Tom Naylor

THE HISTORY OF CANADIAN BUSINESS 1867-1914

Volume I

The banks and finance capital

FOREWORD BY
ERIC KIERANS

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R. T. Naylor

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Acknowledgements

The debts to co-operating and encouraging individuals accumulated by the author during the preparation of this book would require yet another volume to acknowledge adequately. Only a few can be mentioned here, and perhaps their contribution to the work is best elucidated by a few remarks on how such a book came to be written.

The credit or the blame, as the case may be, for initiating a process of enquiry that culminated in this book belongs to Abe Rotstein directly and Kari Levitt indirectly. Until the summer of 1970 the author of this book was earnestly wasting his time attempting to extract useful information from a virtually useless subject. This is not to deny that the core material of orthodox economics does have its concrete social application. Clearly it does. For some two hundred years at least, practitioners and perpetrators of the subject have worked diligently to refine a body of precepts and axioms that rivals medieval Catholicism in its scope and ingenuity. Like the medieval theologians they succeeded in producing a set of theorems that does more than just provide all the correct answers — it also provides all the correct questions. For one whose principal interests lie in writing eulogistic rationalizations for the status quo distribution of power and wealth, the body of economic orthodoxy is eminently satisfactory. For someone actually hoping to help shed light on pressing social problems, it is of course less than useless. The author's decision to discard his conventional baggage as completely as possible came as a result of Abe Rotstein's promptings to shift out of the orthodox trap, and as a result of the influence of Kari Levitt's writing on the multinational corporation. From then on it was downhill all the way.

Many other individuals contributed in their own way to the development of the ideas herein expressed. Jack McLeod has been a pillar of support in innumerable ways for as long as I have known him, approximately from the time of the Boer War. R. I. K. Davidson of the University of Toronto Press provided endless encouragement during the gestation period of the book, and indeed the whole concept of turning certain ideas into this book began with him. Mel Watkins pushed me to open up many critical lines of research, and his influence stands out very strongly in the pages that follow. Gary Teeple's importance to this book is also immeasurable, for he, more than anyone else, provided a critical appraisal of many of the key theoretical propositions that underlie the train of thought presented. Cy Gonick played a very major role in rescuing the manuscript from the near oblivion it once reached as a result of a series of mishaps. Professor E. P. Neufeld, though in no way responsible for my handling of the material — he would in all probability take strong exception to both the tone and many of the conclusions of this book — has nonetheless been a profound influence on me over the years as teacher and author and in discussions on the development of the Canadian capital market. Several colleagues at McGill University spent much time in laboriously examining the manuscript for flaws and suggesting improvements, notably, but by no means exclusively, Paul Davenport, Phil Ehrensaft, John Thompson, Eric Kierans, and Tom Velk.

Numerous individuals suggested sources, lent me materials, endured being used for testing concepts in the process of their epigenesis, and corrected misapprehensions. An even longer list of people undertook to type pieces of the manuscript from handwriting that is frankly appalling. Among these Ilana Kohn, Debra Lamoureux, Colleen Pearce, Beverley Horka, Lynn Boyle, and Vivian Goldstein in particular stand out. McGill University supported the typing with a research grant. Several breweries helped keep the author sane during the work — though they were amply reimbursed.

Jim Lorimer and Dave Berry oversaw the process of production. Without their efforts and dedication, and without Jim Lorimer's gratifying opinion that the project was well worth bringing to light, the book would clearly have been impossible.

Foreword

There is not much difficulty in attempting to understand the structure of the Canadian corporate economy. Each corporation is required to file an annual return with the Minister of National Revenue. These returns are generally prepared by accredited chartered or general accountants and conform to accepted principles of accounting and auditing practice. Thus a mass of unstructured financial information — balance sheets, operating statements, source and application of funds schedules, etc., — is accumulated, standardized and published in a form suitable for tax, financial, and general economic analysis. Given the virtually absolute coverage of the corporate sector, the facts and data needed for a complete picture of the economy are there. We know where we are. The important question of how we got there remains, and this is a task for the economic historian.

This is the way it is. The latest reports by Statistics Canada cover the 1971 operations of 231,536 corporations, divided for analytical purposes into 37 major industry groups.[1] The number is large enough to satisfy any theorist or econometrician, but the significance changes immediately when it is noted that 291 firms (one-eighth of one per cent of the total) controlled 58% of the assets ($159 billion of $275 billion), produced 30% of the goods and services ($48 billion of $162 billion sales), and collected 39% of total profits in the corporate sector ($4.5 billion of $11.6 billion). It is difficult to escape the conclusion that Canada is the example par excellence of corporate concentration and oligopoly dominance of price and output decisions.

This interdependence is clearly evident in the resource sector. There were 3,740 corporations in the mining sector at the end of

1971. Of that number, 34 firms (less than one per cent) controlled 55% of the assets ($9.5 billion of $17.4 billion), sold 61% of Canada's mineral and mining output ($3.8 billion of $6.2 billion), and earned 73% of the profits before income taxes ($693 million of $952 million). More specifically, if the metal mining group is separated from the rest of the resource sector, the 14 largest firms are found to control 73% of the assets, 71% of the sales and received 72% of the profits earned in exploiting Canada's metal mines. This is concentration of economic power with a vengeance.

Nor does Canada's manufacturing sector display the characteristics of a competitive capitalism. In the 21 major industry groups of Canadian secondary industry in 1971, there were 21,998 incorporated firms. Eighty-three of these firms (three-eighths of one per cent) controlled 45.6% of the assets ($22.9 billion of $50.1 billion), 37.5% of the output of goods and services ($22.5 billion of $59.9 billion) and made 43.2% of the profit before income taxes ($1.6 billion of $3.7 billion).

The primary metals industry is one of the 21 major groups within Canada's manufacturing sector. A total of 365 incorporated firms are engaged in the converting and processing of our natural resources. Eight of these firms dominated the group, controlling 81% of total assets ($3.8 billion of $4.7 billion). The same eight firms produced 69% of the output ($2.4 billion of $3.5 billion) and made 80% of the profits before income taxes ($247 million of $309 million). Clearly, these eight firms are not adjusting their price and output policies independently of each other as economic theory would suggest. Again we have the picture of oligopoly capitalism and price leadership.

The facts about the concentration of corporate power in Canada are generally known and understood in the community. Recent spectacular merger moves by Inco, Noranda, Power Corporation, etc., have increased public concern and misgivings about the policies that permit this wave of takeovers. It is only when the political fallout threatens the government's credibility that the Prime Minister announces the creation of a Royal Commission on Corporate Concentration, charged with the task of reporting upon and making recommendations concerning "(a) the nature and role of major concentrations of economic power in Canada; (b) the economic and social implications for the public interest of such concentrations; and (c) whether safeguards exist or may be required to protect the public interest in the presence of such concentrations."[2]

The most glaring deficiency in the terms of reference has been the exclusion of an examination of the federal economic policies which have provided the major impetus to corporate concentration in this country. Perhaps such a reference would not have been acceptable to the chairman of the Royal Commission, for as the single most powerful economic adviser to successive governments since the Second World War he would, in effect, have been asked to judge his own policies, biases, and prejudices. While I would not suggest that Mr. Robert Bryce could not have second thoughts, his commitment to size ("bigger is better") has been too long and too deeply ingrained for him to undergo an intellectual conversion at this time.

Consider again our two volumes of statistics tracing out the shape and structure of the Canadian economy. If economic policy were truly committed to encouraging a competitive environment, one would expect a neutral corporate income tax system or, if not, a system favouring the growth of new, small and medium-sized firms. In fact, the reverse has been true since the corporate income tax became a substantial tool of policy during and after the Second World War. Of all categories in the manufacturing sector, the 83 firms with assets in excess of $100 million paid the lowest effective rate of corporate income tax in 1971, 30.8%. The next lowest rate was paid by firms with assets of more than $25 million but less than $100 million; the effective rate for the 197 firms in this category was 35.6%. The remaining 21,718 firms, i.e. with assets less than $25 million, paid an effective rate of 45.3% on their profits. As far as tax concessions are concerned, "them that has, gets."

Similarly, in the resource sector. The largest 106 firms, with assets over $25 million, provided $68 million for current income taxes in 1971 on profits of $961.8 million for an effective corporate rate of 7.1%. Two hundred firms, with assets between $5 million and $25 million, paid $26.8 million in taxes on profits of $70.1 million in the same year for an effective rate of 38.2%.

The enormous difference in effective rates stems from the nature of tax exemptions and privileges. In all instances, capital cost allowances, depletion, investment credits, exploration and developments, etc., favour the large and profitable firms. This has been the bias in the Canadian tax structure since the Second World War as government policy-makers have equated efficiency with size and discriminated against the employment of labour by favouring capital investment via tax concessions and subsidies.

Similarly, in manufacturing. The 83 largest firms were able to defer the payment of $1.3 billion in taxes out of a total deferral of $1.9 billion for the 21,998 corporations engaged in manufacturing at the end of 1971.

Incredible as it may seem, the pace of concentration did not satisfy the Canadian government. Impressed with the Herman Kahn theme that the multinational corporation would dominate the global economy of the nineteen-eighties, the Honourable E. J. Benson included in his Tax Reform(?) Legislation of 1971 measures that would ensure that the big would get bigger and fewer. Canadian corporations will be allowed a full deduction for interest paid on money borrowed to buy shares in other corporations.[3] In order that there be no misunderstanding about the government's intent, the Minister of Finance went on to explain, "This deduction for interest provides a substantial incentive for Canadian corporations to invest in other corporations and permits them to compete on an even footing with foreign corporations. Assuming a tax rate of 50 per cent, the cost of borrowing money for share purchases will be cut in half."[4]

Observe what is going on here. Clearly the government is addressing the oligopoly firm, i.e. the firm which has sufficient control of its market to ensure, by adjusting price and output, a continuing flow of profits over 10-15-20 years. Borrowing large sums for takeover purposes means annual interest charges for many years. Small firms, medium-sized firms with cyclical profit levels, farmers in the competitive sector need not apply. Nor is the interest-deductible privilege an advantage to firms that do not make profits.

Again we must pay attention to what the government is saying.

The federal government is not telling the large and profitable firms to invest their profits in more productive capacity or even to distribute the profits to shareholders. It is telling Inco, Noranda, Power Corporation, Abitibi, and the rest, to use their existing profits to buy each other out. If they do this, the government will give back the taxes due on profits spent for this purpose, thus financing half the costs of mergers and takeovers. It is quite fascinating to be a member of a cabinet that can put forward this type of tax privilege while affirming stoutly its belief in competition and anti-combines legislation.

Two assertions can be made about Canada's economic structure in the 1970's. In the first place, virtually every sector of the economy is dominated by less than a handful of huge corporations and, secondly, the single most important cause of this concentration of economic power has been and is federal economic policy.

A little reflection, apart from the data and statistics, would suggest that this must be so. The government of Canada has never believed in free trade or in competition. Despite all protestations, politicians want action now, growth in economic activity and employment. An economic structure composed of large numbers of firms busily competing away one another's profits may be advantageous to the consumer but does not throw up the surpluses that can be taxed or reinvested in new capacity and technology. Nature must be made to grow by leaps and bounds, cement and steel, skyscrapers and SSTs. That is the stuff and, to get it, governments go with the few and the large, with concessions and exemptions to force the pace of change.

Governments do not work against — they work with the vested, the established, the giants in place. The two sectors have exactly the same interest, increase the pace of economic activity and the growth of assets. The distribution of that rising product must permit increasing levels of retained earnings and savings out of high incomes to keep the show going. The problems of farmers who might employ an additional hired hand or small business with little surplus to reinvest are of no interest to ministers and their deputies craving policies with high visibility and little else to recommend them.

Politicians and bureaucrats can then point to a rising GNP and corporate chairmen can announce an increase in assets to their shareholders. Only the people are confused as they see little evidence of this increased wealth translated into a better standard of living for them and a more equitable distribution of what the nation does turn out.

With this community of interest between a powerful public sector and a rich and dominating industrial core, it becomes easier to understand the formation of new service corporations such as Reisman and Grandy Ltd. Two of the most powerful bureaucrats, a deputy minister of finance and a deputy minister of industry, trade and commerce laden with honours for their public service and the most generous pension arrangements granted by an unwitting public, take an early retirement, settle in on the tenth floor of the newest Ottawa skyscraper and prepare to guide the oligopolies that can afford them through the labyrinth of the federal bureaucracy and the potential pitfalls of Canada's latest Royal Commission, the inquiry into corporate concentration.

The level of concentration that presently exists in Canada is a direct consequence of government policy. Despite the lip service paid to laissez-faire capitalism, competition and the virtues of individual enterprise and initiative, no Canadian government has ever believed in, to the extent of practising, these principles. They could not afford to wait for the slow procession of natural, diversified and balanced growth. Politicians operate in the short run, and ad hocery is the response of men in a hurry. Re-election makes opportunists of us all.

Professor Naylor shows us how it was in the beginning of our history as a nation. Then, as now, the public and the private sectors were completely intertwined. The political framework was there — a new sovereign nation from sea to sea. It had to be given economic strength and depth, and instantly. Thus, the business of creating this nation fell into the hands of the few — in business. As Professor Naylor describes for us in language that bites, the directions of our growth were imposed upon us by the interests and well-being of particular, mainly commercial, groups. They built themselves into the very structure of the state and the economy could only move forward on their terms. Thus tariffs, capital inflows, subsidies, tax concessions and licences to exploit and export the nation's wealth. Just as the government found that it could achieve its aim of growth by fostering the corporations, so the corporations found in the government the means of ensuring their own development, privileges, and continuing dominance.

This is scholarly work. Professor Naylor does not confine himself to economic activity as such but deals with the institutions of the time, especially that new phenomenon, the corporation, and the inter-relationships of the private and the public sectors. His account of corporate activity, Canadian style, is rich in insights and leads to a deeper understanding of the origin of our most pressing problems, the concentration of economic power and the dominating role of foreign capital.

There is no question that this study reflects the author's personal anxieties about Canada's future. I share many of his misgivings. However, in following out his concerns, I find no evidence that he has allowed his own scale of values to distort or colour unfairly the facts. The scholarship consists in a down-to-earth grasp of what went on in Canadian government-business relations during the critical period 1867-1914. If he calls a spade a spade, then Professor Naylor is recognizing that it is also the business of the historian not only to lay bare the facts but to do so in a manner that communicates the real meaning and import of what did happen.

Eric Kierans
July 27, 1975

Notes to the Foreword

1. The core publications are Corporation Taxation Statistics (Catalogue 61-208) and Corporation Financial Statistics (Catalogue 61-207), published annually since 1965, Statistics Canada, Business Finance Division. All statistics used in this introduction are based on these reports.

2. The Royal Commission on Corporate Concentration, Orders-in-Council P.C. 1975-879, April 22 and P.C. 1975-999, May 1, 1975.
3. Summary of 1971 Tax Reform Legislation, Department of Finance, Business and Property Income, p 49.
4. *Ibid.*, p. 50.

Preface

This book has several objectives. It is at once an essay in the political economy of development, an examination of a colonial economy in transition with major structural changes in the process of occurring, an enquiry into the causes, distribution, and effects of foreign investment in such an economy, and a general commercial, financial, and industrial history — although by no means completely comprehensive — of Canada from 1867 to 1914, with some considerations of the antecedents and later consequences of development patterns of that period. It is, as well, intended in some measure as a contribution to the task begun by Gustavus Myers over half a century ago of examining the factual as opposed to the fictional foundations of the process of capital formation in Canada during these years. But above all else, since history is primarily a way of comprehending the present, the enquiry is directed towards elucidating the roots of contemporary economic structures.

The most striking characteristic of the contemporary Canadian economy is the enormous volume of American direct investment in its industrial base, and the facility with which the country moved from being a satellite of Britain to a similar status vis à vis the U.S. After World War II the "British connection" was virtually liquidated, and the movement of American firms into Canada was considerably augmented. In part they were attracted by the resources boom of the early 1950's, in part by the growth of the Canadian domestic market. The American multinationals had begun their global march and Canada was in the forefront of the new class of "borrowing" country. By 1967, 65% of mining and smelting was foreign-owned, 45% American: 57% of manufacturing was foreign-owned, 45% American; 74%

of petroleum and gas, 60% American. On the other hand, foreign ownership of railways and utilities declined.[1] And the Canadian hold on the financial apparatus saw few challenges.

Aggregate statistics hide a great deal of important differences. Foreign ownership of assets varies considerably between industries. In food and beverages, textiles, and primary iron and steel it has run about 20-30% in the post-war period. In agricultural implements, while foreign ownership has increased considerably over the past two decades foreign control has not, and in terms of ownership its level is still less than the average for manufacturing as a whole. On the other hand, in virtually every other major industrial category the level of foreign control exceeds that of foreign ownership. In chemicals, electrical products, and automobiles, the key modern industries, foreign ownership levels are from 60 to 90%. Similarly high and rising levels exist in mining and smelting, pulp and paper, petroleum and natural gas.

But while in absolute terms the level of foreign, especially American direct investment in Canada has continued to grow, in relative terms Canada since the mid-1950's has received progressively less of the total outflow of American direct investment. In 1955 its share was 60%; in 1967 it was only 13%.[2] European reconstruction and integration made western Europe an attractive field for manufacturing investment.[3] And by 1967 the cumulative return flow of earnings from Canada to the U.S. exceeded the total outflow of direct investment from 1950 to 1967 by over half a billion dollars. At the same time, American branch plants and affiliates relied increasingly on sources of funds within Canada, and less on imports of capital from the United States. In 1965, 71% of their external funds were from American sources, 28% from Canadian; by 1969, 25% were from U.S. sources, 73% from Canadian.[4]

Concomitant with increased foreign ownership has come industrial stagnation. Of fourteen OECD countries between 1964 and 1969, Canada — while boasting by far the highest level of foreign ownership — had an unemployment rate second only to Ireland. In terms of Research and Development expenditure, supposedly the key to capitalist growth, Canada was surpassed in 1967 by all but the four poorest countries of the OECD group; and in three of them, R&D expenditure was growing while in Canada it was not.[5] Its record of patents granted to residents is one of the worst in the world. From 1966 to 1970 about five per cent of total patents granted went to Canadian residents.[6]

"Integration" of the continental capital market went hand-in-hand with industrial domination. Stock markets in Canada remained thin, adversely affecting the liquidity of new issues and hence reinforcing the preference for more stable American securities by big institutional investors. The proliferation of wholly owned subsidiaries especially contracts the supply of industrial equity in Canada, leading to slow growth of the stock exchanges relative to the American ones.[7] At the same time that brokerage costs are much higher in Canada than the U.S., Canadian banks do 50% of the call loan business in New York to sustain Wall Street. Similar problems impede the marketing of new corporate bond issues in Canada.[8]

The response of Canadian governments to the problems inherent in the degree of foreign ownership — especially the employment crisis that has resulted from the overexpansion of resource industries relative to manufacturing, and the drainage of surplus income as service payments for foreign investment instead of its being used to generate new capital formation within Canada — has been surprisingly predictable. Huge and growing tax concessions are heaped on wealthy firms to induce them to expand investment. All manner of cash gifts are offered by all levels of government, often on a competitive basis, to try to tilt the industrial balance in their favour.

Industrial integration with the U.S., reliance on imported technology, the twisting of the capital market on a north-south basis impeding inter-sectoral flows of funds within Canada, and competitive "bonusing" by various levels of government: all these phenomena are rooted deep in the logic of Canadian development strategy. Far from being of post-World-War-II vintage, they derive from the era of the national policy and were cemented in place during the supposed golden age of Canadian growth, the "wheat boom." They are the result not only of the weakness of the Canadian economic structure, but also its strengths, the two being inseparable. The power of commercial and financial capital to exploit the resource base led to weakness in industrial development. This in turn was the result of the "British tradition." Born a colony of the British mercantile system, Canada inherited a class structure and a set of economic institutions appropriate to its colonial status. They also proved remarkably adaptive to the rising American order. It is these roots that this book hopes to illuminate.

The period covered, broadly speaking, is that of the "national policy," the set of national development policies which, while evolving out of past precedents, are assumed to reach their quintessence in the agricultural and industrial development strategies of the Macdonald and Laurier administrations, or more specifically, of the big business interests that controlled those administrations. Countless eulogies have been written about the "national policy." It has been presented by Canada's more sycophantic historians as a triumph of burgeoning nationalism in the face of momentous challenges, when "great men" with bold imaginations perceived the long-term best interests of society as a whole and brought them to fulfilment, just by the remotest coincidence creating a fair array of millionaires in the process. Apart from the occasional rigid party line economist — with the predictable ideological fulminations about mystical misallocations of productive resources supposedly resulting from protection — there is virtual unanimity that the "national policy" era, in its later stage during the opening years of the "wheat boom," represents a golden age of Canadian economic growth and development, and a bold declaration of industrial independence. Under the circumstances, a re-examination of the nature, causes, and consequences of what might be dubbed "Lord Strathcona's Northern Vision" needs no justification.

An effort has been made throughout to analyse the evolution of economic structures and state policies by taking explicit cognizance, wherever possible, of the economic interests that they furthered. Hence the "muck" has certainly not been spared. The level of corruption in the Canadian political process of the period, especially under the auspices of John A. Macdonald, is truly astounding even to the cynic. It remains to be seen in subsequent volumes if this is the case in more recent history.

There is one obvious and enormous omission. No attempt has been made to add to sections on the evolution of the labour market and labour organization — for a number of reasons. Canada has no lack of labour historians at the moment: there seems, however, a shortage of new work on the structure of capital; and to the extent that the two could be divorced, only the second was examined here. Then, too, consideration of space intervened: it is already a very long book. Time was also a factor. This book is intended to contribute to debates currently in process, though it is hoped it will have some long-term worth as well. To add material on labour would have involved several extra years of preparation; for despite the substantial volume of work undertaken on labour, the sum of our knowledge of the evolution of labour markets in the post-Confederation period, as distinct from the structure of labour institutions, seems to be not significantly different from zero. Furthermore, a study of labour markets could adequately be done only in the context of a full-scale industrial history of Canada. While many topics of industrial history are covered in this book, its central orientation remains that of a study of the financing of economic activity and the structure of ownership and control.

Notes to the Preface

1. Dominion Bureau of Statistics, *Canada's International Investment Position, 1926-1967*, p.151.
2. K. Levitt, *Silent Surrender*, p. 163.
3. R. Mikesell, "Decisive Factors in the Flow of American Direct Investment to Europe," p. 449.
4. Calculated from Department of Trade, Industry and Commerce, *Foreign-Owned Subsidiaries in Canada, 1964-1969.*
5. Canada, Science Council, *Innovation and the Structure of Canadian Industry*, pp. 28, 61-2.
6. *Canada Year Book*, 1970-1, p. 1044.
7. K. Levitt, *Silent Surrender*, p. 140.
8. *The Gray Report*, pp.98, 100-1.

List of Abbreviations

ACBCA	Alberta Commission on Banking and Credit with Respect to Agriculture
Brad	Bradstreets'
CAR	Canadian Annual Review
CBC	Committee on Banking and Credit
CE	Canadian Engineer
CF	Canadian Finance
CFC	Commercial and Financial Chronicle
CLR I, II	Cost of Living Report Volume I, Volume II
CM	Canadian Manufacturer
CMJ	Canadian Municipal Journal
CYB	Canada Year Book
Ec	The Economist
FA	Farmers' Advocate
FP	Financial Post
GGG	Grain Growers' Guide
HCD	House of Commons, Debates
IC	Industrial Canada
JC	Journal of Commerce
LG	Labour Gazette
MT	Monetary Times
RCFB	Royal Commission on the Farmers' Bank
RCLI	Royal Commission on Life Insurance
RCRLC	Royal Commission on the Relations of Labour and Capital
RCRTC	Royal Commission on Railways and Transportation in Canada
RCT	Royal Commission on the Textile Industry

RCTE	Royal Commission on Technical Education
RCTR	Royal Commission on Trade Relations Between Canada and the West Indies
SACC	Saskatchewan Agricultural Credit Commission
SCC	Select Committee on Combines
SCCD	Select Committee on the Causes of the Depression
SCM (1874)	Select Committee on Manufactures (1874)
SCM (1885)	Select Committee on Manufactures (1885)
SCTA	Select Committee on the Operation of the Tariff on Agricultural Interests
SYB	Statistical Year Book of Canada
TEC	Tariff Enquiry Commission

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We are only Englishmen on the wrong side of the Atlantic.

Joseph Howe, London, 1862

CHAPTER I

Introduction: Canadian Mercantilism, 1867-1914

The Canadian State and the International Economy

The Canadian state was consolidated at a point in history when fundamental transformations in the world economic order were in motion. The first of a series of long waves of economic expansion, which was based on water power and the world hegemony of the British textile industry, had given way by the 1840's to the new age of steam and steel.[1] The steamship, the railway, and shortly thereafter the telegraph revolutionized the structure of the Atlantic economy, and then spread even further afield. The communication and transportation revolution precipitated further transformations. Industrialism ceased to be a British phenomenon, and spread to Europe and North America. Capital markets of an integrated sort assumed national dimensions, and soon began to take on international proportions. The scale of railway enterprise was matched by the growth of national business enterprise and, subsequently, by the rise of centralized mass labour organizations.

British industrial dominance weakened with the growth of rival powers. The new industrial capacity of the U.S. and Western Europe poured forth its products in competition with those of Britain. New agricultural areas were brought within the scope of international commerce by the revolution in transportation. And by 1873 the combination of industrial overexpansion, excess agricultural production, and the commercial integration effected by the new transportation system precipitated a world crisis. Prices fell, and in many countries a defensive protectionism arose. The era of virtual worldwide free-flows of commodities — typical of the period after 1846 during the expansion phase of the age of steam and steel — abruptly ended.[2] In the era that followed, the flow of commodities was eclipsed by the movement of capital and labour abroad — from the industrial centres, especially Britain, to the new marginal areas — and the search for higher rates of return, new raw material resources, and safe markets precipitated a fresh wave of colonial annexations.

While remaining a free-trading country[3] Britain was nonetheless in the forefront of the new imperialism. Nearly five million square miles and some 88 million people were added to an already vast empire between the partial recovery of 1878 and the end of the war for the annexation of the Boer republics.[4] The formerly despised colonies assumed a new importance as markets, as raw material hinterlands, and as outlets for the investment of finance-capital. With the relative dimunition of the domestic investment frontier in the face of a highly skewed distribution of income that kept down working-class purchasing power, and with the shrinkage of former foreign markets in the developed world following the advent of new competition, the great accumulations of upper-class savings swelling the vaults of British financial institutions moved abroad on an unprecedented scale. The historical legacy of earlier industrial hegemony — a world monetary dominance and a great merchant shipping capacity — now helped restructure the flow of British economic activity towards its colonies, old and new, formal and informal. Finally, too, the new wave of imperial expansion provided ample recreation grounds for the offspring of Britain's parasitical upper class to pursue their hobbies as military adventurers, colonial administrators, or missionaries. It was in such a world context that Canada's business class came of age.

Canadian capitalism had evolved in the context of the British mercantile system, from the accumulation of capital in the early staple trades of fur, lumber, and grain in Canada proper, timber in New Brunswick, fishing, ship-building, and imperial trade in Nova Scotia. British preferential tariffs and shipping regulations defined the horizons of the colonial capitalist class. During the era of free trade following the dismantling of the colonial system in the 1840's, the traditional growth path of the economy was forcibly changed. With the rise of the new imperialism after the depression of the 1870's, normalcy was restored, and with it a renewed role within the empire.

Two fundamental structural attributes of the Canadian economy in the period from 1867 to 1914 must be made central to analysis. First, it was a colony, politically and economically. In terms of commercial patterns it was a staple-extracting hinterland oriented toward serving metropolitan markets from which, in turn, it received finished goods. In such a structure, any economic advance in the hinterland accrues to the benefit of the metropole and perpetuates the established division of labour, for relative cheapening of the cost of production of staples lowers the cost of production of the finished product in the metropole. Canada's commercial and financial system grew up geared to the international movement of staples, rather than to abetting secondary processing for domestic markets. It was also the recipient of the largest amount of British investment of any country or colony of the period, excluding the U.S.

Canada's social structure, and therefore the proclivities of its entrepreneurial class, reflected and reinforced its innate colonialism. The political and economic elite were men associated with the staple trades, with the international flow of commodities and of the capital that complemented the commodity movements. They were wholesale dealers and bankers in Montreal in particular, and to a lesser extent in Toronto and Halifax.

A second trait of the economy of the period, in part derivative from the first, was that it had only begun to make the difficult transition from a mercantile-agrarian base to an industrial one. Wealth was accumulated in commercial activities and tended to remain locked up in commerce. Funds for industrial capital formation were in short supply. Commercial capital resisted the transformation into industrial capital except under specific conditions in certain industries, in favour of remaining invested in traditional staple-oriented activities.

In 1850, so-called "manufacturing" accounted for about 18% of the total GNP, but of this over 50% consisted of the products of saw mills and grist mills — i.e. primary processing only of the two staples. Moreover, in the remaining manufacturing sector, the factory system proper was virtually absent: production was overwhelmingly undertaken in small shops still organized largely on handicraft lines. By 1870, while the percentage of the GNP accounted for by manufacturing had not changed significantly, the content of the manufacturing sector had. Saw mill and grist mill output was down to about one-third the total. Cotton factories, secondary iron and steel plants, and others were now in evidence. It would be wrong to exaggerate the degree of transition caused by the Civil-War-induced industrial expansion, for the mode of production was still generally very small-scale; nonetheless, the beginnings of a new order of industrialism were certainly present by that date.

The national policy was, on one level, a set of policies designed to facilitate this transition with the use of foreign capital, and often labour as well. It was a colonial equivalent of the type of development policies undertaken in many advanced countries in the seventeenth and eighteenth centuries, subsequently described as "mercantilism."

Mercantilism was a set of policies aiming at internal economic consolidation and/or expansion. It was the economic counterpart of the political process by which states were integrated and strengthened. While there were as many particular variants of mercantilism as there were states engaging in mercantilist policies, the basic common factors were that the policies were undertaken in a pre-industrial context, that production was largely handicraft interlinked with mercantile credit, that entrepreneurial leadership came from a merchant-capitalist class in international trade and finance, and that the dominant economic institution was the mercantile corporation, functioning often as a subordinate arm of government and frequently with a state-sanctioned monopoly. Contrary to the liberal notion of the state as umpire of competition, its active role was to share in directing the development process through regulation of commerce and industry, through public financial assistance to the construction of the commercial infrastructure, and, occasionally, through direct investment in industry. Policies were undertaken to stimulate an inflow or to block an outflow of factors of production, capital, and skilled labour. The world and its resources were regarded as static; hence the only means of increasing the wealth and welfare of the state was to take something away from someone else,[5] for example by shifting the locus of production to the domestic economy from abroad.

Canada's "national policy" fits the description "mercantilism" remarkably well in terms of mercantile domination, pre-industrial context, and policies pursued, but with the critical proviso that the mercantile policies were pursued in a colonial context.

As a white settler state, Canada shared with Australia, New Zealand, South Africa, and the Argentine a privileged position within the Empire, formal and informal, an Empire whose expanse embraced black infants, brown children, adolescent white daughters, and the Great White Mother in one happy, hierarchial family evolved from some bizarre species of political parthenogenesis. But though privileged politically, the essential fact of colonialism remained, and nowhere was it more evident than in the political structures created at the time of Confederation.

The British North America Act was derived from a political theory of branch-plant imperialism: lower levels of government, the colonial legislatures, were formerly weak and dependent on Britain; now they were to be weak and dependent on Ottawa, which in turn was ultimately answerable to Westminster.[6] The federation of the colonies was a highly centralized one. In fact, the degree of independence exercised by the colonial (provincial) legislatures was reduced by the results of Confederation, which represented a regression from the degree of autonomy that Reform administrations had succeeded in achieving. Under the terms of Confederation, the central government got all important economic powers — control over currency and banking, commerce, the major tax sources, transportation infrastructure, and subsequently the lands and resources of the West. The federal government also assumed all provincial debts.

The centralization of fiscal powers was critical to the nature of the new federation. All taxation but the politically delicate and therefore very greatly circumscribed power of direct taxation was annexed by the federal government, leaving the provinces with little more than a paltry subsidy of 80c per head plus meagre royalties from resource exploitation. Strangling the provincial assemblies' powers over the purse meant that the merchant-capitalist oligarchy who controlled the federal government had no difficulty raising funds for their development objectives. Liberal democracy in Canada was thus set back three decades. As an additional safeguard, the old legislative council, which in the

TABLE I (1)

Dominion Disallowances of Provincial Legislation

Province	*1867-1896*	*1896-1905*	*1905-1914*
Ontario	6	1	—
Quebec	4	1	—
Nova Scotia	6	0	—
New Brunswick	1	0	—
Manitoba	26*	3	—
British Columbia	20†	22†	—
Prince Edward Island	2††	0	—
Saskatchewan	—	—	3
Alberta	—	—	1

Source: compiled from Department of Justice, *Memorandum on Disallowance* pp. 66-75.

* Includes ten railway charters.

† Includes many efforts to curb import of Chinese labour, to promote local railways and local development, and efforts to regulate working conditions in mines.

†† Both attempts to free the Island of absentee proprietors.

colonies had been made elective by Reform administration, was restored to its former grandeur as the federally appointed Senate. And the federal government assumed the imperial government's power of disallowance over colonial (provincial) legislation, a power which it wielded with much more frequency than had the imperium of old.

In terms of policies adopted to promote and foster industrialization, create employment in secondary industry, and expand the economy's factor endowment, Sir John A. Macdonald described the intent of the National Policy tariff as follows:

> We have no manufacturers here. We have no work people; our work-people have gone off to the United States. . . . These Canadian artisans are adding to the strength, to the power of a foreign nation instead of adding to our own. Our work-people in this country on the other hand are suffering from want of employment. If these men cannot find an opportunity in their own country to develop the skill and genius with which God has gifted them, they will go to the country where their abilities can be employed, as they have gone from Canada to the United States. . . .If Canada had a judicious system of taxation they would be toiling and doing well in their own country.[7]

In addition to the tariff, patent laws and direct subsidies were employed to stimulate industrial capital formation, generate the basis of population growth, and attract foreign investment. Even the mercantilist institution of the state-chartered monopoly was added to the slate of mercantilist policies, in the form of the Canadian Pacific Railway. And there was virtually no limit to the supplications of successive governments in their effort to attract British investments into Canada — though the pay-off of all these policies took some time to show itself.

The period from 1867 to 1914 can be logically divided into two phases. The first phase, up to 1896 (properly speaking from 1873 to 1896), was one of secular deflation, the recession phase of the era of steam and steel which has been referred to, rather misleadingly, as the "Great Depression." The second phase, from 1896 to 1914, saw a steady rise in prices as the world economy was transformed by the advent of new industries, based on electricity, chemicals, and the internal combustion engine.

Economic Development in the "Great Depression"

The notion that the 1873-1896 period was in any way a prolonged depression needs clarification. While the growth of manufacturing output may have been fairly steady,[8] measured either by gross value of production or value added in real terms, a "depression" in the Canadian economy of the period must be given another interpretation. For the staple-extracting hinterland, "depression" or prosperity hinged essentially on the world prices of its primary produce and on the rate of population growth which depended in large measure on those prices. And growth in manufacturing output certainly does not invalidate the notion that the period was one of the prolonged recession phase of the age of steam and steel. Industrial overproduction, leading to secular price declines and a profit squeeze, manifested itself throughout the developed world, and showed ample evidence in Canada as well.

Despite any progress made in manufacturing development, measured unemployment rates remained high, and these are chronic underestimates for an essentially farm-based community whose population had the options of either returning to agriculture or emigrating to the U.S. during bad periods. Furthermore, the period 1873-1879 was unambiguously one of recession on all counts — according to contemporary reports, which are a much more reliable guide than latter-day manipulations of inadequate statistics. So too were the early 1890's, when even the measured rate of growth of manufacturing output dipped very low. The one exceptional period seems to be the boom of 1879-1883 at the time of the imposition of the National Policy tariff.

