THE ATTITUDES OF CANADA'S BANKERS TOWARDS THEIR ROLE DURING THE DEPRESSION, 1930-1935

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ABSTRACT

The Problem

The subject of this paper is the Canadian chartered banks during the period from 1930 to 1935. In these years of economic disruption, strains were imposed on the banking system and criticisms levelled at the banks to an unprecedented extent. These strains and criticisms came from diverse sources, and the problem has been to identify the demands which they made on the banks, the sources of the demands, the nature of the banks' responses, and the effectiveness of the banks' reactions.

The Investigation

The problem was tackled first through a consideration of the main features of the Canadian banking system. This involved not only the determination of the machinery of the banks but also the main ideas which determined the conduct of the bankers. The former aspect of this question was determined not only from statements by the bankers and books published under the aegis of the banks, but also from governmental and academic accounts of the system. The question of the bankers' rationale was largely investigated through the statements of the leading bankers and from the nature of the proposals made by the bankers in response to specific situations.

The investigation was then concentrated on the position taken by the banks with respect to certain economic problems of importance. The

period saw considerable discussion of these problems by both bankers and non-bankers, and much of the commentary on the questions was garnered from that discussion. The final area investigated was that of problems raised by various groups in Canada and the response of the banks to these.

In general, the method followed was to determine the precise nature of each problem, the sources from which these came and their reasons for raising the questions, and the position taken by the banks in response.

Conclusions

The study concludes that the Canadian chartered banks performed a commendable function for Canada during the first years of the Great Depression. In a period which saw financial disruptions and innumerable bank failures in other countries, the chartered banks provided Canada with stable institutions which commanded national as well as international respect. The security of Canada's banks was never seriously questioned. It is not possible to evaluate the importance of this confidence instilled by the banks; that it was essential to the economic welfare of the nation was evident. That the bankers pursued policies which showered on their heads the abuses of many people does not alter the fact that those policies in the long run were essential to the financial well-being of the nation. The bankers must be commended for pursuing unpopular courses.

But this praise of the banks is tempered. They were private institutions of national importance. Consequently they had a responsibility for the public repercussions of their policies. They must be criticised not that they pursued policies antagonistic to the general welfare but rather that they were never willing to consider the broader consequences of their actions. Compounding this shortcoming was the fact that the 'laissez-faire' philosophy expounded by the bankers could no longer be sustained, since the gold standard, on which the operation of that philosophy had rested, had been abandoned. In the hiatus of leadership, the banks declined to contribute to the creation of a managing authority.

Contents

I. INTRODUCTION

The relationship existing between the commercial banks in a country and the various interests in the community is one which is not duplicated in the relationships of other businesses. Possibly this is because the affairs of the banks touch all business in a particularly sensitive place, that of financial affairs. One author notes that "To the physician, an individual entrusts his health; to the banker, his money. Both are prized possessions. Neither can be neglected with impunity."[1] Possibly, too, the unique relationship is due to the esoteric aura which surrounds the banks making them incomprehensible to all but the initiated. In part because of this relationship, and because of the vital role of the chartered banks in the economy, the Canadian banks in the early 1930's found themselves and the monetary principles which they upheld at the centre of a sustained debate. This debate, conducted during a depression unprecedented in severity in Canadian history, forms a central theme in this study.

The closing quarter of the year 1929 provided the initial impetus to that depression, and it is with that date that the period considered in the study commences. It ends early in 1935, for in March of that year the Bank of Canada opened its doors for business and ushered in a new era in Canadian banking. By that time, there were strong indications that the worst of the depression had passed, a low point in economic conditions having been reached in the spring of 1933, after which date the economy recovered. A line on a graph indicating the general state of the economy would, therefore, fall sharply from late 1929 to a nadir early in 1933 from which it would gradually rise to a point in 1935 somewhat below the 1929 level. The response of the chartered banks to the problems created by this depression constitutes the other major theme in the paper.

The problem of treating with the conduct of the chartered banks from 1930 to 1935 and with the discussion of the banking system which took place concurrently had been met by first of all outlining the important features of the Canadian banking system at the time. This is done in sections II and III of the paper. In the next four sections (IV to VII inclusive) some questions which were of interest are considered, section IV with the general response of the banks to the conditions, and sections V, VI, and VII with some specific topics. Sections VIII, IX, and X deal with problems raised by various sectors of the Canadian community, and to complete the paper, sections XI and XII recapitulate the general attitude towards the banks and the bankers and summarise the study.

The years dealt with in the paper were revolutionary ones in Canadian banking history. It was a period during which the chartered banks faced unprecedented criticism. It was a period, too, during which the banks had to manage their affairs with extraordinary caution in order to secure their stability. That they managed to survive the stresses without permanent damage and with a minimum of crises was indicative of the adequacy of the banking system and of the calibre of the bankers' leadership. And it was a vindication of their policies.

1. Albert U. Romasco, The Poverty of Abundance: Hoover, the Nation and the Depression (New York, Oxford University Press, 1965), 69.

II. THE CANADIAN BANKING SYSTEM

In the 1930's the Canadian chartered banks comprised a key sector in the economy of the country. As the main instrument in the nation for the exchange of money and for the control of credit, the banks in their operations stood at the cross-roads of economic activity. On their well-being depended in great part the smooth continuity of business activity. In consequence the banks played a pre-eminent role in the business community's response to the conditions imposed by the depression, a role which was shaped largely by two considerations. One of these was the nature of the banking system, the institutional machinery of the banks and the practices followed by them under the powers granted for the conduct of their affairs. The other was the rationale which permeated the bankers' activities, the fundamental ideas which were accepted among bankers and which formed the basis for their conduct.

Though it bore many resemblances to the banking systems of Great Britain and of the United States, and Canadian bankers freely acknowledged debt to those systems, banking in Canada manifested a large number of features which, in sum, created an institution quite peculiar to Canada and well adapted to Canadian conditions. One outstanding feature of the system in 1930 was the very small number of banks doing business. There were only eleven in that year. One of these, Barclay's Bank (Canada), had begun business in the previous year and another, the Weyburn Security Bank, was to be amalgamated in 1931 with the Imperial Bank of Canada, leaving a total of ten which was to remain unchanged throughout the rest of the decade. They were large banks, very large for the most part, and in comparison with banks in other parts of the world quite out of proportion to the economic size of the country. Three of them were, in 1930, rated among the top twenty in the world in terms of total assets.

With justification it was claimed by many of Canada's leading bankers that the existence of this small number of large banks was due to the demands imposed by the Canadian environment rather than to artificial stimulants from governments or financiers. This claim was important in justifying the large number of mergers which had been a feature of Canadian banking history and which largely accounted for the size of the banks. By 1930, amalgamations had brought most local and regional banks together so that eight of the banks then doing business had branches in at least six of the nine provinces.[1] Of the other three, the Weyburn Security Bank ceased to exist as an independent institution in 1931, and Barclay's Bank (Canada) operated as a subsidiary of its great British namesake. Since the beginning of the century, twenty-eight banks had lost their separate identities through amalgamation.[2] Undoubtedly they were national rather than local or regional institutions, and reflected in their operations the fact that their charters were granted by the federal Parliament.

This coming together of local and regional banks to form banking organisations of national scope meant that the financial resources of the nation could be mobilised more extensively than might otherwise have been possible. Excess deposits in one area were made available to areas in which the demands for loans exceeded funds available locally, a factor which bankers pointed out was particularly valuable in a country such as Canada where new areas which required large infusions of capital were constantly being developed. National organisation meant, too, that the strains of an economic recession in one region were absorbed within large and diversified institutions whose vast resources provided security to their creditors. By 1930, it was evident also that the banks had attained such importance in the economy that the federal government could not remain indifferent to the soundness of the banks. Their security was clearly of more than private interest. The fate of the Home Bank subsequent to its failure in 1923, and the contribution made by the government of the day to the bank's creditors were demonstrative of this fact.

Competition, of course, was another factor which restricted the number of banks. It was difficult for a new banking institution to compete successfully with the established ones. And it was not financially easy to start a bank in Canada. The thought of a number of unprofitable years of operation prevented all but the most optimistic and resourceful from applying for a bank charter. The requirements of the Bank Act of a subscribed capital of $500,000 and a paid up capital of $250,000 was also a major consideration, a requirement which the supporters of the banking system claimed kept economically unsound and unworthy promoters from entering the banking field. Subscribers to the capital stock of a bank were also legally liable for a double subscription should their bank go into liquidation. Even when these conditions for the starting of a bank had been met, it was required that the Treasury Board be assured of the good faith and adequate means of the applicants for a bank charter, and no new institution was permitted to open for business until that Board had issued the certificate of incorporation. Subsequent additions to the stock issue of a bank also needed the authorization of the Board.

A corollary of the feature of largeness was the branch banking scheme which was in use in Canada and which, it was claimed, was uniquely appropriate to Canadian conditions. In the great expanse of Canada, with its widely dispersed population with their diverse banking requirements, large numbers of branches of all sizes brought to the most remote corners of the country the banking services of great and stable institutions which, through separate accounting at each branch coupled with centralised control, made available the resources of nation-wide institutions to the very smallest communities. As mentioned above, this system meant also that each bank could minimise its risks through having its assets distributed over the various parts of the country. At the same time, the branch banking system permitted a flexibility within each bank which allowed each branch to be managed in accord with local requirements.

In view of the importance of the banking function to the nation, there was surprisingly little public control over bank affairs. For the most part, the banks enjoyed a high degree of independence from governmental regulation, a freedom which the bankers saw as contributing to the stability of the banking system. However, there were a few regulations, such as those already mentioned concerning capitalisation, which determined the essential features of the banks.

The principal legislation specifically tailored to the banks was that of the Bank Act[3] and the Finance Act. The former act made provision for the establishment of banks, and restricted the use of the term 'bank' in Canada to those institutions incorporated in accordance with the provisions of the act. Requirements concerning the supplying of details of operations were also outlined. Every ten years the Bank Act was revised, a procedure which allowed for Parliamentary consideration of the affairs of the chartered banks, for reappraisals of the need for change, and for the introduction of measures designed to improve the functioning of the system. On the whole, the procedure requiring decennial revision of the Bank Act met with acceptance from the Canadian banking world as well as from non-bankers.

The Finance Act[4] provided the banks with a source of funds to be used to stabilise their loaning capacity. The Act had been introduced at the beginning of the First World War as an emergency measure to provide for the expansion of the supply of credit when conditions so demanded, and had been retained in use after the War had ended. A revision of the act in 1923 had not changed the basic feature of the act which was that the Treasury Board, on behalf of the federal government, could issue Dominion notes to the chartered banks against government and other forms of securities. As this provision permitted the increase of the Dominion note issue without reference to the amount of gold held in reserve by the government, it meant that the volume of money in circulation could be expanded greatly at any time. Furthermore, while the Treasury Board was charged with the administration of the provisions of the Act, there were no direct means by which the extent of use of the Act by the banks could be controlled. The banks themselves had to initiate any move to create additional money through this source, and the Treasury Board did not accept responsibility for the extent of the banks' borrowings. Nor did the Board attempt to influence the banks through the manipulation of the interest rate charged on Finance Act loans.[5] Essentially, this failure to direct closely the supply of money in circulation was due not only to the shortcomings in the arrangements provided by the Act but also to a willingness on the part of politicians, civil servants, and bankers to accept the idea that monetary fluctuations were self-adjusting and that the banking community contained within itself the means to ensure a healthy supply of money. It was believed in official circles that a need for more money in the community would be met by the banks borrowing under the provisions of the Act. On the other hand, a decrease in the demand for money would lead to a reduction in the total bank borrowings from the government.[6]

Apart from the broad framework provided by the Bank and Finance Acts for the operation of the banks, there were a number of other forms of control existing. Permanent Parliamentary committees served to remind the banks that they were subject to the control of Parliament. In addition, to ensure closer supervision of the day-to-day operations, legislation provided for internal as well as external audit of each bank's affairs. Every branch bank was audited at least once each year at an irregular time by officials of the bank concerned, and shareholders' auditors were appointed to satisfy the owners of the banks of the veracity of the banks' annual reports. Provisions were also made for external audits conducted through the offices of the Inspector General of Banks who, on behalf of the government of the day, was authorised to inspect the affairs of any bank, this power including the right to enter and inspect the books of individual branches. This latter provision permitted a form of inspection which had been discussed for many years but which, until the collapse of the Home Bank, had become bogged down on every occasion due to the problems involved in its execution.

The special requirements for inspection of the affairs of the chartered banks was deemed necessary largely because of the unique position of the banks in the Canadian economy. This public concern was especially evident in the provisions made for control over the note issue of the banks. The banks in 1930 were permitted to issue notes for circulation in denominations of $5. or multiples thereof up to the amount of their paid-up capital, and paid a one per cent charge on the value of notes issued for this privilege. Though not deemed to be legal tender under normal conditions, these notes were to be the first charge on a bank's assets in the event of liquidation. During the period from September 1 to the end of February each year--the time when crops were being moved and there was an extraordinary demand for money--additional notes could be issued up to an amount equal to fifteen per cent of the combined paid-up capital and 'reserve' account of each bank, but the banks were required to pay five per cent interest on any such "excess" notes circulated. In order to extend its issue of notes beyond these limits, a bank was required to deposit an amount equal to the extra issue of notes in the form of gold or in Dominion notes with the Central Gold Reserves. In order to secure bank note holders against the failure of a bank, a "circulation redemption fund" was created through the contributing by each bank of an amount equal to five per cent of its average note circulation.[7]

The supply of circulating currency in Canada was composed of these bank notes and of Dominion notes which were issued by the government and managed by the Treasury Board. Parliamentary enactment established the amount of Dominion notes that could be in circulation at any one time, but additional amounts were issued on the basis of the provisions of the Finance Act which, as noted above, allowed the chartered banks to borrow Dominion notes against various types of securities. Because of this latter provision, there was little direct control over the total amount of currency in circulation, and only the willing co-operation of bankers with the Treasury Board ensured that the supply of currency was not extended to unreasonable limits.

This lack of governmental controls over the supply of currency was duplicated in the lack of enactments concerning the holding of reserves. In 1930, there were no legislative provisions requiring the chartered banks of Canada to keep reserves as security for their liabilities, and the Bank Act only demanded that of those reserves which a bank elected to hold, forty per cent had to be in Dominion notes or in gold deposited in the Central Gold Reserves. The banks, however, elected to maintain reserves, and usually kept a reserve of about ten per cent of deposit liabilities in the form of liquid assets. Treated as acceptable assets for this purpose were Dominion notes, gold balances, cash balances with foreign banks, call and short loans, especially in the New York call loan market, and readily marketable government securities. Again, however, there were no specific requirements other than the one mentioned.

"Liquid assets" formed along with the rest of a bank's investment portfolio one of the two major parts of each bank's assets; the other part was composed of the banks' commercial loans issued in Canada. Two aspects of the lending business of the Canadian chartered banks are particularly noteworthy since these singular features were major factors in the functioning of the banking system. One was the provision made in the "pledge" or "section 88" of the Bank Act. This provision permitted the giving to and acceptance by the banks of security in the form of assignments of goods in storage or in transit, and was designed to make it possible for funds to be loaned to producers and manufacturers before the proceeds from the sale of the commodities was realised. Since the goods assigned to a bank under "section 88" provisions could remain in the hands of the borrower rather than be physically transferred to the control of the lending banks, this provision added a feature to Canadian banking procedures not generally found in banking systems in other countries. Especially for Canada's farmers and their marketing organisations, this provision of the Bank Act was of primary importance. It was widely considered indicative of the shaping of the banking system to meeting the peculiar requirements of the economy.

The second noteworthy characteristic of the banks' credit business was that the Bank Act prohibited the acceptance by the chartered banks of real estate as security for loans. Designed as a measure of protection against speculation in land and the vagaries of real estate values, this restriction, while limiting the loaning capacities of the banks, provided a curtailment of investment in a sphere notoriously susceptible to severe fluctuations. It also discouraged the banks from committing their assets to long-term loans, a necessary precaution in view of the fact that the banks' liabilities were largely in the form of demand or short-notice deposits. While on occasion unhappy with this restriction of their activities, Canadian bankers on the whole tended to recognise the merits of this provision and to accept it.

The other major item in the assets of the chartered banks in 1930 was their holdings of securities which could not be termed liquid. For the most part, these were composed of debentures of the highest degree of security, usually ones carrying federal or provincial government guarantees. As a consequence of using this means of employing funds, the banks established permanent investment departments which had gradually expanded their activities into acting also as jobbers for the purchase and sale of high-grade securities. The chartered banks as a corollary of these functions were also involved as members of syndicates in underwriting issues of bonds, usually governmental, school board or hospital board issues.

