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PRIVATE GENEROSITY AND PUBLIC REGULATION: UNDERSTANDING THE CANADIAN CHARTERED BANKS' PHILANTHROPIC EFFORTS IN HISTORICAL CONTEXT

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Abstract – This article contributes to our understanding of financial power in Canada by highlighting the ways in which the Canadian chartered banks may have used philanthropy strategically to diffuse public hostility to their power. Taking an historical perspective, it is argued that it was in the 1990s that an important transformation took place in the Canadian banking sector: bank philanthropy not only accelerated, but also became more populist, and showed signs of being reactive to negative public attitudes about the concentration of financial power in Canada. To theorize these phenomena, the Gramscian notion of "hegemony" is invoked to help explain the banking sectors' collective behaviour.

Introduction

The 1990s were both a triumphant and a challenging period for Canada's chartered banks.[1] As many followers of Canadian politics will recall, not only did the chartered banks reap record profits; they also faced the challenge of ongoing public controversy over their power. Such controversy peaked in 1998, when four of the chartered banks proposed to merge into two, a proposal which was turned down by the Finance Minister at the time, Paul Martin. Since this time, the chartered banks have largely managed to overcome much of the hostility towards them. Merger attempts periodically reappear on the public policy agenda with significantly less controversy than before. Why is this so? We might begin to explore that question through an historical examination of how the chartered banks have engaged in a coordinated campaign to gain public trust – not only through the immediately visible television advertisements and pamphlets in their own branches, but through coordinated practices of corporate social responsibility (CSR). In particular, we might investigate the most viable, most material manifestation of their CSR policies, their philanthropy.

This article argues that, over the course of the 1990s, the Canadian chartered banks worked to diffuse public hostility to their power through the strategic use of philanthropy. It was in the 1990s that an important transformation took place in the Canadian banking sector: bank philanthropy not only accelerated, but also became less elitist and more populist, and began to show signs of being reactive to negative public attitudes. To theorize these phenomena, the Gramscian notion of "hegemony" is invoked to help explain why the banks acted the way they did. This position is supported with reference to academic literature, government reports,

[1] Also known as "Schedule 1 Banks," because of their special powers under the Bank Act. This category includes Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce (CIBC), Canadian Western Bank, Laurentian Bank of Canada, National Bank of Canada, Royal Bank of Canada, and Toronto Dominion (TD)-Canada Trust. TD merged with Canada Trust in 2001, and thus in the 1990s there was only TD.

supplementary personal interviews conducted with branch managers, and an empirical investigation of data relevant to the subject.[2]

This article seeks to understand corporate philanthropy, and by extension CSR policies in the context of their political utility. Thus, while most literature on corporate philanthropy emphasizes "philanthropy as good business" in terms of increasing shareholder value,[3] or emphasizes the benevolent generosity of CEOs,[4] this article views corporate philanthropy from the perspective of banks as institutions whose power is subject to discretionary regulation. Thus, while CSR policies may have a positive immediate effect on those that directly benefit from them, we need to consider the reasons why a for-profit institution is engaging in CSR in the first place, and what kind of strategies this might be related to.

Hegemony and Institutional Vulnerability

Before we investigate the philanthropic activities of Canada's chartered banks in the 1990s and explore what this might mean, it is first necessary to both outline the basic theoretical concepts we will be using, and also to highlight the special position of the chartered banks vis-à-vis the rest of the business community.

The notion of hegemony as elaborated by Antonio Gramsci and other scholars after him is useful here. Hegemony can be understood broadly as the creation of consent by means of political and ideological leadership coupled with real, material concessions offered by a dominant group. It is, essentially, the active "organisation of consent."[5] Only when dominant social forces or institutions can present their *particular* interests as *universal* can they achieve the political sanction that is necessary to maintain their stature and power in a given social context.[6] In the case of financial institutions, this means ensuring their particular interests (e.g. maximizing profits, ensuring a favourable legislative environment) are understood amongst the public not as particular interests at all, but rather as in the *universal* interests of everybody. In the context of a political-economic world where interests quite naturally diverge and are in conflict, hegemonic practices try to represent the hegemonic group's power as apolitical and natural, or as not power at all, but simply "success" or "the ways things are done."

Hegemony is a relationship which is built over time, and in response to change. Thus, powerful business institutions – especially in oligopolistic and/or high profile sectors of the economy – must continually concern themselves with a dynamic process of building not only their business, but also an advantageous relationship with civil society, if they can. As Hunt has pointed out, a "…vital characteristic of 'hegemony' is that it is an active process; it is considered not merely with the *fact* of consent, it focuses on the creation and the mobilization of that consent."[7] As Simon has stated, more commonly "…incessant and persistent efforts" are

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[2] The names of the interviewees are made anonymous.
[3] M. Porter and M. Kramer, "The Competitive Advantage of Corporate Philanthropy," *Harvard Business Review* (December 2002): 56-68; R. Kanter, "From Spare Change to Real Change: The Social Sector as Beta Site for Business Innovation," *Harvard Business Review* (May-June 1999): 122-132.
[4] Pauline Albert, "An Analysis of the Competitive Advantage of Corporate Philanthropy 'Do Well by Doing Good'," *Perspectives In Business* (St. Edward's University, 2004), 25-30. Online version: http://www.stedwards.edu/business/pdf/Perspectives_in_Business.pdf.
[5] Roger Simon, *Gramsci's Political Thought* (London: Lawrence and Wishart, 1985), 21.
[6] Chantal Mouffe, *Gramsci and Marxist Theory* (London: Routledge & Kegan Paul, 1979), 180.
[7] Alan Hunt, *Explorations in Law and Society: Toward a Constitutive Theory of Law* (New York & London: Routledge, 1993), 20.

