CHAPTER FOUR

Growth Through Amalgamation

"In Union There Is Strength"

THE ROYAL BANK'S 1903 ANNUAL REPORT WAS, IN THE *MONETARY TIMES*'S opinion, "a dainty piece of book-making."[1] For the bank's 595 shareholders, there was ample evidence of a network of forty-nine branches spread from Cuba to British Columbia and profits of $373,252 generated from assets of $25 million. Financial performance had shown a handsome increase from the previous year, a pattern that would persist for the next twenty-five years. The *Monetary Times* would, for instance, report four years later that the Royal's "cheering profit" of $746,775 worked out to a 19-per-cent return on the bank's capital base, a figure "calculated to make some competitors pink with envy."[2] By the time the bank celebrated its fiftieth anniversary in 1919, it was Canada's second-largest bank; by the mid-1920s it would have assets of $583,789,509 and 654 branches and have overtaken the front-running Bank of Montreal. This was an unprecedented spurt of banking growth. "The Royal Bank has been in the habit, for a number of years," *Saturday Night* noted in 1920, "of establishing new records for Canadian banks."[3]

What made the 1903 annual report what the *Monetary Times* termed "dainty," was not so much the hint of future financial profit as the bank's association with national growth. A month after its publication in early 1904, Laurier proclaimed that the twentieth century would "belong" to Canada, a prophecy soon seconded by a crescendo of growth up to 1913. From the adoption of its new name in 1901, the Royal began accompanying its annual report with statistics of national growth. To the majority of bank shareholders – small investors scattered through the Maritimes – such statistics would hardly have been a revelation. For the growing number of Montreal, New York, and British shareholders, the statistics would have vindicated their decision to invest in what seemed a dynamic young bank. Prospective immigrants were the real audience for the Royal's annual report; bundles of the reports were shipped to Canadian immigration offices in Europe and the United States. New Canadians would ultimately become new Royal customers.

In the first quarter of the new century, the institutional structure of Canadian banking jelled. By 1925, the corporate identity of Canadian banking would assume a form still recognizable three-quarters of a century later. In 1900 it had been an industry dominated by the Bank of Montreal and populated by a myriad of small regional banks struggling to carve out a national market share. Within this quarter-century, there was the paradox of immense growth in assets and facilities accompanied by a steady contraction in the number of banks. In 1900, Canada had thirty-six banks; by 1931 there were only ten. In the same period, 708 branches grew to just over 4,000. Canadians were pampered by this expansion; in 1900 there was one branch for every 7,600 Canadians; by 1920, this had risen to an astonishing one branch per 1,900 and by 1930 had somewhat relaxed to an average of 2,500.[4] Behind this swelling tide of branches, from 1900 to 1920, the assets of Canadian banks grew at an annual average of 9.45 per cent. Within this expansion, the Royal excelled. In 1900, it had 3.6 per cent of Canadian bank assets; by 1920, it had 18.7 per cent, and by 1930, 27.2 per cent. In an era when Canada's "big banks" emerged, the Royal emerged as the biggest. As Herbert Holt told the 1912 annual meeting, when Canada was "a country of small affairs, small banks sufficed, but that we must have banks to handle the large operations of the present day."[5] Seven years later the general manager of the Bank of Nova Scotia similarly reminded Finance Minister Thomas White that "[O]nly large and strong banks can expand."[6]

However, to ascribe terms such as "corporate strategy" to the turn-of-the-century deliberations of Edson Pease and the directors of the Royal would create a false sense of purposefulness. The corporate horizon of the bank was defined by day-to-day, *ad hoc* decision-making: a branch established here, personnel shifted there, or a dividend declared. The bank's corporate direction still bore the mark of the 1887 decision to establish in Montreal and to use it as a springboard for expansion. Over two decades, Pease had pursued this mandate vigorously, supplementing it with an effort to export the bank's expertise into the Caribbean. Ten years into the new century, the Royal was a *national* bank by virtue of this strategy, but it was still a relatively small bank with only 162 of the nation's 2,367 branches.

Further growth, Pease realized, would depend on an even-more-vigorous pursuit of internal growth or, possibly, on the adoption of a new approach to growth – the acquisition of other banks' assets. The years 1910 to 1925 would be marked by Pease's masterful blending of these two "strategic" options. On one front, the Royal continued to push its branch network out to the edge of Canadian development – in boom years such as 1909 and 1919, Royal branches proliferated in the West and in hinterland Ontario. At the same time, the Royal made five crucial mergers with other banks. More than anything else, mergers vaulted the Royal into the leadership of Canadian banking.

The Royal was by no means the only Canadian bank to embark on a merger campaign; Pease assured the Commons Banking and Commerce Committee in 1913 that "we are not the arch consolidators."[7] None the less, Edson Pease assembled the Royal's jigsaw of consolidation with incredible prescience. Each piece brought special advantage. The completed picture in 1925 revealed a stable national balance of regions, towns, and cities. Each amalgamated bank added new talent and exposure to the Royal's already well-defined culture. There was an undoubted element of luck in the whole process; several attempted mergers were in fact botched. But banking in Canada was becoming a much-more-complex process – an amalgam of public opinion, public policy, and competitive strengths. It was Pease's master stroke that he was able to plot the bank's path through this changed landscape. The Royal's amalgamation strategy was, on the whole, precisely targeted and cleanly executed; each infusion of new staff strengthened, not dissipated, the culture of the bank. Through all this, Herbert Holt, the bank's president, sat mutely by, tending to his other, varied, business interests. Given Pease's pre-eminence, there was natural sense in the bank's 1916 decision to create the chief executive post of managing director for Pease, freeing him from the bank's daily operational affairs (C. E. Neill became general manager) to concentrate on its strategic direction.

Canadian bank mergers have usually been seen as a response to external competition, a means of weeding out weak regional banks and buttressing emerging national banks. Edson Pease would come to subscribe to this rationale, but initially the thought of taking over other banks came in response to internal factors that were beginning to constrict the bank's growth. Principal among these was the bank's inability to generate a sufficient supply of reliable young bankers to staff its aggressive expansion, despite its success in training a small army of "bank boys." Again and again, head-office correspondence was punctuated by the persistent complaint that "we are pressed for good men." Given the gradualism implicit in the "bank boys'" education, it was difficult to accelerate the advancement of young staff. Hurried promotion courted sloppy banking and the risk of defalcation and error by men put in positions to which their talents and loyalty were as yet unequal. As early as 1899, the board was deferring branch openings because, as it admitted, "we find it difficult to find suitable men: our staff having been so heavily drawn on during the past year for our western branches."[8] Western expansion most overtaxed the bank's staff; isolated western branches placed a premium on a banker's resourcefulness and character. Much the same was true of the bank's growing international network. An untried manager could not, for instance, be sent to an isolated post in Cuba's Oriente Province. None the less, the Royal's reputation as a "young man's institution" reflected management's willingness to push recruits hard and early. Many buckled. Two years after opening a branch in the copper-boom town of Grand Forks, British Columbia, head office learned to its horror that their manager in the town had allowed himself to become personally embroiled in questionable loans and had succumbed to a nervous breakdown.[9]

The Royal devised various measures to alleviate the manpower strain. Halifax and, after 1908, the "marble palace" in Montreal were employed as incubators for young Maritime-born clerks, ideal locales for exposing staff to the pressures of urban banking. Staff reminiscences often dwelt on the image of "snowed-under tellers" in Montreal being hastily prepared for despatch westwards.[10] However, the board soon learned that many of these forced-growth bankers succumbed to the "get-rich-quick" opportunities of western boom towns and quit the bank. A surer bet, eastern bankers concluded, was to import proven staff from England and Scotland, paying a premium on salary to ensure loyalty, but even this did not meet the pressures of expansion. The only remaining option was to obtain staff from competing banks. Here the way was barred by an understanding between the banks that they would not raid each other's staffs, mainly out of a fear that a bidding war for manpower would drive up wages. This unwritten rule would last into the 1960s; one had to resign from a bank before seeking employment with another. Thus the prospect of the outright purchase of an entire bank with its staff was immensely attractive. Given the standardized nature of bank training in Canada, this meant that personnel from either banks could be readily incorporated into the Royal's ranks. Furthermore, merger meant the acquisition of trained *managers*, not just clerks, and, since a merger usually meant the closure of duplicate branches in the east, it created an immediate pool of surplus labour ready for reassignment. "The consolidation," Pease confided in a friend of the 1916 takeover of the Quebec Bank, "will give us a hundred and fifty surplus men, who will be very welcome. Lack of men has prevented us from occupying some attractive new fields."[11]

Staff shortage was not the only factor keeping the Royal on a short leash. Competition was also inhibiting expansion. Given that the Bank Act capped interest on money lent at 7 per cent (on occasion 8 per cent) and that the rate on money deposited was set by consensus at 3 per cent, there was little scope in Canadian banking for head-on product competition. Competition was driven by location and service; the reward was a larger market share. In a country still predominantly made up of small towns, only a handful of larger centres could support vigorous bank competition. In smaller centres, the market was too small to be profitably shared. The Royal had, for instance, met tough competition from the Toronto-based Traders Bank of Canada in its attempt to penetrate rural Ontario. Managers had engaged in unseemly efforts to poach accounts from established Traders branches and, even when successful, such efforts seldom brought much profit. As early as 1898, CBA president D. R. Wilkie complained of this "delirium of competition." Soon after, the association began facilitating informal "saw-off" agreements, which stopped competition in smaller centres.[12]

