CHAPTER FIVE

International Banking

"Deep in the Gulf Stream"

IN THE SPRING OF 1882, THE DOUR, DILIGENT ACCOUNTANT OF THE Merchants' Bank of Halifax, David Duncan, broke his Presbyterian routine in two uncharacteristic ways: he got sick and, consequently, took a holiday. A bout of "rheumation," brought on by the damp Halifax March, prompted Duncan's doctors to advise a convalescence in sunny, semi-tropical Bermuda, a British colony warmed by the Gulf Stream, nine hundred miles to the south of Halifax. The directors were quick to approve Duncan's request for a leave of absence; they were also quick to sense opportunity in Duncan's infirmity. Duncan was "authorized by the Board, in the event of his finding suitable opening, to establish an agency of the Bank at Hamilton," the small colony's capital. A month later the rejuvenated accountant returned to report that "after considerable difficulty, and misgivings as to success owing to the opposition of the business people" in the colony, he had struck a deal with the mayor of Hamilton, Nathaniel Butterfield, to act as the Merchants' agent "as an experiment" for a year.[1] Halifax now had a bank with an international affiliation; other Canadian banks had established New York and London offices, but the Merchants' was the first to establish itself beyond these traditional roadsteads of Canadian finance.

Bermuda was a natural oceanic extension for the fledgling Merchants' Bank. Like Halifax, the little colony lived by its wits in foreign commerce. Its political and social life was dominated by a close-knit commercial élite which had the ear of the Governor, and Nathaniel Butterfield was prominent in this colonial coterie as a shipowner and trader. Bermudian merchants were a wily crew. As

Haligonians had done, they had prospered in the American Civil War as blockade runners. Their colony was bound in many ways to Halifax; Bermuda was a first stop for many a Haligonian vessel heading south. British troops and warships moved between the two ports as part of the Imperial shield around North America. The Anglican and Catholic bishops of Halifax both counted Bermuda in their dioceses; as a prominent Halifax Catholic, Thomas Kenny, the bank's president, would have heard much of Bermuda from his bishop. Like Kenny in the 1860s, Butterfield realized that his business stood to be made more profitable if it could be extended into trade financing.[2]

The directors treated the Bermuda agency like any other. Butterfield's son, Harry, was brought to head office in Halifax to apprentice in banking. In 1883, Kenny visited Hamilton and reported that the senior Butterfield was a model banker, "cautious, correct and trustworthy."[3] Although profits "would barely suffice to cover expenses," Kenny remained hopeful of future success. In 1884, a small profit of £300 seemed to indicate that the bank's skill as a financier of trade could be exported. The same spirit prompted the Merchants' to open a second foreign agency in the French fishing port of St. Pierre off Newfoundland in 1886. This time Edson Pease did the scouting. But the scent of profits soon soured; St. Pierre was "expensive" and its bankruptcy laws "dangerous." As for Bermuda, the directors soon began to suspect that Butterfield was using their affiliation to further his own commercial ambitions, that he had sent his son to Halifax simply to learn the ropes of banking, and that his aim was to establish his own bank. Continuing meagre profits seemed to demonstrate his lacklustre commitment. In 1886, Duncan was again sent southward to break the arrangement. For the next three years, the Merchants' maintained its own agency on Front Street, but without the good offices of a Bermudian to help it penetrate the local market, the operation was stillborn and was closed in 1889.[4] St. Pierre followed a year later.

Bermuda, however, continued to entice. In 1918, there was a fruitless negotiation to purchase an established Bermuda bank.[5] As late as 1930, a holidaying Prime Minister Mackenzie King could report that the thought of the Royal acquiring a local bank aroused "a good deal of feeling" in Bermuda.[6] The message was clear: an entrenched commercial élite would fight to exclude foreign bankers if they felt they could capture the trade for themselves. The Butterfields *did* incorporate their own bank in 1904. Before that, in 1890, another local syndicate had opened a bank – the Bank of Bermuda – out of the remnants of the Canadian agency. In their House of Assembly, the same merchants quickly moved to pass legislation insulating their banks from foreign competition. To this day, Bermudians bank with Bermudians.

The Halifax bank learned a lasting lesson in Bermuda. Just as it had discovered that appointed agents in Maritime towns like Truro were liable to indulge in local politics or commerce contrary to the bank's interests, it had now learned that any foray into foreign banking would have to be closely guarded. In future, head office instinctively knew that its foreign branches must be established and operated as extensions of its domestic branch system. After all, the purpose of such branches was to apply the bank's expertise in financing Maritime exports to similar needs in foreign lands. By the 1880s, that necessity was becoming undeniable.

Oceanic trade was second nature to the men behind the Merchants'. The early directors and shareholders of the bank – Kinnear, Tobin, Taylor, Cunard, and Mitchell – were practised in despatching ships southward, laden with dry and pickled fish. They returned bearing Caribbean sugar and molasses.[7] Haligonians lived in constant hope that more could be made of this trade. In 1879, they seized on the protectionist National Policy to establish the Halifax Sugar Refinery;[8] the bank promptly extended credit to the enterprise. Throughout his tenure as an MP in Ottawa, the bank's president, Thomas Kenny, persistently lobbied for better steamship service between Halifax and the West Indies.[9] Like a supporting chorus, Merchants' directors joined the Halifax Board of Trade to echo the demand. There was always, however, the sense that Halifax was contending with forces beyond its control: the price of sugar, the dominance of American and British shippers, and the vagaries of trade finance. Halifax would ultimately fail in its contest with the ports of the American seaboard, and Montreal would take its place as the seat of Canadian sugar production (one of the bank's first Montreal clients was the St. Lawrence Sugar Refinery). Only in financing its oceanic trade did Halifax build a legacy.

Newfoundland was a natural first step abroad. As early as 1866, pro-Confederation forces in the rocky colony had held up "the need of a branch of a *good* Canadian bank" as a compelling argument for union with the mainland.[10] Newfoundland, however, doggedly clung to its independence, and, as a result, in the late-nineteenth century, found its banks tied to English finance and dependent on a narrow colonial economy. In December 1894, a "panic" crippled St. John's two banks – the Commercial Bank of Newfoundland and the Union Bank of Newfoundland – leaving the colony without a circulating currency. To save the economy from paralysis, three Canadian banks, including the Merchants' and the Bank of Nova Scotia from Halifax, stepped into the breach. Within three days of the panic, Pease had despatched his inspector to St. John's, and by January, the Merchants' had an agency in operation.[11] Within months, the bank's new Newfoundland agent, F. H. Arnaud, had aggressively acquired accounts with some of the Water Street commercial élite. Bowring Brothers would become an enduring client, soon to be joined by merchants Tasker Cook and John Chalker Crosbie. Edson Pease always held up the "rescue" of 1894 as proof positive that big banks had the sustaining power lacking in small, regional banks: in 1913, he boasted that "the island was never so prosperous as at the present time" on account of its link with mainland banking.[12] By then, he could make the same claim in warmer reaches of the hemisphere.

As early as 1837, the Colonial Bank, a British bank operating in Jamaica, had appointed the Halifax Banking Company as its northern agent to facilitate the passing of bills of exchange.[13] As in the actual shipping of goods, merchants sought to bypass London and New York in the negotiation of trade finance. Intermediaries took commissions for handling bills of exchange and foreign exchange. The pull of metropolitan commercial centres was, none the less, inescapable. Canadian banks thus began establishing agencies at these crossroads of international finance, beginning with the Bank of Montreal in New York in 1855. Other Canadian banks followed – the Bank of Commerce and the Merchants' Bank of Canada in the 1870s.[14] In the 1890s, Canadian banks appeared in other centres of American commerce – Chicago, Minneapolis, and into California. Once the Merchants' Bank of Halifax opened in Montreal, some form of New York affiliation was unavoidable, and in 1888 Pease negotiated a correspondent agreement with the Chase National Bank in New York, giving the Canadians foreign-exchange and credit facilities.[15] The president of the Chase National, Henry W. Cannon, was to become Pease's trusted ally south of the border.

New York opened other doors to Canadian banking. Since Canada lacked any kind of workable money market – a means of investing in short- and long-term financial instruments – New York, as did London, allowed foreign banks an opportunity to invest their liquid reserves profitably. By the 1890s, for instance, the Merchants' of Halifax was building up a solid portfolio of American railway and utility bonds. Although New York agencies of foreign banks were prohibited from acting as retail banks, Canadian banks soon sensed a kernel of international advantage planted in the centre of American finance. While the Canadian Bank Act encouraged Canadian bankers to "open branches, agencies and offices" wherever they saw fit, American bankers were severely curtailed in pursuing their expansionist urges. The 1864 National Bank Act had stipulated that American banks must draw their directors from the narrow precinct in which they operated.

The fact that a state bank charter generally imposed less-stringent incorporation and reserve requirements gave American bankers further latitude – which they used.* It was ironic therefore that in the very years in which America was building the most powerful national economy in the world, its banks remained localized, limited in any hope of effective national coverage, let alone international expansion. Although barred from buying into American banking or from issuing notes or taking deposits, Canadian agencies were situated to attach themselves to America's overseas trade and thus act as *de facto* American bankers. A shrewd American banker, or promoter, would at the same time realize that a liaison with a Canadian correspondent might offer an escape from the constraints of American banking.[16] Late in the 1890s, Edson Pease of the Merchants' and Henry Cannon of the Chase National found themselves thinking along these lines. The lines converged on Havana and the fabled sugar fields of Cuba.

Urbanization and industrialization fuelled the world's appetite for sugar. In the first quarter of this century, world sugar production increased 150 per cent and one country, Cuba, soared to the top of the producers' list. In 1900, Cuba fed 2.7 per cent of world demand, but by 1925 it accounted for a dominant 21.1 per cent.[17] Cuban sugar production surged forward under the stimulus of large-scale, mechanized processing of cane and the opening of the insatiable American market for sugar. This transformation was born out of the convulsions of the Spanish-American War. Sugar has found an habitual place in history as a commodity that begets political and economic dependence and turmoil. Just as fish, fur, and timber drew European traders to Canada and coloured its political evolution, so too has sugar fundamentally shaped Cuban nationhood. "As sugar goes, so goes Cuba," Cubans are fond of quipping.

