Impacts of the 1894 Bank Crash

Immediately after the Commercial and Union Banks ceased operations on 10 December 1894, Newfoundland and Labrador entered a brief period of economic, social, and political chaos. Businesses closed, the fish trade halted, and unemployment increased dramatically. The country had no dependable currency and could not obtain credit from Britain to pay interest on its public debt, due 1 January 1895.

Police arrested the banks' directors, who later faced charges of conspiracy and larceny. Many were fish merchants who used their position to obtain large loans. As public opinion mounted against the merchant directors, many unemployed workers held street demonstrations asking the government for jobs or food. The government, however, was unable to help because of its deep debt and mounting instability – in the two months following the crash, three separate prime ministers occupied office at the Colonial Building.

Immediate Impacts

Fish merchants were among the first people in Newfoundland and Labrador to react to the crash. Most depended so heavily on bank loans to finance their work that they had to withdraw from the fish trade after the Union and Commercial Banks stopped operating. Some of the Commercial's merchant directors anticipated the crisis and halted business operations in the days leading up to the crash. This was the case with Edwin John Duder, who closed his firm on 8 December, and with A.F. Goodridge and G.A. Hutchings, who halted transactions on 9 December. Many more merchants also withdrew from business after the banks closed on 10 December.

The firms' closures directly affected thousands of people. Duder's...
firm, for example, supplied about 11,000 fishers, while many more depended on the other merchants. Lay offs also occurred in industries other than the fishery. Railway contractor Robert G. Reid halted construction on 20 December, putting 1,200 people out of work. Commercial establishments on Water Street suffered as many people could no longer afford to buy groceries, clothes, and other goods. To avoid laying off staff, some businesses employed workers on a part-time basis only until the crisis ended. Despite these efforts, the crash left about 6,000 people in St. John's without work.

It was not only future wages that people lost in the crash, but a large part of their savings as well. About $1.2 million in bank notes from both the Commercial and Union were in circulation in 1894, which the banks' closures rendered temporarily worthless. Savings and other accounts at both establishments also decreased in value overnight.

The union, meanwhile, was left with no dependable currency and most businesses stopped accepting Union or Commercial notes on 10 December. This affected almost everyone in Newfoundland and Labrador, including hundreds of visitors to St. John's from across the island who became suddenly stranded in the city after trains and steamers stopped accepting bank notes.

The government, which did much of its banking at the Union, also sustained heavy financial losses. Of immediate concern was interest on the public debt, due in London on 1 January 1895. If the country could not raise enough money to meet the deadline, it would have to default on the loan and declare bankruptcy. Officials first turned to Britain for help, but the Colonial Office refused to intervene until a Royal Commission carried out an inquiry into the affair. The government eventually avoided default by cashing a sizeable deposit the Union Bank made at New York's National Bank of Commerce before the crash.

**Bank Note Act**

Another major priority for government officials was to reinstate a reliable form of currency. It appointed a joint committee of the legislature to investigate the banks' business affairs on 15 December and received a report less than two weeks later. Committee members found the Union Bank was in a much better financial situation that the Commercial, and recommended the
government guarantee all Union bank notes for 80 per cent of their value and Commercial notes for 20. The legislature accepted the committee's recommendations and passed the Bank Note Act in late December.

A Commercial Bank Note, post-1894.

Although the act provided the country with a stable currency, it received much opposition from the public. About 3,000 people gathered in St. John's on 1 January 1895 to unsuccessfully ask the government to pay noteholders full value. A week later, protestors assembled outside the Colonial Building with signs demanding “bread or labour.” Demonstrators received no government response and proceeded to Water Street, where they looted stores until police intervened.

After about two weeks without any financial institutions except the Savings Bank, Canadian banks began arriving on the island. First was the Bank of Nova Scotia, which opened in St. John's on 21 December, followed by the Bank of Montreal, the Canadian Bank of Commerce, and the Merchant's Bank of Halifax (now the Royal Bank of Canada). The Bank of Montreal accepted the government's account in early 1895 and the country adopted Canadian currency in January of that year. The country also entered into confederation talks with Ottawa, but these eventually ended in failure.

Relief Efforts

While the arrival of Canadian banks and the legalization of the Canadian dollar did much set the country on a sound financial footing, many people in Newfoundland and Labrador still needed outside help to get through the winter. In St. John's, various churches and members of the city's elite started relief committees to distribute food, clothes, money, and other goods to people across the country. Donations also arrived from England, Nova Scotia, and Boston.
A successful spring seal hunt and summer fishery further relieved the poverty brought on by the crash. In March and April, about 8,000 men and 20 steamers sailed to the ice floes to take part in the seal hunt. These ships received financing from large firms unaffected by the crash, including Bowring Brothers and Job Brothers, or by groups of smaller businesses that pooled their resources.

Planters who dealt with the Savings Bank were able to equip crews for the summer fishery, while fishers who lacked suppliers could apply to Relief Commissioner Sir Herbert Murray for loans and equipment. That summer alone, Murray helped send 84 schooners and 360 men to the fishery.

**Court Proceedings**

On 27 December 1894, police arrested the directors of the Commercial Bank and charged them with publishing false financial statements and conspiring to defraud the institution's stockholders. The directors included fish merchants E.J. Duder, G.A. Hutchings, and A.F. Goodridge (who was also the country's prime minister at the time of the crash), as well as cabinet minister J.S. Pitts and Chamber of Commerce secretary James Goodfellow.

In July 1895, police laid similar charges against Union Bank directors, most of whom were also politicians and fish merchants. They included former Prime Minister Sir Robert Thorburn, cabinet minister A.W. Harvey, receiver-general W.J.S. Donnelley, and merchants W.B. Grieve and R.S. Munn. All directors were released on bail shortly after their arrest to await trial.

Court action against the Commercial directors began in December 1897, but the prosecution could not prove the charge of conspiracy and all directors were acquitted. In the aftermath, Attorney General Sir James Winter also dismissed charges against the Union Bank directors. Some historians (Rowe, Earle) argue political interference contributed to the trial's outcome. By the time of the proceedings, many of the merchants had resumed their involvement in the fish trade; if they had been sentenced to jail time, their withdrawal could have triggered more bankruptcies and once again undermined the country's fragile economy.

*Article by Jenny Higgins. ©2008, Newfoundland and Labrador Heritage Web Site*

**Bibliography**