Another important function of the Canadian banks was the maintenance of a system facilitating the exchange of foreign currencies, and thereby aiding the conduct of Canada's trade abroad. The banks, with the aid of several exchange brokers in Montreal and Toronto, bought and sold foreign exchanges in order to meet the needs of their customers, and when unable to fulfil their obligations in this respect within Canada would resort to the New York or London exchange markets. At the same time, the Canadian banks were equipped to aid Canadian merchants through the purchase of bills of sale and bills of lading. A number of branches of Canadian banks in other lands facilitated the carrying out of these functions and helped to provide detailed information on trading conditions abroad to Canadian businessmen.

In spite of these activities in the securities and foreign exchange markets by the banks, there was not a money market in Canada in

1930. Nor was there an authority charged with controlling the amount of money in circulation, and the bankers themselves, rather than acknowledging any influence over the supply of money through their loaning business, denied the existence of such a function, claiming that the money supply was determined by economic conditions and the volume of credit by the demands of the market. This lack of a controlled money market meant that in times of economic disruption there was no authority in Canada charged with manipulation of the money supply in order to alleviate conditions.

In conducting their business, the chartered banks were completely independent of each other though they did come together in the Canadian Bankers' Association in order to aid in the smooth performance of common functions. Possibly because of the limited number of banks and their large size, there were few matters which required formal co-operation.[8] To facilitate whatever co-operation was deemed necessary was, however, the function of the Association. It had been incorporated for this purpose in 1900, but more specifically to supervise the operation of clearing houses and to appoint curators to supervise the affairs of banks which ceased payment.[9] The Association also arranged for the printing of chartered banks notes and ensured that notes were not issued in excess of the unimpaired and paid-up capital of each bank since every bank was responsible in proportion to the value of its own note issue for the outstanding portion of a failed bank's notes. The management of the educational programme for banking employees was another purpose of the Association, as was the presentation of the banks' viewpoints on some questions to Canadian governments. In spite of the power of the individual banks, and their reluctance to delegate authority, it was generally acknowledged that the Association had great influence in government circles, but it should be noted that the Association's primary function was to aid the technical operation of the chartered banking system rather than to form common policies for the banks.

In spite of the considerable degree of independence from government control which the banks enjoyed, and their great economic strength and stability, it was acknowledged that the banks were susceptible to many pressures which restricted their activities. The position of the banks in relation to the other sectors of the economic community made them a convenient whipping-boy for politicians, especially those of the agrarian West. The powers of moral suasion enjoyed within Parliament by the permanent parliamentary committees on banking and by the federal government were considerable, and were one of the important features of the system. The need for amendment of the Bank Act every ten years served to remind the bankers that they were not without public responsibilities. The need to make numerous reports to the federal government served the same purpose. And, of course, the "near banks" performed functions which provided alternatives to the services of the chartered banks. More abstract and less easily identified than were the technical aspects of the banking system, these matters were nevertheless as essential to the operation of the banks.

1. Canada, Dominion Bureau of Statistics, The Canada Year Book, 1930, 858.

2. M. C. Urquhart & K. A. H. Buckley, eds., Historical Statistics of Canada (Toronto, Macmillan, 1965), 246.

3. Canada, 13-14 George V, c. 32.

4. Canada, 5 George V, c. 3; 13-14 George V, c. 28.

5. C. A. Curtis, "Credit Control in Canada," Papers and Proceedings of the Canadian Political Science Association, 1930, 109.

6. J. W. O'Brien, Canadian Money and Banking (New York, McGraw Hill, 1964), 186-7.

7. Canada Year Book, 1930, 843.

8. See especially the evidence of Jackson Dodds, General Manager of the Bank of Montreal and President of the Canadian Bankers' Association, before the Commons Committee on Banking and Commerce in 1934. Canada, House of Commons, Standing Committee on Banking and Commerce, Minutes of Proceedings and Evidence, 1934, Appendix 2. (Hereafter cited as Commons' Committee).

9. This latter power was transferred to the Minister of Finance by the Bank Act of 1934.

III. THE BANKERS' RATIONALE

Of great importance to the operation of Canada's banking system was the rationale which shaped the conduct of the men controlling the banks. During the depression years with their extended criticism of the banking system, the bankers exhibited a remarkable consistency in their support of a number of ideas. These ideas were as essential to the operation of the system, and to the economy, as were the other aspects of the banking system.

The chartered banks, of course, occupied a position of surpassing importance in the affairs of the nation. The fact that there were so few of them and these were so large magnified this fact. Because of the importance of that position, the conduct of the banks was at all times of public moment. As more than one writer observed, the fate of the chartered banks was not one which could be divorced from public or governmental interest. By 1930, it was commonly accepted that the federal government could not permit the failure of any of the banks because of the great threat to the entire economy of such an event. The failure of the Home Bank in 1923 had illustrated this.

The importance of the banks to the economy was freely acknowledged by Canadian bankers, and so it appears odd that at the same time the bankers had a singular obsession with the welfare of their own institutions which precluded their showing interest in the effects of their actions on the rest of the economy. One author thought that "they neither understood nor were willing to learn the economic consequences of their own actions."[1] The bankers made little effort to conceal their attitude in this matter. They were practical men going about managing the affairs of their companies, and devoted no effort to considering the broader issues involved by their conduct.

In fact, Canadian bankers took pride in being down-to-earth business men. They were sceptical of the ideas and ideals of those who propounded theories about banking and monetary affairs. The replies of the bankers to the radical economic theorists left the clear impression that they felt theorising to be valueless. "The trouble with many of these banking theorists," thought the editor of the Journal of the Canadian Bankers' Association, "is that they have had no practical experience in banking."[2] The bankers, as one author expressed it, exhibited "a frankness in the admission of ignorance (about monetary theory) which was largely the reflection of contempt."[3] To the suggestion that "Economics is as scientific as any other branch of science," one banker replied that "It must be lovely to be that sure; I am not."[4]

To say that the bankers ignored in their every day management of the banks the broader consequences of their policies and the proposals of monetary theorists is not to say that the bankers did not have their own beliefs about the social role of the banking function. The rationale of the bankers rested in the 1930's on classical economic theories. They believed that banking, like other aspects of economic activity, operated best under a system of free enterprise, of self-regulation, and of natural readjustment to demands within the economic community. Monetary management, consequently, was unnecessary. The "needs of trade" would ensure, it was felt, that at all times the banking world would adjust to provide the best possible level of economic activity. Further theorising had no place in this scheme. Minimal intervention from human institutions, including governments, was desirable. Rather than being helpful, it was thought that tampering with the natural machinery would lead to harmful imbalances which could be corrected only by returning to the natural system and not through attempting to restore balance by artificial means.

This faith in the self-adjusting powers of economic forces explains much of the bankers' conduct during the depression. Hence the bankers saw their own role as involving simple responses to the demands made on their facilities. They did not believe that they could improve the situation by taking positive action in any direction. Mr. Jackson Dodds, the General Manager of the Bank of Montreal, suggested in 1934 that "the banks could hardly 'combat' the effects of deflation as that would imply active, aggressive action which is not descriptive of the part played in the economic system by the commercial banks."[5] A similar attitude was taken by the banks in their reaction to many other problems. "Natural correctives," Dodds said to the annual meeting of his bank in 1933, "are working towards world recovery, but many artificial barriers still impede progress."[6] Economic nationalisms, tariffs, and the operations of central banks were thought unnecessary restrictions on the free movement of goods and the stabilisation of the world economy. Canada, the bankers thought, could only wait in the hope that these hurdles to world recovery would be removed and natural forces permitted to take effect.

A key issue in the debates of the early 1930's, one which demonstrated the bankers' attitude, was that concerning the volume of the credit supply in the country, the banks' relationship to this, and the effect of the volume of credit on price levels. As already mentioned, the bankers believed that the volume of the money supply was determined by the "needs of trade." They felt also that their lending capacity was determined by the volume of their deposits as well as the demand for loans. Statements of the bankers made it clear that they did not consider the consequences on the economy as a whole of credit decisions made by them in their own self-interest. Canadian bank officials also refused to acknowledge that they could create bank deposits through the granting of loans or, in many instances, that demand deposits in the banks represented a part of the money supply.

Having taken this position concerning the supply of money, the bankers then refused to admit any connection between their loaning activities and the general level of prices. The banker, said the president of the Canadian Bankers' Association in 1923, "is not thinking about the volume of credit in the country nor the effect which the granting or withholding of credit in the particular instance will have upon the price level of commodities in the country."[7] The quantity theory of money, which related the price level to the money supply, received a cold reception from the bankers. For the bankers, the money supply was a passive thing which was adjusted by the impersonal needs of the economy. Having managed successfully on that basis for many years, the banks in 1930 naturally thought it best to continue with it.

Their acceptance of this rationale by the Canadian bankers can be explained only if it is recognised that they believed the mechanics of the economy to be self-adjusting and tending towards equilibrium. At the source of this belief was a faith in the theory of the gold standard, a theory which provided the bankers with a simple explanation of economic activity which obviated the need for more complicated economic theories. Not without justification did Canadian bankers adhere to its principles; their country had prospered under the gold standard since the 1850's, and consciously or unconsciously they were unwilling to desert its premises in 1930. Asked in 1934 why he believed that Canada would return to the gold standard, Dodds replied, "Because no better system had been found."[8] That was the position of most of Canada's bankers.

The bankers' belief in the gold standard, their reluctance to consider new economic theories, their insistence on "laissez-faire" principles, their attitude on the questions of the supply of credit and of the connection between the volume of loans and price levels were all aspects of the bankers' concept of their role in the economy. The opposition which developed to the position assumed by the bankers angered them. They sincerely believed that they and their system had performed well under demanding conditions, a belief which a large part of the business community echoed. Moreover, they felt that banking was the concern of bankers, and not of outsiders. For years their opinions on all aspects of banking had been accepted without serious question by the larger part of the country. The depression changed that situation, and the bankers found themselves faced by a phalanx of authorities on banking questions. They resented this intrusion into what had been a private club. Hence their retrenchment and their stubborn clinging to conservative principles.

The bankers believed, too, that the depression was a natural phenomenon. General Manager M. W. Wilson of the Royal Bank of Canada thought it was due to "human nature," and saw no option to periodic recessions because "as a normal impulse we go with the crowd, and if the crowd is right. . .conditions are all right, if not, it is too bad."[9] Consequently the ability of human institutions to alter the conditions was strictly limited. "Practical experience," suggested the General Manager of the Bank of Nova Scotia in his report for 1932, "has impressed upon them /the bankers/. . .the limited possibilities of banking action in a single country to stave off the hardships of depression."[10] The corollary of this attitude, of course, was that the banks could not be held responsible for the conditions then prevailing. Nor would extreme measures changing the banking system bring about recovery.

In the bankers' philosophy, however, the depression served a very useful purpose. It cleansed the business world of the unhealthy. It was the agent of catharsis; it purged the sinful. "The speculative position of the country," Mr. A. E. Phipps the General Manager of the Imperial Bank of Canada said to his annual meeting in 1930, "has been, if not entirely, at least to a very great extent, liquidated; the public appetite for speculation if not satisfied has been dulled."[11] This was not an attitude destined to endear the bankers to the less fortunate members of the community, nor was the belief that the best policy for Canada was to keep her own house in order and await recovery. "Normal times will return," was a common motif of the bankers.[12] It was a motif in keeping with their "laissez-faire" attitudes. But it was not acceptable to all Canadians.

1. R. C. McIvor, _Canadian Monetary, Banking and Fiscal Development_ (Toronto, Macmillan, 1958), 130.

2. _Journal of the Canadian Bankers' Association_, 1934-5, 447. (Hereafter cited as J.C.B.A.)

3. Irving Brecher, _Monetary and Fiscal Thought and Policy in Canada, 1919-39_ (Toronto, University of Toronto Press, 1957), 35.

4. Commons' Committee, 1934, App. 2, 430.

5. _Ibid._, 285.

6. Bank of Montreal, _Annual Report, 1933_, 11-12.

7. Commons Committee, 1923, 26; quoted in Brecher, _op. cit._, 38.

8. Commons' Committee, 1934, App. 2, 301.

9. _Ibid._, 453.

10. Bank of Nova Scotia, _Annual Report, 1932_, 22.

11. Imperial Bank of Canada, _Annual Report, 1930_, 35.

12. Bank of Montreal, _Annual Report, 1933_, 11.

IV. DEPRESSION

Although an essential part of the Canadian economy, the chartered banks in the first years of the depression did not decline in profit-earning to an extent equal to the decline in the economy as a whole. While businesses and agricultural enterprises floundered in the recession, often to a state of bankruptcy or near-bankruptcy, the banks continued to maintain strong liquid positions. In part this resilience of the banking system, its ability to weather the storm with minimum disruption at a time when many businesses were in acute distress, was a cause of acriminious verbal abuses directed at the banks. Rightly or wrongly, the banks were for many of the unfortunate the symbols of conservative complacency and of the comfort of the affluent.

The response of the banks to the conditions was one which might well have been anticipated, although among the banks themselves "no concerted policy was followed."[1] Their immediate reaction was to retrench, to argue the merits of the banking system, and to call for patience and economy from the Canadian people in the expectation of early improvements. The stability of the banks themselves provided, of course, an invaluable basis of argument for the bankers who could point with some pride to the large numbers of bank failures in the United States and in other countries and contrast these with the stability of the Canadian banking structure. Among other comparisons of a similar temper, the Canadian banking system was visualised as resembling "in many respects a staunch and seaworthy vessel capable of riding the waves not only at high tide but also at ebb-tide."[2] This line of argument was not to be ignored especially by those who acknowledged that the first responsibilities of the banks were to their depositors and that the maintenance of their affairs on a sound basis was essential to the nation as a whole.

But while the bankers were issuing assurances of the merits of the banking system, there were several factors in the situation which accentuated the general unease. One of these was the inability of the chartered banks to propose any positive and appealing remedy to meet the depression. Many people thought that imaginative leadership should have come from the banks because of their important position. For their part, if there was a consistent policy pursued by the banks it was that no major changes ought to be initiated during the disturbed economic conditions prevailing in the early 'thirties and that the economy was strong enough to recover on its own with the aid which could be given through the practicing of reasonable economy by all Canadians. Industry, prudence, and self-restraint were thought commendable characteristics. When, however, the depression continued and became more severe, the ability of people to accept these panaceas was exhausted, and agitation for more vigorous policies developed. For many it was incongruous that the bankers should relax in their padded leather chairs waiting for improved conditions while the victims of the depression bore the brunt of the suffering.

A second feature which caused distrust of the banks among large numbers of people was the decrease in the volume of bank loans during the early 1930's. Between October, 1929, and October, 1933, the total of outstanding loans in Canada declined from $1,863 thousand to $1,160 thousand, a decrease which the banks argued was largely due to the lack of worthy borrowers rather than to any desire on their part to reduce loans.[3] The banks vehemently and consistently denied having as their policy the restriction of credit. Indeed, bank interest rates on loans declined slightly in these years, but as the bankers pointed out this had not alleviated the situation since it was necessary that "producers must have confidence that they can profitably employ credit" before they will avail themselves of the banks' resources.[4]

The reduction in the volume of credit issued by the banks, whether as a matter of policy or a trend necessitated by the conditions of the economy and the lack of confidence among businessmen, and the awareness of large numbers of people of that reduction, had important effects. Usually it was thought that the banks were attempting to improve their liquid position and that to do so they curtailed credit and as a consequence lessened business activity. It appeared as though the banks were withholding loans when they ought to have been promoting borrowing. To many people, then, the position of the chartered banks in the early 1930's demonstrated the cost to the country of the pursuit by the banks of self-interests and consequently of the need for some means of making them responsible to the public for their policies.

Another element in the alienation of the banking community was the argument which developed over the question of bank credit and the connection of this with the total supply of money in the country. The crux of the debate concerning the volume of credit and the price levels lay in the unwillingness, or the inability, of the bankers to acknowledge first of all that there was any connection between their own loaning policies and the aggregate amount of money in circulation and therefore with the level of prices, and, secondly, in the bankers' contention that in any event the realities of the Canadian economy ensured that the finances of the nation were self-regulating and that it was folly to intervene in the self-adjusting mechanisms of the market. Unfortunately the persistence of the bankers in these matters was interpreted as unwarranted stubbornness and created further antagonism.

