The Challenge of Maturity

"The Top of the Tree"

THERE WAS MUCH TO CELEBRATE. IT WAS NEW YEAR'S EVE, 1911, AND Charlie Neill, the bank's bright young assistant general manager, had crossed the Atlantic to visit the newly opened London branch. Norman Hart, the branch accountant, recalled being invited to "a very gay party" that evening in Neill's Savoy Hotel suite. His host exuded a "boyish gaiety": Hart shared most peoples' impression that Charlie Neill "often appeared to be lucky."[1] Three years later, Neill, very much Edson Pease's hand-picked successor, would be made a director of the bank and then, in 1916, its general manager. Pease in 1916 would assume the title managing director, an echo of English banking, and would busy himself with plotting the bank's strategic direction. Neill would run the bank's day-to-day affairs until 1929, when he would assume Pease's old title of managing director. He was thus the first chief executive of the Royal Bank to have spent his entire working life within the bank; to all concerned his success epitomized the rewards that awaited a dutiful "bank boy." When he became president of the Canadian Bankers' Association in 1925, he told the *Monetary Times* that banking was no longer a "rich man's art."[2]

Like so many of his confrères – notably his fellow assistant general manager Francis Sherman – Neill, as mentioned, was a Fredericton native. For $100 a year he had become a Merchants' Bank clerk in 1889. His formal education ended in high school. Thirty-five years later, he would advise the graduating class at the University of Fredericton that success came to those with "a well-considered ambition."[3] Neill first displayed his talent in the rough and tumble of British Columbia banking in the late 1890s – his manager's assessment of him as "a very promising lad"[4] gained him the Vancouver managership in 1900 at the age of twenty-seven. By the time he returned home for his honorary degree in 1924, he was earning $50,000 a year. Every Saturday night in Montreal, Charlie now joined cronies from the city's financial élite for "the best dinner which the Mount Royal Club could provide" and high-stakes poker to midnight.[5]

Charlie Neill's New Year's Eve celebration in 1911 reflected the success of the bank as a whole. Through the first decade of the century the bank had ridden a crescendo of growth. Six months after Neill returned from London, Herbert Holt won shareholder approval to increase the bank's capital from $10 million to a dramatic $25 million.[6] For the first time, also in 1911, the bank reported a million-dollar profit – $1,152,249 – and it inaugurated an era of 12 per cent dividends that would last two decades. With assets of $110 million, a staff of 1,510, 207 branches, and a healthy rest account, the Royal Bank of Canada was coming of age. In 1909, Holt had helped to round out this expansion by engineering the takeover – at arm's length – of the Montreal Trust Company. The trust company acted as a useful ally, providing the bank with ready access to the services of a financial fiduciary.[7] Building on this foundation, Edson Pease's aggressive strategy of fortifying internal growth with amalgamations and vigorous foreign growth would now propel the bank through an exuberant adolescence to maturity.

Like any adolescence, the Royal Bank's was punctuated by celebrations of achievement. Throughout the 1910s and 1920s, Holt, Pease and Neill cut ribbons and made speeches. In 1919, the bank celebrated its fiftieth anniversary with a slim historical text describing its "phenomenal growth" and a 20 per cent salary bonus to staff. Eight years later, a copy of the history was sealed into the cornerstone of the bank's new head office on Montreal's St. James Street, a twenty-three-storey skyscraper, designed by York and Sawyer of New York to be Canada's tallest building. As age crept up on the senior managers overseeing this growth, they began commemorating themselves. In 1929, the directors commissioned a portrait of Herbert Holt, twenty-one years their president. Pease presented the portrait, pointing out that since Holt had come to the bank its assets had multiplied eighteen-fold and it had outstripped every other bank in the country. "To-day there are only ten existing banks, most of them having disappeared through consolidations and otherwise, and this bank stands at the top of the tree."[8]

With maturity, however, came responsibilities and vulnerabilities. If amalgamations and international banking were the glory of the bank in these years, there were also signs – disturbing signs – that maintaining a national bank entailed huge risks and obligations. The

Charles Ernest Neill, general manager from 1916 to 1929, provided another example of a Maritime "bank boy" who rose to prominence. Neill grew to love Montreal social life. (Above) The Neills are pictured at a 1924 costume ball at the Mount Royal Hotel.

Depression of the 1930s would lay these bare; in the interim, Pease, Neill, and their staff were exposed to the initial implications. At the heart of the matter was the relationship of Canadian banks and the creation of national credit and its application to Canada's varied regions and industries. Banks were not just mechanisms for moving money around the country; Canadian branch banking was indisputably efficient at doing this. But banks were also expected to minister to economic opportunity, to furnish credit for the creation of national wealth. "What is in the interest of the country," Neill glibly told a Commons committee in 1924, "is in the interest of the banks."[9]

As the breadth and complexity of the Canadian economy increased in the Laurier boom, divergences occurred between the "interests" of the banks and those of the nation. Several factors conspired to this end. The strictures of Scottish–Canadian banking emphasized probity and stability, not unsecured credit creation. Since every banknote had to be redeemable in gold or Dominion notes, the whole credit system was tied to the security of the gold standard. In prosperous times – such as the 1896-1913 boom – credit tended to expand as foreign capital poured into Canada and the banks constantly built up their capital bases. In economic downturns, Canadian credit creation atrophied.

The notorious vulnerability of Canada's trading economy to external shocks further complicated the credit process. The banks' scramble onto the Prairies had been predicated on the steady appreciation of grain prices and of the value of the land on which it was grown. The same was, for instance, true on the mineral frontier of northern Ontario – in 1911 the bank had opened in the silver-boom town of Cobalt. Wherever the bank established itself on the frontier, it quickly found its loans outstripping its deposits. Once again the superiority of national-branch banking seemed evident; American unit banks found their credit in the slow accretion of local wealth, while Canadian banks imported their credit. The Canadian process could, however, backfire if land and commodity prices went into prolonged decline. In these circumstances, Canadian bankers instinctively moved to protect their solvency by restricting credit. Lacking any central bank to act as a lender of last resort, the banks saw themselves as the nation's financial front line. If they faltered, then the nation would falter.

Ensuring the solvency of the banking system was therefore bankers' unavoidable response to troubling times, even if the immediate effect was to deflate the national economy or regions of it, thereby inflicting hardship on many of those who depended on credit to make their livelihood. Both the bank and its borrowers suffered in differing ways from the same deficiency in Canada's financial system: there was no formalized control over the system's liquidity. In fact, the bank's diversification out of the Maritimes in the late-nineteenth century represented a gradual response to signals – bankrupt sugar and textile firms – that indicated that the Maritime economy was no longer a sure credit bet. The Canadian West was capable of transmitting even sharper signals and, once the Laurier boom began to lag, tensions would begin to grow over the western farmer's access to credit. Regional grievance, long a threat to Canada's political unity, would soon begin to fray the fabric of national banking. During his tenure as general manager, Charlie Neill would see the banker's image in the West radically changed from that of the friendly Easterner with the satchel of money to that of an insensitive Eastern "big shot."[10]

Whenever the credit process came under strain, the high risk implicit in Canadian banking came to the forefront. The risk lay in the danger that unserviced loans might provoke a crisis of liquidity, and that this might in turn bring on the ultimate crisis of a "run" on the bank. Clients naturally saw the credit process in a different light. The banker was a capricious lender, who withdrew credit at the least sign of an economic downturn, thereby exacerbating the decline. Thus, Canadian banking lived in ever-present danger of a confidence-rattling credibility crisis. Protection of the national stability of the system often entailed some cruel twists for the local client; any banker's intuition of a national liquidity crunch might result in a local retraction of credit. Bankers protected this prerogative vigorously. An aggrieved farmer-politician buttonholed Neill before a Commons committee in 1924 and demanded to know if it was better "that we have an uncontrolled credit system."

"I would say so," Neill answered.

"Just left any way it wants to be?" the MP shot back.

"The bankers, as bankers, must exercise their intelligence," Neill confirmed.[11]

The financial turmoil engendered by the First World War and the economic hard times of the early 1920s would pry this credibility gap open even wider. In the absence of any alternative guarantee for their liquidity (somewhat along the lines of the U.S. Federal Reserve), Canadian bankers continued to exercise their "intelligence" as they saw cautiously best; their clients continued to grumble about the effect of such cautious lending on their livelihoods. Typically, Edson Pease foresaw the whole shift to a state-controlled credit process long before his colleagues. The vehemence with which they greeted his lonely 1918 campaign for a central bank of rediscount testified to the conservatism of Canadian banking, and Pease concluded that his idea of central control of credit by an agency independent of the banks was "premature."[12] As Pease receded into the shadows in the 1920s, Charlie Neill would be left to defend a malfunctioning credit system. By the time a national consensus had formed around the idea of an independent central bank in the early 1930s, the Royal Bank was ready to volunteer one of its own – Graham Towers, hired by Pease in 1919 – as its first governor.

The first intimations of strain in Canadian banking appeared in the West just before the First World War. Ironically, the initial crack developed over railway financing, not farm lending. In the wake of the creation of Alberta and Saskatchewan in 1905, eastern banks had rushed to finance the building of the new western economies. In 1909, the Alberta government had given its guarantee to the Alberta and Great Waterways Railway, a pioneer line from Edmonton to Fort McMurray. When $7.4 million in bonds for the line were successfully floated in London, the Royal Bank and two other banks agreed to create construction accounts in New York for the proceeds. A political scandal derailed the project, leading the provincial government to demand that the banks divert the railway construction monies into general revenues. The banks refused, arguing that the sanctity of an account could not be breached and that the bondholders' rights must be respected. When Alberta passed an act in 1910, upholding its demand, both sides headed for the courts. Suddenly, the bank found itself in a very public squabble with a provincial government, its reputation and a huge account at stake. The Alberta Supreme Court was unsympathetic, awarding $6.5 million to the Liberal government of Arthur Sifton in Edmonton. Pease was apoplectic.[13] Much of the bank's lucrative London business was rooted in the tremendous flow of English capital to Canadian opportunities. Any hint that English capital was subject to the whims of provincial governments could spoil investor confidence.

