stored their goods, the merchants looked inland to their network of retail buyers scattered along the coast and through the hinterland. Small merchants from Pictou, Yarmouth, or Truro "were as sure to turn up when the ice was clear as the swallows that came in the spring."[2] "Our *stock* of Foreign and Domestic *Dry Goods* is now complete," T. & E. Kenny advised its regular buyers by postcard. "A stock of *Good Teas* always on hand. Inspection invited."[3] Other goods were repacked and dispatched up the Gulf of St. Lawrence to retailers in Lower and Upper Canada.

In the fall the pattern reversed, as Halifax became the commercial centre through which passed Nova Scotia's exports of timber and fish and the by-products of the port's West Indian trade in sugar, rum, and molasses. Again there was specialization. Thomas Kinnear's ships frequented the West Indies and Brazil. As early as the 1810s, Samuel Cunard had sent schooners into the Caribbean, before tapping into the East Indian tea trade and eventually branching out into transatlantic shipping. Shipbuilding and shipping provided a natural parallel to trade for the Halifax commercial elite. Constructed not only in Halifax but also in the sheltered bays of counties like Hants, Nova Scotian sailing ships allowed Halifax business to diversify and capture the profits of the carrying trade. Merchants became ready partners in syndicates formed to build and sail these vessels. The Kennys of Halifax were quick to form such alliances. With the Dickie family of Upper Stewiacke, they built the barque *Harold* in 1872 and with the Frieze family, general merchants in Maitland, they sent forth the romantically named *Snow Queen* in the early 1880s.[4] In the 1860s, sensing that the heyday of wood and wind was waning, they shrewdly anticipated the future, building the 1,715 ton, iron-hulled *Eskasoni* in England in 1866. With Confederation, Nova Scotia became the young nation's leading shipbuilder, producing 36 per cent of the ships built in 1872 and 47 per cent of the tonnage.[5] Canada's richest man was rumoured to be Nova Scotia shipowner Enos Collins.

The early 1860s brought added vitality to the Halifax waterfront. Civil war in the United States not only stimulated British military activity in the port, but also opened up the prospect of capturing Southern trade, now barred from the ports of the Union. A Confederate agent was posted to the city, and Haligonians openly sympathized with the cause of the South. "I hear of such warm feelings being manifested on our behalf in Halifax," wrote Eugenia Johnston from beleaguered Savannah to her cousin Maggie, the wife of merchant A. G. Jones, in 1864.[6] Like many Haligonian merchants Jones's firm was active in the profitable business of smuggling goods to the rebels. When Sherman's



*A William Notman view of Halifax from the Citadel, 1877. Then, it was a city dominated by ships' masts and church spires; today, bank towers predominate.*

army smashed its way into Georgia later in the year, gloom pervaded Halifax. The city's traditional rivals in commerce, New York and Boston, were apparently on the verge of victory.

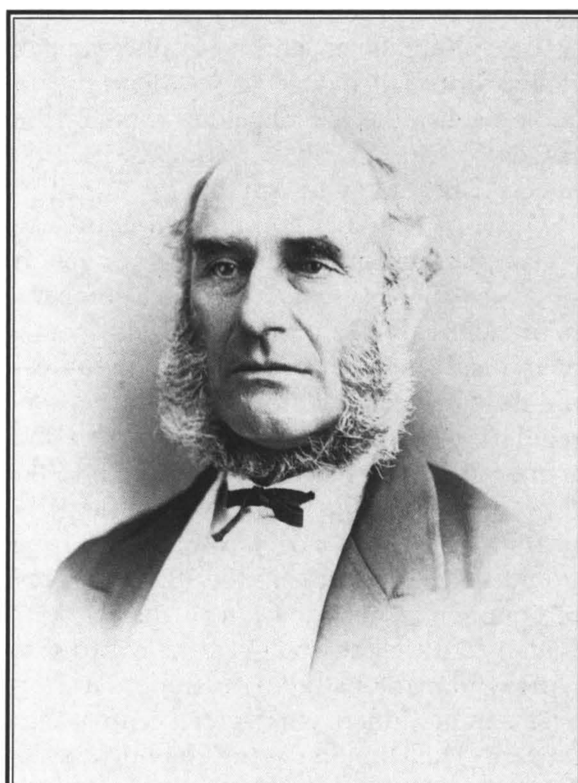
Halifax's twenty-five thousand citizens in the early 1860s were bound together, and to a degree held apart, by a rich institutional life. The city was carefully structured around a series of sometimes rigidly demarcated, sometimes overlapping, social circles. Religion and politics separated Haligonians into distinct camps; Tory, Reformer, Catholic, and Protestant were badges worn with ardour. Since emigrating from Ireland in the mid-1820s, dry-goods merchant Edward Kenny had, for instance, championed the Irish-Catholic cause in Halifax, becoming a close friend of Archbishop Connolly and serving as president of the Charitable Irish Society. Kenny staunchly backed Reformer Joseph Howe in his 1840s campaign to bring responsible government to Nova Scotia, but broke ranks and joined the Tories in the 1850s when Howe assailed religion in politics.[7] Politics was thus alive with sectarian and ethnic jealousies. In 1875, Kenny's friend John Dickie, the Truro merchant, achieved notoriety in becoming the first and only Speaker in Canadian parliamentary history to be impeached; his crime was his inability to rule over the notoriously unruly Nova Scotia Assembly.[8]

If Haligonians were divided in faith and on the hustings, they found ample scope for common purpose in their social and commercial lives. Marriage provided one bond. By the 1860s the Cunard and Duffus families were related, as were the Tobins and Dwyers. Others built marital bridges elsewhere. In 1855, Edward Kenny's son Thomas married Margaret Burke of New York, thereby providing an entrée into the flourishing commercial class of that city, notably the well-connected Roosevelt family. Marriage was but one aspect of an elaborate social fabric. In 1862, over a hundred of Halifax's leading citizens banded together to form the Halifax Club and housed it in a splendid building on Granville. At the other end of the city, the élite sailed together on the North West Arm. Along South Park Street and surrounding the Arm, the merchant princes built their grand homes. A. G. Jones's "Bloomingdale" was but a stone's throw from the Kennys' "Thornvale" beside the Arm.

However, it was in defence of the city's commerce that the merchants found true unity of purpose. As early as 1804, they had joined together in the Halifax Committee of Trade to protect and expand the city's stake in the British colonial system of trade. In true mercantilist spirit, they sought to monopolize the trade of the American seaboard and the West Indies. Over the next half century, they were largely frustrated in this ambition. Britain's adoption of free trade in the 1840s left Halifax desperately trying to shore up its trading position. In the 1850s, Halifax's merchants began to advocate the advantages of railways, combined with free access to the American market, as a means of holding and extending its rocky hinterland. This period of prolonged economic insecurity first suggested to the colony that its economic destiny might lie in the direction of "British American integration" with its sister colonies in the interior.[9] When politicians from the central and maritime colonies met in 1864 to discuss such a union at Charlottetown and Quebec, Halifax merchants were hardly disinterested spectators.

Confederation, like other political issues, split the Halifax mercantile élite. Grits, following the lead of Joseph Howe, saw danger in the scheme, an abandonment of the colony's oceanic heritage. Merchants like A. G. Jones, Jeremiah Northup, William J. Stairs, and T. C. Kinnear eagerly affixed their signatures to anti-union petitions that were sent to London.[10] Other merchants saw promise in the union; Edward Kenny and John Tobin joined with their bishop, Connolly, to champion the proposal. In the spring of 1867, John A. Macdonald invited Kenny to join the first federal cabinet. Elevated to the Senate, Kenny would serve as receiver general. On July 1, 1867, Kenny's friend, Halifax doctor Charles Tupper told the crowds in the Halifax Parade Square that Kenny's "high social, commercial and legislative position" eminently qualified him "to represent the interests of Nova Scotia in the General Government."[11] A few months later, Kenny's close friend but political foe A. G. Jones would be elected to go to Ottawa as a Grit on an anti-Confederation platform. Tupper would be the only Macdonald Tory elected in the province.

Thus behind the majestic display of sail in the harbour, the Halifax business community of the 1860s was a curiously unified and disunified group living in a world in which their economic and political power was gradually but fundamentally shifting. Behind the façade, a sense of precariousness pervaded their lives. The danger could be physical. In 1859, fire had swept down Granville Street through the business district. In 1866, the S.S. *England* brought cholera to the

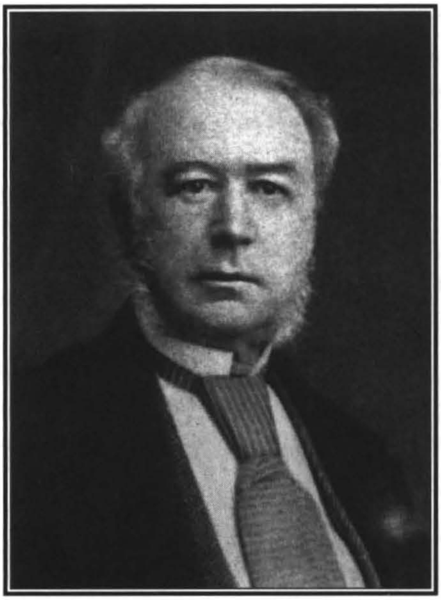


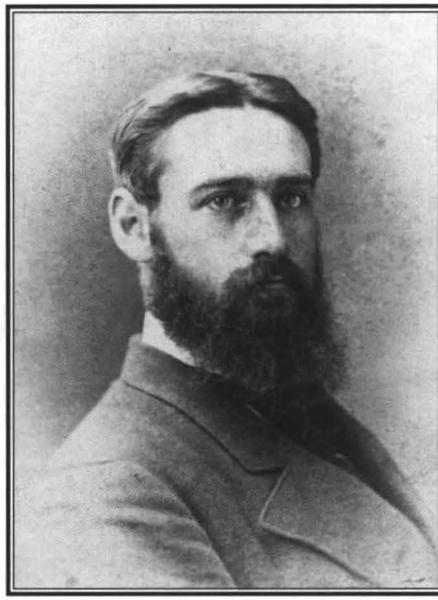
*Jeremiah Northup*

mouth of the harbour. Four years later, a group of Halifax merchants, including Kenny's son Edward, left Halifax on their annual winter buying trip to England on the Inman Line's *City of Boston*. The ship and its passengers vanished without a trace.