The folly of over-ambitious expansion on thin ground was made abundantly clear to Pease and his colleagues by the ignominious collapse of the Sovereign Bank in 1908. Chartered in 1901 and guided by its general manager, ex-Royal Banker D. M. Stewart, the Sovereign had plunged headlong into rural Ontario, opening branches with a rapidity that drew the breath from Canada's staid banking community. With financial backing from New York and from the prestigious Dresdner Bank in Germany, the Sovereign was invariably described as being "very American" in its methods. Stewart introduced innovations such as the quarterly payment of interest on savings. By 1907, it boasted nearly ninety branches and assets of $25 million. But the panic of 1907, which rocked Wall Street and brought about a sudden contraction of credit, exposed the shallow roots of the Sovereign. A year before, the Ontario Bank had collapsed under a heap of unsecured loans. Its general manager quickly found himself in Kingston penitentiary. Now Stewart, who had already resigned his general managership at the Sovereign, fled the country when it became apparent that the bank carried huge bad debts in Alaskan and mid-western American railways and utilities. "It was born of ambition," the *Monetary Times* reported, "it lived on the fruits of ambition, nice but not nourishing; and it died as the result of ambition."[13] As it had for the Ontario Bank, the Royal participated in a rescue of the Sovereign, paying $300,000 into a liquidation fund set up by the CBA and eventually inheriting six Sovereign branches of dubious worth.[14]

The rubble of the Sovereign smouldered for several years as creditors fought for their rights, a constant reminder to more sober banks that expansion had to be broad-based and well-balanced. The essential lesson of bank failures early in the century was that banks that relied on a regional base were vulnerable banks. Regional banks got caught in cyclical downturns and commodity slumps; national banks, by contrast, hedged their bets through diversified savings and loans. Surplus savings in developed regions could be reapplied to immature regions. Nowhere was this more true than in the Canadian West. From the onset of the Laurier boom in the late 1890s, western farmers had displayed a voracious appetite for credit. This was "next year" country, where future prosperity depended on the application of sweat and a generous line of credit. Not only was capital scarce in the West, but the demands of western credit were peculiar. Potential borrowers had little collateral and invariably wanted loans geared to the seasonal rhythm of grain production. They wanted short-term credit to cover the period from spring seeding to fall harvest. As the Royal's Winnipeg manager lectured Pease in 1913: "we must remember that this is a grain growing country. One might broadly say that there is only one pay day in the year, that is when the farmer sells his grain. When we make a loan to a farmer during the winter or spring, we know perfectly well that we are not going to be paid until late the following autumn or during the winter."[15] Over the long run, farmers were prepared to bet on the rising price of grain and western land as the ultimate hedge against their indulgence in credit.

In the years of the Laurier boom to 1914, the wheat frontier and the bank frontier coincided. Pease incessantly prowled the Prairies on the outlook for promising locations for branches; by 1914 the ten Prairie branches that the Royal had in 1906 had grown to sixty-three. Back in the Montreal boardroom, the directors provided financing for western grain companies and for Mackenzie and Mann's Canadian Northern Railway. In 1906, the bank appointed James Lougheed (patriarch of what was to become a great Alberta Conservative family) and R. B. Bennett as its Calgary solicitors. Winnipeg directors followed in the 1910s. With characteristic flexibility, the Bank Act accommodated the West's banking needs; Section 88 of the Act was a marvellous testament to the ability of Canadian banking to meet the needs of a developing economy, short on capital and long on labour and resources. Under Section 88, a farmer might secure short term (i.e., three to six months') credit to purchase seed, fertilizer, or twine in the spring on the security of the crop in the ground.[16] Western branch managers soon became adept agriculturalists, hiking out to sodbusters' farms to check crop progress or run their fingers through harvested grain. In

Banking at the "end of steel": A Union Bank of Canada branch in Foremost, Alberta, c.1914. Bankers impatiently established ramshackle branches at the head of rail construction to capture the business of construction navvies and win the confidence of newly arrived immigrants. Such branches spawned a rich folklore: language problems, ferocious winter weather, and loneliness.

later years, Section 88 would be extended to cattle rearing. Just as they had moved fish and timber in the Maritimes, the banks now helped convert raw resources into finished commodity exports. But Section 88 had an Achilles' heel: farmers' ability to make good their own loans hinged on good crops and rising prices. Without these, bank debts might pile up as quickly as unsold grain. The commercial slump of 1913 hinted at this; the Depression would make it a chronic western condition.

In 1908, the Bank Act was amended to alleviate another obstacle in the path of western development. The seasonal nature of farming meant that the annual fall sale of the crop brought a surge in the demand for ready cash. Since the banks were limited in their note circulation to the extent of their paid-up capital, the West faced a seasonal cash drought every fall. Because this cash crunch tended to choke national development, Finance Minister Fielding seized the initiative in 1908 and permitted the banks to circulate notes equivalent to 115 per cent of paid-up capital in the crop-moving period, subject to a 5 per cent tax on excess circulation. It was a crucial precedent, because for the first time the government had found a direct mechanism to affect the volume of credit available in the country. In the 1913 Bank Act revision, this precedent was expanded by the creation of a Central Gold Reserve, by which banks might obtain excess circulation upon deposit of gold or Dominion notes with the Reserve.[17] While some bankers felt threatened by these government initiatives, Pease of the Royal welcomed them, realizing that they facilitated bank development in the West. The West was hungry for loans, and the Royal wanted as much financial reach into the region as possible. "Yes," he told the politicians in 1913, "our loans run from one, two, and three times as much as our deposits. ...Our loans are very much in excess of our deposits. I could not say definitely, but at least 150 per cent." Big banks, he argued, were better equipped to cater to the needs of the frontier. Despite high overheads and meagre deposits, western branches moved eastern savings to western opportunities. If an 8 per cent interest rate was sometimes charged, Pease believed that the accessibility of loan money warranted it.[18] He also believed that mergers offered the Royal a means of extending its western reach – mergers brought an expanded asset base and a broader net of branches.

Since the move to Montreal in 1887, the bank's paid-up capital had increased with exponential regularity. From a base of $2 million in 1900, it surged to $6.2 million by 1910. Each increase necessitated an elaborate *pro rata* distribution of shares to existing shareholders and a series of "calls" for the shares to be taken up. Maritimers remained very loyal to the bank and continued to constitute the majority of its shareholders. A steady stream of Royal dividends, which would peak at 12 per cent per annum in the 1911-31 period, flowed into the Maritimes. Since so much depended on the bank's capital base, Pease decided to broaden it forcefully. In Montreal, he induced friends such as Charley Hosmer to take large blocks of Royal shares. Herbert Holt maintained a modest-but-by-no-means-controlling block of Royal shares throughout his presidency, reaching 1,300 shares in the early 1930s.

As early as 1902, Pease had explored ways of expanding the shareholding base in more dramatic fashion. Since 1899, the bank had maintained an agency in New York and, although barred from American retail banking, the Royal had acquired a certain notoriety in New York as a Canadian bank that was making deep inroads into Cuba, the Americans' *de facto* sugar colony. Since American banks were legislatively restricted from exporting their services, the Royal had an inner track on the Cuban market. With this in mind, Pease headed for New York and Chicago in late 1902 with a proposal that prominent American capitalists take up stock in the Royal. Working through the New York financial firm of Blair & Co., Pease secured orders for 5,000 shares at a premium price of $250 a share. The takers came from the front rank of the American financial élite: Marshall Field, the Chicago retailer; J. Ogden Armour, the meat-packer; Ledyard C. Blair, a steel, railway, and financial-services capitalist, and others.[19] Pease's *coup* brought an extra $1.25 million in capital to the bank's books.

In later years, the notion grew up that what happened in 1902 was in fact an American takeover bid for the Royal. An editorial in the *Monetary Times* speculated at the time that the 5,000 shares "could" allow the new American shareholders "if they chose" to take control of the bank. The *Times* pointed out that one of the American shareholders was George Baker, president of the National Bank in New York and a friend of J. P. Morgan. The syndicate was thus, some historians have alleged, a Trojan horse for Morgan. There is no evidence for this fancy. The archival record reveals that Pease both initiated and controlled the whole exercise. The New Yorkers did not seek and received no board representation. They bought no more shares and remained passive investors. Had they moved for control, Halifax and Montreal directors could have easily mustered sufficient votes to destroy the Americans' pretensions. Instead, the placing of shares in American hands represented yet another aspect of the bank's search to circumvent the limits of its internal growth.

It is clear that, by about 1905, Pease and the Royal directors were also consciously entertaining the notion of growth by way of merger. Bank mergers were hardly a novelty. In the nineteenth century, failing or failed banks often sought refuge in the arms of an established bank. One of Edson Pease's first assignments on joining the Merchants' was to evaluate the assets of the troubled Maritime Bank in Saint John. A subsequent negotiation for a share exchange was aborted, and four years later, in 1887, the Maritime collapsed.[20] When successful, such mergers were little more than salvage exercises. Furthermore, they required a special act of Parliament to complete. The 1900 Bank Act revision dropped the provision for a special act and permitted mergers by mutual agreement and approval of the federal cabinet on recommendation of the Treasury Board. Failed banks would in future be dealt with by a CBA-appointed curator. Combined with the vigorous national economy, the Act now opened the way to mergers between relatively healthy banks intent on aggrandizing themselves. Merger fever began to creep into bank boardrooms: "Any amalgamation suggestion that comes to my notice," the superintendent of branches assured President

A Union Bank of Canada branch in Strathmore, Alberta, c.1923 and a Northern Crown branch in Lloydminster, Saskatchewan, c.1918 (opposite page). In large urban centres, branches were the result of commissioned architecture (often executed by well-known Montreal or New York architects), but in small towns, branches were usually the product of "factory" architecture. The Royal's architecture department in Montreal (under S. G. Davenport from 1920 to 1942) produced set-piece designs for rural branches. Such designs usually incorporated classical features such as a pediment and pillars to give the branch a sense of solidity. Banks also experimented with prefabricated branches; the Royal took a fifty-seven-ton "knock-down" branch to Vladivostok, Russia, in 1919.