In desperation, the bank instructed its Alberta solicitor, R. B. Bennett, to appeal the case. Bennett was the Calgary promoter-lawyer whom the bank had retained, together with his partner James Lougheed. Both were Tories; the Sifton government in Edmonton was Grit. In the fall of 1912, Bennett earned his retainer. He carried the bank's appeal to the Judicial Committee of the Privy Council in London, arguing that the province had acted *ultra vires* by denying the bondholders their civil rights. The court agreed, and even awarded the bank costs.[14] Bennett had provided the bank with its first practical demonstration that the federal power – Section 91 of the BNA Act – was banking's ultimate guarantee in the face of a regional challenge. The West would try again. In 1913, however, Pease was ecstatic. He got the news from London while lunching at the Mount Royal Club. "I want you to come into Birks with me," he told his companion. "I am going to buy a fine watch

A rare shot of four Royal Bank general managers together. Between the two golfers stand (left to right) Sidney Dobson (1934-45), Charlie Neill (1916-29), and Edson Pease (1899-1916). The golfer on the right is James Muir (1945-49). Muir was always hungrily ambitious; he was the winner at this 1921 tourney at Mount Bruno.

for Bennett and have it suitably engraved as a tribute to his work in this case. When he gets it he'll be so flattered that he'll take $5,000 at least off his bill."[15] Bennett's ties with the bank would last another thirty-five years as lawyer, client, director, and political confidant.

Regional challenge was quickly followed by regional collapse. In 1913, the Bank Act had once again been revised to facilitate production on the farm. Section 88 had been expanded to permit the securing of farm loans on the security of threshed grain, and now directly favoured the farmer as well as the grain wholesaler, since they could now receive their money earlier. Previously, farmers had relied on short-term credit notes, which they had rolled over. While Pease was privately uneasy about taking grain as a "security over which we would have practically no control," he acknowledged its political necessity: "In the event of a farmer being unable to borrow upon wheat in the granary there would be a great howl against the banks."[16] In a similar move to aid farm output, the 1908 provisions allowing the banks excess note circulation in the crop-moving season were institutionalized in a Central Gold Reserve, a fund secured by gold or Dominion notes. For its part, the bank extended its reach in the West by appointing two Winnipeg merchants, G. R. Crowe and W. H. Thorne as directors. In the spring of 1913 this felicitous relationship of eastern banker and western grower suddenly became strained. The Laurier boom finally faltered in the face of a sharp slump in the North Atlantic trading economies; grain demand slackened, and credit contracted in London. Drought accelerated the collapse: wheat yield per acre in 1914 was only 74 per cent of its 1913 level. The downturn soon reverberated throughout the banking industry.

Pease reacted immediately. Reduced capital from England and the imbalance of the bank's western loans over deposits convinced him that "stormy weather" lay ahead. "Our only course," he instructed T. R. Whitley, his Winnipeg supervisor, "is to retrench in every direction and try to live within ourselves." Demand notes should be called and not extended; marginal branches should be closed.[17] Whitley protested: "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 the following autumn."[18] Patience and a few losses would build up business in the long run, he stressed. Pease clung to the tenets of Canadian banking. If the foundation – gold and capital inflows – contracted, then the banks had no option but to deflate the demand for credit.

There were natural political and social consequences. Saskatchewan, for instance, established a royal commission on agricultural credit.[19] By the summer of 1914, the federal finance minister, Thomas White, told the bank general managers that members of Parliament were complaining of their "very drastic policy towards the farmers of the West." Cattle were being repossessed, and farmers were being driven into the hands of loan sharks by "young and inexperienced branch managers." If well-founded, White concluded, such behaviour was "a serious indictment of the Canadian banking system." Pease, however, stood his ground: the bank was pursuing "a conservative policy," while not "unduly" restricting credit. Managers had been instructed to act "leniently" in collecting debts. To Whitley in Winnipeg, Pease wrote that it was "very important that we should look after our own interests and not allow debtors to pay other creditors to our prejudice." Before all else, the bank must protect its liquidity. The interests of a national-banking system and the sectional interests of farmers no longer invariably coincided.[20]

And then Canada went to war. If the recession of 1913 had given the Canadian financial system a fit of palpitations, the rumblings of war in July 1914 threatened cardiac arrest. A "world war" in Europe would batter the two key pillars of Canadian monetary policy: the convertibility of Canadian currency into gold and the steady inflow of investment capital into Canada. As the news from Europe worsened, Canadians became panicky and began raiding their deposit accounts, using the proceeds to buy gold. European money markets contracted, and the stock markets twitched; rumours spread that the Canadian government was unable to back its currency with gold. Others foresaw a moratorium on debts. To make matters worse, the Bank of Vancouver was tottering on the edge of collapse.[21] On July 28, 1914, the financial panic forced the stock markets to close. Only gold seemed capable of calming public nervousness. The finance minister, vacationing in New Hampshire, abandoned his golf clubs and rushed to Ottawa. On August 4, Canada went to war.

Instinctively, White turned to the Canadian Bankers' Association for assistance. Like every one of his predecessors, he knew that the CBA Council – embracing the general managers of the banks – provided a standing consensus of the industry, ready to consult and act without compulsion.[22] It was crucial that the announcement of war not trigger a financial stampede; the banks simply did not have the liquid reserves to sustain a massive "run." Early on August 3, Edson Pease had joined a delegation of general managers from the other banks and had taken a special train from Montreal. By lunch they were in conference with White in Ottawa. In the space of hours, White and the bankers pulled the linchpin of Canadian monetary policy – the currency would no longer be directly convertible into gold. Instead, banks would create credit up to 15 per cent of their paid-up capital by borrowing Dominion notes from Ottawa and securing the advances with collateral of high-quality securities, such as municipal, utility, and railway bonds. Furthermore, the banks would be allowed "excess circulation" beyond the traditional crop-moving period of the year. Through the afternoon, White and the bankers worked the proposals into a written document. As the agreement gelled, it was glaringly obvious that the reforms ran counter to the Bank Act; they were in fact illegal. Time was of the essence. Alerted to the obstacle, Prime Minister Borden called a cabinet meeting for eight in the evening, at which an order-in-council would be passed ratifying the changes. A four-member Bankers' Protective Committee, including Pease, would be formed to implement the agreement. White alerted the King's Printer to prepare for a late-night press run of a special edition of *The Canada Gazette*. The next morning Canadians awoke to find their banking system backed by the confidence of the federal government. The solvency of the banks was assured. Hours later war broke out, and financial calm prevailed in the land. When Parliament convened later in August, "An Act to Conserve the Commercial and Financial Interests of Canada" – the Finance Act – made the whole exercise legal.[23]

Back in Montreal, head-office officials scurried to evaluate the quality of the bank's holdings of high-grade securities as backing for advances from the government. By early September, Holt was in a position to assure White that the bank intended "to make an immediate application for an advance."[24] Small wonder that, at the same time, White wrote to Pease and his fellow general managers to express his thanks for their "invaluable counsel during the critical financial conditions from which we are now gradually emerging."[25] Almost overnight, Canada had regeared its national credit from one that relied on external capital and gold to one now reliant on internal credit creation. The practicalities of Canadian bankers once again displayed itself. Eventually, there would be a price to pay in inflation, but in the short term Canada had the credit to fight the "Hun." Late in 1915, Pease could assure White that "you can count, I think, upon the hearty cooperation of all the banks."[26]

The Finance Act of 1914 became the new dogma of the Canadian banking community. As the war progressed, the Bank Act was tinkered with to stimulate production: Section 88 was expanded to allow banks to lend on the security of seed grain and cattle. When the war ended and the emergency of war finance eased, the bankers found themselves habituated to the 1914 Finance Act – with the exception, as we have seen, of Edson Pease. Pease argued that it was "not a good principle for the government to engage permanently in the banking business." An independent bank of rediscount, similar to the U.S. Federal Reserve, would provide better credit for the peacetime economy. Frederick Williams-Taylor of the Bank of Montreal disagreed; the 1914 Act had "satisfactorily performed the functions of a bank of rediscount" during the war and "American principles" did not apply in Canada.[27] White, exhausted by the war, avoided conflict by extending the Finance Act for two years; in 1923, his successor renewed it, saying that it had become a "permanent part of our financial system."

By 1919, the returning soldier-banker would also have detected a real change in the daily life of Canadian banking. The social impact of the war had affected the culture of the bank – "bank-boy" veterans now found "girls" working efficiently in their once-hallowed cages. The war had also greatly expanded the volume and variety of services. The banks had found themselves at the crossroads of an immense wartime financial effort to convert personal savings into war production, and branch banking was ideally suited to national, grass-roots war finance. Tellers learned to pay out a huge volume of savings, to take back war-bond orders, and in due course to pay out interest on bond coupons. If tellers found the microcosm of banking changed, so, too, did their general managers find changes in the contours of national banking. The centralized control of Canadian banking allowed great leverage over the national economy. War loans to government, controls on gold, and loans to accommodate Britain's appetite for Canadian wheat and munitions had put bankers at the centre of the war economy. The national banking system had responded to a national crisis with its usual pragmatism.

Pragmatism had been born out of the unprecedented and unpredictable nature of the war: the "bank boys" who rushed to the colours in August 1914 had not been alone in thinking that they would be home by Christmas. Even a short war, however, presented problems: how was Canada to pay for the conflict at a time when its depressed economy was generating meagre tax revenues and when access to the capital market of London was closed. "All we can do," Finance Minister White wrote late in August, "is to take matters up from day to day and accomplish what is possible to us."[28] In an initial flush of naïveté, the British government had promised to finance the cost of Canada's military operations overseas. A $60-million advance from the British Treasury was accordingly arranged, but by March 1915, British generosity was exhausted. Ottawa responded by literally printing money to pay its way and by imposing new taxes, including user taxes on financial, railway, and telegraph companies. A two-cent War Stamp was, for instance, to be affixed to any cheque or savings-account withdrawal.

Such taxes changed bank routine but did not fill the national coffers. With the national debt burgeoning – by the end of 1915 it totalled $580 million, up $131 million that year alone – White again turned to the bankers.[29] In November, he called the CBA Executive Council to Ottawa and broke the bad news. Any further foreign loans could only "be transferred to Canada at a very heavy loss" in exchange. The cost of the war was growing exponentially; White estimated that the bill for 1916 would top $200 million. The only alternative was to borrow from the people of Canada. White suggested a war loan of $50 million. The bankers agreed. Edson Pease told the minister that he had no doubt at all the banks would cooperate as long as the bonds yielded as well as other first-class securities.[30] In retrospect, Canada's national debt can be traced to this momentous meeting; from this date the national debt became a permanent fixture of Canadian fiscal policy. So, too, can the oft-mentioned fact that Canadians owe themselves their own national debt: between 1915 and 1920 all but $200 million of Canada's $2.2-billion borrowing was raised *in* Canada.[31] Much of this debt would be routinely negotiated as war bonds at the wickets of Canadian banks.

The Canadian Bankers' Association

Invites the Co-Operation of the Public on Behalf of the Banks

Staffs Heavily Reduced by War

MORE than half the men in the banks of Canada are now on military service, and the number which remains is being steadily reduced.

Women clerks have been employed in thousands and have done splendidly, but they have not the experience of the men they replace. It would be out of the question to expect them to work as rapidly or with the same knowledge of banking as officers of many years training in the profession.