In these circumstances, the bankers suggested a number of factors which they felt demonstrated that they and their institutions and the system under which they operated were not to blame for the adverse conditions. The first fact to be borne in mind, it was proposed repeatedly, was that the depression was a world-wide phenomenon over which neither they nor any other single element could exert much control. Canada was only one sector of a much larger arena of suffering and, in part because of its remarkably secure banking system, had suffered less than most of the other sectors. The conservatism of the bankers and their unwillingness to abandon tried principles in favour of more exciting and popular proposals were suggested as essential factors in gaining that fortunate position.

From the argument that the source of the problems were to be found outside Canada a number of conclusions were drawn. Because of the international disruption of trade, and the deflation on a number of foreign currencies, Canada had been affected through decreased sales abroad, and by lower prices for those goods which were sold. As a result, within Canada itself prices had fallen especially in the major export areas of primary products. It was the deflationary movement, the bankers suggested, and the fact that it fell with unequal severity on primary producers and manufacturers that had been a root cause of Canada's troubles. Since, however, the Canadian banks had no control whatsoever over the prices which were paid in foreign markets for Canadian goods--these were determined by the forces of supply and demand tempered by economic nationalisms--the bankers thought that they could hardly be charged with the blame for the consequences. Nor did they feel that it was possible for any Canadian institution to improve the circumstances through efforts to influence the value of the Canadian dollar in foreign exchange markets. As a result, they maintained that the depression in Canada was not essentially caused by a money crisis but by the aberrations in international commerce. Monetary problems were thought to be the outcome of these instabilities rather than the cause.

At the same time, as a result of the lower price levels for goods and the lack of confidence in stable future price levels and in the market conditions in general, manufacturers tended to decrease their inventories and thereby cut back on their need for credit from the banks. In this way, the bankers explained, the fall in loans to non-farmers had come about, a fall which was not caused by any policy on their part but because of the exigencies of the prevalent conditions. As for the farmers, it was argued that the banks continued to offer credit to those whose circumstances warranted it. At no time would the leading bankers admit that it was their policy to restrict credit. In fact they suggested that they were more prepared than ever to aid any business man who could come to them with a reasonable proposition. The editor of Canadian Business supported the bankers' viewpoint. "The Canadian banks are liquid," he suggested, "not through fear of withdrawals but because of the lack of satisfactory borrowers."[5] Circumstances, however, made it impossible for large numbers of people and firms to fulfil the banks' credit requirements.

The bankers also argued that even before the depression hit Canada they had been advising caution on the part of some sectors of the economy and had attempted to restrain the demands for credit. To one banker this had been an even more unpopular course than that taken during the early 1930's since in the late 'twenties people were obsessed with an over-confidence in their abilities to profit from the expansion of the economy and any efforts by the bankers to curtail individual participation in the expansion was met by strong opposition. Particularly the banks had stressed the need for caution by persons investing in securities, activities which had become significantly influenced by the optimism of the times and for which the bankers considered it ill-advised to grant credit. It had, however, been most difficult to assume the role of a Cassandra.

The accuracy of the bankers' statements in this regard were, however, doubtful. The claim of the bankers that they had advised against over-investment in the late 1920's was not reflected in their loaning business. Late in 1928 and early in 1929, the banks increased their borrowings under the Finance Act, presumably in order to issue more credit. And the volume of bank loans increased in the period. S. R. Noble, an Assistant General Manager of the Royal Bank of Canada wrote in 1937 that "As might have been expected with the boom conditions then existing, the general banking condition was over-extended."[6] No matter how the banks argued during the depression, they could not evade the statistics.

With the coming of the depression, the bankers' first consideration was, as the General Manager of the Bank of Montreal expressed it, "Protecting depositors and conserving the assets of borrowing customers."[7] By and large, the officials of the other banks took the same position. This they claimed to do primarily in co-operation with their borrowing customers who agreed with the need to bring their inventories into line with current prices and marketing prospects, and to extend all their efforts towards making their businesses profitable. For their own part, bankers pointed to the relatively high degree of liquidity with which they had entered the 1930's, and claimed to have sought to maintain that position in spite of adverse pressures. In order to secure their institutions further, most of the banks made transfers from their reserve funds into the hidden reserves which were held against losses on loans. The Inspector General of Banks reported to the Prime Minister early in 1934 that in spite of fears to the contrary on the part of the government and the bankers, these transfers had not created any general unease concerning the stability of the banks.[8]

It must be noted that the bankers saw their policies as essential to combat the effects of the depression. They suggested that, while searching for liquidity in their own assets, and conservative and stable policies in the affairs of their customers, that they also carried on their books many creditors whose affairs were not in the same strong positions that they had been in when the loans had been granted. That so many businesses had been able to continue in operation in spite of the conditions was thought demonstrative of the value of the banks' policies. Similarly, the bankers stated that they had continued to give first consideration to farmers and to carry loans made to this class of borrower even when their circumstances were becoming less attractive. To the charge that the banks had restricted the lending powers which were granted to individual managers, the banks replied that this contention was without basis and that no general changes had been made in the discretionary limits of branch bank managers. Of course it was argued that the banks were not pursuing policies which agreed with these statements, a charge which was met officially by the representatives of the banks in their evidence given before the Commons Committee on Banking and Currency in 1934 through quotations from circulars issued by a number of the banks to their branch managers. These circulars had exhorted the managers to use all possible means to aid their customers bearing in mind while doing so that the safety of the bank's position must be preserved.

The attitude taken by the banks towards public bodies was much the same as that followed with respect to private companies and individuals. The banks again proposed the necessity for economy, and stated their belief that governmental budgets must be balanced, a suggestion in which they were supported by the Committee on Banking and Currency in its report to the House of Commons in 1932. For their own part, the banks claimed that they were attempting to eliminate unnecessary expenses, collect all revenues where these were due, especially through the imposition of service charges on unprofitable accounts and on cheques returned through the clearing houses. They noted, however, that they had deferred reducing the salaries of their employees until they had had no alternative.

But all these factors were regarded by the banks as but atoms in a larger whole, and that only in the aggregation of innumerable contributions to the economic well-being of the nation would improvement be attained. The editor of the Journal of the Canadian Bankers' Association expressed this feeling this way: "Banking, money, credit, industry, commerce and prices are organically interrelated, and these, in turn, cannot be considered without regard to international trade. It is therefore impossible to restore equilibrium to the whole by concentrating efforts upon one of the parts."[9]

For the bankers, not unreasonably, it was prime evidence of the efficiency of their institutions and of the established system of monetary control that the banks had proven themselves capable of fulfilling their functions in times of stress. It was suggested in 1931 by one banker that nothing could be wrong with a banking system which had not suffered a single bank failure in spite of the upheavals.[10] But the depression brought new conditions to Canada and changed the temper of the people towards the banks. The Report of the Royal Commission on Banking and Currency commented on this change:

> The commercial banker has very properly in the past regarded his responsibility as mainly confined to safeguarding the interests of his depositors and shareholders and to making judicious loans and investments with the funds entrusted to him. But it now is coming to be realised that other less obvious but more important responsibilities rest upon the banking system of a country. It must bear a share in trying to maintain stability and to regulate the quantity and flow of credit, it must interest itself in price levels, and in the fluctuations of exchange, in international monetary co-operation--in short, in all the matters which concern national finance. [11]

In the end analysis, too many people were suffering from the depressed conditions, and in looking for the causes of that suffering found in the free enterprise system weaknesses they felt ought to be removed. The ability of the banks to maintain reasonable stability over a long period of time was not sufficient cause for the acceptance of the situation of the early 1930's with the complacent remark that this was but a swing of the pendulum of economic activity to the negative side. This type of explanation was not acceptable after a long period of depression, and the condition of large numbers of people served to ignite smoldering animosities against the banks.

These animosities were largely responsible for the demands which aimed at creating a monetary authority responsible to the nation as a whole. The Royal Commission on Banking and Currency acknowledged "the absence in Canada of any single banking authority"[12] charged with responsibility for national financial matters, for as one commentator on the banking system has observed, the policies of the chartered banks were concerned with "such technical problems as the choice of proper credit risks" the effects of which on total deposits and on interest rates was entirely fortuitous.[13] The failure of the bankers to consider the wider ramifications of this hiatus was one of the more unfortunate aspects of their conduct.

1. H. F. Patterson, General Manager of the Bank of Nova Scotia; Commons' Committee, 1934, App. 2, 372.

2. M. Beaudry Leman, President of the Canadian Bankers' Association; J.C.B.A., 1930-1, 149.

3. Commons' Committee, 1934, App. 2, 350. In his budget speech to the 1932-33 session of the Canadian Parliament, the Minister of Finance, Hon. E. N. Rhodes, commented that "The chief concern of our banks would appear to be the difficulty of finding satisfactory outlets for the investment of their surplus reserves." House of Commons, Debates, 1932-3 Session, 3209.

4. Editor, J.C.B.A., 1934-5, 443.

5. Canadian Business, April, 1933, 21.

6. S. R. Noble, "The Monetary Experience of Canada During the Depression," in A. D. Gayer, ed., The Lessons of Monetary Experience (New York, Farrar & Rinehart, 1937), 118. See also Mark K. Inman, "Experience in Canadian Banking, 1929-1934." Unpublished Ph.D. dissertation, Harvard University, 1937, 357.

7. Commons' Committee, 1934, App. 2, 285.

8. Public Archives of Canada, R. B. Bennett Papers, microfilm; 61979, C. S. Tompkins to Bennett, New Year's Day, 1934. (Hereafter cited as Bennett Papers).

9. Editor, J.C.B.A., 1934-5, 443.

10. M. Beaudry Leman, Ibid., 1931-32, 166.

11. Royal Commission on Banking and Currency, Report, 12.

12. Ibid., 61.

13. R. C. McIvor, Canadian Monetary, Banking and Fiscal Development (Toronto, Macmillan, 1958), 129-30.

V. BANK CREDIT AND THE SUPPLY OF MONEY

Of the functions of the banking system in Canada in the early 1930's, the mobilization of the money supply and the provision of credit were among the more important. Prior to the 1930's, the policies followed by the chartered banks were not associated with the supply of money in the community as a whole. Under the gold standard system there was no necessity to watch closely the banks' conduct since the supply of credit was adjusted automatically through the movement of gold to the demands of the economy. The extreme conditions of the 'thirties precipitated, however, a revolution in the attitudes towards the financial principles prevalent in the business community. There was great interest shown in monetary matters, an interest which led to changes in the manner in which many Canadians approached the question of control of the nation's money supply. Problems involving the volume of money in circulation and the effects of fluctuations in the supply of money became of pre-eminent interest and were the subject of much debate among economists, politicians, and lay people. The banking system, and the conduct of the banks, were, naturally, an integral part of the debate.

There were three main elements composing the money supply of Canada in 1930: Dominion notes in circulation, chartered bank notes, and deposits in the chartered banks which were payable in Canada in Canadian dollars. Although this latter part consisted largely of deposits which were legally subject to notice before withdrawal, for practical purposes they were demand deposits and served as money. Bank deposits made up by far the largest part of the money supply, although many bankers would have denied that deposits were in fact money.

Since the value of Dominion and Bank Notes in circulation at any one time was limited by parliamentary legislation, with the exception of the Dominion Notes issued under the Finance Act, the principal fluctuations in the supply of money tended to take place in the deposits held by the chartered banks. The unfortunate aspect of the situation in Canada was that the banks did not acknowledge any responsibility for these fluctuations. Canadian bankers believed that the volume of deposits lodged in their institutions was determined by the money available within the community and the willingness of individuals to save. According to their thinking, the total of deposits was not dependent on the credit policies followed by the banks. To suggest that it was possible for the banks to create deposits, and therefore money, was anathema to the bankers. "The assertion is made that the banks create credit," one writer noted in the Journal of the Canadian Bankers' Association, and then continued with the claim that "Banks have not the power to create something out of nothing--no man has."[1] Before the Commons Committee on Banking and Commerce in 1934, the bankers were obliged to defend their position, but no essential concessions were made. Mr. Jackson Dodd of the Bank of Montreal did allow that "every bank loan creates a deposit momentarily," but pointed out that the increase in deposits was quickly nullified by the reduction of another loan.[2]

Instead of allowing that bank credit determined the level of deposits, the banks claimed that it was the volume of deposits which determined the level of credit. One writer sympathetic to the bankers' position thought that the banks "provide the reservoirs and channels into which the available funds of the public gravitate," and are then, by gravity, directed "to the depressions. . .where funds are most needed."[3] Mr. Dodds made this clear in an article in the bankers' journal, noting that "it is upon notice of savings deposits that banks depend for funds to lend to borrowers." He voiced contempt for those "whose minds work in reverse" and who believed "loans really create deposits."[4]

Coupled with this unwillingness to acknowledge the ability of the banks to expand the money supply through their loaning activities was the refusal of the bankers to accept any responsibility for control over the total supply of credit. Moreover, the bankers believed that in view of the natural forces at work in the economy, it was unnecessary to try to control the volume of credit. Insofar as the Canadian bankers did have a credit policy in the early 1930's, it was that loans were to be made solely on the merits of individual applications, on what they chose to term the 'legitimate requirements' of the economy, and when this conception of their function is coupled with the belief that the demands of the market determined interest rates, it is evident that the bankers recognised no need to interfere in the normal functionings of the market. For commercial banks this position was unassailable. As commercial banks, the Canadian chartered banks performed commendably. A comparison with their counterparts in other countries demonstrated this. But the effects of the Canadian banks' credit policies on the money supply and on interest rates in Canada was accidental. The banks were, therefore, open to criticism for failing to consider the consequences for the community of their credit policies.

In spite of the bankers' arguments, criticism was heaped on the banks because of their credit activities. In the early 1930's, the total volume of bank loans declined causing charges that it was the policy of the banks to curtail credit. It was thought that the banks were employing funds abroad because of the higher interest rates available there, and that the banks had maintained interest rates at a high level in Canada at a time when low rates were to be desired. The movement of bank funds into more liquid assets, largely first-class securities, was also attacked as detrimental to recovery.

In one respect in particular the effects of the banks' policies came in for severe attack. It was charged that the banks in their curtailment of credit were reducing the general level of prices in Canada. The economist of the Royal Bank of Canada fed this feeling in his letter of February, 1932 when he stated that

> the controlling influence (in the present depression) had been the mismanagement of money and credit. The average price level is determined by the relation of goods and services rendered to the volume of money supply, and the disastrous fall in the general price level would not have occurred had the money supply been properly regulated. [5]

Vancouver bank critic, G. G. McGeer, found this passage useful in attacking the banking system in spite of the fact that the banks did not acknowledge any responsibility for the total money supply.

The banks were equally adamant that their policies were not responsible for the conditions. It was pointed out to the Commons Committee on Banking and Commerce that "the fall in prices. . .was not confined to Canada," and that "in looking to the relationship between the decline of wholesale prices in Canada and the shrinkage of current loans, the latter should be regarded as proceeding from the former, and not as being the cause of it."[6] Similarly the bankers argued that the drop in total bank loans was a result rather than a cause of the depressed conditions. Other factors also contributed to the decline in loans, not least of these being the general desire on the part of business men to evade the repercussions should there be further deflation of prices. Purchases of durable goods decreased as did business inventories as precautions were taken to guard against lower prices. The quest for liquidity was, consequently, general, and was reflected in the lower volume of loans. The banks stressed that they were not restricting credit as a matter of policy.[7] "There is an abundance of money available for sound commercial purposes and credit is not stinted," the president of the Bank of Montreal claimed in 1930.[8]

Nor would the banks admit to having raised their interest charges on loans. When requested by Prime Minister Bennett in 1932 to reply to charges in this respect, the banks had no hesitation in denying the claim that loan interest rates had been raised by the banks.[9] The banks claimed before the Royal Commission on Banking and Currency that "it has been the aim of the Chartered Banks to maintain rates of interest at a steady rate," so that borrowers could "make their commitments without fear of their interest costs being subject to violent fluctuations."[10]

At the same time, however, the investments of the chartered banks in securities were being increased, and this increase drew criticism on the banks. Again the banks argued that they were the victims of the conditions. It was pointed out to the Commons Committee on Banking and Currency by Mr. Dodd of the Bank of Montreal that the increase in bond holdings which was a feature of the banks' assets statements was something which the banks did not desire. He pointed out rather effectively that the banks stood to profit more from the employment of their funds in loans than they did in most securities.[11]

The charge levelled against the banks that they were investing funds in the New York money market which should have been employed in Canada was also vehemently rejected by the bankers. In their rebuttal of the charge, they suggested that their affairs necessitated the maintenance of a portion of their assets in liquid form and that the New York call loan market provided the best possible means of doing so. But only the minimal amount of money was employed in this way, a policy which the banks claimed was not only costly to the banks in terms of earning power, but which was one which aided the Canadian economy by keeping the maximum amount of money available to Canadian borrowers. The president of the Bank of Montreal pointed out at the end of 1929 that the banks had had the opportunity to invest funds for long terms at high rates of interest in New York but had declined to do so as a result of which "every legal need of this country was taken care of at much lower rates than prevailed in the United States."[12]

In these circumstances, the lack of an institution charged with controlling the monetary supply of Canada had unfortunate consequences. At a time when every available resource ought to have been employed to stimulate the banks' loaning capacities and to increase the volume of money in circulation, the supply of credit was being contracted. To the charge that they were constricting loans through tightened credit requirements the banks replied that they were employing normal credit standards and were continuing to cater to the justified needs of business. They repeatedly denied having a policy aimed at reducing loans. But the effect was, none the less, that the total volume of loans was declining since fewer individuals and businesses found it possible to meet the banks' requirements.

