

THE BANK OF NOVA SCOTIA

IN MINNEAPOLIS, 1885-1892

D. L. C. Galles

IN A MODEST ADVERTISEMENT on the financial page of the *Minneapolis Tribune* on Friday, October 20, 1885, the Bank of Nova Scotia let the public know that its new Minneapolis branch was open for business at 414 Nicollet Avenue on "premises lately occupied by Jobbers' Association." The branch was ready to make loans, buy and sell exchange, and make collections "in all parts of Canada on the most favorable terms."¹

For the next seven years the branch bank in Minneapolis conducted a profitable business that contributed measurably to the young city's rapid expansion into a major financial and commercial center. Importing experienced banking personnel, sophisticated banking techniques, and, most important, capital, the Bank of Nova Scotia set standards of success and conduct that local institutions sought to emulate. Reciprocally, profits that the Minneapolis branch made helped the mother bank in Halifax to weather the economic crises afflicting eastern Canada throughout the 1880s and early 1890s.

There was nothing singular about a Canadian bank establishing a branch in the United States. Canadian banks had long had close relations with New York and usually kept substantial balances there. Some Canadian banks also maintained offices in other United States cities. The Bank of Montreal, for instance, had a Chicago office. So did the Canadian Bank of Commerce until 1886, when it became "very difficult to lend surplus monies profitably" and that Chicago office had to close. In addition, the Canadian Bank of Commerce maintained an office in New Orleans to finance cotton shipments (a hostile legislature finally drove it out) and a San Francisco branch. These, however, were large institutions: the Bank of Montreal was Canada's

largest and the Canadian Bank of Commerce was the second largest.²

In contrast, the Bank of Nova Scotia in early 1885 was a relatively small regional bank with its headquarters in the provincial capital of Halifax and its business confined almost entirely to the Maritime Provinces. Not until 1888 did it open a Montreal office, and not until 1897 did it launch a Toronto branch. Excluding its Winnipeg office, which the bank opened in 1882, the Minneapolis branch was its first venture outside maritime Canada since the bank's founding in Halifax in 1832.³

The factors leading to the decision to establish this distant financial outpost in Minnesota tie together the economic histories of the Maritimes, the whole of Canada, Minneapolis, and Winnipeg. It is in Winnipeg that the story begins.

In the spring of 1881, when the province of Manitoba was eleven years old, Winnipeg experienced an accelerating boom in real estate. Hastily-formed financial syndicates helped fuel the economic frenzy with easy credit until city lots on Winnipeg's Main Street commanded higher prices than did those on Chicago's Michigan Avenue. In the spring of 1882 the boom slackened, although rapid building maintained pros-

¹ *Minneapolis Tribune*, October 30, 1885, p. 6.

² Victor Ross, *A History of the Canadian Bank of Commerce*, 2:108, 125 (Toronto, 1922).

³ *History of the Bank of Nova Scotia, 1832-1900*, 57 (Halifax, 1901).

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perity in Winnipeg for a time. Then, in 1883, the market crashed, paper land values crumbled, and insolvencies multiplied.⁴

Speculation, unfortunately, had not been confined to Winnipeg. Eastern Canada had been caught up in the wild excitement, too, and many investors lost heavily. A poor crop in Ontario in 1883 and industrial overproduction compounded the problem to produce a national recession. Assets of the Canadian Bank of Commerce, for example, shrank from about \$26,000,000 in 1883 to approximately \$22,000,000 in 1885 and to some \$19,500,000 in 1887.⁵

This economic downturn was only cyclical for Canada as a whole, but for the Maritime Provinces it was part of a long-term decline. Nova Scotia's wooden ship-building and shipping industries (which had produced magnates like Samuel Cunard) had been made obsolete by the introduction of iron-hull boats and steamships into maritime commerce. The Maritimes' once enormous merchant marine dwindled to almost nothing. At the same time European production of beet sugar increased, and this dealt a severe blow to the sugar-cane economy of the West Indies which had been a major market for Nova Scotia cod. Throughout the last quarter of the nineteenth century Nova Scotia was left to eke out a living from its forests, fisheries, and railroads, and profitable outlets for loanable funds were drying up.⁶

Another complicating factor for the Nova Scotia bank was that these traditional industries possessed long-established sources of credit elsewhere. The lumber industry regularly obtained capital through firms in Britain, the fishing industry in the Gaspé Peninsula area was supplied credit by firms on the British island of Jersey, and the mining industry received credit from Britain and the United States as well as local sources.

⁴ W. L. Morton, *Manitoba: A History*, 200-201 (Toronto, 1957).

⁵ Ross, *Canadian Bank of Commerce*, 2:95.

⁶ G. G. Campbell, *The History of Nova Scotia*, 277, 279 (Toronto, 1942); H. A. Innis and A. R. M. Lower, eds., *Select Documents in Canadian Economic History, 1783-1885*, 700-702 (Toronto, 1933).