The drain upon the number of experienced officers has now reached a point where it is necessary to ask the public to take into consideration this decrease in efficiency, and to lighten, as far as they can, the burden thus thrown upon those left to run the business. Canada was never so busy as now and the volume of banking business is greater than ever before.

How the Public Can Help

Transact your banking business in the morning as far as possible, and as early as possible. Try to avoid a rush at closing time.

Do not draw any more cheques than are absolutely necessary. Instead of paying small accounts by cheque, draw the money in one amount and pay in cash.

Change in Banking Hours June 1st.

On and after June 1st banking hours will be: 9.30 to 2.30; Saturdays 9.30 to 12.00.

This arrangement will give the staff more time to complete the large amount of work which cannot be taken up until after the office is closed to the public.

Special Services Discontinued July 1st.

Certain services must of necessity be discontinued, for a time at least.

On July 1st banks will discontinue receiving payments for tax bills and the bills of gas, electric and other public service corporations.

The banks desire to render all essential services including many special ones arising out of the war. In order to do this they make this appeal for co-operation in the manner suggested above

During the war, the Canadian public was bombarded with financial publicity. The bank maintained its traditional advertising, adding a patriotic tone to its calendars. The Monetary Times *extolled the necessity of subscribing to victory loans, while the Canadian Bankers' Association informed the public of the effects of labour shortages on bank operations.*

Monetary Times

Trade Review and Insurance Chronicle

of Canada

Volume 59 No. 22 | TORONTO, NOVEMBER 30, 1917 | Established 1867

Victory Loan Subscription Lists Close To-morrow, Saturday, December 1st, at Midnight

YOUR LAST CHANCE!

Help To Make It a Real Victory Loan

Sir Thomas White, Finance Minister

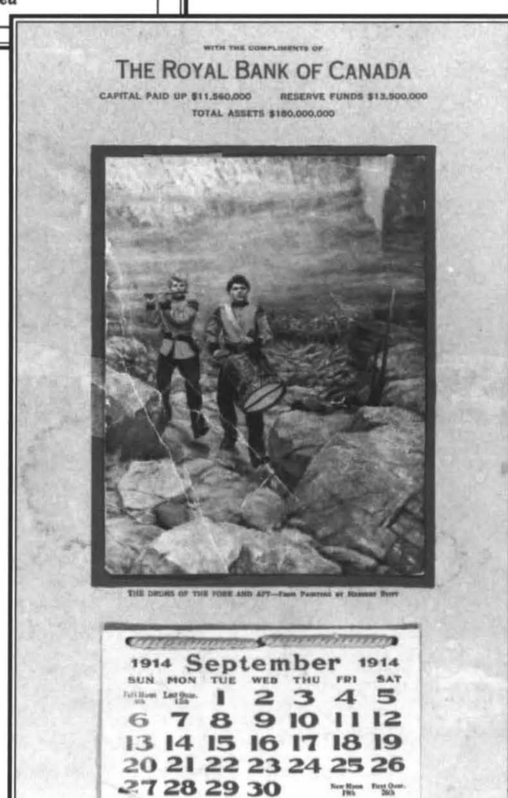
"While greatly gratified at the widespread patriotic interest which has been manifested in the Victory Loan throughout the entire Dominion I am disappointed at the total subscription to-day, which has not equalled our expectations and is not as large as it should be, having regard to the urgent national importance of the loan. There are more subscribers than at the same period of previous loans, but the individual average is comparatively small.

"I think many people to show their good will and interest in the loan are taking $50 where they could take $100, $100 where they could take $500, and $1,000 where they could take many thousands.

"I desire to urge as strongly as possible upon the Canadian people the supreme importance of making this loan an overwhelming national success. If we can reach a total of three hundred million dollars, which can easily be accomplished if everybody will do his part, there will be adequate financial support for our military forces, and in addition the prosperity of the Dominion will be assured for the coming year.

"I most earnestly appeal to the people of Canada to give this great and vital national undertaking their most loyal and unstinted support. Let those who have already subscribed increase, if possible, their subscriptions, and those who have not yet subscribed immediately make application for as large an allotment as their means will permit. Canada must decisively score in her great Victory Loan."
—Statement issued by Sir Thomas White at the end of last week.

IF You have been waiting to see how the Bonds were going—they have been going well; BUT Your Subscription is needed so that the $300,000,000 objective will be attained



Just as Canadian troops in Europe fought their way through a series of grim campaigns, so Canadians at home met the challenge of successive War Loan and Victory Bond drives. Two War Loans – in November 1915 and September 1916 – introduced Canadians to the idea of lending their own government money. Their success prompted four Victory Bond campaigns in 1916, 1917, 1918 and 1919. Banks underwrote each bond drive on a *pro rata* basis, reflecting their respective asset bases. For smaller savers, $50 million in low-denomination War Savings Stamps were issued. In all, $1.7 billion was raised. In each instance, the finance department and the banks, brokers, and insurance companies that were actually selling the bonds were astounded by the avidity with which Canadians patriotically devoured them. The 1915 War Loan was modestly set at $50 million. When purchases soared to $78 million, the total was raised to $100 million, and a $50-million loan was made to the Imperial Munitions Board to underwrite the cost of British munitions purchases in Canada.[32] The 1917 Victory Bond target was nominally set at $150 million, but quickly captured $420 million from 874,000 subscribers. One in ten Canadians bought a bond. "Without exception," the staid CBA *Journal* noted, "this is the most ambitious financial transaction Canada has ever undertaken."[33] The 1918 target of $300 million was overshadowed by a $690 million result from over a million subscribers. "That we are able to handle these gigantic sums is amazing," Pease confided to a friend. "It is proof of the great increase in the wealth of the country since the war began. It is hard to believe that in addition to taking care of the Government requirements and the flotation in Canada of $350,000,000 of domestic loans, the deposits of the banks today are $500,000,000 greater than they were before the war began."[34]

The war-bond drives both burdened and profited the banks. Each drive swamped the branch system with applications. Long hours of overtime were needed to bring order to the ensuing chaos. The pattern was repeated every time a bond-interest coupon came due and, while patriotic fervour predisposed Canadians to buy, the bonds still had to be sold. Branches were decked out in bunting and patriotic posters, and one legacy of the war for bankers would be a knowledge that advertising clearly paid. Prominent bankers gave speeches at war-bond rallies and set themselves up as patriotic examples. Holt, for instance, bought $100,000 of the 1915 War Loan.[35] Initially, the banks feared that war-bond subscriptions would drain their deposit base and crimp their ability to lend. They quickly learned, however, that war-loan saving was cyclical in nature: money removed from the banks to buy bonds soon found its way back as government spending, reinvested coupon interest, or British purchases in Canada. Furthermore, the government paid a commission of ¼ per cent to ½ per cent on each bond sold. This, White believed, was only fair to the banks in light of the "substantial special outlays" entailed in selling bonds.[36] Public holding of bonds also whetted clients' appetite for safety-deposit boxes; purchasers of a $1,000 bond at the Royal Bank were given free storage for a year.

As the war dragged on, Ottawa and the bankers drew closer. Early in 1917, White told the CBA Council that he would probably have to "lean more heavily upon the banks towards the close of the War."[37] As president of the Bankers' Association from 1916 to 1919, Edson Pease was at the fulcrum of this relationship. Pease had a knack for divining the minister's wishes, conveying some sense of the banking industry's tolerance to Ottawa, and then ensuring "a loyal observance of the Minister's wishes."[38] One is struck by the cosy, informal-yet-effective quality of the relationship between Pease and White: meetings hastily arranged by telegram brought a candid exchange of views and prompt action. Pease even felt free to approach Prime Minister Borden, whom he had earlier known as a Halifax lawyer. In the conscription crisis of mid-1917, Pease was quick to apprise Borden of the Anglo–Montreal view of political tensions running through Quebec.[39] Within days of the 1918 Armistice, White cabled his "most earnest thanks" for the bankers' "fine and splendid support"; Pease replied by praising their "perfect accord."[40] After the war, White left politics and, among other assignments, became a paid advisor to the Bankers' Association.

The tight harmony of Canada's political and financial élites allowed Canada to win the fiscal war. There were, however, consequences. Wartime expansion of the money supply unleashed inflation, which was to have grave effects on farmers and workers whose prices and wages were largely controlled. The war encouraged western farmers to heighten their reliance on grain production and, consequently, through Section 88, on the banks. As early as 1917, Pease saw "great problems to solve after the war": "a terrific burden of debt" that only a vigorous policy of resource development and open immigration would alleviate.[41] In the interim, the Royal Bank prospered. The war awakened profits from their pre-war depression: they climbed from $1.8 million in 1914 to $5.3 million in 1919. Assets similarly ballooned from $179 million to $533 million by war's end. Deposits outstripped loans, tripling to $419 million by 1919. Loans increased from $114 million in 1914 to $284 million in 1919. Viewing these results, the financial press attributed them to the savings attendant on the bank's shrewd amalgamation strategy – the Quebec and Northern Crown Banks were wartime acquisitions – and its ability to contain its management expenses.[42] Everything would now hinge on post-war prosperity.

The First World War thus introduced Canadians to the age of mass banking. Banks no longer simply catered to a narrow commercial clientele. By the end of the war, Canada was a predominantly urban nation. Canadians lived in a cash society; their wage cheques, consumer bills, and, as the war had demonstrated, their small savings, gave them every reason to frequent a bank. How many Canadians first darkened the door of a bank clutching $100 in savings intent on buying a war bond? Even more would have appeared at a teller's cage to purchase a $5 War Savings Stamp. Some came to obtain money orders for their kin overseas and others to stash savings in case depression returned with peace. Chances were that these new clients would have been served by fresh faces – female faces – in the bank; the war produced the first cracks in the monolithic "bank-boy" culture of Canadian banking.

If the outbreak of war sent bank general managers hurrying to Ottawa, it sent "bank boys" to the recruiting posts. Canada's "bank boys" had cheered the British crusade – "the cause of freedom" – against the Boers at the turn of the century and, by 1914, had no doubt that the "Hun" deserved similar treatment. Initially, they shared the universal belief that the war would be a brief, jolly junket. So did their managers. Royal Bankers who enlisted were given leaves of absence and promised that their jobs would be there when they returned. By September 1915, the war had become persistent, and staff losses unrelenting. The Royal's board halted further leaves of absence. Men enlisting were told to resign and promised their jobs back "if their services can be utilized." In 1914, the Royal Bank had 1,900 men of military age; by the end of 1915, 404 had enlisted. By March 1, 1916, 523 were gone. "And more resignations coming every day" scribbled a bank officer in the margin of the annual report that recorded the fact.

In the branches, chaos reigned. Managers complained that no sooner had they replaced a teller or accountant gone soldiering with a hastily trained junior than the new incumbent enlisted. Stopgaps were tried: retired managers were coaxed back into the branches to serve their country behind a wicket. Bank hours were shortened. The crunch remained. The banks found themselves competing for a diminishing pool of labour with the army and a booming war industry. Powerful stereotypes stood in the way of recruiting bank labour from one obvious and ready source of labour: young, single women.