Kenny, "will be mentioned to you."[21] Cautiously, the bank began to sniff out potential merger candidates. Tentative negotiations were held with the ailing Ontario Bank, but when the extent of the Ontario's indebtedness was discovered, the directors pushed the Toronto bank in the direction of the larger Bank of Montreal.[22] From the outset, it was plain that orchestrating mergers required a deft mixture of caution and decisiveness. Much to its chagrin, the board watched in 1905 as the Bank of Montreal snatched the Peoples Bank of Halifax out from under its nose. Edson Pease learned such lessons quickly.

Mergers made eminent sense in Maritime banking. Intuition had told Kenny and Pease in the 1880s that size and breadth were the surest guarantees of their bank's survival. Sooner or later, Maritime banks that did not grow became trapped in a regional economy that was slowly losing its dynamism. In 1902, John Stairs, Halifax's leading industrialist, confided to William Robertson, president of the Union Bank of Halifax, that there had been a "marked tendency on the part of the larger banks to increase still further their capital," and that trouble lay ahead for "small Maritime banks." If Toronto and Montreal controlled Canadian finance exclusively, the result would be "disastrous" for Maritime industry and commerce. The solution, Stairs believed, was for all Halifax banks to join "into one large and resourceful banking institution."[23] The die was, however, already cast. The Royal and the Bank of Nova Scotia had already shifted onto the national stage. Maritime banking was now an integral part of national banking; it was no longer, however, on the cutting edge. If Stairs hoped for decisive action from the Union Bank of Halifax, he was sadly misinformed. The Union was a quintessential old-style Nova Scotian bank, hugging its native shores and fearful of "foreign" adventures. By 1910, it had forty-five branches – all but seven within the province – and assets of $15 million. It had not opened in Montreal until 1909. Its one bid for boldness had come in 1902, when, egged on by budding financier Max Aitken, it had bought the Commercial Bank of Windsor. A handful of branches in Puerto Rico and Trinidad represented the bank's only other flicker of initiative. It was thus, by 1910, a solid, unimaginative, regional bank, perching on an increasingly narrow foundation.

From Pease's perspective, the Union was attractive in two respects. Its thirty-eight Nova Scotian branches offered the Royal a chance to consolidate its hold on Nova Scotia. An overlap with the Royal's sixteen Nova Scotia branches existed in only ten locations. The merger would thus make the Royal the largest bank in the province, an important status considering the continuing strength of some of its industries and the Maritimers' propensity for saving. Pease also cast an envious eye on the Union's staff. Here was a well-trained crew of Maritime bankers, who with the right handling might be persuaded to transfer their loyalty to a more-progressive bank with similar Halifax origins. The Union was noted for its good service and integrity: its officers prided themselves on their "democratic views," and the *esprit de corps* in the ranks had won the bank a reputation as a "bank of the people."[24]

Bank mergers early in the century were never hostile takeovers. They were instead smooth, secretly arranged affairs designed to present shareholders with a virtual *fait accompli*. Since shareholder approval was needed to sanction any merger, the terms of the deal – usually a share exchange – had to be advantageously framed. Shareholders had to be presented with a good deal and a good rationale. Since Ottawa's approval was needed after shareholder ratification, the deal had also to be cast as being in the public interest. From the outset, Pease proved an adroit merger manager. In the spring of 1910, he put out feelers to William Robertson, the Union's president. A Halifax merchant cut from the same cloth as Tom Kenny, Robertson lacked any ambition to carry his bank inland, and he proved a willing negotiator. The Royal's first acquisition was thus a model of expedition.

In late July, Robertson unveiled the deal he had struck with Pease. The Union was starved of capital, capital it needed to compete with the larger banks of Canada. Past efforts seemed to indicate that this capital was not forthcoming. A liaison with the Royal, then the third-largest Bank in Canada, promised salvation. Conscious of Nova Scotians' suspicion of central-Canadian designs, Robertson assured his shareholders that the Royal "may still be regarded as a Nova Scotian institution" whose shares were largely held in the province. To clinch their approval, Union shareholders were asked to exchange their stock at the rate of five Union for two Royal shares. Since Royal shares, nominally worth $100, were trading at nearly $250, and Union shares were nominally valued at $50, there was little reason for hesitation. To sweeten the deal, the Royal promised to boost its dividend to 12 per cent, to take Robertson onto its board, and to retain Union employees for at least a year at existing salaries.[25] At a special shareholders' meeting on September 7, 1910, unanimous approval was won for the deal. The next morning in Montreal, a special meeting of Royal shareholders approved an increase of $1.2 million in the bank's paid-up capital to cover the twelve thousand shares issued to Union shareholders. Ottawa offered no resistance to the merger, issuing its approval on November 1. Assistant General Manager Neill went so far as to write the Finance Department to thank it for its "special effort" and "courteous treatment" in reviewing the deal.[26] Almost immediately, an elaborate procedure clicked into operation: Royal inspectors appeared at Union branches, ledgers and vault keys were exchanged, and the Union Bank of Halifax ceased to exist.

The Royal's takeover of the Union and the Bank of Nova Scotia's 1913 acquisition of the Bank of New Brunswick sealed the fate of Maritime banking. Regional banking had little future "down east." Instead, the region increasingly became an integral part of the Royal's *national* system. After 1910, the Royal would look westward for further merger candidates. The Union, none the less, left a legacy: "Union boys" soon proved their mettle in the Royal. Many found more challenging horizons in the new bank. Charles Pineo, a Union accountant in Puerto Rico, excelled in the Royal's international operations. Another Union accountant, Rowland Frazee, would later introduce his son to the Royal "family." In 1979, Rowland junior would become the Royal's chief executive.

Canada's surge of economic growth peaked in 1912; a sharp commercial depression in 1913 and 1914 cooled the frenzy of immigration and industrialization. By then the economic face of Canada had been dramatically changed. Nowhere was this more evident than in Toronto's ascendancy as a centre of commerce. While St. James Street's primacy would remain intact for another forty years, Toronto's Bay Street and its Ontario hinterland were now a force to be reckoned with in Canadian economic life.[27] From the turn of the century the Royal had eyed Toronto with ambition. Stiff competition, a scarcity of labour, and the high cost of real estate had blunted its hopes. Toronto's own banks – the Commerce, Imperial, Toronto, Dominion, and Traders – dominated the city and the province. By 1912, the Royal had only 39 Ontario branches. The front-running Traders had 104. Pease knew that Ontario was an indispensable block in any attempt to build up the Royal's national reach, and he also knew that the cost would be high. Then luck intervened.

In 1906, the Traders had taken possession of its new head office – said to be the tallest commercial building in the Empire – at the corner of Yonge and Colborne in Toronto. Behind this magnificent façade, the Traders had problems. Its strength lay in its small-town Ontario network. In the 1890s, for instance, its inspector, Aemilius Jarvis, had canvassed the concession lines, dropping Traders "piggy-banks" off at farm homes and returning monthly to empty them. But the Traders never developed a strong urban network, and thus found its fortunes unduly dependent on the fortunes of agriculture. By 1910, it had only eight branches in Toronto and a single Montreal branch. Consequently,

The Toronto-based Traders Bank was strongly rooted in rural Ontario. In the early 1890s, its inspector, Aemilius Jarvis, developed an ingenious cast-metal savings bank (above), modelled after the bank's Toronto Head Office (opposite page). The savings bank was left at farm homes, where savers deposited coins in slots along its roof line. Compartments inside could be designated for specific savings purposes. Once a month, bank officials visited the farm to unlock the roof and "deposit" the savings.


TRADERS BANK

it had little commercial exposure. Two of the business accounts it *did* have, a construction company at the Sault and a Kentucky coal-and-timber company, were in deep trouble.[28] Furthermore, the Traders had only a smattering of branches in the West and none east of Montreal. While there were no visible cracks, the Traders was in fact in precarious shape, and in the spring of 1912, a Toronto lawyer, D. Lorne McGibbon, quietly began to try to orchestrate a buy-out of the bank. In March, he brought together Stuart Strathy, the Traders' general manager, with the president of the Bank of Toronto. A tentative purchase agreement was signed. Strathy was promised $200,000 if he would facilitate the merger. When the deal collapsed, two young Toronto promoters, Albert E. Dyment and Douglas K. Ridout, stepped into the breach and began a search for another potential buyer. Dyment and Ridout were described by the Toronto *World* as being part of the "young element in local finance"; Dyment was a stockbroker with an interest in timber development and horse breeding and Ridout was in insurance. Their attention soon focused on Pease of the Royal.[29]

Acquiring the Traders appealed to Pease. Its strength was the Royal's weakness. The two banks overlapped in only eleven communities; acquisition of the Traders' Ontario system would give the Royal greater exposure than any other bank in the province. Once again, there was also the inviting prospect of additional staff. The price, Pease knew, would be steep, and the negotiations would be delicate. Traders' shareholders, unaware of any of their bank's problems and satisfied by its 8 per cent dividend, might be reluctant to surrender their shares, particularly to a Montreal bank. If the deal became public prematurely, or if Traders' management opposed it, the resultant publicity might spark a panic. Pease accordingly moved quickly. On May 8, Holt informed the board that a deal had been struck. Two days later, the Traders broke the terms of the deal to its shareholders: 33,600 Royal shares valued at $240 each in exchange for the Traders' assets. Three Traders directors on the Royal board, a boost in dividend to 12 per cent, and security for the staff rounded out the deal. The Royal would accommodate its new shareholders by increasing its capital base from $10 to $25 million. Traders management heartily endorsed the exchange: the two systems were supplementary and the merged bank would enjoy the stability of a well-managed bank, with large reserves and capital. The merger would produce increased confidence and security.[30] In Montreal, Holt assured his shareholders that the merger would eliminate waste and was in keeping with the pattern of consolidation that had made Scottish and English banking so efficient.[31] Early in July, shareholders of both banks happily approved the merger. The Traders' general manager, Stuart Strathy, became the Royal's Ontario supervisor, and in September three

Traders directors – E. F. B. Johnston, a prominent Toronto corporate lawyer, W. J. Sheppard, a lumber baron, and C. S. Wilcox, a Hamilton steel man – joined Holt's board. The election of a fourth director, Albert Dyment, an outsider with no previous obvious tie to the Royal or the Traders, must have struck many as peculiar.