⁷ Innis and Lower, *Select Documents*, 726; Thomas H. Raddall, *Halifax, Warden of the North*, 230 (London, 1950).

⁸ Bank of Nova Scotia, *Monthly Review*, August-September, 1952, n.p. This magazine is hereafter cited as *Monthly Review*.

⁹ *History of the Bank of Nova Scotia*, 58; *Monthly Review*, August-September, 1952, n.p. *Webster's New International Dictionary of the English Language* (second edition) defines accommodation paper as "A bill, draft, or note made, drawn, accepted, or endorsed by one person for another without consideration, to enable that other to raise money or obtain credit thereby."

Closed out at home by the recession and established financial habits, Nova Scotia financiers looked to the West—to more prosperous Ontario and Quebec—for outlets for loanable funds.⁷

It was this search for sound outlets that led the Bank of Nova Scotia to establish an office in Winnipeg. The bank, in fact, had acquired new management in 1870 and between that year and 1882 embarked on a program of rapid expansion, establishing twenty new branches in addition to the one in Winnipeg.⁸

The bank unluckily opened its Winnipeg branch in March, 1882, at the crest of the real estate boom, and it suffered sizable losses when land values crashed in 1883. In 1884 the bank found it necessary to write off \$130,000 from the reserve fund "to meet large losses developed during the year." Thomas Fyshe, the bank's general manager, wrote: "It is quite evident that any accommodation paper in Winnipeg is intended to be carried till doomsday, which generally means the failure of all parties."⁹ Accordingly, in September, 1885, agent Henry C. McLeod was sent to Winnipeg to liquidate the branch.

FROM THE FINANCIAL PAGE of the Minneapolis Tribune, October 20, 1885.

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F. H. PEAVEY & CO.,
WHOLESALE GRAIN.
Extra Facilities for Furnishing Corn
and Oats.
Rooms 62 and 63 Chamber of Commerce,
MINNEAPOLIS, MINN.

THE SECURITY BANK OF MINNESOTA.
MINNEAPOLIS.
Capital.....\$1,000,000
Surplus.....250,000
T. A. Harrison, President; H. G. Harrison, Vice-
President; W. M. Penney, Cashier; F. A. Cham-
berlain, Assistant Cashier.
A general banking business transacted.

THE CITIZEN'S BANK,
No. 416 Nicollet Avenue.
Authorized Capital - - - \$500,000
Paid Up Capital - - - 100,000
A general banking business transacted.
N. F. GRISWOLD, President.
E. S. WOODWORTH, Vice-President.
GEORGE B. SHEPHERD, Cashier.

H. C. McLEOD, DANIEL WATERS,
— AGENTS —
Bank of Nova Scotia,
OFFICE, 414 NICOLLET AVENUE.
Premises lately occupied by Jobbers' Association.
Loans made on commercial paper, warehouse
receipts, or other collaterals.
European, Eastern and Canadian exchange
bought and sold.
Canadian currency bought, and collections made
in all parts of Canada on the most favorable terms.

H. F. LILLBRIDGE & CO.,

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En route, McLeod passed through Minneapolis, where he discovered what he considered to be a dearth of local banking institutions. He determined that a branch of his own bank in Minneapolis could realize considerable profits. In 1885 the Canadian Pacific Railway connecting Winnipeg with Montreal had just been completed, but relations between the Twin Cities and Winnipeg — forged by the Red River oxcarts decades before and cemented by James J. Hill's St. Paul, Minneapolis and Manitoba Railway — were as yet unbroken. (The Twin Cities still considered Manitoba within their economic sphere.) Hill, who had been born in Ontario in 1838, completed the railroad in 1879 with the help of two other Canadians, Donald A. Smith (later Lord Strathcona), resident governor of the Hudson's Bay Company, and George Stephen (later Lord Mount Stephen), head of the Bank of Montreal.¹⁰

IN 1885 MINNEAPOLIS was a booming town. Its population had soared from some 5,800 (including St. Anthony) in 1860 to 46,887 in 1880 to 164,738 in 1890. The Minneapolis Board of Trade beamed, pronounced Minneapolis' population rise second only to Chicago's, and boldly stated that "there is no discernible reason why the present rate of increase should not persist indefinitely, until Minneapolis takes rank among the largest cities in America." Minneapolis' banking facilities, the board boasted, were "now superior to those of any other city in the Northwest."¹¹

And there was reason for boasting. Minneapolis was the leading flour-milling city in the United States — for which it enjoyed international repute — and its wheat trade was second only to New York's. Also prospering greatly was Minneapolis' second main industry, lumbering. The city's production of lumber climbed from some 118,000,000 feet in 1870, to 195,000,000 feet in 1880, to 312,000,000 feet in 1882.¹²

