> of capital with resultant devaluation. Also, increased deposits create the potential for speculation and sudden general inflation. On both these accounts inflation becomes a threat, and this before anything like full employment has been reached. The Bank's views on compensatory government spending were the same. Income thus generated would leak through imports, and therefore produce devaluation, which in turn would not bring net benefits. Besides this, deficit spending would entail loss of business confidence, and could not offset the abnormally low demand for the primary products exported. In conclusion the Governor stated: " In my opinion, the amount of monetary expansion which has taken place in Canada to date, viewed in relation to actual conditions, has been sufficient to offer all the incentive to a high level of economic activity and prosperity which monetary policy can be expected to offer in a country where non-monetary factors are so important." (Neufeld, p. 98.).

Neufeld complained that none of the dangers about which the Governor was worried was imminent. Still, rather than conclude that the Bank was more concerned about internal and external price stability than about full employment, Neufeld concluded that the Governor was mistaken as to the facts of the case. Without entering into the merits of these two interpretations of the actions of the Bank of Canada immediately after its founding, or of other internally inconclusive attempts to put a Keynesian face on 1930s Canadian monetary policy (Noble.), it can be concluded here that the behavior of the Bank in its early years was not such as to preclude the hypothesis that the practical policy in founding the Bank was internal and external price stability.

Although Watts's account of the founding of the Bank of Canada came some five years after Neufeld's, it did not share the latter's attempt to put a Keynesian face on the event. One or two citations may illustrate the view seen by Watt from within the Research Department of the Bank itself.

> . . .the founding of the Bank of Canada in 1934 appears to have been largely due to the initiative of one person – Prime Minister Bennett. . . .He was quoted as saying . . ., "I learned to my surprise that there was no direct means of settling international balances between Canada and London, that the only medium was New York and the value of the Canadian dollar would have to be determined in Wall Street. I made up my mind then and there that this country was going to have a central bank because there must be some financial institution that can, with authority, do business for the whole of the Dominion with other nations of the world. If Canada is to be financially independent there

> will have to be a means of determining balances or settling international accounts and a central bank would provide this." . . .through the subsequent discussion there continued to be considerable emphasis on the external functions of central banking (1972, May, pp. 22-23.).

> Although Keynesian ideas were in the air and holders of orthodox views had been badly shaken by the depression, laisser-faire views were still prevalent in most countries. Thus, the public and members of Parliament could view the prospect of a central bank with more equanimity and detachment than would probably have been the case a generation later (1972, August, p. 17.).

Watts does not specify external and internal stability of prices as the practical goal of those responsible for establishing the Bank of Canada, but he does reject the idea that Keynesian policies motivated the founders, and he focuses on external trade as the important area of consideration. He does not provide reasonable grounds for rejecting internal and external price stability as a possible motivation for the founding of the Bank.

Alternative Approaches: Methodology

It is necessary, perhaps, to say something about method, before proceeding to establish as probably true the hypothesis that the practical policy considerations at the founding of the Bank of Canada were those associated with the Read Bills Doctrine of the Banking School, and with the automatic Gold Standard System; that is, internal and external price stability.

It would seem self evident that a direct account of what those involved said they were doing would be the best way to establish the practical policy considerations in any public act. It could be argued, however, that those involved were duplicitous in what they said, hiding their true motives for purposes of manipulation. One might then turn to speculation about what their real motives were by observing behavior (Shearer and Clark.), or by econometric testing of some reduced form model of the consequences of behavior (Bordo and Reddish.). The former, unfortunately, rather than leading to an answer, leads only to further questions. The latter finds such a wide range of hypotheses not rejected that no definite conclusion can be drawn. Besides, if there is a problem of possible duplicity on the part of those involved in the events themselves, is there not also a problem of possible duplicity on the part of those who engage in abstract reconstruction of events that occurred in the distant past?

What follows proceeds by way of the simple, direct methods of intellectual history.