In fact, Dyment's name was the only evidence of a huge corporate deal that had been slipped by the shareholders unannounced. Dyment was taking his part of the reward for delivering the Traders into Pease's hands. In April, he and Ridout had struck a secret deal with Pease and his assistant general manager C. E. Neill to ensure that "the President, Board of Directors and General Manager of the Traders Bank will agree to the conditions of the sale, and recommend same to the shareholders."[32] For this they would receive a "commission" of $600,000, an astonishingly generous sum. Dyment and Ridout subsequently agreed to pay Strathy, the Traders general manager, $150,000 to coax his shareholders into accepting the Royal's embrace.

The Dyment deal was unethical, but not illegal. Instead of being a love match, the Traders/Royal merger was in fact an arranged marriage. Although A. J. Brown, the Royal's corporate counsel and a director, assured the Finance Department that the deal was virtually the same as the 1910 Union Bank of Halifax acquisition, Finance Minister Thomas White was uneasy from the outset about the implication of the merger. His political instincts told him that Torontonians looked askance at the prospect of a Montreal bank swallowing a local bank. Sensing public concern over growing bank concentration, White also wanted to see the Bank Act revised before any further mergers were consummated. He told the CBA president that he favoured some form of prior notification of the minister before deals were ratified.[33] White's concern grew when the Toronto *World* attacked the merger as a "blow to Toronto."[34] A Toronto Tory, White became even more agitated when one of his constituents wrote him, alleging that the Royal was paying "bribes" to Traders officers.[35] White asked Brown for an explanation. If there was any truth in the story, he confided to Prime Minister Borden, "the public would be shocked to learn of a transaction such as this."[36] On August 7, Strathy made a solemn oath, stating that the $150,000 payment had initially been intended as a "retiring allowance," but this had been cancelled when it was decided to make him the Royal's Ontario supervisor.[37] On August 23, Treasury Board in Ottawa approved the merger, and Strathy shortly thereafter took up his new duties in the Royal. Almost a year later, in June 1913, A. J. Brown quietly arranged for $300,000, the unpaid balance of their 1912 commission, to be sent to Dyment and Ridout through the bank's New York agency, and $150,000 to

Strathy "in full payment of all claims against A. E. Dyment and Douglas K. Ridout."[38] Shareholders never learned of these payments.

While Pease was soon complaining about the "weak character" of much of the Traders business and that over a hundred of its men had quit,[39] the acquisition of the Traders made the Royal one of Canada's major banks at one stroke. It reinforced the growing impression that the Royal was a progressive bank.[40] It also coincided with a pronounced shift in Canadian attitude to the banking industry. The years from 1909 to 1912 had witnessed an unprecedented spate of mergers in Canadian business. Merger kings such as Max Aitken wheeled and dealed companies such as the Steel Company of Canada and Canada Cement into existence, working in a *laissez-faire* business environment of minimal government intervention and remarkable investor credulity.

The banks were at least obliged by Section 99 of the Bank Act to report their mergers to Ottawa for sanction, but even with this regulator in place, a public debate over the limits of bank concentration began to emerge. Canadian concern echoed a much-more-vigorous debate over the limits of the "money power" in the United States. The Wall Street "Money Panic" of 1907 had dramatically revealed the shortcomings of the decentralized American bank system: its fragmented nature was chronically prone to uncontrollable contractions in credit and in normal times worked inefficiently in moving money around the country and in rediscounting business notes. The American public was also more prone to see banking as the creature of a handful of secretive financiers. At the famous 1912 Pujo Hearings before the U.S. House of Representatives, the "money power" was put on political trial. "Muckrakers" provided a Greek chorus of opprobrium against big money in the press. In 1913, Congress moved to impose a measure of central discipline on banking by creating the Federal Reserve System, a chain of twelve regional banks designed to "rediscount" (i.e., influence credit creation through discounting for a second time commercial paper taken by retail banks) the credit of America's banks and to act as clearing house for financial transactions. Owned by the banks, the Federal Reserve was a *de facto* central bank. American banking had "reformed" itself.

In Canada, the debate was more muted.[41] With the spectacular exception of the Sovereign's collapse, Canadian banks had weathered the Panic of 1907 on a relatively even keel. Finance Minister Fielding had personally commended CBA president Sir Edward Clouston on the "good reputation" of Canada's banks and suggested that they capitalize on this by selling their stock in Europe.[42] As the ten-year revision of the Bank Act approached, however, Fielding began to detect voices of criticism. Bank failures drew demands for government inspection of banks, and mergers provoked calls for stiffer government policing of the merger process. The spectacular crash of the Farmers Bank in 1910 – brought on by fraudulent management and dubious mining loans – fanned the fires of criticism. Banks, concluded the *Monetary Times*, "should regard mining investments as a man would the handling of red-hot coal." Others demanded better recognition of shareholder rights; Farmers Bank shareholders had lost all. Bank mergers also excited regional jealousies; Halifax, Winnipeg, and Vancouver were sensitive to the growing commercial prowess of Montreal and Toronto.

The Liberal government remained, none the less, fundamentally sympathetic to the bankers; Laurier once described Canadian banking as "fair, just and equitable."[43] In January 1911, Fielding introduced a revised Bank Act that hinted at reform, with the inclusion of an independent shareholders' audit, but the bill was shunted aside when the government plunged the country into a heated debate over U.S. free trade, a debate which was to lead to a Tory victory at the polls that fall.

It was not until 1913 that Conservative finance minister Thomas White again turned towards Bank Act revision. White, a Bay Street financier, inherited Fielding's basic empathy for bankers. Other Parliamentarians were more sceptical. At the Commons committee hearings accompanying the revision, Canadian bankers were for the first time obliged to explain themselves publicly. Bank Act revision had ceased to be a cosy, predictable affair between bank general managers and the finance minister, and, no longer a small regional bank, the Royal found itself at centre stage. Pease, not Holt, spoke for the bank. Again and again, he affirmed his belief that bank mergers were in the national interest. Mergers removed "weak banks" and stabilized the banking industry. Merged banks profited from economies of scale; they reduced overheads "very largely." Large banks served communities – particularly the West – better by moving capital around the country. "I am not averse to strengthening the banks," Pease concluded. "I think 'In union there is strength' and that there is room for a great deal of economy, as there is a great deal of waste." By this standard, the Traders acquisition was a "good one." When asked how much the Royal had paid in commission to "outside agents" for the Traders, Pease declined all comment. He was sharply critical of any suggestion that mergers be submitted to Parliament for approval: "I think it would defeat the object in view.... The good will of a bank would be dissipated before you could reach Parliament. Every bank would make a dead onslaught to get its business, leaving

(continued on p. 144)

RELUCTANT SALESMEN

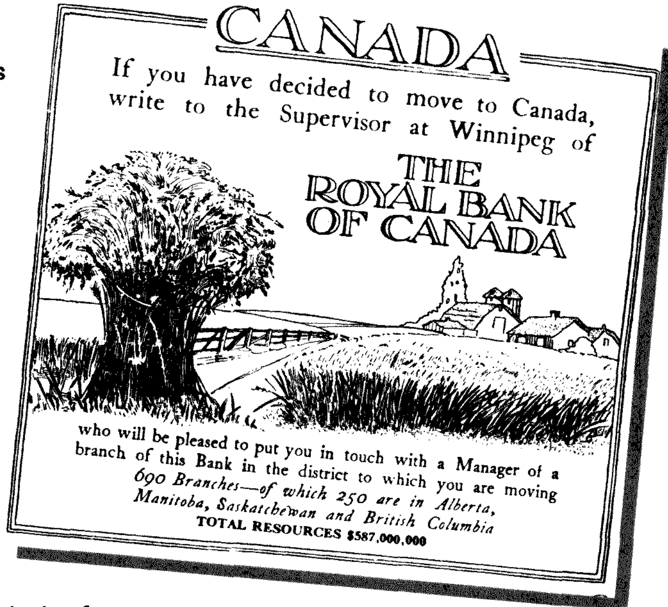
The Beginnings of Bank Advertising

"THE BUSINESS OF A BANKER DOES not lead him to the public, but the public to him," wrote George Rae in his seminal Country Banker of 1850. "He does not cross the street to Brown to beseech him for a deposit, nor to Jones to implore him to overdraw his account." Canadian bankers studied their Rae well. In their view, there was something crass and unbankerly about advertising. At most, they placed innocuous notices of their hours, address, and services in newspapers, but these never exalted the quality of service nor disparaged the competition. When the McKim advertising agency solicited the bank's business in 1903, the board did not "view the proposal favourably." The bank was already well known throughout the Maritimes, it reasoned, and the expenditure "would not warrant the outlay."