In addition, the city was enjoying such refinements of civilization as a symphony orchestra (led by Frank Danz, Jr.) and two opera houses — the Grand Opera House, opened in 1883 near the corner of Nicollet Avenue and Sixth Street, and the Pence Opera House, which had been operating (sometimes under different names) since 1866 at the corner of Hennepin Avenue and Second Street. The ornate, eight-story West Hotel was just completed, and it was claimed that "by none west of New York city is it excelled."¹³

Reflecting the city's solid economic growth, banking capital had risen tenfold to nearly \$2,500,000 in the ten years ending in 1880. (By the beginning of 1892 it was to pass \$10,000,000.) Nevertheless, Minneapolis was still an importer of capital on a large scale. In 1884 the Chamber of Commerce readily admitted that "with

the large grain and manufacturing business carried on in Minneapolis, a much larger banking capital could be profitably employed. . . . Most of our larger millers and manufacturers are forced to seek accommodations from eastern bankers during the busy season." Profits were good, however: in 1886 the rate of discount on good commercial paper was 8 per cent, the rate of interest on mortgage loans was 6 to 8 per cent, and, as evidence of Minneapolis' capital-importing status, the rate of exchange on New York stood at a premium of one-eighth and that on Milwaukee and Chicago at one-tenth.¹⁴ Minneapolis entrepreneurs nevertheless borrowed eagerly, knowing that their profits would easily cover the high cost of financing their ventures.

Banking in Minneapolis consisted of capitalizing the lumber and grain businesses, both of which were seasonal and dependent on climatic conditions and crop yields. On the other hand, the two businesses offered very tangible collateral. Moreover, wheat prices, spurred on by steady demand, were buoyant in the 1880s. Britain, Belgium, Germany, and the Netherlands were all large purchasers of Minneapolis flour, which accounted for one-fifth of the country's flour exports in 1884.¹⁵

¹⁰ *Minneapolis, Metropolis of the Northwest*, 58 (Minneapolis, 1887). Close relations between Minneapolis and Winnipeg continued for some time after completion of the Canadian Pacific. For an interesting sidelight on the men who financed the St. Paul, Minneapolis and Manitoba Railway, see Heather Gilbert, "The Unaccountable Fifth: Solution of a Great Northern Enigma," in *Minnesota History*, 42:175-177 (Spring, 1971).

¹¹ Horace B. Hudson, ed., *A Half Century of Minneapolis*, 59, 68 (Minneapolis, 1908); Board of Trade, *History and Growth of Minneapolis, Minnesota*, 11 (first quote), 40 (second quote) (Minneapolis, 1884).

¹² Board of Trade, *History and Growth*, 15-17, 24.

¹³ John K. Sherman, *Music and Maestros: The Story of the Minneapolis Symphony Orchestra*, 19 (Minneapolis, 1952); Joseph W. Zalusky, "Early Theater . . . or the History of Entertainment in Minneapolis," in *Hennepin County History*, Fall, 1960, p. 3-7; Board of Trade, *History and Growth*, 36.

¹⁴ Hudson, *Half Century*, 240; Report of the Comptroller of the Currency, 52 Congress, 2 session, *House Executive Documents*, no. 3, part 2, p. 540-542 (serial 3100); Public Examiner of Minnesota, *Tenth Report*, 1892, p. 73-81; Minneapolis Chamber of Commerce and Board of Trade, *Report*, 1884, p. 96; Mildred L. Hartsough, *The Twin Cities as a Metropolitan Market*, 133, 133n (University of Minnesota, Studies in the Social Sciences, no. 18, Minneapolis, 1925).

¹⁵ A. V. Gardner, "The Story of the Twin Cities," in *Bankers' Magazine*, 87:317 (New York edition, September, 1913) (all subsequent references to this magazine are to the New York edition); Theodore Saloutos, "The Spring-Wheat Farmer in a Maturing Economy 1870-1920," in *Journal of Economic History*, 6:180 (November, 1946).

THIS WAS the economic climate in Minneapolis in the autumn of 1885 when the Bank of Nova Scotia opened its doors. After the paper land booms experienced in Winnipeg, bank officials must have welcomed the readily discernible collateral in Minneapolis. At the bank's annual meeting in Halifax in February, 1886, the president told the shareholders that a new branch



JAMES B. FORGAN

had been established in Minneapolis "to lend our surplus funds there, not to do a general banking business such as we did at Winnipeg, but to make loans to the best houses on good collateral security." (Included in the collateral repossessed by the bank on its ill-fated Winnipeg loans had been 147 "spring beds" and other "assets of a rather promiscuous nature," as bank inspector James B. Forgan put it.)¹⁶ Henry C. McLeod, a Prince Edward Islander, was named manager of the Minneapolis branch. Soon, however, Forgan offered to exchange positions with McLeod, and the latter agreed.