It was the less-tangible dangers involved in mid-nineteenth-century business, however, that induced the deepest-seated anxiety, and often brought on ruination. The Nova Scotian economy was an economy on the margin of a vast imperial trading system. As such it had scant control over the factors that determined its livelihood. The price of the commodities it traded onto European markets was set in distant and unpredictable marketplaces. Demand for fish or lumber was notoriously fickle. Competitors – Baltic timber merchants, for instance – might flood into the English market, pushing prices down and leaving the Canadian producer with no option but to dump his season's cut onto a glutted market. Canadian commodity production was by its very nature a seasonal affair: timber cutters and fishermen sought credit in the spring for crops that would not reach market until late in the fall, and for which there was precious little guarantee of price. What made the process all the more agonizing in the early post-Confederation decades was the arrival of a persistent global recession, which depressed commodity markets throughout the 1870s and 1880s. In this atmosphere, commercial failure became rampant. When two prominent Halifax firms failed in 1872, the *Monetary Times* reported that the news had provoked the "circulation of rumours of the most absurd kind...so that a stranger in Halifax...would be inclined to think the whole commercial fabric about to crumble."[12]

Much of Halifax's commercial edifice rested on a foundation of precarious partnerships, which were anchored in law in only the flimsiest way. There were no joint-stock companies to spread risk and draw in broader capitalization; until 1869 there was not even a semblance of an insolvency law, and that which followed placed few burdens on the debtor.[13] Partnerships thus formed and broke apart with great regularity. Fortunes were made and lost and then remade. The historian is afforded a privileged glimpse into this shifting business world through the confidential reports of the R. G. Dun & Company agent in Halifax. The Dun agency, which had spread across the continent from its New York base in the 1850s, was responding to a chronic lack of commercial information in the marketplace; parties engaged in trade had little knowledge of the worth or credit-worthiness of those with whom they sought to trade. Dun's responded by appointing agents in prominent commercial centres and selling the resultant intelligence. The Dun credit-rating books for Halifax in these years thus furnish an intimate insight into a nervous business community.





*Thomas C. Kinnear (left) and John Tobin (right)*

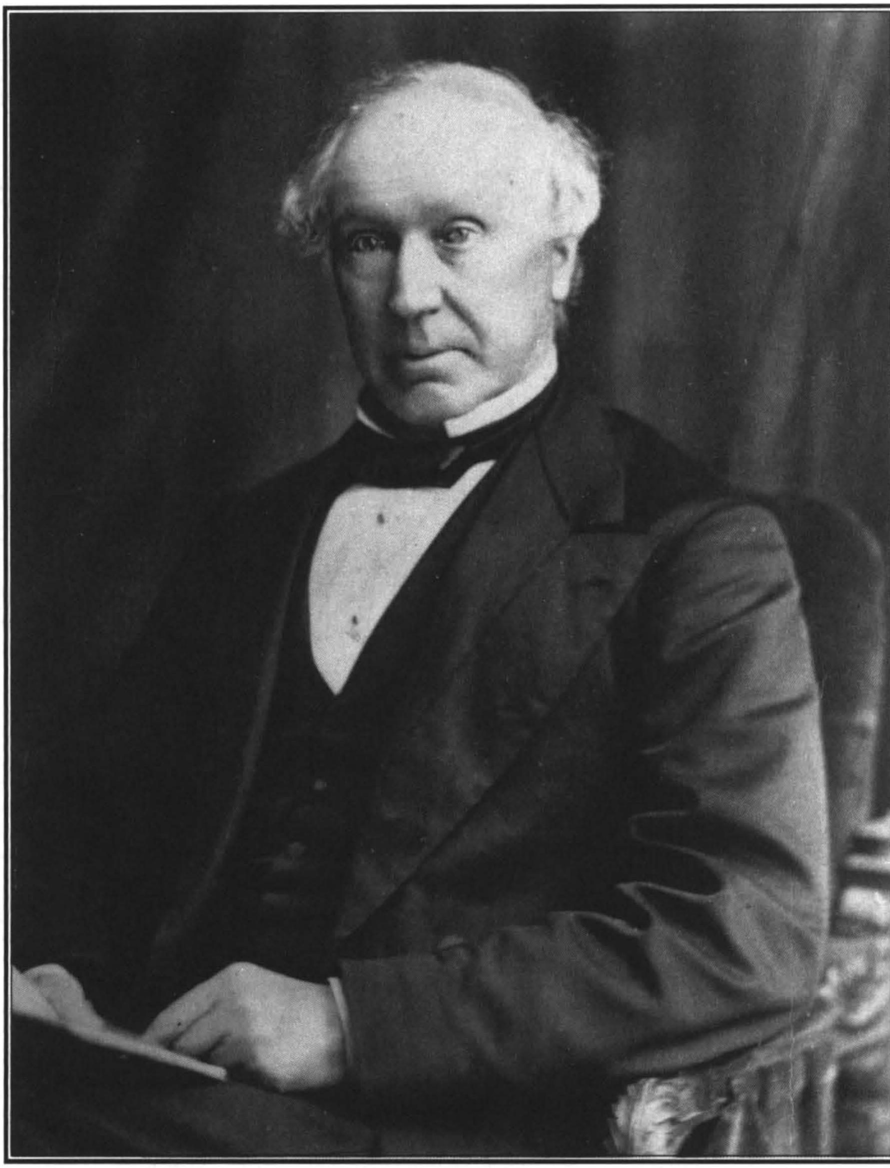
The business fortunes of Thomas C. Kinnear, prominent in the West Indies and Brazil trade, provide one portrait of the precarious nature of business success in Halifax. In 1864, Dun's agent reported that the Kinnear firm was "A1 in every respect...the credit of the concern is beyond question."[14] The young A. G. Jones had clerked in Kinnear's firm, and in the 1860s Kinnear had taken a leading role in the Halifax City Railroad and the Nova Scotia Telegraph. In spite of this, in 1874 Kinnear was obliged to auction off his personal effects at his South Street home to make good his business losses,[15] but he quickly recovered. When he died in 1880, he left a personal estate of about a half-million dollars, although he had recently "met with a number of heavy losses" as an investor.[16]

This seesaw of success could also induce mental imbalance. Since emigrating from Kilkenny as a lad, John Tobin had found self-made success as a trader and railway promoter. By 1860, the Dun agent could describe him as "first class rich" with "unquestionable credit for all transactions." John A. Macdonald later enlisted Tobin in the campaign for Confederation. Perhaps because Nova Scotians failed to embrace Canada with the same enthusiasm, or perhaps because of the build-up of business pressures, Tobin slipped into despondency and, on the morning of June 9, 1869, retired to his garden with a rifle and shot himself. His friend Bishop Connolly quietly arranged for Tobin to be buried in consecrated ground in the prestigious Holy Cross Cemetery.[17]

Given the mercurial nature of Halifax's oceanic economy, its merchants came to place great stock in the "character" of those with whom they did business. With few legal guarantees and little accurate commercial intelligence to rely on, traders had no option but to proceed on the basis that a man's word was his bond. Dun's agent paid particular attention to character assessment: "rather free spoken and lacking in ballast," "suffers from mental depression and is now absent in the U.S.," "lives expensively," and "some family quarrel and dissolved the partnership."[18]

One consistently stable Halifax house was that of the Kenny family. Dun's 1853 entry encapsulated the family's success: "do a large business, import largely from Great Britain. Been here 25-30 years. Came from Ireland poor. Capable businessmen...Irishmen, wealthy, good." By 1876, the report was "no change, undoubted." Born in County Kerry, Thomas and Edward Kenny had come to Halifax as clerks of a Cork firm that traded across the Atlantic. In 1828, they established T. & E. Kenny & Co. as a dry-goods wholesaler and retailer. Edward was the more dynamic of the two, serving, for instance, as Halifax mayor in 1842. As Bishop Connolly later told Prime Minister Macdonald, he was "no talker but he is what is boundlessly better a doer. He is in American terminology a whole team."[19] When bachelor Thomas died in 1868, he left over £100,000 and control of the firm to his brother. The death at sea of son Edward junior in 1870 meant that, after this date, day-to-day oversight of the firm would devolve on Edward's younger son, Thomas E., born in 1833. In 1876, the senior Kenny would retire completely, the succession secure. Dun's agent valued the business at over a million dollars.

The Kennys prospered on the Halifax waterfront because they learned to minimize their exposure to risk. In 1850, they withdrew from volatile retailing to concentrate on wholesaling. They diversified into shipping and began to take positions in fledgling new financial and industrial enterprises in the city. Clearly, the Kennys sensed that breadth of enterprise was the best guarantee of survival in an economy buffeted by oceanic insecurity. They saw the same potential security in the prospect of confederation with the Upper Canadas in 1867. As Thomas E. asserted his leadership in the family in the 1870s, he also assumed his father's mantle as chief spokesman of Irish-Catholic Halifax. Together with such Halifax professional friends as Charles Tupper and John Thompson, Kenny soon learned to speak out for Canada. In 1878, Macdonald sought to enlist Kenny as a federal Tory candidate. "My father and brother retired from our firm about a year ago," Kenny respectfully replied. "I have no partner in my business. I am consequently a very busy man, and it is impossible for me to take



*Sir Edward Kenny*

any prominent part in politics."[20] Macdonald would write again.

Just as the Kenny business sought to insulate itself from risk, so too did the mercantile community as a whole. The entire trading economy was linked together by a fragile chain of credit that, in the case of a company like T. & E. Kenny, stretched from the showrooms of Manchester, where goods were purchased on credit in mid-winter, to the dry-goods stores of rural Nova Scotia, where the goods were eventually sold – again often on credit to local farmers or fishermen. Halifax controlled only the centre link in the chain. The process was made all the more confused by the welter of currencies in circulation in the British North American colonies. Although "Halifax currency," rated at five shillings to the Spanish silver dollar, had prevailed since the 1760s as the "official" colonial currency, there was in reality no uniform measure of exchange in the colony. Frequently there was simply not enough "specie" – best defined as "visible money," a varied assortment of gold and silver coins – in circulation to service the fledgling economy. For longer-term financial transactions, merchants relied on an intricate system of bills of exchange and promissory notes, which were subject to all sorts of uncertainty, not the least of which was the ever-fluctuating rate of exchange. For those in a position to broker this system by selling foreign exchange or discounting bills of exchange,* there were handsome profits to be made.

Throughout the first half of the nineteenth century, Halifax merchants wrestled to bring this process more within their control, to diminish the financial dominance of London and New York over their precious trade. Nova Scotians did not pioneer banking in British North America:[21] Montreal merchants had organized a crude bank, the Canada Banking Company, as early as 1792; by 1822 they had created a fully-fledged chartered bank in the Bank of Montreal.† In true mercantilist form, Halifax merchants in 1801 subscribed £50,000 in the hope of obtaining a monopoly over the colony's banking needs, but the Nova Scotia Assembly balked at the request. The lack of circulating currency and inadequate credit again roused the Halifax Committee of Trade to agitate for a charter in 1811. Rejecting this, the government responded by circulating Treasury Bills as a surrogate for currency. The merchants were unappeased and, after a third rebuff in 1822, organized a private bank in 1825. The Halifax Banking

* Bills of Exchange are crucial to any understanding of the workings of the early Canadian economy. Thomson's *Dictionary of Banking* (London, 1911) cites the 1882 British Bills of Exchange Act to define a bill of exchange as "an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a certain sum in money to or to the order of a specified person, or to bearer." If the holder of a bill does not wish to hold it to maturity, he may seek to surrender it to his bank or an intermediary and receive full payment minus a discount commission. Thus, a Truro merchant in the 1860s might issue a bill agreeing to pay "on demand ninety days hence to John Smith [a Halifax wholesaler]...the sum of one hundred dollars for value received." A postage stamp affixed to the bill gave it legal standing.