In the years 1895 to 1905, Cuba passed from outright colonial dependence on Spain to a quasi-colonial dependence on the United States. A Spanish plantation colony since the fifteenth century, Cuba by the late-nineteenth century was an island of discontent. Its agricultural mainstay, sugar, had benefited in mid-century from the advent of large-scale sugar mills, or *ingenios*, and from railway access to ports,

* A. P. Giannini, an Italian immigrant whose Bank of Italy in San Francisco would ultimately become BankAmerica, drew inspiration from the Canadian branch-banking system. Noting the success of Canadian agencies in California, Giannini toured Western Canada in the first decade of the century and was impressed: "These safe, well-conducted, economically operated institutions were at the other end of the pole from the speculative, loosely run banks of the American frontier, including San Francisco in its early days." (M. and B. R. James, *Biography of a Bank: the Story of Bank of America*, New York, 1954, p.43). Giannini soon covered California with branches.

but was now becoming stalled in its bid for further mechanization by lack of capital and the ineptitude of Spanish administration. Cuban land was encumbered by an archaic royal land-grant system and sugar financing was complicated by interest rates as high as 20 to 25 per cent, which prevailed as a result of perverse lien provisions of Spanish law – the *privilegio de ingenios* and the *retracto convencional* – which fortified the interests of the borrower at the expense of those of the lender.[18] Cuban banks were consequently small and incapable of stimulating commerce. Even the largest, El Banco Español de la Isla de Cuba, was also confronted with a chaotic monetary system that mingled various currencies and made trade transactions awkward. The anaemic economic and financial condition of the colony was but one of the many frustrations that fed the Cuban hunger for independence. An earlier nationalist uprising in the 1870s had ended in a stalemate that had seen many Cuban nationalists go into exile. Their return in 1895, under the leadership of poet José Marti, brought down the curtain on Spain's influence in the Americas.

The United States was no disinterested bystander in this conflict. Already Cuba's largest trading partner, America clearly saw Cuba as falling under the Monroe Doctrine – America's self-declared right to order the affairs of the hemisphere. Once the insurrection had begun, it took little to provoke the Americans to action. Faced with national hysteria over the loss of the USS *Maine* in Havana harbour in April 1898, President McKinley recognized Cuba's right of independence and went to war with Spain. Victory was quick and decisive. Aid to the Cuban Army of Liberation and direct military intervention – forever etched into the American psyche by the charge of Teddy Roosevelt's Rough Riders up San Juan Hill – forced a Spanish capitulation in July and the signing of the Treaty of Paris in December. Cuba acquired its independence, and the United States acquired Puerto Rico, the Philippines, and Guam, plus a substantial *de facto* suzerainty over its newly independent neighbour. "In their struggle for independence, Cubans had confronted two metropolitan centres - Spain and the United States," an historian of the war has noted. "Cubans emerged from the war victorious, but only over one metropolis."[19]

The United States moved quickly to secure Cuba's loyalty. Even before Spain's capitulation, Americans spoke openly of their hopes of drawing the island into their diplomatic *and* economic net. The U.S. Vice-Consul in Havana, Joseph A. Springer, prophesied that, under American protection, "a reciprocity in trade will doubtless be sanctioned and all the riches of the most fruitful and productive bit of ground on the globe will flow into our markets. Cuba will become a source of great profit to the people of the United States."[20] To ensure this, Cuba was cocooned in American protection. Within a month of the Treaty of Paris, President McKinley had appointed an American military governor for the island and had decreed that all official transactions in the "new" Cuba be undertaken in U.S. dollars. The appointment of General Leonard Wood, a Rough Rider sidekick of Roosevelt, as the second military governor in 1900 marked the real beginnings of Americanization. Massive rebuilding of roads and railways and an assault on malaria were undertaken, opportunities that attracted swarms of foreign builders and promoters. To stimulate the sugar economy, Cuban sugar was given preferential access to the American market. Although in 1902 Cuba elected its first democratic president, Estrada Palma, the United States continued to cast a long shadow across the Straits of Florida.

The capstone of this new Cuban–American relationship was set in place by Senator Orville H. Platt. An outspoken expansionist, Platt had been instrumental in the American annexation of Hawaii in 1898. Platt now wanted Cuba pulled firmly into the American bailiwick, and his Platt Amendment – a rider to the Army Appropriation Bill of 1901 – did just that. Reluctantly ratified by Cuba, the amendment gave the United States the right of intervention to protect property and liberty, forbade the Cubans to enter treaties which might impair its Treaty of Paris obligations, and set strict limits on its fiscal policy. Although repealed in 1934, the Platt Amendment set the tone of Cuban–American relations right down to the day in the late 1950s when, like José Marti before him, Fidel Castro waded ashore from exile to lead an insurrection.[21]

The Treaty of Paris was signed on December 10, 1898. Three days earlier, Edson Pease, the Montreal manager of the Merchants', had advised the bank's board in Halifax that "Cuba might be a desirable place for an Agency." The board was sceptical, but authorized Pease to visit Havana "with authority to open."[22] Just as he had sensed the potential of positioning the bank at the cutting edge of Canadian development, Pease now sensed another beckoning frontier, this one to the south. Just as he had hurried into the B.C. interior in 1897, Pease, accompanied by the bank's inspector, W. F. Brock, now darted to New York to catch a steamer to Havana. At dockside in liberated Havana, the Canadians found chaos. The last of the Spanish troops and administrators were crowding aboard ships ready for repatriation; American and Cuban liberation troops ruled the city. Pease toured the city in a horse-drawn carriage lent to him by a local merchant banker.[23] The evidence of four years of turmoil was everywhere. The war had wrecked Cuba's urban and economic infrastructure: streetcars, telephones, bridges, and warehouses needed a massive renovation. In the countryside, the sugar industry lay in ruins: of the estimated 1,100 mills processing cane in 1894, only 207 still operated. A million-ton output in 1895 had fallen to 300,000 tons by 1900.[24] Given the guerilla nature of much of the war, railways and storage facilities – the all-important arteries of sugar export – had suffered heavily.[25]

Amid the wreckage, Pease could see opportunity. If Cuba was ever to be rebuilt, it would need ready access to capital, and the Cuban banks were in no position to provide it. Mortgage debt had been under moratorium since 1895. There was no reliable currency. The two largest banks – Banco del Comercio and Banco Español – had suspended operations. A hodgepodge of private banks in Havana survived, but, lacking branches, could not move money to the provinces. With the blueprint of Canadian branch banking fresh in his head, Pease could see a place for the Merchants' in Havana. After all, the bank had cut its teeth moving Maritime fish and timber to foreign markets. Why not Cuban sugar? He also knew that he had a special advantage: America's myopic banking laws made it unlikely that an American competitor would materialize. An American trust company had set up shop in the south-eastern city of Santiago de Cuba, but its compatriots had not followed. Pease also knew that opening in Cuba was a leap in the dark. His "bank boys" did not speak Spanish. The bank lacked any feel for the market; there was no Dun and Bradstreet for ready credit checks. Furthermore, before the bank could lend, it would have to build up a deposit base. Foreign exchange, profitable elsewhere, was problematic as long as Cuba lacked a stable currency. Lastly, since Cuban sugar depended on the American market, some better form of financial intermediation would be needed in the United States, preferably in New York.[26]

Time was of the essence. Rumours – undoubtedly confirmed through Pease's new-found friendship with American consul Joseph Springer – indicated that the Americans were poised to initiate financial reform; a report on Cuba's financial and economic woes had been presented to McKinley. This was confirmed when the president announced that the *peso* would now be pegged to the American dollar; trade financing now became a more lucrative prospect. Later, the *retracto convencional* would be scrapped, giving the sugar grower surer access to capital. Anxious to capitalize on these changes, Pease hurried back to Montreal to prepare a report for the board. There is reason to believe that Pease also feared that the Bank of Nova Scotia, which had operated in Jamaica since 1889, might leap into the Cuban breach. Pease, however, had a special advantage in Montreal. The Merchants' ascendancy in the city was in large part the product of Pease's ties with prominent local capitalists. Charley Hosmer, the telegraph wizard, had led Pease into friendship with Van Horne of the Canadian Pacific and other Montreal promoters, such as Charles and Edwin Hanson. The Hansons were, for instance, not only bank clients but also provided Pease with a bellwether of Canadian investment activity. In Halifax, a regular bank client, lawyer/promoter B. F. Pearson, had joined Pease's informal circle, as had director David Mackeen, another Halifax promoter. Van Horne, the Hansons, and Pearson had all been active in the promotion of Canadian urban utilities, principally streetcars and power generation, and they, too, now sniffed profit in the warm Cuban wind.[27]

Van Horne, an American by birth, led the Canadian business invasion of Cuba; in January 1900, he visited Havana to inspect the Havana tramway system. While there, he hit on another idea, an idea born out of his experience in the Canadian West. Direct business promotion by foreigners was made difficult in Cuba by the Foraker Amendment, which forbade the acquisition of franchises by foreigners. Foreigners *could*, however, buy land. Why not, therefore, buy land and use it to build a railway and then use the railway to push agricultural development into eastern Cuba?[28] Thus, Van Horne's Cuba Company, with a head office in New York, was born. "It is believed on the part of the Company," Van Horne told Senator Platt, "that, as with wheat and corn in the Western States, sugar must before long be produced in Cuba by those who work with their own hands."[29]* Just as the banks had been at the "end of steel" in the Canadian West, Edson Pease would oblige his Montreal friends with banks in eastern Cuba.

Through the Christmas week of 1898, Pease hurriedly prepared a report for the board on his Cuban expedition. It was typical of his growing impatience with the conservatism of the Halifax directors that he simply submitted the report in writing on January 3. The sceptical directors would not oblige Pease with a quick decision, and "it was thought best to ask Mr. Pease to visit Halifax." On January 14, "prolonged discussion" led to agreement that Pease should revisit Havana before a final decision on opening was taken.[30] This time he did not hesitate; space was leased on Obrapia Street in downtown Havana. Although some of the Halifax directors remained "strongly averse" to an agency in Cuba "upon the ground that it was too far away from home,"[31] Pease pressed his suit. However, without a New York connection, Havana made little sense, and on February 18 he predicted that a New York agency "in time would do a very profitable business." Henry

* The investment mania that swept through Mariposa in Leacock's *Sunshine Sketches of a Little Town* was sparked by the "Cuban Land Development Company," from its offices in New York. Local investors were enticed with "coloured pictures of Cuba, and fields of bananas, and haciendas and insurrectos with machetes and Heaven knows what." The Mariposa lily was Cuba's national flower.

Cannon at the Chase National, the bank's American correspondent, "very much approved of the new venture and promised his assistance to make the business a success."[32]

Clearly, in the early weeks of 1899, Edson Pease was pushing both the Halifax bank and his own authority in it to their limits. The Havana–New York initiative was entirely his own; it is likely that, had the board disappointed his ambition, Pease would have left the bank. He was no longer a small-city banker, and his vigour and vision had attracted wider attention (it was later in the same year that the New York syndicate would seek out Pease to head the mooted American Bank of London).[33] As it had when Pease advocated an agency in Montreal in 1887, the Merchants' faced a momentous decision in pondering a move south in 1899. Would it cling to Canadian shores or strike out abroad into unknown-but-promising territory? What tipped the balance in Pease's favour was the willingness of bank president, Thomas Kenny, to share in his vision. Kenny had traded into the Caribbean for decades. As an MP, he had championed better trade and transportation links with Canada's southern trading partners. Like other Halifax merchants, he saw the American intervention in Cuba as a golden opening for trade; the first Cuban consignment had left Halifax within a month of the Spanish capitulation.[34] If other directors swooned at the thought of Havana, Kenny backed Pease wholeheartedly. Not coincidently, the decision to open in Cuba and New York was accompanied by Pease's elevation to joint general manager. By the end of 1899, Pease was sole general manager. Without Kenny's backing, Pease would probably have spent his energy battling with the board and departed, leaving the bank to its conservative Maritime devices.