In a short time a good business was worked up in collaterally-secured loans, bank rediscounts, and foreign exchange. The bank had long engaged in a sterling exchange business arising out of the big New Bruns-

wick lumber trade (the bank's London correspondents were Williams, Deacon and Company and the Royal Bank of Scotland), and these well-established connections must have been of considerable assistance to the Minneapolis branch as it pursued a policy of buying from local banks millers' bills drawn against flour shipments. The bank, of course, also exchanged Canadian currency which Minneapolis and St. Paul accumulated in large quantities. The currency was purchased at a discount and shipped back weekly to Canada. (Winnipeg banks, described as "flooded" with American money, put a "big discount" of 3 per cent on United States bank notes.)¹⁷ Under Forgan's management the Minneapolis branch did well.

On at least two occasions, however, the branch bank narrowly averted substantial loss. The first crisis was brought on by a Minneapolis fire which on July 18, 1887, destroyed the large St. Anthony Elevator Company, owned principally by Washburn, Crosby and Company and F. H. Peavey and Company. Damage was estimated at a million dollars or more, and at first nearly a million bushels of wheat were thought ruined. However, insurance covered most of the loss, and approximately 400,000 bushels were salvaged. The bank, which was holding some paper secured by the burned grain, escaped without loss.¹⁸

Another near disaster for the Minneapolis branch involved the Third National Bank of St. Paul, capitalized at \$500,000, which closed its doors on November 4, 1887. The Bank of Nova Scotia had rediscounted some paper of one of the St. Paul bank's customers. Unlike most St. Paul commercial banks, however, the Third National did not restrict its services to local businesses. Instead, it discounted the paper of firms from outside St. Paul at from 8 to 10 per cent and then rediscounted the paper, at eastern banks with the bank's endorsement, at from 4 to 6 per cent. This amounted to a healthy profit of from 4 to 6 per cent. But, to get the high rates, the St. Paul bank had to discount some second-class paper of doubtful security. This policy involved the bank—to the extent of \$45,000—in the failure of the Matt Clark Transportation Company of Stillwater. More seriously, the St. Paul bank lent \$200,000 to a lumber firm, Rood and Maxwell of Washburn, Wisconsin, which became insolvent. Only a quarter of the loan appeared recoverable. When the Third National's losses became known, its shares plummeted from 115 to 65, with no takers at that price. The bank settled as best it could with Rood and Maxwell by taking pine lands valued at \$110,000. It then paid its \$125,000 in deposits in full, and, with three-fourths of its assets realizable, went into voluntary liquidation. Meanwhile, Forgan of the Bank of Nova Scotia astutely sold the Third National's paper held by his bank at

¹⁶ Bank of Nova Scotia, President's Address at the Annual Meeting, February 17, 1886, Shareholders' Minute Book, in the bank's archives, Toronto. The author wishes to thank Margot Dixon, archivist, for this reference and others from the bank's archives; *Monthly Review*, August–September, 1952, n.p.

¹⁷ *Monthly Review*, August–September, 1952, n.p.; Bank of Nova Scotia, *Annual Report*, 1885, in the bank's archives; James B. Forgan, *Recollections of a Busy Life*, 93–94 (New York, 1924); *Bankers' Monthly*, 43:387 (quotes) (November, 1888).

¹⁸ *Weekly Northwestern Miller*, 24:96 (July 22, 1887) and 120 (July 29, 1887).

1 per cent above the rate at which he had discounted it, and again the Minneapolis branch avoided loss.¹⁹

At the end of 1887 Forgan resigned as branch manager and accepted the position of cashier at Northwestern National Bank of Minneapolis. He proceeded to revamp Northwestern's methods of operation. In 1891 he moved to Chicago where, first as vice-president and then as president, he built that city's First National Bank into one of the most powerful institutions of its kind in the West. Recognized as "one of America's most capable bankers," Forgan eventually served as director of the Federal Reserve Bank at Chicago. He left a deep impression on Minneapolis banking because he was one of the few men in that city trained in the banking field. Arriving in Minneapolis when banks were being formed by lumbermen, farmers, and millers hurt by the shortage of credit, Forgan applied organization and policies learned first in his native Scotland and then in the employ of the British Bank of North America and the Bank of Nova Scotia. Highly respected among bankers, Forgan was active in the Minneapolis and Chicago clearinghouse associations.²⁰

On Forgan's departure from the Bank of Nova Scotia in 1887, former manager Henry C. McLeod returned to fill the vacant post, and the Minneapolis branch enjoyed good business for some time. Profits for the Bank of Nova Scotia as a whole had risen 27 per cent between 1885 and 1886, and at the end of the next year they showed a similar increase. In 1888 earnings were up only 13 per cent, but perhaps the opening of the new branch in Montreal that year dipped into profits. In 1889 returns increased almost 27 per cent, followed in 1890 by a slightly lower increase of 20 per cent. Profits did not rise in 1891, but share capital increased that year by almost 35 per cent.²¹

A strong inference can be made that a sizable portion of these earnings for the total bank operation came from the Minneapolis branch. The mid-1880s were difficult years for banking in Canada, because it was a time of business failures and economic depressions there. Between 1882 and 1890 seven Canadian banks went into liquidation, and six more reduced their capital stock.