Practical Monetary Policy in 1935

In a recent address on the origins of the Bank of Canada, David Slater stated,

> In the late 1920's and early 1930s, a good deal of dissatisfaction arose over the monetary management in Canada, under the Bank Acts, and the Finance Act. The analysis and critiques were developed mainly by academic economists. Much of this came from Queen's University, by Mackintosh, Clifford Curtis, and Frank Knox. . . .These criticisms occurred at a time when North American economists were taking increasing interest in business cycles and in active interventions by monetary policy to stabilize economic conditions. The work of Mitchell, Burns, and Fisher is still relevant today. The important point for our purposes is to note that O.D. Skelton, Clark, Mackintosh, Curtis and Knox all did their graduate studies in Economics at Chicago and Harvard, not at British universitites (Slater, pp. 3–4.).

Slater pointed out that these people, (I select) Curtis, Knox, Mackintosh, and Clark, were directly responsible for convincing the government that a central bank was necessary, for advising it on when and how the bank should be set up, and for writing the legislation and seeing to its execution. There were others, O.D. Skelton and Wynn Plumptre, and two subsequent Governors of the Bank, Towers and Rasminsky, but, here, we consider only the first four mentioned.

This narrow selection is defensible. However, if one were definitively to establish the operative circle of interacting colleagues in the setting up of the Bank of Canada, one would have to take account of alliances formed in the Queen's University disputes over Imperialism and nationalism in the latter half of the second decade of the century, and in the quarrels over who would succeed Skelton as Head of the Department of Economics (Mackintosh, C.R. Fay, or Herbert Heaton) in the mid 1920s (Gibson, pp. 10–60.). Certainly, one would have to take account of the circle of obituaries in later years: Mackintosh on Skelton, Mackintosh on Clark, Knox on Mackintosh, and Slater on Knox, for example. For people outside of the Queen's connection, one would have to consider, at least, the interaction between Plumptre, Robert Bryce and Louis Rasminsky at the University of Toronto in the late 1930s. Further, the excellent secondary sources dealing with actors both from and not from Queen's, such as the accounts given by Irving Brecher, Doug Owram, Jack Granatstein, and

D.H. Fullerton, would have to be cited. But all of that would be a major and tedious work; and, perhaps, unnecessary. So, with only a seemingly gratuitous assertion that the selection here is not incompatible with information in these sources, the four selected from the operative circle are taken to represent the views of all.

W.A. Mackintosh

W.A. Mackintosh, who wrote on money and banking in the 1920s, left an account of the intellectual and political pressures of the time with respect to the payments system. Despite evidence that the presumed benign automaticity of the combined Gold Standard and Real Bills mechanisms was not being realized, he offered in their defence a statement that, when temporary circumstances passed, it would be.

> In May, 1920, wholesale prices turned definitely downward, and different classes of people were variously affected . . .. . . .there came the demand for calling before the Banking Committee of the House of Commons, three gentlemen, Professor Irving Fisher, Major C.H. Douglas and Mr. George Bevington. . . .the proposed *compensated dollar* of Professor Irving Fisher (1923–24, p. 61.).

With respect to domestic monetary policy he wrote,

> One cannot agree with Professor Fisher that the project should be adopted by Canada singly, for the reason that the most significant price fluctuations, those of the agricultural commodities which we export, originate in world markets which a stabilization of Canadian currency would not affect (1923–24, pp. 63–64.).

With respect to Real Bills he wrote,

> Does . . .an extension of bank credit . . .entail a rise in prices? . . .If such a line of credit were used to purchase an automobile or furnish a house it would tend to raise prices. If, however, it is used as bank credit is supposed to be used and as the careful banker insists that it be used, to finance the marketing of goods, there is no necessary rise in prices. Purchasing power has been increased but goods have also increased (1923–24, pp. 65-66.).