By the turn of the century, the pressure of national growth obliged bankers to act less bashfully. With mushrooming branch systems and unprecedented population growth, it was crucial to keep a bank's name in the public eye, but the approach remained indirect: cultivate goodwill and associate the bank with national expansion. Within Canada, the Royal began distributing desk blotters and calendars aimed at various segments of society: university students, farmers, and Boy Scouts. The blotters carried tips on first-aid and fire prevention. Abroad, "reaching the foreigner" considering immigration to Canada was the priority. Pamphlets in languages as varied as Hungarian and Yiddish were sent to Europe, extolling Canada's potential and the Royal's availability for foreign-exchange transactions. For new Canadians, the bank printed calendars and service information in Chinese, Portuguese, and other languages. All this was done in an ad hoc manner. The animus against direct advertising persisted. As late as 1918, Edson Pease told the CBA that "I am strongly opposed to any advertising that takes the form of direct solicitation."

The First World War opened bankers' eyes. The dramatic

Advertising extolling saving, c.1930 (above) and advertising aimed at immigrants, c.1924 (opposite).



effectiveness of government war-bond campaigns in drawing billions of dollars out of Canadians' pockets into the war effort convinced bankers that advertising was a potent force in Canadian society. In 1919, the Royal established an advertising department at head office. Under Gordon Tait, the department brought a system to the bank's bid to build goodwill and recognition. A Monthly Letter was established to provide the general public with analysis of the Canadian economy. The bank undertook sponsorship of prizes at agricultural fairs. Guides to foreign trade were published. The blotters began carrying homilies that reflected the Presbyterian soul of Canadian banking: "What is Thrift?" "The Bondage of Debt," and "Your First $100." In the late 1920s, it seemed only natural that the bank's first "star" promoter should have been the Scottish tenor Sir Harry Lauder endorsing "thrift." Millions of Canadian school children began the annual ritual of wrapping their texts in manila covers emblazoned with the Royal logo and a brief lesson in history or saving that were supplied by the bank. The artwork in these advertisements was often striking. In 1930, poster advertising was initiated by the Norman Rockwell-like "Happiness through Savings" series.

Despite its conservative nature, bank advertising was well established by 1930. The Royal finally had an advertising agency – Cockfield Brown – and saw advertising as a means of expanding and defending its place in society. When Western hostility to bank mergers began to mount in the mid-1920s, General Manager Charlie Neill penned a pamphlet essay entitled "Canadian Banks and Local Business," which was distributed free as a way of boosting the bank's legitimacy in the eyes of the public. On occasion, bank advertising hinted at products. The availability of safety-deposit boxes and travellers' cheques were "sold" on grounds of their security and convenience. There would, however, be no hard-sell of bank products until the 1950s, when personal chequing accounts were introduced. Similarly, marketing, advertising's handmaiden, did not appear as a corporate function until the 1960s. Without marketing research to segment the market, advertising had to be applied in an undifferentiated fashion. Bank advertising appeared only in print. Radio advertising seemed huckster-ish, better suited to soap and toothpaste. The banks did not take to the airwaves until the late 1960s, when advertising was called upon to change customers' attitudes: "Will that be cash or Chargex?"

nothing to the purchasing bank."[44] When asked if bank concentration had gone "too far," Pease said he thought not, pointing to the small number of Scottish banks: "I think they have the best banking facilities in the world."

The Bank Act revision of 1913 made two concessions to the public mood of reform. Shareholders were afforded the right of selecting an independent auditor to make an annual inspection of their bank's financial affairs. In early 1914, Royal shareholders selected Marwick, Mitchell, Peat & Co. to represent them. Government inspection was held at bay. Similarly, Parliament was given no sway over bank takeovers, but banks were now obliged to seek ministerial approval *before* finalizing any merger agreement through their shareholders. The finance minister was thus put in a better position to ensure that the public interest was served by a proposed merger. From the bankers' point of view, the critical path to a merger now became delicate; it was less possible to present the minister with a *fait accompli*. Management of both banks in a potential merger had to ensure that the minister was presented with an airtight case demonstrating public good. In later years, definition of "public interest" proved difficult. Did it mean the removal of weak banks or the building up of a national system? Timing and secrecy were now doubly important. A well-timed intervention from a foe of the merger might spook the minister or entice another party to the bidding or provoke panic in the clients of the bank about to be taken over. A deft touch would be needed. Just how deft Pease would learn in 1915.

The commercial slump of 1914 and the outbreak of war temporarily cooled the ardour of Canadian bankers for mergers. In the summer of 1915, Pease saw an opportunity to replicate his Traders *coup*. As early as 1907, a small Ontario bank, the Bank of Hamilton, had unsuccessfully sounded out the Royal on a possible merger. Like the Traders, the Bank of Hamilton was strong in rural districts and weak in the cities. Only 19 of its 124 branches were urban. It had no branches east of Toronto. It had developed some western exposure, and it was questionable loans on the Prairies, weakened by the slump in grain prices in 1914, that reawakened thoughts of a merger. "The amalgamation," the Bank of Hamilton general manager would later tell the finance minister, "has many points in its favour...as the Royal Bank supplies exactly what we lack – strong reserves, large earning power for dividend requirements and a chain of branches in the East."[45] By early July, Pease had a tentative deal, but before he could seek shareholder ratification he had to obtain Ottawa's blessing. Here Pease thought he had a trump card: Herbert Holt.

By 1915, Holt was *persona grata* in Ottawa. He fit neatly into the "nation building" school of capitalism, as a railway builder, utility capitalist, and now a bank president. He sat on scores of company boards and loomed large in the Anglo-Conservative business élite of Montreal. Prime Minister Borden in Ottawa looked on Holt as a "progressive" businessman, one capable of admitting the reforming power of the state into society while maintaining a fundamental belief in capitalism. In 1913, Borden had asked Holt to chair the Federal Plan Commission, an advisory panel empowered to divine a master plan for the development of the national capital. The commission's 1915 report – unacted upon in wartime – laid the capital out on a grand scale with broad boulevards and vistas.[46] War brought out Holt's jingoism, and he soon found himself congratulated by Borden for helping to finance a machine-gun contingent and for various bits of political advice.[47] Through all this, Holt was only minimally involved in bank affairs: his letters to Borden were not even written on Royal letterhead. Holt appeared punctually to chair the bank's weekly board meeting, but Pease ran the bank. Now Pease saw that Holt's stature in Ottawa might well help to facilitate the Bank of Hamilton merger. What Pease forgot was that to most Ontarians Holt was a Montrealer.

In mid-July, Pease and Brown drafted a letter to Finance Minister White for Holt's signature. Ottawa should approve the merger, Holt argued, because the Hamilton bank had "a comparatively small earning power" and had been subject to several "runs." Unlike the Royal, it had failed to shed the "local character" of its name and had little city business. It had "seen its best days." The letter concluded with as explicit a statement of the Royal's merger philosophy as would ever emerge: "I think that anything which tends to make the banks stronger and more powerful is of greater importance than the decrease in numbers, provided the reduction is not carried too far."[48]

The danger implicit in the revised merger-approval process was that a deal hung in the balance until the minister ruled on it. Secrecy was all-important and was virtually impossible to preserve. To his consternation, Pease discovered in early August that news of the merger had "leaked out in some unaccountable way" and that White believed that his authority had been circumvented.[49] The leak aroused the voice of Ontario provincialism; another Ontario bank seemed about to be devoured by a Montreal competitor. J. S. Willison, editor of the Toronto *Daily News*, told White that, although it was a "weak" bank, control of the Bank of Hamilton could not be allowed to leave the province. Willison suggested that a nation at war had other priorities than bank mergers and implied that A. E. Dyment was at the bottom of this "unnecessary" merger.[50] The general manager of the Hamilton bank fought back, attacking the "noisy newspapers." Pease joined in,

The Royal's reputation as Canada's high-flyer of bank mergers was matched, on a recreational level, by its adventurous senior executives. Here a distinctly ill-at-ease Edson Pease (above, left seat) prepares for a seaplane flight, c.1922. A decade later Sir Herbert Holt took to the air (opposite page, front seat). When it came to bank mergers, Pease was always in the pilot's seat, with Holt sitting quietly in the passenger's seat.

arguing that the general financial situation was conducive to a merger in the public interest. The final blow was landed when Hamilton City Council passed a resolution against the merger, and the local MP joined the chorus of opposition. The rapid politicization of the issue and the danger of provoking a run on the Bank of Hamilton prompted White to quick action: on August 20, he summarily denied permission for the merger. He told Pease that he had acted because of the "newspaper controversy." He told the Bank of Hamilton general manager that he believed his bank to be in "excellent standing" and not in need of a merger.[51]