Women had been present in Canadian banks since the turn of the century. To say that they "appeared" in branches would be misleading. As mentioned earlier, women were invariably given behind-the-scenes

After the First World War, women were a permanent feature of Canadian banking, but their roles were strictly prescribed. Marriage meant immediate retirement. None the less, the bank was no longer a male preserve. This librarian worked at Head Office. Library work became a niche in which women could make a career in the bank.

jobs, as stenographers, clerks, and switchboard operators. Although the records are not conclusive, the first woman in the employ of the Royal Bank was probably Jennie Moore, hired in 1902 as Charlie Neill's secretary in Vancouver. In the nineteenth century, it was commonly accepted that men and women inhabited separate "spheres." As Canada urbanized and industrialized, women began drifting into the workforce. The banks reacted cautiously. In large cities, some banks provided special women's branches, where women – mostly middle-class matrons – could do their banking in decorous surroundings.[43] Only in these few branches could women deal with women in money matters – the first female manager was appointed at a Banque Provinciale du Canada branch in 1904.[44] Management generally believed that clients felt ill at ease with women in the bank, and that women lacked the skill to cope with money. "A woman's heart generally rules her head," wrote the female manager of the Crown Bank's woman's department in 1907. "Her intuition is keen, but it exercises itself upon people – not affairs." At head office, women employees were chaperoned by older women; the stenographic pool worked on a balcony screened from the eyes of male employees and the public.[45] Women had a separate lunchroom and were given car fare home if they worked overtime. Banking thus offered career opportunities for women, but only within prescribed limits. Starting salaries for women were higher than male juniors' salaries, but tended to reach a plateau early and stay there. Like the "bank boys," "bank girls" were not to marry. Unlike the "boys," they were never considered mobile. There was an unspoken assumption that female "careers" ended with marriage. Even then, a bit of bank training would pay a dividend: "It will make her a companion for a brainy man – and that is worth more than all things else."[46]

Old attitudes died hard. As males deserted the banks for the army, management tried to shore up the system by squeezing the most out

Ladies hockey team in Toronto, 1923

of the remaining males and allowing women to occupy more clerical jobs behind the scenes. The general managers worked through the CBA in the hope that the government would "protect" their employees from enlistment: bank work was a "grave and responsible" patriotic duty.[47] Approaches to Sam Hughes, the hawkish militia minister in Ottawa, brought no special treatment. Why not hire more women? one cabinet minister asked the CBA president. Replied the general manager of the Union Bank: "We are engaging a great many ladies, but there is a certain class of work [i.e., tellers'] which they cannot, of course, satisfactorily perform."[48] Such qualms soon disappeared as the labour market continued to tighten. Reluctantly, the banks moved women into the front line of banking. Women tellers now looked out through the grillwork at the Canadian public. By 1916, almost 25 per cent of staff were women.[49]

Women, it turned out, excelled in the male sphere of banking. "She is giving to the public," the *CBA Journal* reported in 1916, "just as speedy, just as efficient, and – may we hint it? – a more cheerful service than that heretofore received."[50] Arguments once used to justify keeping women out of the cages were now turned to their defence: a woman's "nimble fingers," once suited only for work around the home, now served her well in the counting of cash. Yet, the old stereotypes persisted. Women were not put on the accountant's stool, nor were they installed in the manager's office, and, in spite of their success as tellers, women bankers were a wartime aberration. With peace, they would return to the home as the men took up their rightful place in the cage once again. This did not reflect only a male attitude; some women themselves echoed it. Women, wrote one woman banker at the Dominion Bank, found bank routine "very wearing" on their "nerves." "Be very sure, therefore," she concluded, "that when the opportunity offers the most successful banking woman amongst us will cheerfully retire to her own hearthstone, preferring the love of a husband and little children to thousands a year and a seat in the council of the mighty!"[51]

The exodus of women from the banks began when the troopships returned from Europe. The staff ledgers for 1919-21 are therefore punctuated with the phrase "services not required" beside many a female name. Others left of their own volition: "required at home," "to be married," and "to take up nursing."[52] By the early 1920s, the bank was again overwhelmingly male. The war experience of women in banking was not, however, a false revolution. Women had disturbed old myths; they had proved themselves in the workplace. A core of female bankers remained throughout the inter-war years – though they were all single and largely confined to the traditional niche of

The Chinese–Canadian staff of the Vancouver East End branch in 1925

clerical work, although new niches opened up at head office in the library and in pension administration. Ironically, women remained excluded from the pension plan. Nor could they entertain any hope of managerial responsibility. Perhaps the best-known woman on staff was the redoubtable Miss Frances Montgomery. A Queen's graduate, Montgomery joined the bank in 1905 as a steno and rose to head the bank's circular-letters department. She remained there until her death in 1937.[53] She never married; other women married secretly in order to keep their jobs. To all concerned, they were the "girls," just as the men were "boys." Even bankers' wives were instructed by the *Monetary Times* to listen to their husbands' financial news with "rapt attention."[54] It would take another war to dislodge the "bank-boy" majority in retail banking; even after that, executive power long remained a male prerogative.

Of the 1,495 Royal Bankers who went to war, 191 never returned. The bank commemorated the loss by erecting plaques to "Our Sacred

Dead" in the branches where the fallen had served. Those lucky enough to return alive almost invariably looked to the bank for their old job. Neatly typed paragraphs on the back of staff cards testified to innumerable "honorable discharges" and "satisfactory medicals," followed by a curt "re-engagement recommended." Gordon Parker, who had left Tillsonburg branch in 1916, returned from the war with "no bad habits" and was still considered a "steady boy." Joe Demers exchanged his pilot's seat for a $1,200 annual salary at an accountant's stool in St. John's. Throughout the 1920s, the ethos of the bank was still fundamentally male, dark-suited, and hierarchical. On-the-job training still prevailed; juniors fixed their ambition on "the next stool up the line."[55] In the spring, golf clubs appeared, followed in the fall by curling brooms. Even the women who now worked beside the men conformed to the male culture of the bank: they too organized golf and curling tourneys. There were at the same time, however, subtle but persistent changes in the life of the bank. In the post-war decade, the bank would see change in its branch system, in the way it treated and trained its staff, and in its relations with government.

Through the 1920s the Royal Bank continued to grow. Wartime austerity had slimmed the staff to 4,218 by the Armistice. A surge of post-war expansion in the international system – 60 foreign branches in 1918 became 121 by 1925 – and steady domestic growth pushed the staff total to 6,548 by the end of 1920. Canadian branch growth slackened early in the decade, but the Union Bank of Canada amalgamation in 1925 and late-decade prosperity pushed the total to 8,656 by 1929. Despite this doubling in staff, mobility in the bank was not quite as important as it had been in the heady years of initial expansion. There was still a bank frontier in Canada; wherever the Canadian economy moved, the bank followed. Branches were, for instance, opened in the Quebec mining towns of Rouyn and Noranda in mid-decade, while in 1929, branches opened in the grain port of Churchill and in Fort St. John in the B.C. interior.

These were tough assignments. For most Royal Bankers, however, the city was now the frontier. Throughout the 1920s, Canadian banks vied to capture an urban clientele. Most-coveted were busy corner locations, but there was growth out along the streetcar tracks and paved streets into the suburbs. By 1929, the Royal Bank had forty-four branches in Montreal, thirty-seven in Toronto, and twenty in Vancouver. Within the cities, specific clienteles were sought out; in Vancouver, the bank's first Chinese-speaking staff, headed by manager Wong Ow, manned the East End branch. Staff were still expected to accept transfers without question, but there was less of the frenzied mobility that had typified the turn of the century. The bank was now divided into six domestic regions, and it was possible to plot a career within any one of these – in effect, to stay close to home. Promising young bankers were still, however, challenged with frequent and distant transfers.

If the stability of bank employment improved, so too did the benefits. Starting salaries remained low, and junior staff were still expected to prove their loyalty before salaries improved. The fact that the nation was locked in recession through much of the early 1920s removed pressure on wages and made banking seem a stable career in lean times. When an $800-a-year clerk in Saint John complained in 1927 of penury, an assistant general manager in Montreal haughtily replied: "While we appreciate that on your present salary you cannot afford to be extravagant, and that you would have difficulty in saving any substantial amount, we do feel that you should be able to live within your income without any great hardship to yourself."[56] Despite its early financial deprivations, a career in banking none the less brought security and respectability. A job in a bank was a *salaried* job, free from the uncertainties of having to sell one's wares or labour daily or seasonally in the marketplace.*

Sporadic efforts to unionize bank staff invariably fizzled, aided, some alleged, by the banks' penchant for posting troublesome clerks to distant branches.[57] Those who persevered found that the bank offered better benefits as the decade progressed. In 1895, the directors had established a superannuation fund, financed out of bank profits; in 1909 this pension plan became contributory, employees putting in 3 per cent of annual salary.[58] In the 1920s, the directors fattened the scheme considerably. A $50,000 surplus from the Officers' Guarantee Fund (the reserve built up in the nineteenth century out of bonds posted by bank officers) was transferred to pensions in 1922. Every year the directors siphoned money from bank profits into the pension fund, and the bank magazine soon began displaying photos of retired bankers tending their gardens in Victoria.

In 1926, the bank also introduced group life insurance for staff over twenty-one years of age, the bank paying the difference between the premium paid by the employee and the cost of the insurance. Similarly, the bank paid all income tax – another legacy of the war – and municipal taxes payable by employees. Each Christmas the board

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* Comparing wages is always an inexact science, but comparisons to a bank clerk's $800-a-year salary in the 1920s may be made using Department of Labour statistics. In 1921, a male telephone operator made $728 a year, a male garment cutter $1,560 annually, and a male farmhand $669 a year. It can be argued that the bank clerk had greater scope for wage growth. A small-town bank manager in 1921 earned between $2,000 and $2,900.

routinely approved a general staff bonus, usually 5 per cent of salary. Staff at or above the accountant and branch-manager level also became eligible for reduced-rate loans. There was no systematized performance review, except branch tours by regional supervisors and inspectors. Once a year the board approved a package of salary increases; promising young bankers were tracked at head office and groomed, as if by an invisible hand, for greater things. For the seasoned employee, the bank thus provided a comfortable blanket of benefits, largely furnished at the discretion of management. Such benefits tended to promote loyalty and longevity in employees, while at the same time allowing tellers, accountants, and managers to live in the middle-class style that their professional status demanded. As CBA president in 1927, Charlie Neill boasted that banking offered "a pleasant occupation and steady employment, a life of reasonable comfort and, on retirement, a fair pension which is available for his wife and children in the event of his death."[59]

As banking gained in comfort and remuneration, Canadian bankers increasingly came to see themselves as professionals. Even before the war, there had been agitation for more formal education of young bankers. An arduous apprenticeship was not enough, some argued, to prepare the junior for management; "theoretical training" was now in order.[60] The banks strongly resisted this demand – so effectively, in fact, that banking has never found a place in Canadian post-secondary education. Bankers would become professionals on the job: "Many things," noted the *CBA Journal*, "can be learned from text books – sound judgment can only be gained through experience, and experience through patience in doing your allotted tasks with cheerfulness, understanding and intelligence."[61] None the less, young bankers were soon able to avail themselves of summer courses offered by the Canadian Bankers' Association.