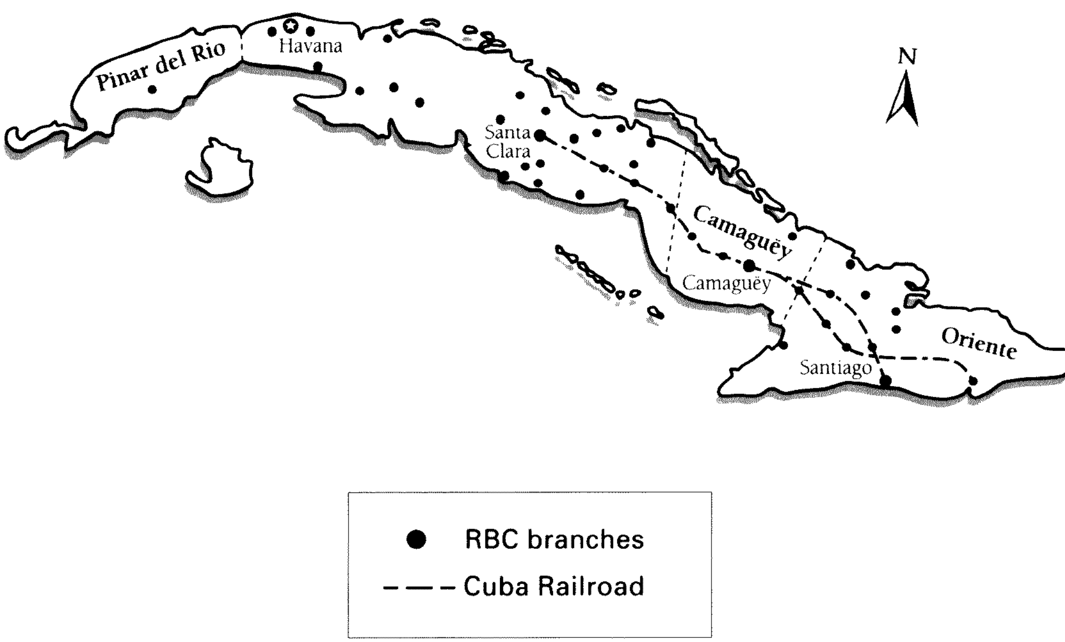
In the spring of 1899, Kenny proved his mettle. He realized that the real opportunity in Cuba lay not only in the financing of improved Canadian trade, but in capturing Cuban–American trade, and that this meant establishing the bank in New York.[35] Kenny was no stranger to New York; in 1856 he had married Margaret Burke, daughter of a prominent New York family. In March, Kenny accompanied Pease to New York, where they rented space on Broadway and employed an American, Stephen Voorhees, as their first agent. A former Chase National banker, Voorhees was a prize catch and was duly paid $5,000 a year. Before Voorhees could open the agency, however, an obstacle emerged. Pease had known that New York law precisely prescribed the limits of agency banking in New York – no retail banking, in particular – but had hoped that the Merchants' would find acceptance as an agency, just as other Canadian banks had done earlier in the century. Some doubt was thrown on this assumption by the news that the Toronto-based Bank of Commerce, already comfortably established in

New York, was planning to challenge the right of the Merchants' to open in the city under the provisions of an 1892 New York law. The law allegedly exempted new banks from entering the city without state incorporation. Those operating prior to the law were precluded. Pease sensed a messy battle; rumours indicated that the Commerce was planning to enter Nova Scotia, and New York offered an opportunity for a pre-emptive strike.[36]

Pease and Kenny rushed to New York. Hurried consultations with Cannon and the Chase National lawyers brought the opinion that the 1892 law "was not intended for such banks as ours." Its purpose was instead to deter individuals from presenting themselves as banks. Still uneasy, Kenny played his trump card. He would go directly to Governor Teddy Roosevelt in Albany and ask him for a definitive clarification. He would go not as an unknown Canadian banker, but as a relative of the illustrious governor. Kenny's mother-in-law was a Roosevelt. "I had not met Teddy for 15 years," Kenny scribbled in his trip diary. "I wired him on Friday if he could see me on a matter of public business on Saturday – yes – come to dinner at 7 o'clock." Dinner was a convivial affair: "the conversation was the war – the Rough Riders – State and Federal politics." On Monday, Roosevelt introduced Kenny to the attorney-general, who assured him that the state welcomed foreign banks – "the more the better." After a considerable legal minuet, Kenny learned that no legal obstacle lay in the way of the Canadian bank making loans on collateral or in making foreign exchange. The lifeblood of the New York agency had been assured.[37] Cuba now beckoned.

On March 8, 1899, the Merchants' Bank of Halifax opened at the Obrapia address in Havana. Even before the New York agency was secured, Pease was determined to make the gambit succeed; it was "his" project. Over the next two decades, he would visit the island regularly, often towing Kenny or a director along. Bank clerks at head office recalled Pease's triumphant returns from the south, bearing fine Cuban cigars, some of which he proudly distributed to staff and the rest of which he stored in the bank's vault.[38] Beyond these pleasures lay a carefully plotted strategy for the Cuban venture, a strategy devised and compulsively supervised by Pease himself, which rested on a triad of shrewd personnel, political, and business policies. It resulted in the bank rapidly becoming the island's largest financial institution; by the mid-1920s Pease had built a network of sixty-five branches. By then, the Canadian bank acted as Cuba's *de facto* central banker. When Graham Towers, a young Montrealer who was sent south as an assistant accountant, arrived in Havana in 1922, he

THE ROYAL BANK IN CUBA: 1925



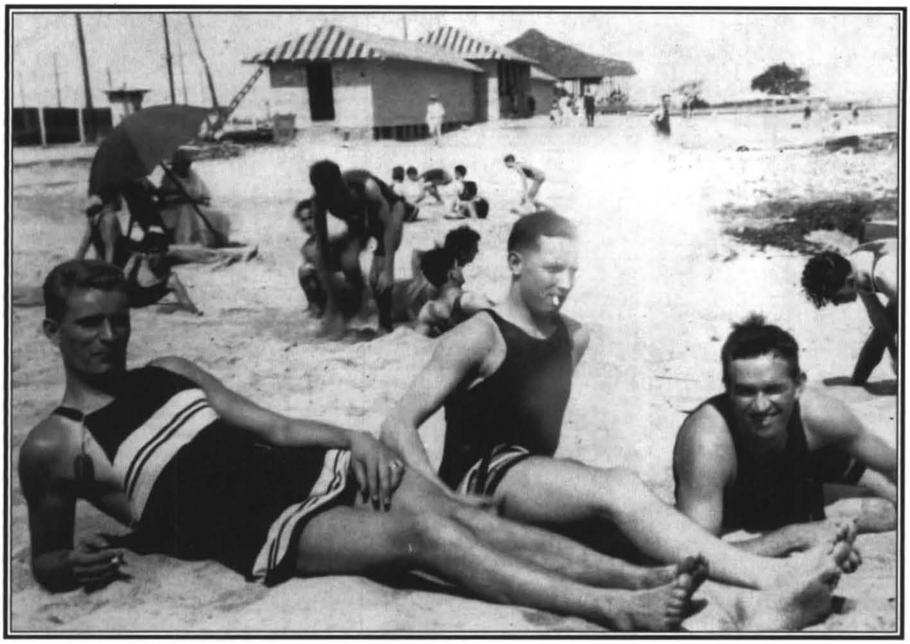
instructed the cabbie at dockside to take him to "El Banco Real de Canada." "He corrected me at once, 'Banco de Canada,' and started off."[39] The whole impressive edifice of Canadian finance in Cuba, however, rested on sugar and, when the price of sugar plunged in the 1920s after two soaring decades, "Banco de Canada" would find its fortunes much straitened.

Pease's first concern in Havana was to put the right men on the job.[40] He faced the almost impossible challenge of finding men reliably versed in Canadian banking procedure and at the same time adept at winning Cuban business. The bank's appointment of joint agents in Havana in late February 1899 was thus a brilliant *coup*. The first agent was W. F. Brock, the head-office inspector who had accompanied Pease to Havana in 1898. Brock would run the bank. His partner as joint agent was Joseph A. Springer, the American vice-consul in Havana. Fluent in Spanish, Springer was *persona grata* with both the Cuban authorities and the American military government: "his duties were to introduce prospective clients and to obtain general and financial information."[41] In keeping with its inclination to bring on young talent quickly, the bank sent the twenty-eight-year-old Fredericton branch manager, Francis Sherman, south as second agent.

It was an effective combination, but Brock soon buckled. Heat, Spanish, and the topsy-turvy world of Cuban reconstruction killed his spirit, and he was transferred to New York. Sherman succeeded him and, more than any other man, pioneered the bank's presence in Cuba. For the next twelve years, Sherman combined his talents as a charming-yet-aggressive banker with a lifelong passion for poetry. While his romantic verse regularly appeared in northern periodicals, Sherman learned Spanish and became a genial presence in Cuban social and business circles.

Sherman and Springer immediately realized that Canadian "bank boys" might ably erect the girders of the Cuban system, but that Cubans would soon have to be brought into the branches. Young Spanish-speaking staff began appearing at the Obrapia Street branch almost immediately. The guide who had shown Pease around Havana on his initial visit was, for instance, hired.[42] Hispanic Americans were hired in New York and brought to Havana.[43] As the bank gained stature, Cubans began seeking employment there as a promising step up the ladder of post-revolutionary advancement. Sometimes such requests promoted the bank's own ends. One of the bank's earliest accounts was that of the Bacardi distillery and, when a Bacardi son, José, presented himself to Sherman in 1903, he soon found work as a junior in Santiago branch.[44] Turnover in Cuban staff was high; the ways of Canadian banking did not come easily to Cubans. None the less, a core of Spanish-speaking "bank boys" began to emerge within a few years, and the first Cuban managers appeared in a decade. Despite this, the New York or Miami steamer seldom docked without disgorging another small expedition of Canadian "bank boys." The Canadian Bankers' Association soon began offering Spanish courses, and in some years the course catered solely to Royal Bankers.[45]

The North Americans brought an undeniable ethnocentricity with them to Cuba. When things went awry, the bank's senior managers chalked it up to "the excitability of the Latin races."[46] Realizing that Cuban service was onerous for many North Americans, the bank altered its *Rules and Regulations* to suit the circumstances. The marriage-rule ceiling was raised to discourage marriage, and salaries were increased to reward those who took southern assignments. Holiday trips home were paid for by the bank every two years. In addition, from the outset, international service in the bank carried a degree of glamour unattainable in Canada. Few Canadians had jobs like these. For most, however, service in Cuba was seen as a short-term



Our men in Havana: The pleasures of a southern assignment. Canadian "bank boys" relax on a Havana Beach, 1919 (above); picnicking in the Cuban Hills (opposite) – note the ties and bank revolver.

means of acquiring seniority and saving money before returning to marriage and a branch managership in Canada.

