ALEXANDER HAMILTON

The Father of Canadian Banking?

Painting titled *Scene at the Signing of the Constitution of the United States,* with George Washington, Benjamin Franklin and Alexander Hamilton (left to right in the foreground), by Howard Chandler Christy.

By Joe Martin

In the late 19th century, Adam Shortt, Canada's "first economist," wrote an article for the *Journal of the Canadian Bankers Association* in which he concluded, "The father of the Canadian banking system was Alexander Hamilton, the first Secretary of the Treasury." In 1957, American historian Bray Hammond drew a similar conclusion in *Banks and Politics in America: From the Revolution to the Civil War,* and he took it a step further. "They [the Canadians] took the best of American experience for a pattern, and they stuck to it."

So, was Hamilton the father of Canadian banking? While he was an inspiration to the colonists, many would argue that honor falls to three gentlemen of Scottish origin who came to the colonies at different stages of their lives, but who made lasting contributions.

The first was John A. Macdonald, Canada's first Prime Minister, who throughout the lead-up to the passage of imperial legislation had with him a marked-up copy of James Madison's secret proceedings of the 1787 Constitutional Convention. The pencil marks show that Macdonald was particularly interested in passages concerning the necessity of a strong central government and the ability of the central government to overrule state decisions.

The second was Alexander Tilloch Galt, who made the quest for unity among the British North American colonies a condition of his joining Macdonald's government—a request that included banking and currency being federal, not provincial responsibilities.

The third was Sir Francis Hincks, a former Co-Premier of the Province of Canada, who returned to the country after the British North America (BNA) Act was passed, having served as an imperial governor in the Caribbean. He became Canada's third Minister of Finance and was the first to gain Canadian parliamentary approval for a Bank Act that would provide the legislative framework for banking and currency as federal responsibilities.

Shortt's and Hammond's Positions on Hamilton

Adam Shortt provided several reasons why he believed Canadian banking was derived from Hamiltonian principles, including a 16 clause-by-clause comparison of Hamilton's charter of the Bank of the United States and the proposed charter for an 1808 Canadian bank. When the Bank of Montreal was created in 1817, its articles of association were a verbatim copy of the charter of the First Bank of the United States, which further supports Shortt's view.

Bray Hammond's *Banks and Politics in America* includes a section on "Banking in Canada before Confederation, 1792–1867." He notes that the frontier mentality of

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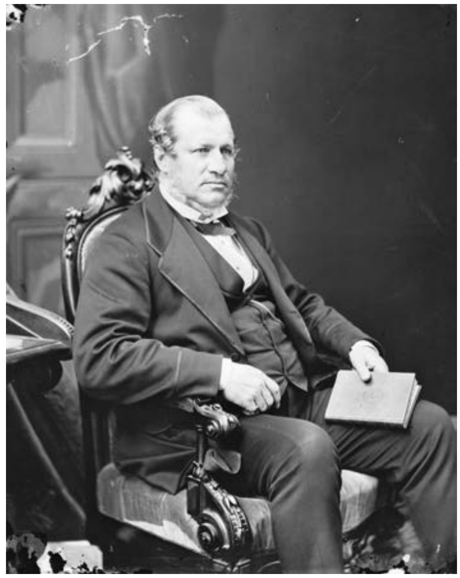
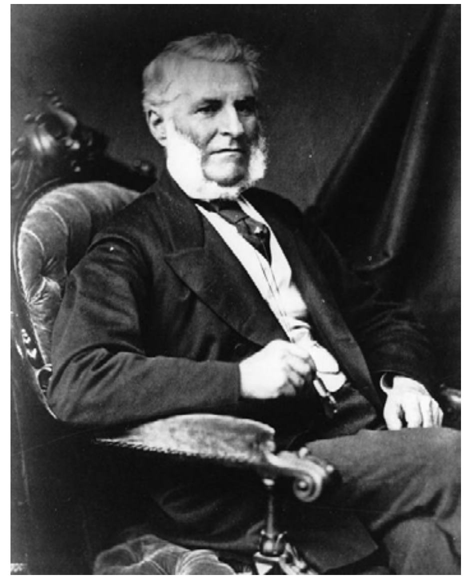
Sir John A. Macdonald



Sir Alexander Tilloch Galt



Sir Francis Hincks

the Jacksonian period moved the United States further from the Hamiltonian system than it already was. While the American Constitution did not mention banking, incorporation of banks or the issuance of paper currency, it is clear 250 years later that the theory of residual powers has been bent to necessity.