Professionalization also entailed specialization. Winning and serving clients in an increasingly urban and global marketplace demanded special skills. Bankers, for instance, began to apply cost accounting to their services.[62] New head-office functions appeared: in 1919, a foreign-trade department was started, followed a year later by the advertising department. Foreign trade soon begat the economics department and the library. For each of these functions, specialists were groomed; there was a sense that the bank was adopting new skills to break "ultra-conservative" habits.[63] On the administrative front, the routine and the stationery departments grappled with the growing complexity of a bank that now served over twenty countries and

(continued on p. 228)

FROM NUMBERS TO NUMBER CRUNCHING

The Bank Economists

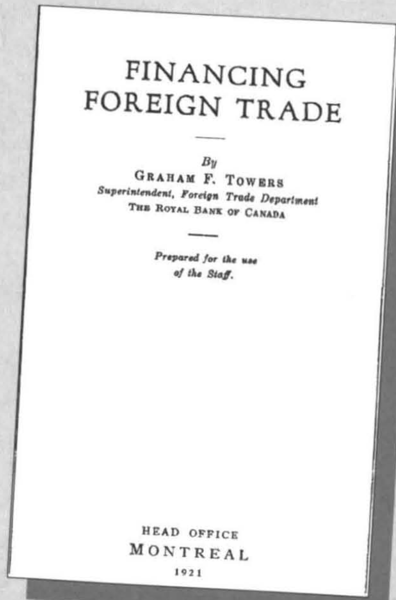
DURING THE LAURIER BOOM, THE BANK had fattened its annual report with a compendium of statistics of national growth – population, grain shipments, immigrant arrivals. This regurgitation of raw statistics underlined Canada's belief in its potential for exponential growth. The recession of 1913-14 shattered this confidence: the economy suddenly became something capricious. The war then provided a demonstration that the economy could be crudely measured and controlled. By 1919, it was apparent that success in the post-war economy would depend on understanding how the economy functioned and in tracking its performance over time. In the 1920s, Ottawa responded by establishing the Dominion Bureau of Statistics, and the banks began hiring economists, the first outside professionals to break into the world of the "bank boys."

In 1919, the Royal Bank established a Foreign Trade Department to furnish Canadian traders with reliable statistics on the economies of Caribbean and Latin American countries where the bank had branches. In 1920 a *Monthly Letter* began publication, edited by Graham Towers, fresh from his economics studies at McGill. Towers also published the more-theoretical, book-length *Financing Foreign Trade* in 1921 and later turned his attention to Canada's economic potential in *Canada of the Future*. He also supplied Holt and Neill with economic data and trends for use in their speeches. In the 1920s, economics as a profession was in its infancy. For many it was still *political* economy, what Stephen Leacock, for instance, taught at McGill. Economics by itself tended to focus on current analysis; it lacked the tools to predict furture trends.

In 1925, the bank hired its first university-trained economist, Dr. D. M. Marvin, and created the Economist's Department. Marvin produced a regular *Report on Canadian Business Conditions* and a *Latin American Report*. Two years later, the Royal Bank Fellowship in Economics was established to provoke "serious discussion of Canada's economic problems." University students were set topical questions: "Does Canada need a federal farm loan system?" Jurors included Prime Minister Mackenzie King and one-time Queen's economists Adam Shortt and O. D. Skelton. "Let me say again," Leacock wrote from McGill, "how much this department appreciates what your bank is doing for Canadian Economics."

The Depression further blighted Canadians' trust in their economy. The thought of another unpredicted economic earthquake was seldom out of mind. Although the Economist's Department felt its share of depression austerity, the need for making sense of the economy grew. If the market economy was malfunctioning, new norms of economic behaviour were required. Bank management reacted conservatively, but bank economists sensed a new role for the state. Two graduates of the bank's foreign-trade group, Graham Towers and Randolph Noble, would become personal friends of John Maynard Keynes, the prophet of interventionist economics. Towers became the first governor of the Bank of Canada in 1935, while Noble remained with the bank and championed monetary expansion in a deflationary depression.

The Second World War provided a more convincing lesson in the art of analysing and controlling the economy. Noble, for instance, went to Ottawa as Canada's sugar controller, drawing on his Cuban sugar experience with the bank. The war also gave economists a new tool: econometrics – which gave the ability to project varied economic scenarios into the future. As econometrics was perfected after the war, especially as computers made complex "models" of the economy possible, bank economists began to "forecast" the economy. It now seemed possible to alter economic reality, not just adapt to it. After the war, the bank's economist was Donald B. Marsh, an avowed Keynesian whose *Taxes Without Tears* (1945) argued that taxes in good times allowed governments a cushion in bad times. In 1952, the Royal Bank's Economics Research Department was established. Its publications – today, typified by *Econoscope* – were directed at various audiences: bank clients, senior management, bank officers dealing with specific sectors of the economy, and the general public. From the 1950s, the bank's chairman became a forceful, and well-briefed, commentator on the national economy. What had begun to provide straightforward trade statistics in the 1920s had become a complex, modern science by the 1960s.



FINANCING
FOREIGN TRADE

By
GRAHAM F. TOWERS
Superintendent, Foreign Trade Department
THE ROYAL BANK OF CANADA

Prepared for the use
of the Staff.

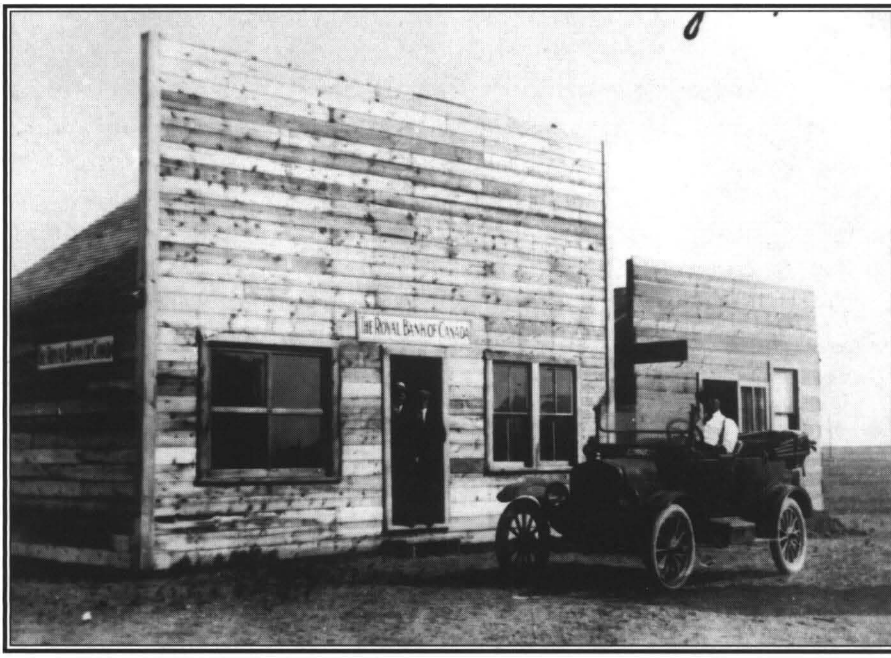
HEAD OFFICE
MONTREAL
1921

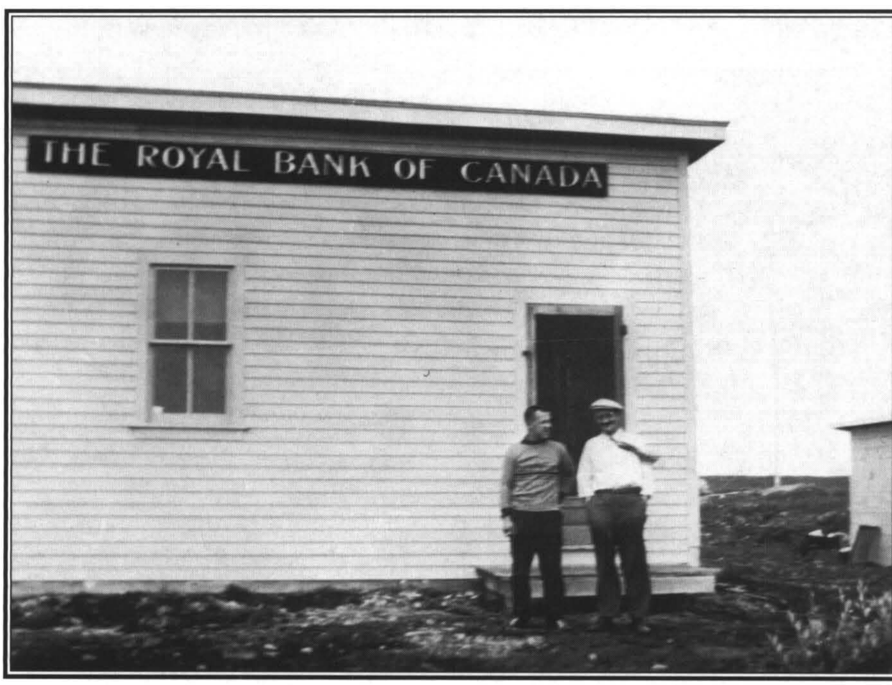
Graham Towers, a Royal Bank employee from 1920 to 1934, and the title page of one of his publications colonies. Every spring, for instance, boxcars and steamers bore tons of bank forms and updated rules and regulations to branches as disparate as Rio and Prince Rupert. Forms were the lifeblood of banking, and a thick catalogue allowed branches to order these directly from the stationery department.

Head-office staff was rounded out by departments of inspection and national credit approval, the traditional central-control mechanisms of the bank. It was to these pivotal offices that promising young bankers were brought to prove their mettle and to gain an instinct for banking. The bank developed a hierarchy of credit approval, by which loan applications were referred upward as their size grew, the largest eventually finding their way to Montreal for approval by the board. Inspection revealed the anatomy of the branch system, and national credit the working of the country's regional economies.