The Maritimes were particularly hard hit: Prince Edward Island suffered two bad fishing years that caused the collapse of its Union Bank. The Pictou Bank in Nova Scotia went into voluntary liquidation in 1887, while the Maritime Bank in neighboring New Brunswick failed. Moreover, two area banks were forced to reduce their capital. The *Monetary Times*, an influential financial publication in Toronto, pinpointed the difficulty, reporting that "two well-managed and enterprising institutions" reduced their capital because "they cannot employ it profitably in the locality and have not

the machinery to employ it at a distance." Since lack of capital outlets was a problem for the Maritime banks, one might infer that it was capital-hungry Minneapolis that kept the Bank of Nova Scotia's profits high during the lean 1880s. Significantly, in January, 1886, Thomas Fyshe, the bank's general manager, privately observed: "If we are not driven out of Minneapolis by taxes that business should be an enormous help to us."²²

In contrast to Canada, the United States enjoyed great expansion in the mid-1880s and early 1890s, and capital was much in demand. Beginning in 1886, bank loans increased steadily throughout the country, and in 1889 and 1890 business was so brisk in the West that bankers reduced their balances in New York to the minimum required by the government. In 1891 farmers produced bumper crops which fetched good prices in Europe. Crops there were not good, and they even failed in the Ukraine.²³

Aware of an economic boom in Minneapolis and the Northwest, eastern insurance companies began establishing agencies in the Twin Cities. Trust companies and building and loan associations were formed, and new banks entered the field yearly. In 1884 the Northwestern Guaranty Loan Company was organized in Minneapolis — the first general building and loan association in Minnesota. (Five years later there were fifteen such institutions.) Only four years after its inception, Northwestern Guaranty began constructing a twelve-story office building at Second Avenue South and Third Street. Completed in 1890, it housed not only 400 offices but also top-floor cafes, billiard and smoking rooms, and a roof pavilion that was adorned with flowers when concerts were held there. The structure was hailed as an architectural showpiece, as the first skyscraper between Chicago and the Pacific coast, and as Minneapolis' largest and most luxurious build-

¹⁹ Report of the Comptroller of the Currency, 50 Congress, 2 session, *House Executive Documents*, no. 3, part 1, p. 3 (serial 2644); Forgan, *Recollections*, 95, 96; *St. Paul Pioneer Press*, November 1, 1887, p. 5, November 2, 1887, p. 5.

²⁰ Charles S. Popple, *Development of Two Bank Groups in the Central Northwest*, 44 (Cambridge, Massachusetts, 1944); Dumas Malone, ed., *Dictionary of American Biography*, 6:523 (New York, 1933); "Minneapolis Clearinghouse," in *Commercial West*, May 10, 1958, p. 36.

²¹ Bank of Nova Scotia, *Annual Reports*, 1885–1891, in the bank's archives.

²² *Monthly Review*, August–September, 1952, n.p. quotes the *Monetary Times*; Thomas Fyshe to George McLeod, January 22, 1886, Cashier's Private Letter Book, in the bank's archives.

²³ Oliver M. Sprague, *History of Crises under the National Banking System*, 129 (Washington, D.C., 1910, reprinted 1968).

ing. (Later known as the Metropolitan Building, it was razed for a parking lot in 1962 in spite of efforts to save it for its architectural interest.)

The Bank of Nova Scotia became one of the first occupants of the new edifice. In doing so it managed to maintain proximity to leading financial institutions and other businesses, because tenants of the Guaranty Loan Building included the Security National Bank, the Northwestern National Bank, and the Bank of New England, as well as the Chicago, Milwaukee and St. Paul Railway, the Soo Line, Pillsbury-Washburn Flour Mills Company, and numerous lawyers attracted by a large law library on an upper floor.²⁴

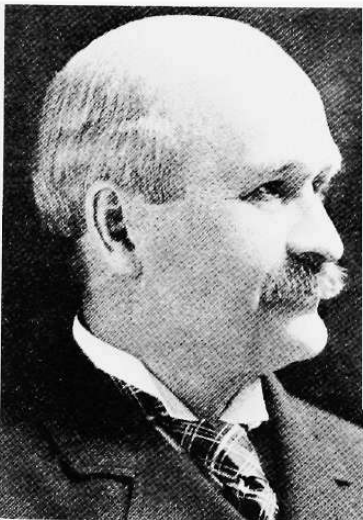
The demand for capital in Minneapolis continued unabated into the new decade. In 1889 another lending institution, the Metropolitan Bank of Minneapolis, was established. In the third quarter of 1890, this bank was reported to have earned a profit of 17 per cent. By 1892 it had increased its capital of \$100,000 by half and

²⁴ "St. Paul, Minn.," in *Bankers' Magazine*, 40:468 (December, 1885); Irving C. Rasmussen, "State Banks," in *Commercial West*, May 10, 1958, p. 93, 94; "The Business Outlook in the Northwest," in *Bankers' Magazine*, 40:707 (March, 1886); "Save the Metropolitan Building," in *Hennepin County History*, Summer, 1959, p. 7; Marion E. Cross, *Pioneer Harvest: The Farmers and Mechanics Savings Bank of Minneapolis*, 98 (Minneapolis, 1949).