TABLE I (2)

Unemployment, Migration and Labour Force Growth

Year	*Unemployment Rate*	*Total Net Migration (1000's)*	*Annual Rate of Growth of Labour Force*
1870	4.03	(1870-1880) -85	2.05
1880	6.02	(1880-1890) -205	1.60
1890	5.02	(1890-1900) -181	1.06
1900	3.99	(1900-1910)+715	4.17
1910	3.00		

Sources: O. J. Firestone, *Development of Canada's Economy*, p. 229; O. J. Firestone, *Canada's Economic Development*, pp. 58, 61.

While the Great Depression lifted temporarily in 1879 until 1883-1884, it is not all clear what role, if any, the National Policy tariff played in the revival of economic conditions. For the period was one of general world recovery, and the markets for Canadian staples, especially timber, improved. Timber was the leading sector in terms of output and employment among the non-agricultural industries. A little burst of immigration also occurred, but this was associated more with the land rush in Manitoba, and therefore with the state of world agricultural produce markets, than with any increase in employment opportunities in the old provinces. After 1880 came a substantial amount of spending on Canadian Pacific Railway construction, and while the National Policy was instrumental in providing funds, some of the impetus was lost through import leakages, for the CPR syndicate received a blanket tariff exemption on its material requirements.

Still, a substantial growth of manufacturing did occur. While the return to prosperity by itself would have generated a great deal of industrial expansion, and while the data available were deliberately falsified by the Tory government's investigators (by adding to the category of "new factories" factories already in existence but not operating in 1878) in order to inflate the results for public consumption, it is clear that the high tariff did stimulate a fair degree of new manufacturing. In the major cities of Ontario and Quebec capital employed rose 85% between 1878 and 1884, while output expanded 125% in value.

The effects in the Maritimes were much less spectacular, as the Atlantic region underwent a degree of reorientation from its former export basis toward integration with central Canada. The results in the Atlantic provinces did not show the balanced growth that typified central Canadian manufacturing. Growth of sugar refining, cotton, and primary iron and steel for domestic markets was partly offset by a decline not only in shipbuilding and primary timber and other traditional industries associated

TABLE I (3)

Growth of Manufacturing in Central Canada, 1878-1884

	No. of Factories	*No. of Hands*	*Yearly Wages*	*Gross Value of Product*	*Capital Invested*
1878	467	27,869	8,174,900	34,131,100	26,160,500
same factories, 1884	467	42,080	12,870,900	53,554,500	36,647,400
new factories, 1884	258	13,453	4,040,900	23,712,600	11,777,700
increase, 1878-1884	258	27,664	8,736,900	43,136,000	22,264,600

Source: *SCM* (1885), p. 34.

with the British mercantile connection, but also by some losses in a number of consumer goods industries geared to local markets, as a result of central Canadian dumping.

Despite the paeans of joy sung by a Tory Select Committee in 1885 over the multiplicity of alleged benefits of the National Policy tariff, the results in terms of industrial expansion were very short-lived. Late in 1883 or early in 1884, depending upon criteria chosen, the prosperity phase ended. The bottom dropped out of land values in Winnipeg, financial difficulties beset the CPR, and industrial stagnation set in. Ontario, which had seen the greatest expansion, was hit hardest by the results of industrial over-expansion during the boom phase. During 1884, 72 plants shut down completely in 65 urban centres, and total employment fell absolutely by 5,557. Wage levels dropped by 15-20% on average from their 1882 levels. The recession hit all industries, but especially secondary iron and steel, foundries, machine shops, and agricultural implements. In Hamilton, most factories cut back to 75% capacity. Guelph had an unemployment rate of 20%. London, a centre of agricultural implement production, anticipated a winter unemployment rate of 50%.[9] In the Maritimes, the three industries which led the expansion all experienced a drastic recession. Over a million and a quarter dollars were lost in the overextended sugar refineries there; there were big losses in cotton; and the iron and steel industry profits were cut to zero, if not below.[10] In addition there were still the problems already inherent in the stagnation of lumber and shipbuilding to face. Yet the Canadian Manufacturers' Association, with its usual sophistry, claimed that the National Policy was a key factor in mitigating the depression.[11]

Despite such false starts as the 1879-1883 expansion, the period from 1873 to 1896 was one of disappointingly slow growth. Population growth was exceedingly slow, the migration to the United States more than offsetting the inflow of the new immigrants, and hence claiming a large share of the natural increase as well.[12] Sir Richard Cartwright, Liberal finance critic, ventured the opinion that the most prosperous part of the Canadian population was the one-and-one-half million people driven out of the country by the National Policy.[13]

The "Wheat Boom"

The period from 1896 to 1914 is generally regarded as the golden age of Canadian growth. The year 1896 represented a turning-point in world economic conditions, with prices of agricultural products in particular beginning to turn up. In the U.S., "wheat mining" had led to soil exhaustion, forcing a switch in some areas to the cultivation of corn and coarse cereals at the same time as American and European industrial expansion drew labour off the farm and into factories, raising the demand for food.

In Canada, too, the period around 1896 represented a turning-point. World wheat prices troughed and began to rise, as did wholesale prices in Canada. Exports per capita began to rise even before export prices. Bank note circulation followed prices, domestic and foreign, upwards. Yet homestead entries and population did not begin a marked rise until after 1902, indicating that the phrase "wheat boom" applied to the period hides more than it reveals, in particular a major discontinuity in the pattern of growth of the period. The expansion was led by real exports, but not by wheat. It is absurd to attribute the growth of investment that fed the boom to expectations factors derivative from the change in the trend in world prices;[14] obviously business fixed-capital formation was not undertaken in anticipation of a boom in wheat exports nearly a decade later. Furthermore, in the first phase of the new expansion 1895-1902, and for the only time during the entire period 1867-1914, the Canadian trade balance was in surplus over-all, and net export of capital occurred. After 1902-3, as the West began to fill, the balance of trade went into deficit and a great flood of capital imports followed.

This point is a critical one, for the role of wheat in generating expansion has been badly misinterpreted. In 1891, wheat accounted for 6.3% of total commodity exports: in 1901, six years after the "wheat boom" had begun, wheat accounted for 6.0% of commodity exports. It is true that wheat exports grew absolutely during the early years of expansion, but wheat output grew very little, and in relative terms the upward trend in wheat exports was minor. Wheat production began to accelerate in 1902, and did not reach its "take-off" point until 1906. Exports of wheat and wheat flour did likewise. By 1911, wheat was 21.6% of commodity exports, and by 1913 it reached 30.5%. While prices of wheat showed an upward trend after 1896, it would be ludicrous to impute to that alone any great power to restructure the Canadian economy. Not until 1907 did prices reach the level achieved in 1891. And the over-all rise in prices of wheat over the 1896-1913 period is not out of line with the general index of wholesale domestic prices or the over-all export price index.

In fact, the initial expansion was led not by field crops but by the mineral staples, exports of which rose 500% between 1896 and 1901, while the over-all growth of exports was but 162%.

TABLE I (4)

Wheat Production and Exports, 1891-1913

Year	*(bushels millions)* *Wheat Production*	*Wheat Exports*
1891	42.2	3.4
1896	55.7	10.8
1897	39.6	9.8
1898	54.4	24.6
1899	66.5	13.9
1900	59.9	20.3
1901	55.6	14.8
1902	88.3	31.0
1903	97.1	38.8
1904	81.9	23.9
1905	71.8	20.6
1906	107.0	47.3
1907	135.6	46.5
1908	93.1	47.6
1909	112.4	56.7
1910	166.7	67.8
1911	132.1	62.4
1912	231.2	97.6
1913	224.2	115.7

Source: M. Urquhart and K. Buckley, *Historical Statistics of Canada*, pp. 364-5.

This expansion was largely at the expense of old staples like fish and forest products, which fell absolutely. A relative decline in the share of animal products was also recorded. And within the minerals sector that led the boom, gold from the Klondike rush dominated. It makes as much sense to call this period the "gold boom" as to give pride of place to wheat.

Later, export patterns shifted again. Agricultural products rose from 13.9% of total exports in 1901 to 42.1% of the total by 1913; animals and their products fell drastically, partly due to the conversion of grazing land into arable; a sharp reduction in the relative importance of minerals occurred; while smaller declines were registered by other categories.

Within the agricultural sphere that rose to new importance, there was a shift in the export patterns, not only towards wheat at the expense of other products, but also to the detriment of exports of wheat flour. In 1901, wheat flour accounted for 36.6%

TABLE I (5)

Commodity Exports, 1901-1913

	% Total 1896	*% Total 1901*	*% Total 1906*	*% Total 1910*	*% Total 1913*	*1913 as % 1901*
All	100.0	100.0	100.0	100.0	100.0	202.2
Minerals	7.6	22.6	15.0	14.3	15.9	146.0
Fish	10.4	6.0	6.7	5.6	4.5	152.3
Forest	25.6	16.9	16.4	17.0	12.1	144.3
Animal	34.4	31.2	28.2	19.3	12.5	80.7
Agricultural	13.3	13.9	22.9	32.3	42.1	605.2
All primary	91.3	90.6	89.6	88.8	87.8	193.1
Manufactures*	8.7	9.4	10.6	11.2	12.3	273.1

Source: *CYB* (various years); *SYB* (1901), adjusted.

* Includes wood pulp.

by value of total exports of wheat and wheat flour; by 1913 it was down to 18.4%.

The expansion was also accompanied by shifts in the relative economic weight of the various provinces. While Ontario maintained its preponderant position, the provinces to the east declined in relative importance as manufacturing centres, and therefore as producers of goods to meet the demands of the new West. And in the West itself, although the provincial economies were basically oriented to primary products — grains, animal products, minerals, and timber — substantial growth in manu-

TABLE I (6)

Capital Invested in Manufacturing, by Province

	% of total by Province				
	1870	*1880*	*1890*	*1900*	*1910*
Ontario	48.9	48.7	49.8	48.1	47.6
Quebec	35.9	35.9	33.3	31.5	26.2
New Brunswick	7.5	5.1	4.5	4.2	2.9
Nova Scotia	7.7	6.1	5.6	7.8	6.4
Prince Edward Is.	—	1.3	0.7	0.5	0.2
West	—	2.9	6.1	7.9	16.7

Source: calculated from *Census of Canada*, Vol. III, 1871, 1881, 1891, 1901, 1911.

facturing capacity occurred as well, helping again to reorient activity away from the eastern provinces.

In surveying the effects of the post-1896 expansion, one elated contemporary commented that "at last Canada's hour had struck,"[15] but it is not at all clear that the tolling was heard in working-class circles. Labour markets began to tighten up after 1900, the unemployment rate dropping while the labour force grew and net migration became positive. But the general level of real wages over the period 1900-1914 fell by 1.9%.[16]

One of the most important prerequisites of industrialization is the existence of an agricultural sector capable of providing both cheap food under conditions of rising productivity and surplus income to the industrial sector.[17] The Canadian economy failed this test abysmally. Food prices in Canada soared during the period when the greatest expansion occurred in its agricultural base, because the new agricultural areas were oriented towards export. Not only wheat, but even stock went to service the food requirements of industrial countries. The cattle ranges provided for the American consumer, rather than helping to stock the mixed farms in Canada.[18]

Moreover, rapid inflation of the cost of distribution of commodities resulted from an overextension of trunk railway lines for long-distance movement of commodities at the expense of local service lines, an excessive number of small traders, and the prevailing patterns of investment. British portfolio investment fed the construction of commercial infrastructure to move commodities internationally. British loans later became available to finance huge industrial mergers which led to oligopoly price increases. And in terms of industrial investment, producers' goods industries expanded quickly while consumers' goods industries lagged. As a result, prices of food, clothing, housing, and lumber for building rose fastest of all in Canada during this period.[19] Food prices in Canada in fact rose much more quickly than those in Britain — which imported a substantial volume of Canadian food production. Even bread prices in Canada exceeded the British price of bread made from Canadian wheat.

In terms of surplus income for industrial capital formation, in fact, the flow of funds ran the other way. Canada's new staple farm sector drained income from industry to be invested in overexpansion of a single cash crop because of the structure of the Canadian capital market, which evolved in such a way as to perpetuate a staple-extracting economy.

The two main structural attributes of the economy, domination by commercial capital and its colonial status as a staple-extracting hinterland, complemented and reinforced each other.

Industrial capital formation was retarded relative to investment in staple development and the creation of the commercial infrastructure necessary to extract and move staples. The character and patterns of transportation infrastructure put in place and the banking and financial intermediary structure bore all the hallmarks of a staple-exporting economy. Overexpansion of trunk lines for the long-distance movement of primary output under federal government direction took precedence over local lines for the development of Canadian market for local industry. Funds flowed freely through the intermediary system into commercial investments, into the development and movement of staples, or into other public utilities and other types of infrastructure, and much less so into industrial capital formation.

The results were evident in the uneven development of various regions. The Maritime provinces attached to Canada at Confederation were drained of surplus income to finance central Canadian development objectives in the West. Savings flowed out of the Maritimes via the intermediary system, and hence away from Maritime industry, to be put to work in building up a dependent single cash-crop frontier in the West. Quebec too lost control of its surplus income during the boom era of the "wheat economy, and with the loss of local savings came the submergence of the Québécois industrial entrepreneur under the wave of anglophone-controlled mergers.

The foundations of the current Canadian economic system can be found in this critical period. The degree of American domination of its industrial base, the primary extractive orientation of its export sector, the relative growth of particular regions, and the socio-economic position of the Québécois are all logical outgrowths of the operation of the "national policy," of the set of policies adopted by central Canadian commercial capitalists to advance their interests within the context of Canada's situation in the British empire.

Table I (7)

Indices of Growth, 1890-1913

(1)	(1)	(2)	(3)		(4)		(5)	(6)	(7)	(7)	(8)	(9)
			Value of Exports Per Capita		Manitoba No. 1 Northern Wheat Wholesale Price			Bank Notes in Circulation			British Security Prices	
Year	Domestic Wholesale Prices · Index	Export Prices Index	$	Index	$	Index	Homestead Entries	Total Index	Per Capita $	Per Capita Index	Index	Population Index
1890	103.4	103.5	$20.2	56.0	$0.85	113.3	2,955	68.1	$6.51	74.2	96.4	90.1
1891	104.7	104.0	20.3	56.2	0.93	124.0	3,523	69.7	6.32	72.0	95.7	91.0
1892	96.5	103.0	23.3	64.5	0.80	106.6	4,840	72.5	6.98	79.6	97.8	91.9
1893	99.2	100.7	24.0	66.5	0.73	97.3	4,067	72.6	6.85	78.1	100.4	92.8
1894	92.1	101.1	23.6	65.4	0.61	81.3	3,209	66.9	6.35	72.4	102.5	93.6
1895	88.3	96.5	22.6	62.6	0.72	96.0	2,394	66.1	6.10	69.5	107.3	94.6
1896	83.1	93.1	23.8	65.9	0.66	88.0	1,857	67.5	6.18	70.4	114.0	95.4
1897	85.6	90.9	26.8	74.2	0.79	105.3	2,384	73.7	6.12	69.8	111.1	96.6
1898	91.1	97.0	31.6	87.5	0.93	124.0	4,848	81.3	7.29	83.1	107.7	97.6
1899	91.9	95.4	30.2	83.7	0.71	96.7	6,684	89.2	7.89	89.9	104.7	98.8
1900	100.0	100.0	36.1	100.0	0.75	100.0	7,426	100.0	8.75	100.0	100.0	100.0
1901	99.8	102.5	36.4	100.8	0.75	100.0	8.167	108.6	9.36	106.7	96.6	101.5

1902	101.3	104.3	38.3	106.1	0.73	97.3	14,673	118.9	10.16	115.8	97.2	103.1
1903	102.6	107.6	39.8	110.2	0.79	105.3	31,303	129.3	10.61	121.0	95.0	106.6
1904	101.1	108.7	36.7	101.7	0.92	122.7	26,073	132.6	10.60	120.8	93.2	109.5
1905	106.1	105.3	33.9	93.9	0.90	120.0	30,819	137.5	10.68	121.7	93.8	112.6
1906	111.8	113.4	41.6	115.2	0.76	101.3	41,869	151.9	11.44	130.4	91.7	116.0
1907	117.4	118.5	32.0	90.3	0.88	117.3	21,869	162.7	12.02	137.0	88.0	118.4
1908	116.3	124.2	43.1	119.4	1.04	138.7	30,424	153.3	11.00	125.4	90.0	122.0
1909	114.9	123.5	39.1	108.3	1.04	138.7	39,081	158.8	11.04	125.9	88.6	125.8
1910	118.5	124.8	43.6	120.8	1.00	133.3	41,568	176.3	11.87	135.3	86.6	130.0
1911	121.8	123.7	41.5	115.0	0.95	128.0	44,479	193.2	12.50	142.5	85.2	134.8
1912	130.9	120.7	42.2	116.9	0.97	129.3	39,151	215.0	13.41	152.9	82.9	140.3
1913	129.3	122.5	50.7	140.4	0.88	117.3	33,699	226.0	13.56	154.6	79.1	145.8

Sources:
(1) K. Taylor and H. Mitchell, *Statistical Contributions to Canadian Economic History,* II, p. 6.
(2) *Ibid.,* p. 56.
(3) *Canada Year Book (CYB),* 1916, p. 255.
(4) R. H. Coats, *Cost of Living Report (CLR),* II, pp. 34-5.
(5) *CYB,* 1926, p. 923.
(6) *CYB,* 1918, p. 514.
(7) Calculated from *CYB,* 1918, p. 154; *CLR,* II, p. 946.
(8) K. C. Smith and G. F. Horne, "An Index Number of Securities 1867-1914."
(9) *CLR,* II, p. 946.

Notes to Chapter I

1. See especially J. Schumpeter, *Business Cycles*, (2 vols.); N. Kondratief, "The Long Waves in Economic Life."
2. E. Hobsbawn, *Industry and Empire*, pp. 140ff.
3. A great deal of nonsense has been written about the British "exception" to the general retreat from laissez-faire. In fact the British case is much less exceptional than appears at first glance. British dependence on imported foods, at a time when most European countries and the U.S. chose to protect their farm sectors threatened by falling prices, obviously dictated the preservation of free trade in foodstuffs in an effort to keep down money wages and preserve British industry's competitive position: it was thus indirectly a policy of protection. And free trade in manufactures for Britain meant as well free trade for India whether the Indians liked it or not: it thus served to assure the Indian market would stay open to shore up, as of old, the creaky fortunes of the British textile industry. The iron and steel industry in Britain in fact was protectionist, and the decision to remain "free trade" oriented reflected the superior political power Manchester possessed at the expense of Birmingham.
4. J. A. Hobson, *Imperialism: A Study*, p. 18.
5. E. Heckscher, *Mercantilism*, II, p.25.
6. Cf. D. Creighton, *Dominion of the North*, pp. 306-7.
7. *HCD*, March 7, 1878, pp. 857-9.
8. G. Bertram, "Economic Growth in Canadian Industry."
9. *CM*, Jan. 16, 1885, p. 901.
10. *MT*, May 20, 1887, pp. 1379-80.
11. *CM*, Feb. 20, 1885, p. 988.
12. *HCD*, March 14, 1888, p. 144.
13. *HCD*, March 22, 1892, p. 358.
14. See, for example, J. Stovel, *Canada in the World Economy*, p. 70.
15. O. D. Skelton, "General Economic History," p. 191.
16. H. D. Woods and S. Ostry, *Labour Policy and Labour Economics in Canada*, p. 402.
17. W. W. Rostow, *The Stages of Economic Growth*, pp. 23-4.
18. *CLR*, I, p. 67.
19. *CLR*, II, pp. 20, 377.

Constitutions, statutes, supreme court and privy council decisions are credit instruments.

Harold Innis

CHAPTER II

Revenue, Protection, and the Politics of International Finance

Capital Formation and the State

The formation and evolution of the Canadian state structure is fully explicable only when explicit cognizance is taken of the commercial and financial relations of the colony to more advanced economies, notably Britain and the United States. Many of the most critical political decisions taken by the ruling class in the colony were conditioned by the state of Canada's relations with the British capital market. British capital built most of the major works of commercial infrastructure in the provinces; public finance depended upon the pleasure of the imperial government and the London private "merchant" banks; and Canadian development policies and the structure of its capital markets and financial institutions were moulded to ensure the greatest facility of entry of British capital.

The critical, if accidental impetus toward the development of the Canadian state structure in its modern form came from a handful of small businessmen in St. Catharines, Ontario, in the wake of the post-1815 deflation that gripped the province of Upper Canada. This little group of merchants and millers, led by William Hamilton Merritt, conceived of an elaborate irrigation-ditch-cum-canal to maintain the water power for their milling operations. In short order, the project became tied to the grand scheme of the Canadian mercantile class, especially that of Montreal, to complete a system of canals on the St. Lawrence-Great Lakes system in order to draw the American north-west grain trade to Europe down the St. Lawrence via Montreal. The canals were essential to offset the effects of the American Erie

Canal, which threatened to capture the U.S. interior trade for New York and draw it along the Hudson-Mohawk drainage system. This competition of rival drainage systems for the products of the interior, a competition founded in the earlier era of the fur trade, left an indelible mark on Canadian economic structures and the commercial policies of its ruling business class. William Hamilton Merritt's scheme for the Welland Canal was initially sold to the government of Upper Canada in 1824 with the assurance that the total cost of the project would not exceed $42,000 and that it would not cost the government a cent! Several million dollars later, in 1840, and with a total public investment of over one million dollars, some major rethinking of the finances of the colony was called for, as bankruptcy appeared imminent.

The Welland Canal episode illustrates many of the critical problems faced by colonial financiers and merchants of the period, and it set a number of important precedents for the future. Its tight interface of government and business was an often-repeated pattern in later years, and led directly to a total compromise of the public finances. The province was bankrupted by the drain on its resources imposed by the canal company. It represented, too, the first *major* instances of several categories of foreign investment in Canada. American direct investment, specifically from one J. B. Yates, an Albany financier heavily involved in early variants of the numbers racket, was essential to its early development. It also prompted the first major influx of foreign portfolio investment into Canadian public securities, the proceeds of which were earmarked for canal finance. Early efforts in 1830 failed to interest the London private banks — the Barings, Glyn, Mills, Rothschilds, or Overend and Co. — in the provincial debt. In 1831 some interim financing was acquired from the Bank of the United States on the collateral of provincial currency debentures, but it was far from satisfactory. Hence in 1835 a major innovation in provincial finance was introduced: the first issue of sterling debentures was undertaken in a deliberate effort to shift the Canadian public debt from the province to England in order to free funds in Canada for other investments. The pattern of financing heavy works of infrastructure abroad by long-term debt, while Canadian capital moved into shorter-term investments, persisted thereafter.

Despite increasing raids on the provincial treasury, the canal swallowed up capital in ever increasing amounts and other expediencies were tried. An effort to float a big loan with some unspecified "European" banking house foundered after William

Lyon Mackenzie, the leader of the Reform party of the province, unveiled a long string of charges of corruption against the company. New York was picked clean. The Assembly of the sister province, Lower Canada, was also under the control of a Reform movement unsympathetic to the machinations of the governing and mercantile cliques of the colonies: it would invest little to begin with, and nothing further as time went by. The private resources of the commercial men of the two colonies were meagre, and were largely refused to the Company. Hence, increasing demands on the state were made until the outbreak of rebellion in 1837 and 1838 caused a complete collapse of provincial credit in Britain.

The canal program and its capital requirements brought the British private bankers, Baring Brothers and Co., to Canada for the first time. And in co-operation with the mercantile elite of the colony a fundamental experiment in public finance was carried out. As it became clear that the government was considering writing off the canal and dumping it on the private shareholders, the private shareholders decided to act first and dump the financial derelict on the government. Nationalization plans followed, to bail out the private investors by exchanging shares for provincial debentures.

But as a prelude to buying out the private investors with more public money, the capital market in Britain had to be made receptive to the now thoroughly suspect Canadian securities. The result was the Act of Union of 1841, whereby the two provinces were united in the expectation that spreading the burden of repayment of the bankrupt upper province's debts over the population of the almost debtless lower province would both reassure existing British debenture holders and widen the revenue base for future issues. In conjunction with an imperial guarantee of the interest of a new issue, the credit of the United Province was established in Britain and the path opened for Canadian finance to cultivate an inflow of British portfolio capital in the future.[1]

Development of the Canadian Capital Market

The two British private banking houses, the Barings and Glyn, Mills, played a key role in Canada's subsequent financial relations with London. At the time, Canadian banks were geared to the provision of short-term mercantile credit. Hence all British capital destined for Canada for three decades after union came via the Barings and the Glyns, who stood in much the same relationship to the Canadian Finance Ministers as did the Bank of England to the Chancellor of the Exchequer.[2]

The development and regulation of private financial institutions revealed the same type of sensitivity to the state of Canadian credit in the imperial capital market. Banking was regulated first by the Colonial Office and later by the provincial authorities themselves, in such a way as to maintain the confidence of the British investor.[3] The first trust company in Canada, the Trust & Loan Company of Canada, founded by the Kingston mercantile community in 1843, had as a major objective the attraction of British capital. The preamble of its charter noted that:

> Whereas the improvement and advancement of the province are greatly retarded by reason of the deficiency of capital which prevails therein; And whereas the difficulty of ascertaining, with confidence, the money value and legal sufficiency of the security offered by borrowers, has hitherto, to a great extent, precluded capitalists resident in Great Britain from availing themselves of the opportunities constantly offered in Canada for the profitable investment of Capital, And whereas, such difficulties would, to a great extent, be overcome by the establishment of an Incorporated Joint Stock Company . . .[4]

The ability of the company to tap British capital sources was greatly improved after 1850 when Thomas Baring and George Carr Glyn were added to its trustees.

The stock exchanges too were created in part with an eye to promoting the inflow of British capital.[5] Even the introduction of general legislation permitting the principle of limited liability had this objective in mind in 1849.[6] And Francis Hincks, a leading member of the Reform movement, future Prime Minister of the Province of Canada, and future Finance Minister of the Dominion of Canada, even expressed his reluctance to participate in the rebellions of 1837-1838 on the grounds that they were likely to frighten away British investment.[7]

The Dawn of the Railway Age

Railways became an urgent order of priority in the 1840's with the decline and fall of the old colonial system and its preferential tariff arrangements for Canada, and with the threat that American railroads would turn the commercial balance back in favour of the Hudson-Mohawk system at the expense of the carefully constructed St. Lawrence commercial empire. It was therefore in railway finance that the greatest efforts were made to win the approval of British investors. The Municipal Act of 1848, drafted by the provincial Inspector-General (Finance Minister) Francis Hincks, created various municipal units and gave them corporate power to raise money and construct public works.[8] Following this, a loan fund which pooled the municipalities' resources was set up on the premise that the municipalities' combined borrowing powers in London would be greater than the sum of their individual capacities. And in addition the province itself undertook direct guarantees of the securities of certain favoured railway companies, notably those on which leading government members such as Francis Hincks, A. T. Galt, and others served on the Board of Directors.

Under the auspices of these pieces of legislation, the great railway projects of the era were built — most prominently the Grand Trunk. Its contractors were the English firm of Brassey, Peto, Jackson and Betts, who had built nearly one-third of the English railways of the period. Thomas Baring and George Carr Glyn sat on the GTR's London board, virtually the entire Canadian Cabinet on its Canadian board. Though it was initially planned as a public work, the then Prime Minister of Canada, Sir Francis Hincks, apparently had a change of heart after being lavishly "entertained" by Lord Brassey and his colleagues on a visit to London to raise money for the project.[9] By 1859, Canada has 2,093 miles of railroad of which 1,112 were the Grand Trunk lines. The cost to the public, much of it in graft and waste, was over four million pounds, accounting for nearly half of the total debt of the province.[10] Operations of the road showed a chronic and growing deficit.

The construction and financing of the line were appalling operations even by the standards of the day. The initial distribution of the shares left the two English private bankers together with the contractors in control of over a third, which was more than enough to ensure them control of the line. At the time of the original issue, the stock market (fed by the fancy prospectus of the line, which featured prominently its tight relations with the government of the province) was very receptive, but the promoters held back stock to push up the price. Once the stock bubble burst and the stock fell to a heavy discount, from which it never recovered, the promoters reneged on their agreement to take up unsold stock themselves. The province had to fill the gap in their cash resources by the first of a never-ending series of special relief measures, some voted in Parliament, some granted by order-in-council, and some just gratuitously handed out by particular ministers on their own authority. In addition to sustaining a huge infusion of funds to keep the line afloat, the province in 1858 obligingly reduced its claim to that of second mortgagee. Under the terms of the Relief Act of that year, earnings of the road were to go first to pay the interest on preference bonds, next to other bonds and debentures, next to pay dividends of six per cent on the stock, and only then, after paying dividends, were the funds to be appropriated for paying interest on debts incurred by the province on behalf of the railway. Once this neat arrangement had been made, the next difficulty was to generate some earnings for distribution — no mean problem in light of the constant deficit on operations of the line.

There were essentially two approaches taken to the problem of profits. The first was to scamp on construction as much as possible. Thus, a line which the contractors had decreed would be built on a standard superior to any in North America ran up an astonishing record of steep grades, raising costs of operation by reducing the volume of cargo it could carry, with split and broken rails strewn from one end of the province to the other interpersed with a string of wrecked locomotives and derailed cars. The second approach was that of systematic falsification of the books. Its assets were carefully overstated by adding to them the value of replacement of locomotives smashed, steamships sunk, and all manner of other losses in operation, thus inflating the value of assets by double-counting. Then, to buoy up the profit figures, revenues were inflated by imputing a value to the company's own carriage of its own gravel, coal, and other supplies at the same rate as that charged to the general public. All the while great losses were being incurred by the movement of long-distance international freight at less than cost to build up its position in the American entrepot trade. In addition, there were numerous internal drains on its operating capital through such items as the establishment of a luxury hotel in Sarnia to cater to company high officials. The hotel's expenses were over five times the level of its receipts during the first year of operation; of these expenses some 40% went into alcoholic beverages which were given away virtually free of charge to the officials of the line.

Yet despite incessant financial difficulties, or rather because of them, provincial and municipal aid continued to pour into the company as its Canadian board of directors, who simultaneously controlled the public purse that provided the subsidies, incessantly plundered the line. In turn, the line's financial weakness justified the voting of increasing sums of public money to save it. With each new crisis the managers of the line could plead with the province for the "means . . . to avert a calamity which will affect the interests of the several Shareholders and Bondholders as well as the whole province."[11]

By 1860 the bona fide English investors reached the limit of their tolerance. A special report unveiled the degree to which the line had been deliberately mismanaged by its Canadian board and illegal and ruinously expensive arrangements with other Canadian companies undertaken. During the year the Canadian directors claimed a profit of $1,472,113, when in fact the line had lost $1,009,491. The reasons for the difficulties were not hard to find. As the auditor euphemistically expressed it, "the present embarrassments of the company have arisen chiefly from its connections with the successive governments of the province, and the necessity thereof of conciliatory political support." [12] One of the examples of "conciliation" of leading politicians cited by the auditors involved a certain Minister of the Crown who went unnamed at the security holders' meeting. Apparently the honourable gentleman was responsible for assuring that a Kingston wharf on which he held a mortgage was purchased by the railway for £15,000 when another route had been offered the company free of charge. In addition, while a member of the provincial Assembly, he had secured the sale of certain public lands near Sarnia to himself at $2 an acre and then sold them to the GTR via their contracting firm on the Toronto-Sarnia branch, the firm of D. L. Macpherson and Casimir Gzowski, at a mere 7,500% markup. John A. Macdonald of course vigorously denied any wrongdoing in both of these jobs.

In 1862 the railroad was completely reorganized, at which time the anxious British bondholders not only tried to secure some voting power but also effected the transfer of its headquarters from Canada to London in an effort to increase their influence.[13] The Canadian government was subjected to insistent claims for new loans. And, obligingly, the provincial Cabinet continued to pour funds into the maw of the railroad which, however, still failed to return dividends to its shareholders.

Yet the reorganization in reality did little to change the power structure of the company. Formerly the company's capital consisted of $13 million in equity and $60 million in debt. The reorganization simply effected a conversion of much of the debt into preference shares such that the company ended up with $40 million in equity and $30 million in debt. The Barings, the Glyns, and the contracting firm remained in control in exchange for a promise to pay off the interest and guaranteed dividends when it became feasible, a promise which they were hard-pressed to fulfil. Nonetheless, the principle of paying dividends on the guaranteed stock no matter what the condition of the line and no matter what political hijinks were required to make the payment feasible became the fundamental law of operation of the line for the next 60 years. The earnings of the line, whether genuine or contrived, whether actual operating profit or derived from capital, were drained out to the last penny to placate the grasping collection of stockholders who controlled the line from London. The railway was left without a reserve fund, with equipment consistently run down to the verge of total collapse; and its involvement with the political structure of Canada became ever deeper.

Financial Forces Behind Confederation

The railway projects tied the Barings more closely to the Province than they were to any of their other clients, and their power was enormous. In 1851, at the Barings' request, the Province passed an Act stating that the public debt would not be increased without first consulting the Barings and the Glyns. To aid the democratic process, the Barings prevented Canadian securities from being quoted on the official Stock Exchange Lists in London until the Act was passed.[14] Not only did the Glyns and the Barings underwrite, but they advanced large sums to the railroad and the province. By 1860, provincial debts to the Barings alone reached $1,867,650. That year the two banks, obviously beginning to worry, established by legal action their prior claims on the rolling stock of the line.[15]

The Barings and the Glyns were financial agents to the governments of New Brunswick and Nova Scotia as well, though with so much of their resources tied up in Canada they could do relatively little to provide funds for the other provinces. Nonetheless, some debts did exist. In fact, debts to the Barings were about the only thing the British North American colonies had in common before Confederation. A large part of Nova Scotia's debts, too, resulted from the activities of Lord Brassey and his henchmen who, in 1851, had sent out an agent to interfere with a Nova Scotia election ensuring through liberal bribes the defeat of candidates pledged to build Nova Scotian trunk lines as public works.[16] In New Brunswick, too, the English bankers were active in railway and public finance. New Brunswick in 1856 passed the Railway Facility Act, better known as the Lobster Act after the sprawling character of the patronage-dispensing series of feeder lines it spawned by its bonuses of up to $10,000 per mile, partly raised by debenture issues in London through the Barings.[17]

Fiscal policy was inseparable from railway finance. In 1858 and 1859, with the Grand Trunk teetering on the verge of bankruptcy, tariffs were raised. While a great deal of confusion resulted from Finance Minister Sir Alexander Galt's use of the phrase "incidental protection," the objectives of the tariff were in fact clearly revenue-oriented. Galt himself, in his attempt to justify the tariff and to placate the ruffled feelings of British industrialists, stated the revenue objective clearly:

> The fiscal policy of Canada has invariably been governed by considerations of the amount of revenue required. . . . The government have no expectation that the moderate duties imposed by Canada can produce any considerable development of manufacturing industry. . . .[18] I do not believe that the adoption of a protection policy is possible in Canada. . . . It is not proper to create a hot bed to force manufactures.[19]

The purpose of the tariff, he stated baldly, was "to protect those parties in England who have invested in our Railway and Municipal bonds."[20] Some years later, with no British industrialists to placate by conscious deception, Galt tried to clarify even more the revenue objective of the tariff. In 1862 he stated that "the best evidence that could be offered against the charge of protection was that the effect of the tariff had not been to produce manufactures." Imports of many of the "protected" commodities grew very quickly.[21] In 1875 Galt claimed further that "incidental protection" had been a misleading choice of phrase. Rather, the fiscal policy adopted should have been called "modified free trade."[22]

Well might Galt be concerned about the provincial debt, which had risen from $22 million in 1852 to $52 million by 1857, with a total issue of new debentures of $29 million — over half of which was directly due to the Grand Trunk Railway demands. The excessive issue of debentures in part at least was forced upon the province by the failure of the promoters to live up to their agreement and take up unsold stock themselves after their stock-jobbing operations in London collapsed. The result of the provincial issues was to depress the market for provincial bonds. The 1858 Grand Trunk relief bill complicated the situation by demoting the province to the rank of second mortgagee whose claims ranked below those of even the common shareholders. Under the circumstances drastic action was needed.

The results of the tariff were in fact to produce a considerable reduction in the level of the provincial deficits.