As banking grew more specialized and departmentalized, it also grew more mechanized, but machines did not conquer Canadian banking overnight. Given the "bank-boy" ethos of the industry, there was extreme reluctance to surrender to machines any of the manual tasks that had always been deemed part of a banker's competence. As the volume of daily work burgeoned, however, especially in urban branches, some measure of mechanization became unavoidable. In 1895, the first typewriters had appeared at head office. The board minutes and the general manager's correspondence were now typed. In the branches, where copperplate handwriting was considered indispensable in a "bank boy," typewriters were shunned until after the war. Adding machines had begun appearing in busy city branches in 1900, followed in 1913 by machines for mechanically updating customers' passbooks. The arrival of ledger-posting machines in 1918 diminished the ledger-keeper's job – now one machine allowed the teller to enter, or "post," his daily transactions and balance them in one swift operation. The 1920s brought electric appliances to banking: coin counters, cheque-endorsing-and-cancelling machines, and Recordak machines. The Recordak could provide a photographic record of eight thousand cheques for storage in a hand-sized carton. The teller's job was also eased by the creation of proof departments, which validated all the teller's non-cash transactions *after* the customer had departed. Machines thus increased the speed, accuracy, reliability, and integration of Canadian banking, but they were introduced stingily and were not intended to reduce labour costs, which were low at the junior levels anyway. Machines made banking more service-oriented and error-free.[64] "Bank boys," though, still dealt with bank clients.

Hard on the heels of the bank's 1919 jubilee came the news that the Royal Bank was now Canada's largest bank. The May 1920 returns of





The Patricia, Alberta, branch in 1922 (above).
Back to the Frontier: The return of prosperity in the late 1920s once again prompted bankers to look to the frontier. Discoveries of natural resources drew the banks north. In 1929, the Royal Bank opened in the new grain port of Churchill on Hudson Bay (below).

the chartered banks to the minister of finance showed that, for the first time, the Bank of Montreal had been surpassed in assets by another Canadian bank. This emergence as Canada's largest bank aroused a consciousness of corporate identity. In 1920 the *Royal Bank Magazine* began publication. An otherwise straightforward employee publication, the magazine gained colour and distinctiveness from the inclusion of news of the international branches – such as Graham Towers writing on Cuba – and contributions from some of the bank's literary friends, notably Stephen Leacock. What emerged from its pages was the sense that the Royal Bank was becoming an organization of national, at times international, cohesiveness and significance. Each year at the annual meeting, promising managers from across the country were brought to Montreal, where they were wined and dined and asked to respond to the annual vote of thanks to the bank's scattered staff. The Royal was retreating from its image as the bumptious Halifax bank that had stormed out of the Maritimes at the turn of the century – a gang of bluenose "bank boys" clambering onto the national stage. As if to symbolize its new dignity and prominence, the bank made frequent use of the stark silhouette of its new Montreal head office in its literature and advertising. As the tallest building on Montreal Island, 360 St. James reminded anyone arriving in the city that the nation's largest bank, with its 944 branches spread around the world, was headquartered in Canada's largest city.

If the Royal Bank emerged as Canada's largest bank in the 1920s, it also found itself part of a national banking industry that was constantly off balance. Economically, the twenties was a decade of fits and starts. Hopes of post-war prosperity quickly faded into a recession that mired the Canadian economy until mid-decade. Freed from wartime constraints on manpower, the bank sprinted to open new branches: from 1918 to 1920 almost two hundred were opened. But in the face of a faltering economy, branch growth halted, and in fact receded. By 1924, the bank had shed seventy-seven branches. The takeover of the Union Bank of Canada again fattened the system to a record 944 branches by 1929, a total it would not touch again until 1960. Despite the return of prosperity in the late decade, there was ample evidence that the system was occupying some pretty marginal ground, particularly in the West. Equally apparent was the fact that the banks now faced a more-complex national economy, one which had developed distinct regional rhythms that often failed to coincide with each other. Credit risk varied dramatically across the nation; the days when credit could be supplied to a uniformly growing national economy were over. Furthermore, the deflationary inclination of the Canadian banking system – the impulse to curtail credit and thereby ensure a bank's solvency during downturns – increasingly made trade-exposed regions of the country think that Canadian banking was biased in the interests of central Canada. As farmers took to direct political action – in 1921, a farmers' protest party, the Progressives, sent sixty-five MPs to Ottawa, giving Canada a three-party system for the first time – banking became ever more politicized. Farmers wanted "easier" credit.

Amid these pressures, banking found itself awkwardly placed to defend itself. The old argument that Canadian banking was self-regulating was wearing very thin. For the first time since the Sovereign Bank debacle of 1907, Canadians encountered the phrase "bank scandal." Late in 1921, shareholders of the Merchants Bank of Canada learned that their president had allegedly misrepresented the condition of the bank's loan portfolio. The Merchants Bank desperately reduced its rest by $8 million, and then staggered into the merger arms of the Bank of Montreal. Although its blue-blood president, Sir Montagu Allan, was later acquitted of any malfeasance, the Merchants fiasco deeply damaged Canadian bank credibility.

The 1923 revision of the Bank Act was consequently a fractious affair. Farmers agitated for more-generous-and-assured access to credit. Progressive MPs hammered away at the bank general managers in the Commons' Banking and Commerce Committee; the United Farmer government in Alberta set up a royal commission on farm credit. Much of what farmers alleged was true: the banks were charging in excess of the 7 per cent ceiling on loan interest stipulated in the Bank Act. Some farmers were paying interest as high as 12 per cent. The banks countered that the cost and risk of credit in the West was high. Henry Ross, secretary of the CBA, told Finance Minister Fielding that it cost 2 per cent more "to carry on banking in the West than in the East and in the remoter districts the difference in cost is much higher than that."[65] If the 7 per cent ceiling was religiously adhered to, branches would have to be closed and credit further restricted. Bank-bashing flourished in the Commons and on the Prairies. "Unfortunately, attacks on the banks, and incidently on eastern interests generally," a miffed Sir Frederick Williams-Taylor of the Bank of Montreal noted privately, "are not confined to certain incompetent or unreasonable farmers, but important men of affairs and certain politicians have not hesitated to try to achieve cheap local popularity by baiting these interests."[66]

The anguish of western credit was not the product of "evil" bankers or ignorant farmers who habitually abused credit. It was the natural outcome of the combination of a boom-and-bust farm economy and a credit system that provided short-term credit, secured by the very means of production – tractors, ploughs – as well as the produce itself – cattle and crops.* In an expansionary economy, credit and production thrived mutually; in a faltering economy, the sanctity of credit worked against the sanctity of life on the farm. An overzealous bank manager, an incompetent farmer, or even a hailstorm could upset the delicate balance of credit. Those unable to meet short-term credit obligations soon found themselves labouring under an accumulating burden of debt that increasingly hindered their ability to put next year's crop in the ground. Farmers saw a solution in American-style unit banks, local credit for local needs. This the bankers decried as unstable, inflationary, and even "socialistic."[67]

In 1923, the bankers' credibility held in Ottawa. The Bank Act was tinkered with, but not fundamentally altered. Banks were required to register liens taken under Section 88, and provisions for outside auditing of banks were stiffened. Two months after the 1923 act was passed, the Toronto-based Home Bank crashed spectacularly, the victim of its own reckless lending and deceitful reporting. A public inquiry and the necessity of federal restitution for Home depositors soured public esteem for the banks further. If bank directors could not be trusted – and there was further disquieting news of debt writedowns at the Union and Standard banks – then the government itself must inspect the banks. The Commons committee duly reconvened. While some hard-liners maintained that the state had no place in the banking hall, Neill of the Royal sensed the inevitable: the Home Bank was a "sad commentary" on the industry and, as long as it was "efficient," government inspection was welcome.[68] In 1924, the office of Inspector General of Banks was created and empowered to inspect the banks with an eye "to the safety of the creditors and shareholders." The inspector had power to take charge of a mismanaged bank's assets. In what was to become a tradition, a Royal Banker, Charles S. Tomkins was appointed to the post – when the time came to surrender some piece of authority to the state, the Royal Bank acknowledged the necessity of federal inspection by proffering one of its capable own to staff the position. This would guarantee the "efficiency" that Neill had spoken of and minimize bankers' fears of political interference.

Skirmishing with farmers and rectifying the Bank Act were part of a broader politicization of banking in the 1920s. Banks were coming

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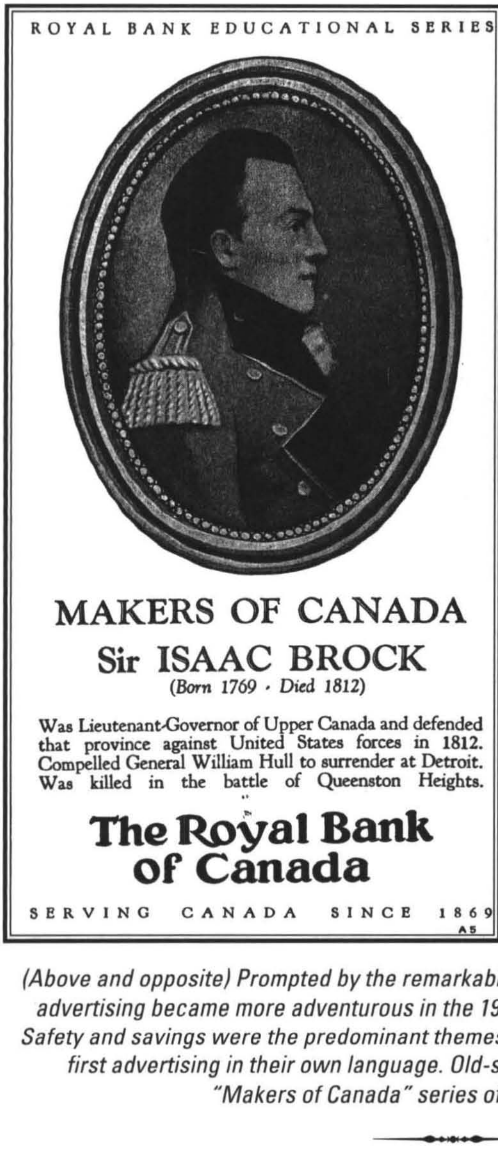
* Banks did *not* hold mortgages on farms. The Bank Act prohibited banks from lending monies on the security of "lands, tenements or immovable property." Only the trust companies had this fiduciary right. The commonly held notion of the bank repossessing the homestead is misplaced. Bankers might take possession of cattle, tractors, or grain, all of which might have been used under Section 88 as surety for the loan.

to realize that other groups were pressing their attentions on government. Bankers could no longer simply rely on their confabs with the finance minister to ensure their legitimacy in the public forum. Consequently, they began to speak out, both to defend themselves and to inform the national agenda. The Royal Bank, for instance, began publishing pamphlets addressing public criticism of the banks: in 1926, Neill's views on the strengths of national branch banking were printed in response to farmer demands for unit banking.[69] Each year at the annual meeting, Holt used his speech as president to address the issue of the national economy. The banker's agenda for national prosperity invariably featured lower taxes, open immigration, a return to the gold standard, and the development of Canada's trade and basic industries. There was a natural tendency to see Canada's future in terms of a re-creation of the glory days of the Laurier boom. The return of a vigorous wheat economy and industrial expansion in the late 1920s seemed to fulfil Holt's prescription.