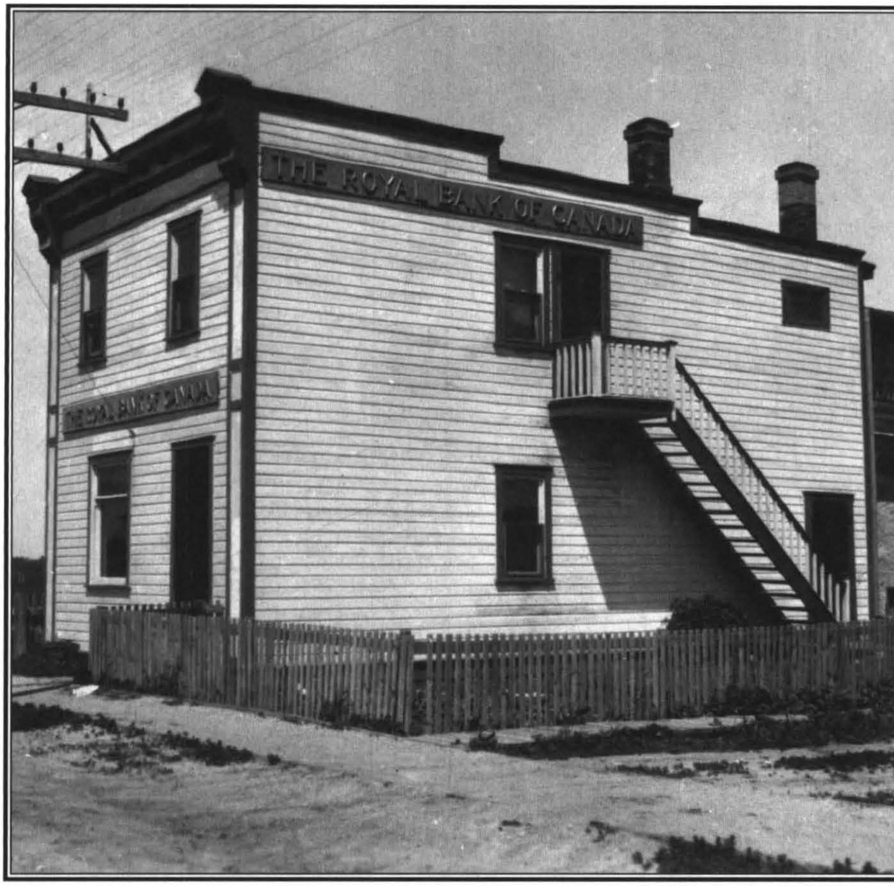
Pease was livid. For years the whole episode rankled with him. White had not served the public interest: the Royal's "generous offer" would have rendered a "distinct service to the public in absorbing an institution which at best has a doubtful future."[52] The Montreal *Gazette* provided an obituary for the deal: "geographical prejudice and not a principle" had prevailed.[53] Although Pease and White became the closest of confidants as the war progressed, Pease refused to let the memory of the Hamilton fiasco fade. As late as 1920, he reminded the retired White that his 1915 decision had, among other things, hurt the Royal's ongoing attempt to secure "a large number of men without which we could not have extended our branches to the British West Indies and further South."[54] Banker and politician had, in short, arrived at different definitions of the public interest: Pease's was direct and was cast in terms of banking efficiency, and White's was political and coloured by circumstance. In 1923, the Toronto-based Bank of Commerce took over the still-wobbly Bank of Hamilton.

The Royal never again attempted to play the merger game in Ontario. The Traders had given it sufficient resources to rely henceforth on internal growth in Canada's richest province – 1919 would see the Royal launch a crusade of new branches in Ontario. Pease would complete his amalgamation jigsaw nearer home in Montreal and also in the West. The acquisition of the venerable Quebec Bank in 1917 and of the Winnipeg-based Northern Crown in 1918 consolidated the Royal in Anglo Quebec and made its presence pervasive on the Prairies. Both were indisputably "weak" banks, and their disappearance aroused little public or ministerial concern. By the mid-teens, it became a truism in Canadian banking that the stronger became stronger and the weak became more vulnerable to, and in some cases more desperate for, amalgamation. As the national economy malfunctioned in the pre-war slump and again in the lethargic early twenties, smaller banks either collapsed, as the Home Bank did so spectacularly in 1923, or simply folded their tents and moved peaceably into the camp of a larger bank. For Edson Pease and his big-bank confrères, amalgamation became cheaper and easier. By 1925, the cycle was virtually complete, and amalgamation ceased to hold much attraction for the managers of what now seemed a rationalized national bank system. The public accordingly readjusted its sensibilities, prompting Parliament to revise the Bank Act in 1923 and create the office of Inspector General of Banks in 1924, to police the system by making an annual inspection of each chartered bank.

The Quebec Bank was an Anglo-Quebec institution. Founded in 1818, it was Canada's second-oldest bank and had thrived throughout most of the nineteenth century on the fruits of Quebec City's wood-and-water economy. Although it initially attracted some French-Canadian participation, the Quebec Bank soon became a conservatively managed instrument of Anglo commerce in the Quebec–Montreal corridor.[55] As such, it failed to adjust to the decline of traditional Quebec City timber staple and the emergence of new opportunities in the continental interior. Only belatedly did it push westwards, establishing scattered branches in Ontario and across the Prairies. By 1916, it had a network of fifty-eight branches, twenty-six of which were in Quebec. In a bid to capitalize on its ties with Montreal hydro developers such as J. E. Aldred, it moved its head office to Montreal in 1912. The push for diversification was, however, weak and reckless. The bank was hit hard by bad loans to utilities developers and the impact of the pre-war slump on Quebec commerce. Late in 1915, the directors were forced to draw $337,000 from the bank's rest (a bank's reserve fund against bad debts) to shore up its profit-and-loss account.[56] Depletion of the rest account signalled the death rattle of a bank.

Twice before, the Quebec Bank had sought to merge with a larger bank. After fruitless negotiations with the Union Bank of Canada in 1907, the directors turned to Pease at the Royal and actually initialled an agreement before breaking off the deal.[57] By 1916, they had no such option. In September, the desperate board offered Pease a "full opportunity to examine the affairs of this Bank." A month later Pease offered them 9,117 Royal Bank shares and $683,775 cash for the assets of their bank. The bank's shareholders had little option but to ratify the merger at a special meeting a month later; John Ross, the president, provided a final prod by pointing out that the bank was so weighed down by bad debts that it could not even advance money to its best customers. On December 28, Ottawa approved the merger, and on January 2, 1917, the Quebec Bank ceased to exist – just a year shy of its centenary. The financial press praised the deal, pointing out that the Royal had acquired assets at a knock-down price, as well as "a large and welcome addition to its staff, which is badly needed on account of war conditions."[58] Quebec shareholders could comfort themselves that they had at least escaped with one Royal share and $75 for every three shares they had held in their beleaguered bank. Holt told Royal shareholders that they had finally secured a "valuable connection" in Quebec. In 1917, former Quebec Bank general manager B. B. Stevenson became supervisor of the Royal's fifty-one Quebec branches. In a private letter to his manager in London, England, Edson Pease showed his ego: the Quebec Bank gave him surplus men to open up "some attractive new fields," *and* it meant that the Royal now surpassed the Bank of Commerce in total assets.[59] Thirty years after its first appearance in the St. James Street financial district, the Royal was now hot on the heels of the Bank of Montreal.

Earlier in the same year the Quebec merger was finalized, Finance Minister White received a confidential letter from his cabinet colleague, Public Works Minister Bob Rogers. Rogers, a Manitoban, had heard rumours that the Winnipeg-based Northern Crown Bank was in trouble, the product of its own mismanagement. Most worrisome was the fact that the Northern Crown had paid a million dollars in dividends since its formation in 1908 – out of the Crown Bank of Toronto and Winnipeg's Northern Bank – and had neglected to build up its rest beyond a puny $150,000. Rogers wanted a thorough enquiry.[60] White instinctively turned to Frederick Williams-Taylor, the general manager of the Bank of Montreal, for advice; as the government's banker, the Bank of Montreal had both the ear and the trust of Ottawa. Williams-Taylor counselled patience and, remarkably, in 1917, buoyed by the wartime agricultural boom, the Northern Crown fought back. The rest was fattened to $715,000, and a 5 per



Royal Bank branch in Whitemouth, Manitoba, in 1934

cent dividend was restored. But the rot was in the timbers. Provision for bad debts continued to hamper the bank's lending and profits. When the bank's president resigned, rumours swirled and the shareholders became panicky, dumping the shares at depressed prices. Pease saw his opportunity: the Northern Crown's strategically located network of seventy-six Prairie branches offered the Royal a solid presence in Manitoba and Saskatchewan.[61]

Pease found a willing negotiator in the Northern Crown's new president, William Robinson, a Winnipeg lumber merchant. Robinson's persuasive letter to the finance minister won Ottawa's approval for the deal on March 8, 1918.[62] If nothing else, Northern Crown shareholders were enticed to ratify the merger by the prospect of the Royal's 12 per cent dividend. Their approval of the deal in early May also brought them 10,883 Royal shares and $576,970 in cash. The promise of seven Royal shares, plus cash, for every ten old shares would effectively double the income they received from their investment. Pease had learned to make his deals sweet to hasten their approval.[63] Robinson and two colleagues from the old board joined Holt's board. Suddenly, the Royal had 200 branches west of the Lakehead and 488 across the nation. Later that same year, the board in Montreal turned its thoughts to the upcoming fiftieth anniversary of the bank in 1919, and a decision was made to publish a pamphlet history of the bank, giving prominence to "its modest beginning, the development of its expansive policy, and its phenomenal growth."[64]

Edson Pease's "expansive policy" had other consequences. The Royal's emergence as a coast-to-coast bank was predicated on Pease's philosophical commitment to the virtues of *national* banking. A banking system with national scale and breadth assured stability and the efficient creation of credit for economic growth. Canadian bankers clung to this orthodoxy and resisted any hint that, as the Federal Reserve in the United States had done since 1913, the state or some outside agency might govern credit creation beyond the sway of the private bankers. As he surveyed the precarious condition of many of Canada's regional banks and witnessed the increasingly complex demand for credit generated by the diversified national economy, Pease began to question the received wisdom of his banking peers. Some form of central credit control, he concluded, was the natural outcome – not an obstacle in the path – of the vigorous consolidation of Canadian banking that he and the other managers of Canadian "big" banking were pursuing. By 1918, Pease would emerge as the first champion of a central bank for Canada.