continually made by the dominant bloc "to conserve and defend the existing system."[8] Thus, institutions who are trying to build hegemony must continually adjust their image and their behaviour. This is especially true in what Gramsci has called periods of "organic crisis" wherein the hegemonic actor must engage in a process of reorganization – called a "passive revolution" - because it has lost its confidence amongst the public.[9] Gramsci noted that the process of building and adapting hegemony was often accompanied by a subtle process of cooptation, whereby the concern is not only that the hegemonic actor is represented as legitimate, but also that its critics became transformed into stakeholders. Gramsci called this process "trasformismo." Thus, the act of "assimilating and domesticating potentially dangerous ideas by adjusting them to the policies of the dominant coalition" is seen as an important strategic tool for hegemonic actors in Gramscian theory.[10]

While it might be said that hegemonic practices are vital for large institutions in general (and especially for nation states and supranational organizations), for some institutions it is more of a concern than for others. For Canada's chartered banks, it is a vital concern.[11] Why? On the one hand, they are large, visible institutions, and consequently take care not to induce a politicization of their power because of the threat of regulatory action by the Canadian state. More importantly, however, the chartered banks benefit from certain forms of market protection. The chartered banks have long enjoyed a privileged status in Canada: a restrictive foreign bank entry policy; the so called "too big to fail" doctrine; the Canadian Deposit Insurance Corporation (which effectively socializes default risk for depositors); access to the payments system and direct dealings with the Bank of Canada; and national regulation that enhances banks' ability to pursue international activities.[12] Their dependence on such "special treatment" puts the chartered banks in a sensitive position vis-à-vis public opinion, since a negative politicization of their power may mean the potential withdrawal of some of their privileges, and/or the declining of new ones they might demand. For example, if the Canadian electorate felt strongly that banking in Canada was not competitive, and the result was that the chartered banks were extorting the public through their special privileges, the Federal government might feel inclined to revoke the foreign bank entry restrictions, thus inducing more competition in the banking sector, inevitably eroding profits and market share of the existing Chartered Banks. As stated in a document by the Department of Finance, "In our society, it is accepted that ownership of a regulated financial institution is a privilege, not a right."[13] Hegemony is a serious concern for Canada's big banks:

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[8] Simon, 38.
[9] Antonio Gramsci, *Selections from the Prison Notebooks of Antonio Gramsci*, trans. and ed., Quintin Hoare and Geoffrey Nowell Smith (New York: International Publishers, 1999), 106-114.
[10] Robert W. Cox, "Gramsci: An Essay in Method," in *Approaches to World Order*, eds., Robert W. Cox and Timothy Sinclair (Cambridge: Cambridge University Press, 1996), 107.
[11] Robert W. Cox, *Production, Power, and World Order* (New York: Columbia University Press, 1987); Stephen Gill, *Gramsci, Historical Materialism and International Relations* (Cambridge: Cambridge University Press, 1996)
[12] Task Force on the Future of the Canadian Financial Services Sector, *Background Paper #4: Canadians' Expectations and Corporate Conduct* (Ottawa: Department of Finance, September 1998), 14. It is also noteworthy to add that the Canadian chartered banks are also periodically protected from large loan defaults, which are sometimes "socialized" in that they are paid for by the government. In January 2000, the Federal Government announced its plans to forgive more than $100 million in bad student loans. The CIBC, Royal Bank, and the Bank of Nova Scotia received back payments from the federal government to compensate them for the high default rates of Canadian students.
[13] Task Force on the Future of the Canadian Financial Services Sector, *Discussion Paper* (Ottawa: Department of Finance, June 1997), 1.

> The community holds higher expectations of banks…They hold the banks to different standards and expectations in their conduct and in their accountability to the local and national communities to which they belong…. This special position places banks under closer scrutiny than other businesses.[14]

Thus, the regulation of the financial sector in Canada is a function of public opinion and political will; when the chartered banks propose to alter legislation to allow for mergers, for example, politicians are sensitive to the legitimacy of these proposals, and the chartered banks are especially sensitive (their commercial performance depends on them). The chartered banks ideally want the delicate variable of public opinion to be in their favour, and that is why, as is argued below, public outrage with their position in the political economy prompted them to engage in a project to build and consolidate as best as possible a strong hegemonic relationship with the Canadian public in the 1990s.

The Chartered Banks Take the Lead

Over the course of the 1990s, the collective profits of Canada's chartered banks increased by 269%.[15] These record profits were closely connected to a mounting public hostility toward the banks. During the same period, the amount they spent on philanthropy increased by 368%.[16] Expressed as a percentage of profits, at the beginning of the 1990s, 0.81% of the chartered bank's profits were committed to philanthropic expenditure; by the end of the decade, this figure reached 1.11%.[17] By the end of the 1990s, the Conference Board of Canada reported that the banking sector spent more of its pre-tax profits on philanthropy than any other sector of the economy. In considering this unparalleled enthusiasm, it is important to point out that such philanthropic expenditure includes only monetary expenditures, and thus do not encompass efforts such as encouraging employee participation, or the individual contributions of employees, both of which were widespread means of engaging with the public philanthropically (which were pioneered in the 1990s and continue today).

In the 1990s, the Canadian corporate sector's enthusiasm for corporate social responsibility was collectively channelled into the Canadian Centre for Philanthropy (CCP), which now serves not only as a national research organization, but also as an advocacy group for private philanthropy more generally. One of the CCP's major initiatives launched in the early 1990s, the "Imagine Initiative," was designed to foster a culture of corporate philanthropy in Canada. What is interesting is that, from the outset of the Initiative, the chartered banks in Canada were by far the most enthusiastic participants. One of the prime benefactors of the Imagine program was the Royal Bank of Canada. John Taylor, while at his appointment as the CEO of the Royal Bank of Canada, served as the honorary chair of the Imagine Initiative.[18] The Bank of Montreal and the CIBC were also significant contributors to both the establishment and the ongoing promotion of the Imagine Program.[19] A look at the discourse within some of the

[14] Task Force, Background Paper #4, 1.
[15] Author's calculation, see Appendix 1.0.
[16] Author's calculation, see Appendix 1.0.
[17] Author's calculation, see Appendix 1.1.
[18] James L. Parroch, *Canadian Bankers and Global Competitiveness* (Montreal: McGill-Queens University Press, 1994), 150.
[19] Anonymous bank manager interview (2001, December 1). Local branch of a Canadian Imperial Bank of Commerce.