TABLE II (1)

Province of Canada budget, 1858-1863

(millions of dollars)

Year	*Revenue*	*Expenditures*	*Deficit*
1858	\$5.3	\$8.6	\$3.3
1859	6.6	8.1	1.5
1860	7.4	9.4	1.9
1861	7.5	9.5	2.0
1862	7.4	9.4	2.0
1863	8.6	9.5	0.9

Source: Sir Richard Cartwright, *Reminiscences,* p. 12.

Apart from Isaac Buchanan, a Hamilton merchant and railwayman who headed an "Association for the Promotion of Native Manufactures," there was little or no pressure for protection before Confederation, at least in Upper Canada.[23] And Buchanan's "protectionism" which, in a revised fashion, became the model for the National Policy tariff, was of a rather curious genus. Buchanan's policy for "protecting" and building up manufacturing industry in Canada called for free trade in final products with the United States! This policy, bizarre at first glance, contained a profound logic. These fiscal changes would, he felt, ensure an inflow into Canada of British direct investment.

> To preserve the Empire, Britain has to yield the selfish principle of centralization which has ruined Ireland and India . . . and cost *us* the old American colonies. *The principle of decentralizing the manufactures of the Empire* is a principle which would secure for the Empire an enormous addition of trade and influence through the instrumentality of some one or other of her dependencies. . . . She could secure free trade for all of her mechanics who chose to go to these favoured localities, with countries that would never agree to free trade direct with England without giving a death blow to their comparatively comfortable population. . . . Why should England be jealous or oppose this? Is not Canada just England in America?[24] [Emphasis added.]

Such a strategy depended upon the willingness of the United States to countenance free trade with Canada, and the existence of freight costs on such a level as to produce sufficient natural protection to make it profitable for British firms to migrate. With the abrogation by the United States of free trade in natural products in 1866, any hope of extending Reciprocity to include manufactured goods vanished. After the abrogation, too, Canadian commercial policy changed. Galt, in 1866, budgeted for a considerable reduction in tariffs to an average *ad valorem* rate of 15%. While this in part was motivated by the need to harmonize Canadian tariff levels with those of the Maritimes as a prelude to Confederation, an additional hope was that by reducing production costs in Canada, especially by lowering duties on capital goods and wage goods, an inflow of foreign industrial investments would be tempted.[25] But none such materialized.

In Lower Canada (Canada East) it was only on the very eve of Confederation, well after the scheme had been worked out, that a significant protectionist body arose among the mercantile and industrial capitalists of Montreal. Late in 1866 there was formed the Tariff Reform and Industrial Association, called into existence directly by the reduction in tariffs of the Province of Canada by Galt as a prelude to federation.[26] An earlier association, formed in 1858, had failed to attract sufficient sympathy to maintain a continuous existence. And while the new body numbered among its members many leading Tory merchants and manufacturers — John Redpath, George Drummond, E.K. Greene, John MacDougall, R. Hersey, A.W. Ogilvie, W. Clendenning and a fair range of others from hardware, textiles, footware, and other industries, including too a sizeable number of Québécois industrialists — nonetheless the Montreal Board of Trade, where the real political power of the city lay, remained free-trade-inclined until well after Confederation.

Confederation

On the eve of Confederation, Canada faced a severe financial and commercial crisis, which had been temporarily alleviated by the American Civil War and the resultant expansion of commodity trade, but which now loomed larger than ever before. The war had initially proved the temporary salvation of the tangled fortunes of the Grand Trunk Railway as the closing of the Mississippi route diverted American farm produce from the Midwest states along the St. Lawrence routes. Peace brought the threat of renewed disaster. The war itself had led to serious disturbance to Canadian securities in London. The market for Canadian debentures tended to be very thin, and it took only a few panicky sellers, frightened by the possibility of invasion and subsequent repudiation, to throw it into upheaval.[27] By 1864, Canada, the richest and largest of the British North American colonies, saw its provincial debentures at the bottom of the colonial list in London. In 1866, the failure of Overend, Gurney and Company precipitated a panic in Britain, followed in early 1867 by a collapse of railroad finance there.[28] The Barings and the Glyns were restless because of the amount of interim financing they were required to provide the Province. Further funds for railway projects proved impossible to raise.

Furthermore, soil exhaustion and land monopolization in Ontario led to a great deal of agrarian unrest, which helped to feed the chronic drain of population to the United States. Canada was as much a British immigrant's entrepot as it was a middleman in the flow of grain back to Britain from the agricultural areas of the United States. British capital accompanied immigrants to the U.S. at the same time little would venture into British North America. By 1850, the effects of early alienation of lands into the hands of speculators were felt in earnest, for by that date there was no more Crown land in the united province of Canada suitable for settlement. In 1860 in Upper Canada alone there were at least three-and-one-half million acres of unimproved land held by absentee landlords in other parts of the province. Agitation grew in Canada for the annexation of the territories to the west, held by the Hudson's Bay Company under a charter granted by Charles II. And Confederation tried to reconcile the land hunger of Upper Canadian farmers and immigrants with the capital requirements of the railwaymen by attaching to Canada the territories of the Hudson's Bay Company and the revenues of the Maritime provinces.

For the Clear Grit faction led by George Brown, who had formerly opposed the scheme of Confederation, the change of heart was undoubtedly due in some measure to hopes of using the Maritime provinces as a free trade bloc to assist the agrarian community of Upper Canada in its struggle for lower tariffs. The *Globe* contended that "in the Confederation . . . the free traders of the West in conjunction with those of the Maritime provinces will surely be able to secure a tariff as low as that of Nova Scotia."[29] Even more important was the fact that, for Ontario, Confederation began as an act of separation from Quebec. Confederation freed Ontario of its "French rulers," as the *Globe* was wont to call them. It was not in fact francophone domination per se that the Clear Grits fought, but rather the political intervention of the Church hierarchy, and its alliance with Montreal big business that sent 50 or more "*moutons*" to the Provincial Assembly under George Etienne Cartier's leadership to vote for Grand Trunk Railway jobbery or for tariffs that forced

Upper Canada to buy from Montreal wholesale dealers.[30]

For the Macdonald Upper Canada Tories, Confederation was in part a political expediency. During 1864, the Ministry was under attack for another illegal donation of $100,000 to the Grand Trunk Railway and other facets of its dubious handling of the Provincial finances. Fearful of an election that would be fought on the issue of finance in general and the government's relations with the Grand Trunk in particular, they felt that finding Cabinet seats for three Clear Grits in the grand Confederation Coalition was a welcome way out of the difficulty.[31]

Despite the presence of Ontario agrarian expansionists in the Confederation coalition cabinet, the chief impetus to union was financial. The Bank of Montreal, which had also provided interim finance for the government of Canada, joined the Barings and the Glyns in pushing for federation to defend its advances. The Bank's general manager, E.H. King, sent a letter to the Charlottetown Conference where the terms of federation were worked out, stating that only by the union could the provinces' credit be restored in London.[32] In the Confederation debates of the Province of Canada, A.T. Galt stressed the results that widening the tax base would have on the provinces' power to raise money abroad:

> . . . It must be clear to every member of the House that the credit of each and all of the provinces will be greatly advanced by a union of their resources. A larger fund will be available as security to the public creditors, larger industries will be subjected to the action of the legislature for the maintenance of public credit, and we will see remedied some of the apprehensions which have latterly affected the public credit of this country.[33]

As to the so-called defense argument for Confederation, Galt summed it up neatly:

> . . . the fluctuating quotations of the securities of these provinces in London that apprehension of war with the United States has induced — and which has unfortunately affected the price of Canadian bonds — has not to the same extent affected those of New Brunswick and Nova Scotia . . . and we may therefore hope that the union, while it affords us greater reserves will, at the same time, carry with it a greater sense of security.

The leader of the Reform wing of the Coalition Cabinet, George Brown, expressed a similar sentiment.

> For some time previous to November last our securities had gone very low down on the market . . . Our five per cent

> debentures went down in the market as low as 71, but they recovered from 71 to 75, I think, on the day the resolutions for Confederation . . . reached London. . . . The resolutions were published in the London papers [with laudatory editorial comment] . . . and the immediate effect of the scheme upon the public mind was such that our five per cents rose from 75 to 92.[34]

In Nova Scotia much the same opinion was expressed by opponents and proponents alike as to the objective of the scheme. Joseph Howe, the anti-Confederate leader, contended that in Britain pressure for Confederation emanated from a group who

> painfully interested in the throes and eccentricities of Canada are too much inclined to favour anything which may be calculated to restore her to financial soundness and give buoyance to stock fearfully depreciated. . . . Despairing of relief from other quarters it is sometimes assumed that if the productive revenues of the Maritime Provinces could be flung into the empty treasury of Canada . . . then prospects of dividends might be improved.[35]

Charles Tupper, the pro-Confederation leader in Nova Scotia, contended in 1865 that "there is nothing . . . that lowers the credit of a country more than the insecurity that attends such isolation as the three provinces exhibit at the present moment."[36] His views were confirmed by practical experience, for when in 1866 he went to England with two million dollars of provincial six per cent bonds to sell to raise funds for the Pictou Railway, Baring and Glyn informed him that the securities would not yeild more than 95%. Tupper then told them to withhold them from the market until Confederation was accomplished, and instead to advance him the money at six per cent on the collateral of the bonds. This was done, and after Confederation the bonds sold at 112%.[37] In New Brunswick in 1866 much the same pessimistic forecast as to the ability of the province to market debentures in London in connection with its railroad ambitions was made by the Barings,[38] and the terms of Confederation had the same salutary effect. London was quick to give its assent to the new Dominion. A few months before Confederation, Province of Canada bonds had been virtually unsaleable at any price. An issue placed in London was only partly taken up, and that part only at a heavy discount. Within six months of Confederation, Sir John Rose, the new Finance Minister, placed a loan in London at six per cent which was absorbed without any difficulty.[39]

Opposition to the scheme of federation was rife throughout the Maritimes, and a variety of techniques had to be devised by Canadian politicians, the imperial government, and Maritime railwaymen, merchants, and bankers to engineer unification. In New Brunswick, the banks in St. John at first opposed the scheme, fearful as they were of the Bank of Montreal's designs on the area.[40] But the Fenian raids planned for 1866 had as one of their primary objectives the robbing of the St. John banks,[41] and this was undoubtedly a factor affecting their patriotic sentiments. The Intercolonial Railway too was planned to run through northern New Brunswick to generate patronage and get the area enthused for the Confederation scheme.[42] In Nova Scotia, the economy of the province tended to divide into pro- and anti-Confederate camps on lines that corresponded to the interior resource industries and the coastal settlements based on the traditional economy of the sea. The pro-Confederate vote followed a line along the railway route, including as well the coal pits of Cape Breton, while the anti-Confederate vote was centred in the old seafaring centers.[43]

The Prince Edward Island plot is especially revealing. The island had been given away in a single day in 1767 to a handful of Board of Trade favourites, and thereafter the problem of absentee landowners was virtually the sole issue of the Island's politics. The Imperial Government had disallowed all efforts to compel the absentees to sell. In 1867 the Island had no debt and little infrastructure, for its energies were directed towards buying out the landowners. That year the Imperial Goverment refused P.E.I. any assistance in floating a loan for railway purposes, and threatened to erect new barriers to the process of repatriation of land ownership if the Island did not join the new federation. In 1869 Canada offered to give P.E.I. the $800,000 required to complete purchases of land, for by then the Island had, on its own volition, bought up some 60%.[44] The Island still held out.

In 1871 new proposals were made for a P.E.I railroad. Some circles contended that the very act of promoting the railroad was a pro-Confederate plot, since it was by then quite apparent that all railroads led to Ottawa no matter in which direction they pointed. The act passed for its construction provided that the contractors were to receive in payment provincial six per cent debentures of a sum not to exceed £5,000 per mile. It neglected, however, to stipulate how long the railroad was to be, with the result that its right-of-way "meandered with rare abandon wherever local influence, low cost of construction, and the probability of a subsidy suggested."[45] Compounding the error, branch lines were authorized on the same basis in 1872. The contractors then pledged some $120,000 worth of debentures to the Union Bank of P.E.I. for advances which greatly exceeded the bank's total capital of $97,000. With the crisis of 1873, there was no chance of selling the securities in London.

Yet despite this the Island was flourishing. The crisis did not affect the Island itself until a few years later. Exports were booming, duties were low, the debt of the Island was more than offset by the value of the railroad, and no extra taxes were required to meet the interest payments. However, inability to market the debentures abroad caused the directors of the railroad and the Union Bank, who showed a remarkable similarity to the personnel of the Island's government, some concern about the value of the securities. Under the terms of Confederation, the Dominion would assume all railway debts and those of the province, which had reached $4.1 million in June of 1873.

Just prior to a new vote on Confederation, the Union Bank triggered off a phony financial "crisis," and the bank president appeared at his first and only public meeting to assure voters and depositors of the various banks that only Confederation could save the situation.[46] The will of the people was done, and P.E.I. became a province of Canada. Canada then loaned it $800,000 to finish buying out the absentees at five per cent deductible from the annual subsidy payable to the island out of the heavy tariff charges it was thereafter to endure. The next year, the Dominion Government disallowed the Land Purchase Act, which would have completed the transfer on terms that the proprietors found objectionable, on the grounds that it was "subversive to the rights of property, ruinous to the proprietors, and a dangerous sentiment."[47]

The National Policy Tariff

Following A.T. Galt's 1866 tariff of fifteen per cent on manufactures with raw materials largely free, there was little change in fiscal legislation until 1879. In 1871, it is true, duties were placed on coal and flour: the first of these was a reward to the Cape Breton coal mine owners led by Charles Tupper for their role in bringing Nova Scotia into Confederation; the second, at least in part, seems to have been designed to placate B.C. farmers who were recalcitrant about Confederation because of the Canadian practice of admitting flour from the U.S. free for the entrepot trade, [48] as well as having a revenue objective. These two duties were removed the next year. Then in 1873 Richard Cartwright's budget included a general *ad valorem* rise of two-and-a-half per cent for revenue purposes. This was followed by a minor upward adjustment, especially in iron and steel rates, in 1874. During all of the period from 1866 to 1879, two themes dominated fiscal debate — revenue and protection. At first the protectionist element remained weak, but by the late 1870's it was a political sentiment of some consequence. Nonetheless even by that late date protection was still an emotion-charged and minority-supported position. The budget debates prompted by the high tariff of 1879 correspondingly show a bewildering array of arguments for and against tariff increases, and a pronounced tendency to subsume the protective facets into a broader set of policy objectives.

It was a time of deep commerical crisis, when business failures reached unprecendented levels, albeit mainly among trades rather than industry.[49] Charges of American dumping were bandied about the Commons and the Senate by the Tories and denied by the Liberals.[50] The debate achieved dizzy heights of sophistry with the contention that protection was evil because it led to a relaxation of morals and

> the people were taught that the Government . . . gave a favoured class the power to plunder the masses by the permission and arrangement of the few. The people would be led to believe that property acquired by that favoured class was got by theft and then, going a step further, they would come to the conclusion that property itself was theft. *Protection naturally led to Communism* [51]

But through the verbal maze it does become clear that employment was the burning issue of the day. The drain of population to the U.S. continued on an escalating scale, and one of the most politically powerful arguments the protectionist could cite was that protection created employment.[52]

It was more than simply an "infant industry" appeal. The "protective" tariff was to be so constructed as to ensure an inflow of foreign capital and labour. One eminent Tory contended in the Commons that "protection . . . would secure the influx of a large amount of foreign capital for manufacturing purposes that would never reach us as long as our present Free-Trade tariff exists." [53] In the Senate these sentiments were echoed by the Tory whip: "To secure the success of manufactures we must endeavour to encourage the manufacturers and capitalists of Great Britain and the United States to establish workshops in the Dominion."[54] The possibility of tariff increases was noted by American industrialists, who let it be known that if the increase was sufficient, they would make the move.[55]

In terms of the effect on working-class incomes, the argument that price increases would follow a tariff, thus lowering real wages, was repudiated rather bluntly by one Tory M.P. who suggested that one had only to "ask a working man which he prefers, flour at $4.50 and no labour, or flour at $6.00 and plenty of work."[56] Conservative Party organizers managed to create a Working Men's Association of Upper Canada to lobby for tariffs and work for the Tory cause in elections.[57] At the same time, Sir John A. Macdonald campaigned on the grounds that protection would bring 30,000 skilled workers into the country to man the new industrial enterprises.[58]

After the tariffs were up, the contention that they attracted foreign capital was a principal defense. In 1883, steeper schedules were introduced and Sir Charles Tupper claimed that "I can, myself, name one concern which is bringing in a million of British capital to establish an industry as a result of the National Policy."[59] Against such a defense the best criticism the Liberal Party could mount was that foreign investment "will come in anyway for it came into the country before we had the tariff."[60] That year export duties on sawn lumber were called for to force the migration of American mills to Canada.[61] And faced with American implement firms establishing dealerships in the Northwest and underselling Canada's firms,[62] Sir Leonard Tilley's "anti-dumping" proposal took the form of advocating a tariff increase to force the American firms to actually shift their productive apparatus to Canada,[63] to convert the American investment from a simple sales agency to a full-fledged producing branch-plant.

Protection and the Business Community

The attitude of the business community towards the National Policy was ambivalent, some members being uncompromisingly hostile, some enthusiastic. Most farm opinion, as would be expected, was opposed, but thereafter the stereotypes cease to be applicable, for much of the pressure for protection came not from secondary manufacturing, but from the mercantile community and some major primary producers. This seems a rather surprising development in light of the view that merchants are generally free traders. But in Canada, as in Europe during the mercantile era, tariff policy was designed to a remarkable degree to further the interests of wholesale merchants.

There were essentially two paths, with some minor variants, that a country could follow on the way to industrialization.[64] Manufacturing industry can grow up "naturally" by a process of capital accumulating in a small-scale unit of production, perhaps even artisanal in character, the profits of which are reinvested in the enterprise to finance its growth from within. A second path implies direct development into large-scale enterprise, often with direct state assistance, and with capital from outside the enterprise, be it commercial capital, state subsidies, or foreign investment, being invested in it to facilitate its expansion. The first path, if successfully followed, leads to the emergence of a flourishing, independent national entrepreneurial class. The second may or may not. The second path may simply reproduce the conservatism of commercial capitalism in a new guise, and lead to the development of an inefficient, non-innovative, and backward industrial structure with a penchant for dependence on foreign technology, foreign capital, and state assistance as its *sine qua non.* In Canada in the early post-Confederation era both paths were available, and both were being utilised. But in the long run only one could dominate the industrialization process. And which one that would be hung in a delicate political balance, as the shifting opinions of Canadian boards of trade demonstrated.

In 1871, a debate on tariffs raged at the meeting of the Dominion Board of Trade. Leading merchants called for protection, while many prominent industrialists were opposed, and demands were heard for repeal of the existing grain and coal duties.[65] The Board passed a resolution in favour of free trade.

In 1876, the Montreal Board of Trade had begun to waver in its commitment to free trade, though it was not yet prepared to abandon it.[66] That same year the Toronto Board of Trade endorsed protection. While the Toronto Board reversed itself in 1877, it changed its mind again in 1878 with a unanimous pro-protection resolution. In this it was joined that year by the Montreal and the Dominion Boards. Yet opinion at the Dominion Board meeting was not unambiguous, for a Reciprocity resolution also passed, and while a sugar protection resolution did succeed, one calling for a coal tariff sponsored by the Cape Breton Board of Trade did not.[67]

After the Conservative victory in 1878, the Ontario Manufacturers' Association (the successor to Isaac Buchanan's group, representing 28 industries) banded together to draft a tariff schedule.[68] Apart from that, there is little evidence of prolonged pressure from secondary industry for protection. Many of the leading industries were quite content with the 17½% rate of the Cartwright tariff and, to many, reform of the patent or copyright laws was more important than tariff increases.

Evidence before select committees of the House of Commons in 1874 and 1876 showed a presumption by many manufacturers in favour of Reciprocity. As far as infant industry pleas were concerned, every witness in 1874 who urged protection was a part of a firm that was already well established and flourishing, and they admitted not only that American dumping was a short-run problem, but also that the "revenue tariff" of 1973 was adequate to ensure their prosperity.[69]

One of the strongest industries of the anti-protectionist group was that of agricultural implements. Located largely in Ontario, it was built up from inside by men who were generally master craftsmen or sons of master craftsmen who had evolved into small scale capitalists. The industry flourished in the prosperous agricultural areas of Ontario: the condition of the industry really depended on the degree of prosperity of the surrounding farmers.[70] Agricultural implement manufacturers asked for no further tariff increases. Their complaint was that the U.S. tariff of 35% blocked them out of the American market.[71] Even in the depths of the depression, with Canadian industry reportedly under fire from American dumping, one firm, Frost and Wood, reported they had driven American competition out of the Maritimes. Every leading firm asked for Reciprocity: commenting on the 17½% tariff rate, the Massey Manufacturing Company declared that "the existing tariff is satisfactory to us, and is sufficient. . . . *Perhaps even a little less would also be.* A still further advance would certainly prove adverse to our interests."

Boots and shoes, a Quebec-based industry, was one of the largest and fastest growing in the Dominion. It had arrived in Montreal in 1828 and for a long time remained English-dominated and largely handicraft in organization. Not until the 1850's did the firm Brown and Child introduce the factory system based on the division of unskilled labour and steam power — innovations fought hard but unsuccessfully by the master shoemen. The industry spread rapidly to other Quebec towns.[72] A number of Québécois trained in New England factories, such as Charles Arpin and Louis Coté, became established in the industry, and led to its eventual domination by Québécois. By 1876 there were fifty firms producing shoes and another hundred doing custom work. Capital invested was four million dollars, and employees numbered 14,000. It was reported content with existing tariff levels and exporting.[73] Its major complaint was that the tariff needed more careful staggering by percentage of domestic value added:

> The tariff is wrongly made. The tariff must be made so as to give protection to the labour on the goods made by the factories. . . . In the way it is made here there is just as much duty on the raw material as on goods ready made. There is no protection in the labour, and that is what we complain of . . . . If the raw material were free, 15 per cent would be enough.[74]

One manufacturer stated of Reciprocity with the United States that it "would be very beneficial to the Dominion generally and myself particularly."[75] From 1876 on, the industry continued to grow rapidly, and its capital intensity grew even faster than its output.[76] Yet as late as 1878 it was claimed the industry needed no extra protection.[77]

In secondary iron and steel — foundries, stove works and general hardware — the consensus in 1874 was that the industry could compete in the absence of any tariff changes.[78] It was dominated by small firms just barely evolved out of the handicraft stage. One of the leading entrepreneurs, Edmund Gurney, called for Reciprocity in 1876.[79] In steam engines and machines, again a few firms pleaded difficulty, but others claimed they would benefit from free trade with the U.S. Several firms stressed the need for free raw materials, especially pig and bar iron and coal.[80] Foundry products and engines entered Canada free at that time. Many other instances of firms antagonistic or indifferent to the idea of higher tariffs could be cited — tanneries, lumber mills, salt producers, paper makers, flour millers, oat millers, meat packers, and musical instrument manufacturers.[81]

These results are rather surprising. Even given that some of the firms changed their mind by 1878, not all of them did. And even with those that did, the fact that in 1876, and later, in the trough of a depression, they were advocating Reciprocity or opposing increases in the tariff reveals that the foundations of Canadian industrialism were more secure than the Conservative Party campaign propaganda implied. It also opens up the question of where the pressure for the tariff increases came from, and what its principal objectives were.

Proponents of the National Policy

To understand the foundations of protectionism in Ontario and the political alliances that resulted, one must consider the effects of the American Civil War on the Province of Canada. For the era of Civil War and Confederation was one of major and rapid change in industrial and agricultural conditions. Unlike the Crimean War period, the U.S. Civil War did not lead to an expansion of demand for Upper Canadian wheat. The rapid growth of the U.S. western farm states filled the American demand for wheat, although Lower Canadian field crops, especially barley and oats, were in strong demand. The tapering off of American demand for Canadian wheat must have helped the rising tide of agrarian discontent in Upper Canada on the eve of Confederation.

Coupled with the demands of the Grand Trunk, which once again tottered on the edge of collapse as a result of the end of the war-inflated carrying trade, the coalition of Canadian agrarian interests with Montreal railway promoters and commercial capitalists and with Nova Scotia railwaymen and coal mine interests carried Confederation[82] — and immediately began to disintegrate. The agrarian radical wing, alienated by land policies in the West, dropped off first. And all semblance of a Liberal-Conservative coalition crashed down in ruin when the 1873 Pacific Scandal broke to lay bare the links of the Macdonald government to railway promotion. The rupture of Toryism in Nova Scotia, between the old economy of the sea and the new economy of coal and railroads, had never fully healed despite a series of major concessions by the early Macdonald government: now it was reopened. In the depths of the Great Depression the Tory party searched desperately for a new coalition of economic interests to repair the damage and return them to power.

An important new force had begun to emerge from the chaos of the American Civil War. Upper Canada, while bypassed as a source of foodstuffs, had its industrial importance enhanced by the destruction of competitive American industry. Even for a few years after the war, the new Canadian manufacturing capacity maintained its position. But by 1873 the combination of the onset of depression, American industrial recovery, the beginnings of a long period of secular deflation reducing costs and therefore prices in the advanced industrial countries, and the condition of the foreign exchanges led to problems for Canadian manufacturing interests.[83]

The Ontario Manufacturers' Association by itself was not sufficient to account for the switch of the Tories to a high tariff policy. Although powerful, this protectionist lobby was certainly not by itself of sufficient political significance to offset the anti-protectionism of the huge farm community and many leading industries. But the fracture in the ranks of Ontario industry, with the smaller but better organized and therefore politically more powerful group pressuring for tariff increases, in conjunction with other economic interest groups, formed an essential element in the new Tory coalition. The other components were provided by the structural changes of the Canadian commercial and financial community forced by the years of depression.

One of the outstanding characteristics of the industries that opposed further protection was the extent to which they had been built up by their owners generally from a handicraft base. Then, too, in virtually every case no outside capital was invested in them. It was quite otherwise with the leading proponents of higher "protection." Apart from the Ontario Manufacturers' Association, five principal business groups pushing for the National Policy merit special consideration: three primary producers — petroleum, coal, and primary iron and steel — and the wholesale merchants involved in the cotton and sugar trades (along with the Dominion's sole sugar refiner). In at least four of the five cases, foreign capital was involved, and in cotton and sugar, and later in primary iron and steel, the tariff was the instrument by which the transition from commercial to industrial capitalism could be made.

The years immediately after Confederation witnessed a great surge in production and investment in the petroleum industry of Southern Ontario. It was, however, a boom-and-burst industry, plagued by problems of over-entry whenever prices climbed (a well cost only $2,400 to sink in 1869), and equally with drastic

TABLE II (2)

Production and Consumption, 1870

Industry	*%Domestic Production to Consumption*	*Industry*	*%Domestic Production to Consumption*
agricultural implements	95	meat	88
boots & shoes	99	petroleum	99
breweries	95	paper	82
furniture	97	rope and twine	95
carriages	99	saddlery	95
cheese	99	soap and candles	95
cottons	24	stone	97
distilleries	97	sugar	60
flour and meal	94	tanneries	91
glass	65	tobacco	98
foundry products	79	woollens	85
machines	93		

Sources: *SCCD*, pp. 268-9; O. J. McDiarmid, *Commercial Policy in the Canadian Economy*, p. 148.

liquidation when the price came tumbling down again. Moreover, the very rapidity with which new wells could be dug led to problems of rapid depletion of particular areas.[84]

A long boom began in the industry in August of 1869 with prices rising rapidly.[85] Not until near the end of 1873 did it end, and depression struck the refining centres, Sarnia, London, and Petrolia.[86] By 1876 it was in blossom again and exports were thriving. Then in September of 1878, just in time for the National Policy election, the industry tumbled into one of its intermittent troughs,[87] the price of crude falling to 50¢ a barrel from previous highs of $2.50 before the decline was arrested. By January of 1880, a few months after the National Policy, the price had climbed again to $1.50.[88]

It was one of the few industries in which significant amounts of English capital had been invested. Most of the early ventures had been catastrophic. In 1872, a group of Canadian promoters of the Canada Oil Works Corporation managed to secure a share capital of $1,700,000 and float $800,000 worth of debentures in London. In short order the English price of debentures had fallen from £100 to £54/5, and £25 shares were down to £2/11/6. The promoters, however, walked off with $800,000 profit.[89] It was Canadian financial promoters' first major essay in the art of "water wagon finance." Near the end of 1873, another big Anglo-Canadian venture crashed in a barrage of lawsuits after two years of existence, during which time its promoter, Mayor John Walker of London, had managed to sell one million dollars worth of debentures in England.[90] Walker's promotion methods consisted in giving a group of prominent Englishmen, well spiced with baronets, the money with which to buy directors' qualifying stock in the venture. That is, the directors qualified by the theft of the company's own funds, and this body of hired retainers then gave credence to, and assured the sucess of, the debenture issue on behalf of "unknown adventurers on the other side of the Atlantic,"[91] as the Lord Justice in London later remarked. The end result of these and other schemes was a large number of English security holders anxious for a return on their investment. A tax on imports of oil to drive up the domestic price was one way of giving it to them.

English capital also figured largely in the Nova Scotia coal industry. The involvement went back to 1825, when George IV made of all the ungranted mines and minerals of the province a birthday present to his brother, the Duke of York. These were later transferred to a firm called the General Mining Association consisting of a handful of court favourites, with the Crown maintaining a right to a share of the profits.[92] Involved with them were a few of the leading Halifax merchants and financiers, including Samuel Cunard, shipping magnate, banker, and Nova Scotia agent of the East India Company.[93] The continued protests of the Nova Scotia legislature led to an agreement in 1857 whereby the existing extensive claims of the Association were secured, and the remaining mineral wealth returned to the province, only to be quickly alienated into the hands of other foreign operations through long-term leases. A number of smaller English companies moved into the province's coal lands, and there was also a substantial American presence in Cape Breton by 1876.[94] Among the indigenous capitalists, Charles Tupper was the leader.

Coal duties were imposed in 1870 and removed in a howl of protest from consumers and industry.[95] But pressure for protection mounted: from 1873 coal output was falling sharply until it reached about 65% of its 1873 level in 1879. A rise in imports of American anthracite occured,[96] displacing the Nova Scotia bituminous even in the area east of Montreal where it had been competitive. In Ontario before the tariff, no Nova Scotia coal at all was used. Yet during the period from 1876 to 1878 fixed capital invested in the mines had risen 25%.[97] The mine owners banded together to demand a duty of 50 to 75¢ per ton.[98] The Ontario Manufacturers' Association "patriotically" announced it would accept the duty despite the fact it would raise production costs. The Cape Breton Board of Trade urged the duty as a prelude to building a primary iron and steel industry.[99] Tupper in fact made it a campaign promise that heavy industry would migrate to Cape Breton to locate near the coal, rather than having the coal move to the industry.[100] The Nova Scotia industry pressed for duties on anthracite as well as bituminous to ensure this result.[101] Ontario's anthracite came from the U.S. at a pit mouth price of 80¢, while the Nova Scotia bituminous cost as much as $1.50 a ton.[102] Under the National Policy, a specific duty of 50¢ was introduced on both types of coal. The result was a tax on the Ontario producers who continued to import American anthracite, and on the consumers in the area east of Montreal.

Two secondary industries which received a considerable increase in protection were sugar refining and cotton. Yet, of the major industries surveyed in the 1871 census, these two ranked lowest in terms of the percentage of consumption accounted for by domestic production; cottons at 24% and sugar at 60%. While their economic importance would appear to have been marginal, their political importance was not. Furthermore, both illustrate well the role of the tariff in effecting the transition from merchants' capital to industrial.

The Sugar Industry and the West Indies Trade

At the time of the National Policy there were but two refineries in Canada, a defunct one in Halifax and the Redpath refinery, run by George Drummond, in Montreal. In 1876, Drummond had threatened to close down if protection was not granted. He claimed that the two million dollars of capital collected for the refinery had never been fully employed.[103] In 1878 he threatened that he would close if a duty of one cent per pound was not levied, which would have amounted to a subsidy of nearly one million dollars per year from Canadian consumers.[104] The refinery paid an eight per cent dividend that year, and each year thereafter for a decade.[105] Yet complaints of dumping continued.[106]

Drummond was not the sole investor in the sugar business pressing for protection. A great deal of Nova Scotia commercial capital was tied up in the West Indies trade, of which sugar constituted a major part. By the late 1870's, the West Indies trade in general was in chaos.[107] The sugar trade in particular was disrupted by dumping by the French, German, British, and American refiners. In 1876, failure struck several large houses in Kingston, Jamaica, followed by substantial losses to Halifax firms who extended them credit. Halifax's local sugar refinery was rendered idle by foreign dumping, and Halifax merchants were forced to change their commercial patterns when sugar became an unprofitable trade. Halifax ships lay idle, and exports of fish by the merchants to the West Indies began to move via New York in American steamers.[108] Efforts were made in Ontario and New Brunswick to grow sugar cane in Canada,[109] but that was no solution for the ailing Halifax mercantile community, which suffered continued failures.[110] During the Confederation campaigns, Nova Scotia's traditional seafaring economy had found itself at odds with the coal, steel, and railway interests. But the collapse of the West Indies trade provided the Conservative Party with an opportunity to bring the Halifax mercantile community firmly into the Tory fold.

The National Policy, in addition to the one-cent specific duty demanded by Drummond, included a bonus of 35% *ad valorem* on refined sugar. The sugar duty schedule was carefully staggered by degree of processing. Liberal Party spokesmen promptly declared that the objective of the National Policy was to make Peter Redpath a millionaire.[111] Redpath's refinery was booming within two months of the new tariff.[112] Not surprisingly, five new refineries opened within three years; in Montreal; Walkerville, Ontario; Halifax; Moncton; and Dartmouth.

The Halifax firm was the largest of the newcomers. It was promoted by a group of West Indies merchants led by the Hon. T. E. Kenny and J. F. Stairs. Kenny, a grain exporter and dry goods importer as well as being prominent in the sugar trade, was a leading Nova Scotia Tory, a member of the first Macdonald cabinet, and a founder and director of the Merchants' Bank of Halifax.[113] West Indies merchants were involved in the other new Maritime refineries as well.[114]

So successful was the National Policy that it led to the almost immediate reopening of the West Indies trade. In 1878, Halifax imported some 3,730,000 lbs. of raw sugar,[115] and the trade maintained itself for several years. In one week in May of 1881, 122 of the 205 cars sent from Halifax via the Intercolonial Railway were laden with sugar for Montreal and Moncton.[116]

The sugar refining industry was beset by excess capacity almost from its inception, planned as it was to suit the needs of the Maritime West Indies traders at a time when they were being threatened in their traditional markets. Yet the short-run prospects of high profits behind the tariff were sufficient to induce British capital to join Canadian commercial capital in developing the new industry. The Dartmouth Sugar Refinery had £125,000 of its capital subscribed by British (Liverpool) interests at a time when the Canada Sugar Refinery alone could satisfy half of the existing domestic demand.[117] By the end of 1883, overexpansion of the industry led to collapse.

The Textile Industry

With the cotton industry, the story was much more complex. Cotton and woollen goods imports into Canada were dominated by a few Montreal wholesale drygoods merchants, notably George Stephen, A. F. Gault, Hugh Allan, and David Morrice, in alliance with British export houses. Canadian textile manufacturers, both the cotton industry and the few large woollen factories, were dependent on these wholesale firms for marketing their products. To understand the relationship between the industry and the Montreal merchants, it is necessary to examine the history of the industry.

The two principal streams of the textile industry in Canada — cottons and woollens — were totally distrinct in their origins, structure, and operations until the late nineteenth century; and the confluence of the two in terms of industrial structure and finance elucidates a great deal about the main economic and social forces of the period.

The woollen industry was chiefly handicraft in origin, growing up in the small farm communities in Ontario and Quebec from which it drew its raw material and whose markets it chiefly served. By 1870 Canadian production served 85% of total home demand — the imported component being largely the more luxuriant products geared to wealthier urban middle-class markets.