"Bank boys" in Cuba were housed in guest houses, the most famous of which was Vedado in Havana. Here sports (and other high jinks) flourished. Managers sent to rural branches enjoyed a less-gregarious existence. An inspector, arriving at an isolated branch in Oriente province, reported that he found the manager, the son of a Maritime Presbyterian minister, and the only English-speaker in the district, morosely fulfilling his duty. He had written on the wall above his desk: "How long, O Lord, how long?"[47] This strange mixture of Anglo sojourners and Cuban nationals, overseen by a small core of Cuba veterans headed by Francis Sherman, manned a branch system that expanded almost without interruption from 1900 to 1925.

Pease not only found the men, but also a political strategy for the bank in Cuba. From the outset, the Canadians saw themselves as an "American" bank in Cuba. Before his first trip to Havana, Pease asked Cannon of the Chase National to "smooth the way through the American authorities."[48] Until the Federal Reserve Act of 1913 permitted American banks with federal charters to establish foreign branches and to provide financing for the import and export of

goods, the Royal Bank had the Cuban field virtually to itself. A Cuban rival, the Banco Nacional de Cuba, established with American backing in 1900, enjoyed the privilege of holding the government's account, but it was poorly managed. The Bank of Nova Scotia did eventually enter Cuba in 1906, but never developed a branch network. Only after 1914 did the American National City Bank seriously challenge the remarkable sway given the Royal Bank by Pease's bold dash to Havana in 1898.[49]

In the interim, the Canadians acted as surrogate American bankers and, as such, saw themselves snugly covered by the protective blanket of the Platt Amendment. "The United States authorities have the affairs of the island well in hand at the present time," Pease told the *Financial Post* in 1907. "Every effort will be made to provide for the perfect autonomy of the island but if all efforts fail and it is found impossible to secure peace and harmony, there is little doubt as to the final destiny of the country being brought into union with the United States."[50] When trouble brewed – as it did in 1906, 1912, 1917, and 1920 – an American battleship in Havana harbour or a Marine contingent restored political calm. As late as 1933, the British Ambassador in Havana could report to London that the Canadian bank had a "special" place in Cuba and that it "always expected that the United

A farewell dinner for Graham (third on left) and Molly (far right) Towers under the palms, 1929. Beside Molly is Harold Hesler of the Havana supervisor's staff and a bank expert on sugar

States Government would accept also the disadvantages and responsibilities which it entailed."[51]

If Pease saw the bank's role in Cuba as one of responding to American-created opportunity, Sherman sensed the Cuban opportunities. In its first years of Cuban operation, the bank pursued a cautious loaning policy, intent on attracting deposits to make the bank self-supporting. This proved difficult; Cubans had traditionally not seen banks as a place for their savings. In 1900, the Merchants' Havana branch loaned $517,000, but took in savings of only $300,000, for a slim profit of $11,000.[52] Sherman was determined to increase both savings and profits, and in 1902 he saw his chance. On taking office in May 1902, Cuban President Estrada Palma inherited a political problem: the troops of the Army of Liberation had been promised $1 a day for their patriotic services. The bill – some $60 million – was now due. Uneasy at the prospect of an unpaid army, Estrada Palma floated a bond issue in New York and prepared to pay the troops. Sherman instantly began lobbying to act as paymaster; he realized that each soldier paid was a potential deposit account for the bank.

Working through Van Horne's Havana attorney, Sherman strove vigorously for the contract and, in September 1904, he won the right to distribute what would eventually total $56 million. The bank's small branch network – five branches in 1904 – allowed it to make payment throughout the island. Each payment brought a commission and the prospect of a new client. "I do not think the question of direct remuneration for the bank's services in paying the Cuban Army is of the least consequence," Van Horne wrote Pease, "as compared with the standing it must give your bank throughout the country."[53] The Liberation Army payroll proved an immense fillip to the expansion of the bank's branches and staff in Cuba.* Henceforth, the Royal Bank was to enjoy a favoured relationship with successive Cuban governments; both democrat and dictator turned to the Canadians for financial support.

Just as the Royal Bank cultivated the political good will of the new Cuban government, so too did it seek out a solid base of business clients. With its New York agency, the bank was excellently situated to capture the boom in Cuban–American trade and investment. The bank consciously established its branches wherever it could facilitate the spread of foreign investment entering Cuba. In this respect, its best customer was Van Horne's Cuba Company and its offspring, the Cuba Railroad. In 1903, a branch was opened in Santiago de Cuba, and a year later in Camagüey; both were crucial junction towns in the expansion of Cuban sugar and cattle production. As Van Horne's Cuba Railroad pushed down Cuba's central spine, Royal Bank branches sprouted up in the wake of construction. "I take pleasure in repeating my assurance that the bank accounts of the Cuba Company and the Cuba Railroad," Van Horne wrote Pease, "will be continued with your branch at Camagüey." Van Horne went so far as to lecture Pease on the need for an "impressive" building in Camagüey – his railway headquarters – to build Cuban confidence in the bank. Van Horne, a gifted amateur artist, even sent along a sketch of a façade for the building, and he suggested a corner location.[54] Through its New York office, the

(continued on p. 182)

* Note that the three young bankers featured in the "Bankers in Motion" chart in Chapter Three were all despatched to Cuba in 1904 to help with the Army payroll operation. One of them, C. E. Mackenzie, remained in international banking and remembered Sherman as "a man of unusual attainments...and engaging personality and a fine intuition."

LEDGERS AND LAUREL LEAVES

Poet/Banker Francis Sherman

IS THERE POETRY IN BANKING? PERHAPS. There have certainly been poets in banking. Banking and literature have intersected frequently in the bank's history. The Royal Bank has had among its staff not only Sinclair Ross, an outstanding Canadian novelist, but also Francis Sherman, a distinguished poet. We tend to stereotype poets as impractical artists, remote from the world of business or action. The career of Francis Sherman (1871-1926) proves us wrong. Poems and ledgers dominated Sherman's short life.

Sherman was one of the bank's pioneers in Cuba, a banker so capable that, for many of the sugar planters who formed Cuba's economic élite, the bank was simply "Sherman's Bank." By the time he was appointed as joint agent to Havana in 1899, Sherman's career was already a model of a Maritime "bank boy's" path of advancement. Born of Loyalist stock in Fredericton in 1871, Sherman fell under the powerful influence of George Parkin, an outspoken admirer of Empire, at the Collegiate School in Fredericton. Later instrumental in establishing the Rhodes Scholarship, Parkin obliged his students to broaden their parochial horizons. So too did Sherman's mentor at the University of New Brunswick, George Foster; Foster himself would go on to prominence in federal politics. Many of Sherman's adolescent friends were destined to distinguish themselves: Frederick Williams-Taylor as general manager of the Bank of Montreal and Charlie Neill in the same role at the Royal Bank.

Sherman loved literature, and by the time he joined the Merchants' Bank's Woodstock branch in 1887 as a junior, he was already writing poetry. Influenced by Maritime poets Charles G. D. Roberts and Bliss Carman, Sherman published his first book of verse, *Matins*, in 1897. That same year he became the bank's youngest manager, taking over the Fredericton branch at the age of twenty-six, living proof of the bank's reputation as a "young man's institution." In 1899 he was called to Montreal to work under the discerning eye of Edson Pease. Pease liked what he saw and despatched Sherman to Cuba.

Charming and generous by nature, Sherman was ideally suited to winning Cuban confidence. He had a keen eye for potential accounts; he learned Spanish and mingled freely in local society. Among his friends were José Bacardi, William Van Horne, and General Leonard Wood, the American military governor. He "made" the bank in Cuba and was, in 1907, promoted to assistant general manager. Cuba also inspired Sherman's muse. Although he had less time for poetry, he was able to pen a few poems exalting Cuba's tropical landscape. Caribbean gold dominated Sherman's working day at the bank. In his poems, the "gold" became a metaphor for a Caribbean sunset:

> More gold than Cortes, even,
> Touched in any dream
> Sank half-an-hour ago
> Deep in the Gulf Stream:
> Like fine dust of it
> The few clouds seem.
>
> —"In the South"

In 1912, Sherman returned to head office and, like so many of his confrères, harkened to the patriotic call in 1915 by joining the army. He was soon a major. By the time he rejoined the bank in 1919, he had worked his heart out. Suffering from a heart condition, he was compelled to retire and went to live in balmy Atlantic City.

There was a last touch of romance in his life. In his youth, Sherman had fallen in love with a girl who, stricken with polio, became a chronic invalid. Devoted to his beloved during her years of invalidism, Sherman never married, and returned to Fredericton annually to visit the love of his youth. After her death – and his own retirement – Sherman married at last. Five years later, on June 16, 1926, he died. One of his last acts was to order red roses for Ruth, the wife with whom he had found domestic happiness at last.

(Opposite) Major Francis Sherman, 1916.
(Above) Canadian "bank boys" at play at the bank's Vedado guest house in Havana.

Cuba Company drew large advances on the Royal Bank. When Pease and the bank's president, Herbert Holt, toured Cuba in 1913, Van Horne instructed his staff to roll out the red carpet; the Royal was "our Banker."[55]

With its New York agency and growing branch network, the bank soon attracted other prominent clients engaged in building up Cuban agriculture and infrastructure. The Swift and Armour meat-packing companies established accounts, as did Minor C. Keith, whose United Fruit Company was fast binding Central American fruit plantations to the American market. Another early account was that of Sosthenes and Hernand Behn, brothers from the Virgin Islands who graduated out of Puerto Rican sugar into Caribbean utilities. The bank won their Havana Telephone and Havana Docks business; in 1919 the Behns melded their various interests into International Telephone and Telegraph (ITT).[56] The umbrella of the Platt Amendment also made it possible for the bank to attract prominent Cuban clients. Along with the Bacardi distillery, Romeo y Julieta, the renowned cigar-maker, was soon a client. Similarly, up-and-coming Cuban promoters such as José Miguel Gomez and José Miguel Tarafa turned to the bank for financial support. Gomez, an unsuccessful presidential candidate in 1905, became involved in railway building, which the bank helped underwrite, until he was elected Cuban president in 1908. Tarafa looked to the bank to finance his Cuba Northern Railway and his Central Cuba Sugar Company, a kind of Cuban carbon copy of Van Horne's venture.