intra-corporate literature that is available is illustrative of a collective rationality that understands the need to be philanthropically proactive in a changing political environment. According to "Canadian Banker," a periodical for bank managers, government cutbacks on social spending represented a "knock of opportunity" for chartered banks in terms of bolstering their position vis-à-vis the public.[20] In one publication of the CCP, Anthony Fell, the Chairman of RBC Dominion Securities (a division of Royal Bank) clarified the rationale:

> The government pulled back really at our request, because we been saying they should back off and get out of certain fields. And this means valuable services that used to be funded by the government have to be funded elsewhere. The only way we can take up the slack is for more corporations to give and become larger givers.[21]

According to the CCP, a strategic philanthropy program enables corporations to gain advantages in the public policy realm. Regulatory authorities are:

> likely to be more sympathetic to a company's case if the firm has a reputation for contributing to the community. Being active in social causes can also give companies some potential input when important policy issues are discussed.[22]

The chartered banks certainly took this concern to heart. By 1999, Revenue Canada claimed that while 5% of Canadian corporations reported charitable donations, 100% of the chartered banks engaged in philanthropy.[23] The Royal Bank of Canada "led the pack" in the 1990s in terms of establishing a foundational base before the rest of the Canadian corporate sector in the 1990s.[24] According to one bank manager interviewed, throughout the 1990s, decision-making processes and command structures surrounding bank philanthropy became increasingly centralized.[25]

The Changing Face of Philanthropy

In addition, the qualitative *character* of chartered bank philanthropy transformed in the 1990s. Philanthropic decisions moved away from sponsorship of "elitist" areas such as fine arts into more populist areas traditionally supported by public sector funding. For example, by the end of the decade, the Royal Bank's donation schedule was 25.9% healthcare related, 25.7% education related, and 33.1% social services related, while civil arts and culture took up 8% and 7.3% of the budget, respectively.[26] Indeed, Canada's chartered banks performed nationwide surveys in the mid-1990s in order to establish what kind of philanthropic campaigns they should pursue to have the largest public impact possible.[27] The philanthropic strategies used to deal with the social issues targeted of course had their own bias. For example, in addressing the issue of

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[20] Richard Wright, "When Charity Begins at the Bank," *Canadian Banker* 106 (September/October 1999): 10-17.
[21] Bill Prentice, *Connecting Companies to Communities: A Guide to the Design and Management of Community Investment Programs* (Toronto: Canadian Centre for Philanthropy, 1987), back cover.
[22] Prentice, 7.
[23] Wright, "When Charity Begins at the Bank."
[24] Norah McClintock, "Laying a Foundation for Corporate Giving," *Front & Centre* 1 (1994): 15.
[25] Interview, anonymous bank manager (2001, December 17). Local Bank of Montreal branch.
[26] RBC Financial Group, *RBC Financial Group 2001 Community Report* (Toronto: RBC Financial, 2001).
[27] Gary Nyp, "Looking for Corporate Support," *Front & Centre* 5 (1998): 1-3.

homelessness in major Canadian cities, the Royal Bank chose to contribute primarily to an anti-poverty organisation that utilizes explicitly "market-based" solutions.[28]

The manner in which philanthropic decision-making process is carried out – through centralized decision-making, supplemented by regional and local individual bank-level decision making – is also important. Such a system allows philanthropic expenditure to be directed to projects that facilitate a positive representation of the banks at not only the national, but also the regional and local levels. Each chartered bank engages with philanthropic projects on a national level, but local banks also typically have decision-making and communicative power when it comes to where philanthropic dollars should be spent. Consequently, while the chartered bank's headquarters may overlook the concerns of a particular community in favour of addressing a nationally-based concern, the local banks are nonetheless able to fill the gap. This is arguably an efficient system, and by design helps to decrease any alienation a local community might feel about the 'big bank' operating in their neighbourhood.[29]

The philanthropic efforts of the chartered banks also changed in the 1990s to include the active participation of their employees. Increasingly in the 1990s, the chartered banks not only encouraged (and organized) community volunteering amongst their employees, but also cultivated a culture whereby employees were expected to contribute financially to annual charity drives. Indeed, this practice is widespread today. Moreover, this practice of the chartered banks in 1990s anticipated trends that in the rest of the corporate sector would only catch on in the early twenty-first century.[30] The chartered banks were clearly innovators. The Royal Bank's annual funding drives for the United Way, for example, have been facilitated in large part through an organized employee payroll deduction system. A glance at some of the publicly released data on this issue reveals that in all regions of Canada (with the exception of Quebec), contributions to the United Way from employees' payroll has consistently outpaced the contributions made from the bank's internal finances.[31] Cases such as this represent an incredible feat, considering employees at bank branches worked in a climate of unprecedented job insecurity amidst mergers (proposed and actual), branch closures, and the generalized trend of employee downsizing and branch consolidation over the course of the 1990s.

Why did the chartered banks engage in these activities? We can better answer this question once we understand the important economic changes in the 1990s that the chartered banks were a part of, and then by understanding what political climate followed this period. The next section reviews how the chartered banks began to reap record profits in the 1990s. The section following it highlights how this began a public controversy over financial power in Canada.

Chartered Bank Power

The most significant players in Canada's financial industry have always been its chartered banks. Throughout most of the 1990s there were eight large chartered banks in Canada; by the end of that decade, they controlled approximately 90% of the total banking assets of the country. However, with the increased importance of global financial flows and the corresponding

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[28] John Cleghorn, *Beyond the Bottom Line: Redefining Philanthropy for the 21st Century* (Toronto: Ketchum, 2000), 5.

[29] This is probably less a creature of design than it may appear.

[30] Pauline Albert, "An Analysis of the Competitive Advantage of Corporate Philanthropy 'Do Well by Doing Good'," 29.