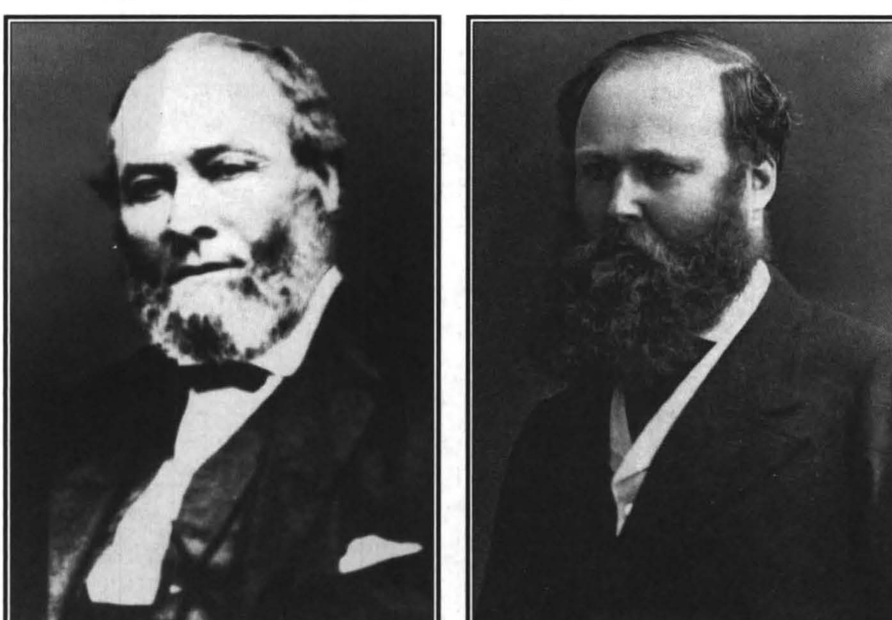
† The Bank of Montreal was organized in 1817, but did not formally receive its charter until 1822.

Company had no charter and operated as the closely held instrument of a tight circle of merchants dominated by Enos Collins. Collins had grown wealthy on the proceeds of privateering in the War of 1812, and then engaging in post-war shipping. "Collins' Bank," as it was nicknamed, was located in a stone building nestled behind the wharves on Water Street. Having won a *de facto* monopoly, the Halifax Banking Company prospered on foreign-exchange dealings with New York and Boston and on the circulation of its own notes among local merchants.[22]

Success bred jealousy. Collins's grip on commercial finance provoked rival merchants to seek a charter for a bank more accessible to the broader mercantile community. A bitter political fight ensued, as Collins and his cronies tried to stave off would-be competition. They lost. The charter granted the Bank of Nova Scotia by the colony's Assembly in 1832 has been described as "the most advanced of its day."[23] In an early example of Canadian banking pragmatism, the charter stipulated the bank's capital base and its note-circulating privilege, and, most importantly, dictated various sureties for its shareholders and clients. The bank was forbidden from lending into the notoriously volatile real-estate market, nor was it to make loans secured by its own stock. Annual meetings were mandatory, as was the presentation of an annual statement to the government. Shareholders were liable up to the sum of twice the value of the stock they owned.

The Bank of Nova Scotia prospered. Its notes quickly found their way into circulation and its Bedford Row office became a ready source of commercial credit. It had "unlimited resources," Dun's agent reported in 1855, and rated it "good as it is possible to be" in 1864. Branches were opened in 1837 in Windsor and Saint John. Coteries of other Halifax merchants soon picked up the pattern. In 1856, William Stairs spearheaded a subscription drive for the Union Bank of Halifax. The next decade saw similar charters for banks in Yarmouth and Windsor and for the People's Bank of Halifax. All were essentially merchants' banks, offering to discount bills, to handle foreign exchange, and to take deposits at 3 per cent per annum. It is worthwhile noting that, in these same years, Halifax merchants were also active in creating other financial-service agencies. In 1862, seven merchants, including such well-known names as Tobin, Duffus, and Jones, banded together to form the Acadia Insurance Company.[24] No Nova Scotia bank failed in the years before Confederation. "The banking system as originally worked out," Breckenridge concluded, "caused so few difficulties and promoted so much the convenience and prosperity of the colonies, that they felt very little temptation to change it" with the advent of the new nation.[25]

Given this proliferation of banks, it was hardly surprising that the Civil War-induced prosperity of the early 1860s should have spawned yet another Halifax bank. At first there were only rumours of its creation. It was later reported that the "capitalists" behind the rumours "had kept their own counsel so well that few persons in the community were aware of the movement."[26] Rumour became truth on February 4, 1864, when, "after transaction of routine business" at the board meeting of the Union Bank, two directors, John Duffus and Thomas Kinnear, informed President Stairs that they were resigning, "having associated themselves with other gentlemen in the formation of a new Banking Institution."[27] The "other gentlemen" were all familiar faces on the waterfront. James Merkel, who would soon become president of the new bank, was a retired commission merchant and auctioneer. From what little we know of Merkel, he was "quiet and unoffensive" and "deservedly esteemed for uprightness and integrity."[28] Of the other seven promoters, William Cunard was undoubtedly the best known. Son of the redoubtable Samuel Cunard, William was extensively involved in shipping, ship repair, and the development of Cape Breton coal. The Dun credit book rated him "A1" in "pecuniary strength" and "A1" in "general credit." The remaining six merchants were all solidly established in trade: Thomas Kinnear, Edward Kenny, Sr., Jeremiah Northup, John Tobin, George Mitchell, and John Duffus.

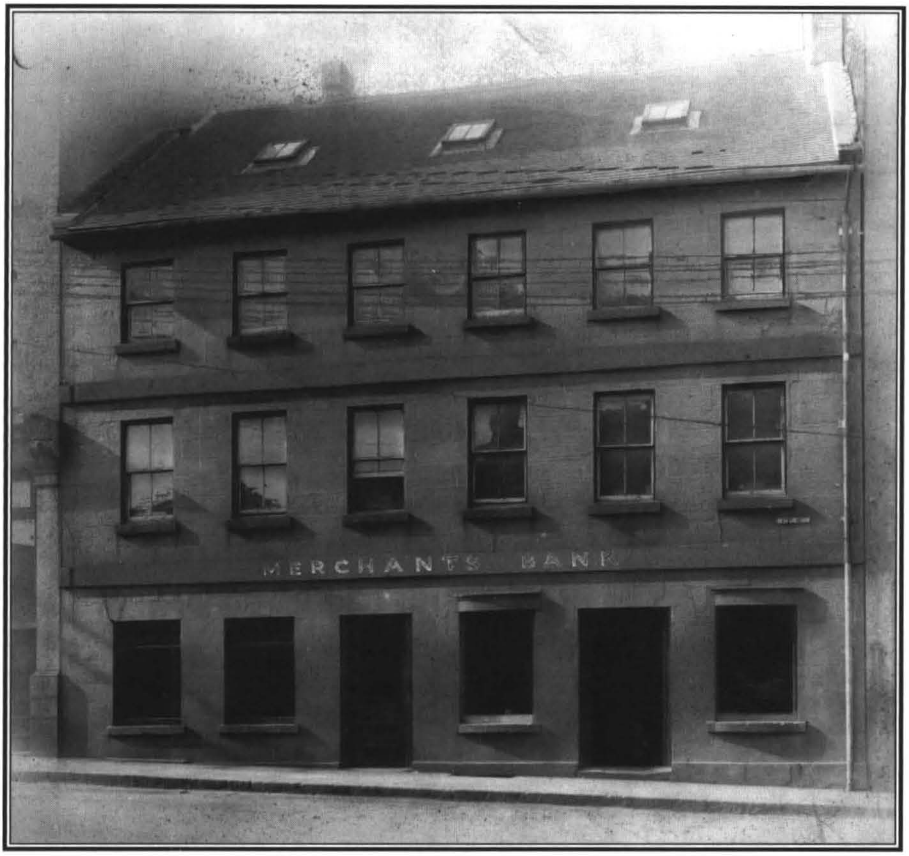


*James W. Merkel (left) and William Cunard (right)*


*Market day on Bedford Row, in an undated Notman photo from the mid-1880s. This short waterfront street was the seedbed of several Halifax banks. The Merchants Bank first opened its doors in 1864 at 86-8 Bedford Row, a building on the upper left side of the street in this photo.*

The eight merchants opted for the Halifax Banking Company pattern of an unchartered, private bank, unconstrained by any public requirements. In late April, they placed advertisements in the local press announcing their intention "to discount promissory notes and acceptances, make advances on approved securities, purchase and sell bills of exchange, receive money on deposit and transact all other business matters connected with a Banking Establishment."[29] The capital was $200,000, of which $160,000 was said to be paid up. The old Bank of Nova Scotia offices at 86-88 Bedford Row were rented, and on May 2 the Merchants Bank opened for business.

The Merchants Bank left only a scant documentary record of its




*The Merchants Bank building on Bedford Row*

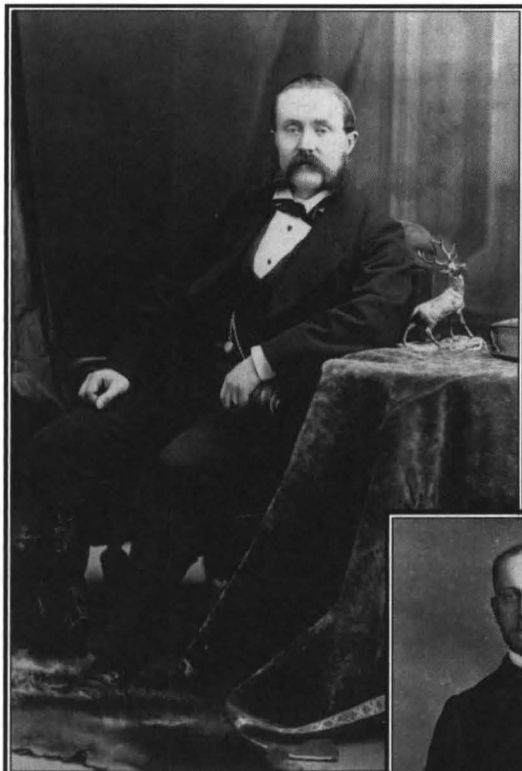
earliest years. As a co-partnership, it had no public shareholders nor any obligation to explain itself to the mercantile community it served. "It is recently established," Dun's agent noted in 1865, "but in good repute, as a competent though not very wealthy institution, as compared with older ones, some of the wealthiest men here are shareholders."[30] In most of its ways, it moved mysteriously. We do know that its directors met every day but Sunday at midday (Bedford Row being only a short stroll from the wharves) to approve discounts and credits placed before them by Cashier George Maclean, the bank's senior salaried official. They met upstairs above the bank's rather dingy office, gathering around a small oval table, which now adorns the bank's Montreal boardroom. The meetings seldom took more than a few minutes; the bank's clients were well known to the directors. To facilitate trade, the bank acted as an agent of the Imperial Bank in London and of three colonial banks, the Union in Newfoundland, the Union in Prince Edward Island, and the New Brunswick Bank. For all the directors, the bank was an activity on the periphery of their principal commercial interests. None the less, their time was well rewarded; between 1864 and 1869, the Merchants paid an annual return of 9 per cent on capital invested.