Factory production of woollen goods in Canada, as opposed to domestic and handicraft systems of production, began in 1837 at Georgetown, Upper Canada. The owner was a rebel during the Mackenzie insurrection and was forced to flee. He sold his mill to a group of former craftsmen from a nearby paper mill. That year, too, another woollen mill began operating in the sawmill and gristmill complex established at Carleton Place by James Rosamond. Some of this mill's employees left a few years later to establish their own mill at Almonte — to which town the parent mill soon migrated. The pattern of employees leaving their firms and establishing their own small-scale manufactories typified much of early Canadian industrialization, and revealed how closely linked it remained to the artisanal mode of production, even towards the mid-nineteenth century. In Ontario it was frequently farmers who became partners in the small-scale factories springing up: their hope was that the factory system would provide for cheaper and more efficient processing of their wool than did the prevailing handicraft system.[118] In Quebec the same pattern seemed to prevail, with the result that the early factories were dominated by Québécois entrepreneurs.

The Civil War marked a watershed point for the industry in many respects. The competition of American products largely ended, and the "cotton famine" of the war impeded the development of rival cotton mills. For some time after the Civil War the growth of the industry continued; for with the abrogation of Reciprocity by the U.S. came a high American tariff on Canadian wool, and therefore a surfeit of cheap raw wool for the Canadian industry. By 1871 there were 271 woollen "mills" in Canada, in which a total of 4,443 people were employed.[119] Many of course were still handicraft shops; but the emergence of large-scale enterprise with outside capital had begun in 1866 when a Sherbrooke businessman named Hugh Paton established a large mill in that town with the financial backing of Montreal magnate George Stephen.[120]

Growth of the industry slowed in the mid-1870's as a recession in the American woollen industry was partially relieved by saturating the Canadian market.[121] A few of the larger English-Canadian-controlled mills in 1874 began calling for some protection on the cheaper lines of production, but on the more expensive items the Canadian industry had, by that date, succeeded in overcoming the resistance of the urban middle-class market to Canadian-made fabrics: hence no protection on those items was required. In 1876 leading mills called not for protection, but for Reciprocity with the U.S.[122] However by that date some major transformations in the industry were evident, as the fate of the larger anglophone-controlled mills became increasingly tied in to that of the developing cotton industry.

The cotton industry's origins were radically different from those of the woollen mills. Dependent as it was on imported raw materials and a more capital-intensive production technique, cotton was on a factory basis from its inception. That beginning came with A. T. Galt's promotion of a mill at Sherbrooke in 1844, a mill which closed a decade later. Two other mills opened and closed before 1860. Then came the Civil War, with two conflicting tendencies. On the one hand, erratic raw material supply would hamper development; on the other, the closing of American mills and the end of their competition opened up a domestic market. During the early 1860's three Ontario mills opened their doors, of which only one survived. In 1861 there came as well a mill in St. John, New Brunswick, the promotion of one William Parks.[123] During the 1870's several new mills were added to the roster, but, as with woollens, the character of the industry was beginning to change.

By the early 1870's the textile industry had become increasingly restless over the control exercised by the Montreal wholesale drygoods merchants over the marketing of textiles in Canada, particularly their preference for imported products.[124] Major textile producers attempted to break the hegemony by establishing commercial travellers of their own and direct links to the retailers.[125] The project was eventually abandoned, partly because the industrialists lacked the financial wherewithal to extend long credit to the retailers, as the wholesale dealers could do. Its failure was also due partly to a process of takeover by the wholesale group, which reduced the manufacturers first to junior partners, then to branch managers, and made production in Quebec and part of Ontario directly tributary to Montreal and the wholesale merchants.

George Stephen led the way into the woollen industry, becoming a partner with Bennett Rosamond of Almonte in 1866 in the Rosamond Woollen Company.[126] Rosamond's interests also included the Almonte Knitting Company, which in 1882 was brought under Montreal control by the establishment of Donald Smith, Stephen's cousin, as president, and other Montreal commercial figures as directors.[127]

Other Montreal mercantile figures followed Stephen's lead in establishing links with the industry. In 1868, Stephen with R. B. Angus and Smith took over the Lomas Woollen Mill and the Quebec Worsted Company.[128] Stephen brought Sir Hugh Allan, Smith, and Rosamond into the Canada Cotton Manufacturing Company at Cornwall in 1872. In 1876 Allan became President of the Cornwall Woollen Manufacturing Co., George Stephen its vice-president, and Donald Smith managing director.[129] In 1874 Victor Hudon, a shipper and drygoods importer, established a mill at Hochelega which prospered from the beginning, using cheap labour drawn from nearby farms.[130] Even before the National Policy it was paying ten per cent dividends.[131] By 1878 Sir Hugh Allan had become president of Montreal Cotton Company.[132] It was the typical pattern: the presidency of the firm and key directorships would be occupied by a leading Montreal figure with commercial and financial connections, while the industrialist would assume the general manager's or an equivalent post.

The process of domesticating the cotton industry climaxed with the National Policy. The 1878-1880 period was one of chronic stagnation in the English mills that still supplied much of the Canadian wholesalers' needs.[133] The merchants then embarked on a program to bring production under their control. Textile rates rose from 17.5% to 25 and 30%, and as a result the English cotton machinery industry "found it profitable to introduce to Canada capital and machinery for manufacturing purposes."[134] The English textile industry had objected strenuously to the new tariff, and had sent representatives to the Colonial Secretary asking him to interfere with the Canadian tariff, but in vain.[135]

A great boom began in the industry almost immediately[136] fed by a rate of reinvestment of profits estimated to reach as high as 90%,[137] and by imports of English capital, and a series of new ventures was projected. The English cotton machinery manufacturers, faced with recession at home, pushed their wares hard in Canada, using it as a virtual dumping ground for the equipment of the grey goods mills, towards which type of output all the new Canadian factories were therefore geared.[138] The wholesalers thus became promoters of the new enterprises in alliance with English technology and English industrial capital.

Joining Hugh Allan in these new enterprises were all the most prominent of Montreal drygoods wholesale merchants; A. F.

Gault, Jacques Grenier, D. McInnis (whose import house had failed in the commercial instability just prior to the National Policy), S. Ewing, an eminent broker, E. K. Greene, J. R. Thibodeau, Victor Hudon, and the manufacturers' agent, David Morrice. All were involved in a complex of interlocking directorships[139] that often tended to make the mills tributary to Montreal function as an effective unit.

For the first few years after the tariff, dividends were described as "fabulous." In 1880 the Hudon Mill paid a stock bonus of 33⅓%, in 1881 and 1882 it paid 10% on capital again enlarged without subscription, and in 1883 the stock bonus was 100%. Dividends for most firms ran at ten per cent[140] while Coaticook Cotton showed 43½% on its first six months of operation.[141] The flow of capital attracted by such rates of return was enormous. The Kingston Mill was organized in early 1882 and within a few months $197,000 of its $200,000 capital was subscribed. The stock went to a five per cent premium before output began to flow, and applications for $40,000 worth of stock from leading Toronto and Montreal capitalists were refused. The same year, Allan's Montreal Cotton Company announced it could not fill half of the previous year's orders with its existing plant, and increased its capacity with a $350,000 extension and its labour force from 500 to 600.[142] Municipalities tributary to Montreal went on an orgy of competitive "bonusing" — giving gifts of cash, free sites, tax exemptions and many other inducements to attract cotton mills.

In southwestern Ontario and the Maritimes, cotton mills also sprang up. In Brantford, an English firm immigrated and set up shop.[143] In St. Stephen, New Brunswick, the St. Croix Mill was a direct extension of New England mills that had lost business after the tariff went up. Americans controlled a majority of the stock,[144] and supplied most of the circulating capital through bond purchases as well.[145] In Ontario and Quebec, the number of cotton mills rose from four to seventeen between 1878 and 1884, capital invested rose from $1.8 million to $6.8 million, hands employed rose from 1,361 to 4,501.[146] In the Maritimes, the solitary pre-National Policy mill was joined by five others by 1884, including a Halifax mill promoted by Thomas Kenny.[147] The Windsor, N.S., mill had Montreal wholesalers, notably David Morrice, among its leading shareholders, who also undertook to market all its output.[148]

In 1870, Canadian cotton production satisfied about one-quarter of domestic demand; by 1882 it began to exceed the capacities of the domestic market to absorb the output. The Bank of Montreal, which controlled the fate of the mills under the aegis of the Montreal commercial community, began to "advise" restraint in 1882.[149] Organized manufacturers in the Canadian Manufacturers' Association (CMA), another creation of the National Policy, denied the need for restraint, for the cotton orgy represented the fruition of their dreams and aspirations. But within a year even that enthusiastic body began to have its doubts,[150] especially after a crisis late in 1882 led to the predicted collapse of prices.[151] Unsuccessful attempts at cartelization followed in 1883, and the duty was raised to 35% in 1884 to try to restore prices. By the middle of the decade, in spite of China having proved a partial vent for the mill's surplus capacity,[152] the condition of the industry was chronic. The mills, under the prompting of the English machinery firms, had engaged in the production of a few standardized runs rather than diversifying them to meet the various facets of the Canadian demand.[153]

By 1884, the grandiose cotton system was in total disarray following the assignment of David Morrice. The wholesale dealer Morrice had held a virtual monopoly on distribution not only of cotton but of the output of other textile firms from southern Ontario to Yarmouth, Nova Scotia. He was also a leading stockholder in several. The Montreal banks who heavily backed the activities of the Montreal commercial community in their cotton escapade had made large loans to Morrice on the basis simply of consignments from the mills, instead of *bona fide* sales. As long as Morrice got advances from the banks — whose directorates were intimately linked with those of the cotton companies — the accumulation of unsold goods went on. With a collapse of prices and Morrice's assignment, the banks lost $180,000, and 36 mills for whom he acted as agent, another $150,000. Some factories, especially those in the Maritimes, were badly hurt by the failure, and the Park and Sons Mill in Moncton suspended.[154]

Despite the collapse of 1883, the National Policy tariff did succeed in establishing the cotton industry in Canada and furthering the movement of the woollen industry into capitalist forms of organization. Local woollen mills of the handicraft sort, especially in Quebec, underwent secular decline and eventually vanished to all intents and purposes.

Protectionist Industries

There were a number of other minor pressures for the high tariff policy that are worth noting. In 1871, James Domville, a leading Maritime industrialist, led the free trade forces in the tariff debate in the Dominion Board of Trade meeting, arguing that Maritime industrialists could prosper without any extra tariff.[155] By 1878, as a Tory M.P., he had joined the protectionist camp.[156] Edward Gurney, the founder, who in 1876 argued for Reciprocity, was by 1877 the head of the protectionist Ontario Manufacturers' Association, which in 1879 presented a draft of a new tariff schedule to Sir John A. Macdonald.[157] A few firms had peculiar reasons of their own for preferring a tariff. Some clearly wanted little more than an opportunity to extract more monopoly profit.[158] Canada's two railway rolling stock and locomotive companies on the eve of the National Policy, both controlled by the big railway promoters, joined the scramble for profits and pushed for protection despite the fact that they were fully employed in the late 1870's.[159] The Montreal Rolling Mills — a firm likewise tied into the Montreal railway promotion and commercial capitalist community by virtue of its being controlled by Sir Hugh Allan, Peter Redpath, and George Stephen — protested its need for protection via its directors, who were busy paying themselves dividends of seven per cent in 1878, just when industrial conditions were supposedly blackest.[160]

The salt producers typically favoured Reciprocity, but opted for protection as a second-best solution. As early as 1869, Goderich salt well proprietors were asking for a tariff. During the late 1870's, the industry in general claimed to be in difficulty. In 1878 Americans sent 100,000 bushels to Canada, while Canadian wells sent 800,000 bushels to the U.S. That same year, 2,200,000 bushels of British salt were imported into the Maritimes for use largely in the fisheries, salt which was brought as ballast on ships from Liverpool.[161] At the same time, Ontario salt wells, including at least one British-owned firm, had badly overextended their capacity; for they continued to expand their plant even during the supposedly bad years of 1877 and 1878. The stage was well set for an attempt by the Ontario salt wells to seize the Maritime market, much as Maritime coal mine owners were attempting the same with Ontario's coal market. In the absence of Reciprocity, the salt proprietors demanded $2.00 per ton specific duty,[162] and despite the fact that the result was a heavy tax on the already ailing Maritime fishing industry, this was readily granted.

Iron and Steel Policy

Perhaps the most important industry of all urging protection, in light of its long-term effects, was the sole major primary iron and steel producer.

The primary iron and steel industry in Canada had a troubled early history. From the start it was completely dependent on foreign capital. In the Maritimes the industry began in 1826 with the Annapolis Iron Mining Co. While the circulating capital of the firm was raised in Nova Scotia, the equity remained in the hands of its American promoters, who alone had the technical knowledge to run the operations — smelting, casting, and manufacturing. In a few years it was abandoned, and thereafter only mining was done in Nova Scotia, with the ore shipped to New England for smelting and re-export back to Nova Scotia. The General Mining Association, too, began and quickly abandoned a Nova Scotia smelter in the 1830's.[163] A blast furnace operated briefly in Woodstock, New Brunswick in 1848.[164] But by 1849 all the pig iron used in Halifax industries was imported.[165] In Ontario, little furnaces began early as 1800 in Leeds and Norfolk counties, but were quickly abandoned. American and British capital was introduced into smelting in the Marmora and Madoc districts in the 1830's, but these led to failure and a reluctance on the part of foreign capital to try again. In Quebec, a couple of little smelters operated sporadically from the French regime on. But the main centre for the industry remained Nova Scotia.

While the Londonderry, Nova Scotia, steel works nominally began in 1840 as the Acadia Mining Co., it was not until 1852 that operations really got underway. From 1853 to 1874, it produced only 20,000 tons of pig. Then in 1873 it was reorganized as the Steel Company of Canada,[166] and greatly expanded after a moderate hike in the iron and steel duties in 1874.[167] This new firm's stockholders were virtually all English, the major exception being George Stephen. Most of the two million dollars capital was subscribed in England.[168] By 1876 new extensions were made, the capacity was up to 700 tons per week, and the plant work force reached five hundred.[169] Efforts were also made, albeit without success, to get English capital into a smelting works near Hull, Quebec, following the duty revision.[170] The Londonderry firm soon announced it had driven British and American products out of Nova Scotia. In June 1878, it announced it was booming;[171] by October it reported itself in "trouble," citing American dumping — a strange charge given that most of the imports of iron into the area were brought cheaply to Canada from Britain as ballast in returning grain ships.[172]

It is difficult to unravel the importance of the National Policy to the industry, or to ascertain the degree to which higher duties were necessary for some other purpose than simply bolstering dividend levels. While the three small forges in Quebec that shared the industry with the Londonderry firm were in difficulty (one of them closed, the others on the verge of bankruptcy), efforts were underway at the same time to promote smelters in Ontario,[173] at least one of which began smelting after the tariff went up.[174] And following the new duty of $2.00 per ton on pig iron, the little Quebec forges all became active again. New works too were undertaken at Hochelega and Drummondville.[175] In Ontario, the duties led to the formation of the Kingston Charcoal and Iron Co., its list of subscribers being headed by Sir Richard Cartwright, the Liberal Party's leading anti-National Policy spokesman.[176] Canadian pig iron began to find its way to the United States.[177] This was followed in 1882 by two joint ventures of American and Canadian capital, the Franco-American Mining and Manufacturing Co., and the New York and Ontario Furnace Co.[178] On balance, the tariff stimulated a boom in the industry for Ontario and Quebec. In Nova Scotia the evidence is more ambivalent. Even before the election, in 1878, the Londonderry works were being enlarged.[179] After the Tory victory but before the new tariff, the expansion continued, at the same time that demands for protection were being made.[180]

Yet despite the increase in iron duties that followed, the firm claimed to still be in "difficulty." At first its troubles were imputed to the coal tariff, which raised costs to the point where shutdown was threatened.[181] Then the lament switched to complaints over freight rate discrimination: the local rate on coal was 65¢ per ton per mile, while the through rate was 20¢.[182] So acute were these problems that profits rose from 17¢ per 100 lb. of pig to 30¢ per 100 lb. between 1879 and 1881.[183] And by 1881, hands employed reached to the 2,000 mark.[184]

Nonetheless, to bail the firm out of its "difficulties" a pig iron subsidy system was introduced on top of the tariff in 1883, and extended in 1887. The firm went into liquidation, in spite of all the lavish assistance, in 1883. Its failure, and the contraction of the industry in central Canada as well, parallelled the drastic liquidations of sugar and cotton of the same year, and to some extent seemed to spring from the same cause — overexpansion under the aegis of the tariff. Then, too, the plant was badly obsolete and so inefficient that when it was offered for sale in 1884 no buyers could be found.[185] Yet in 1881 the Nova Scotia Steel Company at New Glasgow was established with an up-to-date plant and expanded steadily, and in 1880 a Charcoal Iron Works in Upper Woodstock, New Brunswick, also made a successful début.[186] How the newcomers succeeded while the old collapsed is somewhat of a puzzle.

Again, before the 1887 revision, the evidence points to substantial prosperity. In 1886 the Nova Scotia Steel Company announced its intention to doubling its capital.[187] The immediate effect of the 1887 revision, apart from calling into existence in Ontario another American-dominated joint venture to smelt in the Kingston area, [188] was to create a new syndicate (headed by the same George Stephen who had presided over the bankruptcy of the old Steel Company of Canada) to take over the defunct works under the name, the Londonderry Iron Co. Once the reorganization was complete the new syndicate refused to reopen the works unless the 1887 elections returned a Tory majority dedicated to the principle of corporate largesse.[189]

Opinion among users of iron and steel, notably in the secondary iron and steel industry, was far from enthusiastic over the iron and coal duties. The objections flew fast and furious from founders, sewing machine manufacturers, agricultural implement makers, machine and engine works, and even carriage makers.[190] While some secondary iron and steel producers had been protectionist, notably those that had grown out of wholesale hardware merchant firms,[191] as early as 1874 Edward Gurney had expressed their preference by calling for a subsidy program for the primary industry.[192] The 1887 revision called forth protests from secondary producers across Canada. Randolph Hersey, the Montreal nail manufacturer, claimed the new higher duties would force him to close.[193] In 1892, Jonathan Hodgson of Montreal, Canada's only wrought iron tube manufacturer, did fail, ostensibly because of the high duties on his raw material.[194] Not until 1897 was the tariff cut and the subsidy program expanded enough to bring them some relief.

After The National Policy — Revenue and Protection

Despite the clear "protective" objective of the tariff of 1879, seeking to attract foreign capital into Canadian manufacturing as well as to stimulate domestic industrial capital accumulation, revenue remained an important objective of commercial policy. Revenue actually may have been the single most important goal, for when Leonard Tilley introduced the new duties in Parliament he specified four major objectives. Significantly, the first was the need to raise revenue for the CPR, followed by protection to manufacturers, protection to farmers, and the restoration of the sagging fortunes of the West Indies trade and the China tea trade. He also stated that the use of specific duties in place of many of the old *ad valorem* ones was designed to offset the effects of declining import prices on the revenue of the government.[195] Reciprocity too was an avowed goal, but the idea that the tariff was a bargaining device to retaliate against American tariffs[196] seems to have been propagated to appease Canadian farmers and mollify British industrialists. Sir Francis Hincks wrote to the London *Spectator* in 1879 blaming American reluctance to grant Reciprocity for the tariff increases, and at the same time denouncing British free trade as an underhanded form of protection.[197] The government also contended that expanded demand for food at home would compensate farmers for the adverse movement of manufactured goods prices.[198] But despite such arguments, and the imposition of useless tariffs on grain, farm hostility remained obdurate in Ontario, as the Conservatives' showings at the polls demonstrated.

Revenue was quite another matter, and the sweeping character of the National Policy tariff schedule was prompted as much by revenue as by protective considerations. Shortly after the tariff went up, Senator Campbell, the government leader in the upper chambers, as well as Sir Leonard Tilley in the lower house, emphasized the new revenues expected from the tariff.[199] Sir Charles Tupper contended in 1881 that the only unambiguously protective tariff was the coal duty; all others had a revenue objective as well.[200] Two years later, Tilley contributed the rather tortured argument that protection and revenue would go hand in hand, for as industry grew, income grew, and therefore spending on luxuries subject to customs and excise would increase.[201] Even after the new iron and steel duties in 1887, Tupper claimed that one of their great virtues would be expanded revenue.[202]

In fact the budget, which had shown a chronic deficit from 1876 to 1880, a deficit which had earlier been seized upon by the "protectionists" to reinforce demands for higher tariffs,[203] moved into a substantial surplus in 1881. The funds were put to work in building infrastructure. In 1882 the consolidated fund surplus was \$6.3 million; in addition, the land sales and other revenue from the Northwest came to \$1.7 million. Of this, \$7.4 million was spent on capital account projects, notably the Canadian Pacific Railway. Furthermore, that year some four million dollars in maturing liabilities were redeemed. No new loans were deemed necessary. In fact, together with the proceeds of the government savings bank deposits, the budget surplus was expected to eliminate all need for raising new funds abroad. Tilley claimed that

> If we can have a surplus of three or four million a year, and savings deposits of a like sum, we will not from this day to the finishing of the Canadian Pacific Railway require to go to the English market, except to replace those liabilities which matured.[204]

TABLE II (3)

Consolidated Fund Account, 1876-1886

Fiscal Year	*($ million)* *Surplus*	*Deficit*
1876	—	1.9
1877	—	1.5
1878	—	1.1
1879	—	1.9
1880	—	1.5
1881	4.1	—
1882	6.3	—
1883	7.1	—
1884	0.8	—
1885	—	2.2
1886	—	5.8

Source: *Canada Year Book (CYB)*, 1916, p. 537.

For a while the program was a success. The tariff revenue, together with the savings deposits in the government banks, bore out Tilley's claims and seemed sufficient to pay for the major public works. [205] But with the collapse of the brief expansion in 1884 such hopes were dashed as import duty receipts plummetted and the budget went into deficit. Nonetheless the linkages were clear. Revenues from the tariff would accrue to the CPR Syndicate composed of George Stephen, Donald Smith, R. B. Angus, and other members of the Montreal commercial community, whose pressure for the tariff and campaign support were instrumental in producing the National Policy.

Conclusions

From an early date the process of economic development in Canada displayed a very close interfacing of politics and business, leading to inevitable hopeless compromises of the public finances as the government treasury was plundered with impunity by promoters of various projects. From an early date, too, the Canadian business and political elite displayed a near-paranoid obsession with the attitude of British financiers to their actions. British investment was fundamental to the construction of major works of infrastructure, canals and railways alike, and the full forces of the state were put to work to try to assure a free flow of capital to the colony. Fiscal policy and the financing of infrastructure via public subsidies were inseparable.

In 1841, the Province of Canada was created to abet the process of selling public securities, and subsequent tariff policy aimed to keep the debenture holders reassured. In 1867 precisely the same tactic was tried, with new territory brought within the federal tax collectors' grasp to ensure a steady flow of interest payments to Britain and keep up the quotation of public securities. In 1879, parallelling the fiscal policy of the late 1850's, a high tariff strategy was adopted, a key objective of which was to ensure an inflow of revenue to finance infrastructure and to pay off the public debt.

But over the course of the years that separated the 1858-1859 tariffs and the National Policy tariff, major transformations in the Canadian economic structure had occurred. Industrialization had proceeded along two routes. Small-scale local industries had taken root, especially in Ontario. And especially in Montreal and Halifax key figures of the old economic system, the leading wholesale and import merchants, had begun or were about to begin to move into industrial promotions. It was this group in particular who had the ear of government and it was their policy needs which ultimately were fulfilled. In conjunction with a small but vocal segment of Ontario industry and a group of pressing British investors in certain primary industries, the National Policy tariff was pushed through, setting Canadian industrialization on the path to dependence: dependence on state assistance, on foreign capital, and on foreign technology.

The tariff thus accomplished many things. It protected certain key sectors of the economy and weakened others. It served as the means by which the great commercial capitalists who dominated the new Toryism of the post-Pacific Scandal era could invest in industry. It made Canadian investments profitable for foreign capital, both by bolstering the earning potential of already existing industrial investments, especially British, and by forcing a northward migration of American firms. Moreover, the tariff had an extremely critical, and badly neglected, revenue objective. It was a sweeping tariff that taxed inputs of many industries very steeply as well as taking a heavy toll from the consumer.

The funds were then used to help pay for the enormous requirements of infrastructure necessary to rebuild the commercial empire of the St. Lawrence.

Notes to Chapter II

1. On the Welland Canal Company, see especially H. G. J. Aitken, *The Welland Company;* see also the exchange of H. C. Pentland, "The Role of Capital in Canadian Economic Development before 1875," H. G. J. Aitken, "A Note on the Capital Resources of Upper Canada," and H. C. Pentland, "Further Observations on Canadian Development." A. T. Galt, "Canada, 1849 to 1859," is useful on canal finance.
2. R. Fulford, *Glyn's,* p. 150.
3. R. M. Breckenridge, "Free Banking in Canada," p. 162.
4. Cited in E. P. Neufeld, *The Financial System of Canada,* p.182.
5. *Monetary Times (MT),* Nov. 18, 1913, p. 742.
6. *The Pilot,* Montreal, June 15, 1850; July 20, 1850.
7. R. S. Longley, *Sir Francis Hincks,* p. 31.
8. S. Leacock, *Baldwin, Lafontaine and Hincks,* pp. 323-4.
9. L. H. Jenks, *The Migration of British Capital to 1875,* p. 200; H. A. Lovett, *Canada and the Grand Trunk,* p. 26.
10. A. T. Galt, "Canada, 1849 to 1859," p. 322.
11. T. E. Blackwell, Managing Director, to the Governor General in Council, August 8, 1860; H. C. Chapman to Hon. Charles Alleyn, August 20, 1860; Canada, Sessional Papers 1861, "Railway Returns, 1861;" T. S. Brown, *The Grand Trunk Railway Company of Canada.*
12. *Globe,* Nov. 29, 1860; Dec. 1, 1860; Dec. 4, 1860; Dec. 28, 1860; Feb. 14, 1861; March 5, 1861.
13. *Ec,* July 13, 1861.
14. R. Fulford, *Glyn's.* p. 153.
15. R. Hidy, *The House of Baring in American Trade and and Finance,* pp.473-4.
16. L. H. Jenks, *The Migration of British Capital to 1875,* p. 200.
17. J. Hannay, *New Brunswick,* II, p. 215.
18. A. T. Galt, "Canada, 1849 to 1859," p. 329.
19. A. T. Galt, "Report to the Duke of Newcastle, October 25, 1859," p. 345.
20. *Ibid,* p. 346.
21. A. T. Galt, "Speech at the Chamber of Commerce, Manchester," September 25, 1962.
22. *MT,* September 17, 1875, p. 322.
23. D. Creighton, *British North America at Confederation,* p. 43.
24. Isaac Buchanan, "Speech at Toronto, 1864," pp. 20-21.
25. O. D. Skelton, *Sir Alexander Tilloch Galt,* p. 134.
26. *Globe,* Oct. 29, 1866; Oct. 30, 1866.
27. *Ec,* Dec. 14, 1861, p. 1374.
28. Viscount Goschen, *Essays,* pp. 60, 65.
29. *Globe,* Oct. 8, 1866.
30. F. Underhill, *In Search of Canadian Liberalism,* p. 44.
31. *Globe,* Oct. 30, 1866.
32. M. Denison, *Canada's First Bank,* I, p. 133.
33. Province of Canada, *Confederation Debates,* February 7, 1865, p. 67.
34. *Ibid,* February 8, 1865, p. 98.

35. "Confederation Considered in Relation to the Interests of the Empire" in J. M. Beck (ed.) *Joseph Howe*, pp. 180-1.
36. Cited in D. Creighton, *British North America*, p. 48.
37. E. M. Saunders, *The Life and Letters of the Rt. Hon. Charles Tupper*, p. 118.
38. New Brunswick, *Journals of the Assembly, 1866*, p. 96.
39. *Ec*, Feb. 29, 1868, p. 237.
40. A. Bailey "Opposition to Confederation in New Brunswick."
41. W. S. MacNutt, *New Brunswick, A History*, p. 440.
42. *Ec*, Sept. 29, 1900, p. 1366.
43. D. A. Muise, "Parties and Constituencies: Federal Elections in Nova Scotia, 1867-1896," *Canadian Historical Association Historical Papers*, 1971.
44. P.E.I., *Submission to the Royal Commission on Dominion-Provincial Relations, pp. 8.*
45. Bank of Nova Scotia, *The Bank of Nova Scotia 1832 to 1932*, pp. 63-5.
46. A Macphail, *History of P.E.I.*, pp. 371-2.
47. Canada, Department of Justice, *Memorandum on the Dominion Power of Disallowance*, p. 15.
48. British Columbia, Legislative Council, *Confederation Debates*, p. 10.
49. *Globe*, April 19, 1879.
50. *HCD*, March 1, 1878, pp. 685-6.
51. *HCD*, March 8, 1878, p. 921.
52. *HCD*, March 12, 1879, pp. 1954-5; March 7, 1878, p. 858; Senate, *Debates*, May 2, 1879, p. 577.
53. *HCD*, March 28, 1879, p. 789.
54. Senate, *Debates*, May 2, 1879, p. 577.
55. *MT*, March 7, 1879, p. 1113.
56. *HCD*, March 8, 1878, p. 906.
57. Senate , *Debates*, May 2, 1879, p. 572.
58. *Globe*, Sept. 11, 1878.
59. *HCD*, April 19, 1883, p. 715.
60. *HCD*, April 3, 1883, p. 390.
61. *HCD*, March 14, 1883, pp. 209-10, 212.
62. *HCD*, March 30, 1883, pp. 342-3.
63. *HCD*, April 19, 1863, p. 714.
64. See especially Maurice Dobb, *Studies in the Development of Capitalism*, p. 123; cf. Karl Marx, *Capital*, Vol. III, p. 329.
65. Dominion Board of Trade, *First Annual Meeting*, 1871, pp. 27-8, 30, 33-34.
66. Montreal Board of Trade, *Annual Report*, 1876, p. 90.
67. Dominion Board of Trade, *Eighth Annual Meeting* 1878, pp. 75, 39-40, 80-82.
68. *Globe*, October 24, 1878, *Industrial Canada*, November 1901, p. 82.
69. Select Committee . . . Manufactures, *(SCM) Report* 1874, p. 3; Select Committee . . . Causes of the Depression *(SCCD) Evidence*, 1876, p. 74 *et passim*.
70. The industry was exporting all over the world. Its raw materials, especially bar and pig iron, were imported, and duties on bar and pig iron would hurt the industry *(SCCD*, 1876, pp. 119, 121-2). In some lines, excess capacity existed even before the National Policy, and further tariff increase would only have augmented the problem *(MT*, Dec. 13, 1878, p. 744). The only important failure in the industry during the depression of the 1870's, L. Cosset and Bros. of Guelph, was due to a short-run liquidity squeeze and not to American competition *(MT*, Dec. 12, 1879, p. 689).
71. *SCM* (1874), p. 7.

72. Anonymous, *Canada Under The National Policy*, 1883, p. 123.
73. *SCM* (1874), p. 8.
74. *SCCD* (1876), p. 93.
75. *SCCD* (1876), p. 105.
76. *Journal of Commerce (JC)* April 26, 1878, p. 302.
77. *HCD*, March 8, 1878, p. 882. Yet boots and shoes was the manufacturing industry most plagued by failures, and if "dumping" was the cause of the crisis, it logically stood to gain a great deal from higher nominal tariff rates. Several of the firms recorded more than one failure before the National Policy went up. One of the largest, that of Guillaume Boivin, failed three times in the two years before the new tariff, but Boivin went on record in favour of Reciprocity. And the high rate of failure in the industry continued unabated after the tariffs were up. Its instability was due to the peculiarities of the Canadian credit system rather than an external industrial threat.
78. *SCM* (1874), pp. 11, 17.
79. *SCCD*, p. 178.
80. *SCCD*, pp. 25, 86-87.
81. *SCM*, (1874), pp. 10, 17; *SCCD*, pp. 2-5, 11, 19, 70-77, 158, 186; *MT*, Dec. 8, 1879, p. 642; Jan. 4, 1879, p. 925; April 18, 1879, p. 1296; Sept. 7, 1877, p. 304.
82. See especially D. A. Muise, "Parties and Constituencies."
83. One of the reasons American manufacturers were accused of dumping was that the American greenback remained at a discount in terms of gold for more than a decade as a result of the Civil War finance. Throughout the 1870's the gold premium ran at over fifteen per cent, and hence by itself came close to completely negating the protective incidence of the Canadian duties. On January 1, 1879, convertibility was restored, the U.S. greenback appreciated, and hence U.S. manufacturers lost their considerable advantage in the Canadian market even before the National Policy went up. Given that the National Policy schedule of duties was drawn up before the return of parity, it probably contained some degree of protective overkill based on the supposition of a continued American advantage.
84. *MT*, Sept. 10, 1869, p. 55; Sept. 24, 1869, p. 87; Oct. 1, 1869, p. 104.
85. *MT*, August 27, 1869, p. 24.
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154. *MT*, March 3, 1882, pp. 1076-7; August 4, 1882, p. 120; August 1, 1884, p. 123; August 15, 1884, p. 177; August 22, 1884, p. 233.
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162. Select Committee on the Salt Interest, *Report*, 1876, pp. 1-6.
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169. *MT*, Sept. 22, 1876, p. 334.
170. *MT*, Feb. 6, 1874, p. 775.
171. *MT*, June 7, 1878, p. 1424.
172. *Globe*, Oct. 14, 1878.
173. The Snowdon Iron Works were projected in 1878, then leased to a U.S. firm and the ores exported *(MT*, Oct. 4, 1878, p. 434). The entrepreneur responsible for the undertaking denounced the projected National Policy, and announced that if duties were placed on coal he would not be able to proceed with his smelter *(Globe*, April 29, 1878; June 10, 1878). At the same time, early in 1879, a Toronto group of former iron ore exporters secured a charter for a smelter at Port Hope *(MT*, April 11, 1879, p. 1271).
174. *MT*, July 11, 1879, p. 64.
175. *MT*, Dec. 30, 1881, p. 792; August 11, 1882, p. 147.
176. *MT*, April 1, 1881, p. 1149.
177. *MT*, Jan. 16, 1880, p. 832.
178. *CM*, April 28, 1882, p. 145; *MT* April 21, 1832, p. 1289.
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201. *HCD*, March 30, 1883, pp. 338-9.
202. *MT*, May 20, 1887, p. 1373.
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Some people say that the Grand Trunk Railway is the Government of Canada. They are mistaken. Mr. Brydges is active, alert, always on the qui vive. But Mr. King carries the purse strings. The Bank of Montreal is imperium in imperio.

Montreal *Witness*, 1866

CHAPTER III

The Evolution of The Chartered Banking System

Origins of the Banking System

The Canadian banking sytem, like virtually all the country's economic institutions, was a truncated import from a more advanced economy, specifically from England. What is important is not the nationality of the bankers *per se*, (who were largely Scots) nor the legal niceties attached to early charters (which were largely American-derived), but the actual manner of functioning of the banks.[1] And in this respect the Canadian banking system was a colonial variant of London joint stock commercial banking.

The migration of English banking to Canada was not complete. Only part of the system took root in the colony. For purposes of analysis the English banking system can be regarded as comprising four parts. First, the Bank of England, a relic of the era of mercantile monopolies[2] which dealt largely in the public finances. Second, the London-based joint stock commercial banks, which operated a series of branches, and subsequently challenged the Bank of England's issue monopoly. In addition, in London, there existed a group of large private banks, whose origins were in the international movement of commodites, but who increasingly specialized in the marketing of securities, especially international. These were the great merchant banks of the Barings, the Rothchilds, and Glyn, Mills.[3] All of these layers of British banking were essentially financial and commercial in their operations in the strict sense and maintained a fair degree of independence from industrial finance.[4]

However, with the coming of the Industrial Revolution there arose along with it, and as an integral part of it, a system of country banks. Their existence was brief and chaotic; they failed in great numbers in crises, and they disappeared as quickly as they emerged after the end of the Napoleonic wars. But while they existed they played a critical role in fostering industrial capital formation. They were local, unit banks, that is to say, banks with only one office rather than several branches. And they did a local business in accepting deposits, making loans, and issuing bank notes. Their origins were frequently industrial, being vehicles for a particular industrial entrepreneur to promote his own undertakings.[5] These banks were, then, a crucial source of industrial finance for the economy.[6] Under the social conditions then prevailing, the technology applied to the new industrialism was quite primitive;[7] hence the volume of fixed capital investment required for plant and equipment tended to be low.[8] The fixed capital could be provided from the savings of the men who formed the new entrepreneurial class that led the Industrial Revolution, and by reinvested profits, while working capital for wages and materials would be provided by the country bank. Of course, short-term advances ostensibly for working capital would frequently be renewed more or less automatically, converting them into a long-term investment.