[31] Lynn Patterson, *Building Blocks: Corporate Responsibility Report 2002-2003* (Toronto: Royal Bank Financial Group, 2002), 16-24.

expansion of the financial services sector in the late 1980s and early 1990s, their traditional dominance came under threat. The explosion of personal investing and mutual fund cultivation began to deprive banks of their traditional base of household savings deposits, and ultimately drove down their profits in this area.[32] Other competitive pressures stemming from "near-banks" began to erode profit margins in traditional personal banking services. Perhaps most importantly, the new forms of investment banking that evolved in the 1980s served to undercut the chartered banks' relationship as intermediaries with their major corporate clients.

Faced with these pressures in their traditional spheres of influence, the chartered banks in Canada responded aggressively and proactively. Massive takeovers in the 1990s were undertaken to buy out their competitors, namely smaller "near banks," and other financial institutions of all kinds.[33] The competitive pressures put on the chartered banks due to the ascendancy of the financial services sector prompted them to take proactive measures to stem the threats to their market dominance. This aggressive response led to a dramatic concentration of financial power and financial assets, a process that continued into the 21st century.[34] With this marked increase in market power, the chartered banks radically re-oriented their businesses away from their traditional savings and loan activity in favour of higher margin niches of the "paper economy." As is now the case with much of the developed financial centres of the world, high profits are increasingly obtained by taking greater risks when writing loan and derivative contracts.[35] Similarly, the foreign activities of the chartered banks increased significantly since the early 1990s.[36] Tracking the profits of the chartered banks (especially the more globally-extended ones, such as Scotiabank) reveals that profits dip in periods of global crisis (for example during the Peso Crisis of 1994 and the Asian "Flu" of 1997-1998). In 1990, nearly three quarters of the chartered banks' assets were held in loans, but by 1998, these figures halved. While the largest area of major bank revenue remained the net interest income from traditional bank loans, a growing amount of their non-interest income was increasingly generated by activity related to the creation, management, and trading of financial assets.[37]

While such changes are not uncommon in the banking sector of many other countries, the fact that Canada's chartered banks enjoy special protection from the Canadian state has meant that one way in which the sector has compensated for their increased investment risk was to

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[32] Jim Stanford, *Paper Boom: Why Real Prosperity Requires a New Approach to Canada's Economy* (Ottawa and Toronto: CCPA and James Lorimer and Co, 1998), 57-62.
[33] Stanford.
[34] By the late 1990s, every major brokerage house in Canada was owned by a chartered bank, and one sixth of all the financial assets in Canada are were owned by chartered banks. The summer of 2001 saw the Toronto Dominion Bank engage in an eight billion dollar takeover of Canada Trust (It was officially approved on January 31, 2001). Additionally, the Bank of Montreal's Harris Bank has become one of the largest banks in the American Mid West. The Royal Bank spent billions to buy regional U.S. banks, insurance companies and brokerages in the 1990s. CIBC expanded aggressively into US territory, and the Bank of Nova Scotia made similar attempts in the US and Latin America.
[35] James Crotty, "Structural Contradictions of the Global Neoliberal Regime," *Review of Radical Political Economy* 32 (September 2000): 367; Susan Strange, "Finance, Information and Power," *Authority and Markets: Susan Strange's Writings on International Political Economy,* ed., Roger Tooze and Christopher May (London: Palgrave and MacMillan, 2003), 74.
[36] Department of Finance, *Response of the Government to Large Bank Mergers in Canada: Safeguarding the Public Interest for Canadians and Canadian Businesses'* – A Report of the House of Commons Standing Committee on Finance and Competition in the Public Interest regarding *Large Bank Mergers in Canada* – A report of the Standing Senate Committee on Banking, Trade and Commerce (Ottawa: Department of Finance, June 2003), 16.
[37] Stanford, 58-63.

increase service charges for personal accounts. Another way that their oligopolistic power has allowed them to compensate has been through changing personal credit card conventions. Beginning in the 1990s, the interest charged on credit cards stopped tracking the Prime Rate. Lending to small and medium-sized enterprises (SMEs) also became a contentious issue. In the early 1990s recession, the chartered banks tightened credit significantly – so much so that federal government-sponsored committees and Members of Parliament began to address the issue, with four reports commissioned in 1994.[38]

These events were accompanied by another, equally important phenomenon involving the macroeconomic conditions of Canada in the 1990s. As Jim Stanford, has put it, the banks were further helped by a macroeconomic environment that:

> […] was tailor-made for bank profitability. Low inflation, low nominal interest rates, and slow but continual economic growth (and hence a low rate of default by lenders) all assisted the banks in pushing new loans out their doors as fast as possible.[39]

The results were predictable: a consolidation of assets, and a significant rise in profits for the chartered banks as a whole. Between 1990 and 1998, the chartered banks expanded their total assets by $700 billion (an impressive 150% increase in assets). Between 1994 and 1997, the profits of the chartered banks collectively rose from $4 billion to $7 billion, representing 12% of all pre-tax corporate profits generated in the country.[40] By the end of this period, the chartered banks had a cumulative return on equity that was the highest of any major sector of the Canadian economy.[41] In 2000, the collective profit of the chartered banks was 9.678 billion dollars, compared to 3.589 billion at the beginning of the decade – a 269% increase.[42] Since the new century began, the collective profits of the chartered banks have fluctuated both above and below their historic profit rate achieved at the end of the 1990s.

The increasing power of the chartered banks is related to a process of structural change in the economy sometimes referred to as 'financialization,' whereby more and more economic activity is concentrated into financial assets as opposed to productive investment. It was in the 1990s that the financial services sector as a whole began to make up an increasingly large component of the Toronto Stock Exchange (TSX). For example, in 1995, the sector accounted for approximately 15% of the market capitalization on the TSX, while in 2003 this rose to 33%.[43] One of the consequences of these transformations in the Canadian economy was that the chartered banks were more visible, and viewed - appropriately – as more powerful institutions in Canadian society.