Flowing inexorably below these prestige accounts was a constant ebb and flow of sugar financing. The Sugar Reciprocity Treaty of 1902 initiated a two-decade crescendo of Cuban sugar production; the price of refined sugar rocketed by 266 per cent. Under such pressure, the nature of Cuban sugar production changed dramatically. Railway development such as Van Horne's Cuba Railroad pulled sugar production eastward into Camagüey and Oriente provinces, which by 1919 produced 60 per cent of the country's sugar. Contrary to Van Horne's hopes, production did not fall into the hands of small producers as wheat farming had in the Canadian West; huge *centrales*, or sugar estates, dominated the industry. While Cuban mills participated in this concentration of production, American-owned mills perfected it. From 1902 to 1924, American investment in Cuban sugar production leapt from $50 million to $600 million.[57] The Royal Bank held the accounts of many of these huge American enterprises – loans to the Río Cauto, Antilla, and United Fruit mills punctuate the directors' minute book. There were also Cuban sugar accounts of nationals such as José I. Lezama or locally owned mills like the Central Borjita.

"If the word cane was changed to wheat and the language used changed to English, you might almost imagine it to be one of those farming-ranching districts in western Canada," wrote a Royal Bank employee in the Dominican Republic. Decades of financing the movement of Canadian fish, timber, and wheat prepared the bank well for the Caribbean sugar trade. A Cuban cane field.

If sugar production was revolutionized, so too was sugar financing. In effect, the Royal Bank simply applied the principles of Section 88 of the Canadian Bank Act to Cuban sugar production. The cycle of sugar production was not dissimilar from that of Canadian timber or wheat. Producers needed credit to put the crop in the ground and were prepared to carry the debt in hopes of retiring it on the proceeds of the harvest. "Dead season" financing carried the industry from one crop year to the next. In an industry in which prices pushed steadily upward, the "hypothecation" – or pledging – of the crop in the ground was a tailor-made opportunity for profits and expansion. Here were the roots of what Cubans would come to call the "Dance of the Millions," the headlong bull market in sugar. Throughout Cuba, millions of bags of sugar were pledged as surety against Royal Bank loans.[58] To ensure that pledged sugar was of promised quality, the bank created the post of "sugar inspector" and empowered him to

Since so much lending in Cuba was secured by sugar destined for market, the bank was obliged to check its existence and quality on site. This man is a sugar inspector. Inspecting sugar was an unpopular and dangerous job – note the revolver.

travel to far-flung warehouses to verify the worth of mountains of sugar. For all concerned, it was a highly lucrative trade. Similar financing evolved for the production of tobacco in Pinar del Río province and for the Cuban iron-ore industry.

In all of these commodities, the bank stood to make money both in lending and from the inevitable foreign-exchange transactions that commodity trading generated. In 1919, the bank established a separate foreign-exchange department in New York. In the same year, a Foreign Trade Department was set up at head office in Montreal. When the department's first head, a former Canadian trade commissioner, Dana Wilgress, unexpectedly quit, the bank looked to McGill University for a replacement. There it found a young honours economics graduate, Graham Towers, and set him to work promoting trade. "The growth of Canadian foreign trade, and the expansion of this bank in other countries," Towers wrote in the bank's *Financing Foreign Trade* a year later, "is making increasingly necessary a knowledge of the details of import

As in Canada, the branch system in Cuba tended to follow the railway. Van Horne's Cuba Railway led the bank into eastern Cuba, where large-scale sugar production flourished. When Van Horne made his headquarters in Camagüey, Oriente Province, the bank quickly opened a branch in 1904. Van Horne suggested the corner location and even sketched the facade of Camagüey branch (above).

and export finance."[59] In 1922, Towers was sent to Havana to gather some first-hand knowledge of his own.

Under these marvellous auspices, the Royal Bank experienced luxuriant growth in Cuba. Beginning with the Santiago and Camagüey branches in 1903-4, the branch network steadily expanded, to eleven by 1908, twenty-seven by 1918, and a peak of sixty-five in 1923. In 1903, the bank acquired the Banco del Comercio in order to enhance its reach into Havana's commercial and municipal banking market. In 1905, it joined forces with Norman Davis, an American promoter, and several Cuban merchants to form the Trust Company of Cuba in an attempt to provide the kind of fiduciary financial services that accompanied banking elsewhere. Wherever it went in Cuba, the bank attempted to present itself as a progressive, modern bank. It heeded Van Horne's advice and sought prominent locations for its branches and equipped them handsomely. In 1919, a new, seven-storey head office was opened in Havana, designed by the bank's architect, S. G. Davenport. The building was consciously designed to be a model

Canadians had a knack for branch banking in the Caribbean. Unfortunately, moving between those branches was not always easy. Since inspection was the crucial check in branch banking, inspectors soon became intrepid travellers. Here an inspector contends with Puerto Rican mud, while another fords a Jamaican river (opposite).

of North American modernity.[60] The Canadians thus furnished Cuba with a model of branch banking: branches throughout Havana connected the city to its export markets and its hinterland, particularly Oriente and Camagüey provinces, where Canadian and American enterprise was so evident. By 1914, Cuba was the jewel in the Royal's international crown. It gave the bank profits and prestige. When called before the Commons' Banking and Commerce Committee in 1913, Edson Pease told the politicians that the bank's business in the south was "conducive directly to the great advantage of Canada as well as to the bank." Deposits outweighed loans by 40 per cent. Was it profitable? he was asked. "Yes, it is so much so that four or five years ago we received an offer from an American syndicate of no less than $1,000,000 for the goodwill of the business if we retire."[61] Pease did not bother elaborating on his response to the Americans.

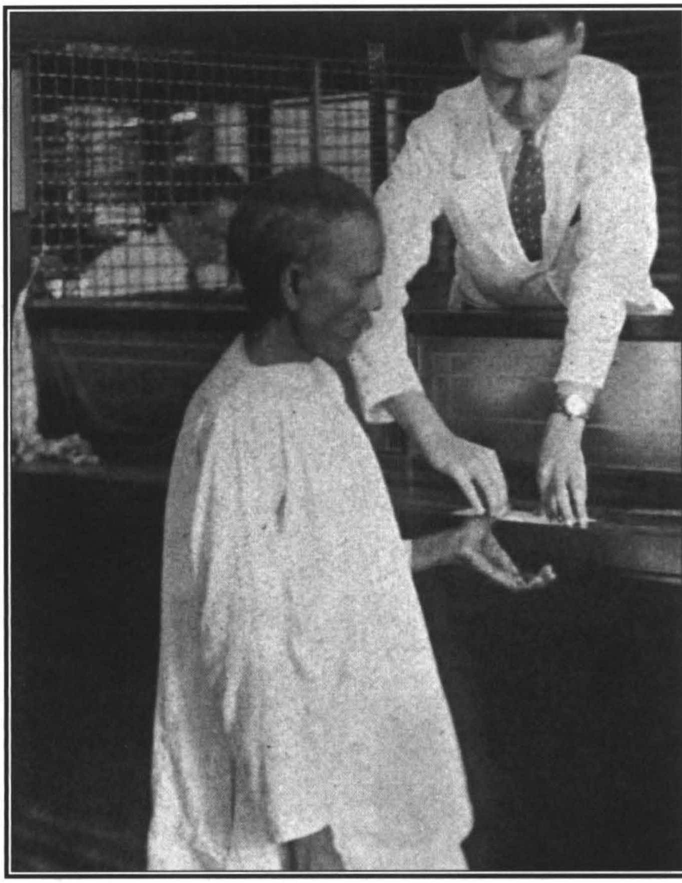
Cuba was the test ground for the Royal Bank's Caribbean and Latin American proliferation. In 1907, Francis Sherman was promoted to Supervisor of Cuban Branches and instructed to sail to Puerto Rico to

investigate its potential for business. Like Cuba, Puerto Rico had fallen under American sway in the wake of the Spanish–American War, a fact capitalized upon by the Union Bank of Halifax when it opened in San Juan in 1906. Sherman reported that the island's sugar, tobacco, and coffee crops might well support profitable banking and, early in 1907, the bank opened in San Juan. Other branches in Ponce and Mayagüez followed. Almost immediately, important accounts were won: Puerto Rico Telephone Company, a promotion of the ubiquitous Behn Brothers, and the Porto [sic] Rico Railways, a promotion of the brash, young Montrealer Max Aitken.[62] Commodity financing flourished. In 1910, the Union Bank of Halifax branch was taken over; its accountant, Charles C. Pineo, was to become a stalwart of international banking at the Royal Bank. Men like Pineo and Sherman would over the next two decades carry the Royal throughout the Caribbean and Latin America. By 1925, the bank was Canada's leading international banker, with 121 branches in 28 countries.

The Royal Bank was far from alone in the south; by 1926, there were 114 branches of Canadian banks in Cuba and the West Indies, of which an overwhelming seventy-two were Royal branches. Another Halifax-born bank, the Nova Scotia, was the bank's closest Caribbean rival. American banks, with forty-four branches by 1926, and a smattering of British banks completed the foreign presence. In South America and Cuba, however, the Royal Bank and the National City Bank of New York had the field virtually to themselves.[63] The Royal Bank was, as its advertising boasted, "a great international bank."[64]