The country banks, and to some extent the American state and local banks, were excellent vehicles for industrialization as long as fixed capital requirements were low. But as the capital intensity of industry grew, nations which lagged behind Britain required different sorts of financial structures to bridge the gap.[9] In some instances the state itself mobilized long-term industrial finance, while in the U.S., Germany, and other countries, the investment bank became a prominent financial instrument. Investment banks on the model of Germany's Dresdner Bank or J. P. Morgan and Co. in the U.S. also involved a close link between industry and finance like the country bank,[10] though of course the scale was vastly different.

The financial structures that evolved in the Province of Canada lacked any tradition of either investment banking or institutions analogous to country banks. As a colony, its banking system evolved in imitation of and through regulation by the metropole. Canada was a staple-extracting hinterland servicing British markets, and its banking system took a form appropriate to facilitating the movement of staples from Canada to external markets rather than promoting secondary processing industries. This evolution was reinforced by the migration of British banking physically to Canada in the form of individual British entrepreneurs who took leading places in Canadian financial institutions, or in the form of direct investments by British financiers in joint ventures with Canadian commercial capitalists, or in the form of the operation in Canada of wholly British-owned imperially chartered banks — the Bank of British North America and the Bank of British Columbia. In brief, Canadian banking was a branch plant of English commercial banking, with the Barings, Glyn, Mills, and to a degree the Bank of Montreal assuming the role of the Bank of England in public finance. It was the banking model least suited to promoting industrial development in the colony.

Proposals made just after Confederation for a radical alteration in bank legislation were fought to a standstill.[12] The Minister of Finance, Sir John Rose (of the Hudson's Bay Company, the Bank of Montreal, and Morton, Rose and Co.) tried to resuscitate the idea of a government note issue or, failing that, a reserve of government securities to back the chartered bank notes. These proposals were supported by the Bank of Montreal, which would control the operation of the scheme, while the other big commercial banks, especially those in Ontario, objected. In Ontario, bank note issue was highly seasonal; the economy was agricultural, and note issue peaked during crop moving season. During times of financial stringency the effect of locking up their funds in government securities would be to put them at the mercy of Bank of Montreal advances.[13] Not only would the Bank of Montreal then reign supreme, but it might well decide to reign alone, having already in 1866 managed to destroy Ontario's two largest banks, the Bank of Upper Canada and the Commercial Bank of the Midland District by denying them credit.[14]

Essentially what was involved in the debate over note issue power was a choice between using domestic funds for staple movements or for the construction of infrastructure, and the banks preferred to keep up the flow into staples and have the government rely on imports of portfolio capital from Britain to build the railroads and canals that were necessary for staple exports to Britain. This pattern of Canadian capital flowing into commerce, leading to an over-expansion of staple extraction, coupled with the necessity of imports of capital from Britain to build the overextended infrastructure that accompanied that expansion, was destined to be replicated in one form or another throughout the period until World War I.

Sir John Rose left the Macdonald cabinet in 1869 to join an English private banking firm styled Morton, Rose, and Co., a bank which soon rose to the first rank among the financial overseers of the empire. His political demise in Canada marked the first of a series of abrupt endings to careers of finance ministers eased, or forced, out of office as a result of the anger of the chartered banks. In the case of Rose it represented a defeat of the Bank of Montreal by the Ontario banks. Macdonald's willingness to sacrifice a minister so prominent in the Montreal financial elite grew out of his need to maintain a coalition of Ontario-Quebec and Reform-Conservative interests. Such considerations also dictated his choice of a new minister on Rose's departure. His replacement as Minister of Finance was the former leader of the Upper Canada Reform party, now a de facto Tory, Sir Francis Hincks, who had recently returned to Canada after a stint as governor of several Caribbean colonies. The *Monetary Times*, oracle of the Toronto financial and commercial community, greeted his return as a boon to Ontario, as a "Minister of Finance whom Mr. King [E. H. King, general manager of the Bank of Montreal] will be unable to hoodwink or manipulate."[15] Alas for Ontario, the old quarrels between the so-called reformer and the bank were gone. The Bank of Montreal remained government banker. And Sir Richard Cartwright, who had himself been an aspirant for the position as well as the president of one of the Ontario banks recently destroyed by the Bank of Montreal, quit the Tory Party in protest over the appointment of the notorious Hincks. Hincks, in fact, had to be given a seat in British Columbia in the subsequent elections, so hostile was Ontario to him.[16]

Commercial Operations of the Chartered Banks

The chartered banks of Canada were established with close connections to the commercial community to provide short-term accommodation for the movement of staple products — furs, timber, and grain. The Bank of Montreal was established by fur merchants and dry goods importers; the Bank of New Brunswick, the Quebec Bank, and the Ottawa Bank by timber merchants; the Bank of Hamilton by dry goods merchants; the Bank of Toronto by grain dealers and bill brokers; the Commercial by grain dealers; the Dominion by railwaymen and bill brokers; the Bank of Nova Scotia by small merchants. They accepted deposits and issued notes; the note issue function was always an indispensable and bitterly contested part of their activities. An attempt in the 1840's to introduce a provincial bank to issue bank notes modelled on British legislation was successfully defeated, and a later effort to establish a "free banking system" with a government-bond-backed note issue to help the government raise long-term capital for the construction of railways and canals was a failure.

The notes issued by the early banks were a critically important source of loanable funds. As long as the notes of the bank were accepted in general circulation as money, the bank in effect had managed to borrow from the public at zero interest cost a sum equal to the amount of its notes in circulation. The greater the volume of the bank's notes that could be pushed into circulation, the greater the volume of free money the bank had to lend to customers at interest. Gustavus Myers, observing the American banking scene, made a number of observations which applied equally well to Canada. Of the banks of the period he noted:

> The most innocent of their great privileges was that of playing fast and loose with the money confidently entrusted to their care by a swarm of depositors who either worked for it, or, for the matter of that, often stole it; bankers, like pawnbrokers, ask no questions. The most remarkable of their vested powers was that of manufacturing money. The industrial manufacturer could not make goods unless he had the plant, the raw material, and the labor. But the banker, somewhat like the fabled alchemist, could transmute airy nothing into bank note money, and then, by law, force its acceptance. The lone trader or landlord unsupported by a partnership with law could not fabricate money. But let the trader and land holder band in a company, incorporate, then persuade, wheedle, or bribe a certain entity called a legislature to grant them a certain bit of paper styled a charter and lo! they were instantly transformed into money manufacturers.[11]

Hincks fathered Canada's first Bank Act, which was touted as a "compromise" between the two competing banking factions. Under this Act, the government note issue was restricted to the lowest denominations, while the chartered bank notes remained without a reserve requirement— secured instead by a first lien on the bank's entire assets, including a double liability of stockholders. In every other respect, however, the Act was exactly that drafted by the Bank of Montreal.[17] It put the Maritime banks under federal control and forced them to conform to the Canadian model, and opened up the Martimes to the expansion of the Canadian commercial banks.

The logic of "real bills" concepts of banking became ossified into law. Moulded by the bankers themselves, the legislation governing the actions of the banks conformed to the predeliction of the banks towards very short-term loans.[18] Nor were either their deposits or note issues restricted by the requirement of a mandatory cash reserve, unlike the American system where bank note issues had to be backed dollar for dollar by a reserve of government bonds to defend the value of the notes in case of failure of the bank. Moreover, the Canadian system was supposedly less open to "inflationary" influences than the American.[19] Stripped down to its fundamentals, what this meant was that the centralization of power of the Canadian banking system prevented local and regional interests from using easy credit policies for local development and to fight the vested powers of the main urban centres; that in Canada the money supply in theory adapted passively to the needs of commerce rather than being amenable to manipulation as an instrument of development policy.[20] In fact however the operations of the banks in Canada were considerably less constrained by these precepts than the legislation suggested they should be; and the main result of the so-called passivity of the Canadian credit supply mechanism was to leave the Canadian economy exposed to the vagaries of international commercial fluctuations to a vastly greater degree than in the United States.

While the banks were adamantly opposed to a fixed reserve of cash — gold or Dominion notes — as early as 1888 a Nova Scotia banker proposed that the banks collectively pool a certain percentage of their circulation to insure the public against failure.[21] For despite the notes being a first lien on the entire assets of the bank there were instances when failures of banks led to the loss of most of all of the value of the notes to the holders. The Bank of Montreal continued to press for a fixed reserve ratio, and the efforts of the Conservative Finance Minister, Sir George Foster, to introduce one in 1890 were stopped by the Prime Minister, who was fearful of the ire of the chartered banks on the eve of an election. Foster also sought to make the notes of any bank redeemable at par by any other bank as well as making provision for the redemption of the notes of defunct banks.[22] That was effectively the end of Foster's career as the Minister of Finance. On the return of the Tory Party to power in 1911, Foster, at the request of the chartered banks, was relegated to the Trade and Commerce post, a political scrapheap for those who offended Canada's money magnates.

Instead of Foster's proposed 1890 reforms, the Canadian Bankers' Association was formed and subsequently incorporated with the power to appoint liquidators, to report on the fitness of new applicants for bank charters — an adverse report from them would lead to the refusal of a certificate to operate.[23] The CBA was also empowered to administer a central redemption fund for bank notes. All banks theoretically had to band together to protect each other's note issue, for the notes of a failed bank could be redeemed in the notes of a still solvent bank through the central pool of notes established under the Act. Since the effect of the central fund was to make all notes equally safe in the eyes of the public, the General Manager of the Bank of Montreal, Sir Edward Clouston, promptly denounced it as "communism."[24]

The volume of notes that the banks were permitted to issue was restricted to the amount of their paid-up capital. Hence for a bank to expand its note circulation beyond that point it would have to solicit more shareholdings.[25] That led to one obvious potential problem. More shareholders would mean more possible votes at shareholders' meetings and hence would threaten a reduction in the amount of control exercised by a few top financiers. To resolve that problem, the Bank Act was so written as to give the existing stockholders of a bank the right of first refusal on any new issues of stock; and virtually all new issues before the war were absorbed internally.[26] Furthermore the importance of the capital subscribed by the shareholders diminished as a source of loanable funds as the banks began energetically searching for other sources. The expansion of deposits as a source of funds, while the relative importance of shareholders funds diminished, meant of course ever greater financial power could be wielded with a limited commitment of the shareholders' own funds — the equivalent for the banking system of an industrial company expanding its assets by selling bonds rather than shares. As a result of these forces, it was not until well after the turn-of-the-century boom was underway that the volume of bank notes in circulation began to bump up against the ceiling of the legal limit. And once this happened, instead of a compensating expansion in the banks' capital — which could involve either the possibility of new voting shareholders or a commitment of funds from the existing shareholders — the government was simply induced to lift the ceiling on bank note issues.[27]

After the discomfiture of John Rose and Hincks's "compromise" of 1871, the government's fiscal needs no longer threatened the chartered banks' powers to "manufacture" money. While a small tax had been put on the banks' circulation at the time of Confederation, this remained unchanged. And the banks threatened that if the government ever tried to increase it, they would simply collectively pass on the extra charges to the public in the form of higher interest charges.[28]

Nor did the government note issue provide any real competition for the chartered banks. The government note issue was restricted to a maximum fiduciary (unsecured by gold backing)

TABLE III (1)

Bank Notes in Circulation as a Percentage of Paid-up Bank Capital, 1875-1914

October	*Notes as % Capital*	*October*	*Notes as % Capital*
1875	39	1905	92
1880	47	1906	89
1885	56	1907	89
1890	61	1908	87
1895	56	1909	92
1900	80	1910	97
1901	85	1911	99
1902	93	1912	96
1903	90	1913	101
1904	91	1914	92

issue of $20 millions in minimum denomination notes. In 1894 an effort was made to raise the government's uncovered issue to $25 million, but the bankers proudly announced they had succeeded in defeating the proposal and had secured agreement from the government to maintain 100% gold reserves for all issues of notes in excess of $20 million. The agreement was obligingly embodied into statute, the chartered banks thus imposing a reserve ratio on the government rather than vice-versa.[29] The struggle to expand the government issue, even though defeated, could not have helped further George Foster's political prospects.

Under the Dominion Notes Act, the federal government was entitled to an issue of low denomination notes of up to $25 million, raised in 1903 to $30 million of which 25% had to be backed by gold or Government of Canada securities, the interest and principal of which were guaranteed by the government of the United Kingdom, and of which the remaining 75% had to be backed by a reserve of Dominion securities. For any issue above $30 million, reserves of 100% in gold had to be held.[30] In effect, gold provided the backing, but the attempt to tie the Dominion reserves to the London capital market is worth noting, especially in light of the fact that the chartered bank voluntary reserves were held in the form of call loans in New York. Canadian monetary conditions were thus linked to financial developments in the two principal metropolitan capital markets. In terms of Dominion note issue, however, despite the fact that the chartered banks active in crop moving were straining the limits of their note issue power from 1908 on, the gold reserve ratio behind all

Dominion notes in circulation rose from 21.8% in 1867 to 80% in 1914.

During the credit squeeze in the 1907-8 crop moving season, the government exceeded the legal limit of its issue, and Liberal Finance Minister W. S. Fielding promised, as a consolation, that thereafter the chartered banks could expand their circulation to 115% of the sum of their capital and reserve funds, the government thus largely abandoning the field to them.[31]

The banks' hostility to government issues went even further. The banks avoided holding Dominion notes even as part of their "voluntary reserve" and would present them for redemption in gold, using the proceeds for investments in New York.[32] And the possibility of the establishment of a Canadian mint, or, more properly, a branch of the Royal Mint in Canada, was vehemently opposed. Sir Edward Clouston of the Bank of Montreal claimed in 1901 that coining of gold would disturb the currency,[33] or, more candidly, compete with the chartered banks' note issue. Sir Edmund Walker of the Bank of Commerce added the argument that since Canada had so many debts to pay to foreign investors, only American and British gold should circulate within Canada.[34] Obligingly, the "Canadian" mint confined itself to bronze and silver until 1912. The struggle to prevent competition in the business of manufacturing money went beyond the struggle over government notes and gold: the fight to prevent express companies from issuing money orders was a long and successful one.[35]

Finance and Politics

The political power of the larger banks and of the Bankers' Association can hardly be exaggerated. The bank acts were written by the very banks supposedly regulated by them. George Hague, general manager of the Bank of Toronto, provided a candid description of the process of writing the 1871 Bank Act.

> Representatives of the [chartered banks] from all parts of the country . . . sat in conference, day by day discussing the clauses of the proposed act one by one; . . . we sat in one of the committee rooms of the House and discussed the bill with a considerable sense of responsibility, being well aware not only that our conclusions would affect the whole banking interest of the country, but every other interest, commercial, manufacturing, and industrial not to speak of the interest of the government itself.

Were that not sufficient guarantee as to the outcome of the democratic process,

> Many of the directors of the banks and several of their presidents were members of Parliament, some in the Senate, some in the House of Commons. These, of course, sat with us from time to time, so that, though not formally constituted as such, we were really a joint committee of Parliament and banks.[36]

Notable among the "joint committee" members was, of course, Francis Hincks, who doubled as Minister of Finance and as a director and subsequently President of the City Bank. Among them too was the Honourable Louis Davies, Minister of Fisheries and President of the Merchants Bank of P.E.I., an institution which at the time of the 1894 revision of the Bank Act had the Premier of P.E.I. and a provincial cabinet minister also on its board.[37]

The years of George Foster's tenure in the Ministry of Finance saw the consolidation of the banks' collective power, much to his subsequent regret. Nor did the advent of the Liberal Party to power in 1896 alter the influence of the banks in the choice of the Minister. According to the Liberal Party's Ontario bag-man, W. T. R. Preston, the obvious Liberal candidate, Sir Richard Cartwright, had his application for the post rejected by the banking establishment, who sent a delegation to Laurier to threaten to call enough loans to cause a financial crisis if Laurier allowed Cartwright to assume the post.[38] The choice fell on W. S. Fielding, whose credentials for the job were ably summed up in 1911 by the Chairman of the House of Commons Banking and Commerce Committee:

> Sir, businessmen in Canada, even Conservatives, men whose every vote has been cast for the Conservative Party, have hesitated to mark their ballots against this government for the very fear that some man other than the Hon. W. S. Fielding might control the financial affairs of this country. And one of the strongest cards it has been possible to play for the Liberal government in any part of this country is to ask, "If you vote Hon. W. S. Fielding out of office as Finance Minister in Canada, whom do you think you are voting in?"[39]

Relations with Ottawa were formalized in 1894 with the establishment of a permanent Bankers' Association lobby in the capital. Its first representative in the capital was the up-and-coming corporation lawyer Z. A. Lash. His operations bore fruit from the onset, sufficiently so for Sir Edmund Walker, the President of the Executive Council, to be able to report to the Association in 1895 that,

> Some private bills containing clauses objectionable to the

> banks were introduced into the Dominion Parliament, and the attention of the proper authorities being called by Mr. Lash to these features they were removed.[40]

The lobby's powers grew steadily, culminating in the incorporation of the Canadian Bankers' Association in 1901 with the astonishing power to pronounce on the fitness of, and, de facto, to block the entry of new banks seeking charters. In the legislative field so successful were its operations that Sir Edmund Walker in 1913 could openly boast that every major change in banking legislation since the first Bank Act had been initiated by the bankers themselves.[41]

Nor were the other legislative bodies left out of their purview. The locations chosen for the annual meetings of the Association were especially suggestive, the usual places being the Parliament Buildings in Toronto and Ottawa, the Legislative Council Chambers of Quebec and Halifax, and of course the Windsor Hotel in Montreal, the standard convention place for price-fixing associations during the late nineteenth century. The lobby operated actively in all the provincial capitals, the report of adverse legislation on the order table being sufficient to bring a high-powered delegation to the provincial capital to fight it.

But of course Ottawa was the most important centre of activity, as it was in Ottawa that the power to legislate on banking and currency matters lay. By 1913 the Ottawa lobby had expanded to five lawyers plus several special parliamentary agents who were put to work during the Bank Act revision hearings, buttonholing M.P.s who looked like they would waver during the Committee debates and gathering up members to join the Committee discussions and vote down unwelcome clauses. When the division bells rang, the bankers' lobby had its own whip on hand to fill the back benches with members who seldom attended sittings. And as a final "check and balance" of the legislative process, the solicitor of the Bankers' Association sat on the Senate floor inside the rail and interrupted and interfered with the discussion at the invitation of the government Senate leader, Alberta's Senator Lougheed. The good relations with the government shown by the then solicitor of the Canadian Bankers' Association were undoubtedly aided by the fact that his brother sat in the House of Commons as the member for North Oxford.

At that time a few mildly progressive clauses were introduced in the House, clauses calling for a compulsory annual shareholders' audit, the outlawing of bank managers' receipt of gifts of stock from companies they lent funds to, the requirement of sterilization of notes before reissue, and the maintenance of transfer and registry offices in every province where the bank did business. All but the gift clause were struck out by the Senate, the gift clause having an obvious utility in limiting the power of discretion of individual branch managers. The lobby was equally active in committees and in the corridors. In committee, progressive clauses were voted down by members brought in specifically for that purpose.[42] The Minister of the Interior later remarked that it took a great deal of courage to stand up to the lobby. Whoever else had that courage, it is certain he did not; this same minister was later accused of accepting bribes from the Bank of Commerce. Whatever else one may say about the banking cartel's methods, they were certainly thorough.

Power within the banking clique was very unevenly distributed. The extent of the centralization of power, not only vis-à-vis the outside community but also inside the banking group itself, was ably summarized in 1901 by Sir Edmund Walker, the President of the Bank of Commerce. Speaking to the Bankers' Association annual meeting in his capacity as President of its Executive Council, he described the power structure as follows:

> If one visits a meeting of the American Bankers' Association, nothing strikes one so much as the fact that it is practically a great convention; hundreds and sometimes thousands of bankers attend. . . . On the other hand . . . the interest of banking in Canada, of our 36 banks with five or six hundred branches is represented by 40 or 50 men, and practically by the 15 or 16 members of the Executive Council. . . . The consensus of opinion of the bankers of Canada upon any public question can be arrived at without difficulty. We have the great advantage of knowing without coming together, from the fact that we are acquainted with each other, and have often met to discuss subjects, what is the thought upon a public question. For that reason we exercise in this country a force that seems to be out of all proportion to our numbers. The opinion of the banking world of Canada becomes concentrated in the Executive Council, and therefore the consensus is easily arrived at. We cannot judge of the importance of our annual meeting by the number present. *In fact the importance is clearly in inverse ratio to the numbers.*[43] [Emphasis added].

Needless to say, some of the banks failed to show the same degree of enthusiasm as Sir Edmund over the concentration of financial and political power he described. As early as 1899, the Bank of Nova Scotia had withdrawn from the Association[44] as a result of its efforts to enforce the existing spheres of influence agreements and keep the Bank of Nova Scotia out of the western provinces. Although the Nova Scotia was back in the fold by 1902, its relation with the other big banks remained very strained for some time. In 1913, H. C. McLeod, the former General Manager of the Nova Scotia — who had been deposed in 1910 as a prelude to the restoration of peace in the financial heirarchy of Canada — denounced the Association as an instrument in the hands of one man. While he did not specify whom he had in mind, it is certain he was referring to either Sir Edmund Walker of the Commerce or Sir Edward Clouston of the Bank of Montreal. That year, too, the President of La Banque Provinciale described the Association as "a tool in the hands of three or four men who today control the whole of the finance of the country." How they chose to exercise that control had to have an enormous impact on the patterns of economic development of the country.

Banks and the Commercial Sector

The credit system of Canada was inextricably interrelated with the movement of commodities, both internationally and internally. As early as 1824, William Lyon Mackenzie described the relationship as follows:

> Our foreign commerce, confined and shackled as it is, and has been, is entirely in the hands of the British manufacturers. . . . Our farmers are indebted to our country merchants, our country merchants are deeply bound down in the same manner and by the same cause to the Montreal wholesale dealers. Few of these Montreal commission merchants are men of capital; they are merely the factors or agents of British houses, and thus a chain of debt, dependence, and degradation is begun and kept up, the lines of which are fast bound around the souls and bodies of our yeomanry, and that with few exceptions from the richest to the poorest, while the tether stake is fast in British factories.

As Mackenzie aptly described, during the period of British industrial hegemony in Canada the movement of commodities and the movement of "capital" were inseparable. British firms extended long credits to the Montreal importers who acted as their agents, who, in turn, extended credit to a myriad of country retailers, who, in turn, gave credit to their customers. And the Montreal importers were often the same group who exported staples. The role of the banks was, as George Hague of the Bank of

Toronto described it, "handmaiden and tributary to . . . commerce."[50] They provided short-run accommodation by discounting notes for the wholesale houses or urban retail merchants and facilitated the flow of raw material exports to the U.S. and Britain.[51]

Under this system, imports from Britain exceeded those from the United States by a sizeable margin until 1875. In 1875, the position reversed and the U.S. took the lead, which it never again lost.[52] Such a shift in the Canadian trade pattern presupposed some breaking of the rigid link between commodity and capital flows in the form of long credit. As the Canadian banking system matured, it increasingly assumed the role of financing commodity movements, either alone or in alliance with English commercial banks.[53] Britain became of ever greater importance in providing financial capital rather than mercantile credit.

Internally, the system of "long credits" and the Canadian banking system's obsession with mercantile loans and discounts served to divert capital away from industry into commerce, with the result that between Confederation and World War I Canada had a merchant sector that was clogged with small traders hanging on precariously to the credit extensions of the banks and wholesale houses. In the age before the chain store, the country merchant or small urban merchant fulfilled the function of distributing agent for the wholesale houses. Nominally independent, he was in fact tied by credit lines and contracts to dealing exclusively with one big wholesale firm, and his existence depended on it being too costly or inconvenient for the wholesalers to move directly into distribution through branches in small towns and villages. The wholesale dealers' trade associations regulated prices, and the chief form of non-price competition took the guise of proliferating the number of agents; and among these agents competition involved chiefly credit extensions to the customers. Credit was more common than cash dealings among the retailers in all but the largest urban centres. As late as 1870, cash was seldom seen at all in commodity transactions in Nova Scotia and New Brunswick.[54]

As the Canadian banks moved from loans based on personal notes to those on real bills, their importance as the linch-pin of the system grew. In addition to discounting bills for the wholesale dealers, the accounts of produce dealers and town merchants took on increasing importance over time.[55] The banks were well aware of the consequences of the overextension of mercantile credit — that, in the words of Thomas Fysche of the Merchants'

Bank, it "creates a vast army of impecunious traders who intensely compete until the margin of profit nearly reaches the breaking point." But it was essential that the system be maintained, for without it the banking system would have had no *raison d'être* in the period before the great expansion of 1896: most of its best customers would have vanished.[56]

The "real bills" doctrine, to which the banks ostensibly adhered, supposedly guarded against any imbalance between the volume of credit and the supply of goods. But the reality was more as described by a Montreal financial journal:

> simply degenerating the science and practice of banking into a system of pawnbroking, a system by which any man may import goods on credit, put them in a bonded warehouse, pledge them to a bank for as much as he can raise on them, and cross the border with the proceeds.

There were many cases of borrowing twice or even more on the same goods, and of substituting cheaper or valueless goods for those listed on the receipts.[57] Campaigns launched by the business press to curtail the amount of credit extension fell on deaf ears, for it was an integral part of the competitive system, and however destructive in the aggregate, no single trader or bank could curb the process without losing ground to his competitors.

The problem went back at least to the early post-Confederation period with its enormous overextension of drygoods stores and grocers. In 1869, Chatham, Ontario, Brantford, and St. Catharines each had more stores than Detroit. A little village like Goderich managed to have 37 stores, Woodstock 37, Stratford 21, St. Marys 20.[58] During the depression of the 1870's, great hordes of commercial travellers were sent out by wholesale dealers to force their goods on retailers on generous credit terms, or even to bypass the retailers and "sell" direct to customers.[59]

The chaos was aided and abetted by the state of insolvency legislation, legally a federal responsibility. Before the federal act of 1869[60] which applied only to "traders" and not to incorporated companies, legislation by the various provinces was disparate. New Brunswick had no insolvency legislation at all, and creditors had no recourse except for the long and expensive process of civil suit. The Nova Scotia act was very limited, and passed mainly to ameliorate the extent of imprisonment for debt. The act of Canada on which the federal legislation was based dated only from 1864.[61]

The federal act of 1869 provided that discharge could be obtained after 33⅓% of the claims were settled. While this was subsequently raised to 50% in 1875,[62] the essential problem remained unsolved. By favouring the debtor, the Act tended to expand the vast army of merchants and increase the rate of "failure."[63] If a man could pay nearly the whole of the debt it was better to claim insolvency and settle for fifty per cent, and hence each group of traders who "failed" was succeeded by a new group, often composed of many of the same merchants who had "failed" the last time around. And if a merchant had failed so often that no houses would extend him further credit, it was a relatively easy matter to put his wife in as nominal head of the firm and start the cycle again.[64] Prior to the Act, merchants generally settled for the full 100%. After it, paying the legal minimum or less in cases of difficulty became standard practice. In 1879 one assigned merchant's estate sold for 5½ cents on the dollar; one item nominally worth $108 was auctioned off for 40 cents. A Fredericton debtor in 1876 offered one cent on the dollar, and this was accepted.[65] And legal costs tended to absorb a substantial part of the collectible portion of the estates.[66]

The Boards of Trade, the business press, and especially the banks sought repeal or drastic reform, while the traders pressed for the Act to remain.[67] Given the centralization of financial power in Canada, there was little scope for inflationary credit policies on a provincial and local level, as was typical of American patterns of the period. Hence the struggle of farmers and local merchants against the urban financial oligarchy took, among others, the form of a fight over the terms of insolvency. In 1880, an M.P. called for repeal of the Act on the grounds that "the people of this country are tired of the . . . regime of Official Assignees under which they have suffered for some years past."[68] It is clear that "the people" in his view showed a remarkable similarity to the personnel of the banks and wholesale houses, and little beyond. As for the assignees, business was so good that in Montreal in 1877 they moved to form an organization to regulate their trade.[69] The supply of assignees was fed by the overcrowding of the legal profession due to the structural imbalance of the Canadian educational system.[70] These lawyers, who had to be supported as an additional charge on the cost of distributing commodities, were denounced by one of their victims as typified by

> a miserable creature . . . impressed with the idea that he was born to be a professional man . . . whose best energies were spent in gaining the title which he afterwards degrades, and whose natural abilities, if rightly directed and applied, would have made him a burning and shining light as a feeder of hogs, rather than as a counsellor of men.[71]

Repeal of the law in 1880[72] was followed almost immediately by an escalating campaign for restoration.[73] Among those advocating restoration were British wholesale houses who lost large sums by being unable to claim even the 50% they were entitled to under the old Act.[74] On the other hand, Canadian banks fought hard to prevent any new legislation, for their ability to make claims on the spot permitted them to seize 100% of a failed trader's goods. In 1894 a new insolvency bill was introduced into the House of Commons, the first since the repeal, and the new bill sought to re-establish the 50% rule. It was opposed successfully by the bank cartel and defeated.[75] Not until after the war was a new law enacted.

Several results followed from the vagaries of the credit system during times of financial and commercial crisis. During the 1870's depression, a great wave of failures directly attributable to overextension of the credit system occurred. Farm problems led to a drift to the cities at the same time mercantile houses who had overimported were eager to sponsor large numbers of petty merchants of little capital and less experience to try to get rid of the goods; and the farmers were eager to co-operate. A Select Committee reported that "large numbers of persons have thus been withdrawn from productive industry to the detriment of the public and with no advantage to themselves."[76] The result was cut-throat competition among the many small traders. During the depression, many charges of dumping by American and British firms were heard and the Canadian adverse balance of mercantile debt rose to $75 million with debt charges reaching four million a year. In all probability, however, the problem lay not with the price policies of the exporters but with the credit system, and its effect on landed prices of imports.

Failures escalated until the ratio of liabilities of Canadian failed firms to that of American reached 30% in 1879. But even the advent of depression and failure did not stem the rush. The Montreal Board of Trade reported in 1876 that,

> notwithstanding three years of depression in which failures in Canada have been in greater proportion to the number engaged than in any other country, there is today a greater number of persons engaged in business in proportion to the trade done than in any other country where statistics are available.

If the same rate of failure continued, "in ten years every second businessman in Canada may succumb."[77]

In this commercial chaos, the failures of merchants numbered over three times those of manufacturers — reflecting the huge number of petty traders and their vulnerability to the periodic

TABLE III (2)

Commercial Failures, 1872-1879

Year	*Number of Failures*	*Liabilities*	*%Canadian/ %U.S. Liabilities*
1872	n.a.	$ 6,464,525	n.a.
1873	994	12,334,192	5.4
1874	996	7,696,765	5.0
1875	1,968	28,843,967	14.3
1876	1,728	25,517,991	13.4
1877	1,889	25,466,139	13.4
1878	1,615	23,152,262	10.2
1879	2,002	39,344,579	30.0

Sources: Montreal Board of Trade, *Annual Report*, 1876, p. 88; *MT*, Feb. 7, 1879, pp. 978 - 80; Jan. 30, 1880, p. 890; *Brad.*, various issues; *SYBC*, various years.

collapse of the credit web:[78] though where manufacturers got involved in overdependence on short-term credit to carry on their line of production, they too could collapse in droves.[79] And to try to salvage their prior investments, the chartered banks fed the maelstrom[80] by reawakening and rebuilding collapsed commercial houses, permitting them to struggle on until yet another failure intervened.[81]

The bizarre operation of the Canadian credit system was not exclusively an urban phenomenon. Not only did farmers overburden themselves with credit based on the pledge of future crops, but often diverted that credit into mortgage lending to other farmers,[82] rather than investing in their own future production. The country merchants, backed by the big urban retail houses, in turn supported by the wholesale firms who relied on Canadian banks and British export houses for credit, extended short-term low-interest credit to the farmers who in turn lent at long term high interest to other farmers on the security of their land. The result, under normal circumstances, would have been to speed up the differentiation of the farmer class into rich rentier "gentleman" farmers and a poorer class of indebted small holders and tenant farmers. But given the regularity of periodic credit collapses, it is more likely that the chain of debt led more to the growth of urban absentee landholders than rural.

Even after the depression, problems remained for farmers because of the lack of ready cash which often forced them to sell their crops well in advance of harvesting. Speculators used to roam the rural areas of Ontario in the lean years of the late 1880's offering to buy grain at some fixed price in the future.

The contract was signed, and by cutting off the top and bottom and having it notarized and enforced by one of the great numbers of lawyers eager for employment, the contract for the speculator to pay the faamer became a promissory note made out to the speculator by the farmer. These notes were then bought by professional dealers who were usually the masterminds of the fraud.[83] The rate of discount would be from 12 to 20%, and proceedings against the farmers who refused to pay up were common. As one witness said of the role of lawyers in the affair with respect to one of his notes, "After it was sold, I thought there might be some trouble about it, seeing that it had got into a lawyer's hands and that they take more out of the farmers than the swindlers do."[84]

Even well after the great depression of the 1870's had passed, the absurdities of the credit system did not abate. It remained clogged with small traders who failed in waves with each successive crisis.[85] By the early 1880's the problem had reached Winnipeg, and with the collapse of the land boom there in 1883 a major wave of failures followed.[86] Nearly all of the chartered banks' customers there, whatever their nominal occupation, were involved in real estate speculation. In one town alone, every single trader failed in the aftermath, and the Merchants' Bank of Canada lost 75% of its discounts there.[87] Yet in 1888 Manitoba and the Northwest reported one trader for every 50 people, while Ontario had but one per 400, and at that was badly overstocked with traders.[88]

Failure waves recurred in 1891 and 1896-7. Between 1891 and 1895 the number of traders rose 6.7% while the number of failures rose 3.8%, making a net increase of 2.9%. In the U.S. in the same period the number of traders rose 3.5%, while failures increased 4.5%, making a net reduction of 1.0%. The crisis of 1907 produced a host of failures in Canada that did not begin to abate until the end of 1909.[89] By January 1908, 1,228 general stores alone had failed in the West due to over-entry and to the credit squeeze applied by the banks and implement dealers after the crisis.[90]

The diversion of resources into short-term credit backed by bank accommodation went hand-in-hand with chronic deprivation of long-term finance to industry. At the same time that the commercial credit system was running amok in Canada, the rate of all business failure due to "lack of capital," including manufacturing failures, ranged between 65 and 75% growing steadily, while during the same period the American rate was less than half of this. The figures given apply to percentage of total numbers, but precisely the same pattern results with percentage of

TABLE III (3)

Canadian Failures, 1891-1895

	1891	*1892*	*1893*	*1894*	*1895*
Total in business	75,589	75,860	76,856	78,783	80,666
Total failures	1,846	1,682	1,781	1,864	1,916
Percentage failures	2.44%	2.22%	2.32%	2.37%	2.37%

Source: *Brad.*, various issues.

total liabilities. The American failure rate due to lack of capital fell over the period, while the Canadian rate rose. Though the Canadian failure rate due to capital "shortage" tended to fall off by 1904-5 when the boom was well underway, it still remained substantially above the American level.