²⁵ *Bankers' Magazine*, 46:661, 655 and 45:642 (February, 1892, and February, 1891); "Minneapolis Bank Stocks," in *Bankers' Magazine*, 46:817 (April, 1892); Bank of Nova Scotia, *Annual Report*, 1891, in the bank's archives.

²⁶ Ross, *Canadian Bank of Commerce*, 2:121.

²⁷ It was estimated that the number of letters of credit drawn by European houses on the older Chicago banks alone in 1893 was twenty times greater than in the previous year. See F. Cyril James, *The Growth of Chicago Banks*, 1:590 (New York, 1938).



HENRY C. McLEOD

paid five semiannual dividends, those of January, 1891, and January, 1892, being 4 per cent. Good fortune seems to have favored all Minneapolis banks at this time, because all except two paid a dividend of at least 6 per cent and some even paid 10 per cent during these years. Moreover, no bank shares were traded below par, and some commanded handsome premiums. The Bank of Nova Scotia clearly shared in the prosperity, for during the year 1891 it floated a new issue of shares at a 50 per cent premium.²⁵

North of the border, however, economics was still the dismal science. The years after the mid-1880s collapse were ones of "slow and tedious recovery" for the Canadian economy. Interest rates eased in 1888, but poor harvests, adverse United States tariffs, and a depressed lumber market made 1890 gloomy. Only in 1891 and 1892, when harvests were good, did conditions improve.²⁶ Because the Bank of Nova Scotia had done well between 1885 and 1890 despite its heavy involvement in the New Brunswick lumber business, and because it had not opened the Montreal and Jamaica branches until 1888 and 1889, it seems likely that the Minneapolis branch contributed considerably to the bank's profits.

PROFITS NOTWITHSTANDING, the Bank of Nova Scotia's participation in the business life of Minneapolis ended as abruptly as it began. In 1892 the Bank of Nova Scotia, like other foreign banks such as *Crédit Lyonnais* and *Comptoir National d'Escompt*, decided to open a branch in Chicago to take advantage of the foreign exchange business certain to be created by the Chicago Columbian Exposition of 1893.²⁷ This move led the Nova Scotia bank's directors to raise doubts about the desirability of maintaining two branch offices in the United States.

A decision on this matter was reached on September 13, 1892, and recorded concisely in the Directors' Minute Book: "The Cashier [Thomas Fyshe] brought before the meeting the question whether or not the Agency at Minneapolis should be closed on account of our opening at Chicago. A letter from H. C. McLeod was read on the subject strongly advising that Minneapolis be closed, for a variety of reasons — chiefly the unnecessary expense in keeping two such agencies when probably the same amount of business might be done with one; and the continually impending risk of being called upon to pay the same rate of taxation on our total loans as that imposed on the local Bank's capital only, and also the possibility of a claim being made on us on the same scale for the business of former years. After some discussion it was moved that the Agency at Minneapolis be closed. The motion was carried."

At least three factors — a change in Minneapolis' banking and industrial structure between 1885 and 1892, the availability of cheaper credit in the East, and the rise of Chicago as a regional banking headquarters — indicated to the board that maintaining the two branches was unwise. By 1892 Minneapolis and St. Paul bank capital and surplus had reached more than \$17,000,000, having risen 50 per cent since 1885. Authorized capital was \$8,000,000 more — an indication of business optimism. Deposits had reached \$19,000,000 by 1890, and the balances of other banks carried in Twin Cities banks, which in 1880 were insignificant, amounted to well over \$5,000,000. Furthermore, larger Minnesota country banks (such as those at Rochester, Owatonna, and Northfield) were lending directly to Minneapolis customers.²⁸ All of this amounted to considerable enlargement of the available loanable funds in Minneapolis. (Minneapolis banks compared favorably with those of some rival major cities. Milwaukee appears to have had only \$3,500,000 in banking capital in 1892 and St. Louis a little over \$16,000,000 in 1891, *vis-à-vis* the \$17,000,000 of Minneapolis and St. Paul.) Minneapolis had seen the establishment of twelve banks between 1885 and 1892, and by 1893 it seemed the limit had been reached. In May, 1893, *Bankers' Magazine* reported: "There is a feeling now that it would be better not to add to the banking capital for a time. It is probably true that several more banks could be operated here with profit, but it would be at the expense of older institutions. The city is well supplied with banks."²⁹