To explain what happened in colonial Canada, it is necessary to look at colonial bank regulation in 1858 and then examine the evolution in colonial thinking. From there, it is necessary to understand the dynamics of the American Civil War and the changes afoot in imperial thinking in regard to the colonies.

Imperial Control of Colonial Banking

What is missing from Shortt's and Hammond's analyses is reference to the controls that colonial banks operated under, and the growing independence of the colonial leaders on policy matters.

In 1841, the British Parliament passed an Act of Union which united Upper and Lower Canada into a single administration with equal representation for Canada West and Canada East. Debt consolidation and the creation of a single revenue fund were also important goals.

While colonial affairs were the purview of the Secretary of State for the Colonies, the Treasury, the Board of Trade and the Colonial Office cooperated in preparing rules for the guidance of colonial legislatures. In 1844, British Prime Minister Robert Peel's Bank Charter Act established strict controls over domestic banks. The Treasury and the Colonial Office used domestic legislation to guide their controls over colonial banks.

However, change was afoot. Responsible government was achieved in 1848 and the elected politicians, who were to become fathers of the Canadian Confederation, started to think in new and different ways. They were helped by governor generals, such as Thomas Bruce, the eighth Earl of Elgin. When told in 1851 of the delays caused by the Treasury and Board of Trade, Elgin wrote, "I fear we shall have a great deal of difficulty in conducting this colony if the opinion of the Canadian Statesmen and Legislators on Currency and Banking's questions are to be wholly disregarded."

In 1857, the colonists revised the Currency Act so that as of January 1, 1858, all provincial accounts would be kept in dollars, not pounds; this was the birth of a distinctive Canadian currency.

Evolution of Colonial Thinking (1858–1864)

In 1849, Alexander Tilloch Galt, a successful Quebec businessman, entered Canadian politics as a Liberal. He was not happy with the Liberal leader, George Brown, and was enticed to join Macdonald's Conservatives in 1857 on the condition that there be a confederation of the British North American colonies. Furthermore, Galt presented a detailed proposal for confederation, including provisions that included both banking and currency as federal responsibilities.

In 1858, he became Minister of Finance of the United Province of Canada and journeyed to London with George Etienne Cartier, co-Premier of the United Province of Canada, to present the colonies' proposal to the Colonial Secretary. While the proposal may have been premature, it began a process which within a decade would result in a British North American Dominion with the federal authority having responsibility for both currency and banking.

The timing of the proposal was unfortunate. After a period of economic boom stimulated by railway construction, there was an economic collapse that is often referred to as the first global depression. While the Panic of 1857 was not as severe in Canada as in the United Kingdom and the United States, banks, individual investors and governments were all in a difficult situation.

Not surprisingly, there was a political stalemate amidst the economic uncertainty that followed the 1858 depression. However, in June 1864, George Brown, the Liberal leader, made an offer to back a government that would remake the union. Thus, the Great Coalition was born, which led to confederation.

Banking Crises and Civil War in the US; Rethinking in the UK

Before turning to the Constitutional Conferences, which led to confederation, it is necessary to look at what was happening

Courtesy of Rogers Communications Inc.

The Fathers of Confederation painting by Rex Woods, depicting the Quebec Conference in October 1864 at the Old Parliament Building in Quebec City.

The Palace of Westminster from the Thames, by John MacVicar Anderson, 1867. The building is the meeting place of the British Parliament.

in the United States and the United Kingdom, as they impacted the British North American colonies.

As noted by Charles Calomiris and Stephen Haber in *Fragile by Design*, the United States had a uniquely unstable banking system resulting in five major banking crises prior to the Civil War. Canadian political leaders were aware of this as they were developing their constitution. They were also aware that the newly created Canadian dollar began trading at a premium to the American dollar in January 1862, when the United States suspended gold convertibility.

Also important was the fact that in April 1861, the US Civil War erupted between the Union and the Confederacy. An estimated 40,000 Canadians fought in the war on the side of the Union. Galt, the Province of Canada's Minister of Finance, corresponded with US Secretary of the Treasury Salmon P. Chase about paper currency, a key issue for the North. He also dined with President Abraham Lincoln in Washington to ascertain American attitudes towards Canada.

As the war progressed and the Americans became more frustrated with British attitudes and actions, negativity grew towards British North America. The United States Senate brought forward legislation to abrogate the 1854 Reciprocity Treaty, which the President signed into law. This and other actions led to great concern in British North America about the military threat of the United States; it was a motivating factor for the Canadian colonies to unite as one country.