By April 1869, the bank's notes in circulation, its deposits, and its current accounts totalled $500,000. This was secured by "specie" of $335,000. All initial expenses had been paid off; low overheads and a small annual tax paid to the city were the bank's only expenses. There were initially only three employees: the cashier, thirty-year-old George Maclean,* the teller, Henry Romans, and a messenger, William Hood, who was required to live on the premises. A clerk, Cyril Francklyn, was hired by 1869.[31] The Merchants was thus the smallest cog in the Halifax banking world in the 1860s.

Confederation found the merchants of Halifax in a mood of self-satisfaction as far as their banking interests were concerned. In 1869, they drew the attention of the finance minister of the new Dominion to the fact that "the banking system in existence in Nova Scotia has been in successful operation for more than thirty years, and has been largely instrumental in aiding the development of the resources of the province and building up its trade and commerce....That the public are satisfied with the system, and neither ask nor desire any change."[32] Such was not the case in Upper Canada. The relatively smooth evolution of Canada's nine Maritime banks contrasted with the more volatile history of the eighteen central-Canadian banks in existence in 1867. The vigorous growth of the central-Canadian economy in the 1850s and 1860s had produced a *pot-pourri* of banks of varying pedigrees. Most conspicuous were those banks holding colonial charters. Dominating these was the Bank of Montreal, with its assets of $6 million and a privileged relationship with the provincial government as its banker and fiscal agent. If Halifax banks, led by the Bank of Nova Scotia with assets of only $560,000, had an anxiety in 1867, it was that Montreal's St. James Street would turn a hungry eye on their territory – a fear that was soon borne out. Central Canada also possessed private, joint-stock banks and a lone Royal Charter bank, the Bank of British North America. There was also a handful of "free" banks, the result of an 1850s experiment that sought to duplicate the New York State pattern of small, locally rooted banks operating under a code of general banking principles.[33]

Variety was not in itself the vital problem of central-Canadian banking. What plagued the system was its overheated growth. At the

* Maclean may well have been the brother of John S. Maclean, a Halifax merchant and president of the Bank of Nova Scotia from 1874 to 1889. The documentary evidence is inconclusive.



*In the late 1860s, William Notman, Montreal's pre-eminent photo portraitist, established a studio on George Street in Halifax. The city's social and commercial élite hurried to be captured by Notman's lens. The early directors of the Merchants' Bank were no exception. Notman's portraits project them as men of solidity, earnestness, and substance, worthy attributes in bankers. As the bank expanded, staff members began to frequent the Notman Studio; Cashier David Duncan (above) and Accountant Edson Pease (with his family, below right) both sat in the mid-1880s.*

same time, vulnerability to sharp commercial "crashes," notably in 1857, and a penchant for overextending itself in real-estate loans made for instability. In 1866, the Bank of Upper Canada failed, followed a year later by the Commercial Bank. Like the Atlantic colonies, central Canada also suffered from a chronic shortage of specie; in 1866, the Upper Canadian government made a clumsy attempt to introduce a government-based currency.[34]

But despite the flux in central-Canadian banking, there was no doubt in the minds of Canadians that the scattered banks of their new Dominion were the predominant engine of financial growth in their nascent economy. "They accounted for three-quarters of financial intermediary assets," economist E. P. Neufeld has noted, "they handled the foreign exchange business; and their stock was by far the most important security traded on the embryonic stock exchanges."[35] Canadians trusted their notes. Thus, implicit in the Confederation pact was the expectation that some norm of national banking would be established.

Whereas the Americans had placed their national trust in a system of "unit" banks, each constrained by the limits of an existing local capital base, Canadians embraced the model of Scottish branch, or satellite, banking. The cellular growth of branch banking would allow capital to be moved expeditiously between areas of surplus and need. Much like Canada's new-found political structure, each bank would be a federation of a strong head office and its scattered branches. The British North America Act consequently gave exclusive authority in all matters pertaining to currency and banking to the federal government. Initially, the task of integrating the various colonial banking regimes was shunted aside by the demands of political nation-building. In 1867, "An Act respecting Banks" was rushed through Parliament, basically preserving the *status quo* until the end of 1869. Provincial banks were empowered to expand nationally, a right the Bank of Montreal exercised in Halifax. Otherwise, banking reform was postponed. In 1868, the provincial notes that were put in circulation in 1866 were made Dominion notes.

Confederation had a distinctly mixed impact in the boardroom of the Merchants Bank. It cleanly divided into two diametrically opposed political camps. One remarkable facet of the Halifax mercantile elite was its ability to coexist in commerce, while battling tooth and nail in politics. Between 1867 and 1870, the copartners of the Merchants fought out Nova Scotia's political destiny in microcosm; by the early 1870s the pro-Confederationists would win the day and turn the bank into an institution prepared to make its destiny within the young confederation. However, in 1867, this was by no means preordained.

Partners Jeremiah Northup and Thomas Kinnear joined Joseph Howe in railing against Confederation as a reckless gamble. Northup won election to the provincial Assembly as an "anti-Confederate" Grit, drawing support from the prominent Stairs and Jones families. On the other side of the directors' table, John Tobin and Edward Kenny rallied to the Confederation cause, Tobin going down to defeat as a pro-Confederationist in the federal election of 1867 and Edward Kenny, Sr., entering Macdonald's cabinet through the back door of the Senate.

A generous application of John A.'s "soft soap" and patronage soon swayed Nova Scotian sensibilities. By 1869, Ottawa's man in Halifax, Charles Tupper, had negotiated a series of "better terms" with Howe, and opposition to the new nation waned. By 1870, Macdonald had shrewdly called Northup to the Senate and had ingratiated himself with such erstwhile anti-Confederationists as John F. Stairs, William's son. Nova Scotia's allegiance to Ottawa secured, the senior Kenny returned to Halifax with a knighthood (Howe having joined the federal cabinet) and went into semi-retirement. Son Thomas was left to nurture the new-found affection for the federal cause felt by both his father's bank and city.[36]

The spring of 1869 found President Merkel and the directors of the Merchants in an uneasy mood. As lucrative as their copartnership had been, it was clear that they would soon have to conform to some pattern of national banking. The temporary banking legislation of 1867 was slated to expire at the end of the year and, regardless of what followed, it seemed that a federal charter would be the minimum price of admission into the new world of Canadian banking. Similarly, the federal government's intention of introducing some form of national currency would also hinge on the working out of an accommodation with the chartered banks. Consequently, in April 1869, the board declared its intention of obtaining a federal charter: "The anticipated changes in both the Banking and Currency laws of this Province have induced us to obtain a charter enabling us to convert the present copartnership, known as the Merchants Bank, into a Joint Stock institution."[37] Without a federal charter, provincial banks could not expand nationally. The new federal bank would be known as the Merchants' Bank of Halifax, thereby differentiating it from the Merchants Bank of Canada, which was already active in central Canada. Modelling their charter on that of the Union Bank of Halifax, the directors announced a capital base of $1 million, of which they would retain half and the other half would be sold gradually to the public in $100 shares; the bank would have an initial capitalization of $300,000.

The winning of Royal Assent for the new charter on June 22, 1869,[38] did not entirely remove the anxiety from the Merchants'


*An 1879 Merchants' Bank of Halifax $4 note. As was the case with the bank's corporate seal, the motif was oceanic. The centrepiece and left-hand vignette sailing ship sketches were done by one of the bank's clerks. President Kenny and Cashier Maclean actually signed each bill issued; the directors oversaw the destruction of old bills in a furnace in the head-office basement. Like other Canadian banks, the Merchants'/Royal continued to issue its own notes until the early 1940s.*

boardroom. Director John Tobin had taken his own life just ten days earlier. On a corporate level, there was deep concern over the shape of Ottawa's proposed bank act. For his finance minister, Macdonald had turned to John Rose, a Montreal corporate lawyer. Rose in turn looked to the fiscal agent of the new federal government, the Bank of Montreal, for guidance on the direction of federal banking legislation. Powerfully influenced by E. H. King, that bank's general manager, Rose opted for a national banking and currency scheme that would have stripped the existing banks of the right to issue their own notes against the security of their general credit. Instead, the government would issue its own notes, releasing them to the banks only in return for deposits of Dominion bonds. One or two "greater banks" – undoubtedly, in King's mind, the Bank of Montreal – would thus be left to handle the financing of national trade, while the rest would be relegated to the status of local currency-dispensers. Whatever the merit of a uniform national currency, Rose's plan appeared to pull Canadian banking in the direction of an unstable structure of local, or "unit," banks. Canadian bankers acted in virtual unanimity to condemn the proposal. It threatened to strike at their ability to generate profits on note circulation and, more importantly, cut into their ability to finance the annual ebb and flow of trade. Monies needed to buy Dominion securities for deposit in Ottawa would be unavailable for trade financing. Branches would have to be closed as banks retreated to single-office operations.

This striking early example of collective defensive action by Canadian bankers forced Rose to abandon his scheme – and later his job – by mid-June. Halifax bankers met in April to draw up a petition advising Ottawa that its plan was too "radical." Their notes had always been convertible into gold, and Rose's plan was nothing more than a "compulsory loan" to the government that would starve Canadian trade of credit. To get their message to Ottawa, they despatched Peter Jack of the Union Bank to the capital to represent "all the Halifax banks." Ontario and Quebec bankers, with the conspicuous exception of King in Montreal, joined in the chorus.[39] In an unrehearsed manner, bankers in Toronto, Montreal, and Halifax had thus come together to make common cause – to act as a national industry. Few finance ministers after John Rose ever found themselves at such loggerheads with the nation's bankers. The fracas of 1869 set a precedent. After that bankers and politicians consulted more and any change was introduced gradually in the interests of national stability.

The Bank Acts of 1870 and 1871 provided proof of this new spirit of accommodation. Rose's replacement, former railway promoter, banker, and politician Sir Francis Hincks, methodically canvassed the banks and then introduced a bank act that respected the banks' note-issuing privilege. Ottawa would issue only one- and two-dollar notes, leaving all large-denomination bills above $4 to the banks. The banks would be obliged to secure their circulation with a cash reserve that was at least one-third constituted Dominion banknotes. The act was refined in 1871 with the inclusion of regulations governing the mechanics of banking. New charters required a minimum capital of $500,000, at least 20 per cent of which must be paid up before operations might commence. To curb recklessness in banking, monthly statistical reports were to be made to the government, and shareholders were subject to double liability in the event of bank failure. Any bank suspending specie payment for more than ninety days automatically lost its charter. Much of pre-Confederation bank legislation was maintained through the 1870-71 acts, including the crucial provision allowing credit to be secured by traders' bills of lading. To keep the system vital and open to shifts in economic opportunity, all Canadian bank charters were to be reviewed every ten years, a distinctly Canadian provision that found its origins in pre-Confederation colonial banking legislation. Implicit in the entire reform was an acknowledgement that private-sector banking could and should grow with the young nation; government would facilitate and to a degree regulate this growth, but the onus was on the banks to meet the challenge.