TABLE III (4)

Failures Due to "Lack of Capital"

	1890	*1891*	*1892*	*1893*	*1894*	*1895*
% Canada	55.8	66.6	65.1	69.4	68.5	71.3
% U.S.	37.9	39.2	32.5	33.2	34.2	33.5
	1896	*1897*	*1898*	*1899*	*1900*	*1901*
% Canada	67.2	70.3	69.1	74.4	74.4	70.6
% U.S.	31.1	31.4	34.1	36.1	36.2	33.4
	1902	*1903*	*1904*	*1905*	*1906*	*1907*
% Canada	67.0	69.6	62.2	55.2	50.6	52.5
% U.S.	32.8	32.5	32.2	33.4	35.9	37.1
	1908	*1909*	*1910*	*1911*	*1912*	*1913*
% Canada	43.2	42.0	46.8	49.3	50.3	41.3
% U.S.	34.2	34.5	33.9	31.4	29.7	29.6

Sources: *Brad.*, *CYB*, *SYBC*, various issues.

Savings Deposit Business

Savings banks in British North America evolved to function as a depository for working-class savings, as a means to "develop thrift among the people."[91] Both private and government savings banks emerged, and for most of their history, until the late

1880's, they were not competitive with the chartered banks, but rather complemented them. The private savings banks often had interlocking directorships with their companion chartered banks and shared their facilities. Thus, the Hamilton and Gore District Savings Bank was linked to the Gore Bank and did its savings business for it. The savings were invested in Ontario bank stocks, in City of Toronto notes and debentures, in mortgages, and other safe securities.[92] Hence, in neither the source of funds (working-class savings deposits rather than merchants' and small business demand deposits and bank notes) nor in the use of funds (stable investments rather than current mercantile loans and discounts) did the two institutions compete. While functionally distinct, their directorship was virtually identical.

Similarly, the Montreal District Savings Bank was founded in 1819 two years after the Bank of Montreal and shared directors and facilities with that institution. In 1856 the savings bank was absorbed by the Bank of Montreal and thereafter it functioned as a separate savings department.[93] Not until 1891, with the growing competition among banks for deposits, was the savings department integrated into the Bank's normal operations.[94]

In Manitoba, on the other hand, there was no private savings bank. However, a federal government savings bank was established in 1879 and it filled the gap, functioning as little more than an arm of the Merchants' Bank of Canada. This chartered bank, as a Tory institution, held all the government accounts in Winnipeg, and supplied the government savings bank with over one million dollars in Merchants' notes a year for circulation.[95]

Precisely when savings deposits became of prime importance to the banks varied from bank to bank. As late as 1889, a Halifax banker attested before a Royal Commission as to the unimportance of general savings deposits in his business:

> Q. Do you receive deposits from the working classes?
> A. No. I don't care to do that sort of business . . . . They put their money in the savings banks where they can secrete it and escape taxation.[96]

For all banks, except for the Bank of Montreal, by 1890 the savings deposit business was the central concern. For the Bank of Montreal the slight lag behind other banks was due to its continued major role in public finance and its still extant dreams of becoming a super-bank on the Bank of England model. Nonetheless in 1891 its savings department was integrated into its general operations.

In 1871, savings deposits and notes were about equal in the banks' liability structure, while demand deposits were by far the most important liability they had. Thereafter savings deposits grew relative to notes, until by 1914 they were six-and-one-half times the level of notes, their greatest acceleration occurring about 1898 to 1900. Savings deposits began to exceed demand deposits in 1883, and the gap grew.

TABLE III (5)

Chartered Bank Liabilities — Selected Items

	% total liabilities			
			Deposits	
	Capital	*Notes*	*Demand*	*Savings*
1875	40.7	14.2	20.7	15.9
1880	33.0	15.1	23.3	20.5
1885	27.0	14.3	23.0	22.0
1890	23.0	13.4	20.6	30.8
1895	19.1	10.0	20.8	36.8
1900	13.6	10.3	22.2	38.2
1905	10.6	8.7	19.2	44.2
1910	8.2	7.2	23.0	44.6
1913	7.5	7.1	24.7	40.7

While the precise timing of the shift to savings deposits is difficult to pin down, the forces behind the movement are clear. Beginning with the crash of 1873, over two decades of secular deflation set in on an international scale. As world prices fell, the Canadian price level moved downward with it, a decline uninterruped until 1895-1896. The fall in prices diminished the scope for chartered bank note issues. And as the note issue stagnated the chartered banks lost ground to other financial intermediaries in terms of their over-all importance to the flow of funds in Canada. From 1873 to 1885, the share of chartered banks in the total financial intermediation process in Canada shrank steadily as a result of the decline in their sources of funds engendered by the stagnation of their note issue power. The result was to precipitate a scramble for an alternative source of loanable funds — as well as desperate but generally futile measures to maintain note circulation. And the obvious alternative source of funds was the hitherto badly neglected savings deposit business.

In 1873 when the deflation began, chartered banks dominated the Canadian financial structure to the extent of controlling nearly 72% of total intermediary assets. During the 1870's their share declined precipitously as the note issue fell drastically. There was a brief recovery from 1879 to 1883, but thereafter, while the note issue did not decline absolutely, it remained virtually stagnant. By 1885, chartered banks controlled only 55% of total intermediary assets, while government savings banks and mortgage loan companies who earnestly cultivated the savings deposit business had grown very markedly.

TABLE III (6)

Relative Shares of Total Intermediary Assets

	% total assets		
	Chartered Banks	*Government Savings Banks*	*Mortgage Loan Companies*
1873	71.6	3.2	10.7
1875	69.6	2.8	13.6
1880	55.4	5.4	24.6
1885	51.8	9.3	24.1
1890	49.5	7.9	24.5
1895	48.0	7.6	22.3
1900	52.6	6.7	16.2
1905	57.5	5.1	10.9
1910	59.6	3.2	10.6
1913	57.4	2.4	

Source: E. P. Neufeld, *The Financial System of Canada*, Statistical Appendix.

By 1885, however, the efforts of the chartered banks to break into the savings deposit business in a concerted way began to produce significant results. The new sources of loanable funds stabilized their position and arrested the decline in their importance. At the same time, the spectacular growth of the government savings banks was reversed. Then after 1895-1896, when the price level began to trend up again, a rising capacity to issue notes coupled with their control of the savings deposit business served as the foundation for renewed chartered bank expansion, and their domination of the financial structure, while never attaining the level of the early 1870's, nonetheless grew appreciably.

Savings deposits were clearly the key to the salvation of the banks during the deflationary years. And the desire to control the business brought the chartered banks face to face with the government, and with the need to curtail interest rate competition to prevent costly price wars. Both exigencies dictated the need for organization, and hence it was directly out of the struggle for savings deposits that an illegal interest-rate fixing cartel emerged, which subsequently adopted the name "Canadian Bankers' Association."

Chartered bank collusion on the savings deposit rate was initially conducted on a provincial basis, until the monetary integration of Canada was effected by means of the spread of central Canadian banks east and west, and of Halifax banks to the west. In 1876, Halifax banks cut their deposit rate from five to four per cent,[97] followed some months later by Montreal banks. At the same time, Montreal private bankers and brokers were offering up to seven per cent on savings.[98] But the Montreal private banks catered to the wealthy depositors rather than to working-class savers. While the Merchants' Bank of Canada in 1878 engaged in a campaign to attract depositors, raising its savings rate to five per cent,[99] other banks did not follow suit. In fact, less than a year later the Eastern Townships Bank lowered its savings rate to four per cent.[100] The Merchants' zeal to attract depositors may have been, for peculiar reasons of its own, perhaps not completely unrelated to its speculation in gold in New York,[101] which nearly precipitated its failure.

Further rate reductions in Quebec and the Maritimes initiated by the big banks and followed by the little ones occurred in the late 1870's, [102] until three per cent was the norm by 1880. For the Quebec banks the rate cuts were easier than for those of Ontario, where mortgage loan companies and private banks competed for the savings business with the chartered banks.[103] By 1885, the Merchants' Bank had followed the lead of the other Quebec banks, stabilizing its rate at three per cent.[104] But the banks experienced difficulty in maintaining the rate despite their informal cartel arrangement. By 1890, three-and-one-half per cent was the norm, and some banks continued to break the combine when convenient. When caught secretly offering four per cent, the banks blamed it on the overzealousness of underclerks and local managers.[105]

The formation of a formal bankers' association in 1890 was the signal for energetic moves towards full interest rate normalization. The first objective was a complete agreement on the rate on new deposits only, leaving the banks free to continue to pay the established rate on old deposits. By 1897, the Executive Council reported optimistically on its efforts to establish a uniform rate of three per cent:

> It is to be regretted that your Council cannot yet report a complete agreement in all the provinces to reduce the maximum rate of interest on deposits to three per cent, yet the progress made warrants the belief that the incoming Council will be able to establish a uniform arrangement, and that it

will relate not only to new deposits with which limit the present Council had to content themselves, but to old monies as well.[106]

At the same time efforts were made to stabilize the savings deposit rates offered by the chartered banks, a major attack was mounted on the competition from the government savings banks, commencing in 1885. The rate of interest paid by chartered banks had fallen by one or two percentage points over the previous few years, building society rates were down to four per cent, while the government continued to pay four per cent on its savings deposits, a rate which the banks claimed exceeded the rate at which money could be raised on the open market.[107]

This charge, that the savings rate exceeded the open market borrowing rate together with the claim that it forced up the chartered bank rate and hence increased the economy's credit costs, was used time after time.[108] It was not a particularly sensible argument. The nominal rate of interest on government loans, the rate used for the comparison, was generally much lower than the real rate, since most loans during this period were sold at a substantial discount. And until the mid-1890's the government savings deposits were not comparable to those of the chartered banks either by class of depositor or use of the funds. Since the government savings deposits went into long-term investments, the rate of interest logically should have been higher than that of chartered bank deposits, which were used for commercial loans and discounts. The chartered banks tried to counter this argument by the claim that if they got the extra deposits they would buy more government bonds. In fact, once they got them, their holdings of government securities fell.

Replying to the banks in 1885, the Minister of Finance denied that the rate was excessive, and in fact that year the nominal yield in government bonds was 4.10% on average. By 1885, however, the CPR was largely complete to the Pacific coast, and its raids on the public purse tended to abate. As a result, there was less pressure for the maintenance of government savings banks to help provide funds to give away to railway promoters and their friends. Interest rate reductions in the government bank could be expected to follow, and in 1890 the rate fell to 3.5%. The chartered banks collectively raised their rates to four per cent as the government lowered its rate, with the desired result — a large shift of deposits from the government to the chartered banks. In addition, the policy was initiated of shifting some of the government savings banks into the less convenient post-office banking system.[109]

The banks were still unsatisfied. In 1896, before the Canadian Bankers' Association, Thomas Fysche reiterated the old charge with new numbers: that the government's three-and-one-half per cent rate was pegging the chartered bank rate at too high a level and therefore raising minimum borrowing costs. Only a few sentences before, Fysche had been busily denouncing the long credit system for making credit too cheap in the economy![110] But, undeterred by this patent sophistry, the government obligingly lowered its rate to three per cent.

In 1898, the chartered banks attempted a collective reduction of interest rates to 2.5% on deposits, and tried successfully to induce the government to do the same. The Minister of Finance, W. S. Fielding, attempted to justify the decrease on the grounds that there was no longer a need for special savings outlets for working-class income earners. The opposition protested that the result of a further reduction would be to drive small savers into the hands of "unstable" private banks.[111] Although the rate offered on deposits did not fall further, government savings outlets did undergo a steady decline in importance as the chartered banks launched their assault on the savings deposit business. [112] Government savings deposits were thus lost as a means of financing the construction of infrastructure at precisely the point when new raids on the public purse by railway magnates were in the offing, and as the government's legitimate infra-structural spending responsibilities were on the rise in response to a great influx of immigrants, rapid industrial growth, and the opening of the West.

TABLE III (7)

Government Savings Deposits

($ million)

Year	*Savings Banks*	*Post Office Banks*
1870	3.4	1.6
1875	7.2	3.9
1880	11.1	3.9
1885	32.0	15.1
1890	19.0	22.0
1895	17.6	26.8
1900	15.6	37.5
1905	16.5	45.4
1910	14.6	42.8
1913	14.1	41.9

Sources: *SYB, CYB,* various years.

Although in absolute terms some growth in the total of savings in government banks occurred, it was very small; relative to population the decline in government savings outlets was drastic after 1885. And savings banks proper experienced an absolute decline. It is no accident that the federal government turned increasingly to public issues in London to raise funds at the same time that its access to savings deposits fell off relative to the chartered banks.

The impact of the decline of the availability of government savings facilities was not felt evenly either by geographic area or by class of depositors. Farmers and artisans were by far the leading users of the savings banks,[113] and it was their business that the chartered banks, including those of Halifax, now condescended to tap. The greatest number of savings banks too had been in the Maritimes. In per-capita terms Ontario was the greatest user of the post office savings bank facilities — the system of post office savings banks established in 1867 was not extended to the Maritimes until 1885[114] — but when both of the government institutions are aggregated, the Maritimes show the greatest per-capita usage.

TABLE III (8)

Government Savings Deposits Per Capita

Province	*1895*	*1900*
Ont.	8.75	10.55
Que.	2.89	3.71
N.S.	18.87	17.78
N.B.	24.09	27.35
Man.	4.70	5.41
B.C.	9.02	12.03
P.E.I.	20.27	19.25
Northwest	0.92	1.79

Sources: *SYD*, 1895, 1900.

As part of the terms of Confederation, the federal government had assumed control of provincial savings banks. In 1886, of 50 such banks in Canada 45 were in the Maritimes.[115] By 1890, when despite the clear need for such institutions the total had been reduced to 41 in deference to the chartered banks, 37 of these were in the Maritimes. By 1900, 21 of 23 banks were there. The funds taken from the Maritimes were used to further central Canadian development objectives.[116] By 1886, some fifteen million had been taken out of the Maritimes and invested in projects like the Canadian Pacific Railway. Not only were these western and central Canadian commercial projects harmful to the competitive position of Atlantic industry, but the direct effect of the drain seriously damaged the position of the Maritime local chartered banks, which in turn had adverse repercussions on Maritime industrial development. The high rates of interest paid on government savings deposits drained the "lifeblood" of the Maritime banks,[117] rendering them more vulnerable to central commercial bank takeover. And once the central Canadian banks had themselves moved into the area, the government savings banks were phased out. The flow of funds out of the Maritimes was then intermediated by the central Canadian commercial banks.

Yet if the flow of savings deposits out was harmful to Maritime industrial development, it did little or nothing to enhance the industrial prospects of the areas of Canada which received the funds. Canadian banks were well aware of the radical distinction between demand and savings deposits in terms of the balance in their liability structures. Edmund Walker, in 1893, made the distinction clear:

> . . . In Canada, with its banks with forty and fifty branches, we see the deposits of the saving community applied directly to the country's new enterprises in a manner near perfect [sic]. . . . Well managed Canadian banks do not give interest on active current accounts. But all Canadian banks issue interest bearing receipts, and . . . almost all have Savings Departments. These deposits, great and small, are in the nature of investments by the depositors, and are not like the temporary balance of a merchant. They are entitled to interest.[118]

In the United States, savings bank deposits went largely into state, municipal, and carefully selected railroad bonds, into public buildings, and similar investments. In Canada, the government savings bank receipts had done likewise. But the structure changed as the chartered banks displaced the government savings banks. The Canadian banks, while recognizing the nature of the change in their liabilities, in fact channelled the proceeds off into current loans and discounts, exactly as they did with demand deposits.[119] Edmund Walker testified before a Commons committee in 1913 to this effect:

> Q. Does your Savings Bank Department in any way differ essentially from the savings banks as such?
>
> A. Oh yes, we take the savings money and use it in commercial banking.[120]

There was little movement into long-term assets following the lengthening of the terms of their liabilities. The banks' security holdings did rise a little, as a percentage of total assets, up to 1900, but thereafter they declined during the great western expansion—indicating a very substantial shift of bank resources into moving crops and other staples. Very little long-term finance to railroads or to governments was made available through the banks at a time when American banks were holding about 40% of their assets in the form of long-term bonds of governments and corporations.[121] The twisting of savings deposits into current discounts aggravated the problem of long-term finance already implicit in the fact that the note issue had no security backing. When long-term investments did occur, a large amount went into foreign investments. The problem was especially acute because of the active and aggressive campaign of the chartered banks for these deposits, which permitted them, with the federal government's co-operation, to seize the overwhelming share. By the end of 1905, there were some $620 million in savings deposits in Canada distributed among the various banks and loan companies, of which the chartered banks held $512 million.[122]

TABLE III (9)

Chartered Bank Assets — Selected Items

% total assets

	Securities				*Loans*			
	Municipal	*Dominion & Provincial*	*Railroad etc.*	*Total*	*Current Canada*	*Current Abroad*	*Call and Short Canada*	*Call and Short Abroad*
1873	—	0.9	—	0.9	74.8			
1875	—	0.7	—	0.7	73.3			
1880	0.8	0.6	—	1.4	62.6			
1885	1.3	0.4	—	1.7	68.9			
1890	2.3	1.0	—	3.3	72.3		4.5*	
1895	3.0	0.8	2.9	6.7	62.9		5.4	
1900	2.3	2.3	5.1	9.7	57.1	3.7	6.7	5.5
1905	2.5	1.1	5.2	8.8	55.9	3.3	5.6	6.7
1910	1.8	0.9	4.7	7.4	53.8	3.3	5.1	9.3
1913	1.5	0.7	4.3	6.5	56.9	2.9	4.6	6.5

The mortgage loan companies had been subjected to a squeeze on their savings business parallelling that on the government banks, especially with the business revival of the late 1890's. The bankers had long protested the right of mortgage loan companies to accept deposits: with the organization of the Bankers' Association they were finally in a position to do something concrete about it. In 1897, the bankers' Quebec lobby successfully forced the withdrawal of a clause in a provincial mortgage loan company charter that would have permitted it to receive deposits as a basis for making loans. The same success crowned similar efforts in Ottawa that year directed against a federal loan company charter. The Bankers' Association renewed its call for the blocking of all mortgage loan companies from the deposit business and for forcing them to rely on debenture issues to borrow money. While a blanket prohibition was not achieved, the Bankers' Association continued to register successes in forcing the dropping of savings deposit clauses in new incorporations.[123] The funds thereby diverted from mortgage lending went into orthodox commercial banking at precisely the time when the opening of the West created new demands for mortgage funds. Just as with government finance, the result was an increased reliance on British capital acquired through debenture issues to finance mortgage lending in Canada.

Chartered Bank Expansion, Competition, and Mergers

There were several ways in which the banking system and its individual components could grow. Each bank could expand its assets and the number of branches. Total assets of the banking system, in fact, grew fifteen-fold over the period 1870 to 1914. But growth was not continuous in relative terms. As a percentage of all financial intermediary assets, the banks' position fell from 1873 for some time, then rose with the recovery and expansion.

Many new charters too were granted, but at the same time mergers and failures took their toll of the existing banks. Prior to 1900 mergers were relatively difficult, but thereafter regulations were relaxed and mergers of institutions that would otherwise have failed became common. The granting of new charters came in waves corresponding to peak periods of railway building. Of the 81 new charters granted from 1867 to 1914, 26 came in the 1871-73 period, 11 in the period 1881-84; and 26 in the 1901-05 period, for a total of 53 in these 11 years. Many of these banks never became operational, and with the mergers and failures, the number of banks operating, while rising by five from 1867 to 1900, fell by fifteen from 1900 to 1914.

Simply examining the number of banks and their branches and mergers does not give a full picture of the amount of bank facilities nor the competitive structure, for it was common for chartered banks in new communities to operate, initially, via a private banker. Moreover, there were some cases of surreptitious control of one chartered bank over another, and of sphere of

TABLE III (10)

Banks Operating, 1867 - 1914

	*Failures**	*Mergers*	*New Charters*	*New Banks Operating*	*Net Change*
1867-1900	20	3	48	28	+ 5
1901-1914	7	19	33	11	-15

Source: E. P. Neufeld, *Financial System*, pp. 78-79.

*includes both the Royal Canadian and the City Bank.

influence agreements. But in general, especially after the Canadian Bankers' Association was formalized in 1890, interest rate competition was minimized. Competition thereafter took the wasteful form of proliferation of branches to secure both savings deposits and new clients for loans. It was standard big business behaviour, excess capacity coexisting with a restricted number of units operating behind barriers to the entry of new firms, and refraining from price competition.

This overexpansion of bank capital at the same time it was concentrated in relatively few units in Canada became evident as early as 1876, when the Bank of London and the Bank of North America were both chartered, at the same time as the City and the Royal Canadian merged from weakness and the St. Lawrence reduced its capital.[124] The Bank of North America never got off the ground. By the 1890's, leading bankers like Thomas Fysche and Edmund Walker were calling for a curtailment of the expansion of banks, citing "over-competition,"[125] which was reducing profit margins. It was in expansion of the banks' "plant," not in prices, that competition revealed itself. Price competition would have trimmed costs to a minimum and reduced interest rates to borrowers. Competition by expansion of facilities meant maintaining interest rates and increasing overhead costs. At that time, business was not expanding rapidly enough to accommodate the existing number of banks. Thomas Fysche regarded "competition" as obsolete under the circumstances. He declared:

> It was chiefly necessary in order to make up for the lack of proper organization. When the latter is achieved we may regard the rapid disappearance of competition with comparative equanimity.[126]

But despite the growth of "proper organization" in the form of the Bankers' Association's ability to restrict new entrants or the merger powers after 1900, the diversion of resources into banking did not abate. It simply changed from the creation of new banks to the internal expansion of old.

Some new banks were chartered, but comparatively few. And there were great difficulties in getting them operational. The Monarch Bank, chartered in 1895, tried in vain until 1907 to find enough funds to operate, and then wound up.[127] Even earlier, the Traders Bank had difficulty getting a charter. It was a Toronto-based bank that had to disguise itself as a Bowmanville, Ontario, operation by working through a group in that town who fronted for its promoters, notable among them a notorious broker, H. S. Strathy, who had already been a prime figure in wrecking two earlier banks. The surreptitious approach was rendered necessary by vested banking interests in Toronto who would have opposed and blocked a new Toronto bank.[128] And in 1892 the little Farmers Bank of Rustico, P.E.I., a bank with a perfect record of operation, was denied a charter renewal and forced to wind up.

Prior to the great western expansion, most of the growth of banks was accounted for by those of Ontario and their branches within Ontario. Ontario bank assets doubled between 1881 and 1890.[129] The movement west by central Canadian banks actually occurred in two distinct waves. The first began in 1873, when Sir Hugh Allan's Merchants' Bank of Canada established a branch in Winnipeg in conjunction with his CPR and western ambitions. This was followed by twelve other central Canadian banks and one western one by 1896.[130] By that date, the second movement west was beginning. Banks, like railroads, in the Canadian West moved into areas in advance of the main body of settlement. The little Eastern Townships Bank, which did not establish its first branch outside Sherbrooke until it opened in nearby St. Hyacinthe in 1895, had a branch three years later in Grand Forks, B.C.[131] After 1900 the movement became a flood. Branches and sub-agencies of central and eastern banks west of Ontario grew from 108 in 1900 to 2,962 in 1913.[132] The Eastern Townships alone had 64 branches and 39 subagencies. Virtually all of the expansion was accounted for by a few established banks: the Bank of British North America, the Merchants', the Union of Halifax, the Sterling, and the Standard being the pioneers. The Bank of Commerce and the Montreal were slow in moving west.[133] After the boom ended, overextended facilities had to be cut back, the pioneer banks were weakened, and subsequently they were absorbed by the others who had been more cautious in their expansion.

Individual banks expanded as well, by controlling other banks, by precipitating failure through the withdrawal of support, or by absorption. In the East, the Bank of Montreal attempted to secure control of the Maritime Bank in 1880 by purchasing 1,070 shares and having its agent try to select and appoint an amenable set of officers. The little local bank fought back with a court injunction barring the Bank of Montreal from voting. It claimed that by holding Maritime shares the bank became involved in stock jobbing, and this constituted a breach of trust with the stockholders. It was not a particularly logical argument, and of course the real issue was something else quite distinct. By controlling the choice of directorate, the Montreal and other central Canadian banks could use the local banks as their agents, and the little Maritime banks saw their style of business and their interests as fundamentally opposed to those of the big central commercial banks.[134]

The main wave of central bank expansion into the East came, like the move west, after 1900. But the western expansion was at the expense only of private banks, which were already agents of the central Canadian banks (with the exception of the chartered Northern Bank of Winnipeg, which was taken over by the Crown Bank and moved to Toronto in 1908); the eastern expansion, on the other hand, displaced the existing banks. It was a two-fold process of monetary centralization. At the same time that the central commercial banks were expanding into the Maritimes, the Halifax commercial banks did likewise. Then the Halifax banks, which in their behaviour patterns were not at all typical of the Maritimes, but indistinguishable from the central Canadian ones, shifted their headquarters to Montreal.[135]

The Bank of Nova Scotia absorbed the Union Bank of Prince Edward Island as early as 1882. The Bank of New Brunswick took over the Summerside Bank in 1901. In turn, the Bank of New Brunswick was taken over by the Bank of Nova Scotia in 1913, which had in the meantime shifted its headquarters to Montreal. Through the agency of Max Aitken (Lord Beaverbrook), the Union Bank of Halifax took over the Commercial Bank of Windsor in 1902,[136] and this in turn was absorbed by the Merchants' Bank of Halifax (the Royal Bank) in 1910. The Royal shifted to Montreal, where it established a *modus vivendi* with the Bank of Montreal. The Royal's interests were mainly Maritime and Caribbean, while those of the Montreal were largely central Canadian.[137] During 1911 there were rumours in Montreal of a possible merger between the two under the presidency of Sir Herbert Holt. But while this was never effected, the close relationship persisted.[138]

Before the Royal moved to Montreal, the Montreal had made its own moves into the Maritimes. In 1903 it had acquired the Exchange Bank of Yarmouth, followed by the People's Bank of Halifax in 1905 — a move which netted it 26 branches, 15 in the Maritimes. The People's Bank of New Brunswick was added in 1907. The Bank of Commerce was also active in the Maritimes, taking over the Halifax Banking Company in 1903 and the Merchants' Bank of P.E.I. in 1906. These two central banks, who were most ambitious in the Maritimes, were the two who were initially the slowest to enter the West. But the policy of establishing a prior base in the Maritimes paid handsome dividends once they began their westward march, absorbing the banks that had moved west first.

There were bank expansions via branches in the various centres of central Canada as well, especially rural Ontario. And the central provinces also saw many mergers. But while thirteen mergers occurred involving central Canadian banks and only ten involving Maritime ones, the Maritime ones were much more important in relative terms: together with failures and with the shift of the Royal and the Nova Scotia to Montreal, by 1913 Maritime banking simply ceased to exist.

There were many instances, too, of chartered banks moving into communities after banking space was opened up by the failure of a rival. The Merchants' Bank of Halifax (the Royal) capitalized on the failure of the Bank of Acadia in 1872 and the Bank of Liverpool in 1879. The Bank of Montreal got 26 new branches by taking over the assets of the defunct Ontario Bank in 1906, and moved into St. Hyacinthe and St. Jean after the failure of their local banks in 1908. The Bank of New Brunswick moved into St. Stephen after the local bank failed in 1910. Many mergers in fact represented purchases of banks with losses to the stockholders of the absorbed institution, the alternative to the sale at a bargain rate being outright failure.

The merger movement in banks after 1900 attracted attention and no small amount of consternation from the industrial community who were apprehensive about the reduction in bank competition.[139] The merger movement in banks did not at all correlate with the industrial merger movement in Canada. The two obeyed different rules and were prompted by different circumstances. The bank mergers were the outcome of the forces at work in the "wheat boom" and the interregional flow of funds that resulted from it.

The Flow of Funds

The power of the big commercial banks was enhanced by their interrelations with other major financial institutions. Unlike the U.S., where the banks tended to be heterogeneous, in Canada there was a great deal of functional specialization among intermediaries who were interlocked via shared directorships. The fiduciary function, for instance, was in Canada performed entirely by trust companies and not at all by banks.[140] However, close relations were established between banks and trust companies, the Bank of Montreal with Royal Trust, the Commerce with National Trust, the Royal with Montreal Trust. Royal Trust, for example was founded in 1892 and of sixteen original directors, nine were members of the Bank of Montreal board; and the firm shared the Bank of Montreal building after 1895.[141] The Montreal Trust was very much a Bank of Montreal creation as well, Donald Smith, E. S. Clouston, and several other eminent Montreal commercial and financial figures being involved in its genesis.[142] National Trust was controlled by George Cox, who in 1892 was president of the Bank of Commerce, and several other directors were shared, including Joseph Flavelle, the president of the trust company. The Eastern Trust Company was established in Halifax in 1893 by T. E. Kenny of the Merchants' Bank of Halifax, T. Fysche of the Nova Scotia and later the Merchants' of Canada, private banker J. C. Mackintosh of Halifax, and J. F. Stairs of the Union Bank of Halifax.[143]

Dominion Trust, established in 1910, functioned for several years in close association with the Bank of Vancouver, so closely in fact that the crash of Dominion Trust in 1914 pulled down the chartered bank with it. The ensuing investigation of the trust company's affairs revealed that its general manager had personally helped himself to $100,000 of the company's cash, that four to five million in trust funds were indiscriminately mixed with the company's own funds and large amounts diverted into investments in highly speculative stocks and bonds in flagrant violation of trust company legislation, and that the company had illegally (under existing legislation) accepted demand deposits against which no cash reserves were held.[144]

All of these trust company promotions around the turn of the century reflected a fundamental new trait of the Canadian socio-economic system, the growth of large and even moderate fortunes held in the form of portfolio investments. A distinct rentier class was taking form from a combination of the hardening of class lines, the inheritance of financial assets, and the development of a Canadian capital market. Until World War I, though, this rentier group's investments, either direct or via the nascent trust companies, tended to concentrate on municipal debentures, real estate, financial institution equity and the like, rather than government bonds.

Nor did the links between various financial institutions stop at banks and trust companies. Sir Herbert Holt's Royal Bank and the Bank of Montreal were complementary institutions, and by the early twentieth century the Bank of Montreal's financial network embraced such firms as Royal Securities and Sun Life Assurance. Sun Life, too, was linked to the Merchants' Bank.[145] The financial empire of Senator George Cox went well beyond the Commerce and the National Trust. Cox was also President of Canada Life Assurance, and founder and almost sole owner of Central Canada Loan and Savings Company, which in turn owned Dominion Securities. He also controlled the Toronto Savings Company, Imperial Life Insurance, and the Provident Investment Company.[146] Cox's intricate system was the most spectacular, but was not unique. And substantial flows of funds occurred between the components of these financial networks, often to evade the legislative restrictions on the activities of one unit in the system.[147] Yet despite the mass of evidence on interchanges of directors, Edmund Walker had the audacity to reply to a question in a Commons committee hearing as follows:

Q. It is said there is much interlocking of directors.
A. That is just a phrase gathered from the United States.[148]

The power that such centralized structures gave to a handful of Montreal and Toronto money magnates, and in the early period to a lesser extent to Halifax financiers, was protested by the smaller communities in Ontario, and by the eastern and western provinces. As early as 1883, Manitoba businessmen complained of a financial squeeze imposed upon them at the instigation of central Canadian financial magnates.[149] This agitation contributed a great deal to the creation of the Commercial Bank of Manitoba in 1885 to service the local community. By 1907, agitation was widespread in B.C. for a system of provincial banks. The existing banks were accused of draining surplus funds from the province for the benefit of eastern enterprise while B.C. firms were starved for credit.[150] The Bank of Vancouver was established in 1911 in response to these local needs.

In Alberta, the farmers' organizations long advocated a Provincial Bank of Issue and a system of provincially chartered local unit banks on the American state bank model.[151] In Saskatchewan, a Royal Commission investigating agricultural credit called for increased control of financial institutions within the province and denounced the chartered banks, who conspicuously lacked directors from the western provinces.[152] The little Weyburn Security Bank was held up as a model before the 1913 Committee on Banking.[153] And a western member of the House of Commons that year denounced the Bank Act for facilitating the creation of a "money trust" by encouraging mergers and inhibiting new entrants. What was needed, he claimed, was "more banks, and a scattered management of banks, rather than concentration."[154] These sentiments were repeated by the Grain Growers' Associations.[155]

Even after the Bank of Vancouver was established, it and the Weyburn were the only banking institutions with their head offices in the West, the Northern having moved to Toronto. Even counting the Northern-Crown merger as a western institution, the three at their peak accounted for only one-and-one-half per cent of the total branches , and less than ten per cent of the western branches of Canadian banks.[156]

Small towns in Ontario also opposed the cartelization process. The Western Bank, a small chartered bank, had been headquartered in the town of Oshawa, and the town credited most of its industrial advance to the presence of the bank. The Western was absorbed by the Standard of Toronto, and not only did local control vanish, but all activities towards promoting local industrialization reputedly stopped.[157] The town of Glencoe claimed it had also attempted local industrial developments, but its funds on deposit were siphoned off to Toronto and Montreal where they helped the big established cartels. The local branch managers refused to make advances towards the establishment of a cannery controlled by citizens of the town, and the town eventually had to solicit a branch plant of a Toronto-based canning firm, a client of the same banks that refused to use local deposits for the Glencoe project.[158]

The farm journals, like Peter McArthur's *Farmers' Advocate* which fought for local co-operative banking, were subjected to economic blackmail and censorship by the banks. After McArthur published a series of articles by Alphonse Desjardin on co-operative banking and editorials denouncing the existing banking system, all advertisements, not only of the banks but also of all firms that held accounts with the branches of the banks in his area, were withdrawn. McArthur was told they would stay withdrawn until publication of the articles ceased. Where withdrawing of advertisements did not suffice, loans were called or advances refused to keep the local press in line.[159] In addition, a farm journal called *Canadian Countryman* was established with the funds of Edmund Walker and his associates, and managed by Canadian Northern Railway magnate R. M. Horne Payne, to counteract the criticisms of the banking and commercial elite and the radical policy proposals of the bona fide farm journals.[160]

In the Maritimes, the complaints against the banking system were loudest, and the damage done most in evidence. The example of Massachusetts, whose industrial development had been encouraged by a plethora of savings and hence of cheap money for investment, was before the eyes of the inhabitants of the area. The Maritimes had, on Confederation, been touted as the future cradle of a Canadian industrial revolution. But with the drain of savings deposits from the area, this hope became sheer fantasy. In one town the ratio of deposits to loans by 1913 reached twenty-to-one. Yet Edmund Walker dismissed their complaints as "local grievances against what we regard as the interests of the country as a whole."[161]

The Maritimes was an area of "surplus" savings, deposits exceeding loans, and the great virtue of the branch banking system was supposed to inhere in its ability to transfer funds across the country from surplus to deficit areas.[162] In Halifax, as long as it had been a financial centre, interest rates on borrowings had been as low as in the central metropolitan centres. With the migration of the head offices of banks to Montreal, Halifax interest rates rose to the top of the borrowing range,[163] and the city, too, became a "surplus" area. Elsewhere, P.E.I. experienced difficulty in moving its crops after its last local bank was absorbed. In 1907, for example, the Bank of Commerce effectively blocked the movement of its bumper harvest of corn by refusing to make advances.[164]

The critical instrument for initially effecting the monetary union of the Maritimes and central Canada was the note issue, while deposits followed. As late as 1888, Maritime bank notes were charged a five per cent discount by Toronto banks and merchants while in the Maritimes central Canadian notes passed at discounts of one-quarter to one-half a percentage point.[165] And the Maritime note issue showed a completely different seasonal variation from that of central Canada. Central Canadian banks expanded their circulation to move the crops. Note circulation fell in July and August as they accumulated notes in preparation, and rose from October to December or January, thereafter falling. The Maritime banks' greatest circulation was during the summer months, when industrial activity tended to peak. Once takeover was complete, note issue showed the same seasonal pattern across Canada, even though this pattern was inappropriate to the Maritime economic structure.[166]

The flow of funds was largely from east to west, with the funds undergoing a major transformation between place of origin and place of use. The Maritimes and, to a lesser extent, small towns in Ontario, were the lenders, and the prairie agricultural communities, after the wheat boom was underway, were the chief borrowers. Funds that had previously been used in the Maritimes to sustain the industrial growth that followed the

National Policy tariff were now drained west as short-period accommodation to farmers, or lent to the big milling, shipping, and grain speculating companies. As the West developed agriculturally as a commercial fiefdom of Montreal and Toronto capital, the Maritimes sagged industrially. At the same time, small Ontario towns complained increasingly about the drainage of funds.[167] It was observed in both the Maritimes and small-town Ontario that "men of ability follow capital, able and efficient men who otherwise have remained in the community."[168] The effects of the flow of funds were of course compounded by the growth of banks relative to other intermediaries in this period.