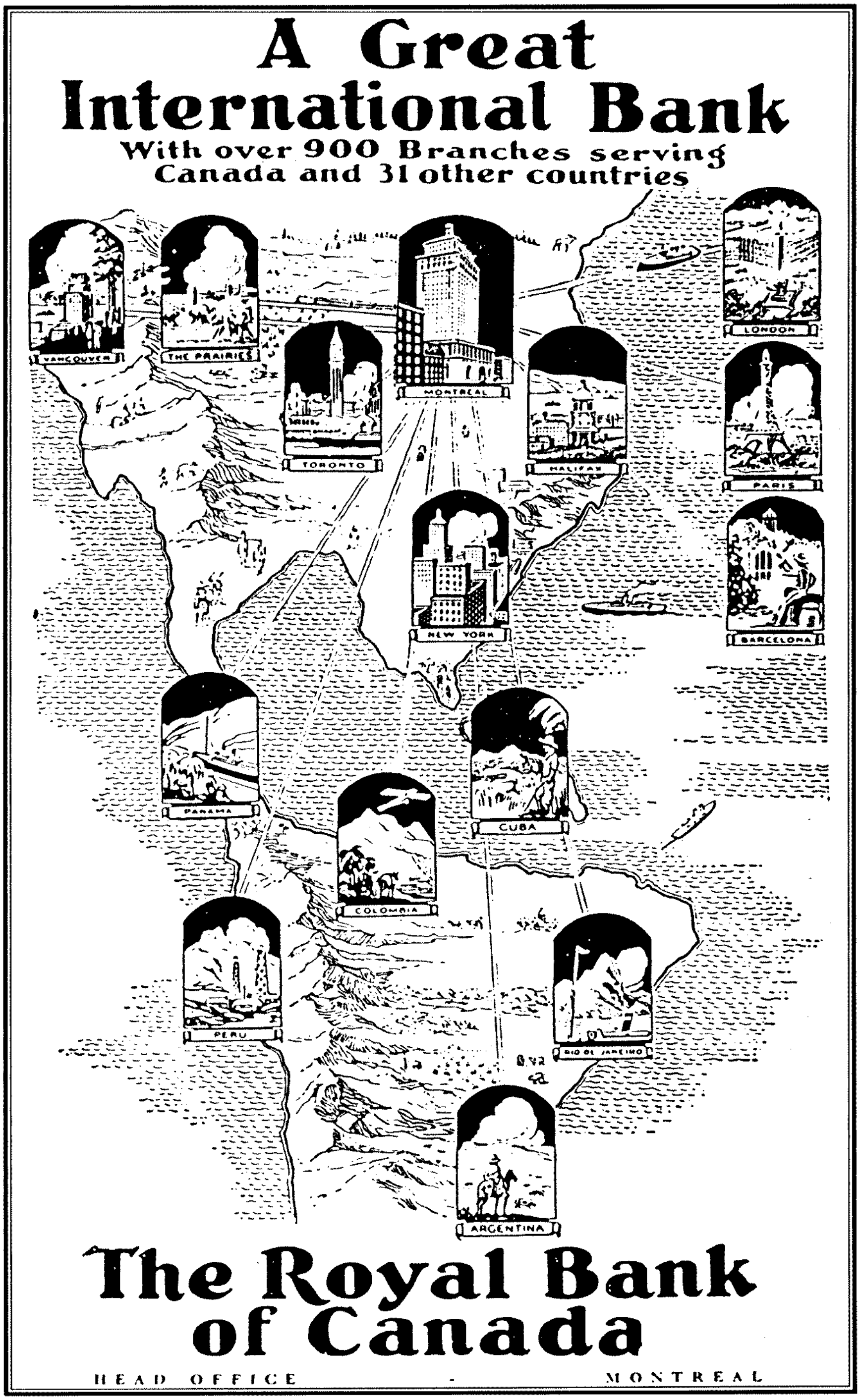
The bank's success abroad hinged on two crucial conditions. Given Canada's fledgling presence on the world stage, the Royal habitually donned the *de facto* identity of other nationalities. Hence, the Platt Amendment had allowed it to assume American protection in Cuba, Puerto Rico, and the Dominican Republic. In the British West Indies, it was a "British" bank. In Guadeloupe, it was a "French" bank. Only in South America did it develop a more autonomous identity, although the British ambassador was usually its best friend in town. If its external identity was tinted by other nationalities, the Royal Bank's internal strength in these areas – the second condition of growth – bore a strong Canadian stamp: Canadian "bank boys" and bank methods travelled the world.

This amalgam of trade financing, retail banking, and Canadian manpower placed the bank's international operations on a sturdy foundation, but the foundation did have some cracks. Much of the trade financing rested on *laissez-faire* commodity economics, which could be imperilled by several forces. Commodity prices were capable of sudden slumps, slumps that could become prolonged or even



Many of the bank's Caribbean clients were illiterate. Since Rule 95 (d) stipulated that all customers have a "dependable" means of identification, many managers resorted to taking fingerprints. Above, a Trinidadian provides prints in 1926.

permanent if new sources of production or new technologies were involved. Prices could also leap upwards if other producers exited the market; such was Cuba's happy fate in the First World War when European sugar-beet production halted. Similarly, as commodity-producing regions gained economic headway, they would frequently try to restrain their reliance on exports in the hope of stimulating commodity-processing at home, and Cuban exporters were extraordinarily favoured by the unbroken rise in the price of sugar from 1900 to 1920. Everything depended on sugar: there was little crop diversification to provide insurance.[65] Commodity production was also vulnerable to other cruel variables: war, pestilence, and political upheaval. In effect, commodity production could rapidly become a trap for producer and banker alike. Most of the Royal's Caribbean



The success of Canadian banks abroad flattered national pride. The above advertisement appeared in the Canadian Geographic Journal *in the late 1920s.*

operations were established in colonial societies or in societies, like Cuba, which lived a kind of semi-colonial existence. As the century progressed, especially after 1945, the urge to decolonize would alter the political mood in many of the Royal Bank's host countries. The bank countered these tendencies by hiring nationals wherever it operated and by remaining sensitive to the political sensitivities of its hosts. In the years down to 1930, however, these trends manifested themselves as little more than periodic upheavals. In only one country, Panama – where the bank opened in 1929 – did the Royal Bank pull out as a result of changed political circumstances, a 1939 law requiring banks to invest in government bonds.

The Royal Bank's Caribbean network was generally complete by the early years of the First World War. In 1910, a branch in Trinidad was acquired as a result of the takeover of the Union Bank of Halifax. Jamaica and Barbados were added in 1911, British Honduras in 1912, Grenada in 1913, British Guiana in 1914, and Antigua, Dominica, and St. Kitts in 1915. Nevis, Montserrat, and Tobago joined the family in 1917 and St. Lucia in 1920. Since the trade and foreign-exchange energies of these colonies were focused on Europe, particularly on England, the Royal opened in London in 1910.

The London branch assumed all the duties hitherto performed by the Royal's correspondent banks in the City. For the first time, the bank found itself at work in a city that prided itself on being "the world's banker." Senior staff donned morning coats and top hats; tea was served at 4:30 sharp every afternoon. Royal Bankers were acutely conscious of the Bank of Montreal's prestige in the City; it had long been established as the Dominion's fiscal agent in London. In 1915, the bank's ambitions in London were dented by the discovery of a £15,850 defalcation on the part of the branch manager, who was unceremoniously cashiered.[66] None the less, the London branch flourished. By 1920, it had a staff of over a hundred and an evenly balanced portfolio of loans and deposits averaging $20 million. In 1928, a West End branch would open off Trafalgar Square, and in 1931 S. G. Davenport would design a splendid new main branch in Lothbury, opposite the Bank of England in the City.

In 1914, Pease became aware of another piece of the colonial patchwork in the Caribbean, the French colonies of Guadeloupe and Martinique. The British consul in Martinique provided a succinct rationale for opening a branch of the Royal there: "The colony is prosperous, there is a good deal of money lying around for investment, and our banking institution, the sole one, namely the 'Banque de la Martinique' seems to me to be behind the times."[67] With cocoa, coffee, vanilla, and rum exports flowing mainly to France, here seemed another

"Bank boys" relax in San Juan, Puerto Rico, 1917.

opportunity to capture a rich colonial trade. The outbreak of the First World War (making trade dangerous and straining bank manpower) postponed the bank's entry into Martinique and Guadeloupe until 1919. In the same year, a branch was launched in Port-au-Prince, Haiti. To complement these branches, an office was opened in Paris on the prestigious rue Scribe and, to avoid onerous French taxation, the French operation was given a separate French incorporation. Paris quickly became a lively office, allowing the bank to capitalize on post-war reconstruction in Europe. Success came more slowly in the Caribbean.

From the outset, Montreal realized that the two French colonies had special needs: "The neighbouring British islands are as different from the French islands as they could be from islands at their antipodes."[68] When initial results proved disappointing, French-Canadian staff were sent south, notably H. L. Gagnon, a Franco-Nova Scotian, who acquitted himself so well that he would be sent in 1923 to the bank's fledgling branch in Barcelona. Martinique and Guadeloupe continued to labour under ineffective management – attributed in one bank report to the persistence of "Anglo-Saxon" attitudes – and the impact of the Depression. When the Second World War cut the colonies off from metropolitan France in 1940, the branches were closed.

War in Europe or local political upheaval always placed the Caribbean operation at risk. While commodity prices may have risen, so too did the risks of doing business. In 1914, the rush of Canadian "bank boys" to the colours and the appearance of German submarines in the Atlantic cooled the bank's overseas expansion. In 1916, the fragility of the Caribbean system was amply demonstrated in the Dominican Republic. The Royal Bank had entered the Dominican Republic in 1912, eager to capture its sugar and cocoa export trade, and by 1916 it had pushed three branches into the hinterland. Assassination, the repudiation of foreign debt, and a pattern of foreign occupations had, however, given the Republic a very "uncertain nationhood."[69] In 1905, the Americans had stepped in and obliged the Dominicans to settle with their creditors and when, in 1916, President Jiminez was toppled and replaced by the army, the U.S. Marines again came ashore. "Most decent people are not only resigned to the Americans being here," the manager in Santo Domingo wrote to his branches, "but appear to be afraid that they may go away before straightening things out.... If there is any fighting, close the Bank and keep as far away as you can."[70] The Americans stayed until 1924, thereby bringing the Dominican Republic into the fold of its other sugar "colonies." American occupation brought land reform, U.S. stewardship of Dominican customs, preferential access to the American sugar market, and the creation of a National Guard, on whose coattails Rafael Trujillo would ride to dictatorship in the late 1920s.[71] A similar American intervention in Haiti from 1916 to 1934 brought similar reforms and dependency.

If the First World War created a hiatus in the bank's international expansion, it also witnessed two important developments. In the first place, competition materialized. Freed by the Federal Reserve Act of 1913 and out of the war until 1917, American banks now sprinted abroad, led by the National City Bank of New York. In James Stillman, the National City found a chairman as dynamic as Edson Pease. Stillman forged alliances with prominent American companies operating overseas – Standard Oil and W. R. Grace – and began opening foreign branches, beginning in Cuba, Argentina, and Brazil.[72] The Royal Bank now had head-to-head competition. Some years later, a Royal manager forced out of his Aux Cayes, Haiti, branch by National City competition grimly reported that he "never liked the smiles of the American bankers in Haiti which seem to be the same smiles offered by the cats to the mice."[73]

Prospective American competition was intensified by a second pressure: the need to formulate a post-war strategy of expansion. Prompted by the optimism that an Allied victory would herald a post-war boom, head office began early in the war to scan the foreign horizon for opportunities. There was an automatic assumption that peace would bring new offices in Europe – Barcelona did open in 1918 and Paris in 1919. At the same time, curiosity, not assurance, ruled the bank's attitude to the Orient and Latin America. Early in 1916, the bank's British Columbia supervisor urged head office to look to the Far East: "Japanese goods are here to stay."[74] Two months later, the Canadian trade commissioner in Shanghai urged the bank to open in "Shanghai, Hong Kong, Manila and Yokohama, for in this direction real opportunity lies."[75] In Ottawa, Prime Minister Robert Borden made it clear that he would like to see the banks open Latin America for Canadian trade. The completion of the Panama Canal had created "wonderful possibilities" on the west coast of South America.[76] Edson Pease was alive to all these notions. He already had his eye on Honolulu as a branch site and, now assured, began giving "immediate attention" to the Far East. He was in good company; there were clear indications that the National City was also readying itself for a post-war dash.