The bank act was still very much in gestation when fifty-one shareholders of the newly chartered Merchants' Bank assembled in the

*James B. Duffus*

Halifax YMCA for a "general shareholders' meeting" on October 18, 1869. Much of the meeting was taken up by the process of fulfilling the conditions of the charter: oaths were administered, quorums specified, and by-laws approved. Seven directors were then elected out of nineteen candidates. William Cunard topped the poll. Thomas Kenny replaced his father in the boardroom. President Merkel being in "infirm health," the directors elected T. C. Kinnear to the presidency. To his keeping, almost like a badge of office, were entrusted the keys to the money chest and vault. Once every three months, the president and at least one director were to inspect the vault and laboriously count the bank's cash. That cash, at the first counting in November 1869, amounted to $441,003, of which $224,000 was in gold and the rest in notes. Paid-up capital in the Merchants' was $300,000, and liabilities totalled $729,163, secured by a rather unsubstantial reserve of $20,000.[40]

The 134 names on the shareholders' list testified to the fact that the Merchants' was a *merchants'* bank. The mercantile elite of Halifax had invested in the bank's future; the Almon, Boak, Black, Blackadar, DeBlois, Duffus, Dwyer, Esson, Jones, Stairs, and Wier families all held stock. The motif of the bank's corporate seal was an ocean paddle-wheeler, purportedly a Cunard liner, though in fact, the obligations of oceanic trade wreaked havoc on the board's early operation. In

*Thomas E. Kenny*

December, when Kinnear left on a four-month buying trip to England, James Duffus, brother of copartner John, served as *pro tem* president. When Duffus himself left for England, the directors approached T. E. Kenny. Kenny protested that "his private business occupied a great portion of his time," and that if the bank were ever to prosper, it "ought to have at its head a gentleman who could be in attendance during banking hours."[41] Kenny, none the less, relented and began what was eventually to become a thirty-eight-year presidency, the longest in the bank's history. Within weeks, he was already lobbying Finance Minister Hincks in Ottawa on the Bank Act.[42] Although he frequently asserted in public that his role in the bank was "simply advisory,"[43] Kenny was continually an active ingredient in the Merchants' evolution. Over time, his longevity and involvement in bank affairs would be a decisive element in moving the Merchants' from its regional base in Halifax to a national standing. With the exception of the Bank of Nova Scotia, the other Halifax banks suffered from somnolent leadership and eventually paid the price.

Kenny's first achievement was in turning the board into an active promoter of business for the bank. Halifax was an intensely parochial city, and to succeed the bank would have to tap into a series of religious, political, and familial communities. Kenny consciously structured the Merchants' directorate so as to draw in this business. As one veteran of the Halifax years later recalled, there was "a sort of understanding that the Board should be equally divided, both in religious affairs and in politics – three Conservatives and three Liberals, three Roman Catholics and three Protestants."[44] Such quintessential Canadian pragmatism did not always work. In March 1870, Kenny boldly put forward the name of A. G. Jones, a Liberal and, until shortly before, an anti-Confederationist, for election to the board. The shareholders duly obliged the directors, but Jones, sensing the awkwardness of openly allying himself in commerce with those he opposed on the hustings, declined the offer. Jones preferred to stay a quiet friend, and shareholder, of the bank, meeting Kenny over lunch at the Halifax Club or strolling beside the Arm.[45] What Jones declined, another former supporter of Joseph Howe, Senator Northup, took up with alacrity. Northup remained on the Merchants' board and, in 1872, in response to a provision in the new Bank Act, became the bank's first vice-president.

Under Kenny's direction, the Merchants' adopted a twofold strategy for growth in the 1870s. Using its intimate ties with Halifax merchants, it would build up a foundation of mercantile accounts in the city and then strike out into the hinterland, pursuing business along the arteries of trade that bound innumerable Nova Scotian towns to their

*"The* little *bank in the* big *building." The bank's first purposely designed head office, opened in 1879, at the corner of George and Hollis in Halifax.*

metropolis. Given the breadth of the board, business in Halifax came relatively easily. In line with the city's other banks, the Merchants' offered to discount bills of exchange for between 6 and 8 per cent. Moving the rate up or down a per cent afforded the bank a crude measure of control over the demand for money. Depositors were offered 3 per cent, sometimes 4 per cent if capital was required for loaning. Under this regime, the bank expanded its credit handsomely throughout the 1870s. In 1869, only $266,970 in bills was discounted; by 1879, this had swollen to $2,206,500.[46] The spread between money loaned and money taken in gave the bank the bulk of its profits. The Merchants' quickly established a dividend of 8 per cent a year and maintained it.

Additional business was found on the Halifax waterfront in the steady flow of foreign exchange that accompanied trade. Correspondence arrangements were established with London and New York to facilitate international transactions. After William Cunard moved to London in the early 1870s, he acted as the bank's *de facto* representative in that city, arranging, for instance, to purchase colonial debentures through Williams Deacon's Bank in Liverpool (the city through

*"Thornvale," the Kenny home on the North West Arm, in a Royal Engineers' photo, c.1890.*

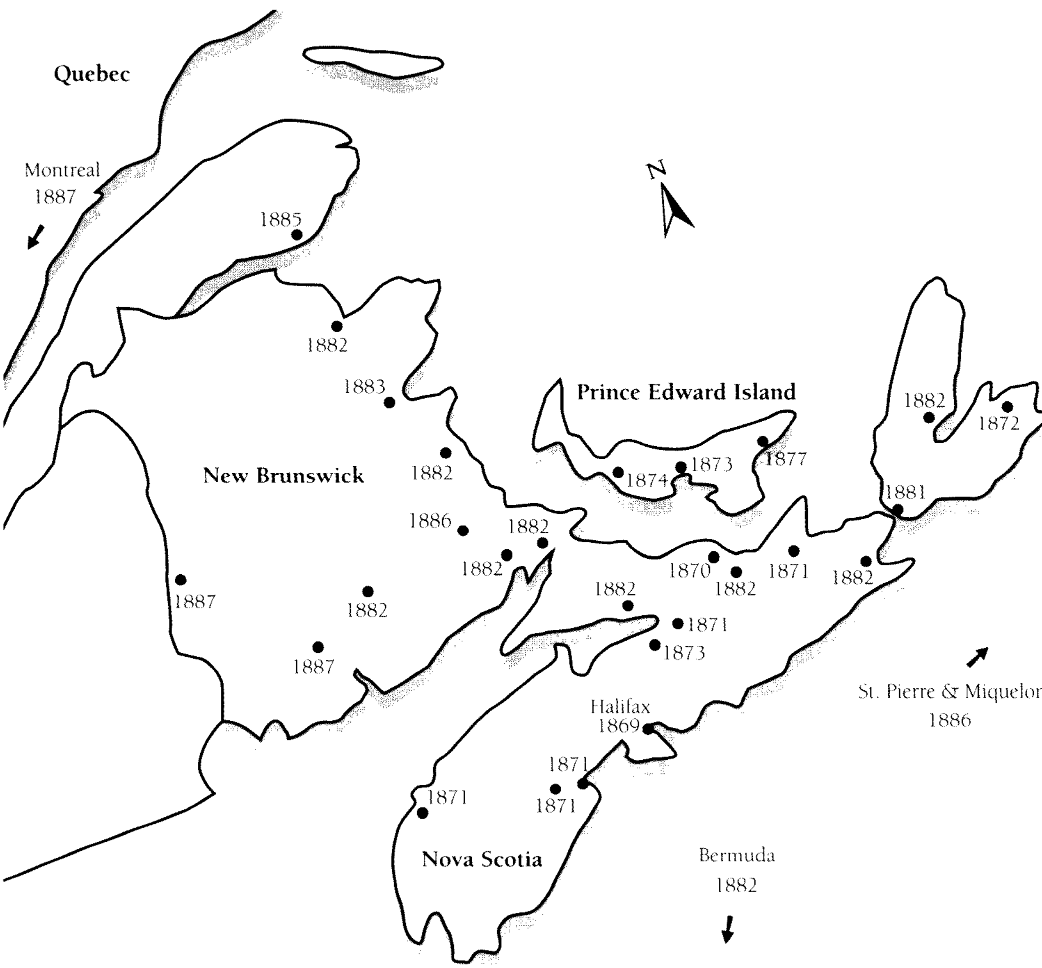
which so much of the Kenny trade moved). At the heart of the bank's business were the big commercial accounts brought by the directors and their trade allies. By 1875, for instance, T. & E. Kenny & Co. had a liability of $182,580 with the Merchants'.[47] Similarly, the Merchants' won the account of S. Cunard & Co., which brought with it a lucrative connection with Cape Breton's nascent coal industry. Kenny assiduously reinforced these mainstays by drawing new names to the board: Thomas A. Ritchie, a leading local lawyer; James Butler, a prominent Grit merchant on Lower Water Street; and Joseph Wier, another influential merchant, all joined in the first decade.

As a traditional Halifax bank, the Merchants' enjoyed "steady and satisfactory" progress in its first years, as Kenny told the shareholders in 1875.[48] Business soon stretched the shabby Bedford Row premises to the limit and, in 1876, the board called in New York architect T. R. Jackson and gave him a $62,000 commission for a four-storey head office on the corner of Granville and George. A year later Senator Northup laid the cornerstone of what the Halifax *Reporter* predicted would soon be "an ornament to the city." The same evening President Kenny entertained the directors "in elegant style" at "Thornvale" on the Arm.[49] Two years later the annual general meeting was held in the new building, symbolizing a kind of coming of age for the bank. Some years later Kenny wrote to his neighbour A. G. Jones, who had by then found prominence in federal politics, and urged him to avail himself of the Merchants' as a means of remitting the proceeds of a provincial railway loan from London: "then remember me – or rather, the *little* bank in the *big* building at the corner of George and Granville," he urged his friend.[50]