Once out west, the funds returned a rate of interest that exceeded the rate in the metropolitan centres. The excuse was that a branch in the West cost more to run than one in the East[169] — this bald assertion coinciding with eulogies over the virtues of branch banking and its ability to equalize interest rates across the country.[170]

Banking and Agriculture

The flow of funds from the East to the West bypassed eastern farms — which were generally mixed or dairy farms. Farmers in Ontario and Quebec deposited more than they borrowed, while in the West borrowings considerably exceeded deposits.[171] The percentage of farm loans to farm deposits in Saskatchewan in 1913 was 278%, while the Bank of Commerce reported a loan/deposit ratio for the three prairie provinces of 182%.[172] It was a great change from the 1870's and 1880's when the banks had avoided direct loans to farmers.[173] During the wheat boom, farm loans began to be regarded as the safest and most desirable of all bank business.[174] But this change of attitude reflected the growth of wheat as the leading export staple, replacing timber and other primary products. The banks remained commercial rather than agricultural in their outlook. [175] The western capital market showed a large gap between the long-term mortgage loan and the very short-term advances of the bank.[176] Moreover, such short-term bank advances as were available for agriculture could be easily had only in the staple-producing West. Farmers in Quebec were in dire need of bank accommodation at this time. [177] The lack of funds for central-Canadian mixed farms must have contributed to the stagnation of mixed farming, which drove up Canadian food prices at the same time enormous exports of grains from the West to Europe were occurring.

In the West, the accusations that banks were squeezing the farmers[178] could not be answered by reference to the volume of bank loans to the West. What had to be examined was the character and distribution of these loans, and the relation of the banks to the wheat economy in general. The banks had extended accommodation to farmers even before the 1913 Bank Act gave legal approval to the all-pervasive practice of loans on security of threshed grain grown on a farm,[179] but they remained much closer to the speculator and the grain-moving interests than to the grain-producing class. This was not a new development. Before Confederation, when the frontier for the wheat staple had been western Ontario, banks refused loans to farmers that would permit them to hold back their crops, but loaned freely to dealers to purchase, and thus forced the farmers to sell almost immediately after harvest at adverse terms of trade.[180] Again, on the prairies, the banks would not loan to farmers to hold grain; notes were made to fall due just before harvest-time, forcing the farmers to sell to the speculators and dealers immediately at the price offered.[181]

The expansion of the banks into the West was rapid after 1900. By the end of 1910, nine leading banks had 653 branches in the East and 622 in the West. The Commerce in particular, after a slow start, made very quick progress and soon challenged the Union Bank for leadership in the West. Bank clearings in Winnipeg rose from $106 million in 1901 to $950 million in 1910.[182] The leading banks' involvement in seasonal crop movements became so heavy that it occasionally stretched their note issue power to the limit even after the authorized increases of 1908. The banks were involved in every stage of the process, financing the purchase of grain by millers or speculators on the security of bills of lading from the railway companies, negotiating "inland drafts" on the export houses and sterling and continental bills of exchange. In cases of non-shipment or delay due to early freeze-ups or due to speculators' holding up grains in expectation of a rise in the Liverpool price, bank funds were locked up for a year.[183] Yet despite their avowed fear of "lock ups," and the obvious risks inherent in financing speculation in primary commodity movements, the banks were eager to drain their eastern customers to service the crop movement. Wheat was almost hard currency in the West, with the result that, according to a Winnipeg financial journal,

> . . . the banks, the elevator companies, the milling concerns, the wholesale and retail merchants, and all the minor elements in the business community [are] particularly united in their determination to use wheat as a medium of exchange and to facilitate [sic] the farmers' interest in that commodity. . . . The whole system of credit in the west, elaborate and

> intricate as it is, has been built up from the foundation which recognizes wheat as an equivalent of money.[184]

However enthusiastic the banks and other enterprises may have been about the wheat economy, the position of the farmers was far from enviable. The banks made no loans for farm improvements and stayed out of mortgage lending. Instead they confined themselves to three-month advances on security of chattel mortgages or crops in storage. For other types of finance the farmers faced either a complete void or unsatisfactory *ad hoc* arrangements, for example, with agricultural implements dealers who extended sales credit as part of their system of non-price competition in the West.[185] An effort in 1905 to establish an "Agricultural Bank" in the Northwest met chartered bank resistance and was never established. [186] The Grain Growers Grain Association itself at one point tried without success to obtain a charter for a bank.[187]

The three-month loan system was ideally designed to minimize the convenience of credit, and to maximize the exaction. Farm operations were obviously a twelve-month affair. The three-month loan was generally scheduled to expire at the most difficult season, just before harvesting, when extra security on chattel mortgages could be demanded as a condition of renewal. Renewals were common every three months for up to four years at interest rates as high as 14% compounded every three months, when the legal limit was 7%.[188] Discounting was the normal practice to avoid the usury laws. The bankers would openly and illegally meet annually in Winnipeg to collude on the terms of the discounts. Each branch too, except in the few sizeable communities, tended to have a local monopoly. And bank managers were changed frequently to prevent them from becoming too familiar with their clients and therefore sympathetic to local needs.[189] The practices of arbitrarily seizing deposits for late payment or of illegally deducting expenses for the chattel mortgages out of deposits were widespread.[190] All the banks were involved in these practices, but the Bank of Commerce seemed to win the prize for extortion and usury.

Demands for a switch to mixed farming were frequently voiced.[191] But the prairie area was locked into the staple trap. Funds for the conversion from wheat to mixed farming were not available, for all available finance was poured into moving the crops. Once debt was incurred, the only way to meet the fixed interest charges was to maintain a steady flow of staple output. The deeper the debt of the farm to the external institutions, the greater the flow of staples necessary to discharge the debt; and the greater the quantity of staples moving, the more funds were locked up in the staple trades and the less available to finance diversification of crops in the West, or secondary industry throughout Canada.

Banking and Industry

The attitude of central Canada's big commercial banks to most industry was one of relative indifference; their adherence to the "real bills doctrine" never wavering. In the 1870's even current loans were more readily available to merchants than the soundest of manufacturers, for it was felt that

> a lock up of capital and growing but unpaid interest ensues, to the disadvantage of other interests, and though secured as well as it can be, makes dividends unsound and depreciates the value of the banks' stock.[192]

The danger from the loan was, in the words of George Hague, that "the funds loaned . . . may be diverted in the direction of fixed property." Hague felt that fixed plant and equipment and "innovation" should be financed from retained earnings and reserves, out of additional equity issued, or from a bond issue. The sole exceptions Hague admitted were flour milling and timber — the great staple industries.[193]

These attitudes persisted, and if anything, hardened. In 1894, Thomas Fysche declared the interests of banks and of growing industry to be fundamentally antithetical. For with the progress of the corporate form and internal financing, industry was outgrowing the need for whatever short-term loans were formerly advanced from the banks to cover goods in movement. Banking in the early 1890's was having increasing difficulty finding the "right kind of borrower," and the more successful firms were, the less their future need for banks, forcing the banks to look all the harder for customers. Fysche declared that, for the banks, he could

> . . . see no permanence in this state of things. Between the diminishing return to capital on the one hand and the increasing difficulty and risk of employing it on the other, we stand a fair chance of being ground between the upper and the nether millstones.

The very success of industry was ensuring that "there will never again be the profit in banking that there has been."[194]

Fysche was speaking at a time of great concern for the banks. Note circulation had been falling since 1891, and continued its decline until 1896. The banks' share of total intermediary assets was falling as well until that date. The alternative to Fysche's gloomy prediction of obsolescence would have been adaptation and movement into the other models of bank behaviour. However, with the great expansion after 1896 the banks were relieved of all responsibility for innovation. The rhetoric of real bills again came to the fore. Bank advances were to be confined to discounting customers' paper representing sale of final goods or secured in raw materials.[195] The manufacturer was expected to "provide his own capital up to the point of acquiring the building and equipment, and a part, at least, of working capital."[196]

As could be expected, the manufacturers did not agree, and complaints of lack of bank accommodation were rife. These were especially pronounced in periods of international crisis when the Canadian banking system's much-vaunted ability to stabilize credit conditions did not seem to impress the manufacturing interests of the country. In fact, the only facet of the bankers' various boasts about their system that seems to have been accurate was the evenness of credit conditions across the country during crisis. Manufacturers and farmers alike in every quarter complained of the scarcity of credit with which to proceed with their production plans.[197] A leading Canadianized American entrepreneur, Francis H. Clergue, castigated the banks for their loan policy:

> The Canadian banks seem to consider those loans to be best which can be made to wheat speculators in Chicago, Minneapolis, or Duluth, or the stock speculators of New York.[198]

Clergue might have added American railroad and industrial bonds to his list, for long-term investments in the U.S. seemed to be exempted from the banks' real bills fanaticism.

There were, of course, noteworthy instances of involvement in industry by the big commerical banks. For example, the first major machinery and engine works in Canada, the Sheldon, Dutcher and Co. Foundry, was destroyed in 1936 when the Bank of Upper Canada foreclosed on a chattel mortgage, broke up the foundry, and disposed of the pieces at a sheriff's sale.[199] It was a disturbing portent.

In the cotton industry there was considerable bank activity, largely because cotton manufacturing was dominated by Montreal wholesalers who were closely allied to Montreal finance in the 1870's. The Exchange and Federal banks both made heavy advances to cotton secured on goods already stockpiled through the Montreal factor David Morrice.[200] The Bank of Nova Scotia did likewise for the St. Croix Mill. But only working capital secured on output was advanced. The St. Croix Mill, for example, had to borrow $300,000 from Rhode Island capitalists to complete its plant.[201]

The Merchants' Bank of Halifax (The Royal) performed an analogous role in the sugar industry — undoubtedly because of its close connection with the Halifax West Indies merchants who pioneered sugar refining in the Maritimes. The Halifax sugar refinery ended up working on bank advances with its stock subscription just sufficient to cover plant and equipment. By 1882, the refinery had run up a debt of $460,000 to the bank, secured on bills of sale for refined sugar and mortgages on the real estate.[202] For the Canada Sugar Refinery, ease of bank accommodation was ensured by the presence first of Peter Redpath, then of George Drummond on the Bank of Montreal directorate.[203]

Similarly, the Montreal Rolling Mills — which had strong links to the Montreal financial community, sharing directors with the Bank of Montreal and the Merchants' Bank[204] — received advances for the purchase of raw materials. The Upper Canada industry, on the other hand, received no bank funds at all and had to grow by reinvested profits and merchants' credit, which gradually took on the character of short-term loans.[205]

The rules were fairly clear. The Montreal commercial community, branching out into cotton manufacturing, sugar refining, iron and steel, and the like, secured bank accommodations through their holding directorships on the banks. This accommodation for the old commercial elite reflected again the bias of the pattern of Canadian industrial development in favour of established wealth and away from the new entrepreneurial class which was promoting industrialization throughout southern Ontario.

In industrial mergers, too, the banks' role was a hesitant one. While the banks, especially the Bank of Montreal, were sometimes involved in interim financing on the security of the underwritings, they seldom bought bonds in the mergers, and did not themselves get active in underwriting.[206] Even the limited role they did play in interim financing was not without criticism, some bankers maintaining that even such a role would lead to lock-ups, and hence a lack of funds when needed for the proper banking business of current loans and discounts.[207] Indirectly, the banks assisted the concentration of industry in some areas by discriminating by size among industrial borrowers. In 1913, small firms paid up to ten per cent for the same accommodation granted large ones for five to six per cent.[208]

In resource industries, similar rules were followed. In mining, the banks would not advance money for development work —

this remained the stockholders' responsibility. After the mine actually began shipping ore to the smelter and getting a return on it, the bank might lend on security of the ore.[209]

These considerations did not apply to the little non-Halifax Maritime banks who were actively involved in promoting industrial capital formation and providing entrepreneurial leadership to the Atlantic provinces. Both private and chartered, the little banks mobilized local savings for local fixed capital formation. But they were gradually squeezed out, or failed, and new entrants blocked by the Canadian Bankers' Association; and the funds which had formerly been used locally for industrial capital formation were shipped via the central Canadian branch banks to the West.

Conclusions

The Canadian banking system was a truncated import from Britain. Canadian banks were largely the outgrowth of merchants' capital involved in the staple trades of the imperial commercial nexus. It was the economic structure of imperial trade rather than efforts to copy the charters of American banks that determined the role they would play in Canadian development patterns. Their primary function began and remained that of financing commodity movements, and merchants' discounts were long the dominant item on the asset side of their balance sheets.

The sources of funds for the banks' loan and discount activities were several. Despite several concerted efforts by some governments to break into the field, the notes of the chartered banks continued to dominate the circulation of money. Demand deposits were an old and well-established source of funds. However, savings deposits were something different, and not until well towards the end of the nineteenth century did the savings deposit business become an object of primary concern. As secular deflation on a world scale pulled down the Canadian price level with it, bank note circulation tended to fall. And the banks were pushed into the savings deposit business to try to recoup the ground that they were losing. The assault on savings deposits was directed on two fronts. First, interest rate competition had to cease among the banks, the rate-fixing cartel that thus emerged eventually securing official recognition as the Canadian Bankers' Association. Secondly, the main source of potential competition, namely the government savings banks, had to be wiped out. Thus the Canadian government lost both the note issue power for the most part, as well as the great bulk of the savings deposit business, to the chartered banks. These potential sources of long-term finance for government were turned into the foundation for an extension of short-term loans and discounts by the chartered banks. One immediate result was that at the same time Canadian governments were being forced increasingly to turn to London for long-term finance, the chartered banks were diverting capital into a wasteful and chronically unstable system of distribution of commodities that was clogged with petty traders hanging on precariously to economic life by virtue of the system of commercial credit the banks fostered.

With the revival of economic conditions in 1896, the banking system underwent rapid expansion and monopolization. In the East, Maritime banks were destroyed and funds drained out of the area. In the West, branches of the chartered banks covered the prairies and aided and abetted the overexpansion of a single cash crop by their loan policies, based on savings drained from the East. At the same time, the number of chartered banks fell dramatically, while financial control tended more and more to be centred in Montreal and to a lesser extent in Toronto.

Notes to Chapter III

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4. L. Jenks, *The Migration of British Capital to 1875*, p. 131.
5. L. Pressnell, *Country Banking In the Industrial Revolution*, pp. 14-16.
6. Cf. R. Cameron *et al.*, *Banking and Economic Development*, pp. 7-8.
7. E. Hobsbaum, *Industry and Empire*, p. 60.
8. R. Cameron *et al.*, *Banking in the Early Stages of Industrialization*, p. 52.
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10. Cf. J. A. Schumpeter, *Business Cycles*, II, pp. 116-8.
11. G. Myers, *History of the Great American Fortunes*, p. 123.
12. See Canada, Committee on Banking and Currency, *First Report 1869*.
13. Hon. D. L. Macpherson, *Letter to the Hon. John Rose*, pp. 7, 14.
14. See A. Shortt, "The Passing of the Upper Canada and Commercial Banks."
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33. *MT*, Nov. 23, 1901, p. 671.
34. *CBC*, p. 520.
35. Canadian Bankers' Association, "Minutes of the Sixth Annual Meeting," *JCBA*, vol. V, no. 2, p. 171.
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37. *MT*, Jan. 26, 1894, p. 930.
38. W. T. R. Preston *My Generation of Politics and Politicians* .
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41. *CBC*, p. 479.
42. *Farmer's Advocate*, June 12, 1913, p. 1065; *GGG*, June 11, 1913.
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201. *JC*, Oct. 26, 1883, p. 306.
202. *MT*, Feb. 17, 1882, p. 1004.
203. *MT*, March 17, 1882, p. 1138.
204. *MT*, Feb. 7, 1879, p. 975.
205. W. Kilbourn, *The Elements Combined*, pp. 11, 19, 23; *CE*, July 1895, p. 74; March 1900, p. 308.
206. *CBC*, 1913, p. 562.
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They stole themselves rich.

Palladium of Labour, 1883

CHAPTER IV

CHARTERED BANK FAILURES

Stability of the Canadian Banking System

The refusal of the successful chartered banks to undertake a significant role in financing industrial fixed capital formation was justified on the grounds that lock-ups in industry led to failures. But many banks failed that did not become involved in industrial banking. The failure record reflects the pre-war division of the Canadian banking system into two distinct systems. The first embraced the Ontario and Montreal and Halifax banks, whose activities were restricted to orthodox commercial banking. The other included the "French banks," in small centres in Quebec, and the Maritime banks. The banks belonging to the second group had few, if any, branches, were actively involved in promoting local industry, and were dominated by local entrepreneurs. Casualties in the first group resulted from factors inhering in their commercial and financial operations; failures in the second group were due to industrial lock-ups. Only upon failure do these factors come to light, for the true nature of the banks' operations were often disguised by falsified returns. The general manager of the Bank of Nova Scotia, H. C. McLeod, estimated that in January 1905, of 34 banks reporting to the Dominion government, at least nine sent in falsified returns.[1] Then, too, a bank might commit itself to automatic renewal of a short-term accommodation to an industry, and this constituted *de facto* a long-term investment — thus only after failure could an accurate picture of the banks' activities be formed.

Another point that emerges strongly was the chronic instability of the Canadian chartered banking system, a rather startling fact in light of the amount of propaganda about its avowed stability. Of the 72 banks that operated in the period 1867 to 1914, 26 failed, or 36%. Losses to creditors reached $11 million; to shareholders $31 million. Furthermore, these reported losses are from unambiguous failures only, from suspensions followed by permanent closing. They do not include those cases where failure was averted only by selling the bank at a bargain price to some other concern, which was especially common after 1901 when regulations pertaining to mergers were relaxed. If the cases are included in which mergers occurred with losses to the stockholders of the absorbed bank, the total shareholders' losses exceed $40 million and the rate of failure reaches a less-than-modest 50%. At the same time, over the roughly equivalent period from 1863 to 1908, the American banking system, with its reputation for extreme instability, showed a rate of failures of *all* banks of 22½%. If one examines only American national banks, the proper comparison with Canada's federally chartered banks, the rate of failure is five per cent, and the total losses to stockholders about $100 million.[2] In per-capita terms, even taking only the unambiguous failures, Canadian losses to shareholders ran at three-and-one-half times the rate of American. And over the period 1881 to 1908, when Canada's notoriously unstable commercial sector showed a failure rate of 29%, Canada's reputedly stable banks failed at the rate of 41%.[3]

The myth of stability is difficult to account for. While the record after World War I shows only one nominal failure, this is hardly surprising given the small number of banks that survived until the war, and given that it became government policy to encourage mergers of shaky institutions. Before the war, Canadian bankers conducted a campaign of self-edification through the services of hired eulogists in the pages of their *Journal*, which perpetuated the myth of stability as bank after bank came crashing down. It was a clever bit of public relations, for it helped to keep down the pressure for outside inspection. H. C. McLeod, General Manager of the Bank of Nova Scotia, began a campaign for outside inspection around the turn of the century, and he was joined in 1906 by the General Manager of Molson's Bank and in 1912 by the Traders' Bank.[4] In 1909, the stockholders of the Bank of Nova Scotia voted 18,866 shares to 567 in favour of outside inspection, with 445 of the opposing votes being cast on behalf of other banks.[5] In fact, opinion in favour of regulation and inspection ("to prevent so many cashiers skipping to the other side") had been building in some government circles since the late 1880's.[6] But the combined pressure of the other banks and their allies in the financial press[7] prevented any moves in this direction. Sir Edmund Walker of the Bank of Commerce argued that internal inspection at the will of the stockholders sufficed, a curious argument in light of the fact that the directorate were assured almost complete autonomy by the close holding of large amounts of stock in a few hands, and the wide geographic dispersal of the rest. Thomas Fysche of the Merchants' Bank added an argument based apparently on Darwin. Failures were good for the system, he said, and to the extent that outside inspection prevented failures it was an impediment to efficient operations:

> Death is as necessary to this world as life, and when efficiency has gone out of an institution, in God's name let it die. . . . Nature's way of working is to obtain strength and efficiency by establishing a struggle for life, and causing the fittest, because the strongest, to survive.[8]

While the causes of failure varied from bank to bank — those in the Maritimes were caused by industrial lock-ups, and those in Ontario often by stock exchange speculation — they were certainly not as inevitable as Fysche implies. Failures tended to peak at times of general financial crisis, or just after the worst of the crisis, as in 1879, in 1887, and in 1908 — indicating the significance of outside forces. The most common explanations for failures were "fraud" and "mismanagement".[9] While the record of fraud is appalling, a minimum of 19 of the failures leading to criminal charges being laid against officers of the banks concerned, fraud *per se* cannot explain failure — only unsuccessful fraud can, and hence one must look deeper for the cause of the lack of success. Similarly, "mismanagement" is tautological: all failures must involve mismanagement, with the benefit of hindsight, for a successful mismanagement by definition cannot

Bank Failures in the Maritimes

Maritime banks existed in a world apart from their central Canadian counterparts. Both those banks that were absorbed and those that failed, both private and chartered —all the banks, in fact, except the big Halifax banks who alone survived — were actively engaged in promoting local development of industry. The banks were small, with few, if any, branches, and dominated by local directors who, as leading entrepreneurs in their respective communities, used the banks' resources for promoting their own business ventures.

The first to fall was the Commercial Bank of New Brunswick in 1868, a very small institution with but two branches, at Woodstock and at Miramichi. It had a bad record. In 1865, it came close to collapsing because of lock-ups and was saved by an English financier who guaranteed £23,000 of its bills. A year later, it had to borrow £7,000 from another institution to tide itself over

TABLE IV (1)

Chartered Bank Failures, 1867-1914

Bank	*Year*	*Capital ($)*	*Losses Share-Holders*[1] *($)*	*Losses Creditors*[1] *($)*	*Criminal Charges*[2]
Commercial of New Brunswick	1868	546,000	495,000	—	
Acadia	1873	100,000	130,000	—	
Metropolitan	1876	916,180	456,180	—	
Mechanics	1879	472,245	569,732	180,000	X
Stadacona	1879	990,890	—	—	
Consolidated	1879	2,270,081	2,002,081	—	X
Liverpool	1879	370,000	500,000	—	
Prince Edward Island	1881	210,000	310,000	—	X
Exchange	1883	1,000,000	1,650,000	800,500	X
Maritime	1887	760,900	1,082,000	974,870	X
London	1887	241,100	80,000	—	X
Pictou	1887	250,000	163,970	—	
Central	1887	500,000	750,000	7,100	X
Federal	1888	3,000,000	4,469,113	—	X
Commercial of Manitoba	1893	552,650	700,000	—	X
du Peuple	1895	1,600,000	1,900,000	1,718,284	X
Ville Marie	1899	716,920	716,920	—	X
Jacques Cartier	1899	2,000,000	1,750,000	1,341,601	X
Yarmouth	1905	300,000	335,000	—	X
Ontario	1906	3,500,000	4,191,000	n.a.	X
Sovereign	1908	4,000,000	7,600,000	3,300,000	X
St. Jean	1908	316,386	326,386	340,000	X
St. Hyacinthe	1908	331,235	334,145	400,000	X
St. Stephen's	1910	200,000	260,000	—	X
Farmers'	1910	547,579	800,000	1,400,000	X
Vancouver	1914	445,188	600,000	300,000	
Total 26			$31,455,397	$11,362,355	19

Sources: [1] H. C. McLeod's calculations in B. H. Beckhart, *The Banking System of Canada*, pp. 334-337, with some corrections.
[2] probably an underestimate.

another liquidity crisis. A local businessman obtained such huge loans from the bank's cashier that he began to boast openly that the bank had to stand behind him, for his failure meant that of the bank as well. Due to bad debts, including a $90,000 loss on the one large account, the bank's capital shrank to less than $600,000 from its previous $1,000,000. In November 1868, the cashier, who had been busy endorsing fraudulent sterling bills of exchange, overdrew his account and absconded.[10] The bank suspended, and then was wound up.[11]

The Acadia, founded in 1872, and the Liverpool, founded in 1871, both suspended in 1873 — the Acadia permanently. Both of these banks were promoted by leading Liverpool businessmen drawing on Halifax finance for the express purpose of borrowing from them to sustain their business. Both, too, had American stockholders, the Acadia to the extent of one-eighth its total, the Liverpool one-quarter; and these shares had been "paid" for in promissory notes. The banks, in addition to a connection with a British firm of bad credit, were heavily involved with local lumbermen and shipbuilders, and made a series of advances to them on a system of mutual endorsement. Other bills, drawn on American lumber importing firms and supposed to be covered by lumber shipments, were really met by issuing new bills. Under the guise of short-term accommodation based on commodity movements, the banks were advancing long-term credit, and the funds were used to increase the extent of lumber plant rather than discharging debt or paying for materials, In 1873, the notes of the American firms were protested and the leading Liverpool firm promptly failed, dragging both of the banks down with it.[12]

The Liverpool resumed, then failed again in 1879 in the wake of the great financial crisis of the 1870's. When the accounts were checked, it was discovered that the assets of the bank had been overestimated, and interest accruing but not paid on bad debts had been placed to credit in the profit-and-loss account, with the objective of justifying the continuation of the directors' salaries. The main losses fell on the wealthy Halifax residents who were the leading stockholders. Conditions were regarded as sufficiently adverse that, even with the double liability being enforced, it was not expected to be able to pay all of its debts to the public.[13] But there were difficulties in enforcing the liability. The Bank of Nova Scotia as assignee sued the reluctant shareholders, who defended, unsuccessfully, on the grounds that the Liverpool was never a legal bank. It had failed to meet the requirement that $100,000 of capital had to be paid up before a meeting of provisional directors could be held; nor was the additional $100,000 required within the first year paid.[14]

The crisis of the 1870's had repercussions on Prince Edward Island as well, though it tended to reach there later than the mainland. The Merchants' Bank of P.E.I. got into difficulty in 1879 through the account of one large shipping firm, James Duncan and Co., which failed owing large debts to Sir James Malcolm of Liverpool, England. Other banks on the Island, too, were affected by the failure.[15] The Merchants' suspended, and a call on the stockholders was necessary.[16] As to the principal characters involved, the *Monetary Times* reported that,

> Mr. Duncan has been bailed out of prison, and Sir James Malcolm, an English creditor of the failed firm, left the Island in a tug boat on Wednesday, apparently to avoid complying with a Chancery injunction which required him to hand over certain mortgages which ought to have been the property of the bank.[17]

The entire capital of the bank was locked up for a year in the Duncan account, but the bank did resume.

In 1881, the Bank of P.E.I., the oldest on the Island, collapsed for the last time. (But not the first: in 1858 it had loaned twice its paid-up capital to one shipping firm and was forced to suspend.)[18] In 1881 again over double the capital was locked up in mortgages on ships, land, and factories.[19] The cashier had made large unauthorized advances, of which between $400,000[20] and $665,000[21] were regarded as unrealizable. The final cost to the shareholders was $310,000. The cashier absconded, following a trail already blazed by his counterpart from the Commercial to the United States.

In 1887 came the final collapse of the Maritime Bank, one of the largest in the Atlantic provinces. It was an institution which the *Monetary Times* condemned for its "enterprising style of business,"[22] a very suggestive choice of phrase. In 1880, it had been under the control of James Domville, a leading St. John industrialist, who ran the bank to service his own enterprises. That year, when it closed its doors for the first time, it had a paid-up capital of $680,000. Its assets exceeded its liabilities by $341,000, but of the nominal surplus $291,000 was a loan on the security of a local railway. Its losses in the 1877-8 crisis were $500,000, and a great many lock-ups had resulted.[23] These lock-ups and bad debts all involved firms either owned outright by Domville or associated with his enterprises. Fourteen items for which the nominal value was $490,000 turned out to be immediately worth only $72,000, including: (1) a lien on the entire rolling stock of the Springhill and Parsboro Coal and Railroad Company and bonds of the same; (2) shares and first mortgage bonds of the Cold Brook Rolling Mills; (3) shares of the Maritime Warehousing and Docking Co.; (4) mortgages on the bank's own property; (5) mortgages on a number of other buildings; (6) one-sixth of the shares of the Pictou Iron and Coal Mine.[24] It was a remarkable record for a Canadian bank of the period. The bank had even opened up its own office in London, England. Domville had successfully turned back an attempt by the Bank of Montreal to gain control in a proxy fight[25] despite the fact that a majority of the shares seem to have been held by Ontario and Quebec stockholders.[26]

After the first suspension, the Ontario and Quebec shareholders sold out to Maritime financiers and the bank was reorganized under new management. The shares immediately recovered their value. The St. John's group who took control was headed by Thomas Maclelland, a private banker, under whose auspices the capital was reduced to $400,000, and $75,000 in fresh capital subscribed. In three years most of the old accounts were realized, and a surplus appeared.[27]

Then in 1887 came another suspension following the failure of a large lumber firm, S. Schofield and Co. The bank had locked up a large amount of funds in accounts under the name of several small firms which turned out to be all fronts for the Schofield firm. It had also been involved in "kiting" sterling bills of exchange to maintain itself. A large part of its alleged capital had been paid in by promissory notes, and many of its assets were unrealizable. For example, a "loan" of $100,000 to the Province of New Brunswick turned out to be a debt of $35,000. Two firms drew bills on the bank, the fate of $125,654 of which was unknown at the time of suspension. In all, over $325,000 of its assets were deemed doubtful.[28] The shareholders got into a court fight to avoid paying the double liability, but in the final analysis they lost one million, the creditors an equivalent sum. Regarding the failure, the rector of Trinity Church in St. John advised his congregation, "Lay not up for yourselves treasure upon earth where moths and rust do corrupt, and where thieves break through and steal."[29]

The same year, the little Pictou Bank failed. A series of losses by its main debtors led to lock-ups. The principal account was advances to a tannery which were used to build fixed plant and equipment.[30]

Lock-ups of fixed capital for industrial purposes also brought down the Bank of Yarmouth in 1905. This bank was established in 1865 during a great boom in wooden shipbuilding, of which Yarmouth was one of the world's centres. During the shipbuilding period, the Yarmouth and the other local banks carried the industry on a system of note endorsements.[31] With the decline of wooden ships, the bank moved into other industries, notably W. H. Redding and Son, a large tannery and boot and shoe firm. As with many firms in the Maritimes, the Reddings paid their workers in scrip for merchandise from favoured businesses in the town, the scrip ultimately finding its way to the banks of the city who charged it against the Reddings' accounts. Loyalty to the local banks was strong in the Maritime towns, and when in 1903 the Exchange Bank of Yarmouth was absorbed by the Bank of Montreal, with losses to stockholders, the largest local stockholders refused to accept Bank of Montreal shares, and instead bought those of the Bank of Yarmouth.[32] This was followed by a takeover bid for the Bank of Yarmouth by the Union Bank of Halifax, which ultimately refused to follow through on its offer. The Reddings failed in 1905 and suspension of the Bank of Yarmouth followed shortly. The Reddings owed the bank \$490,000[33] while its entire capital was but \$300,000. The bank had purchased bills drawn by the Reddings on non-existent parties, had used bank funds for discounting worthless notes of the firm; made large advances on security which the directors knew was valueless, and had permitted the firm large overdrafts.[34] In addition, the directors had illegally purchased and held real estate, and had paid themselves \$15,000 in dividends out of capital, when no profits existed, just before failure. The Supreme Court of Nova Scotia found the directors guilty of malfeasance and breach of trust, and ordered them to repay the dividends, and to cover the losses of the Redding account from August 19, 1904, with five per cent interest. The President, a Dominion Senator, was found guilty of falsifying the returns to conceal losses, but given a suspended sentence.[35]

The last of the Maritime banks to pass away, either by insolvency or takeover by a commercial bank, was the St. Stephen Bank in 1910. The bank was closely interlocked with the big industries of the town, and in the words of a financial journal "it may be in the position of forming an excellent illustration of the working of the U.S. banking system in Canada".[36] In addition to its lock-ups with the town's industry, it had purchased bonds in a nearby mine and made advances on a long-term basis to the mine's promoters. Failure followed the collapse of a number of small businesses in the town. Criminal charges were laid but later dropped.[37] It was the end of a distinct form of banking in Canada, the extension into Canada of New-England-style banking based on small-scale operations and interrelations of local finance and industry, and a severe blow to independent industrial development in the Maritimes.

Bank Failures in Quebec

The crisis of the 1870's took a heavy toll of Quebec's banks. Several banks suspended but recovered, several collapsed completely. The Metropolitan was the first to go under, in 1875. As was the rule with Montreal financial community institutions, industrial lock-ups were not the cause of the problem. The bank had made loans to land speculators and loans on bank stocks and other securities.[38] The leading borrowers from the bank were two of its directors, the Honourable Henry Starnes and Maurice Cuvellier, both of whom had paid for their shares in unsecured promissory notes. Starnes got $113,314 in advances for stock speculations of which $31,984 was lost. Cuvellier got even more and lost $69,286. The bank did not suspend, but simply liquidated with some loss of capital. A suit by shareholders against the directors for malfeasance failed.[39] There is no record of criminal charges, despite the illegality of payment for stock in promissory notes.

The Stadacona Bank too is remarkable for the tranquility with which it expired, in 1876. Its independent existence lasted only two years, and its passing as a result of the failure of some of its debtors in the depression caused no excitement.[40] It appears to have been a voluntary liquidation, and there is no record of shareholder or creditor losses.

It was quite otherwise with the spectacular fall of the Mechanics Bank in 1879. The outgrowth of a private bank, it carried over a large amount of weak paper and poor accounts when it got its charter,[41] and got steadily deeper into a high-risk class of commercial advances. In 1875 it suspended, and reduced its capital by 60%. It was then given a line of credit of $125,000 from Molson's Bank, along with the unprecedented authority to issue preference stock. This exceptional favour may have had a great deal to do with the fact that the bank's president at that time was C. J. Brydges, former General Manager of the Grand Trunk Railway and a future Land Commissioner of the Hudson's Bay Company. This authorized preference issue was for a sum up to $300,000 at eight per cent guaranteed out of earnings for five years, thereafter to be merged with the common stock.[42]

The Mechanics' business was orthodox enough, but its methods of pursuing it were not. In 1877 a stock issue was taken up exclusively by the directors and a few friends, and the bank thereafter engaged in a veritable orgy of branch openings in all manner of Quebec small towns and villages. At one point the president, vice-president, and two directors borrowed two-and-a-half million of the bank's money to bull the stock.[43] It also used some rather curious techniques for expanding its circulation, which by the time of its final suspension was the highest in proportion to capital of any bank in Montreal. It extended very lavish accommodation to customers in exchange for their assistance in promoting its circulation.[44] It maintained agents on steamboats on the St. Lawrence and in hotels in major urban centres, who were paid a premium for getting people to exchange other banks' notes for those of the Mechanics. On suspension its liabilities were $547,000 and its immediately realizable assets $29,638. The directors announced that only 60¢ on the dollar of its other assets would ever be recoverable,[45] an estimate subsequently reduced to 40¢. Charges of malfeasance were made against the directors. The shareholders attempted to dodge the double liability.[46] Over half of them could not meet it, and offered to settle with the creditors for $75,000 or 21% of their liability as their "fair" assessment of the debt.[47] The shareholders were not above a charge of malfeasance themselves, since they had been offered previously $100,000 or 28% for the estate.[48] The ultimate cost to the shareholders was half a million dollars, and 57½% of the value of the notes was lost.

The largest bank to fail during the depression years was the Consolidated Bank of Montreal, and therein lies a tangled tale. The Consolidated was an 1876 merger of two already insolvent banks, the City Bank of Montreal and the Royal Canadian Bank of Toronto, both of whom had devious early histories.

The Royal Canadian began in 1860 in Toronto, a promotion of a group of local merchants. Its bid for a place in the financial sun, as with many Canadian financial institutions of the period, came with the American Civil War and its concomitant opportunities for gold speculation, a business endeavour pursued after the close of the war as well. As with most of the Canadian banks of the time, a very substantial proportion of the loans of the bank took the form of handouts to directors. In the case of the Royal Canadian, the amount of such business seems to have exceeded the norm. And therewith began its downfall.