Public Contestation of Chartered Bank Power

The concentration of power that the chartered banks acquired over the course of the 1990s was hotly contested within civil society. As Katherin Macklem has commented, "Canadians love to hate their banks, so the resentment grows at the prospect of ever-larger institutions."[44] Their record profits, beginning in the early 1990s, coupled with the general

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[38] Task Force, *Background Paper #4*, 16-17.
[39] Stanford, 57-58.
[40] Stanford, 58.
[41] Stanford, 59.
[42] Author's calculations – see Appendix 1.0.
[43] Department of Finance, *Response*, 15.
[44] Katherine Macklem, "Bank Mergers Beneficial But Feds Opposed," *Macleans* (November 18, 2002).

economic malaise of the time, sometimes engendered a negative social reaction toward them on the part of Canadian citizens. In the words of one bank manager interviewed, "the public was simply outraged."[45] The SME sector was clearly angered: "Community support for banks suffered when many small businesses were abandoned by the withdrawal of credit in the downturn of the early 1990s."[46] The largest private sector union in the country, the Canadian Auto Worker's Union, launched an advertising campaign comparing the record levels of bank profits to the record levels of child poverty in Canada. Other groups, such as Democracy Watch, highlighted the banks' increased political influence. In 1997, many major protests included a ritual bashing of the chartered banks – both physically and symbolically.[47] The only NGO designed to deal exclusively with the power of the chartered banks, the Canadian Community Reinvestment Coalition (CCRC), was formed and began to campaign against chartered bank power.[48] Some citizens had less politically charged, consumer-rights related reasons for their anger. Many were outraged at the imposition of extra personal banking service fees that became increasingly common.[49]

In 1998, Ekos Research Associates carried out a government commissioned survey of Canadians on their opinions of the state of the financial services sector, their findings revealed an uneven yet generally disparaging negative attitude. In the words of their own report, Ekos found that "the perceptions of banks were decidedly negative with 44 per cent viewing banks as heartless compared to 28 per cent rating banks as caring."[50] There was a clear relationship to the banks' perceived power and influence and the public's abhorrence of them:

> Generally, individuals perceive banks as having too much influence and power in Canada (59 per cent), and that banks have more public responsibilities than other businesses (58 per cent). Most respondents also do not believe the level of service fees is justified given the services provided. Respondents were more split on the issue of whether banks earn a fair and reasonable profit. Approximately 47 per cent of the respondents disagreed bank profits were fair and reasonable and 40 per cent agreed.[51]

[45] Jasner interview.
[46] Task Force, *Background Paper #4*, 13.
[47] For example, the Metro Toronto Days of Action in 1997, and also the "Shut Down Bay Street" campaign in 2001. In the former, a popular performer, Billy Bragg "got on stage, and dedicated Bob Dylan's 'The Times they are a 'Changing' to the Bank of Montreal, and few missed the significance when it was later reported that a rock was thrown through a bank branch window nearby." Jason Ziedenberg, "The Metro Toronto Days of Action: The Hogtown Shutdown," *Canadian Dimension* 31 (1997): 8-11.
[48] CCRC (Canadian Community Reinvestment Coalition), *Position Paper #6 – Ending Power without Accountability: Making the Banks in Canada Better Before They Get Bigger* (Ottawa: CCRC, 1998).
[49] As one bank manager interviewed attested that senior citizens would harass the teller staff, and become extremely upset at bank branches, only to find that they did not have any service charges on their account. Another emphasized the public's perception that "they (the chartered banks) just gouge the public with service charges."
[50] Ekos Research Associates Inc. *Public Opinion Research Relating to the Financial Services Sector: Research Paper Prepared for the Task Force on the Future of the Canadian Financial Services Sector* (Ottawa: Department of Finance, September 1998), 40.
[51] Ekos, 41.

Public debate and outrage erupted in 1998 when four of the chartered banks rallied for mergers that would have further concentrated their power.[52] One poll conducted by North Star Research Partners concluded that when the mergers were first announced, one third of Canadians polled believed the mergers to be motivated primarily by greed.[53] By the end of the year, this number grew to 51%. When the mergers were first announced, 33% claimed to be in favour of the mergers.[54] By the end of the year, only 18% of the public still stood in favour of the mergers.[55] The Ekos research conducted at the time revealed that there were widespread public concerns over branch closures, more "monopolies," and an increase in ethically questionable practices such as "tied selling."[56] 68% believed that there would be significant job losses; 66% believed that there would be significant branch closures; 65% believed that allowing mergers would "lead to two or three financial institutions having too much power."[57] Even Peter Godsoe, then CEO of Bank of Nova Scotia privately remarked that "the majority are against it"[58]

Responding to widespread public concerns, the Canadian federal government engaged in a number of initiatives to deal with the problem. The federal government erected two parliamentary committees, the Senate Banking Committee and the Commons Finance Committee, to review the issue. The Task Force on The Future of the Financial Services Sector was established, and commissioned research on "the malaise that seems to exist in terms of the public perceptions of the banks."[59] The competition bureau also began investigating the mergers amid concerns of excess market concentration.

The Task Force on the Future of the Canadian Financial Services Sector, (popularly known as the Mackay Task Force) cited the need to have a "new look at the conduct of the banks…in terms of their responsibility to the community" because of technological changes, the convergence of services, and the fact that "the relationship between banks and the community is not healthy and has recently deteriorated."[60] The banks were not only threatened with having their merger proposals turned down; they were also threatened with proposals for tighter regulation of all kinds, including an investigation into tied selling practices, discriminatory lending, and a review of their loan allotment to small businesses.