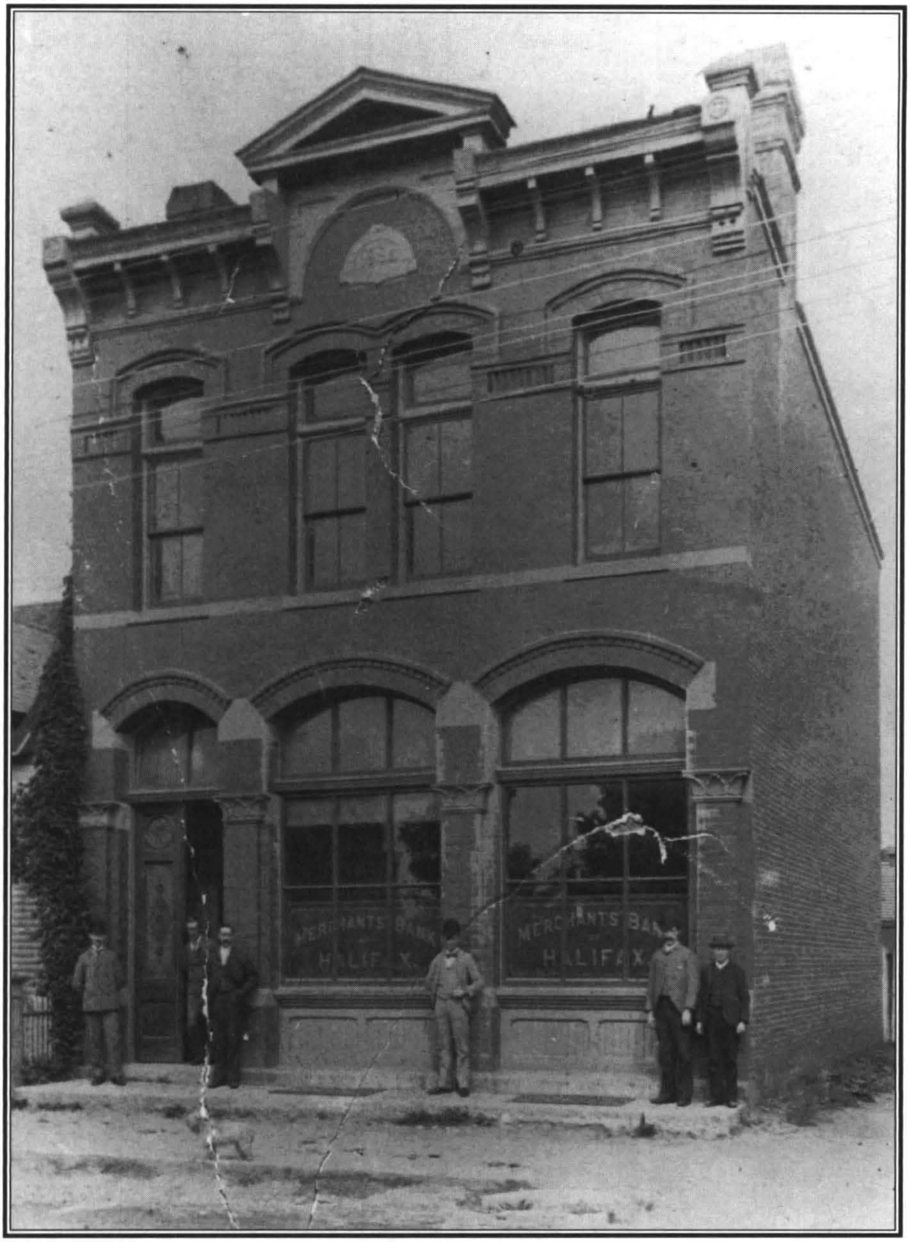
What distinguished the Merchants' from its Halifax counterparts in these early years was its aggressive expansion into the city's hinterland. Between 1870 and 1886, the Merchants' opened twenty-five agencies and sub-agencies in Nova Scotia, New Brunswick, and Prince Edward Island. By way of comparison, the older Union Bank of Halifax opened just a single branch in these same years. Only the larger Bank of Nova Scotia approached the Merchants', opening fifteen branches in the years down to 1883. While not all the Merchants' agencies in the hinterland proved profitable, the board's eagerness to establish them spoke volumes of the Merchants' determination to broaden its base. It was almost as if Kenny and his board sensed that complacency on the shores of Halifax harbour would condemn the bank to an existence on the margin. Kenny habitually prowled the hinterland. In 1884, for instance, news that the Caraquet Railway was under development in New Brunswick confirmed the intuition that, in 1882, led to the opening of agencies in Bathurst, Dorchester, and other New Brunswick outposts. Eventually, this same intuition would lead Kenny and the bank out of the Maritimes, deeper into the continent, to tap into other cities' hinterlands.

The Merchants' earliest "agencies" were only distant cousins of the modern bank branch; they more closely resembled franchises, which bore the corporate identity of the Halifax head office but tended to set their own operational course. Hours were irregular, and clients were issued with temporary receipts for their deposits. Permanent receipts were issued only from head office in Halifax. Similar agencies were established along the arteries of Maritime trade, in the bays and valleys where fish were landed or timber assembled. Their business was highly seasonal, reflecting the rhythms of economic life in communities that fished, chopped, or planted. Credit was, for instance, needed to finance the annual campaign in the woods and to underwrite the importing of every-day necessities. These transactions had traditionally been serviced in an *ad hoc* manner by banks in Halifax and Saint John; the opportunity was always there to capture – and monopolize – such business *in situ*. In many instances, local merchants raised petitions inviting Halifax banks to consider "the great desirability of

# MERCHANTS' BANK OF HALIFAX: BRANCH EXPANSION 1869-1887




| | | | | | |
|---|---|---|---|---|---|
| *1869* | *Halifax (head office)* | *1873* | *Charlottetown* | *1882* | *Bathurst* |
| *1870* | *Pictou* | *1874* | *Summerside* | *1882* | *Kingston* |
| *1871* | *Bridgewater* | *1877* | *Souris (sub.)* | *1882* | *Dorchester* |
| *1871* | *Truro* | *1881* | *Port Hawkesbury* | *1883* | *Newcastle* |
| *1871* | *Weymouth* | *1882* | *Londonderry* | *1885* | *Paspebiac* |
| *1871* | *Antigonish* | *1882* | *Baddeck* | *1886* | *Moncton* |
| *1871* | *Lunenburg* | *1882* | *Guysborough* | *1887* | *Fredericton* |
| *1872* | *Sydney* | *1882* | *Sackville* | *1887* | *Woodstock* |
| *1873* | *Maitland* | *1882* | *Richibucto* | *1887* | *Montreal* |



having a bank agency" locate in their area.[51] For the directors of the Merchants', the advantage lay in the grafting of their fledgling bank onto their well-established network of trade relationships with Halifax's hinterland. Easier access to credit would enhance their own trade with outlying merchants and serve to broaden the bank's lending and note circulation.

The earliest agencies were thus formalizations of old trading relationships. In July 1870, the board voted to establish an agency in


*Early agencies: Bridgewater (opposite page), opened 1871, and Guysborough (above), opened 1882. In branch portraits, the staff was invariably arrayed on the doorstep like a ship's company.*

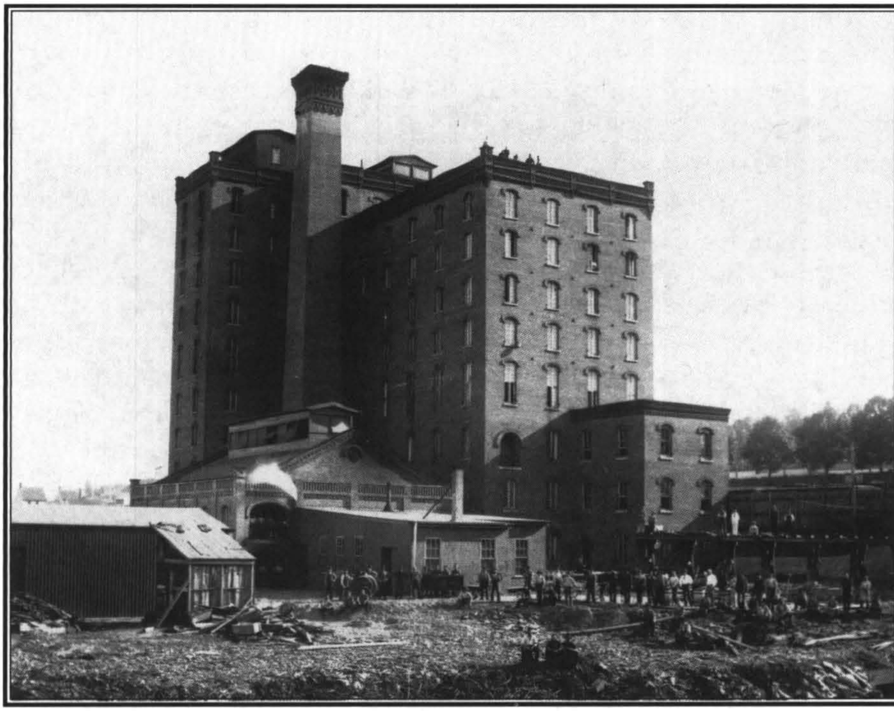
Pictou, where William Ives, a local dealer in hardware and ship chandlery, was already well known to them. In return for an annual stipend, Ives opened the agency in a back room of his store. The service offered by an agency was very rudimentary: the agent accepted deposits and issued drafts only on a temporary basis. Once Halifax had verified the transaction, a regular deposit receipt or draft on New York was despatched to the agent and forwarded to the client. Such service was furnished as a sideline to the agent's regular business.[52] In 1871, another agency was opened in Truro, where Kenny's old ally in shipping syndicates John Dickie was made agent. Dickie installed the agency in the back of his store and employed his son, Martin, as an unpaid clerk. For this Halifax paid him $1,000 a year. A year later, director Joseph Wier enlisted Sydney merchant John Burchell as an agent in that town. When Burchell later complained that he was "altogether without experience in banking," the bank sent an accountant in his store to apprentice under Ives in Pictou.[53] In 1873, Kenny capitalized on his friendship with Maitland shipowner David Frieze to establish an agency in that town. Frieze cemented the association by holding bank shares.[54] The pattern established in Pictou, Truro, Sydney, and Maitland persisted and carried the Merchants' into New Brunswick, Prince Edward Island, and finally to the timber town of Paspébiac, Quebec, by 1885. Only the Bank of Nova Scotia offered any competition to the Merchants' in this expansion and, where the two came into conflict, quiet deals were struck with Thomas Fyshe, Scotia's cashier, for a division of territory.[55]

While Kenny may have assured the 1871 annual meeting that the early agencies were operating "very satisfactorily," it quickly became apparent that the agency network was to be plagued by the same kind of instability that haunted Halifax's economy. The agencies were only loosely affiliated with head office and subject to the whims of agents whose principal business loyalties lay elsewhere. As early as 1875, the board learned to its dismay that David Duncan, the head-office accountant, had found the books in Pictou "in a very unsatisfactory condition." The directors threatened to send a clerk from head office "to take charge."[56] Maitland also succumbed to slipshod methods. "I have nothing further to add about the M.O. [money order] account," Cashier George Maclean barked at David Frieze, "the matter is so plain, that I am astonished you cannot understand the working of it."[57] John Dickie's announcement in 1874 that he would contest the Colchester County seat in the Assembly caused consternation among the directors in Halifax. They hastily resolved that "the interests of so important an agency as that of Truro should be kept free from all the many incidents connected with a contested election."[58] Elsewhere, drink and fraud debilitated agents' performance. In the absence of any form of regular inspection and systematized banking procedures, the agencies were capable of the most mercurial behaviour. They gave the bank a hinterland, but at the same time accentuated the risk.