The 1920s found the Royal Bank active in Ottawa for other reasons. As the place of government grew in Canadian life, so too did the attractiveness of government accounts to Canada's bankers. They represented a huge cash flow that regularly washed through the economy from coast to coast. There were also special accounts, such as the new government-owned railway, the Canadian National. What troubled the Royal Bank was that, if precedent held, the government's long-time official banker, the Bank of Montreal, stood first in line for these plums. As mentioned, Pease's 1918 campaign for a central bank had as a clear secondary motive the disruption of the Bank of Montreal's privileged position in Ottawa. Finance Minister White wavered, but in the end clung to the *status quo*. All the banks were Tory, but the Bank of Montreal was more Tory than the rest.

In 1921, the rules of the game were changed. The Canadian people turned on the Tories and made Liberal Mackenzie King their prime minister. Charlie Neill immediately headed for Ottawa. King directed Neill to his finance minister, W. S. Fielding. Although Fielding was a Haligonian and had long associated with Royal Bankers at the Halifax Club, he had never been overtly friendly to the bank, perhaps because of the memory of Thomas Kenny's Tory ties. Fielding told Neill that "as a general principle he was entirely opposed to the diversion from the Bank of Montreal of any part of the Government's business."[70] An enraged Neill complained to King. Never a man for precipitous action, King replied that it would "take time," but that he was determined to break the Bank of Montreal's "monopoly."[71] Neill therefore persisted, using the bank's Ottawa manager, Charles Gray, as a political pointman. Gray lobbied the railways minister, William Kennedy, and by November



(Above and opposite) Prompted by the remarkable success of the war-bond drives, bank advertising became more adventurous in the 1920s. Actual products were advertised. Safety and savings were the predominant themes. Non-English-speaking clients saw the first advertising in their own language. Old-style image advertising, such as the "Makers of Canada" series of blotters, continued.

he could report that he had secured the Canadian National's telegraph and express accounts, with an annual turnover of $42 million.[72]

The Liberals also had their eye on the Royal Bank. King knew that all St. James Street was solidly Tory, but appreciated that the Grits needed more business support. Holt was "as strong a Tory partisan as there is," but King liked Neill very well. The political opportunity lay in breaking the Bank of Montreal's grip on government business and pushing "some distribution of the Government's patronage" towards the Royal Bank. King was encouraged in this hope of befriending the Royal by his friend Philip Larkin, a Liberal bagman and High

Commissioner to Britain. As owner of Salada Tea, Larkin had won a reputation as the Tea King of America, and had been a long-time client of the Royal in Toronto. He had met Pease in London, dined him, and pointed out how "foolish" it was for all the great banks to fly Tory colours. He "dangled" a senatorship in front of Pease, whom he regarded as Canada's most dynamic banker, and even suggested that Pease become ambassador to Washington.[73] Pease accepted neither offer. None the less, the ice was broken with the Liberals. In 1925, the bank helped Ottawa renegotiate the West Indies Trade treaty. Soon after King won the 1926 election, Neill redoubled his efforts to have the government "recognize our friendship," and won a bigger share of the CNR account.[74] In 1929, Sir Henry Thornton, the government-appointed president of the railway, joined the bank's board.

Despite these inroads, the senior echelons of the Royal Bank remained Tory blue. Holt continued an ardent admirer of Conservative leader Arthur Meighen and, when King drubbed Meighen, the Tories turned in 1927 to R. B. Bennett, the bank's Calgary solicitor since 1908 and a director since 1924, as their new leader. Although he left the board, Bennett continued to counsel the bank on business opportunities in the West.[75] Neill himself was linked to the Tories through his brother-in-law, New Brunswick MP Richard Hanson. Neill's achievement in the 1920s was not so much in remaking the bank's politics, but in balancing its presence in Ottawa. Senior executives of the bank could now be assured of receiving a hearing in the corridors of power regardless of whose offices lined that corridor. In passing, he had also groomed Charles Gray – who served as Ottawa branch manager until 1941 – as the Royal Bank's first "government affairs" man.

The bank directors who gathered just after noon on April 22, 1927, to lay the cornerstone for the bank's new head office on St. James Street projected an image of bankerly solidity. Homburgs, great coats, and sober expressions dominate the official portrait. This, after all, was the cornerstone of Canada's largest bank. Charles Tompkins, the Inspector General of Banks, had come down from Ottawa to join his former employers; R. B. Bennett would soon leave for Ottawa to take up his duties as Opposition leader. The bank had levelled a small city block to make room for the skyscraper and, as the girders rose throughout the summer, so did the bank's sense of self-esteem. Edson

In April 1927, the cornerstone of the new Head Office was set in place by Herbert Holt. Among the guests were: The Hon. R. B. Bennett (left bottom in dark coat), A. J. Brown and Hugh Paton (beside stone on left), C. E. Neill and E. L. Pease (on right of stone).

Pease – who looks haggard and ill in the portrait – was in virtual retirement. Although he retained his title of vice-president, the bank that Pease had built now seemed securely in Neill's hands. Holt continued to play out his role as a figurehead president, chairing weekly board meetings, delivering his annual-meeting speech, and touring the Latin American branches, but he spent most of his time over at his Montreal Light, Heat and Power office. Later in the year, Neill told the Liberal finance minister in Ottawa, James Robb, that the country seemed to be "on the upward grade."[76] The same seemed true for the bank in Montreal.

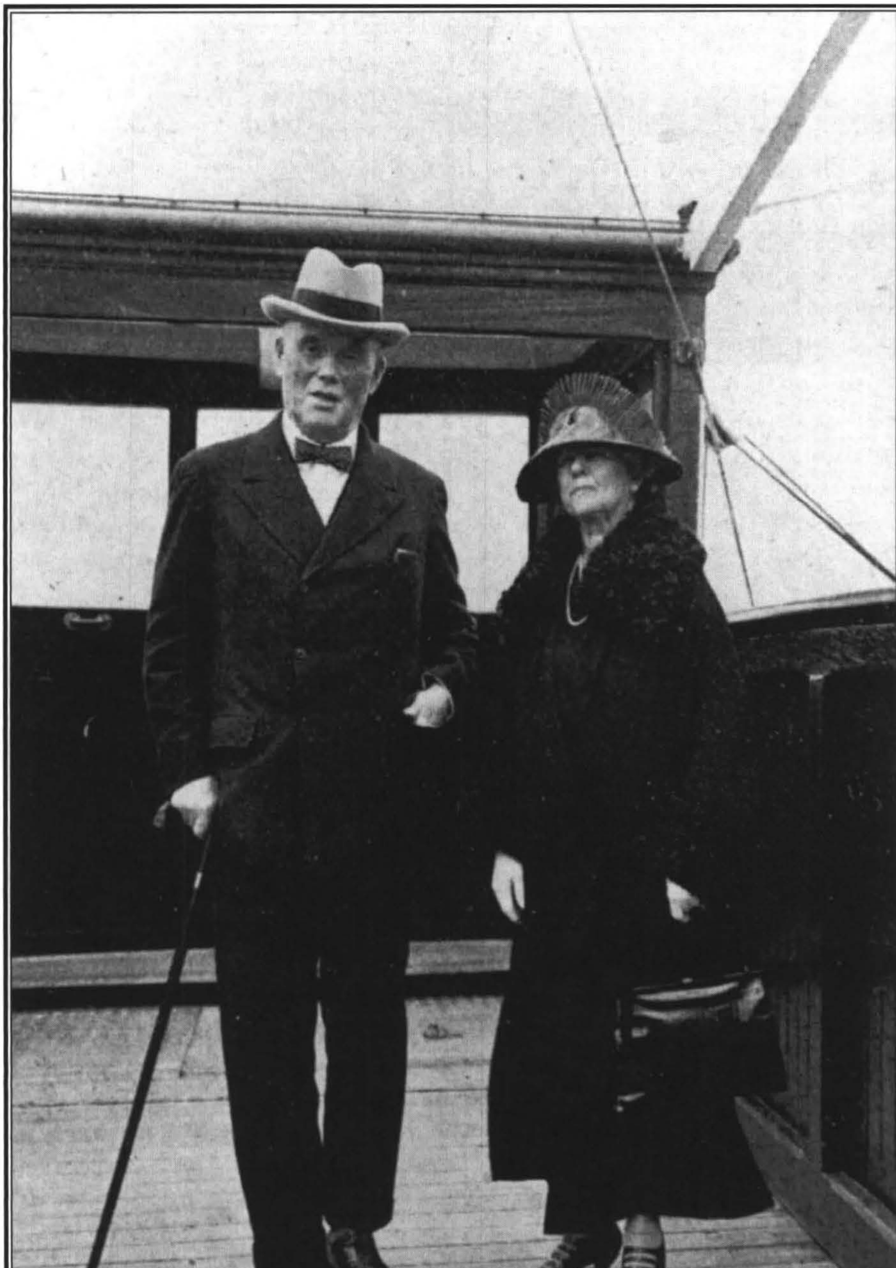
There were, however, three barely visible cracks in this magnificent new façade, cracks the historian with the benefit of hindsight can now see were capable of working their way to the bank's very foundation. They could be summed up in these words: the West, Cuba, and Holt. The return of western prosperity in the late 1920s masked the bank's overextension in the region. There were, none the less, too many branches serving too thin and unpredictable a market. Much the same was true in Cuba. Despite good operating profits, the bank was highly exposed in Cuba. At the beginning of the decade, Cuba had constituted roughly 16 per cent of both the bank's overall loans and deposits. The sugar "crash" of 1920 had diminished this somewhat, but, carrying massive "sugar estate" debts, the bank still lived a precarious existence on the island, one dependent on the price of sugar and on Cuba's ability to preserve its enormous share of the American market. In the spring of 1925, the bank was caught in a "panic" when rumours spread through Havana alleging that the Canadian bank would be trapped by a debt moratorium. Only the intervention of Cuban president Geraldo Machado, who appeared on the doorstep of the Havana main branch to announce that the government would display its confidence in the Canadians by depositing $7 million on its account halted the panic. Machado then sent a Cuban destroyer to Miami to collect $18 million in cash, which the bank had rushed from New York.[77] It was clear that if either the price of sugar or Machado's government – which had embarked on an ambitious public-works program – faltered, the bank was in deep trouble.