The degree of government attention to the state of banking in Canada was historically significant. Commissioned federal reviews of the financial system had only taken place twice before – first in the 1930s with the MacMillan Commission (which established the Bank of Canada), and then in 1960 with the Porter Commission. It is also significant that the pressure on the chartered banks might have been compounded at the time by the fact that in the United States, federal legislation had recently been passed which required banks to allocate credit to community initiatives, and, furthermore, to disclose, furthermore, to disclose detailed information on their credit recipients, thus enabling both government and civil society at large to

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52 The Royal Bank of Canada attempted to merge with The Bank of Montreal, and The Toronto Dominion bank attempted to merge with Canadian Imperial Bank of Commerce. The Royal-Montreal plans were announced on January 23, 1998. The TD-CIBC plans were announced on December 14, 1998.
53 Kimberley Noble, "How the Banks Blew It," *Macleans* (December 7, 1998), 26.
54 Noble.
55 Noble.
56 Ekos.
57 Ekos, 48.
58 Perhaps not surprisingly, the Bank of Nova Scotia was not applying to merge at that time. Noble.
59 Task Force on the Future of the Canadian Financial Services Sector, *Report of the Task Force: Highlights* (Ottawa: Department of Finance, September 1998), 13.
60 Task Force, *Background Paper #4*, 12.

identify and punish discriminatory practices. With this information, US regulators began to grade banks, publicize the results, and take these social performance indicators into account when government permission is required to undertake major transactions or to conduct major structural changes.[61]

Public attention focused on the proposed mergers for nearly a year, and eventually the Canadian federal government turned down the proposals in December. As the CBC reported at the time, the:

> decision was not unexpected. A Senate review committee and most politicians had roundly criticized the mergers as not beneficial to a public already cynical about service charges and record profits.[62]

The focused, politicized hostility and mistrust of the charted banks during this period contextualizes the banks' embrace of philanthropy. Reflecting on public outrage to the failed mergers, David Moorcroft, the Royal Bank's "damage controller" for their merger campaign, pointed to the "lack of social capital" in the banking industry. Although this discourse sheds light on how the banking industry understands threats to its hegemony, an empirical investigation into chartered bank philanthropy as it corresponds to different crisis periods helps illuminate the nuances of what may be understood as a reconstitution of hegemony.

Measuring Philanthropy

From 1990 to 1997, we can observe a significant trend in chartered bank philanthropy. If we measure the percentage of their collective profits that they devoted to philanthropic expenditure between 1990 and 1997, and compare it to the rest of the corporate sector, a clear pattern emerges. On average, the chartered banks spent on average 20% more on philanthropy when expressed as a percentage of profits.[63] Notably, however, at the beginning of the 1990s, the chartered banks were underdogs in the philanthropic field. They gave less as a percentage of their profits than the rest of the corporate sector. By the end of the 1990s, this situation reversed: banks gave more than the rest of the corporate sector. What is most interesting, however, is what happens in 1998, when the chartered banks suffer a severe blow to their legitimacy.

Did the percentage of profits committed to philanthropy increase in 1998 – the year of protracted discontent with bank power – relative to the previous year? Profit growth for the chartered banks as a whole was actually negative (-5.52%) in 1998.[64] The effects of the Asian Financial Crisis negatively affected many of their investments abroad; the more globally-extended banks, such as Scotia Bank, suffered acutely in this year (relative to the previous year). Under normal circumstances, one would expect their philanthropic expenditure from that year to decrease accordingly. Instead, the chartered banks spent 21.2% more on philanthropic expenditure than they did in the previous year in which profit growth was positive.[65] While this example alone is perhaps illustrative enough of their philanthropic enthusiasm, a more thorough investigation is perhaps required in order to establish the necessary and relevant correlations

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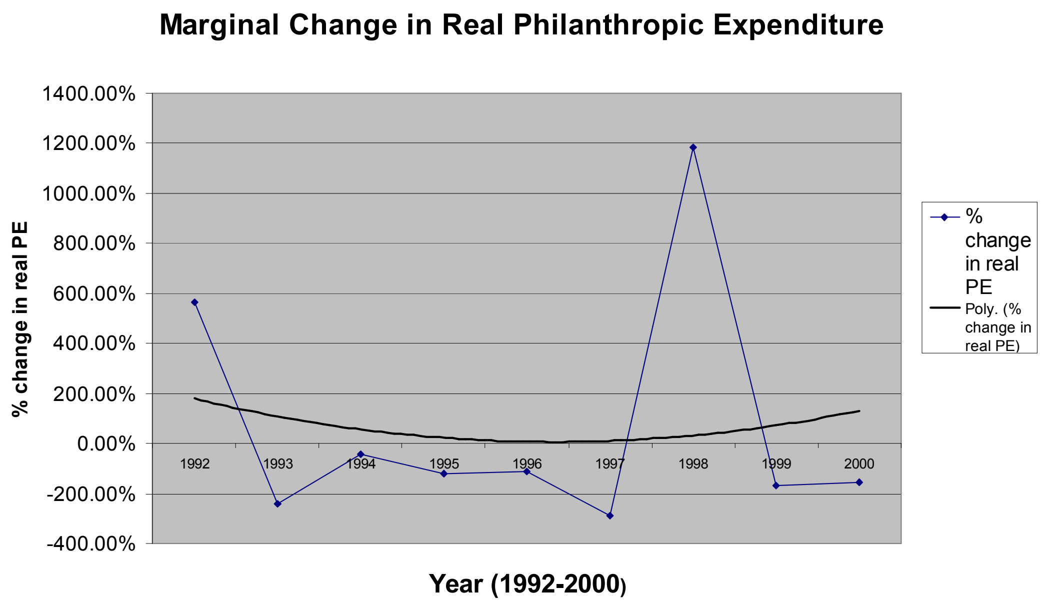
[61] Task Force on the Future of the Canadian Financial Services Sector, 16; CCRC (Canadian Community Reinvestment Coalition), *Position Paper #5 – An Accountability System for Financial Institutions in Canada: How to Ensure They Meet a Higher Standard of Performance* (Ottawa: CCRC, 1997).
[62] CBC News, "Bank Mergers Not Good for Canadians, Says Martin," (December 14, 1998). Online version: http://www.cbc.ca/story/business/national/1998/12/14/merger981214.html.
[63] Author's calculations – see Appendix 2.0.
[64] Author's calculations – see Appendix 2.0.
[65] Author's calculations – see Appendix 2.0.

between the 1998 period of heightened public hostility toward the chartered banks and their level of philanthropy in response to it.