The key to the situation lay not with the banks, but with the Canadian government. The instrument at hand was the Finance Act. In spite of the fact that the Treasury Board was empowered to administer the provisions of the Act, that body was averse to influencing the amount of notes which the banks chose to take up under the Act. The Board failed also to manipulate the interest rate in order to stimulate or retard the volume of bank credit, and although the claim was made in evidence given to the Commons' Committee on Banking and Commerce in 1928 that the rate was changed in response to the general movement of interest rates on the New York call loan market, there is no evidence that this was in fact the case in the early 1930's.

The banks, however, chose not to utilise the facilities provided by the Finance Act. Although the Department of Finance could have influenced the actions of the banks, there was no guarantee that the banks would have co-operated fully. This state of affairs was made clear in November, 1932, when the chartered banks were required to borrow $35 million under the Act, but chose subsequently to reduce their indebtedness to the government to this minimal level rather than expand their loaning business. Consequently the anticipated expansion of money did not take place. The fact that it had been necessary to virtually force the banks to take up the $35 million was, too, indicative of the inadequacy of the arrangements to provide machinery for the regular manipulation of the money supply. As a means of contracting the money supply the Act was also powerless since the chartered banks did not rely on borrowings under the Act to any extent, a tendency forced on them because any Finance Act borrowings were for short terms only, and it was generally accepted among bankers that loans under the Act were a sign of weakness within the bank borrowing.[13]

The conduct of the Treasury Board and of the Ministry of Finance reflected the "orthodox" financial policy followed by the Canadian government in the first part of the 1930's. Essentially the Bennett administration stood by the conservatism of the chartered banks, and looked on the proposals to make changes in the monetary system as nothing short of immoral. The stalemate in monetary control which was the outcome of this situation was resolved only by the repeal of the Finance Act and the creation of the central bank.

1. R. J. Deachman, "Credit and Money," J.C.B.A., 1934-5, 495.

2. Commons' Committee, 1934, App. 2, 348.

3. E.L.S. Patterson, Canadian Banking (Toronto, Ryerson, 1932), 16.

4. Jackson Dodds, "Banking and Currency," J.C.B.A., 1932-3, 305.

5. Financial Post, Sept. 2, 1933, 13.

6. H. F. Patterson, Commons' Committee, 1934, App. 2, 374.

7. Bennett Papers; 61987-91, Canadian Bankers' Association to Bennett, Feb. 12, 1932.

8. Bank of Montreal, Annual Report, 1930, 6.

9. Bennett Papers; 62040-5, Canadian Bankers' Association to Bennett, March 18, 1932.

10. Royal Commission on Banking and Currency, Proceedings, 3281; quoted R. C. McIvor, Canadian Monetary, Banking and Fiscal Development (Toronto, Macmillan, 1958), 129-30.

11. Commons' Committee, 1934, App. 2, 336.

12. Bank of Montreal, Annual Report, 1929; quoted J. Castell Hopkins, ed., The Canadian Annual Review of Public Affairs (Toronto, Canadian Annual Review Company, 1930), 1929-30, 670-1.

13. An official of one of the banks noted later that "During this period (1929-32) two of the larger banks had not found it necessary to borrow (under the provisions of the Finance Act) and, as a result, invidious comparisons were being made at the expense of those who were borrowing." S. R. Noble, "The Monetary Experience of Canada During the Depression," in A. D. Gayer, ed., The Lessons of Monetary Experience (New York, Farrar & Rinehart, 1937), 119.

VI. THE BANKS, FOREIGN TRADE, AND FOREIGN EXCHANGE

Prior to the establishment of the Bank of Canada, the chartered banks provided the sole machinery in Canada for the making of transactions in foreign exchanges. Consequently they were deeply concerned with the exchange value of the Canadian dollar and with the factors which determined that value. The amount of attention given trade and foreign exchange questions in the annual reports of the banks was indicative of this interest. The banks, however, were not alone in this respect, for many other groups shared their concern. In the first part of the 1930's, the exchange value of the Canadian dollar in international markets commanded a great deal of attention from most sectors of the economy, and provided the topic for a large part of the discussions of the time. Of course this was a matter which concerned a very large number of people. There were few business men or farmers not dependent to some extent on the export trade. Involvement on the part of Canadians in questions relating to exchange matters was heightened by the fact that statements were being issued regularly by various bodies attributing the depression to causes which had their sources outside Canada. To these statements, the bankers were contributors.

It was not always clear what role the Canadian chartered banks played in Canada's international dealings. The usual concept, held in common by the bankers and most men involved directly in commercial activities, was that the banks dealt in foreign exchange and generally aided the conduct of Canada's foreign trade without having any real control over the total volume of transactions or the market value of the

Canadian dollar. The matters, it was thought, were determined by "world conditions." Hence Canadian bank officials saw their role as that of purchasers of foreign exchanges for importers and debtors with obligations abroad, and as sellers of exchange for exporters. They believed themselves to be middlemen or agents. Their dealings in foreign exchange on their own account was thought of limited moment in determining exchange valuations. In any event, Canadian transactions were insignificant in the world trading arena. President S. J. Moore of The Bank of Nova Scotia synopsised the nation's position of dependence on external conditions and Canada's relative impotence in determining those conditions in his report for 1930. "We are all of us dependent on a world market," he claimed. "We cannot have a healthy condition of prosperity here unless those to whom we sell are also prosperous."[1] Hence the chartered banks were always dubious of the value of a central bank as a force in international dealings. The banks saw their own offices abroad as aids in performing the functions of exchange as well as providers of information to Canadian exporters and as aids in the bringing of new business to Canada. They did not view them as vital factors in the determination of currency values in international markets.

Having the concept of an impersonal world exchange market, the bankers denied responsibility for foreign exchange and trade conditions. Opinion outside the banks was not, however, in full agreement with this opinion. There was deep unease in some circles within Canada about the operations of the foreign exchange markets and the consequences for Canada of those operations. This unease was explicit in much of the evidence given before the Royal Commission on Banking and Currency in 1933, for example, that of the City of Calgary which was disturbed with the exchange rate of Canada's dollar, and questioned the role of the chartered banks in exchange operations and in gold transactions.[2] The vagueness of the knowledge held about the nature of the exchange markets and of the factors which determined the value of Canada's dollar abroad appears to have stimulated distrust of the existing situation.

There were two proposals which dominated the suggestions made by those interested in the topics of exchange and trade. One was that it would be most helpful if the exchange value of the Canadian dollar could be stabilised. It was generally believed that the extent of Canada's exports had been curtailed severely because of exchange fluctuations which made both sellers and buyers reluctant to trade. The uncertainties in the rates of exchange were immediately translated into uncertainties in trading circles. Either the seller or the buyer was hurt by exchange fluctuations, and the dread of changes consequently retarded trade. Canadian Business thought that "world trade has been choked by the gyrations in exchange."[3] The bankers were prominent too in suggesting the importance of exchange stability, but differed from many who shared this conviction in that they maintained that Canada could do little to bring about stability through management of Canada's exchange transactions.

The second popular proposition was that the immediate trade and exchange problems facing Canada could be resolved by the deliberate devaluation of the Canadian dollar. It was claimed by those who supported this proposition that the chief advantage to be gained was that of increased exports due to the lowering of costs to foreign buyers, and that greater revenues in Canadian dollars would be obtained because of the higher exchange value of foreign currencies in terms of the dollar. The chief stimulus to this proposal came from within the Prairie grain trade, and wheat producers pointed out to the bankers that devaluation would enable them better to pay off their debts to the banks. For the proponents of the devaluation idea. the arguments supporting the plan were straightforward, as was evident in the presentation of the Viking Service Club of Winnipeg to the Royal Commission on Banking and Currency. The Club thought that since "our chief competitors, Australia and Argentina, are operating at a currency considerably below ours, we are at a great disadvantage in the export market."[4] Variations on this theme were popular throughout the Prairies.

On few matters were the bankers more vociferous than in their opposition to devaluation. Moreover, they were not alone in holding that opinion; the World Economic Survey of 1932-33 of the League of Nations also stated concern about the effects of devaluation.[5] The Canadian bankers saw little but evil, or misguided intent, in a movement to devalue the dollar, as they feared that such a move would hurt Canada's credit abroad at a time when she was still largely dependent on foreign capital sources. "Among the supports to be maintained in good condition is our national credit," one banker suggested in 1932.[6] The federal government took the same position as did many provincial and municipal governments which had obligations to meet outside of Canada. The banks pointed out also the additional strain which devaluation placed on the payment of interest on debts payable abroad, and doubted the validity of the idea that export revenues would be immediately raised by a fall in the value of the dollar. Bankers feared that once depreciation of the dollar had been started it could not readily be stopped, or that other countries would depreciate their currencies in retaliation, thereby causing a universal competitive devaluation of currencies.[7] On top of these arguments was a sentiment among businessmen and government leaders that deliberate depreciation of the currency would be immoral.[8]

The bankers proposed that to uphold the position of Canada and her currency in international markets exports must be maintained, imports limited, including imports of capital, and devaluation of the dollar rejected. The demand for a favourable balance of international payments on current account transactions was believed by the chartered banks to be essential since current account deficits would mean either that Canada would have to import capital from abroad, or that Canadian exchange and gold holdings in other countries would have to be reduced.[9] It was pointed out, too, that there was a possibility that loans could not be floated abroad under the prevailing conditions, or that when possible to find a supply of capital it would be obtainable only at a higher rate of interest. Already, the bankers claimed in 1931, Canada was handicapped by a large indebtedness to other countries which caused a costly drain on her reserves of foreign exchange and gold, and that this drain could not be continued without great cost to the Canadian economy.

The fears of the bankers were largely realised when, in 1931, the deficit in the current account transactions led to a decrease in the external holdings of the chartered banks and to a fall in the exchange value of the Canadian dollar. However, the depreciated dollar appeared to enable greater export revenues to be realised than might otherwise have been the case and, as some bankers admitted, gave American manufacturers an incentive to invest directly in Canada. Most important was the fact that the large Canadian indebtedness to other countries involved with the depreciation in the value of the Canadian dollar and even greater drain on Canadian exchange reserves which could not be offset by the higher revenues realised. According to the president of the Canadian Bankers' Association, M. Beaudry Leman, the imbalance in foreign exchange "put an overstrain on our gold holdings which they should not be called upon to bear."[10] Moreover, numerous public bodies were concerned with their position and voiced their discomfort at having to meet foreign interest payments when the Canadian dollar was depreciated in value.[11]

The proposals made by the bankers to meet these problems were in keeping with their conservative rationale. They suggested balanced budgets, mild austerity as conditions made this possible, and diligent attention to public expenses. Outside Canada they wished to see international co-operation, but they did not believe that a Canadian central bank could contribute to such co-operation and they claimed that they themselves were helpless. They called also for the removal of trade barriers and all forms of economic nationalism, and insisted on the need for the return to the gold standard. In addition, the bankers defended their own role in the international money markets. As one banker expressed it, "Canadians are not handicapped by the method now followed in buying and/or selling their exchange."[12] However, the supporters of a central bank opposed these ideas in large part, and argued that centralised control of exchange matters in Canada would aid in the formation of a viable and valuable foreign exchange policy and of a role for

Canada in co-operative international financial undertakings. This latter suggestion pre-supposed that world trading conditions could be changed through the participation of Canadian institutions, a supposition which, of course, the bankers rejected.

The dilemma which faced the chartered banks and the Canadian government was particularly acute after the removal of the pound sterling from the gold standard in September, 1931, and the subsequent depreciation in the value of the Canadian dollar. Faced by considerable political pressure, but fearing with the bankers the repercussions in foreign capitals to any move which would artifically change the value of the dollar, the Canadian government elected to wait out the crisis, and was rewarded in 1933 when the dollar rose along with the pound and regained in that year an approximation to its former value.[13] However, in spite of what might have been considered a fortunate turn of events for the chartered banks, the Report of the Royal Commission on Banking and Currency recommended that a central bank be established, numbering among its reasons for so proposing that such a bank would be important "In the control over the external value of the monetary unit," and would aid in promoting international monetary co-operation.[14] Essentially this constituted a rejection of the arguments of the banks and reflected the general opinion of the early 1930's that some form of formal control of Canada's foreign exchange dealings ought to be instituted to replace the inadequacies of the system in vogue under the banks.

1. The Bank of Nova Scotia, Annual Report, 1930, 9.

2. Royal Commission on Banking and Currency, Proceedings, 732.

3. "How's Business," Canadian Business, Oct. 1933, 21.

4. Royal Commission on Banking and Currency, Proceedings, 1883. See also, speech of Mr. G. G. Coote, House of Commons, Debates, 1931 Session, 2343.

5. C. M. Short, "Exchange Depreciation and Trade," J.C.B.A., 1934-5, 223.

6. Mr. S. H. Logan, General Manager, The Canadian Bank of Commerce, Annual Report, 1932, 25.

7. Mr. J. A. McLeod, General Manager, The Bank of Nova Scotia, Annual Report, 1932, 20-1.

8. S. R. Noble, "The Monetary Experience of Canada During the Depression," in A. D. Gayer, ed., The Lessons of Monetary Experience (New York, Farrar & Rinehart, 1937), 122.

9. M. Beaudry Leman, J.C.B.A., 1931-2, 163.

10. Idem.

11. For example, the City of Victoria, B. C.; Royal Commission on Banking and Currency, Proceedings, 259.

12. Editor, J.C.B.A., 1931-2, 299.

13. A. E. Safarian, The Canadian Economy in the Great Depression (Toronto, University of Toronto Press, 1959), 93.

14. Royal Commission on Banking and Currency, Report, 63-4.

VII. THE CENTRAL BANK CONTROVERSY

A signal feature of the 1930 to 1935 period was the interest shown in the establishment of a central bank in Canada. The debate over this matter was a particularly acriminous one which held the attention of many people for a considerable period of time.[1] The heatedness of the argument was in part a cause of the deep interest, but of even greater moment was the conviction of many people that on this problem depended in large part the future prosperity of the economy. Monetary problems and banking assumed, for a period of time in the early 1930's, a prominence not usually attained, and bankers gained an uncommon and equally unwelcome notoriety.

It was not, however, a new experience for Canada to witness demands for a central banking institution, and as the depression prolonged and the persuasion of the vital role of monetary matters in causing that prolongation became more widespread, the thought took form that financial leadership other than that provided by the banking system under the Bank and Finance Acts was necessary. Resolutions in favour of basic changes in the financial machinery of the nation were general. Typical was that of the Guelph Trades and Labor Council passed on March 2, 1933, which stated that the Council was "in favour of placing the issuing of currency in the hands of the elected representatives of the people of the Federal House and taken out of the hands of the banking monopoly."[2] For a large section of the people, it was obvious that the existing system had failed, and that the "sine qua non" of recovery was to bring about a change in the management of financial affairs.

The demands for a central bank which culminated in the establishment of the Bank of Canada in 1935 did not visualise the central bank as an end, but as the means to an end. The arguments for and against a central bank therefore had two aspects. On the one hand, there was the question of the end in view, whether that end was worth while and attainable under the economic conditions of the depression. On the other hand, there was the question of whether or not a central bank was indeed the best method of attaining the end in view.