> There is no reason for believing that anything different [from an inflationary process] would happen under [the monetary radical,] Mr. Bevington's project unless the forms of security accepted by the Treassury were so selected that they represented goods in or near the marketing process. From the standpoint of a banker ("one who knows a note from a mortgage") real estate is not good security because it is

> not liquid, it is not saleable. From the point of view of economic principles, however, bank credit "created" on the security of real estate or government credit on any basis not specifically related to the selling of goods (or producing where the production process is short) is likely to produce inflation and its inevitable concomitant deflation. Mr. Bevington and those who agree with him should note that in the case of the Federal Reserve Banks of the United States, which to some extent have suggested some features of his plan, the central banks may be drawn on only through the medium of commercial paper rediscounted (1923–24, p. 67.).

With respect to the Gold Standard, he wrote

> There seems to be, therefore, no sound reason for assuming that the world's supply of monetary gold has become inadquate to maintain a stable level of prices though it may be that in the present decade it may become so. Why then the disastrous collapse of prices in the last few years (1931, p. 101.)?

> The recent drastic price declines are, in brief, a phase of a violent international readjustment, the accumulated total of the postponed readjustments of the past decade (1931, p. 110.).

Others were not so sure that fundamental, long-run changes had not taken place.

C.A. Curtis

The position taken by C.A. Curtis seems clear and straight forward. In 1930, he depreciated the effects of increased issues of Dominion notes through the operation of the Finance Act. The consequent 'great expansion of credit' had caused

> . . .a substantial price inflation, and the virtual abandonment of the gold standard (1930, p. 109.).

In 1931 he continued his appeal.

> . . .what will happen when business improves and another "upswing" of the business cycle occurs, and the banks need more reserves to extend credit? Presumably, the events of 1928–29 will repeat themselves. . . .How can the situation be corrected? . . .The government might be required to keep on hand an excess stock of gold which could be used to support additional issues of Dominion notes. This process, however, would be expensive. Another possibility, and in my opinion the only satisfactory permanent solution, would be the creation of a central

> bank which would do the same thing, but which would be administered in keeping with the accepted principles of central banking. . . .If Canada is to be a gold standard country it must for two reasons hold firmly to the customs and conventions of that standard. Firstly, it does Canada little good in the financial centres of the world to be considered a financial "weakling", and to be linked with those countries which are incapable of maintaining a stable monetary standard. The financial integrity of Canada can never be upheld in the markets of the world by such practices as those which have occurred in the last two years, and which are primarily the results of Canadian policy. Secondly, from the point of view of the local interests of the citizens of Canada, the most satisfactory policy and the one which in the end will give the best return to Canadians is to allow the gold standard to operate freely in accordance with its designs and purposes (1931, pp. 119–120.).

In 1933, when the MacMillan Commission brought the debate to a boiling point, Curtis reiterated his stand.

> I shall reiterate my position. . . .The fundamental function of a central bank is to maintain the standard which has been selected by the country in question. . . .In my opinion there is no proper machinery in Canada to carry on a monetary standard and it is this condition which justifies a central bank (1933, p. 245.).

Frank Knox

Frank Knox presented an historical explanation of the malfunctioning of the domestic and international payments systems after 1913, and he made a direct statement of what the policies of a central bank ought to be in the light of the problem. Specifically, he explained the unworkability of the Gold Standard System, (1934, pp. 298–299, 1936–46, pp. 17–28.) and of the existing banking system as joint means of monetary control, especially in the United States (1936-46, pp. 146–150.), but also in Canada (1936–46, p. 79.) where the Real Bills Doctrine more closely described what had happened (1936–46, pp. 136.). In the circumstances he saw no alternative but to establish a central bank to achieve what the Gold Standard System and the operation of the Real Bills Doctrine were supposed to achieve: a stable exchange rate and an elastic issue of the means of payment that would contract when foreign makets failed and expand when they opened up. The idea that the money supply could be adjusted to domestic conditions in isolation was, in his view, a kind of monetary heresy, characteristic of 'the democracy' in the United States, from which Canada had been saved, until 1913, by historical circumstances

(1936-46, pp. 78–89, 176–78.).