What if we try to measure the reactivity of bank philanthropy from one year to the next? When we measure the marginal changes in real philanthropic expenditure (real PE) growth over the 1990s, we are able to measure the chartered banks' collective changes in real PE relative to the previous year. A horizontal line would signify that, relative to profits, changes in philanthropic expenditure remained unchanged, at a constant rate. Relative to the previous year, substantial injections of real PE into the Canadian political economy occurred twice: in 1992 – during the recession (although it is difficult to tell what came before because of lack of time-series data on this); but more importantly, in 1998, when public attention on the Banks and public anger were at their apex. In 1998, the level of PE relative to the year before increased dramatically – which suggests that the chartered banks' use of philanthropy followed the climax of public hostility toward them:



Source: Author's calculations. For methodology and elaboration, see Appendix 4.0

Conclusion

The correlation between the ascendancy of the chartered banks, the public's attitudes towards them, and their philanthropic activity suggests that philanthropic expenditure decisions can be thought of as an intelligent strategic response to threatening political forces within Canadian society. The collective rationality for the chartered banks' philanthropic enthusiasm, as seen by their own literature and rhetoric, the qualitative change in the nature of their philanthropy, as well as the substantial injections of "real philanthropic expenditure" that took place during periods of threatened legitimacy in the 1990s, demarcate a collective initiative to build and reproduce a hegemonic relationship with the public. Not only were the chartered banks the frontrunners of the CSR movement in Canada, both institutionally and in terms of giving more than the rest of the corporate sector during the 1990s, they were also responsive to the public's hostility towards them, suggesting that CSR was used strategically, reactively. While more research may need to be done to determine the precise organization and management of philanthropy in response to public attitudes, the existing evidence presented here is at the very least strongly suggestive.

Given the examination of the evidence presented here, we might conclude that throughout the 1990s the chartered banks worked to forge a new relationship with the Canadian public under changing conditions; they built up a hegemonic relationship in order to subvert the public's abhorrence of their growing power. Whether or not the chartered banks have been successful in generating the required consent remains to be seen, even with several years' hindsight. Building a hegemonic relationship is always an imperfect process; it is never complete.

We might note that financial services legislation passed in 2001, which now gives the chartered banks the merger leeway that they fought for in the 1998s, passed with much less controversy than in 1998.[66] When questioned about the post-1990s situation of public attitudes about banks since the crisis of 1998, one bank manager responded by asserting confidently that "…things, for some reason have totally calmed down."[67] We might also note, however, that while public hostility towards the chartered banks may have "calmed down," some initiatives of the federal government designed to better regulate the chartered banks have nevertheless continued, perhaps due to the momentum set in train earlier. In 1999, the Government allowed foreign banks to operate directly in Canada, provided they worked through a branch of a parent chartered bank.[68] In 2001, the federal government also passed Bill C-8, which encouraged new firms to enter the financial services market, and strengthened the credit union system "making it easier to start a bank, trust and loan company, or insurance company."[69] More recently, there have been proposals for altered forms of branch banking by financial groups like GE capital. Whether or not these developments to introduce more competition to the Canadian banking sector have tangible effects remain to be seen.

Concentration amongst the chartered banks, and prospects of further concentration, have both increased since the 1990s. In 2001, one of the largest chartered banks, Toronto-Dominion Bank, merged with the largest trust company in Canada, Canada Trust. Compared to the *proposed* Chartered Bank mergers in 1998, this merger was met with relatively little public controversy. What controversy did exist from when the merger plans were announced (summer 2001) to when they were formally approved (December 2001) revolved mostly around the concern of branch closures, not the issue of power or abuse thereof, on behalf of the banks. In late summer 2002, Bank of Montreal and Scotiabank began discussions about merging. According to Macklem, Scotiabank "had detected more neutrality and less hostility on the mergers issue."[70] At the same time, the recent profit performance of the Canadian chartered banks has been mixed.[71]

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[66] The Canadian federal government decided in 1999 to permit large bank mergers on principle, but it was not until 2001 that the necessary changes to the Bank Act were made.
[67] Anonymous interview.
[68] Department of Finance, *Changing,* 22.
[69] Department of Finance, *Changing,* 22.
[70] Macklem.
[71] The recent claim payouts to Enron-related lawsuits in the US have had significant implications on the Canadian banks market performance. While the CIBC recently reported the largest quarterly loss in its history (in large part because of its extensive Enron-related payouts), the Royal Bank has shown very robust performance (it was less implicated in Enron-related payouts). CBC News, "RBC Posts $979 Million Quarterly Profit," (August 26, 2005). Online version: http://www.cbc.ca/story/business/national/2005/08/26/Royal_bank_profit20050826.html; and CBC News, "CIBC Posts Biggest Loss in Its History," (August 24, 2005). Online version: http://www.cbc.ca/story/business/national/2005/08/24/CIBC_huge_loss20050824.html.

Given these mixed results for the chartered banks, how can we assess the implications of their philanthropic activity? As we have noted above, the public relations environment seems to be much calmer. However, there are still entrenched constituents within Canadian civil society that periodically contest chartered bank power, demand better regulation of them, and contest the realization of further mergers without a dramatic and concrete increase in accountability. Within the ongoing public consultations between the Department of Finance and stakeholders in civil society, the Canadian Federation of Independent Business, representing the SME sector, has continued to be a vocal opponent of further bank mergers, stating that the federal government recommendations from the 1998 Mackay Task Force which pointed to the need for increased competition and regulation of the banks, have not materialized.[72] Mergers have also roused some opposition from the New Democratic Party of Canada. Both of these groups have been able to draw attention to the issue of financial power in Canada in a way that, while somewhat constructive, lacks ability to captivate the public like it did in the 1990s. We might constructively hypothesize that the reason why this is so is due to the newly forged relationship that the Canadian Chartered Banks have worked so hard at building.