The basic quest of those advocating reform of the banking system was to establish a sound monetary unit. It was proposed that this could be achieved through the setting up of machinery to maintain the value of the Canadian dollar at a relatively stable level both within Canada and in foreign money markets. The chartered banks agreed that this was an honourable goal. Differences occurred in the means proposed to attain these goals and, indeed, on whether or not the goals could be obtained through human interference in monetary matters. The depression had not existed for many months before it had become the conviction of many observers that the lack of an authoritative managing body was detrimental to both the control of the money supply and the exchange rate for Canadian dollars. The victimisation of many by the depression had helped convince large numbers of people that blame was at least in part to be found in the lack of leadership. As one writer later commented, "experience would have taught us nothing if, as a result of the last seven years, we do not conclude that positive action from a monetary point of view is the first essential in controlling excesses of both boom and depression."[3] That conclusion was not uncommon early in the decade of the 'thirties. The persistence with which both the federal government and the bankers advocated a "wait and see" policy which negated the giving of positive leadership alienated those demanding change.

The advocates of change proposed that the chief means by which the value of the Canadian dollar could be stabilized was by the manipulation of the supply of credit in Canada. Working from the contention that the general price level depended on the supply of money available within the community, the velocity of circulation remaining fairly constant and in any event largely unmanageable, it was argued that by instituting a carefully managed supply of credit, control could be maintained over the level of prices. The basic argument of some was that in times of boom, it was the function of monetary leadership to curtail the flow of money by putting slight restrictions on the volume of credit available. In this way the expansion of the economy would be stabilised and kept within manageable limits. On the other hand, it was proposed that in times when business activity was in a decline it was desirable that credit should be stimulated and the money supply increased so that greater activity might take place and business recovery be facilitated. However, instead of this balancing effect being performed in Canada, it was proposed that the Canadian monetary system, depending, of course, in large part on the activities of the chartered banks, tended to increase the supply of credit--hence of money--in times of business expansion and optimism when a check should be kept on the supply of money and, conversely, to curtail credit in times of recession when credit ought to be being stimulated. Therefore, argued the opponents of the chartered banks, the Canadian credit system tended to exaggerate difficulties rather than to alleviate them. In a similar way, through the purchase and sale of currency reserves, the value of the Canadian dollar could be stabilised on international exchange markets.

To these contentions Canadian bankers were almost universally opposed. They simply refused to acknowledge first the connection between the volume of bank credit in the community and the supply of money, and second, the connection between the total supply of money and the general price level. In the former matter, the bankers reasoned that they loaned out to borrowers the money which had been loaned to them by their depositors. Loans were only possible if the banks had deposits of the same or greater amounts, and none of the expositions of the theory of the multiple expansion of deposits could dislodge them from this position. In the second matter, that of the connection between the level of prices and the volume of money in circulation, the bankers likewise rejected all the theories by suggesting that the level of prices in Canada was determined by the supply of commodities and the demand for them and not by the banks' credit activities. It was pointed out by the bankers that in any event it would not be possible for the central bank to control credit because there was not an established money market in Canada, and little chance that one would develop in the immediate future. And while the chartered banks had recourse to the New York money market, this source prevented a Canadian central bank from controlling the money supply through direct market operations.

The Canadian chartered banks were also opposed to bringing the note issue of Canada under one institution. The adequacy of the existing system was pointed out, especially the flexibility with which the volume of bank notes outstanding adjusted to needs. The position of the chartered banks on this question was stated by the Assistant General Manager of the Bank of Montreal, Mr. Bog, in 1934. "Canadian bank notes," he observed, "are issued only as business activity requires and when the immediate need is filled the notes flow back to the banks and are redeemed."[4] The bankers feared also that giving the note issue to a politically controlled body would lead to misuse of the privilege, especially if the volume of currency issued was not dependent on an adequate gold reserve. Particularly the banks dreaded inflationary actions. "If there is one fact in finance more firmly fixed than another," warned Sir Charles Gordon, the President of the Bank of Montreal, "it is the certainty that the unrestricted issue of paper currency culminates in disaster."[5] The bankers noted also that their notes provided an inexpensive currency medium which was highly regarded at home and abroad. Moreover, the provision of services in many of Canada's smaller communities was possible only if the banks could continue to enjoy the revenues which resulted from the note issue. The banks thought also that the high regard which Canada's currency system held abroad might be jeopardised by the issue of larger volumes of Dominion notes without a corresponding increase in gold reserves.[6]

In addition, there were a number of other factors which divided the supporters of a central bank from those who opposed its formation. Usually these tended to take the form of attacks on the existing banking structure, on its inadequacies in certain respects. One such question was that of government monetary management. To the supporters of a central bank, such a bank was visualised as a means of performing the important functions of managing the government's debt and of providing the government with expert and unbiased advice on monetary matters. The banks, of course, responded to these suggestions by pointing out that the chartered banks already performed these functions admirably at minimum cost to the government. To introduce a radical new concept was, it was claimed, an extreme and risky, and possibly very costly solution to what were relatively minor problems.

To such claims by the bankers, it was suggested that a central bank would not constitute such a thoroughgoing revolution as was alleged, but would simply provide an institution which would co-ordinate the functions of the financial system of Canada as it existed in a way increasingly common in economically matured nations. A central bank, it was suggested, would enable economies to be effected in the holding of gold reserves in Canada, and would thereby make more effective use of the nation's resources in gold. It would also facilitate the administration of banking legislation and generally rationalise the management of financial affairs in the country.

The banks, however, remained unconverted by these arguments. The central bank represented an intrusion into an arena in which they had successfully conducted the financial battles of the nation for many years. Even the strongest supporters of the idea of a central bank acknowledged the merits of the facilities provided by the existing system which would be usurped by the creation of a central banking institution. The editor of Canadian Business thought many Canadians "pondered that under the present system his deposits were safe, his dividends came in regularly; he obtained loans when reasonable collateral could be supplied;

and so he continued to doubt the value of introducing a disturbing factor into the situation."[7] The chartered banks continued with a long list of reasons which spoke against a central bank. It would involve Canada in additional new administrative expenses which were unnecessary. Minor alternations in the existing system could be made without risking major changes. And there was the undeniable fact that the time was not conducive to alterations. Economic conditions were worse than ever before in Canada. To lop off an established system and graft on a new part at such a time seemed to many to be folly indeed. Why not, the bankers suggested, await a more opportune moment.

The bankers also expressed their doubt about the efficacy of central banks. While the supporters of the central bank concept claimed success for other central banking systems, the chartered banks and some other sectors of the business community found cause to question these claims.[8] "We know from the recent economic history of the United States," suggested the General Manager of the Bank of Montreal at the end of 1931, "Something of the impotence of a Central Bank in maintaining a stable price level."[9] Moreover, the bankers continued, a central bank would become the tool of the political party in power and consequently would act with political goals in mind rather than with the economic interests of the nation foremost. Also, if the bank should fail to bring about the promised Utopia, the psychological reaction among Canadians would be most harmful. The bankers suggested, too, that it would be impossible to find capable management which could command the respect of the business community necessary for the success of such an institution. Bankers were concerned also that if a central bank were established they would be required to keep reserves on deposit with it. This would, of course, cut into the revenues of the chartered banks since the reserves would be unproductive. The banks argued that the depositing of funds with the central bank would also curtail the resources available for loan, and would weaken the position of the banks since the reserves would not be available to the banks in emergency.

The bankers were correct in thinking that it was not the opportune time to introduce a central bank. But they were correct only from the economic standpoint. Politically the times were favourable. The country was ready for a change in the banking system. The Prime Minister and the Leader of the Opposition supported a central banking institution for Canada in 1933, though both had earlier opposed the idea. In 1931 Mr. Bennett had felt that "to set up a Central Bank would not do a single thing beyond what we are doing now through the operations of the Finance Act."[10] In 1933, both were reflecting popular opinion. Many people felt that the banks had failed in the time of trial, that in part the inadequacies of the banking system were to blame for the prolongation of the adverse conditions. The result of such sentiments was the growth of the feeling that the banks were private institutions which acted on purely selfish, profit-seeking motives which made their interests antagonistic to those of the community. The arguments of the bankers served only to deepen that antagonism, and, led by the carefully developed theses of the economic theorists, popular opinion had by 1933 accepted the principle that some form of socially conscious institution responsible for monetary policies was necessary. A central bank came to represent the socially responsible instrument which they desired.

A resolution of the Teachers' Federation of Vancouver is indicative of the sentiment of the times; it read, "We think perhaps that the control of the monetary system should be in the hands of a central national bank, directed in the interests of the whole of the people, rather than in the pursuit of private gain."[11] Many people were also feeling as was A. J. Glazebrook of the University of Toronto when he noted that the "psychological effects on the Canadian people of the establishment of a central bank would be very valuable."[12]

The position of the banks in the central bank controversy was essentially a defensive one. It was almost inevitable that central banking was to come to Canada. All of the great Western nations, from which in large part Canada drew her inspiration in other respects, had accepted the institution. To argue that Canada's peculiar circumstances warranted a peculiar banking system was a rearguard action. Like most economic institutions which operated under the "laissez-faire," minimum intervention principles, the Canadian banking system needed fair weather in order to prosper. In the early 1930's, the only criteria available to the public, that of success or failure, condemned the banks. A central bank appeared to offer the only alternative.

1. Not everyone was convinced that there was a valid debate. One author, writing in the Canadian Forum shortly after the publication of the Report of the Royal Commission on Banking and Currency, talked of "The elaborate sham battle over a Central Bank." Earlier, in the same magazine, the editor had argued that "The financial powers which control our present system will also control the central bank." The contention of the Forum was that the opposition of the chartered banks to the establishment of a central bank was window-dressing. See J. A. Westman, "Wanted--A Bank Investigation," Canadian Forum, Dec. 1933, 89; also Ibid., Nov. 1933, 43-4.

2. Bennett Papers; 62184, Guelph Trades and Labor Council to Bennett.

3. S. R. Noble, "The Monetary Experience of Canada During the Depression," in A. D. Gayer, ed., The Lessons of Monetary Experience (New York, Farrar & Rinehart, 1937), 128.

4. Bank of Montreal, Annual Report, 1934, 11.

5. Ibid., 1932, 6.

6. J. A. McLeod, "The Present Working of the Canadian Banking System," J.C.B.A., 1933-4, 34; Bennett Papers; 63366, memorandum of the Canadian Bankers' Association to Bennett concerning the retention of note issue privileges by the chartered banks after the establishment of a central bank.

7. Canadian Business, Dec. 1933, 11.

8. See especially the president of the Canadian Bankers' Association, J.C.B.A., 1934-5, 184.

9. Bank of Montreal, Annual Report, 1931, 9.

10. House of Commons, Debates, May 13, 1931, 1691.

11. Royal Commission on Banking and Currency, Proceedings, 664.

12. Financial Post, Sept. 23, 1933, 14.

VIII. THE BANKS, INDUSTRY, AND COMMERCE

Canadian industrial and commercial interests shared the misfortunes of other sectors of the economy during the depression though the extent of decline in activity varied considerably among the various parts. The gross value of production of manufacturing fell from the 1929 level of $3,841 million to $1,953 million in 1933, and other sectors of industry declined in much the same manner.[1] Fixed capital investment in industry is estimated to have decreased from $224.5 million to $42.0 million in the same years, while current assets in goods in progress and finished goods on hand fell from $878.8 million in 1929 to $608.9 million in 1932.[2] Commercial activities showed similar declines and reflected the overall decline in business transactions. In these circumstances, it was to be expected that companies pressured because of the depressed business conditions would curtail their activities and retrench, cutting back on production, on inventory holdings, and on operating costs. In many instances these were the courses followed. However, the majority of firms seem to have accepted that their affairs were not suffering because of any failure on the part of the banks, but as a result of world conditions and the dependence of the Canadian economy on those conditions.

Generally, manufacturing and commercial businesses were not critical of the conduct of the Canadian banks. There is surprisingly little evidence on record of complaints of ill-treatment from these sectors of the economy. "Our relations with the Banks have been very happy," thought a representative of the meat packing industry in Alberta.[3]

In British Columbia, the canned salmon industry had had "satisfactory experience,"[4] and in New Brunswick, the Forest Products Association complimented the chartered banks on their contribution to the welfare of the nation.[5] The Canadian Chamber of Commerce, after circulating its members across Canada, reported that it was the basic view of its members that "our banking system has stood Canada in good stead and more particularly so in these latter days, when there has been so much uncertainty and apprehension among businessmen."[6] As a result, few businessmen were in favour of any drastic revision of the banking system, the New Brunswick Forest Products Association suggesting that "It seems unnecessary and dangerous to meddle with or change a banking system that has so successfully stood the very severe test to which it has been subjected by world conditions of the past four years."[7]

In spite of the general satisfaction, there were instances of complaints from various sectors of the industrial and commercial communities concerning specific shortcomings in the conduct of the banks. La Commission des Produits Forestiers de Quebec, for example, felt that its members received credit "at reasonable rates of interest,"[8] while the New Brunswick Forest Products Association was not satisfied that the rates being charged by the banks could not be reduced. It was suggested by this latter organisation that the reduction in the banks' earnings which a lower rate of interest would cause could best be absorbed by reducing the dividends paid to shareholders.[9] One marketing organisation suggested that bank interest charges should be tied to the rate of interest paid on savings deposits,[10] but on the whole, the criticisms of the bank interest rates were not extreme.

A more pressing problem in the opinion of the Quebec Association was the demand occasionally made by the banks for the sale of goods assigned to the banks as security under "Section 88" of the Bank Act.[11] It was pointed out that in taking this action, the banks often obliged lumber merchants to reduce their stocks at a time when market conditions were unfavourable, and the banks' demands led to a further glut on an already over-supplied market. This complaint was voiced by other industrial concerns but, on the other hand, some business organisations recognised the necessity for the course adopted by the banks and the merit of their requiring reduced inventories and lower production. The chartered banks agreed that they had suggested to some of their debtors that inventory stocks must be reduced in order to liquidate outstanding loans, but denied that this could be regarded as a policy among the banks. The chartered banks had not co-ordinated their policies in this matter, but tried to assess the merits of each borrower's position and advise the course to be followed in the light of prevailing conditions and the prospects for the future.[12]

On the question of the availability of credit, opinions again differed with the majority feeling that the banks were providing adequate facilities in this regard. L'Association de Chaussures de Quebec stated that "Manufacturers cannot say that credit has been unduly withheld by the banks," and suggested that the banks had maintained credit levels whenever conditions had warranted their doing so.[13] One representative of the Quebec lumbering industry complained that the banks had granted too much credit to that industry.[14] Many companies supported the claim of the banks that the decline in total credit outstanding which took place in the early years of the depression was due to lower inventory values and lower demands for credit, while in some sectors companies admitted that their affairs and the prospects of their individual companies did not warrant the granting of bank loans. Such was the attitude of most persons involved in the mining industry. A representative of the banks appearing before the Macmillan Commission noted that mining enterprises "do not ordinarily call for bank credit," a claim which was substantiated from within the industry.[15]

But there were those who disagreed with these suggestions. The Calgary Board of Trade, while on the whole not opposed to the conduct of the banks, was concerned that the banks' assets were being directed to an unprecedented extent into holdings of Provincial and Municipal securities at the expense of commercial borrowers.[16] Lord Beaverbrook was also critical of the banks. He suggested in a letter to the Shareholders Protective Association of the Price Brothers pulp company that if the banks did not provide the funds necessary for the reconstruction of that company they should not have their charters renewed. Issuing credit, he proposed, "is the purpose for which they exist." Having failed to fulfill that function, they should be discontinued.[17] The National Construction Council of Canada, representing an industry most severely hit by the depression, was not so extreme as Beaverbrook. Though expressing satisfaction with the over-all conduct of the banks, the Council felt that in such depressions as then prevailed the state should step in and stimulate industry by making credit easier to obtain and less costly.[18] The Council noted an "almost complete absence of co-operation between the financial institutions of the country and the construction industry" in the matter of credit facilities.[19]

In spite of these adverse comments and suggestions, industrial and commercial concerns were generally prepared to accept the credit policies of the chartered banks. A similar attitude marked their response to the questions of foreign trade and exchange rates. A large number of companies suffered, of course, because of a decline in their exports, a trend often due to the fluctuations in the value of the dollar. However, there was no strong body of opinion within industry and commerce which laid the blame for this on the banks, it being generally held that exchange vacillations were beyond manipulation by Canadian institutions.

The sympathetic understanding of the banks' position in this matter which was evidenced in the conduct of industry and commerce helped maintain a good relationship between the two groups. The banks responded to the situation with somewhat more in the form of paternal advice than was usually the case. Several bankers accounted for the relatively strong position of many businesses by noting the self-control which had prevented the over-investment in capital expenditures during the optimistic years of the 1920's, a self-control which the bankers thought was especially rewarding in the 1930's when the carrying charges on loans would have been most demanding.[21] The bankers suggested also that companies were following a good policy in reducing their inventories and curtailing production to reflect retractions in market demands. The banks thought, however, that industry should not revert to reducing the wages paid to its employees except as a last resort.[22] Apparently it was considered best that buying power should be maintained.