The backbone of the Canadian banking system was the gold standard. The ultimate guarantee for anyone holding a Canadian banknote was that it was backed by gold or gold in the form of Dominion notes. While this ensured confidence and stability in the national currency, the reserves backing a bank's circulation were essentially non-earning and tended to crimp a bank's ability to expand credit in a buoyant economy. When Ottawa partially alleviated this strain by creating the Central Gold Reserve in 1913, Pease was strongly in favour of it as a means of expanding the Royal's credit. Extra circulation, made possible by the deposit of gold or Dominion notes in the central reserve, gave the bank added reach in the national economy.[65] The prospect of an unprecedented global conflict in 1914 unsteadied this system: Canadians frantically hoarded gold as a hedge against upheaval. Early in August 1914, Ottawa suspended the gold standard. To forestall a potential strangulation of bank credit, Ottawa offered advance money to the banks, taking securities (e.g., loans held by the banks) in return. This temporary measure – the Finance Act of 1914 – for the

As the bank's managing director from 1916 to 1922, Edson Pease (opposite, in 1922) dominated the Royal's strategic direction and was arguably Canada's most dynamic banker. His $50,000 annual salary supported a bucolic, but luxurious, lifestyle. At his country home, "The Pines," at Mt. Bruno, south of Montreal (above), he entertained an association of Anglo-Montrealers, including his close friends the Birks and the Drummonds. Pease was also instrumental in establishing the nearby Mt. Bruno Country Club. He was an adequate-but-not-avid golfer. Pease's social and professional eminence in Montreal was testament to how far a "bank boy" could go in Canadian society.

first time put the power of expanding national credit in the hands of government, not private bankers. Pease found this piece of monetary *ad hocism* a "most effective and advantageous" means of providing credit for a wartime economy. It was, however, a makeshift, made possible by the draconian authority of the War Measures Act and not sustainable in peacetime.[66] It also, Pease suspected, set a trap for the Canadian economy when peace returned. The end-of-war production would cool the economy, depress commodity prices and thereby reduce bank deposits. At the same time, the reconstruction of the national infrastructure and of foreign trade would require plentiful credit. Some mechanism would be needed to assist the banks to stretch their credit; some favoured a return to the gold standard, others the perpetuation of the 1914 Act. Ever the "progressive" banker, Pease preferred a more innovative solution.

In 1916, Pease was elected president of the Canadian Bankers' Association. The CBA presidency embodied the consensus at the heart of Canadian banking: its incumbent took the sense of the banking community and carried it to Ottawa. War had invested the post with a heightened authority; all the intricacies of war finance from war-bond sales to currency controls were coordinated through the CBA presidency. The relationship between bankers and Ottawa, bonded by daily telegrams and incessant meetings, would be described by Pease at war's end as one of "perfect concord."[67] Late in 1917, with victory now a possibility, Pease decided to use this authority to tackle the dilemma of post-war credit creation. In July, he made inquiries as to whether the Bank of England might establish a branch for rediscounting in Canada, and then, in October, he used the Royal's New York agency to arrange an entrée to the Federal Reserve in Washington, where he befriended Paul Warburg, a confidant of President Woodrow Wilson and a Federal Reserve board member. Would Canadian banks, Pease asked, be permitted to join the U.S. Federal Reserve "to rediscount commercial paper and bills of exchange in an unlimited amount"?[68] Could the Royal become an agent of the Reserve in Canada? By mid-November, it was apparent that the answer was no. The Reserve would allow a foreign agent to handle only international transactions.[69] Pease would have to find his solution in Canada.

On January 10, 1918, Pease stepped to the podium at the Royal's annual meeting in Montreal and delivered a surprise. To an audience habituated to the smooth recitation of bank operations, he broached the question of establishing supplementary banking facilities for the post-war economy. "If we had a bank of rediscount patterned somewhat after the Federal Reserve Bank in the United States, it would render legitimately available millions of assets in the form of high grade commercial paper, now lying dormant in the portfolios of the banks, and thereby greatly increase our financial resources."[70] A committee of experts should be appointed by the government to investigate the proposal. Pease's foes would later charge that he was hiding behind his Royal Bank office to further his aspirations as CBA president, and should have waited for the CBA Council to approve his initiative. Pease responded that he spoke "in my individual capacity" to spark public debate.[71] Believing that "public criticism" of his proposal had been favourable, Pease took the idea to the CBA Council in late May. Here he succeeded in obtaining a resolution for the appointment of a "confidential committee" to study the proposal, subject to the finance minister's approval. Pease's gambit met a quick death when Frederick Williams-Taylor, general manager of the Bank of Montreal, voiced his staunch opposition to any form of central banking. The CBA could not act on a matter of "divided opinion."

For the next year, Pease butted his head against this wall of opposition. When, in July, White agreed to let the CBA draft legislation for a central bank, Williams-Taylor quickly enlisted Sir John Aird and Edmund Walker of the Commerce into his camp. Pease grew anxious: "unless you take hold of the scheme," he wrote White, "I think it is doomed to failure."[72] At the CBA's annual general meeting in November, he made an impassioned defence of his idea: "Serious problems will soon confront us in Canada in connection with the end of the war." Bankers could not continue to borrow from the government under the 1914 Act; it was not a "good principle," and it produced inflation. Far better to borrow for credit expansion from an impartial central bank. These arguments won Pease approval for a confidential committee. Again, Williams-Taylor objected. A central bank, he argued, would be open to "political influence and political patronage." The requirement that chartered banks pool their reserves in a central bank would penalize the strong banks and unduly protect the weak. A central bank would be a reckless experiment with "untried and possibly inexperienced managers." Better to continue to rely on the 1914 Finance Act and let each head office act as a central bank to its own branches.[73]

Pease persisted. In January 1919, he succeeded in convincing White to let the CBA, aided by Toronto's crack corporate lawyer, Zebulon A. Lash, continue to prepare draft legislation for a government-controlled central bank to manage the national debt (another of the war's "serious problems"), the floating of government loans, and "the lending to Banks of Dominion legal tender notes on securities."[74] In the end, it was Lash who finally dashed Pease's hopes. The war was over, and White had to act. The issues involved in establishing a central bank were, Lash reported, "so numerous and so susceptible of different kinds of treatment" that progress would be very slow. Early in February, the CBA's confidential committee advised White to put off such "drastic" change until the scheduled 1923 Bank Act revision. Pease did not attend the meeting; general manager Charlie Neill was sent to reiterate the Royal's belief in a "bank of rediscount." Shortly after, Bank of Montreal president Vincent Meredith suggested to White that it "is not too much to ask you to stand with the conservative and well-informed majority."[75] White duly extended the 1914 Finance Act into the post-war period. The April 1919 issue of the CBA *Journal* carried an article by Lash comparing the U.S. Federal Reserve and Canadian banking. The Federal Reserve, he concluded, was necessary because American banking was defective; the powers given to the Reserve "could always have been done and still be done by the banks of Canada."[76] Royal staff in Montreal would later recall that

Pease after this went to great lengths to avoid meeting and talking to Vincent Meredith.[77] Lash lived in Toronto and was easier to avoid.

There was an obvious sub-plot to the central-bank controversy. In 1917, Pease had attended the centenary festivities of the Bank of Montreal. He had always relished gentlemanly competition with Canada's senior bank: "You are the sun," he once wrote to Williams-Taylor, "and the rest of us are the stars revolving around you. Some of us may shoot to earth, but you will endure forever."[78] By 1917, however, Pease was entertaining thoughts of disturbing the cosmos. Creation of a central bank would have effectively ended the suzerainty of the Bank of Montreal as the government's banker. Since Confederation, the Bank of Montreal had been Ottawa's favoured banker, handling its affairs in London, managing its loans, holding its departmental accounts and, in the Great War, even acting as paymaster to Canadian troops in England. As the national debt burgeoned during the war, it seemed natural that the Montreal bank would be delegated to manage it in peacetime. Since early in the war, Bank of Montreal president Vincent Meredith had seen the Royal as a "persistent competitor" for its privileged trade.[79] Moreover, whatever its theoretical merits, a central bank threatened to be the Bank of Montreal's ultimate replacement, stripping it of all its perquisites as government banker. Pease, Meredith, and White all knew this: "the real question which is raised," White told Pease in 1919, "is whether the Bank of Montreal is to continue as the Government Bank or whether the Government's accounts are to be divided among all the Banks without exception."[80]

In 1919, the Royal lost out in its bid to create a central bank; the *status quo* prevailed. Despite his esteem for Pease, White in the end heeded the advice of the venerable Bank of Montreal. Later in the year, Pease's health collapsed and he headed for Victoria to recuperate. Throughout the 1920s, he appears haggard in photos, bags under his eyes. After he stepped down from the managing directorship in 1922, Charlie Neill took up the fight. Government accounts were won by mid-decade. Pease would go to his grave in 1930 before realizing his dream of a central bank. The Depression would vindicate him.

In December 1921, the Bank of Montreal stole a page out of Pease's playbook. It announced that it was merging with the four-hundred-branch Merchants Bank of Canada. The Bank of Montreal was no stranger to the merger game; however, most of its previous conquests had been relatively small banks – the Ontario Bank and Peoples Bank of New Brunswick, for instance. Now it had moved belatedly into the big league, taking over a major competitor. The Merchants was ailing; bad loans had necessitated a nearly $8-million reduction in the rest, and the president and general manager were subsequently charged with making false reports. The cry for government inspection of banks was again raised. Nevertheless, after the merger, with paid-up capital of $27,250,000 and 623 branches, the Bank of Montreal again seemed comfortably installed as Canada's largest bank.[81]

The fate of the Merchants Bank of Canada paralleled that of the nation in post-war – high hopes followed by a persistent depression. As Pease had warned the CBA, the armistice heralded a period of serious problems: falling commodity prices and industrial demand brought on a severe recession that lasted deep into the 1920s. Many misjudged their chances in the period and stumbled. One such reversal of fortune would once again prompt thoughts of merger at the Royal's head office. The Union Bank of Canada – founded in Quebec in 1865, but prescient enough to relocate its head office to Winnipeg in 1912 – celebrated the peace with a binge of expansion. From 1918 to 1920, its branch network grew from 299 to 393. It pursued an easy-lending policy, taking quick profits to boost its dividend to 10 per cent and investing in a joint venture in Oriental banking with a New York bank. All this fit neatly into a corporate culture that emphasized exuberant expansion: the Union had been the first bank into Alberta. During the Laurier boom, it prided itself on being first at the "end of steel." But by 1922, as the depression bit deeper, the Union began to regret its culture. Too exposed on the Prairies, it began reaping a harvest of bad debts. Branches were closed, the Oriental adventure was abandoned, and the dividend was trimmed. When shareholders showed signs of panic, the directors asked the Bank of Montreal to inspect the bank's assets. The news was grim: "there is too large a proportion of lower-grade business on your books; credits should be granted on a more conservative basis."[82] It was a familiar story: a regionally based bank caught off base. The rest was reduced $4.25 million in 1923, management was shaken up, and the arduous task of reconstruction begun.