Furthermore, important changes in Minneapolis' industrial structure were taking place. As stated earlier, Minneapolis banks depended on the lumber and milling industries as outlets for funds. By 1890, however, these industries were moving toward nationally-based finance capitalism and accordingly required lesser amounts of local funds. Before 1890 most Minnesota lumbermen were small entrepreneurs; thereafter, as a historian of Minnesota's lumber industry wrote, "Michigan's market, Michigan's capital, and Michigan's lumbermen were being released to Minnesota," as the former state's pine resources were nearly exhausted. In 1889 Henry C. Akeley, who moved from Michigan, organized a lumber company in Minneapolis with capital of \$500,000, and the city's lumber production soared. Thomas H. Shevlin and Stephen C. Hall (also of Michigan) started a sawmill that became one of the largest in Minneapolis. Then, in 1891, lumber magnate Frederick Weyerhaeuser made Minnesota his headquarters, introducing "strong organization and large capital to a degree not previously known there." By 1893 he had formed the Mississippi River Lumber Company with capital of \$1,500,000. Outside capital and methods

helped Minneapolis replace Chicago as a manufacturer and distributor of white pine, and lumbering became big business in Minnesota.³⁰

A similar change occurred in milling. In 1889 Charles A. Pillsbury and Company and Washburn Mill Company were merged into Pillsbury-Washburn Flour Mills Company, Limited, by a syndicate of English investors who purchased them. This union created the largest company in the industry and precipitated other mergers. Six smaller Minneapolis mills combined in 1891, for instance, to form Northwestern Consolidated Milling Company, and the following year three others merged to become the Minneapolis Flour Manufacturing Company. These three firms then controlled 87 per cent of the city's milling capacity. Thus by 1892 the two great industries of lumbering and milling had become concentrated in the hands of a few large and highly capitalized firms that had less need for local funds than their predecessors did. In addition, the larger millers had established relations with eastern banks and commercial paper houses which could provide more extensive services than local banks.³¹

The increased availability of cheaper credit elsewhere was also important in the Bank of Nova Scotia's decision to leave Minneapolis. By 1880 Minneapolis millers began looking to New York and Boston commercial paper houses for credit, and, as a national market for commercial paper developed in the 1890s, the trend advanced vigorously. By 1892 one midwestern banker was complaining bitterly that eastern commercial paper houses were poaching among his customers. The incentive for midwestern firms to patronize the eastern houses was considerable. Whereas the average discount rate for prime double-name commercial paper in St. Paul and Minneapolis was 6½ to 8 per cent between 1893 and 1897, it was only 3 to 6¼ per cent in the New York commercial paper market, with 4½ per cent being the average over those five years. In 1874 the note-offering list of a Boston commercial paper house carried only two Twin Cities items. Twenty years

²⁸ Report of the Comptroller of the Currency, 49 Congress, 1 session, *House Executive Documents*, no. 3, p. 791, 797-799 (serial 2386); 52 Congress, 2 session, *House Executive Documents*, no. 3, p. 540-542, 547-549 (serial 3100); Public Examiner of Minnesota, *Seventh Report*, 1886, p. 159-163, *Tenth Report*, 1892, p. 73-81; Hartsough, *Twin Cities as Metropolitan Market*, 123.

²⁹ *Bankers' Magazine*, 47:865 (May, 1893).

³⁰ Agnes M. Larson, *History of the White Pine Industry in Minnesota*, 229, 231, 234 (Minneapolis, 1949).

³¹ Herman Steen, *Flour Milling in America*, 64 (Minneapolis, 1963); Charles B. Kuhlmann, *The Development of the Flour-Milling Industry in the United States*, 130 (New York, 1929); Hartsough, *Twin Cities as Metropolitan Market*, 131, 135.

later a similar New York house's list carried ten. Well might Twin Cities firms look east for short-term credit.³²

Improvement in Chicago's banking climate also influenced the Bank of Nova Scotia's decision to establish a Chicago branch. By 1892, owing to its new legal status as a central reserve city, Chicago had better banking facilities than Minneapolis, where lending was primarily seasonal because it was dependent largely on the lumber and grain industries.³³

Minnesota's tax structure was another factor influencing the Nova Scotia directors' decision. Well into the twentieth century, Minnesota taxed bank shares as personal property. The relevant section of the Minnesota tax law read: "The stockholders of every bank located

within this state, whether such bank has been organized under the laws of this state or of the United States, shall be assessed and taxed on the value of their shares of stock therein, in the county, town, district, city, or village where such bank or banking association is located." Value was determined by totaling capital and surplus (real estate having already been separately assessed), and the amount of the tax was to be withheld at source.³⁴ While the Bank of Nova Scotia had not been organized under Minnesota or United States laws, it nevertheless did have a branch in Minnesota and could therefore expect to be subject to taxation. Whether it should be taxed on all of its capital assets or on only those assets employed by the Minneapolis branch was a matter of debate.