The scramble began in earnest in the early fall of 1918; up to then Pease felt constrained by the wartime shortage of men. With peace imminent, however, the Royal Bank struck out in two directions. It was not alone in concluding that Siberia offered Canada an attractive field for commercial expansion. In the wake of the Russian Revolution, Ottawa had wagered that the Bolsheviks could not cling to power and had despatched troops to assist the White Russians. Trade commissioners followed, including the appointment of Dana Wilgress to Vladivostok in October 1918. Within days, General Manager Charlie Neill inquired of Trade Minister George Foster whether the bank "could be of service to the Dominion Government...our aim is to foster international trade." Foster replied enthusiastically.[77] Over the next three weeks, the bank engaged in a headlong charge to transplant a Toronto branch manager, D. C. Rea, onto the virgin soil of revolutionary Russia. "The whole situation bristles with difficulties," Neill confided to Rea, "and we are to a great extent unfamiliar with conditions and risks."[78] On November 28, Rea left Vancouver on the *Empress of Japan*, accompanied by a small staff and a fifty-seven-ton prefabricated bank building. He had instructions to open in Vladivostok and then to scout opportunities in Shanghai and Hong Kong. On December 21, Rea presented his credentials to Wilgress in the winter-bound Russian port; the National City Bank had already been open a week.

Vladivostok proved a quixotic disaster. Canadian officials had greatly overestimated its trade potential; its only vitality came from supplying the White and Allied troops, which moved through it up the Trans-Siberian Railway to counter Trotsky's Red Army. Rea

On guard for thee: Bank officials in Havana greet Prime Minister Mackenzie King (second from right) and his external affairs advisor O. D. Skelton (far left), 1939.

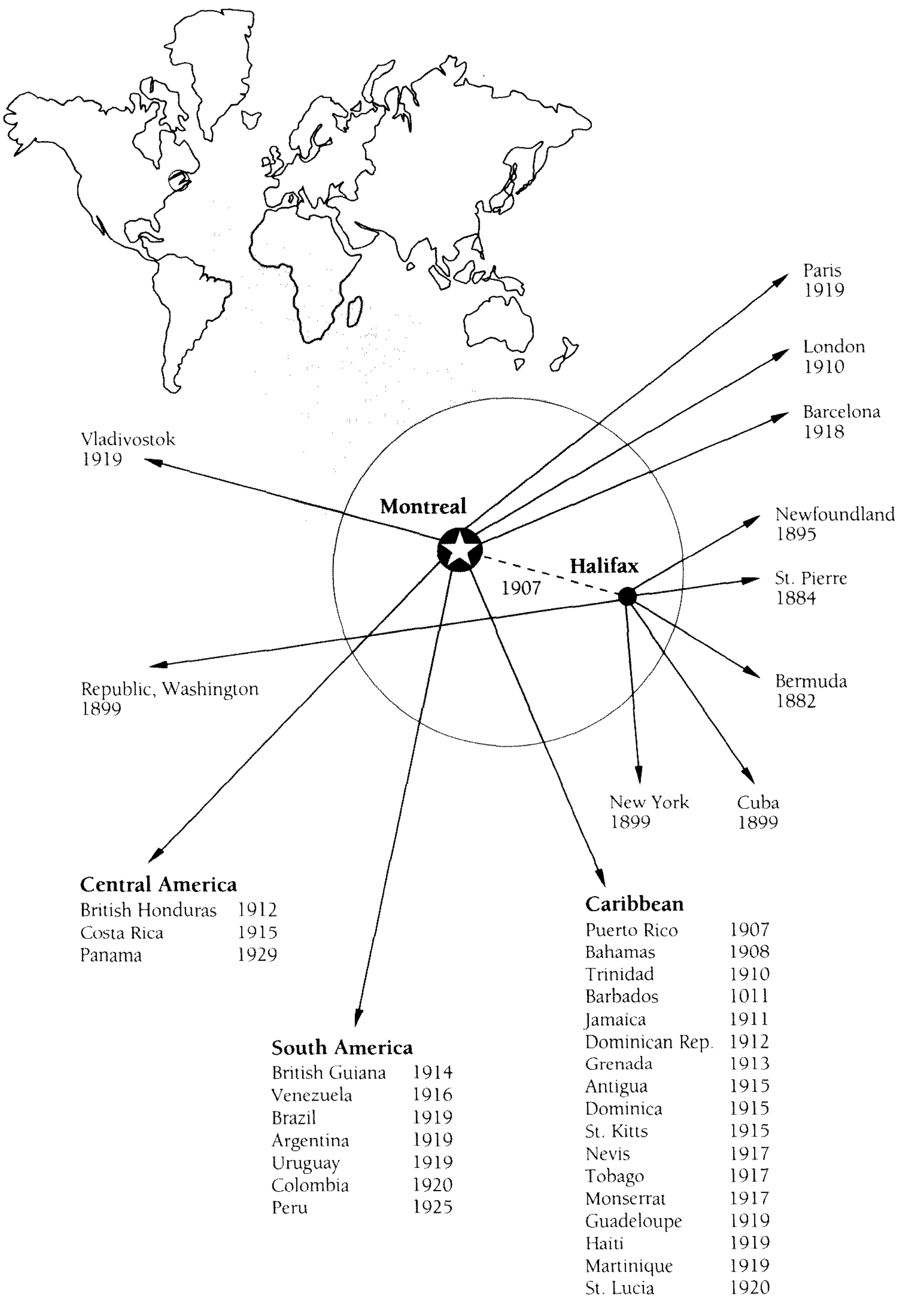
complained that the rouble was "worthless" and looked "like the label on a beer bottle." The "mañana habit" pervaded the city. The branch eked out a paltry existence on foreign exchange. Gunfire kept the staff awake at night and "in the morning there'd be 5 or 6 dead bodies in the street." Rea prevailed on the Canadian commander to post troops around the branch. In inimitable "bank-boy" fashion, Roy East, the acting manager after Rea departed for Shanghai, spent his weekends sailing on the Japan Sea in a yacht he dubbed the *Minnetonka*.[79]

By the spring of 1919, the end was near. The Canadian contingent pulled out, and the Red Army drew ever closer. Rea later claimed to have received a telegram signed by Lenin and Trotsky, protesting the bank's "financial guardianship" of the Whites. "The Red Guard," Trotsky warned, "will hungrily await your arrival."* In July, East reported that Bolshevism was rampant in the city and, when the Whites failed to gain representation at the Versailles peace talks, the Royal Bank announced on October 15 that Vladivostok branch was "temporarily closed." The bank would not reopen in the Far East until 1958, when a representative was posted to Hong Kong; in the interim, the mysteries of Far Eastern commerce kept the Canadians at bay.

Central and South America aroused greater hope. Branches in Costa

* The whereabouts of this cable (and one of welcome from Provisional Government leader Kerensky) are unknown. Although quoted verbatim elsewhere, the original is not in the archive files on the Vladivostok fiasco. One can only assume that Rea kept it as a memento.

EXPORT BANKING:
ROYAL BANK BRANCHES ABROAD 1882-1930



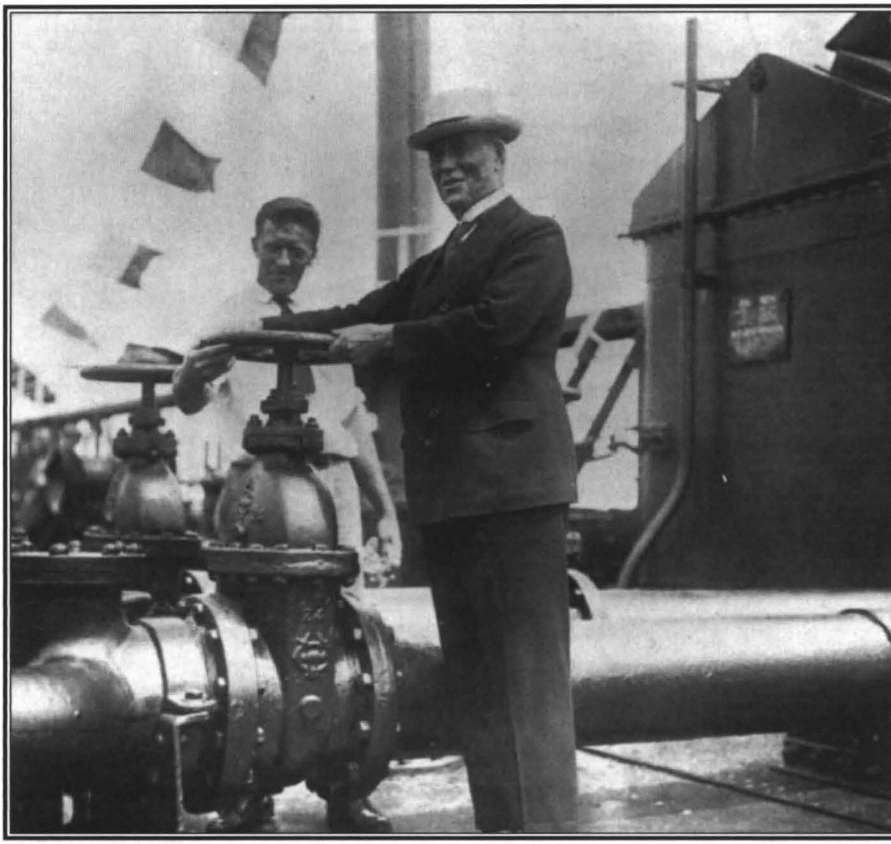
Rica and Venezuela, opened in 1915 and 1916, had given the bank an initial toehold. Late in 1918, Pease decided "to proceed energetically" into Latin America.[80] Instinctively, his first move was to ensure that he had men who were up to the challenge. In 1915, the National City Bank had "raided" the Royal Bank, hiring away the very capable Charles Pineo to manage their Brazilian business. In any other circumstance, such behaviour would have put Pineo on a blacklist, but now Pease wanted him back for the sally into Latin America. Pineo spoke Spanish and had an encyclopedic knowledge of the continent. The task of winning him back fell to the redoubtable F. T. Walker, now the bank's New York agent. Walker succeeded and, in April 1919, the two men set off on a grand tour of Brazil, Uruguay, and Argentina. Walker's elaborate report on the expedition gave Pease every reason to forge ahead. Walker found ample banking prospects in the trade of all three countries: "I have come to believe that there is a sort of special opportunity for us to fit in between the English and American banks." The British banks were perceived by Latin American traders as too conservative and the American banks too aggressive – "American brass bands," Pineo called them.[81] All the Canadians had to do was to demonstrate their ability to finance trade and to handle foreign exchange between the ports of South America and the docks of Europe and America. Canadian trade would constitute a part of this, but the bulk was destined to go elsewhere. "There is a tendency in these South American Cities to think that we came chiefly to foster Canadian trade. This will have to be gotten over by judicious propaganda," Walker noted. What had been mastered in Cuba would now be applied to South America: "There is a big opportunity to do some very fine team work with our branches at New York, London, Paris and Barcelona. One must help the other in securing collections and exchange business."[82]

Pease acted quickly. Late in 1919, branches were opened in Buenos Aires, Rio de Janeiro, and Montevideo, followed early in 1920 by Barranquilla, Colombia. Success was almost immediate. Despite problems with organizing staff, Pineo could report that in just over a year that the Brazilian exchange business was "exceedingly well run...the cleanest and most satisfactory...in Brazil."[83] Other branches were added in Brazil at Santos and Recife, to capture the coffee and cocoa trade, and in São Paulo, where the bank began loaning to Brazilian industry. New branches were opened in Venezuela, and in 1925 the assets of the American-owned Bank of Central and South America were purchased, bringing twelve new branches in Costa Rica, Colombia, Venezuela, and, for the first time, Peru. Only in Mexico, where the Bank of Montreal was well established and the legacy of the bloody civil war of 1910-20 remained strong, did the Royal Bank play a retiring role.