Edson Pease's absence from daily management had not dulled the Royal's own merger instincts. General Manager Neill saw a marvellous opportunity for rounding out the bank's western presence: 204 of the Union's 320 branches were in the West. When Neill intimated to J. W. Hamilton, the Union's general manager, that a merger was possible, the Union board leapt at the chance. In less than three weeks, an agreement was hammered out: 40,000 Royal shares in exchange for the Union's $99 million in assets. The cost to the Royal was covered by the issue of $2,100,000 in new capital stock. Five Union directors came over to the Royal board, together with the entire staff. Given the precarious condition of the Union, Liberal Finance Minister James

Robb obligingly approved the merger on May 22. Few protested. One of those who did was former Union director R. T. Riley, now on the Royal board, who quietly noted to Arthur Meighen, the federal Tory leader, that "the Union is the only Bank of any size with its headquarters in the West, and it is being lost sight of."[83] With the Bank of Montreal's acquisition of the Molsons Bank later in 1925, the cycle of big-bank mergers ended and the new geographical pattern of Canadian banking was apparent. Vancouver, Winnipeg, Hamilton, Ottawa, Quebec City, Fredericton, and Halifax had become satellites in a net of national banking that radiated from Montreal's Place d'Armes and the corner of Yonge and King streets in Toronto.[84]

The success of the Royal's takeover campaign between 1910 and 1925 is of fundamental importance in understanding the bank's emergence in the mid-1920s as Canada's leading financial institution. By 1925, the Royal had branches in 801 Canadian communities. Four years later, it became the first Canadian bank with assets in excess of $1 billion. Other factors propelled this advance: vigorous overseas growth, a strong corporate culture, and personnel practices that encouraged youthful promotion and innovation. But it was the vision and verve with which Edson Pease conceived and executed the bank's amalgamation strategy that separated the Royal from its competitors. The Royal neither invented takeovers nor held an exclusive patent on them; as Pease told the Commons' committee: "we are not the arch consolidators." The Royal *was*, however, arguably the most skilled practitioner of the takeover. Pease selected each takeover candidate with cold, clear-headed deliberation. Each acquisition served to fill another gap in his jigsaw of national expansion. Each piece brought a special regional advantage – greater reach into western farming communities, a fuller blanket of urban branches, or service to special niches in the economy. With each takeover, the Royal soaked up the strengths of the amalgamated bank. Union Bank of Halifax bankers became legendary in the Royal for their Maritime resourcefulness and stamina. Northern Crown and Union of Canada veterans allowed the Royal to move with confidence and acceptance on the western concession lines. Such was the homogeneity of Canadian banking that bankers might transfer their allegiance with ease. The culture of the acquiring bank seldom looked threatening to those taken over; in fact, most were only too willing to attach their personal fortunes to a bank that was widely perceived as "up and coming." Pease's urge to merge was powerfully driven by the need to provide the Royal with a steady supply of reliable, pliable, and work-ready young men. Again and again, he celebrated his merger triumphs in terms of men acquired and the vistas their availability opened up. The Royal's pre-eminence as Canada's leading international

THE AMALGAMATION NUMBERS GAME

Keeping track of total branch numbers for any bank is a perilous game. Branches open and close with annoying regularity, seldom on neat year-end dates. Other branches are moved and others change function (e.g. a sub-branch becomes a full branch). The merging of the Royal Bank's system with that of five other banks between 1910 and 1925 complicated this ebb and flow of branches, although the overall effect was a massive addition. Each amalgamation was thus subject to a "shake down" during which duplicate branches were weeded out. Sometimes an existing Royal bank was closed if the amalgamated bank offered a better location. What follows is a close approximation of the net statistical impact of the Royal Bank's growth through merger from 1910 to 1925.

1910: *126* RBC branches are joined by *42* Union Bank of Halifax branches (excluding 3 international branches) and, after 10 duplicate branches are eliminated, the Royal Bank emerges with a consolidated total of *156*.

1912: *101* Traders Bank branches join the Royal Bank system. After 16 duplicate locations are eliminated, the system stands at *314*.

1917: *58* Quebec Bank branches bring a net gain of *38* branches, thus giving the Royal Bank a total of *375* branches.

1918: *110* Northern Crown Bank branches are trimmed to a net gain of *96* branches, thus boosting the Royal Bank's total to *526*.

1925: *217* Union Bank of Canada branches are pruned by 51 to give a net gain of *166* branches thus bringing the Royal Bank's branch system to a total of *792*.

banker was in large measure rooted in its ability to muster sufficient manpower at home to realize its ambitions abroad. As one of the "merged" noted in a piece of doggerel poetry dedicated to his "merger-brethren" in the *Royal Bank Magazine* in 1925:

> You have released us. We, whose future lay
> In the broad spaces of this Northern clime–
> You have released us. Now let Fancy stray,
> Leading me through the lands of summertime.[85]

Business historians can provide ample evidence of the dangers of a strategy of growth by merger: huge debts, wounded morale, and a refusal of two hitherto-separate entities to meld into one efficient whole. Yet the Royal Bank's merger campaign of 1910 to 1925 was a sterling success. Above all else, it solidified the foundation of a bank that was now the largest and most regionally diverse in the country. Why?

In addition, none of the takeovers was hostile. The five acquired banks all approached the negotiation from a position of declining competitiveness. Some, like the Union Bank of Canada, were in fact in dire straits. Others were living out a precarious existence, trapped in regional markets and unable to diversify nationally. In all instances, the directors and staff of these banks welcomed the Royal's blandishments: merger offered a chance for survival and a chance to join what was seen as the country's most progressive bank. There was almost universal eagerness to slip on the coloured sleeve garters of the Royal Bank – only in the case of the Traders did any significant number of staff refuse to come over to the Royal. The diminished circumstances of these banks also meant that their assets came relatively cheap. The only chink in Pease's takeover strategy was in Ontario. His miscalculation of Toronto's determination to keep sway over its regional banks denied him control of the Bank of Hamilton. As a consequence, the Royal Bank was for years to be underrepresented in the Ontario market, a fact he frequently reflected on with bitterness.

But for all its evident success by 1925, the merger movement did have an Achilles' heel. In their eagerness to avoid head-to-head competition in innumerable small towns where there was scarcely enough business to sustain the business of a single branch, banks had merged in the name of better economies of scale and lower overheads. While this may have controlled the further multiplication of Canadian banks, it did little to rationalize the overexpansion of the Laurier boom. By 1925, the Royal was the leading bank in each of the Prairie provinces. The influx of Northern Crown and Union branches, for instance, gave it exposure in 148 Saskatchewan communities, a ratio of one branch for every 6,100 persons. Changes in technology – most notably, the mobility given small-town Canadians by the automobile – and the ever-present possibility of an economic downturn made small-town banking a very marginal activity on the Prairies and in many areas of rural Ontario. Within a decade, the Royal would pay a painful price for its merger exuberance in the West.

If the Royal was overexposed on the Prairies, the merger movement had only slightly improved its presence in French-Canada. Its sixty-eight branches in Quebec were largely confined to urban, Anglo districts, a pattern accentuated by the acquisition of the Quebec Bank. This was largely a deliberate outcome. Like the other Montreal and Toronto banks, the Royal had surrendered its pretensions in French-Canada to francophone banks and the vigorously successful *caisse populaires*. To some degree, the assurance of an ethnically exclusive clientele tended to cancel out the dangers of regional specialization for the French-Canadian banks. But it also made them small banks, and they too sought safety in merging: in 1925 the Banque Canadienne Nationale emerged as the province's leading bank. Not until the 1950s would the Royal systematically turn its energies to the Quebec market; not until the 1970s would Quebec's banks venture across the Ontario border in any numbers.

However, the dangers of overexpansion were largely dormant in 1925; more apparent was the Canadian public's changed attitude to their banks. Pride in the widespread strength of Canadian banking was now accompanied by a muted, but abiding, concern over the power of the "big banks" and their position in Canadian economic life. On the morning in 1925 that the Union merger was announced, Prime Minister William Lyon Mackenzie King received a cable from the worried editor of the Vancouver *Sun*: the merger was the "only thing that could be done under the circumstances...[but] will be deeply resented by Canadian public who fear bank monopoly resulting from banks getting into too few hands and controlled entirely from eastern Canada."[86] Pease had seldom had to concern himself with managing the public consequences of his corporate policies. His successors would find themselves increasingly preoccupied with the way their actions were viewed by Ottawa and by Canadians at large. In this regard, Sir Herbert Holt's varied business activities outside the bank would soon become a liability.

Thus, via merger and expansion, the Royal had become a national institution. With each merger, the once-dominant Maritime character of its shareholder base became more diluted. Each merger brought faces from new corners of the Dominion to the boardroom table. When the directors commissioned the New York architects York and

Sawyer to design a new head office – taller than the Bank of Montreal's – on St. James Street in 1926, they instructed them to decorate the gilded ceiling of the main banking hall with the provincial crests of *all* the provinces, not just the coats of arms of Halifax and Montreal.