In their own response to the business community, the banks maintained that they were aiming at giving the maximum aid possible under the circumstances bearing in mind the obligations of the banks to their own depositors and to their shareholders. They maintained throughout the early 1930's that their relationship was a good one, and attributed this not only to the reasonable conduct of industrial and commercial firms, but to the fact that the banks had not allowed themselves in the past to become involved in the financing of long-term undertakings. It was noted by one banker that "our banks and financial institutions have not had their resources tied up in frozen loans," and consequently were not affected greatly by the cut back in production and the lower sale of manufactured goods.[23]

One of the few business groups which did cause deep concern to the bankers in the early 1930's was that of the investment dealers. The latter were, of course, dependent to a large extent on the banks to carry their security portfolios, and the volume of loans for this purpose declined considerably following the collapse of the New York Stock Exchange in October, 1929. The Canadian bankers consistently denied responsibility for the adverse trends which characterised the stock markets after that date, and pointed out that it had been their practice even before the crash to advocate caution on the part of those dealing in securities.[24] When it was suggested that the chartered banks had made it their policy after the crash to curtail loans on the security of stock, the banks denied the charge. They suggested that they had continued to consider each application for credit on its own merits and had not called existing brokers' loans but simply required each borrower to maintain the margin requirements agreed upon when the loan was granted.

The bankers did admit, however, that faced with the unsteady securities market of 1930 and 1931, they had instructed their branch managers to use restraint in granting new loans.[25]

There is no doubt that the bankers felt that they had performed their responsibilities to the investing public well. They claimed to have "gone along" with accounts when they could have realised on the collateral held, and one banker noted that his own bank had retained some bonds of the City of Calgary even after these had defaulted and numerous creditors were suing the city. Again the banks noted that they had supported the pegging of stock prices on the Montreal and Toronto Stock Exchanges in order to aid in the stabilization of the market.

Another lengthy and heated discussion took place between the bankers and the investment dealers concerning the role of the chartered banks in handling security transactions. The banks, of course, held a considerable volume of securities for their own account, and an increasingly large part of their assets was employed in this manner. They also acted as agents for persons wishing to boy and sell securities, and this business they usually routed through investment brokers. What concerned many critics of the banks was that the banks were becoming involved in selling securities directly from their own holdings, and it was argued that the position of trust held by the banks would be violated at public cost by their doing this. In this claim, there was the inference that by dealing in securities as principals, the banks could unload on unwary investors securities which the banks had obtained in the liquidation of loans and which might not command an attractive price on the open market. A small investment company complained in 1934 of the "Scandalous instances of banks taking advantage of their position in high grade securities."[26] It was also suggested that the banks ought not to lend their names to new issues of securities nor participate in underwriting bonds since these activities could carry to the public a false impression of the merit of the issues involved. In spite of the objections raised, however, the Royal Commission on Banking and Currency had no recommendations to make in these matters in its report.

Some complaints were also received by the banks from representatives of insurance companies who claimed that the banks were intruding into their business by recommending to their customers that insurance should be placed through certain agencies. Since the banks appeared to favour companies associated with the banks through the major trust companies, the insurance agents were disturbed and thought it desirable that bank managers be restrained from recommending any particular agency. It was pointed out, too, that the insurance business was a specialised occupation in which the bankers did not have the experience necessary to give good advice. Again no action was recommended by the Royal Commission on Banking in answer to the complaints.

That there should have been a good relationship between the banks and other businesses was, of course, desirable from both the bankers' and the non-bankers' viewpoint. Managing Director C. E. Neill reminded the annual meeting of the Royal Bank of Canada in 1929 that "The continued growth and success of the bank primarily depends upon the prosperity of trade and industry of the country."[27] The reason for the community of sentiment may have been caused above all by the fact that businessmen and the bankers held basically the same views. Each saw the other as being of essential importance to the economy. And each thought the other caught powerless in conditions beyond their control. Both groups were prepared to wait out the difficulties in the assurance that improved circumstances would return.

1. M. C. Urquhart and K. A. H. Buckley, eds., Historical Statistics of Canada (Toronto, Macmillan, 1965), 246.

2. Canada Year Book, 1934-5, 488.

3. Royal Commission on Banking and Currency, Proceedings, 781.

4. Ibid., 325.

5. Ibid., 2222-3.

6. Ibid., 2508.

7. Ibid., 2222-3.

8. Ibid., 2323.

9. Ibid., 2223.

10. Representation of the Prince Edward Island Egg and Poultry Association; Ibid., 2161.

11. Ibid., 2323.

12. Commons' Committee, 1934, App. 2, 356.

13. Royal Commission on Banking and Currency, Proceedings, 2328.

14. Financial Post, Sept. 9, 1933, 13.

15. Royal Commission on Banking and Currency, Proceedings, 2489. also Mr. J. Taylor, mining promoter, presentation to the Commission; Ibid., 320.

16. Ibid., 752.

17. Commons' Committee, 1934, App. 2, 442.

18. Royal Commission on Banking and Currency, _Proceedings_, 2715.

19. Bennett Papers; 62690, National Construction Council of Canada brief to the Royal Commission on Banking and Currency, Sept. 8, 1933.

20. For example, the evidence before the Royal Commission on Banking and Commerce of the Nova Scotia canned lobster industry. _Proceedings_, 2099.

21. Bank of Montreal, _Annual Report_, 1931, 7.

22. Imperial Bank of Canada, _Annual Report_, 1930, 23.

23. Sir Charles Gordon, President, Bank of Montreal, _Annual Report_, _1931_, 7.

24. Mr. H. B. Henwood, General Manager of the Bank of Toronto, in a speech to the Canadian Chamber of Commerce stated that "While the Canadian banks have been subjected to considerable pressure for advances against the security of stock exchange collateral, I think it can be said that they have very wisely maintained a measure of control upon this class of borrower that has prevented manipulation and sky-rocketing of security prices such as we have seen in the United States. . . ." _J.C.B.A._, 1929-30, 107.

25. Commons' Committee, 1934, App. 2, 354-5.

26. Bennett Papers, 62337, John Graham & Company, Ottawa, to Bennett, Feb. 15, 1934.

27. The Royal Bank of Canada, _Annual Report_, _1929_; quoted J. Castell Hopkins, ed., _The Canadian Annual Review of Public Affairs_ (Toronto, Canadian Annual Review Company, 1930), 1929-30, 685.

IX. THE BANKS AND AGRICULTURE

One of the claims of the Canadian bankers was that the banking system enabled the various sectors of a widely diversified economy to be given adequate banking services tailored to specific needs, and the advantages of large multi-branched banks providing full services to every part of the nation was repeatedly pointed out. The agricultural community tested that claim during the depression. Agriculture in Canada was as varied as was the geography of the land itself, and so were its requirements in the form of banking services. The needs of the Prairie Grain grower were vastly different from those of the cattle rancher of Alberta, or from those of the fruit farmer of Nova Scotia or the dairy farmer of British Columbia. Whether or not the banks met those varied needs adequately was a matter of diverse opinions. The bankers said that they did. The consensus among farmers was that the banks did not. The bankers supported the existing banking system; the farmers called for changes. But the farmers pleas were not, in the majority, for complete change of the system. Although the Farmers Union of Canada had, in 1924, proposed nationalization of the chartered banks of Canada, and the idea had survived, it is doubtful that most farmers would have supported such an extreme measure in the early 1930's.[1] One representative of agricultural feelings thought the farmer wanted "some big changes which will serve to stabilize his industry."[2] Essentially that was the farmers' position.

As a group, farmers in Canada were from 1930 to 1935 most vociferous in their complaints concerning the banking system. They were over-represented in the making of submissions to the Royal Commission on Banking and Currency, especially in the Western provinces. In 1931, the editor of the Farm and Ranch Review noted that "Without exaggeration fully forty per cent of my voluminous mail deals with the subject of banking credit, sometimes defending the chartered bank and its policies, but generally criticising it."[3] This criticism appears reasonable, however, when one considers that the realised net income of Canadian farmers fell from a 1929 level of $544.8 millions to $109.9 millions in 1932, and takes into account also the independence with which farmers had traditionally aired their views.[4] The farmers, too, were very aware of the extent to which they had been handicapped by the depression. It was not uncommon to find expressions such as "The farmer has suffered more severely than any other class of producers."[5]

In looking for the source of their problems, the farmers often placed the blame on the chartered banks. One farmer in Saskatchewan, while noting that those farmers who had had poor crops tended to blame the weather and the vagaries of farming, those who had had good crop yields "are more disappointed and more vicious minded and more critical of our social order and of our banks and other institutions."[6] The president of the U.F.A. thought "The farmers' greatest disability was caused by an unstable price level" which in turn was due to "inherent faults in the present monetary system."[7] And, of course, the banks were the guardians of the monetary system.

The lack of a sympathetic understanding between the farmers and the bankers aggravated the situation, and the banks found themselves unable to develop a closer rapport. In part that inability was due to the attitude of the farmer who felt himself in a hopeless position in the face of an incomprehensible situation. Possibly the temper of the farmer was well captured by one Regina farmer who felt "tangled up in something that I do not very well understand," and who noted that "my neighbours seem to be in the same position also."[8] An Alberta farmer voiced identical misgivings, and noted that while he had been quite well off in 1928, by 1933 he "was busted. . .through no fault of mine."[9] Men who had successfully devoted their lives to the cultivation of the land suddenly found themselves on the edge of failure. To many the monetary system and the banks seemed to be the source of their problems.

Part of the problem lay in the fact that the chartered banks had become for the farmers gigantic and impersonal institutions which controlled monetary affairs with a ruthless abandon. The farmers feared a money trust was controlling the finances of the nation. The Quebec branch of the United Farmers of Canada was very bitter about "organised bodies such as the banks, railroad unions, milk distributors and coal combines, which are driving them (the farmers) into the dust and will eventually pull all other classes into the same pit if not checked soon."[10] Most farmers saw the local bank manager as but a pawn for the banks' head offices, and they complained that the severity of the situation combined with the banks' attitude threatened to degrade the farming profession to the state where agriculture would no longer be an honourable occupation. For most farmers it was incomprehensible that they should be treated with such disregard for their interests in view of the vital role they performed in the economic life of the nation.

The dilemma of the farmers was accentuated by the fact that they did not speak with one voice. Not all were prepared to say that the chartered banks were to blame for their troubles. It was only the more daring who would propose grave reforms for the banking system. It was only the most extreme who presumed to identify the source of the problems and propose a solution. All farmers knew that something was wrong with the economic system. Those who spoke with the greatest assurance concerning the source of guilt and the path to salvation had one basic belief: that the troubles were caused by and redeemable by human actions. "Recurring depressions, of which we are now experiencing the most severe in modern times, are not due to acts of God but to acts of men," was the opinion of Robert Gardiner, a member of Parliament and President of the United Farmers of Alberta.[11] This was a position diametrically opposed to that of the bankers. Possibly it was in this basic divergence of views that the root of the antagonism between the two groups lay. Bankers talked of waiting for better times; farmers talked of doing something to speed the return of better times.

Understandably, the question of credit facilities became a main source of contention. On the one hand, it was suggested that the banks had made too much money available in the years prior to the depression. Gardiner noted the large capital debt which the farmers had assumed during the 1920's, a debt which they found impossible to carry when faced with low prices for their products in the 1930's. On the other hand, he pointed out that "After the past three years of deflation, our farmers find themselves practically without credit facilities."[12] Senator W. A. Buchanan of Lethbridge, Alberta, thought the farmer wanted "a central bank which will give a measure of credit control," in order to prevent the violent fluctuations in farm commodity prices so costly to the farmer.[13] The problem of credit loomed large with the farmers, while the banks for their part denied that their credit policies aggravated agricultural problems.

The banks did not, however, oppose the position taken by the farmers on the question of the length of time allowed to them on loans granted by the banks. Essentially the contention of the farming community on this problem was that bank loans ran for periods, usually sixty or ninety days, which were inconsistent with the requirements of most farmers.[14] Whereas short-term loans were ideal for manufacturers and distributors, whose accounts revolved several times each year, this was not the case with the farmers who for the most part required working funds for a large portion of the year. The persistence of the banks in issuing notes for short terms, even when it was obvious that renewal would be required, agitated the farmers. The practice was "a never-ending source of irritation" according to the Treasurer of the Province of Alberta.[15] The farmers, too, were not convinced that they could be assured of renewal. "My own experience," suggested one representative of the farmers, "is that no matter what agreement you may enter into as to the renewal of a note at the expiry of the three months, it will depend upon the individual--the bank manager--backed, as a rule, by the head office which knows very little of the circumstances."[16] And it hurt the farmers' profits since the banks on renewal of a note compounded the interest. Unfortunately this question was thought by the farmers to be demonstrative of a more basic evil in the banking system: that the banks were not modelled to the requirements of the farming community but to those of industry and commerce. It was one more point, too, which helped convince the farmers of the West that their interests were disregarded by the banks which favoured the more urban and industrialised East.

In response, the bankers met the contentions of the farmers in two ways. First, they argued that the nature of their business prevented their issuing credit on an intermediate or long-term basis. The banks, they felt, should not be blamed for failing to do something which was beyond their capabilities. It was essential for their liquidity, it was indicated to the farmers, that the banks keep their loans on a demand or short-term basis. In any event, the bankers added, a credit worthy farmer could depend on having his note renewed when it expired, and the compounding of interest added but a trivial amount to the total costs of the farmer's operations.

The second part of the bankers' response was to aid in the establishment of means by which intermediate credit would be made available to the farmers. Leading bankers never denied the right of the farmers to credit on a longer term than was available through the banks, and in fact thought it necessary for the welfare of the country that this legitimate request of the farmers should be met. What they did deny was the ability of their institutions to provide loans for other than short-terms. Consequently they were pleased to be able to assist in 1931 with the establishment of the Dominion Agricultural Credit Company which helped fill the gap in the supply of credit to the farmers until the passage of the Farm Improvement Loans Act in 1944. It is doubtful, however, if all farmers ever really appreciated the banks' position on this problem. Their continued agitation indicated that they did not.

The problem of interest rates charged to agricultural borrowers was another popular topic of discussion. Again the greater participation in debate came from the farmers of the Prairie region who reverted in part to the argument that they were being victimised because they were situated far from the head offices of the banks. There appeared, however, to be no good cause for complaint in this regard. The rates charged by the banks on loans to farmers in Western Canada compared very favourably with those charged in similar areas of the United States by small highly-competitive banking institutions. And there was no denying that the risks involved in farming operations were usually greater than in other areas of the economy in which prospects could be predicted with greater assurance of accuracy. Particularly, as General Manager S. H. Logan of the Canadian Bank of Commerce pointed out in his report for 1932, farmers were susceptible to an unusual extent to the vagaries of weather conditions and to changing markets.[17] Similarly differences in the rates charged in the more settled areas of Eastern Canada and those charged in the West were explained in terms of the degree of risk involved.

The sectional argument of Western farmers was continued in the question of the degree of discretion in credit granting which was enjoyed by the local bank manager. Mr. Alfred Speakman, the member of the House of Commons for Red Deer, thought that "The branch bank manager, as a rule, has little power to make loans," an attitude common in farming communities of the West.[18] It was an attitude, too, which some bank managers appear to have promoted since it enabled them to shift the onus when refusing an application for credit on to their regional or head office officials. Unfortunately, the end result was a further alienation of the farmer from the chartered banks, and stimulation of the general sentiment that the banks were gigantic city organisations out of touch with the needs of the farmer.

Another feature of the situation, one which the bankers quite correctly claimed as a deterrent to their ability to issue credit to the farmers, was the legislation of various provincial governments which restricted the rights of farmers' creditors. Usually these restrictions took the form of limitations on the creditors' powers to realise on collateral security, and from the point of view of the economy as a whole as well as from a humanitarian viewpoint, were probably of great value. But they did adversely affect the worth of a farmer's security offered in support of a loan application, a situation which not only the banks but other business groups recognised.[19] Consequently the provincial regulations aimed at improving the lot of the farmer helped at the same time to widen the chasm between the farmer and the banks.