Simultaneously, attitudes toward the colonies were changing in the United Kingdom. In 1858, the East India Company charter was liquidated. This gave hope to the Canadian colonists that the same would be done in Canada to the Hudson's Bay Company, allowing for westward expansion. And there was increased concern about the costs of maintaining the defenses of Canada as outlined in the Jervois Report of 1864.

The Constitutional Conferences (1864–1867)

In early September 1864, Canadian political leaders, led by Macdonald, invited themselves to a conference in Charlottetown, which had been called to discuss Maritime Union of the British North American colonies. The Canadians' plan was to pitch the idea of a broader Union. Galt explained to the delegates how the prospective federation might work financially and how the question of each province's debts would be settled. Macdonald focused on building trust with the delegates from Nova Scotia and New Brunswick.

The Charlottetown Conference adjourned to Quebec City in October. There, the purpose was to draft a framework for a national government, which was done; Macdonald personally wrote 50 of the 72 resolutions passed. Galt's responsibility was drafting the financial arrangements of the resolutions that had come out of the Charlottetown Conference.

The Colonial delegates did not leave North America for London until late 1866. During this period, the different colonies dealt with their local issues. Prince Edward Island withdrew.

The London Conference began in December 1866 and lasted nearly four months. Macdonald was quickly chosen as leader and chair. A British observer referred to him as the "ruling genius." A major change on the Canadian side was Galt's resignation from the cabinet, but his colleagues thought so highly of him that he joined them in London to deal with financial issues.

A major distraction in Great Britain was the change in government in July 1866 when the Conservatives replaced the Whig-Liberal government. Viscount Cardwell, who had been Liberal Colonial Secretary and had been pushing British support for confederation as well as pressing the maritime colonies to join the Union, was no longer in office. Perhaps most importantly, William Ewart Gladstone was no longer Chancellor of the Exchequer, having been replaced by the more sympathetic Benjamin Disraeli. Although out of office temporarily, Gladstone continued his criticisms of colonial defence costs and imperial loan guarantees for railway construction. It was Galt's challenge, along with George Brown, to deal with the criticisms of the formidable Gladstone.

The second reading of the British North America Act began in the House of Lords on February 19, when the new Colonial Secretary rose in the House of Lords to begin discussion. He reviewed the reasons for the legislation and stated the need for a common banking system and single currency. By the end of February, the bill passed and was sent to the House of Commons.

There too the bill moved with little opposition. On March 8, it was passed with no further debate—a fact that reflected both cross-party support in Britain and the sense that the colonies had reached a broad agreement themselves. On March 29, Queen Victoria signed the bill into law, effective July 1.

Macdonald and many of the Canadians were incensed with the indifference shown to the legislation. Canadians would become used to British indifference, except at times of war, as the decades passed.

The Battle of the Bank Acts

The federal government of the new Dominion of Canada now had responsibility for both currency and banking. How they would exercise that responsibility would require specific legislation. Unlike the BNA Act, it proved difficult reaching a consensus, taking three Finance Ministers and nearly four years to pass an act to regulate banking and currency.

Two months after the Dominion was created, the Commercial Bank of the Midland District [Kingston] failed. Galt was not only Minister of Finance, but he was also a major shareholder in the bank. He fought to have the Bank of Montreal bail out the Commercial Bank, but he was unsuccessful and was forced to resign the finance portfolio.

Macdonald—by then known as "Sir John A"—appointed his good friend John Rose, who was closely associated with the Bank of Montreal, the second largest North American bank at the time. His proposed legislation no doubt pleased the Bank of Montreal, but not the House of Commons, so it was left to die on the Order Paper (Parliament's daily agenda). Rose was succeeded on October 9, 1869 by Sir Francis Hincks, a former Co-Premier of Canada and Caribbean governor. It was Hincks who placed before Parliament a Bank Act that was acceptable and contained the unique Canadian provision of statutory decennial reviews, meaning every 10 years the act would be re-examined. That legislation was passed on April 14, 1871, and the review provision has done much to enhance the quality of Canadian banking over the decades.

As Roger Martin, former dean of the Rotman Business School and noted author wrote in his book, *Where More Is Not Better,* this provision should become mandatory for ALL legislation. Why? "Because there is no such thing as perfection in a complex adaptive world." $

Library of Congress

Alexander Hamilton statue in front of the US Treasury building, Washington, DC.

Joe Martin is the president emeritus *of the Canadian Business History Association/L'Association Canadienne pour L'Histoire des Affaires and co-author of* From Wall Street to Bay Street: The Origins and Evolution of American and Canadian Finance.

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