Apparently some sort of *modus vivendi* was reached with Minnesota tax officials. Assessed valuations in 1892 for the Bank of Nova Scotia and Northwestern National Bank were \$125,000 and \$749,891 respectively; yet in that year the Bank of Nova Scotia possessed capital and reserve of \$2,550,000 while Northwestern had only \$1,450,000. Obviously, the Minneapolis branch was not compelled to pay taxes on the bank's

³² Kuhlmann, *Flour-Milling Industry*, 141; Albert O. Greef, *The Commercial Paper House in the United States*, 48, 80, exhibits 12 and 15 (Cambridge, Massachusetts, 1938); R. M. Breckenridge, "Branch Banking and Discount Rates," in *Bankers' Magazine*, 58:44 (January, 1899).

³³ Sprague, *History of Crises*, 124; Hartsough, *Twin Cities as Metropolitan Market*, 134.

³⁴ Minnesota, *General Laws*, 1878, p. 27.

THE BANK OF NOVA SCOTIA and other leading financial and commercial institutions moved into what became known as the Metropolitan Building (in center of this c. 1900 photograph) after its completion in 1890 at Second Avenue South and Third Street. At left is Fourth Street.



total capital and surplus but, rather, on assets with an assessed value of about \$125,000. This sum, one suspects in the absence of records, represented only a portion of the assets actually employed in Minneapolis. The meeting minutes regarding the decision to move, however, suggest that the directors were becoming increasingly afraid that the bank might lose its favored tax status or that a retroactive tax policy might be put into effect.³⁵

THOUGH SHORT, the Bank of Nova Scotia's stay in Minneapolis was important. James Forgan, the first branch manager, was perhaps the first professional banker in Minneapolis and instituted methods that had a lasting impact on Minneapolis banking. His successor, Henry C. McLeod, was also a noted banker. After his years in Minneapolis he served as general manager of the Bank of Nova Scotia from 1897 to 1910 and directed the western expansion that made the bank one of Canada's greatest.³⁶

The bank itself also was important to Minneapolis. With capital and reserve of almost \$1,500,000 in 1885, it was large by United States standards. (Only five Twin Cities banks then held capital of \$1,000,000 or more. There were only five such banks in Chicago, and New York's largest bank boasted capital of only \$5,000,000.) Thus, in its years of expansion, Minneapolis enjoyed the services of a foreign bank with cash

to spare and good connections in New York, London, and Canada.

The best record of the Bank of Nova Scotia's service lies in the unknown amount of dollars it lent to Minneapolis businessmen. One satisfied customer, grain dealer Frank H. Peavey, went to Canada to seek accommodation to the extent of \$400,000 from the Bank of Nova Scotia a year after the removal from Minneapolis. He received the advance and gladly paid 15 per cent interest.³⁷

³⁵ Tax List, Hennepin County, City of Minneapolis: 1889, Fourth Ward, vol. 4, p. 45; 1890, Fourth Ward, vol. 4, p. 43; 1891, Fifth Ward, vol. 2, p. 72H; 1892, Fifth Ward, vol. 2, p. 72, 272, in the assessor's office at the Hennepin County Courthouse; Report of the Comptroller of the Currency, 52 Congress, 2 session, *House Executive Documents*, no. 3, part 2, p. 541; Bank of Nova Scotia, *Annual Report*, 1892, in the bank's archives.

³⁶ *Northwestern National Bank of Minneapolis: The First 75 Years*, 12 (Minneapolis, 1947); *The Bank of Nova Scotia 1832-1932*, 80, 87 [Toronto?], [1932?].

³⁷ Bank of Nova Scotia, *Annual Report*, 1885; Report of the Comptroller of the Currency, 49 Congress, 2 session, *House Executive Documents*, no. 3, p. 663-668, 249 (serial 2473); Kenneth D. Ruble, *The Peavey Story*, 17 (Minneapolis, 1963).

THE PHOTOGRAPH of Henry C. McLeod is from *History of the Bank of Nova Scotia*, facing p. 60; the other illustrations are from the society's collections.



SCANDINAVIAN ARRIVALS

"NORWEGIAN EMIGRANTS. — On Saturday and Sunday last there was a large arrival of these people, the most of them well to do second class farmers. Their old country chests, copper kettles, for the manufacture of cheese, — and other utensils strewed the levee. They took their meals upon their laps or boxes as unconcerned as though they were not surrounded by a curious crowd. It would require a person afflicted with a broken jaw or cramps of the abdomen to fully understand their uncouth sounding words."

From the *St. Paul Daily Press*, June 19, 1866,
quoting the *Red Wing Republican*.

"IMMIGRANTS. — The City of St. Paul brought up yesterday a large number of fine looking horses, and also a goodly company of Swedes."

From the *St. Paul Daily Pioneer*, May 28, 1868.



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