It was problems such as these which made their experiences with the farmers most trying for the bankers, especially since many additional areas of criticism appeared to be either insignificant or unjustifiable. One rather contentious problem which had repercussions quite out of proportion to its initial importance, was that of the availability of credit to enable farmers to buy binder twine in order to complete the harvest. Strong criticism of the bankers was made on this matter since, as the farmers claimed, the refusal of a small loan for this purpose often meant the loss of a large part of a farmer's harvest. In reply the banks could state only that they did not have a policy of refusing loans for the purchase of binder twine and that should such a loan have been refused to a worthy farmer it was, as one leading banker expressed it, "because of some stupid manager out there."[20]

A similar problem developed over the granting of credit to organisations processing agricultural products. In some instances, it was claimed, the banks had declined to aid co-operatives at a time when a small amount of cash was needed in order to process and market a valuable crop, or had demanded security undertakings considered quite unreasonable.[21] Delay, the farmers claimed, had on occasion been imposed at a crucial moment and a large part of the harvest lost as a result. Again the question of the extent of the local banker's authority was called into question. And again the bankers reverted in reply to pointing out that normal security requirements had to be met before loans could be granted.

In view of the lack of rapport between the farmers and the banks, it is not surprising that the banks were very reluctant to suggest to the farmers means to alleviate their conditions. One notable exception, however, was the proposal by the banks that the farmers ought to diversify their operations where this was possible. This was especially directed at the grain farmers of Western Canada, and the Dominion Agricultural Credit Company was designed to help in this respect by making it possible for the farmers to borrow funds for the purchase of breeding stock.[22] But that Company, whose capitalisation was reduced from $5 million to $1 million shortly after its formation, did not provide capital in sufficient quantity. Nor did the banks' suggestion influence the farmers to any considerable extent.

If the banks failed to create a good relationship with the farmers during the early 1930's, it was largely due to their inability to convince the farmers of the situation faced by the banks. Perhaps it would have been impossible for the banks to have done so. The banks were private corporations whose prosperity depended on taking measures to secure liquidity which often affected the farmers in an adverse way. However, it was really not the fault of most farmers that they were unable to meet the credit requirements of the banks. For that they would have to blame world conditions and the risks inherent in farming. But the farmers, quite understandably, were never able to comprehend fully why they were not able to obtain money when they knew at heart that their contribution was essential to the economy of the nation and that in the long run were almost assured of making good their debts. The farmers knew this, and the bankers acknowledged it. But that did not remove from the banks the necessity of guarding the security of their assets. This was their first consideration. And the banks were not capable of bringing the farmers to acknowledge that requirement. Bankers could never afford to forget or disregard the basic precautions which formed sound credit principles in spite of the apparent abandonment of humanitarian principles which this might involve. They had to employ their funds in the best possible ways, and a large number of farmers simply did not satisfy the conditions of security which they knew were essential.

The relationship was aggravated by the bankers' persistence in propounding their conservative economic philosophy. Government action in the circumstances could only be regarded as a temporary expedient; the farmer "must work out his ultimate salvation for himself by reducing his costs and readjusting his utilization of land more economically."[23]

To farmers who had faced extreme weather and marketing conditions for several years, such advise served only to deepen existing distrust and anger. The Western Live Stock Union noted that "The desperate financial position of the farmer is probably accountable for his attitude towards our bank system. This attitude may be based on his individual experience or the anti-bank complex which often goes with a rural community. It is due, in many instances, to a lack of understanding between the banker and the farmer."[24] Neither group in the early years of the depression was effective in eliminating these differences or in creating understanding.

1. S. M. Lipset, Agrarian Socialism (Berkeley, University of California Press, 1959), 75.

2. Senator W. A. Buchanan, "How is the Prairie Farmer Faring?" Canadian Business, May, 1933, 11. This feeling was evident in much of the evidence given before the Royal Commission on Banking and Currency. See also R. C. McIvor, Canadian Monetary, Banking and Fiscal Development (Toronto, Macmillan, 1958), 151.

3. Quoted J.C.B.A., 1930-1, 370. Mr. W. J. Loucks, member of Parliament for Rosetown, Saskatchewan, noted: "I am not much in sympathy with /the banking system in Western Canada/ and neither is any other Western farmer." House of Commons, Debates, 1931 Session, 234.

4. M. C. Urquhart & K.A.H. Buckley, eds., Historical Statistics of Canada (Toronto, Macmillan, 1965), 246.

5. Royal Commission on Banking and Currency, Proceedings, 823.

6. Ibid., 1535.

7. Ibid., 823-4.

8. Ibid., 1531.

9. Ibid., 846.

10. Ibid., 2394.

11. *Ibid.*, 818.

12. *Ibid.*, 817.

13. *Canadian Business*, May, 1933, 11.

14. McIvor, *op. cit.*, 150.

15. Quoted, *Financial Post*, August 26, 1933, 13.

16. Commons' Committee, June 10, 1931, 1.

17. The Canadian Bank of Commerce, *Annual Report, 1932*, 22.

18. Commons' Committee, June 10, 1931, 1.

19. See especially the evidence of Jackson Dodds and S. H. Logan given before the Commons' Committee, 1934, App. 2. Also the submission of the Calgary Chamber of Commerce, Royal Commission on Banking and Currency, *Proceedings*, 752.

20. Commons' Committee, 1934, App. 2, 441.

21. Royal Commission on Banking and Currency, *Proceedings*, 628, 2124.

22. M. Leman in *J.C.B.A.*, 1930-1, 369-70.

23. Editor, *J.C.B.A.*, 1930-1, 135; also Mr. S. H. Logan, Commons' Committee, 1934, App. 2, 395.

24. Royal Commission on Banking and Currency, *Proceedings*, 1494.

X. CANADIAN GOVERNMENTS

The relationship which existed between the banks and provincial and municipal governments was not greatly strained by the depression though some tensions did develop. Although general satisfaction was expressed concerning the banking system, governments usually felt that there were some shortcomings in the system which ought to be removed. Complaints, it seemed, were most often, though not universally, directed against individual incidents, a situation which was well summarised in the statement of Mr. William Grouch as the representative of the Union of British Columbia Municipalities to the Royal Commission on Banking and Currency. "We have no real cause of complaint regarding the banks," Mr. Grouch claimed, "but I have heard one or two complaints from different reeves regarding the way their municipalities have been treated by different bank managers."[1]

Nevertheless, there was a repetition of some complaints which gave them a more than local interest. It seemed to be the opinion in many cities and rural municipalities that the banks were not doing all that they ought to have been doing to help alleviate the conditions. Often the arguments displayed a moral tone and usually involved some aspect of the question of credit facilities. In essence, the claim was that the cities and the municipalities needed money for bona fide purposes and that money was not always forthcoming. Therefore there was something wrong with the existing system. As the main source of money, the banks were singled out for attack. To the local council member, it was incomprehensible that the local authorities should be unable to find capital for what were evidently good purposes, especially when the economic stability of the area of the municipality was not in question and repayment of advances would be secured by assignment of tax levies.

One problem which was particularly pressing was that of the provision of loans to local authorities to enable them to meet current unemployment relief expenses pending the receipt of federal and provincial grants. The Union of British Columbia Municipalities claimed quite categorically in 1933 that the banks were quite unwilling to loan money against the assignment of relief moneys to be paid to local governments, and stated that this was a matter of policy with the banks who opposed relief payments and refused the loans for that reason.[2] When a representative of the Canadian Bankers' Association suggested that this was simply not the case, it was stated that many instances illustrative of the Union's claim could be provided.

Similarly there were many complaints that the governments of Western Canada were being victimised, as well as Western Canada as a whole, because of the location of the banks' head offices in Eastern Canada. One consequence of the situation was the slowness with which loans were processed, a feature which could be crippling to businesses which had to meet certain costs immediately at certain times of the year. Especially in harvesting perishable crops, delay due to lack of ready cash could be disastrous. "There is not time to refer to a board two or three thousand miles away, which may have only a very general knowledge of local affairs," Premier Tolmie of British Columbia pointed out.[3] The counsel for the City of Calgary argued that "Any additional difficulty [in obtaining credit] is no doubt caused by the apparent unwillingness of the head offices of the banks to allow any power or discretion to local managers or superintendents," and in singularly strong language talked of an "apparent financial dictatorship" in Eastern Canada which increased municipal problems and public unrest in the West.[4] To meet these problems, the governments of the West suggested that greater authority be given to local and regional bank officials or that more powerful regional credit review boards be established within the various banks.

The question of disadvantages being imposed on Western Canada again came up in the discussion of the rates of interest charged by the chartered banks. The city and municipal officials again tended to point out their position in a moral argument: it was incorrect, they contended, in times of adverse conditions to impose higher rates of interest than was absolutely necessary. A representative of the Saskatchewan Association of Rural Municipalities saw the problem clearly and with an admirable simplicity: "A rate of seven per cent interest on ordinary municipal loans we consider unreasonable for this reason: the rural municipalities are discharging public functions."[5] It was pointed out in elaboration of the point that the rural municipality was required by law to meet certain expenditures for schools, hospitals, and local administration, and that while these expenditures were made at all times during the year, the municipalities' revenues could not be collected until the farmers had sold their crops in the fall and winter. Although the City of Victoria seemed quite happy in 1933 with its banking arrangements in respect of interest rates, and the reeve of the municipality of de Salabery in Manitoba stated that "Our municipality has also been able to obtain from the bank everything that it required at all times," these were the attitudes of but a small minority.[6] For the Union of British Columbia Municipalities, the wrong people were profiting from high interest charges. It was suggested by the Union that "the persons who benefit from an increase in interest charges are in the great majority of cases in the best position to stand decreases."[7]

There were no secrets made of the fact that most Western governments saw Eastern Canadians as being the recipients of the benefits of higher rates. The West, in short, was the victim of the Shylocks of the East. To the City of Calgary council, which moved a formal protest against "any differentiation in the rates of interest chargeable as between Eastern and Western Canada," the solution appeared to be to recognise that the banks were national institutions operating under federal charters and that this obliged them to consider interest rates as a national matter which was not to be determined by the distance of the borrower from the banks' head offices.[8] Alderman Humble of Calgary suggested a more radical solution to the problem. "My present views," he announced, "are that we should challenge the right of private ownership of public credit; we should nationalize the means of exchange."[9] But few people were prepared to follow Mr. Humble's suggestions.

The banks for their part possessed a considerable arsenal with which to reject the governments' contentions. It was pointed out that the rural municipalities and the city administrations in Western Canada were often in a precarious financial position and were poor credit risks. Many had already defaulted on their obligations. In the case of numerous rural areas, it was not known for sure that a major part of the current levies would be collected. In some instances only ten or fifteen per cent of the levy had been realised in bad years. Another problem was that numerous administrations had overloaded themselves with a public debt the servicing of which placed a substantial drain on revenues. Premier Brecken of Manitoba recognised this problem. "It is quite evident now," he said, "that the borrowings of the past. . .are beyond our wealth producing capacity at present price levels to pay."[10] It was these considerations which led the banks to suggest that interest rates in the West should be higher. Mr. H. S. Henwood of the Bank of Toronto summed up the banks' position by saying that the cost of loans in the West was slightly more than in the East because of the greater risk of default coupled with higher operating costs.[11]

Public officials tackled the problem of credit in another way during the early 1930's. Under the provisions of the Finance Act, the chartered banks borrowed funds from the Treasury Board against securities which often included bonds issued by local authorities. For these loans, the banks paid a rate of interest which was considerably below that paid on loans granted by the banks. To public officials the rationale behind this scheme was incomprehensible. Public funds were being loaned to private institutions at lower rates than those at which public bodies could borrow. It seemed obvious that it would be much more desirable for the provinces, cities and municipalities to borrow direct from the federal government or a federal government agency or to have special arrangements established with the chartered banks which would enable loans to be procured at a rate close to or equal to that of Finance Act borrowings.

To this suggestion the banks contended that to follow the proposals would be to make it possible for the money supply to be expanded without limit since any government could apply for a loan against its bond issues. Some form of management would clearly be needed, and as was commonly recognised, if this control lay in a public body that body would be susceptible to all the ills associated with political intrigue. The banks, too, declined to treat their Finance Act borrowings as distinct from their other sources of funds, claiming that "there is no reason why such funds should be loaned at lower rates than those charged for funds derived from deposits."[12] To have differentiated between the two sources would have placed an interpretation on the provisions of the Finance Act which the Act had not intended. The Royal Commission on Banking and Currency accepted this view and rejected the municipalities' suggestions, and claimed that the Finance Act was designed to permit the increase of bank reserves as conditions in the country warranted, concluding with the short statement that "If. . .governments were to issue Dominion Notes to finance the requirements of Provincial Governments, Municipalities and School Boards, it would engage in a dangerous policy."[13] At that the matter rested, and no special provisions were made to satisfy the wishes of the cities and municipalities when the Bank Act was revised in 1934.

Another interesting question, raised primarily by the City of Winnipeg, concerned the role of the chartered banks as participants in syndicates underwriting bond issues of municipal and other public bodies. The submission of the City of Winnipeg to the Royal Commission on Banking and Currency argued that under the conditions then prevailing it was possible for the banks to oblige a city or municipality to go to the bond market with an issue of bonds at a time which was inopportune to the city. In this way a higher rate of interest might have to be paid on the issue than might otherwise have been the case.[14] The banks, too, stood to gain since they were regular holders of city and municipal debentures, and could take up part of an issue to yield a high return. To these charges of using their position in an unethical manner, the banks issued denials, and the Royal Commission upheld the banks' contentions in its Report.

The resentment of the role of the banks which was a feature of the representations of most of the Western governments to the MacMillan Commission was not a feature of those of the governments of Central and Eastern Canada. The treasurer of the Province of Quebec was sympathetic to the banks, suggesting that "the banking institutions of Canada, as presently organised, have in practice rendered reasonable financial assistance, at reasonable charges, to public institutions of all kinds in Canada. . . .", and went on to point out that the branch banking system was a decided advantage since it allowed the banks to consider each loan on an impersonal basis without undue attachment to local interests.[15] At the same time, the insistence of bank officials that careful investigation of the affairs of public authorities be made before credit be granted was lauded as having provided a rein on the borrowings of public bodies.

On the whole, the banks were none too happy with the conduct of provincial, city and rural governments in Canada, and there was some genuine concern in banking circles about some aspects of the policies being followed by these governments. Especially the bankers were troubled by the inability of a number of municipalities to meet their obligations as they fell due. They saw Canada's credit abroad threatened by this and called on all public bodies to administer their affairs with the greatest of care. The Canadian Bankers' Association in its annual meeting of 1931 thought that provincial and municipal authorities were in some instances "not fully seized of the present financial conditions" and suggested that continued deficit budgets threatened to raise taxes to unbearable limits with costly consequences for the nation.[16]

In brief, then, the arguments of the cities and the rural municipalities were often based on the assumption that being public bodies they ought to receive special consideration. Either this would have to come from a governmental body or from the chartered banks. However, it should be noted that not all governments felt this way, and neither did the banks nor the Royal Commission on Banking and Currency. This latter body observed rather curtly in its conclusions that for the banks to provide special privileges to public bodies would mean shifting the burden of expenses elsewhere, a move which would hardly have any permanent advantage for the nation as a whole. In the revision of the Bank Act in 1934, no changes were made to substantially alter the existing arrangements in those matters raised by the local governments.

The relationship between the chartered banks and the federal government was entirely different from that which existed between the banks and other Canadian governments. Largely this was because the federal parliament was the authority charged with control of the banking affairs of the nation, and any attacks by the federal government on the banks obliged the federal government to take measures to remove the areas of complaint. Consequently there was little friction between the Bennett administration and the banks in the early part of the depression. In his correspondence, Bennett generally defended the banking system, and his ministry took the same position in the Canadian Parliament.[17]

The identical attitudes of the federal government and the chartered banks was particularly noticeable in the policies which both groups advocated. Both groups believed that monetary matters should be left to private enterprise as far as this was possible. Like the banks, the government proposed that to attempt to manipulate the volume of credit or the external value of Canada's dollar was to court disaster. In addition, it was thought that Canada must maintain her integrity in financial matters by pursuing a policy of "sound money."