The breadth of the Royal Bank's international system served it well throughout the 1920s: branch systems were meant to induce stability. Inevitably, the unpredictable warp and woof of Latin American politics would occasionally impinge on the bank's operations. The seasoned Pineo summed it up best when he talked of "the jolts that must come from time to time" when doing business in Latin America.[84] In 1919, for instance, President Tinoco, the unpopular revolutionary leader of Costa Rica, fled into exile, taking with him a fraudulently obtained draft for U.S.$200,000 drawn on the bank. Despite international arbitration, the money was never recovered.[85] On the whole, however, the international system was stronger than the sum of its parts. The international branches contributed solidly to the bank's profits throughout the 1920s. Aggregated profits for the years 1922-31 reveal that Rio and São Paulo in Brazil were the chief profit-makers, contributing just over $2 million in these years. Colombia ($593,000), the Dominion Republic ($645,000), British Honduras ($313,883), and Jamaica ($236,000) were also consistently profitable. High overheads in Argentina made Buenos Aires a weak link in the chain. Elsewhere the profits were respectable, with one conspicuous exception – Cuba.

In 1920, the price of sugar collapsed – plummeted or nose-dived would be more accurate. The First World War had made the already-overheated Cuban sugar economy even hotter. With European sugar-beet production cut off, the Allies created the International Sugar Committee in 1917 to coordinate the purchase and distribution of the entire Cuban crop. All actual purchasing was undertaken by the United States Sugar Equalization Board. Under such controlled conditions, prices leapt upwards. Production mushroomed to nearly four million tons in 1919. Canadians were not immune to the virus; the Cuban-Canadian Sugar Company was promoted – "Bankers: Royal Bank of Canada" – to acquire the assets of the Río Cauto sugar plantation in Oriente.[86] In Cuba, the banks, particularly local banks such as Banco Nacional de Cuba, indulged sugar speculators with reckless lines of credit. The suburbs of Havana became studded with the homes of the *nouveaux riches*, and the Cuban playboy acquired his mythic reputation. And then the Dance of the Millions ended.

At war's end, European sugar-beet production began to resuscitate, and Far Eastern sugar reappeared on the market. Sensing the return of a normal market in sugar, President Wilson abandoned sugar controls in December 1919. Initially, heightened speculation gripped the market as the price jumped to 12.50 cents by year's end. By next May, it was

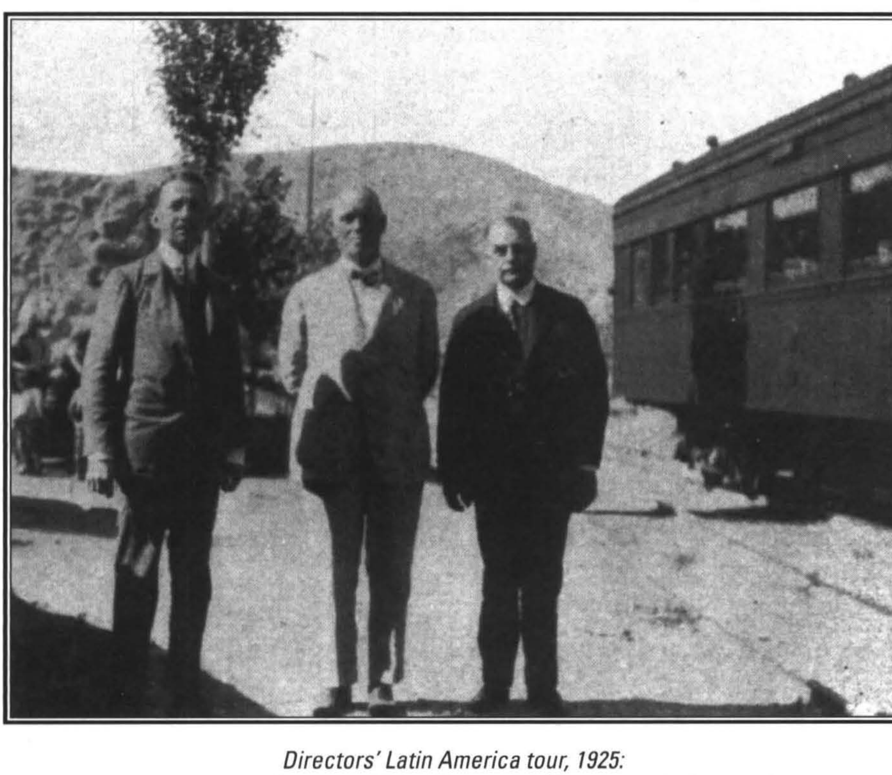


Sir Herbert Holt on the deck of the Imperial Oil tanker Albertolite in Colombia in 1926. Imperial was an early Toronto corporate account of the bank, and Holt had been active in promoting Colombian pipelines. The bank's entry into Colombia and Venezuela in the 1920s was partially intended to serve the oil trade.

flirting with 22.50 cents. Then the free market prevailed, and the price plunged until December, when it bottomed at 3.66 cents. The Cuban economy was devastated. Harold Hesler, a Royal Banker returning from a Canadian furlough in October, found Havana a "city wrapped in gloom." On October 9, withdrawals from the banks reached panic proportions and the government declared a moratorium on all debts until December 1. Representatives of foreign financial interests, including Edson Pease, rushed to Havana for consultations. Early in 1921, the mopping-up began. A commission was appointed to oversee the liquidation of banks caught overextended by sugar's collapse. Worst hit were the Cuban banks; sixteen were wound up by 1925. Banco Nacional de Cuba suffered catastrophic losses, its president committed suicide, and it was reduced to a shadow operation.

The Royal Bank weathered the crash, although deposits plunged from $73 million in October 1920 to $32 million by the next July. These vanished $41 millions were very evident in the drop in the bank's overall deposits from $455 million to $376 million between 1920 and 1921. On the surface, loans declined less dramatically: a drop from $64 to $62 million in the same period. The real impact was less obvious. Sugar loans negotiated in the heyday of the boom became non-performing, obliging the bank to take possession of assets backing the loans. Thus, the Royal Bank went into the business of producing sugar. Huge mills such as the Borjita, Antilla, and Río Cauto in effect became operating subsidiaries of a Canadian bank. In 1922, the Sugar Plantations Operating Company was created to oversee these valuable-but-unwanted assets. When sugar rebounded, the bank reasoned, the mills would be sold; few could have known that the last sale would not occur until 1950.

As the Cuban bank industry buckled in the 1920s, the National City and Royal Bank consolidated their hold on Cuban banking. Both carried the burden of bad sugar debts and both began trimming their branch networks on the island. The Canadians actually acquired a few



Directors' Latin America tour, 1925: Neill, Holt, and Smeaton White (right to left) beside an Andean train.

small Cuban banks, but by 1930 there were only thirty-eight branches in Cuba, down from a high of sixty-five five years earlier. Despite the fact that the so-called "sugar mill accounts" sat like a time bomb at the heart of the bank – one that was to tick very loudly in the Depression – the bank still had a healthy retail system in Cuba, one that on average generated a $2-million-dollar annual profit through the 1920s. None the less, the bloom was off Cuba by 1920, and henceforth the bank tended to downplay its presence there to its shareholders. To Cubans, however, it remained Banco de Canada.[87]

Despite the sting of the Cuban collapse, Royal Bankers knew that their adeptness in transplanting Canadian branch banking to the Caribbean and Latin America had contributed mightily to their bank's ascendancy. It had handsomely supplemented profits, provided offshore investment opportunities, developed Canadian trade to some degree and, perhaps more than anything else, provided them with a magnificent adventure. When Canadian tourists, trade missions, and even prime ministers stepped ashore in foreign lands, more often than not it was a Canadian banker who greeted them. There was lots of hard work and lots of good fun. "I hardly think it is worth while to take our golf clubs to South America," Pease concluded on the eve of a 1922 tour of the South American branches.[88] Three years later, in early 1925, the bank's president, Herbert Holt, General Manager Neill, and four of its directors headed off on a two-month Royal tour of Latin America. "We shall take golf clubs for Buenos Aires," Neill instructed his colleagues. Accompanying them was Smeaton White, editor of the Montreal *Gazette*, who later published an account of their stately trek through Cuba, Brazil, Uruguay, Argentina, Chile, and Peru. Holt, he reported, delighted in guiding the group across the Andes, bragging of his exploits as a youthful engineer in search of Chilean contract work in the 1890s.[89]

Many a Royal Banker serving south of the equator could have echoed Holt's nostalgia. They too were taking a chance on a foreign shore. C. R. Beattie, the manager in Belize, British Honduras, loved telling the story of how, in 1912, he learned that a shipment of chicle – the key ingredient in chewing gum – had been seized and taken down river by corrupt government officials. Since the chicle was security for a Royal Bank loan, Beattie gave chase. Donning his royal-blue bank hockey sweater with its rampant lions' crest, he chartered a launch and closed in on his prey. Believing that the Royal Navy was on their tail, the pirates meekly surrendered to the "Royal Bank Navy."[90]

Others were less fortunate. Head office had always been aware that service in the south entailed special dangers. The threat of yellow fever and malaria in Cuba had, for instance, prompted the directors in

1900 to take out life insurance on their staff in the south.[91] The first issue of the *Royal Bank Magazine* in November 1920 noted that Guy Cameron, who had just opened Barranquilla branch in Colombia, had dropped by head office. "He claims that he has been in more God-forsaken countries than any other man in the service of the bank."[92] Eight years later, Cameron died in the fever ward of a Lima hospital, while inspecting the bank's Peruvian branches. The bank brought his body home for burial in his home town of Strathgartney, P.E.I.[93] If there was glory in foreign banking, there was also sorrow.