Any prescient observer of Canadian banking in the late 1920s would, of course, have had some sense that trouble in the West or in Cuba – most likely, a downturn in commodity prices – might damage any Canadian bank active in these regions. Few had the slightest notion of the true state of Herbert Holt's affairs. At the 1927 CBA annual meeting, Charlie Neill used his presidential speech both to celebrate the nation's return to prosperity and to sound a warning about guarding against "boom conditions" and the "violent fluctuations" that

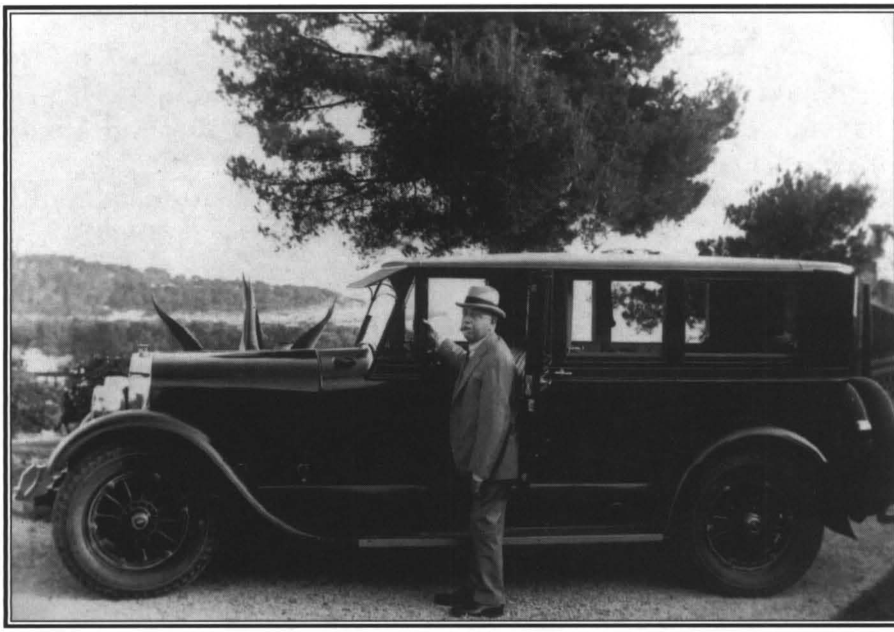
booms precipitated. To make his point, Neill noted that call loans made by Canadian banks in 1926 had shot up 41 per cent. Much of this was prompted by investors speculating in the expansion of Canadian commerce and industry. "Speculation is undoubtedly being overdone," Neill cautioned, "... over-optimism concerning the immediate future must eventually be followed by an unfavourable reaction."[78] What Neill did not disclose to his CBA colleagues was that, back in the Royal Bank boardroom, he and his colleagues had been encouraging another kind of late-1920s speculation: industrial consolidation. And the bank's own president, Herbert Holt, was the biggest borrower.

Herbert Holt's reputation as a captain of national industry was rooted in his ability to build consolidated companies. At the turn of the century, during Canada's first great bout of merger-mania, he had welded together Montreal Light, Heat and Power out of disparate local utility companies. He had shown similar business artistry as a participant in other companies such as Calgary Power and the Steel Company of Canada. There was nothing reckless about Holt in these years of the Laurier boom; he has been described as "a very cautious and rather unimaginative business technocrat," who "cherished" control of "promising" companies.[79] His arrival at the bank in 1905 and his friendship with such moguls of Montreal finance as J. W. McConnell of St. Lawrence Sugar and T. B. Macaulay of Sun Life fit

The breathtaking ceiling of the main banking hall at 360 St. James (right). Designed by York and Sawyer of New York, the building's sparse, heavily rusticated façade (opposite) was reminiscent of another York and Sawyer commission, the Federal Reserve Bank of New York (1919).



Herbert Holt and his wife on shipboard, 1923

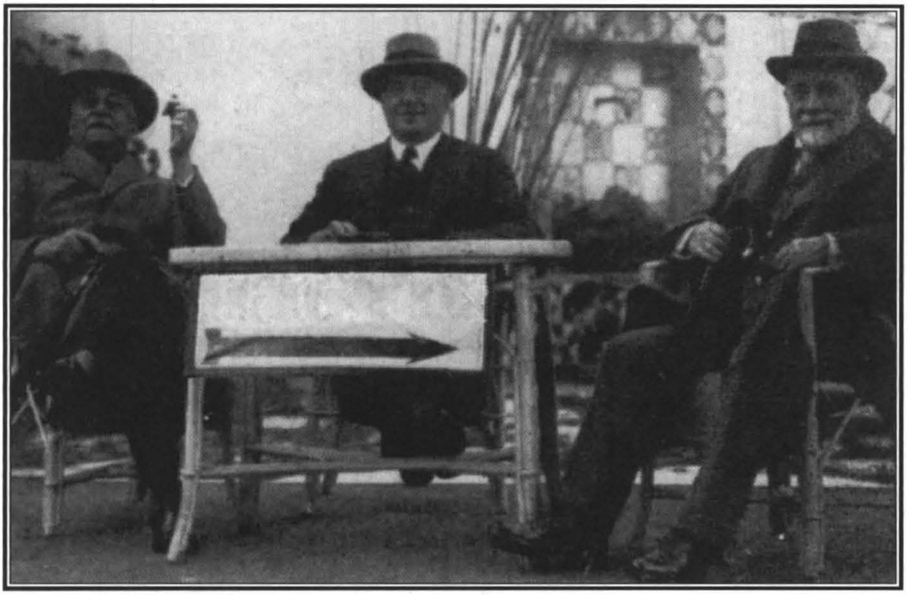


E. L. Pease

this pattern perfectly. When the pre-war merger mania died, Holt settled down to managing his companies and to building up his collection of corporate directorships. The Royal Bank minute books in the years from 1913 to 1925 show that Holt's companies virtually never turned to the Royal Bank for financing. Holt was, in effect, a fine ornament at the top of the bank's list of officers; his name and contacts alone acted as a magnet in attracting corporate clients to the bank. In 1924, for instance, Holt brought in the Calgary account of his friend from railway days, Pat Burns, now a successful meat-packer.[80] Except for making such introductions, Holt took little active interest in the bank at all. In the late 1920s, all this changed. Merger-mania returned, and Holt came to life again as an industrial promoter.

As the economy revived in mid-decade, Canadian industry responded. At the heart of the revival was the pulp-and-paper industry, aroused by the prospect of capitalizing on the hungry American market. Eastern Canadian paper producers rushed to add capacity, and financiers rushed to tout the industry as a quick road to sure-fire gains. Added capacity, however, meant added competition and, as a consequence, the industry soon felt the first twinges of merger fever. In this climate, Holt immediately saw an opportunity to practise his old consolidation magic. He aligned himself with Toronto financier J. H. Gundy of Wood, Gundy & Co., a long-time Royal client. Together they formed Holt, Gundy & Co., a closely held investment company designed to capture control of existing paper companies, to refinance them, and to place them under unified control. Acting through a shadow agent, Consolidated Investment Company, Holt and Gundy became the kings of Canadian pulp and paper. In 1923, they acquired the bankrupt Bay Sulphite Company; in 1925 they acquired and merged the St. Maurice and Belgo-Canadian paper companies, and a year later they won control of the Canada Paper Company. In 1928, Holt and Gundy folded the collection into the Canada Power and Paper Company, which was hailed as the world's largest paper company. The whole edifice sat on a foundation of watered stock – each takeover offered an opportunity to pump up the purported value of the components – and on the hope of continued strong demand for paper products.[81] Similar consolidations were taking place in America and Europe, where trusts were being assembled to control and restructure huge chunks of the steel, electrical-goods, and synthetic-materials industries.

Holt, Gundy & Co. required vast amounts of capital, mostly held over the short period of market operations, to realize their ambitions. Although he would later tell a parliamentary inquiry that he "personally



After visiting Barcelona branch in the late 1920s, three Royal Bank directors continued on to Madeira. (From left to right): Edson Pease, aged but still capable of savouring one of his beloved Cuban cigars; Albert J. Brown, a Montreal corporate lawyer and director from 1912 to 1938; and Hugh Paton, Holt's brother-in-law and a Montreal businessman. Paton contributed little to the board; Brown was its legal brains.

made it a rule never to borrow from the bank,"[82] it is clear that Holt, Gundy & Co., Wood, Gundy & Co., and Consolidated Investments were heavily dependent on the Royal Bank. The sums were staggering, in amounts never before brought before the board for approval. In December 1926, the borrowing peaked with a special call loan of $16,744,104, secured by St. Maurice Paper shares.[83] Throughout the last years of the decade, a board meeting seldom passed in which a loan to one of the Holt–Gundy family of companies did not find its way to the boardroom table.

There is no written record of the directors' deliberations in these years – board minutes are always cryptic and consensual. One can therefore only speculate on what ran through the minds of the bank's officers as they brought these unprecedented credit approvals forward. Neither the Bank Act nor the bank's by-laws had anything to say about such loans. They were in no way illegal. Industrial consolidation was in the air, and Holt was its most-vaunted Canadian practitioner. The board reacted accordingly. The late 1920s saw other Montreal clients, like T. B. Macaulay and Ward Pitfield, aggressively staking out new territory in the Canadian economy. These were years of financial expansion. In 1927, the bank had increased its own authorized capital by $10 million to $40 million. But nothing matched Holt's corporate adventures. Neither did any other industrialist sit in the president's chair of a bank boardroom. The board even began approving credit to Holt's son Andrew, now a budding financier in his own right. One can perhaps conclude that the prevailing optimism overcame the better judgement of men like Charlie Neill and Edson Pease – a booming economy would quickly remove the risk of the seeming overindulgence in pulp-and-paper loans. In 1927, Neill had become general manager; two years later he assumed Pease's old role as managing director. Pease was always in evidence but was fading fast, as his shaky signature in the minute book attested. A new generation of senior management, slowly groomed by the "bank-boy" culture, began to appear. In 1929, Morris Wilson, a Lunenburg lad trained by Martin Dickie at Truro branch, moved into the general manager's office. If things went wrong, many must have assumed, the bank had the men to handle the situation.

In the fall of 1930, Edson Pease left Montreal to winter on the warm shores of the French Riviera. Norman Hart, now the bank's Paris manager, found him there, "a lonely, sick man, but lion-hearted withal." He beseeched Hart to tell Montreal that all was well and gave him a photo to send home. "It showed him smoking a cigar and holding a tennis racquet as if he had just finished a game" – a true "bank-boy" pose.[84] In December, he died. Less than a year later, the doctors at Royal Victoria Hospital in Montreal told Charlie Neill that he had stomach cancer. By December, he too was gone. "The fact remains that what little I may happen to know about banking," Morris Wilson confided in a friend, "I learned from him."[85]

As the Depression broke around him and opened up the cracks in the bank's foundation, Wilson must have looked down the boardroom table and prayed that Pease and Neill had trained him well. The test was now at hand.