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72 Doug Bruce, *Banking on Competition - Submission in Response to Finance Canada's Large Bank Mergers in Canada* (Ottawa: Canadian Federation of Independent Business, 2003). Online version: http://www.fin.gc.ca/consultresp/mergersRespns_24e.html; Catherine Swift, *Canadian Federation of Independent Business (CFIB) Response to Finance Canada's Large Bank Mergers in Canada* (Ottawa: Canadian Federation of Independent Business, 2003). Online version: http://www.fin.gc.ca/consultresp/mergersRespns_22e.html.

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Appendix 1.0

**Note:* All Bank Profit Data and Philanthropic Expenditure Data (PE) is taken from aggregate statistics generated by the Canadian Banker's Association. The summation of the entire Schedule 1 chartered bank profit amounts and PE amounts were performed by Sally Romagnuolo (Correspondence via e-mail, Mon, 26 Nov 2001 14:17:38). The author performed all other calculations. All figures, with the exception of those in Appendix 2.0, are expressed in millions.

Year	*Bank Profits*	
1990	***3589***	***29***
1991	3707	31
1992	1345	35
1993	2904	35
1994	4271	44
1995	5189	42
1996	6278	55
1997	7494	66
1998	7080	80
1999	9137	94.5
2000	**9678**	**107**

Profit Change over the 1990's
= (9678-3589)/3589
=*269.66%*

Philanthropic Expenditure (PE) change over the 1990's
= (107-29)/29
=*368.97*

Appendix 1.1

	Bank Profits	**PE**	Percentage of Profits destined for Philanthropic expenditure (PE/Pr)
1990	***3589***	***29***	***0.81%***
1991	3707	31	0.84%
1992	1345	35	2.60%
1993	2904	35	1.21%
1994	4271	44	1.03%
1995	5189	42	0.81%
1996	6278	55	0.88%
1997	7494	66	0.88%
1998	7080	80	1.13%
1999	9137	94.5	1.03%
2000	***9678***	***107***	***1.11%***

Appendix 2.0

*Note: All data regarding the Corporate Sector in general is taken from Prentice, Bill. 1997. Connecting Companies to Communities A Guide to the Design and Management of Community Investment Programs. Toronto: *Canadian Centre for Philanthropy*.

- "Philanthropic intensity" can be expressed as PE/Pr.

Year	Corporate Pre-Tax Profits	Corporate Charitable Donations	Donations as a % of Corporate Pre-tax profits	Chartered banks PE as % Pr.
1988	64060000000	408877000	0.64%	n/a
1989	58807000000	503860000	0.86%	n/a
1990	***43988000000***	***412818000***	***0.94%***	***0.86%***
1991	32101000000	431107000	1.34%	0.94%
1992	31978000000	422710000	1.32%	2.60%
1993	39996000000	465090000	1.16%	1.52%
1994	64118000000	560509000	0.87%	0.98%
1995	75572000000	628367000	0.83%	1.06%
1996	73684000000	768962000	1.04%	1.05%
1997	***83458000000***	***756630000***	***0.91%***	***1.07%***

- "Philanthropic intensity" increased by 20% between 1990s and 1997 because:

Corporate Sector	Chartered Banks
(PE intensities)	
Avg (1990-7):	Avg (1990-7):
1.05%	1.26%
	(1.26-1.05)/1.05 = 19.77

*Therefore, in terms of PE intensity, the Chartered banks gave 19.77% more than the rest of the corporate sector.

Appendix 3.0

*Here I have calculated all PE as a component of last year's profit performance.				*Note: Now that PE is compared to Profits in a year, PE decisions should reflect last year's profits.*		
Year	Profits				"x"	
		Change in Profits	**PE**	% change in PE	PE % of Pr.	**% "x" change**
1990	3589	n/a	31	n/a	0.86%	n/a
1991	3707	3.29%	35	12.90%	0.94%	9.31%
1992	1345	-63.72%	35	0.00%	2.60%	175.61%
1993	2904	115.91%	44	25.71%	1.52%	-41.77%
1994	4271	47.07%	42	-4.55%	0.98%	-35.10%
1995	5189	21.49%	55	30.95%	1.06%	7.79%
1996	6278	20.99%	66	20.00%	1.05%	-0.82%
1997	7494	19.37%	80	21.21%	1.07%	1.54%
1998	***7080***	***-5.52%***	**94.5**	***18.13%***	**1.33%**	***25.03%***
1999	9137	29.05%	107	13.23%	1.17%	-12.26%
2000	9678	5.92%	122	14.58%	1.27%	8.17%

Appendix 4.0

*All values that are manipulated in the real PE (PE = (*g*PE – *g*Pr.) * 100%) equation are taken from the above table in Appendix 3.0, where PE outlays that actually occurred in one year are considered to be a function of the previous year's decision making.

To elaborate on the "real PE" equation methodology:

- Expressed algebraically, PE = (*g*PE – *g*Pr.) * 100%
- "Real PE" measures the difference in PE growth in one year compared to profit growth in that year, expressed as a percentage.
- "Real PE" is taken to be a superior measure of PE decision making, since it measures differentials in growth of PE and profit. If the chartered banks were in a position of relatively high profit growth, and their PE declined in that year, then this translates into a low "real PE" amount. Conversely, if profit growth is low in one year, and PE is high, then this translates into a high "real PE" amount.
- *Changes* to "real PE" from one year to the next essentially measures reactivity. If "real PE" increases in a said year relative to the previous year, the chartered banks can be seen as taking major leaps in their philanthropic decisions that take profit growth into account.

	(gPE-gPr)	Marginal
Year	"real PE"	% Change in real PE
1991	9.62%	n/a
1992	63.72%	562.66%
1993	-90.20%	-241.56%
1994	-51.62%	-42.77%
1995	9.46%	-118.32%
1996	-0.99%	-110.43%
1997	1.84%	-286.77%
1998	23.65%	1183.28%
1999	-15.83%	-166.92%
2000	8.66%	-154.71%