The bank's ability to make good in the hinterland was also limited by the faltering Maritime economy. The 1870s and 1880s saw several sharp checks administered to the Maritimes by periodic downturns in the price of its mainstay commodities. Timber, particularly on the New Brunswick North Shore where the Merchants' was fast expanding, was particularly hard hit. Beyond these swoons was the continuing structural deterioration of the region's wood, wind, and water economy.[59] At the 1876 annual meeting, President Kenny decried the "universal depression" and its effect in diminishing the bank's profit. He would later admit that, in the early 1870s, he had felt "bitter disappointment" over the failure of Confederation to reverse the region's economic woes.[60] "I need not tell you of the very depressed state of the times, and seemingly no early change for the better," Vice-President Northup wrote to Frieze in Maitland in 1877. "The Bank met with losses last year and luckily enough [was able] to pay an 8% dividend and a little more. Consequently, the directors feel unable to increase salaries."[61]

The Merchants' ability to pay its dividend without interruption throughout the years 1869 to 1887 suggests that, despite the uneasiness induced by its steady expansion, growth brought an element of protection from the economic woes of the region. Other Maritime banks were not so fortunate. In 1873, the narrowly based Bank of Liverpool and Bank of Acadia both collapsed. Merchants' cashier Maclean hurried to Liverpool and learned that "the affairs of the [Liverpool] Bank had been conducted in so reckless a manner, as to entail very serious loss to the shareholders."[62] A year later, the Bank of Summerside was in difficulties, the result Kenny reported of "two or three directors monopolizing the bank's loans."[63] In 1881, the Bank of Prince Edward Island suspended payment in the wake of a bout of poorly secured lending.[64] When the Maritime Bank in Saint John encountered difficulties in 1883, Kenny briefly toyed with the idea of an amalgamation with the troubled bank as a means of penetrating New Brunswick. Knowledge of the extent of the Maritime Bank's losses stymied the deal.[65] As the *Monetary Times* concluded the next year, the smaller banks were "sadly given to carrying 'too much sail' and keeping too little money in reserve."[66]

The breadth of the Merchants' network of agencies thus tended to minimize the impact of bad loans or cyclical downturns in any one pocket of the Maritimes on the overall stability of the bank. By the 1880s, the board was consciously structuring its loans portfolio to spread the bank's risk as widely as possible. The North Shore timber industry was usually given the widest berth. It was clear, however, by the late 1870s that by tying itself solely to the arteries of traditional Maritime trade, the bank was playing a risky game. An untimely conjuncture of bad loans or a deep region-wide slump might pull the bank under. Consequently, the board began to look for new sectors of the economy in which to place funds, and once again, the directors' personal business instincts pointed the way. Thomas Kenny began to assume a leading role in promoting local industry – particularly sugar refining and cotton production – in the 1870s. The Dickie family in Truro similarly introduced the bank to the Truro Condensed Milk and Canning Company. Nearer head office, Kenny's friend and banking rival William J. Stairs brought the Merchants' into financial contact with the Starr Manufacturing Company in Dartmouth, world-famous makers of Acme skates. In 1881, the Cunard connection delivered the account of the Halifax Company, with its coal holdings around Stellarton. Loans to these nascent industrial concerns offered financial exposure to promising new areas of the regional economy, areas



*The Nova Scotia Sugar Refinery under construction in the early 1880s; "infant" industry arrives in Halifax.*

less subject to the twists and turns of offshore commodity demand.

Development of home-market manufacturing received a tremendous fillip in 1879 when Sir Leonard Tilley, Macdonald's finance minister from New Brunswick, unveiled the National Policy, an avowedly protectionist attempt to build up in Canada just the kind of "infant industries" Kenny and his Halifax associates had been eying with interest. The young Canadian economy would be swaddled in tariffs in an attempt to displace imports with home-manufactured goods. Implicit in the National Policy was the necessity of the Maritimes reorienting, or at least diversifying, its economy away from the sea and inland to the continental interior. The completion of the Intercolonial Railway from Halifax to Quebec in 1876 had given the first hint of this shift. Now Macdonald's protectionism created the prospect of a new Maritime economy.

What most excited the directors of the Merchants' in the early 1880s was the thought of sugar and steel production within their hinterland. Sugar refining was a natural outgrowth of the region's traditional trade in West Indian sugar and molasses. Iron and steel seemed a logical extension of Canada's railway mania and an inducement for innumerable small towns to begin home production of stoves, ploughs, and other implements of progress. With the Intercolonial tapping into the interior, Maritime sugar and steel might find their way to central Canadian markets. In the minds of men like Thomas Kenny, the National Policy held the promise of "nationalizing" Halifax.

Within months of Tilley's budget, Halifax merchants were agitating for the establishment of a sugar refinery.[67] By the next spring, a nine-storey "sugar house" was under construction beside the harbour. Not only were Merchants' directors such as Kenny and Michael Dwyer prominent promoters of the Nova Scotia Sugar Refining Company, but their bank was instrumental in financing the young enterprise. By 1882, the refinery owed the bank $460,000, a loan secured by bills of lading on stored sugar and a mortgage on the premises.[68]

Steel followed sugar into the boardroom. In December 1882, Kenny met with the promoters of the Steel Company of Canada, a small iron-and-steel concern which had been struggling to establish itself in Londonderry, in central Nova Scotia, since the mid-1870s. The company was seeking an advance of $200,000.[69] It was a tantalizing prospect. The following April the Merchants' approved an $80,000 overdraft. "It was stated," the minutes read, "that the demand for the product of the Company's works was so great that there was actual difficulty in executing orders from customers."[70] Kenny also took a prominent role in the establishment of the Nova Scotia Cotton Manufacturing Company and, as the decade wore on, contributed his time to other, more-public ventures intended to enhance Halifax's new economic orientation. Membership in a federal royal commission on railways and a founding role in the reinvigorated Halifax Board of Trade were typical of his energetic promotion.

Besides diversifying the bank's lending practices, the board worked to tighten bank procedures and recruit more competent staff. The early 1880s saw a conscious effort to systematize the relationship between head office and the agencies. The original free-wheeling agents were displaced by regular staffers who owed their loyalty to head office alone. John Dickie in Truro was obliged to resign and hand over his agency to his son, Martin, who became a full-time bank employee. In 1883, it became "the settled policy" of the Merchants' that agents could not maintain a business of their own.[71] Political involvement was similarly discouraged, as were family entanglements. A year later, the board decreed that "no officer in the service should marry unless his salary was $1,000 or over, except he received the special sanction of the Board."[72] The object in all these reforms was to groom a disciplined and mobile corps of employees, available for posting throughout the growing agency network and free from local

*Head Office staff, Halifax, c.1880. Well into the twentieth century, such photographs visually demonstrated the hierarchy. Junior staff were lined along the left, mounting in seniority to the manager in the centre. The bank messenger, usually an older, ex-military man, was placed alone on the far right; the messenger was not considered a career banker. When women began joining the bank as stenographers in the early twentieth century, they were invariably placed with the messenger. In this photo, Cashier George Maclean reigns outside his office door and David Duncan, accountant, attends him to the left. Note the spittoon in the lower left corner.*

temptation. The term "the service" began to creep into bank correspondence. To consolidate all these procedures, a slim booklet entitled *Rules and Regulations* was published in 1885, and the cashier in Halifax began despatching crude circular letters laying down bank policy to the agencies.[73] To instil respect for these standards, inspectors began to arrive unannounced at the agencies, demanding access to the books. To ensure standardization in paperwork, a stationery department was established. The opening of a telephone line from head office to Bridgewater in 1883 represented the bank's first attempt to conquer distance with technology.

Telephones and circulars alone did not make a modern bank. The nerve-shattering defalcation and dismissal of Cashier Maclean in 1882 (see vignette) prompted the directors to pay more attention to the quality of their staff. Most new recruits were hired away from other banks; most had exposure to Scottish or central-Canadian banking. Maclean's replacement, David H. Duncan, was a dour Scot who had first come to the Merchants' in 1872 from the Bank of British North America. As cashier, Duncan fast became a stickler for detail and routine. If Duncan anchored the bank in Scottish bank procedure, other recruits brought bolder skills. In January 1883, the board hired a young, Quebec-born accountant, Edson Loy Pease, away from the Commerce.

As histrionic as it may sound, Pease's acquisition would prove to be the most providential the bank ever made. He was by birth and training a central Canadian; although a Halifax resident from 1883 to 1887, he never bought a home there, choosing instead to board on South Park Street. Pease arrived with an inbred restlessness that soon infected the bank's directorate, which almost immediately began to employ him as a troubleshooter, negotiator, and promoter. Reading the bank's minute books for these years, one gains the sense of Pease in perpetual motion, breaking out of the inhibiting confines of Halifax. He served as a vigilant agency inspector, descending, for instance, on Baddeck in 1886, finding it in "deplorable condition," suspending the accountant there, and eventually closing the operation.[74] When the Maritime Bank in Saint John faltered in 1883, the Merchants' sent Pease to discuss a possible bail-out and amalgamation.[75] Like Kenny, Pease was also soon convinced that the Merchants' would have to break out of the Maritimes. The natural inclination of a bank dominated by Haligonian merchants was to follow the city's trade routes south to Britain's warmer colonies or to other centres in the Atlantic fishery; in 1882, David Duncan had negotiated the bank's entry into Bermuda. In 1886 Pease travelled to St. Pierre and

*(continued on p. 48)*

# DEFALCATION

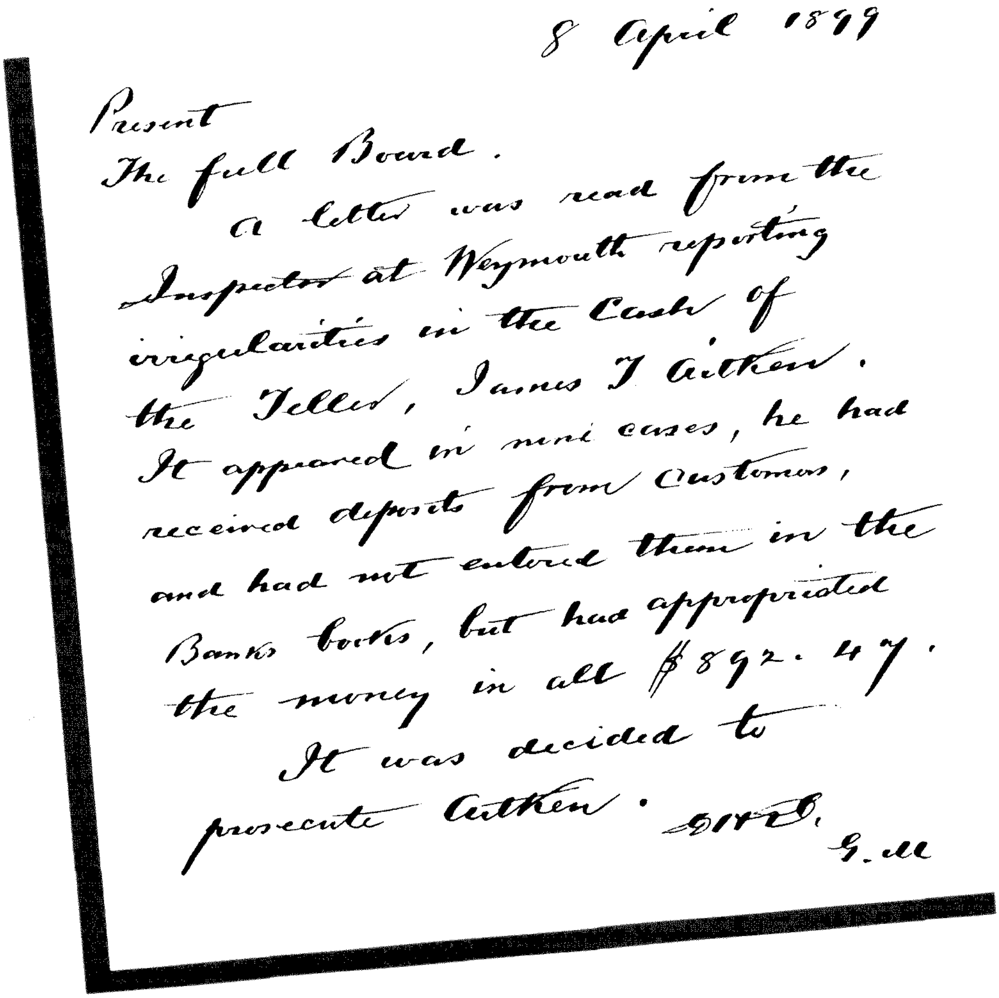
## *The Banker's Secret Shame*

IT WAS THE MOST SINISTER WORD IN THE lexicon of nineteenth-century banking, bringing a shudder to bank director and client alike. Despite its Dickensian aura, defalcation could be reduced to a simple dictionary definition: "a fraudulent deficiency of money owing to breach of trust, in short, embezzlement." In any banking system, but particularly an immature one, confidence in the integrity of the institution is the fundamental prerequisite of growth. A lack of trust brought a lack of stability, and a well-publicized defalcation by a bank employee was the surest route to both.