With respect to the practical policy of the Bank of Canada, he wrote,

> It is to be regretted that the MacMillan Commission which investigated the Canadian monetary and banking system during the summer of 1933 interpreted its terms of reference so narrowly. The government sought guidance on both financial structure and monetary policy. The Commission confined its attention to structure. The central bank which was its chief recommendation is about to be created, but neither legislation nor discussions in parliament give any hint as to the monetary policy which is to be pursued (1934, p. 189.).

> . . .it would be unwise . . .foı a country so largely dependent on international trade and having such a large volume of foreign capital invested within her borders, to pursue a policy designed solely to promote domestic stability. It will be necessary to adjust Canadian economic life continually to changing international conditions and to promote the interest of the exporting industries at as small an expense as possible by way of domestic disturbance. Such an objective calls for an elastic monetary policy and continual control. . . .There should be created also an exchange stabilization fund financed by the Federal government and operated by the central bank. This is the sort of agency by which a desirable day-to-day stability of foreign exchange rates may be attained without formal adherence to an international monetary standard. . . .Canada should not consider a return to the gold standard not because monetary management is in itself desirable, particularly for a country with little experience of it, but rather because it is forced on us (1934, pp. 304–305.).

W.C. Clark

It may be that William Clifford Clark was the most influential of the four Queen's men. Next to O.D. Skelton, he was closest to power in Ottawa, and most responsible for bringing other intellectuals into the civil service. In 1931, Mr. Mclaine introduced him at the annual convention of the Professional Institute of the Civil Service of Canada with the following words.

> Last year he was signally honoured by being appointed by President Hoover as a member of his emergency committee on unemployment. He was also elected for the committee of the National Conference on Construction, which was under the auspices of the President of the United States and the Secretary of Commerce. Later in the year he was asked by the National Bureau of Economic Research in New York city

> to join a committee of experts to investigate the business depression (Clark, 1931(a), p. 2.).

Clark introduced his own comments on the depression and the economy with a conclusion.

> But – if I may state a conclusion dogmatically without attempting proof at this time – the machine, in my opinion, is not incapable of repair. . . .The brakes need relining and a more powerful system of headlights needs to be installed if we are to drive again at the pace of 1929. . . .With such a thorough overhauling and such improvement in control, it will probably be found that the "old bus" is still without an equal, still superior to the only competitive model which has yet appeared, . . .(Clark, 1931(b), pp. 2–3.).

That Clark was a fiscal 'conservative' seems evident from a comment ascribed to him, that 'Frivolous or excessive government spending would only aggravate an already serious problem.' (Owram, p. 218.). His position on monetary policy is evident from his understanding of business cycles and from his comments on the 'flight from the gold standard' in 1930.

> The present depression [1921] is, therefore, the result not so much of an industrial reaction as of a price collapse following a period of unprecedented credit inflation (Clark, 1921, p. 83.). . . .It would be madness to imagine that we can excape paying a high price for our follies of the last few years (Clark, 1921, p. 83.).

With respect to Britain going 'off gold' and devaluing the pound in 1931 he wrote,

> By *force majeure* England has been pushed off the gold standard and sterling exchange was left to find its own level. A new era has dawned. . . .On the negative side of the argument [for devaluation] are disadvantages whose gravity would seem to outweigh the anticpated gains (Clark, 1931(b), p. 753.) . . .. If international price stability is to be achieved, then either the gold standard must be saved and modified to meet present world conditions or a suitable substitute must be devised. The policy of separate national gold reserves and independent gold policies has broken down under the terrific task of post-war adjustment. This has not necessarily meant that the gold standard is impractical. It may mean that these conditions, chiefly the political results of a stubborn nationalism, cannot be reconciled with the economic forces which tend to make the world one, and that they must be radically changed if we are to retain the benefits of economic specializa-