This concord, however, did not outlive the Bennett administration. By 1933, the Prime Minister had moved away from his former position of complete sympathy to the banks. Possibly his move was a reflection of the popular demands for changes in the banking system. In June, 1933, Bennett's temper towards the banks had changed to the extent that he wrote J. A. McLeod, the President of the Canadian Bankers' Association, complaining of the dissatisfaction with the conduct of the banks which was general throughout the country. He saw the banks as "driving people to the wall," and suggested to McLeod that the chartered banks had placed his government in an awkward position but a short time before the Bank Act was due for revision.[18] In November of that same year, he wrote in confidence to F. D. L. Smith, the Chief Editor of the Mail and Empire, that "If the people must engage in conflict with those who worship profits as their God and who regard the welfare of the nation as being of secondary importance, then I know in whose camp I will be enlisted."[19]

This divergence of the Bennett administration and the banks was fed by the Prime Minister's quest for a central bank for Canada. However, the chartered banks appear to have realised that the move to create a central bank was one which must be accepted gracefully. By 1935, the relationship between the two groups had not deteriorated to open antagonism, and the bankers by their attacks on the more radical politicians made it clear that they appreciated the moderate position which the Bennett government took under pressures from critics of the administration.

1. Royal Commission on Banking and Currency, Proceedings, 278-9.
2. Ibid., 282.
3. Ibid., 217.
4. Ibid., 727-8.
5. Ibid., 1446.
6. Ibid., 255, 1869.
7. Ibid., 281.
8. Ibid., 725.
9. Ibid., 896.
10. Ibid., 1698.
11. Ibid., 3265.
12. Idem.

13. Royal Commission on Banking and Currency, Report, 75-6. An amendment to the Finance Act which would have permitted the provinces to borrow directly from the federal government was defeated in the 1932 session of Parliament; House of Commons, Debates, 1932 Session, 690.

14. Royal Commission on Banking and Currency, Proceedings, 1707-8.

15. Ibid., 2261-2.

16. J.C.B.A., 1931-2, 271.

17. The Minister of Finance, Hon. E. N. Rhodes, stated to Parliament, "I wish to refer to the contribution of the chartered banks to the orderly financing of our economic life." House of Commons, Debates, 1932-33 Session, 3209.

18. Bennett Papers; 62215, Bennett to J. A. McLeod, June 1, 1933.

19. Bennett Papers; 62873, Bennett to F. D. L. Smith, Nov. 24, 1933.

XI. ATTITUDES TOWARDS THE BANKS AND THE BANKERS

"There is a very bitter feeling abroad towards the whole banking system," the Women's Conservative Association of Notre Dame de Grace, Montreal, thought in 1933.[1] This opinion was borne out in the hearings of the Royal Commission on Banking and Currency which were held in that year, and in the conduct of the bankers in their repeated efforts to justify their position which they made in their annual statements. It was a feeling which, of course, had not been conceived in the depression years, but was one to which the harsh conditions of the 'thirties lent a new bitterness. One critic of the banks commented in 1933 that "There is no need to increase public distrust of bankers in these days; the events of the present and the revelations of the past are doing that in full measure."[2] A "representative of the unemployed" told the Commission that the unemployed "have no use for banks, and it might be said that the banks have no use for them."[3]

The distrust was not, however, a universal emotion. Some sectors of the Canadian community did not indicate a strong abhorrence of the bankers and the banks. Usually such sectors were closely connected to the business interests, and included Chambers of Commerce, Boards of Trade, and individual industrial companies. They tended to be, as one critic of the banks put it, those who were doing well and whose policy was to "let well enough alone."[4] The most bitter feelings came for the most part from individual farmers and businessmen whose affairs had suffered and who saw in the banks a source of their problems.

Possibly the major cause of alienation was the size of the banks and the impersonal relationship which had been created between banker and customer. There were many references made to the fear of a "banking monopoly" in Canada. The Women's Conservative Association of Notre Dame de Grace spoke of the "gigantic money trust stifling all hope of the individual's development of initiative and daring" which people visualised because of the restricted number of large banks which regularly absorbed smaller and weaker ones. They also thought the situation was made worse by the curtailment of the authority of branch managers which had taken place, the existence of inter-locking directorates, and the intrusion of the chartered banks through trust companies into other lines of business.[5] The individual bank manager was thought by one association to have a "cold-blooded, business view-point" in his relationship with his customers and consequently was unable to develop a personal interest in their affairs.[6]

There was also a fear of the true extent of the power of the bankers. The connection between the politicians and the bankers caused some concern outside the major cities of Central Canada. In connection with the Report of the Macmillan Commission, a Nova Scotia man commented that "many people are wondering if the banks will permit the Government to pass these recommendations."[7] Another wrote of the "apparent sanctions of the Government" which permitted the banks to exert "persistent and demoralising pressure" on small business men.[8] There was also considerable concern among wage-earners about the activities of the banks, especially as the banks were labelled as gigantic money trusts, and the belief spread of their power in the nation. One letter written to

Prime Minister Bennett in 1932 requested the Prime Minister to give consideration to the "efforts being made by the Banking Institutions and Financial Groups in Canada to reduce wages and living conditions of the working people." Moreover, it was suggested to Bennett that "while wages of labour have suffered reductions, wages of capital have in many instances received increases."[9] It was noted too, that while many people were out of work through no fault of their own, the banks continued to operate with a shortage of staff.[10]

Although much of the criticism of the bankers appears to have been caused by the economic position of the critics, the antagonism towards the banks and towards the bankers may also have been due in large part to the very nature of the work which the banks performed. They were not in the same position as most business firms, and their contact directly with large numbers of persons meant that virtually every Canadian had personal experiences with the banks. The loaning function of the chartered banks was one aspect of their work which was particularly prone to the creation of strained relations, and the League for Social Reconstruction noted the existence of an "anti-banker complex among debtor groups."[11]

The attempts of the banks to erase the differences between themselves and the public were largely unsuccessful. Normally their only activities in this regard were through their monthly letters and annual reports, and both of these media were doomed to failure since few people outside the business community were regular readers of these statements. Moreover, the bankers maintained their reluctance to enter into public debate of the banking function, Sir John Aird, the President of the

Canadian Bank of Commerce, suggesting at one time that this was desirable and that "the less bankers talk about the banks the better."[12] This reluctance to discuss their affairs the Financial Post regarded as costly to the banks' public image. Particularly it was suggested that the banks ought to carefully explain to customers the reasons why applications for credit were declined.[13]

When they did come to defend themselves in public, the bankers further alienated their antagonists. This was particularly evident during the hearings of the Commons' Committee on Banking and Commerce in 1934 at which members of Parliament cross-examined the bankers about their policies. The opposition of the banks to a central bank served also to alienate some of the supporters of the banks. On the question of a central bank and the chartered banks' defence of the existing system, one academic was reminded of the dictum of J. M. Keynes that "Bankers are by nature blind."[14] The Canadian Forum in January, 1934, wondered if some statements by the bankers "were the sincere utterances of our gentlemen whose comprehension of monetary questions is as childish as that of Mr. Bennett himself."[15]

The criticism of the banks took on a more pressing tone with the development of sectional grievances. Combined with genuine economic complaints, the belief that certain areas of the nation were victimised by the banking system as it existed in the 1930's became a major contention of a large number of critics of the banks. The grievances were particularly strong in Western Canada where the pre-dominance of Eastern Canadians in control of the banks was thought detrimental to the economy of the West. The government of British Columbia in its presentation to the Royal Commission on Banking and Currency believed that the West had not received the consideration from the banks which was its due. Particularly it was thought that the banks had not been prepared to extend credit in the West in order to develop the economy. This short-coming was believed caused in part by the fact that credit decisions were being made in Eastern Canada by persons largely ignorant of the situation in the West. It was also thought due to the monopoly situation enjoyed by Canada's bankers. One member of Parliament noted concerning the government's proposals for a central bank that "the selling of five million dollars worth of shares to the public will just naturally give the control to a new financial oligarchy and will in no way assuage the sectional distrust of our banking management."[16]

The position of the government of British Columbia was taken by a large number of the representative bodies of Western Canada. The solutions proferred did not, however, have unanimity. For the greater part, Western Canadians felt that the virtual monopoly of the Eastern banks should be broken by the establishment of a central regulatory body, preferably a central bank. On the other hand, a strong body of opinion based on wide farmer support, proposed that in addition to a central bank, the commercial banks ought to be nationalized and credit organised on a national basis.

In the Maritime and Central provinces the opposition to the existing system was not so extreme. Central Canada, of course, housed the home offices of the chartered banks and so could not easily raise a sectional argument. The Maritime provinces, though not so heated in argument as were the Western ones, thought that it was to their disadvantage that all the main banking decisions should be made in Ontario and Quebec. On the whole, there was not a strong movement in the Maritimes for nationalization of the chartered banks nor for a central bank, though there was some agitation for greater local autonomy in management.

The attitudes, then, which were exhibited towards the banks and the banks and the bankers appear to have been shaped largely by the nature of the economic activity of each sector of the community combined with a strong sense of regional interest.[17] The representations made to the Royal Commission on Banking and Currency demonstrated the greater alienation of the agrarian West from the banks. Surprisingly, however, there was little mention made by either the opponents or supporters of the banking system of the investigations into the affairs of bankers which was arousing such intense interest in the United States. Although there was considerable uneasiness over the existence of a "banking monopoly" and of a "money trust," and the Commons Committee on Banking and Commerce investigated the interlocking directorates of bankers in 1934, there were very few attacks on the personal integrity of Canada's bankers. Of the general strength of the Canadian banks there was also little question.

1. Royal Commission on Banking and Currency, *Proceedings*, 2535.

2. A. Goulding, "The Banks Oppose Inflation," *Canadian Forum*, July, 1933, 375.

3. Royal Commission on Banking and Currency, *Proceedings*, 893-4.

4. *Ibid*., 2070.

5. *Ibid*., 2535-6.

6. *Ibid*., 886; submission of the Retail Merchants Association of Alberta.

7. Bennett Papers; 62268, H. P. Blanchard to Bennett, Nov. 18, 1933.

8. Bennett Papers; 62109, Nipissing Laundry Company to Bennett, Sept. 20, 1932.

9. Bennett Papers; 62175, Fort William Trades and Labor Council, to Bennett, Feb. 11, 1932.

10. Bennett Papers; 62478, letter in the Montreal *Daily Star*, July 13, 1935.

11. League for Social Reconstruction, *Social Planning for Canada* (Toronto, Nelson, 1935), 316.

12. *Financial Post*, August 12, 1933, 2.

13. *Ibid*., Nov. 4, 1933, 12.

14. A. F. W. Plumptre, "The Point of View of a Central Bank," *Canadian Forum*, Jan. 1933, 133.

15. *Canadian Forum*, January, 1934, 123-4.

16. Bennett Papers; 62720, Raymond P. Murand to Bennett, Nov. 18, 1933.

17. A. F. W. Plumptre, "The Evidence Presented to the Canadian Macmillan Commission," *Canadian Journal of Economics and Political Science*, II, 54-67.

XII. CONCLUSION

The depressed economic conditions in Canada in the early 1930's put an uncommon strain on the various sectors of the economy. Under the circumstances, it was almost inevitable that men should look for the cause of their problems and for a way out of the situation. For many, monetary problems appeared to be at the root of their adversities. When prices fluctuated, it seemed that some effort to stabilise those prices should be made, and that this could best be done through manipulation of the total supply of money. Similarly some form of control over Canada's external monetary trading seemed necessary in order to keep Canada's dollar at a reasonably stable exchange rate.

The chartered banks were, of course, the instruments by which the greatest part of Canada's monetary affairs were conducted. Through them the business man arranged to make his payments and to receive payments due to him. To the nation, the banks were closely identified with the monetary system. Consequently the banks became the object of criticism as some groups found fault with the monetary situation.

These groups believed that there were a number of problems which warranted change in the existing arrangements of the nation's monetary affairs. One problem was the stabilization of the value of money. In the first year of the depression, the general price level in Canada fell so that goods sold brought fewer dollars than in 1929. This meant that debtors were obliged to pay more in terms of goods in order to meet obligations assumed before the depression. To a debtor group such as the Prairie farmers, this was a crippling blow to their economic condition. The solution appeared to be to have more money issued, but this move the banks opposed claiming that to do so would risk uncontrollable inflation. The banks held that the best volume of money was obtained by issuing currency only to the extent required by the natural demands of the market, and that the arrangements existing under the Finance Act were adequate for that purpose. The banks took a similar position concerning the role they were able to play in the determination of the external value of the Canadian dollar. They felt that it was foolish to attempt to change artificially the conditions imposed by world conditions.

The failure of the chartered banks to provide a monetary policy acceptable to a large part of the nation was unfortunately coupled with a similar failure on the part of Canada's federal government. The banks defended their position on two bases. First, that it was not their role as commercial banks to co-ordinate fiscal policies for the nation, and second, that economic forces were self-regulatory and required only the existence of machinery which could respond to market demands in order to be efficient. The government for its part wished to leave private enterprise to the task of meeting the exigencies of the depression. As one writer viewed the situation, "Government monetary policy was conspicuous by its virtual absence, reflecting the lack of instruments of control, the varying needs of different parts of the economy, and a desire to avoid experimentation in view of the large foreign debt."[1] The main objective was the maintenance of "sound money" and presumably this meant interfering with the monetary system as little as possible. It was a policy of financial orthodoxy, and duplicated the attitude of the bankers. The president of the Canadian Bankers' Association summed up the attitude of both the federal government and his own constituents in 1933 by remarking that "We shall be wise if we continue to proceed with caution."[2]

The approach to the problems which was taken by the central government and by the chartered banks was not one which would endear them to all Canadians. While the government and the banks favoured the idea that the depression was caused by forces beyond their control, an idea particularly convenient since it removed blame from their shoulders, it was a concept entirely unacceptable to large numbers of people. Many believed that the situation was one amenable to human correctives. They felt that some form of centralised leadership ought to be given, both to regulate the total supply of credit and of money and to work to mitigate fluctuations in the value of Canada's dollar abroad. Eventually the federal government bowed to this group by creating the central bank.

The role of the chartered banks in the period from 1930 to 1935 was not, however, disastrous to the economy. The bankers' contribution to the economic health of the nation was a valuable one. One commentator noted correctly that "The retention of public confidence and sense of security in Canadian banking institutions was an immensely more heroic policy than taking a chance with inflationary or semi-inflationary measures."[3] That there were no bank failures in Canada at a time when these were common in other countries was essential to the continued stability of Canada. The hearings of the Macmillan Commission made it clear that criticism was often directed at the monetary system rather than at the banks. That Canada should lack co-ordinated financial policies was not the fault of the banks which were chartered to fulfill other functions which they performed admirably. As one business man expressed the problem, "the individual banks cannot help themselves. They are bound to regulate their individual policies from day to day to safeguard their positions without regard to the compound effect of those policies upon the national welfare."[4]

If the banks are to be criticised for their conduct, it must be for their unwillingness to consider the alternate policies which were proposed for the alleviation of conditions. The banks did not bear their share of the burdens imposed on the economy. Possibly through lowering their interest rates, even where this meant a reduction of their earnings, business could have been stimulated and recovery aided. The failure to enter freely into the discussion of monetary matters was indicative of a lack of interest in the public welfare. Although it may be conceded that their belief in orthodox economic principles formed a philosophic base for their conduct, this ought not to have prevented their consideration of alternative suggestions. Nor was the tone of the bankers' utterances conducive to the idea that they were willing to even consider changes. They further alienated themselves from large numbers of people by playing down the severity of the conditions. Moreover, the bankers thought that Canada must wait out the international debacle, preserve her economic resources, put her own house in order, balance government budgets, and retain optimism in her ability to survive and recover. Essentially this was an attitude which the economic condition of many Canadians would not allow them to accept, and the dichotomy which resulted could only be relieved by changes in the banking system.

During the depression, the Canadian chartered banks were more fortunate than most sectors of the economy. In part, this was due to the conservatism of their policies. Unfortunately their relative prosperity made the banks appear opportunistic in the eyes of those less fortunate. The criticisms levelled at the banks in the period must be accepted with this in mind. But the criticisms must not be permitted to conceal the real contribution which the banks did make. The impact of a bank failure would have, as a spokesman for the banks noted, put a strain "not only on the banks' shareholders and depositors, but on all the community."[5] Recognition must be given to the solidarity which the conduct of the chartered banks and of the bankers gave to the Canadian economy at a time of great economic insecurity. As commercial banks, the Canadian chartered banks were remarkably successful.

1. A. E. Safarian, <u>The Canadian Economy in the Great Depression</u> (Toronto, University of Toronto Press, 1959), 65.

2. <u>J.C.B.A.</u>, 1934-5, 177.

3. Mark K. Inman, "Experience in Canadian Banking, 1929-1934," Unpublished Ph.D. dissertation, Harvard University, 1937, 375.

4. Royal Commission on Banking and Currency, <u>Proceedings</u>, 2440.

5. F. C. Biggar, "Canadian Bankers and a Central Bank," <u>Papers and Proceedings of the Canadian Political Science Association</u>, 1933, 228-9.

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