In 1870, just a year after the Merchants' obtained its charter, the Halifax banking world was rocked by the disclosure that Cashier James Forman of the Bank of Nova Scotia had defrauded his bank of $315,000 over twenty-five years. The ensuing scandal revealed that the cashier as a bank's senior employee was in a virtually unchecked position to "cook" the books. Twelve years later, the same lightning struck the Merchants'. "It having come to the knowledge of the board," the minutes of November 17, 1882, read, "that Mr. Maclean, cashier, was a defaulter to the Bank to the extent of $10,729.18...he was discharged." David Duncan's first discovery as the bank's new cashier was that Maclean had also pilfered $2,188 in cash. After 1882, the bank's cash was entrusted to the joint custody of the cashier and the accountant. Disgraced, Maclean found work as an insurance salesman in Truro, eventually regaining a junior position in the Union Bank. When the Royal took over the Union in 1910, Maclean was immediately pensioned off.

Why did men steal from their employers? While some pointed to the temptation brought on by low salaries, most adopted a moralistic line. "Character" was seen as being at the heart of banking: "There is no mercantile profession," a Bankers' Association essay-winner, D. M. Stewart, wrote in 1894, "in which character plays so prominent a part as banking." Well-trained bankers did not steal. The *Rules and Regulations* spelled out the procedures that instilled character. For instance, ledger entries were to be made in ink, not erasable pencil. Bank fraud was almost always discovered when the perpetrator broke routine – for a holiday or transfer. In 1885, an Officers' Guarantee Fund was created, whereby bank employees were required to post bonds. Defalcation insurance was also purchased. In response to demands for government inspection, bankers pointed to the vigilance of their inspection staff. None the less, reforms crept into the system: in 1913, the Bank Act stipulated an independent shareholders' audit, and in 1923 the Office of Inspector General of Banks was created in Ottawa.

When confronted with evidence of defalcation, directors had several options. Some were prosecuted, but legal costs were high and juries often sympathetic to young clerks. In the



8 April 1899

Present
The full Board.
A letter was read from the
Inspector at Weymouth reporting
irregularities in the Cash of
the Teller, James J Aitken.
It appeared in nine cases, he had
received deposits from Customers,
and had not entered them in the
Banks books, but had appropriated
the money in all $892.47.
It was decided to
prosecute Aitken.
G. M

*An entry in the directors' minute book, April 8, 1899*

United States, however, the short-story writer O. Henry, a bank teller by occupation, was none the less jailed for defalcation. In other cases, the bank, fearing adverse publicity, quietly settled out of court. Families of the wrongdoer often made good the loss. Large defalcations invariably resulted in a chase into the United States, with Pinkerton agents hired by the bank tracking down wayward employees.

As the Canadian banking system matured in the early twentieth century, the incidence of defalcation diminished. Even the word slipped out of common usage. Yet, no system is completely immune to the effect of temptation. Particularly in times of recession or rampant speculation, men succumbed to the thought of quick gain. Such was the fate of a young Chatham, Ontario, clerk who in 1929 filched $26,000 to play the stock market. He was later arrested driving his new Pontiac along Sunset Boulevard in Los Angeles. The bank paid the local police chief $200 as a gratuity.

Miquelon to open an agency to serve the French fishery.[76] The phrase "on the recommendation of Mr. Pease" began regularly to punctuate the reporting of directors' decisions. Pease would soon harken to a less-familiar and less-oceanic call: the continental interior and its potential for financial expansion.

The expansionistic intuitions of Kenny and Pease were borne out in electrifying fashion when the bank's high hopes for Nova Scotia's fledgling sugar and steel industries proved ill-founded. From the outset of production in 1881, the Nova Scotia Sugar Refinery was in trouble. The company overspent its initial capital of $300,000 and by 1885 owed $680,000 to the bank.[77] Various culprits were fingered. According to the *Monetary Times*, Montreal sugar producers had an "unfair" advantage in transportation costs and better tariff protection was needed to enable Halifax sugar to enter foreign markets.[78] Whatever the cause, the company quickly became a huge liability to the bank. Kenny and Allison Smith, the refinery president and a bank director since 1876, struggled to refinance the refinery. At the annual meeting in 1886, Kenny reluctantly informed the shareholders that such a course involved "substantial losses" for the bank. A month later, the refinery was sold to, and refinanced by, a new company. The Merchants' surrendered its $350,000 mortgage on the mill, taking back $200,000 mortgage bonds and $50,000 cash, thus writing off $100,000.[79] The refinery soon found both markets and profits and in 1893 merged with two other mills to become the Acadia Sugar Company. Kenny remained a director and large shareholder throughout. As bank president, however, Kenny extracted from the sugar episode the lesson that Maritime industry, with its resources and markets unintegrated into the continental economy, was a precarious vehicle for bank growth.

The steel industry retaught the same lesson. Despite the roseate expectations that had accompanied the giving of an $80,000 line of credit to the Steel Company in Londonderry (where the bank opened an agency in 1882), the "infant" industry was soon in trouble. In September 1883, the directors "expressed surprise" in learning that the steel company was already deeply in debt to another creditor. Surprise turned to shock three months later when the other creditor forced the steel company into liquidation.[80] The bank immediately lodged a claim against the assets of the company, and while Thomas Ritchie, the bank's Halifax counsel, remained sanguine about the outcome, the matter soon sank into a legal quagmire. Like the sugar company, the steel company was eventually refinanced under the auspices of a group of Montreal and English capitalists.[81]

However, unlike the sugar setback, in which the loss was simply made up out of earnings, the steel loss had to be covered by the transfer of $80,000 from the bank's reserve. This procedure struck at the heart of the bank's existence. The reserve, or "rest," was a bank's ultimate contingency fund, monies set aside out of profits in good years to cover bad debts in leaner times. The ambition of young banks was to build up their reserve fund to levels approximating their paid-in capital. Since 1869, the Merchants' had laboriously built up its rest from a meagre $20,000 to a comfortable $200,000 in 1884. Now it had been publicly chopped by $80,000, accompanied by the bank's first annual loss, $45,109. Repeated losses and an unsubstantial rest account were a recipe for banking disaster, an epitaph written on the tombstone of many a small bank. Kenny knew it. As he told his shareholders in 1886, the directors resorted to the rest account because they "felt it was their duty to do this in order that they might emphatically state that *all* bad and doubtful debts had been provided for."[82]

By the fall of 1886, the Merchants' Bank of Halifax had arrived at a watershed. It could remain a bank bound to the imperatives of the Halifax hinterland. There were undoubted profits here; the bank would carry many of its original mercantile accounts from Water Street deep into the twentieth century. Yet with such specialization came the vicissitudes of a cloistered economy, too great a dependence on the boom and bust of commodities. Similarly, the agonies of sugar and steel promotion seemed to indicate that the Maritimes were drawing on an increasingly limited pool of capital. Banks without access to ample capital soon withered. On the other hand, the National Policy pointed the way to "nationalization" of the bank's operations. If the sugar and steel accounts had initially inflicted painful losses, the lesson was perhaps that such accounts would pay only when fledgling Maritime industries were truly integrated into the continental Canadian market and the capital access it afforded. The same was therefore true for the banks. In the wake of the steel fiasco, Kenny found himself thinking along continental lines. Many in Halifax were drawing contrary conclusions; G. P. Mitchell & Sons, an original bank shareholder and client, would describe the National Policy as a "curse to us" in a letter to the *Monetary Times*.[83] Kenny thought otherwise and in January 1887 allowed his Tory friends to draft him as their federal candidate for the County of Halifax. Not to have done so, he told Sir John in Ottawa "would injure party in county and province." Kenny reserved the right to quit politics if the demands of his business life so dictated.[84]

One of the peculiarities of nineteenth-century Canadian politics was that county seats in the Commons, such as Halifax, carried double representation. Kenny was therefore joined on the Tory ticket by John Stairs, his close friend and promoter of Halifax industry. The

Stairs family business, William Stairs Son & Morrow, was a client of the bank, and Stairs's father was a linchpin in the Union Bank of Halifax. The opposing ticket featured A. G. Jones and local hardware merchant H. H. Fuller. Both were well known to the Merchants'; Fuller would join the board in 1890. The Halifax mercantile community thus split its political allegiance and, on February 22, 1887, so did the Halifax electorate. In a very tight contest, Kenny and Jones took the honours. As soon as the House convened in the spring, Kenny began making his mark as a Maritime champion of the National Policy. In May, he sponsored the incorporation bill of the Londonderry Iron Company. It was, he said, an important *national* industry. Similarly, he urged the improvement of Halifax harbour as a matter of "national" importance.[85]

Kenny now became a regular commuter on the Intercolonial, hurrying to Ottawa to tend to his political duties and then home again to oversee his commercial and banking concerns. He did not travel long unaccompanied. The Merchants' too was hearing the call of the interior. In July 1885, the board had received a loan request to finance logging operations in Manitoba.[86] In 1886, an agency was opened in Moncton, the crucial Intercolonial junction for trains heading inland. Later that year, Edson Pease went to Montreal to sell surplus foreign exchange. Both Kenny and Pease could see that Montreal, with its growing industrial base and transcontinental rail links, was the crucible of Canadian finance. If the Merchants' was ever to broaden its lending and put its notes into wider circulation, the magnetism of Montreal could not be resisted.

The board was clearly divided on the wisdom of establishing a presence in Montreal. For many, the Merchants' was a *Halifax* bank. Neither Kenny nor Pease denied this. Montreal simply provided an avenue to future growth, an assurance that the bank would not join the already long list of extinct Maritime banks. It took two full days of board discussion to decide the issue. After this "full discussion," "it was decided to open there under the charge of Mr. Pease."[87] The next day, August 5, 1887, after a final interview with the directors, Pease took a sleeping compartment on the Intercolonial's "Quebec Express" and, at 6:00 p.m., left Halifax for Montreal. An inveterate traveller, Pease would take many trips in his life. This was the most important.