In 1869 one of its directors, Senator Donald McDonald, applied for a loan that equalled one-tenth of the bank's paid-up capital. McDonald was an inveterate speculator, whose demands in the past had threatened to drive the bank into insolvency. The other directors refused the loan for the good reason that their own accounts were so badly overdrawn that the bank's resources were already severely strained.[49] In the ensuing squabble over the division of the bank's resources between them, McDonald began to write "private and confidential" letters of recrimination to his fellow directors, copies of which, just by the remotest coincidence, happened to fall into the hands of the newspapers. These letters were sent using the free postage facilities available to Canadian parliamentarians for official government business. The equally "private and confidential" replies of the other directors also conveniently found their way to the newspaper.

The depositors of the bank were thus treated to the spectacle of an open scramble for division of the spoils — that is to say, their deposit monies — by the directors to whom such funds had been entrusted. Public distrust mounted. And in June of 1869, following the collapse of a private banking firm, W. R. Brown and Co., to whom both the Royal Canadian and the City Bank had made large advances to further its dealings in New York money markets,[50] the Royal Canadian was forced to suspend. In addition to the systematic drain of the resources by individual directors, it transpired that the bank had been further weakened by large sums being withdrawn to traffic in the bank's own stock to keep up its quotation.

An effort was made to sell the ailing institution to the Dominion Bank, but the directors, anxious to rob the shareholders of the Dominion as well as their own, asked too high a price for the financial derelict.[51] The bank then resumed payments on its own, with a new board — which quickly drove it into insolvency again. Among other operations were a series of loans by the Toronto General Manager to a commercial house controlled by a relative. The house failed, paying 15¢ per dollar of liabilities. Nearly a third of the advances, which totalled $160,000, were made on notes without any endorsement.[52] Once the Royal Canadian was merged with the City Bank in a desperate attempt to hide its insolvency, the same officer was left in charge of its Toronto business.

The City Bank, a promotion of the halcyon days of the early 1830's, had a long history of near-collapses. At one point, virtually all of its capital was wiped out. It also had an unenviable record of lawsuits launched by other banks over questionable cheques and bills, and in 1872 one such suit by the Banque Nationale cost the City Bank $100,000 in damages.[53] A year later, however, it struck gold in the person of a new president. Thereafter it began reporting steady and rising profits, the origins of which remained a mystery for several years. In the meantime, the Royal Canadian's bad debts accumulated steadily. In 1876, the two were merged with a combined capital nominally at $3.5 million; in reality this capital was heavily watered and the banks' rest fund already virtually depleted. In 1879 the capital had been reduced to \$2.7 million, even that representing a grossly inflated figure.[54]

The merger brought the widespread connections the Royal Canadian had built up among a host of semi-solvent customers together with the large amount of worthless paper that blessed the City's portfolio,[55] and combined them under the presidency of Sir Francis Hincks, whose record for grand larceny was by this point irrefutably established. It was a volatile mixture. As early as 1834, in connection with an audit of the books of the Welland Canal Company, William Lyon Mackenzie had expressed his doubts as to Hincks's ability to resist the lure of quick cash.[56] Later, through an assiduously calculated program of political opportunism, Hincks managed to be carried to the position of Prime Minister of the Province of Canada on the crest of a wave of support from the big business interests, for which interests he had careful regard. Hincks was not only the founder of the corporate welfare state in Canada but one of its early beneficiaries, and his hand was rarely absent from the stock manipulations of the railway companies his government so avidly subsidized. Over the course of four years he enriched himself in a number of operations: by speculating in Crown lands, by the diversion of public funds to improvements on his own property, by a major swindle in City of Toronto debentures in collaboration with the Mayor of the City (the requisite legislation being pushed through the municipal level of government by the Mayor and the provincial level by the esteemed Premier); and especially by the sale of the Charter of the Grand Trunk Railway to an English contracting firm.[57] This last service not only netted Hincks himself a gift of £50,000 in railway stock, but in the process even restored the sagging fortunes of the Governor General, Lord Elgin, who collaborated to push through the required legislation.[58] Elgin's share was reputedly sufficient to pay off some £80,000 in mortgages hanging over his Scottish estates. When Hincks was forced to resign because of revelations of fraud that shocked even Canadian parliamentarians of the period, whose whole *raison d'être* was to maximize their conflicts of interest, his Lordship rewarded his clever first minister by engineering his appointment to the governship of various Caribbean colonies.

Elgin himself went on to bigger and better things, leading the British assault on China during the second and third opium wars, presiding over the systematic looting and burning of the Winter Palace in Peking, and forcing upon the Emperor at gunpoint a Treaty stipulating freedom of commerce in China of both British drug peddlars and British slave traders.[59] Part of Elgin's

Chinese legacy returned to Canada in the form of coolie indentured labour for the coal and gold mines of British Columbia and for railroad construction, and in the form of looted Chinese art works for display in Toronto's Royal Ontario Museum.

As to Hincks, he returned to Canada in triumph in 1869 to assume the Ministry of Finance under Sir John A. Macdonald's coalition ministry, and his presence so outraged Liberal Ontario that it effectively destroyed the coalition and helped cost Macdonald his Ontario majority. In his new position, Hincks fathered Canada's first Bank Act, supervised the selling of the Maritimes fishing industry to the United States in order to collect cash for distribution to railway magnates,[60] and then put the cap on his amazing career of fraud and corruption by negotiating the CPR contract with Sir Hugh Allan that led to the Pacific Scandal. It was his last public act.[61] Back in private business, in addition to his banking activities, Hincks joined the board of directors who were busy despoiling the Graphics Company and was among those sued for $80,000 each by irate stockholders in 1878.[62] With Hincks in the saddle, the fate of the Consolidated Bank was sealed.

Memories, however, were short. When Hincks presented the 1878 annual report, Montreal's *Journal of Commerce* saw it and the Consolidated as proof of "the extraordinary vitality and strength which so eminently characterises our Canadian banking institutions."[63] Hincks's own guarded phrases in the report pointed to a much less rosy interpretation. And within a few months the bank was in serious difficulty. Still, the *Monetary Times* eulogized that:

> The bank has the advantage of being governed by a President whose qualifications are never better displayed than in making a speech under difficult circumstances.[!] Many a time and oft, Francis Hincks has confronted opposing forces in Parliament, and he has a perfect mastery of the art of putting things in such a light as to disarm suspicion.[64]

All the while Hincks was busy in his old Ottawa haunts trying desperately to find a formula to salvage his bank. An effort to write down the capital failed to get through committee as a government measure before Parliament closed. The stumbling block turned largely on the degree of reduction. The committee members took such a pessimistic view of the affairs of the bank that they pressed for a 50% reduction, while Hincks argued for 33⅓%. A compromise of 40% was rushed through Parliament as a private member's bill just before the session closed, with Hincks personally superintending an operation that involved suspension of normal House of Commons procedures to deal with his private bill. The bank then resumed the payment of dividends that had been briefly interrupted, and Hincks was duly re-elected to the Presidency.[65]

However, the crisis in the banks' affairs deepened, and it became clear to insiders that the bank continued to operate only by virtue of secret loans from other banks. Early in July, a group of large stockholders led by a stockbroker named E. L. Bond of Messrs. Fenwick and Bond, Montreal, held a meeting to determine policy and to stage a coup d'état.[66] Bond declared that the current management was inept, and as Bond had formerly been the head of the stock brokerage firm of Bond Brothers and Company, which had achieved the distinction of being Montreal's greatest brokerage house failure,[67] his opinion in the matter of managerial incompetence evidently carried considerable weight. News of the proceedings leaked out, and speculators began to "bear" the stock, leading to a depositors' run. Hincks resigned, but the run continued and the bank suspended. The financial chaos that resulted from the failure of an institution of its size set off a panic among depositors that nearly brought down several other banks in its wake.

The revelations that followed led to the *Monetary Times* quickly changing its opinion on the state of the Consolidated's management. "No such exposure of incompetence and misdoing has ever before been made in Canada," it decreed. "Reckless plundering" by "irresponsible schemers and desperate speculators" was its description of the bank's conduct of its business.[68] Others shared the *Monetary Times'* opinion, including a special meeting of lady stockholders who represented the daughters and widows of various leading Montreal tycoons, including one who claimed to be the daughter of an officer who had fought at Waterloo and who thus had a special claim for consideration. Nonetheless the language of the assembled ladies would scarce grace a Victorian drawing room as they denounced "loose and scandalous management" and cited the prior example of a cashier of La Banque Jacques Cartier, who had been sent to prison for conduct similar to that of the officers of the Consolidated. One lady shouted, "For my part I would send the whole lot of them to gaol" and a chorus of voices echoed "and so would I."[69] In the interim, the General Manager absconded; the Honourable Alexander Campbell, a director and a Dominion Senator, now assumed the post.

After suspension, the extent of weak accounts carried and illegal transactions effected was revealed. The bank had made loans to a number of mercantile houses which should have been allowed to founder. Some, in fact, wanted to declare insolvency, but were prevented by the Consolidated's former general manager, prior to his sudden departure, who feared that their failure would bring down the bank as well. A full million dollars was locked up in six accounts deemed to be by-and-large lost.[70] The bank had engaged in illegal real estate transactions of which Hincks — along with other directors like Campbell, W. W. Ogilvie, Montreal's leading grain miller, and John Molson, eldest son of the brewing magnate — all denied knowledge.[71] In fact, the spate of denials of knowledge of the bank's operations proceeded to such an extent that it became a mystery as to how the directors could justify their fees. Their protestations of ignorance began to sound somewhat hollow when it was discovered that Hincks no longer held enough shares to legally qualify himself for a director's post, while during the crisis that preceded suspension Campbell had been busily urging other shareholders to hold onto their stock.[72] Suspension caused the value of the stock to plummet, but prior divestiture apparently saved Hincks and other directors of considerable potential involvement in the two million dollars of shareholders' losses that eventually resulted.

Francis Hincks and other directors were brought to trial by the federal government at the instigation of the outraged shareholders. Hincks was charged with fraud under the terms of the very Bank Act he had sired. The falsifications of the banks' returns to the federal government were established in the trial. The bank's returns to the federal government had made no mention of the loans received from other banks. Even the discounted notes used as collateral continued to appear in the asset columns of the Consolidated, and the loans from the other banks were listed as "deposits" up to a total of nearly a million dollars. The Consolidated was thus in the unique position of offering collateral to depositors! A quarter of a million dollars in worthless demand notes were included in the bank's "cash" by the general manager. Over half a million dollars in overdrawn accounts were classified as "notes and bills discounted and current" in the returns to the federal government, while on the bank's own books they were correctly entered as overdrafts. To all of this, Francis Hincks had duly signed his name each month.[73]

The trial attracted a great deal of attention, and the courtroom became a veritable parade ground of Canada's financial and corporate elite. Luther Holton, an old political confrère and fellow speculator in numerous railroad operations including the Grand Trunk job, posted part of Hincks's bail; George Stephen, Montreal wholesale trade magnate, Bank of Montreal president, and railway promoter, posted the rest. Other directors received similar solicitude from Duncan McIntyre, wholesale trader and railway promoter; Honourable J. R. Thibaudeau, railway promoter; Alexander Galt; John Ogilvie of the milling family; and Joseph Hickson of the Grand Trunk Railway. Hincks's defence attorneys were equally illustrious. Jonathan W*ü*rtele, who would later rise to the rank of provincial treasurer of Quebec and make his mark in private finance on public time and money, shared the honours with John Abbott, Sir Hugh Allan's bargaining agent in his dealings with Hincks over the Pacific Railway and subsequently Prime Minister of Canada.

As the trial proceeded, the list of eminent personalities lengthened. The then incumbent Dominion Minister of Finance, Leonard Tilley, led the string of notables testifying on Hincks's behalf. R. B. Angus, the General Manager of the Bank of Montreal, testified that much of the manipulation that had been applied to the returns of the Consolidated was simply standard banking practice — in light of the fact that, of 26 bank failures between Confederation and the First World War, at least 19 resulted in criminal charges under the Bank Act being laid against directors, Angus may well have been telling the truth. The defence attempted to plead that the 1871 Bank Act applied only to banks listed in a schedule accompanying the Act: since the Consolidated Bank did not appear there, (while its components, the City and the Royal Canadian, did) then the Act did not apply to the Consolidated; and hence Hincks did not violate his own Bank Act by signing the falsified returns![74] It was further contended that Hincks in any event had not been "wilfully" attempting to defraud, and that he had been unaware of the falsifications of his subordinate when he signed. A rather obvious question that arises out of this contention is what, then, was Hincks doing in Ottawa at the end of the spring 1879 session: what was the purpose of the political machinations leading to the passage of his private bill, if he had been so blithely unaware that the condition of the bank did not accord with the sunny picture presented in the returns. It raises the further question of how the bank managed to pay dividends out of its capital without Hincks and the directors being aware of the unprofitable state of its business, given that they authorized the payments and given that the bank's own books reflected its condition more accurately than the falsified government returns. Good questions indeed, it would seem, for Hincks was found guilty of fraud. However, a court of appeals later reversed the verdict on a technicality.

The need for some sort of outside inspection of the operations of the Canadian banking system was revealed dramatically by the Consolidated failure. Yet the bankers and the business press refused to countenance it. The banking system itself was declared sound, and individual moral depravity the cause of disaster, to be checked by criminal proceedings after the damage was done. The *Monetary Times* performed truly dazzling feats of argumentation to prove that the system itself was not to blame. Of the Consolidated failure it noted,

> For the past year the Manager had complained of a peculiar feeling in the right lobe of the brain, and co-incident therewith a numbness or pricking sensation in the left arm, which would point to trouble in the nervous centres sufficient to impair not only his will power but his judgement. . . . There is undoubtedly much in the conduct of the General Manager to suggest the conclusion that his brain was affected: advancing of such sums to such firms was an insane act.[75]

The last of the great English institutions to fail in Quebec was Montreal's Sovereign Bank, which collapsed in 1908 in the wake of the American panic that followed the failure of the Knickerbocker Trust. Despite the Canadian Bankers' Association's fantasies that the Canadian banks weathered the storm without casualties, the president of the Sovereign imputed the failure directly to the consequences of the panic.[76]

The bank had been founded in 1901 by Sir Herbert Holt, CPR contractor, utility promoter, and head of "the Octopus of Montreal," Montreal Light, Heat and Power Co. Ltd., in collaboration with J. P. Morgan (following the failure of the Morgan empire to secure control of the Royal Bank), and later with the Dresdner Bank, one of the great German industrial banks.[77] It was a unique institution for several reasons. It was the only major case of non-British outside investment in Canadian banking, apart from the very short-lived Banque Internationale, and the little private Weyburn Security Bank. And its Morgan and Dresdner connections went deeper than simply finance, for they imparted to it a capacity for investment banking that made it a phenomenon of Canadian finance. It was the exception that proved the rule with respect to the commercial orthodoxy of central Canadian banking. Instead of simply tiding over established firms temporarily short of cash, as was widely regarded the proper function of Canadian banks, it helped establish and build up new firms.[78] Its vigorous expansion policy — 16 new branches in 1906, 27 in 1907[79] — earned it the enmity and jealousy of the other banks and a condemnation from the *Monetary Times* as a "disturber of the financial peace . . . in this gray world of conservatism."[80]

Holt, himself, got out in 1906 before the crash, and took over the Royal Bank. In June 1906, $700,000 in bad debts were written off. The value of the reserve and securities was reduced by $200,000; $541,000 was set aside for accounts in liquidation, a further $800,000 set aside for unsatisfactory advances whose outcome was at that time unclear. The whole of the rest and one million in capital were wiped out.[81] With the panic and widespread suspension in the U.S., the vulnerable bank went under. In November 1906, one million dollars worth of special deposit receipts matured, of which, under normal circumstances, a large amount would have stayed with the bank. In the exceptional climate, it was all drawn out. In addition, a general drain on deposits occurred and its cash reserves were depleted.[82] Losses concealed by fraudulent returns were revealed at the trial of the directors, as were a great many loan irregularities.[83] It held a full two million dollars in Chicago and Milwaukee Electric Railway bonds, the road itself having gone into receivership and the ultimate value of the bonds being therefore in doubt.[84] The overexpansion of branches was cited by the liquidator as the cause of failure,[85] while the *Journal of the Canadian Bankers' Association* in its usual question-begging style cited "injudicious banking."[86] None of the authorities bothered to mention that since the long-run position of the bank was solid, assistance from the other banks during the crisis would probably have sufficed to rescue it. Their hostility cost the creditors of the failed concern nearly three-and-one-half million dollars. Thirteen chartered banks descended on the wreck and divided up its branches among themselves, though not without a great deal of squabbling over the division of the spoils.[87]

A special class of banks existed in Quebec, known in business circles as "French banks," a term not without ambiguity. On the one hand the phrase was not applied to an institution such as Sir Rodolphe Forget's short-lived Banque Internationale, apparently because Forget was an important established figure in Montreal financial circles and the conception of his bank did no real violence to established precepts of banking. The term seemed to imply small, Québécois-dominated institutions with local roots in small urban centres or Montreal suburbs and few branches. Even here the term is not completely free of problems, for the division was not an absolute. Nonetheless, the "French banks" in general conformed more closely to the Maritime, non-Halifax model of banking than to the orthodox Montreal and Ontario commercial style.

The oldest of these, and the one that had evolved the furthest towards more orthodox commercial banking, was La Banque du Peuple, founded in 1835. It was established as a company *en* *commandité*, the sole survivor in Canada of this type of bank organization whereby the directors had unlimited liability and the dormant shareholders were only liable to the extent of their equity.[88] It had built up widespread branches throughout Montreal and vicinity. During the depression years it was in trouble, aggravated by the use of its funds by one of its directors, an M.P., for speculating in its own stock as well as a few real estate deals on the side.[89] It collapsed finally in 1895 with the failure of a number of its debtors.

In March 1895, its President, Jacques Grenier, had presented a sunny report to the annual meeting, speaking of expansion and improved profits.[90] By July, the real state of affairs began to come into the open following the resignation of its General Manager and some adverse speculation against the bank's stock by a broker with a personal dislike for Grenier. Minor runs started, and the other banks pledged one million to keep it solvent.[91] The Bank tried to negotiate an agreement with the Bank of Montreal to take over some of its assets,[92] but rumours of the meeting fed the panic. Within a week the million was exhausted and the bank suspended.[93] Lock-ups in real estate were part of the problem.[94] But the main source of difficulty lay in its accumulation of savings deposits on which it paid interest. Not only did this raise its fixed charges, but the deposits were all lent out in the form of time discounts,[95] rather than keeping substantial amounts in call loans and very short-term discounts as other banks of the period did. Moreover, huge sums had been advanced to a few firms — all of its capital was accounted for in three loans, one of which alone absorbed nearly 60%.[96] Efforts to revive it were made, to no avail.[97] Its former general manager, charged with fraud, took off to the United States.

The importance of the bank in sustaining key Quebec industries became evident after its failure, for in the wake of the bank's collapse several prominent firms came tumbling down. The boot and shoe firm of Séguin, Lalime et Cie. of St. Hyacinthe failed almost immediately, the large foundry of William Clendenning and Sons together with its affiliate, Canada Pipe and Foundry, soon afterwards.[98] The big Montreal food processing firm of M. Lefebvre and Co. had an outstanding loan of $400,000, part of which it had diverted to real estate speculation. It carried on for a few months, and then folded up, bringing down a few wholesale grocers with it.[99]

La Banque Ville Marie was founded by Québécois businessmen in 1872 and by 1876 was already in such serious trouble that its capital was cut 50%. It was not an auspicious beginning. Over time the bank was anglicized, and when its final suspension occurred in 1899 its president, general manager, and board of directors were all English-Canadian.[100] Problems had been building for some time. At least since 1892 and possibly well before, the bank had been engaged in illegal transactions in its own stock — *with the full knowledge of the federal government.* [101] These ventures led to a reduction of capital that year, also an illegal act since the government had not authorized it.[102] But again there was no federal intervention. The government even maintained its deposits in the bank against the advice of its own top civil servants.[103]

The collapse was triggered by the theft of $58,000 by a teller, which led to a run and suspension.[104] In the ensuing investigation, it was revealed that the bank's note circulation was well in excess of its legal limit, and the bank's bill case included $300,000 in promissory notes signed by the president, William Weir, on behalf of bankrupt firms.[105] One of its junior officers had used $173,000 of the bank's money in gambling in Montreal "bucket shops."[106] This accountant was charged with theft, but no one from the bank had the courage to appear in court to testify against him. The charge was dropped, but subsequently renewed by the Crown.[107]

The main hardship fell on the depositors in the country branches of the bank, which numbered 14 of the bank's total of 20 branches, who ultimately lost well over a million dollars. Warrants were issued for the arrest of Weir and the other officers and directors, who were charged with theft and making fraudulent returns. Also arrested was a Montreal stockbroker who had arranged most of the bucket shop dealings and had helped the absconding teller skip town. Weir was sentenced to two years by Justice Jonathan Würtele, himself a notorious financial operator in his time. The conviction was appealed.[108] It took several years before Weir could be brought to trial again, the pretext being that "Mr. Weir's mind has given way very much."[109] In the meantime the depositors agitated for government relief, and pressure for outside inspection of banks began to grow. Especially adamant were a group of depositors in Argenteuil who wrote to Prime Minister Laurier that "Liberals of Argenteuil who are also unfortunately depositors of the defunct Ville Marie Bank are finding ourselves in a very embarrassing position as regards the coming elections."[110]

While there is some evidence of industrial activity by the bank, it is marginal. Weir was a promoter of a glove factory; the suspension of the bank brought down a lumber firm directly, and indirectly helped wreck a slipper manufacturer. But its chief activities, and cause of failure, lay in the bucket shop promotions of Montreal brokers such as Wm. Weir and Co.[111]

The Ville Marie troubles led to a run on La Banque Jacques

Cartier, which suspended,[112] resumed, then suspended again. In turn its suspension triggered off runs on La Banque de Hochelega and La Banque Nationale, and brought forth a circular from the Archbishop of Montreal urging the depositors to keep calm.[113] The Jacques Cartier bank had begun operations in 1861 and in 1876 found itself in difficulty. It had made large advances to contractors in connection with Sir Hugh Allan's Northern Colonization Railway, and to a syndicate of land speculators.[114] The stock was reduced by over 50% before resumption. In its difficulties the bank had relied on advances from the other big banks to tide it over. Investigations revealed that its general manager had tried to hide losses and overdue paper by falsifying returns. He had also embezzled funds and used them for stock speculation. The *Monetary Times* referred to the falsified return and the trial as "a rare and strange occurrence,"[115] which in 1876 it may well have been. By the turn of the century, however, it was recurring with tiresome regularity. Prior to suspension, the bank had been the fastest-growing in the Dominion, and some of the momentum was regained — by 1881 its activities included extensive dealings with Cape Breton coal mines[116] — such that when it failed for the last time in 1899 it managed to cost its stockholders $1,750,000.

There was really no good reason for the failure apart from the unstable atmosphere surrounding the "French banks" following Weir and company's depredations. The president of the bank, Alphonse Desjardins, claimed a conspiracy existed to wreck the institution. In any event, it reorganized under the name La Banque Provinciale du Canada, the old stockholders of La Banque Jacques Cartier getting $250,000 of the new bank's equity in return for $500,000 of the old plus the nominal reserve of $300,000. In an effort to put on a stable public front, the new institution established, in addition to its regular board of directors, an advisory board consisting of four provincial cabinet ministers, the chief justice of Quebec, and the Mayor of St. Cunegonde, all Québécois.[117]

One of the most astounding cases in Canadian financial history concerned La Banque de St. Jean. It was largely a family bank founded by one Louis Molleur, who was succeeded at its helm by Hon. Philippe Roy, Speaker of the Quebec legislature. Most of the paid-up capital was controlled by Roy,[118] and the board of directors was completely under his orders. At the time of liquidation it had 900 depositors, whose total credits were $296,000, and notes in circulation came to $216,000. Its total assets were estimated at $301,386, liabilities at $550,000. Once a Quebec government claim of $45,000 and the noteholders were paid off, the depositors might have hoped to get 12 to 15% back. This by itself would have caused considerable hardship. The Roy family owned a waterworks for which the town had offered \$200,000, and the depositors tried unsuccessfully to have it sold.[119] In addition, most of the small shareholders could not meet the double liability.[120]

Investigation revealed matters to be much worse than they had seemed initially. Over half a million dollars worth of nominal assets turned out to be valueless. Among them were notes held by the bank from Roy's brother,[121] which, on closer analysis turned out to be Roy's own with his brother's name forged.[122] A total of \$650,000 in various forms had been wrongfully included in the bank's assets.[123] All of the deposits had been withdrawn and sunk into firms which Roy either owned or controlled.[124] Creditors' ultimate losses reached \$400,000, including all of the deposits.

Roy was arrested, along with the general manager and his assistant. Roy was released on \$6,000 bail while the other two, who evidently lacked his political connections, had bail set at \$50,000. But a second charge led to their re-arrest, followed by a series of civil suits as well.[125] The antagonism towards Roy in his home community was so intense that at his request the trial was shifted to Montreal.[126] Thereupon it degenerated into a circus. The federal attorney had to have a detective placed with the jury to prevent Roy's allies engaging in bribery and coercion.[127] The trial climaxed with a "suicide" attempt, in which Roy drew his revolver, took careful aim, and shot himself — through the foot. "A most criminal farce," the judge declared.[128]

The defence pleas was astounding. Since the bank had never complied with all the legal requirements for functioning, (and therefore had no legal existence), then Roy could not be guilty of a criminal offence in rendering false returns regarding its operations.[129] The judge apparently did not agree that, since Roy had begun his operation of the bank illegally, illegal functions by an illegal institution did not constitute a breach of the law. Roy was unceremoniously removed from the Speaker's chair in the Quebec Legislature to St. Vincent de Paul Penitentiary, nursing his wounded dignity, not to speak of his foot. But Roy was clearly too important a figure to languish long in prison, and by 1911 he had reappeared as a Senator, as the President of La Caisse Hypothècaire du Canada, and the Canadian Trade Commissioner in Paris.[130]

La Banque de St. Hyacinthe failed in the wake of La Banque de St. Jean.[131] Its president, Senator Georges Dessaulles, was the leading industrialist in his community, and had several major enterprises to his credit. The little bank's demise was due to an excessive lock-up of funds in a local railroad at a time when the small banks were under siege. Prolonged litigation followed the suspension: the stockholders appealed unsuccessfully against the double liability.[132] It was the end of most of the little local Quebec banks that often — though not always — played a significant role in the industrial expansion of their communities. The Bank of Montreal moved into St. Jean and St. Hyacinthe following the failures.

Bank Failures in Ontario

The Exchange Bank had a short, but colourful career. While its headquarters was in Montreal, and its directors largely from among the wholesale drygoods community there, most of the bank's business and branches were in Ontario. It began in 1872 with one million dollars of capital paid in, and soon ran up a series of weak accounts. In 1878, a drain of reserves began after the defalcation of a cashier and a sharp fall in the value of its holdings of telegraph company stocks forced the passing of the dividend.[133] The Bank of Montreal loaned it \$250,000 on the personal guarantee of its directors to try to stop the run, but within a week it suspended[134] in the wake of the Consolidated failure. For a time the directors debated simply letting it fail, but ultimately it was revived.[135] During its three-month suspension it came to light that a lot of illegal stock-speculation with the bank's money had occurred. Its circulation was cut from \$488,000 to \$148,000, its deposits from \$465,000 to \$199,500, its liabilities from \$1,300,000 to \$700,000. The cash reserve was rebuilt, the stock was reduced 50%, and the bank reopened.[136]

In very short order it was in trouble again. But the bank had one asset that did not appear in its books and that it now proceeded to realize. Over half its stockholders were leading Conservative Party members, including one cabinet minister, Senator A. W. Ogilvie. In April 1883, the Tory Finance Minister, George Foster, advanced the bank \$200,000 of government money, and in May another \$100,000 on the personal guarantee of Senator Ogilvie. The bank was known to be insolvent, but the loans were made in the hope that it would recover and that prominent Conservatives would thus be spared the need to pay up on its double liability.[137] The effect of the advance was to put the depositors at ease, convincing them the bank was sound, with the result that creditor losses reached over \$800,000 when the final crash occurred.

One year before the fall, the stock had been selling at 179.

Even six months before, the general manager, Thomas Craig, had managed to sell one unsuspecting investor a block of shares worth $40,000 at 170 each. That the stock prices were so high was due to the fact that Craig had been using the bank's money to manipulate a block of stock amounting to one-quarter of the total. In addition to illegal speculations in the bank's own stock, Craig had helped himself to the bank's funds for his own personal stock speculations, and in 1880 he had managed to build himself a house worth $55,000. The directors never enquired about the source of the funds. In fact, not once in the period of Craig's tenure as general manager was any inspection of the books made. When failure came in 1883, both Craig and $226,000 had disappeared.[138] To add insult to injury, three of the directors, who were legally responsible for the wreck, were appointed liquidators, including one E. K. Greene, formerly of the Royal Canadian and not above suspicion of stock manipulation himself, and the Honourable A. W. Ogilvie as well, who in the final analysis had to be sued by the Laurier government in 1898 for recovery of the federal funds advanced.[139] Court orders were also issued against M. H. Gault, M.P., for $110,000 he had "borrowed" from the bank, of which he was a director.[140] And with the suspension of the Corriveau Silk Manufacturing Co., in which M. H. Gault, Craig, and Ogilvie were stockholders, it was bought at a bargain price from the liquidators by a syndicate headed by A. F. Gault, brother of the director, and resold at a handsome profit almost immediately.[141] As for the depositors' claims, the last of the assets of the bank, nominally worth one million dollars, were sold for $4,700 in 1891. The largest of these was a claim of $259,000 against Craig, which sold for $25.[142]

The career of the Bank of London was even shorter, a scant three years separating creation and destruction in 1887. Its president, one Henry Taylor, involved the bank's assets in the operations of the insolvent Ontario Investment Association, which he controlled. Then, after he had manipulated the reserve figure to try to cover losses on his investments, he attempted to unload the bankrupt institution on the Bank of Toronto. On the eve of the sale he "was to *personally* secure certain final signatures and official deeds in London, but instead of doing so, he personally absconded to an American watering hole." It was an appropriate end to a financial career that began by cheating the Imperial Commissariat.[143] Subsequently Taylor returned to Canada and was arrested. A group of shareholders headed by William Meredith, who had been involved with Taylor in the Ontario Investment Association, successfully opposed the motion to prosecute in the shareholders' meeting. Taylor was charged, but acquitted of all charges of misappropriation and fraud and released.[144]

The Bank of London was not the sole casualty of the 1887-8 crisis in Ontario; two others joined it. The Central Bank was a small institution whose authorized capital was only half a million dollars, but it had big ambitions. It had placed stock in towns outside Toronto where it was headquartered by promising to establish branches if a certain amount were subscribed. It had aggressively expanded its circulation, even paying bribes to agencies to keep its issue out, and it sold deposit certificates at a discount. Moreover, it paid one or two per cent more than the current cartel rate of interest to attract depositors. When it suspended, all seemed well at first. Its accounts appeared to be well secured. Two accounts, the Niagara Central Railway and the Ontario Lumber Company, were too large for the bank's resources, but no losses were expected.[145] Then the truth began to emerge. Loans to directors that could not be realized had been concealed by the manager. One director got $121,000, a broker got $133,000, and a "friend" got $100,000 secured on "diamonds." These three loans absorbed most of the paid-up capital. In addition, the Ontario Lumber Company turned out to be headed by a man who had already bankrupted two similar lumber concerns and was set on maintaining his record. And the circulation, through various devices, had been pushed well above its legal limit. Moreover, the manager had used the bank's funds to buy the bank's own stock in order to keep up the quotation.[146]

This kind of illegal manipulation of bank stock using the institution's own funds, while common in Canadian banks, was especially prevalent in Ontario. The effect of a bank lending on, or buying, its own equity is to pay back the capital, with the bank getting only paper representing it in its place. This increases the burden on the shareholders should the double liability become operative. In the case of the Central Bank, this type of manipulation was complicated by a rash of disclaimers of stock ownership during liquidation to avoid double liability. In addition, the directors had allocated stock to themselves that they did not pay up, and had dropped surplus shares out of the stockbook to cover up overissue.[147]

Three leading bankers, Archibald Campbell, who had been a director of the defunct City and Exchange Banks, William Howland, and George Gooderham, were appointed liquidators, and the comedy increased. Campbell wanted to simply wind up the affair; Howland and Gooderham insisted on an investigation. Campbell was accused of having been involved in the failure. He then ran off to Montreal with a detective on his tail. But in the final analysis, Campbell was exonerated and a certain amount of suspicion fell on Gooderham and Howland instead.[148] Nor was Campbell's quick trip to Montreal unprecedented in the case. The broker who borrowed heavily and who bore the name of E. S. Cox left the city in a hurry "apparently for good"; in fact he soon returned to lead other financial institutions into disaster. The director who had borrowed also skipped town. According to the *Monetary Times,* "the late cashier left Canada Wednesday midnight. The ex-President . . ., who had been at Clifton Springs, New York, for some weeks for his health, has not yet returned."[149]

The last of the Ontario banks to fall in this period was the Federal in 1888. It was also the largest, with a paid-up capital of ostensibly three million dollars. In fact, $500,000 of this capital was never paid in and carried no double liability.[150] In addition, large blocs of stock had reverted to the bank, and a great deal of water existed in the nominal stock, which came closer to two than to three million. A lot of speculation had occurred in the bank's own shares through the Commercial Loan and Stock Company, in which one of the directors held equity. In addition, $100,000 was advanced to Forbes and Lownsborough, private bankers, and Gzowski and Buchan, private bankers and brokers, to deal in the bank's own stock.[151] The brokerage firm of Cox and Worts was also involved, as were several others. These manipulations led to a suspension in 1884, precipitating the failure of one of the several private banks involved. But the chartered bank, then under the leadership of the broker H. S. Strathy, of Strathy and Strathy, resumed only to fail again in 1887 under virtually identical circumstances.[152] All of the directors were aware of the manipulations despite the efforts of some of them, including Edward Gurney, to deny all knowledge.[153] Furthermore, there were large losses in Michigan lumber transactions, lock-ups in real estate in Manitoba, and an overdraft on the Commercial Loan and Stock Company that ran as high as $1,-500,000.[154] These dealings had been hidden by falsifying returns to the federal government, and came to light only after the stock bubble burst again and the bank suspended for good.

One of the principle arguments used to defend the Canadian banking system's pattern of organization against the advocates of small local banks was that small banks were supposed to be more unstable. But while in absolute terms the number of "small" bank failures on any reasonable definition did exceed the number of "large" bank failures, it is clear that it took only a few catastrophes of the order of magnitude of the Sovereign or the Consolidated or the Federal for the argument to lose whatever little truth or relevance it might have had.

The Ontario Bank was another of the large banks which, according to Canadian Bankers' Association propaganda, would not fail — and did just that in 1905. It had been deeply scarred in the depression of the 1870's. In 1875, the head office was moved from Bowmanville to Toronto, ostensibly to ensure proper management, and in 1877 $365,000 was appropriated to bad debts and the dividend reduced to three per cent. In 1881 it was still in trouble. A proposal to reduce the stock by fifty per cent was made by the directors, including Howland and Gzowski, but resisted by the small shareholders. At that time the bank was heavily in debt to the Bank of Montreal, and a large number of its discounts were doubtful. The Ontario's problems were unusual for a big central Canadian bank. Instead of stock speculation or mercantile advances being the cause of difficulty, it had been involved in long-term finance to industry. "Advances made to lumberers and other manufacturers had been used for purposes which required fixed capital, the transfer of circulating to fixed capital necessarily involved a lock-up."[155] These, of course, were a relic of its era as a local Bowmanville bank.

The bank recovered, and proceeded without serious mishap until 1896, when it was forced to write off $310,000 and reduce its capital from $1,500,000 to $1,000,000.[156] A decade later, it collapsed again for the last time, in reality the victim of a revolution in Cuba, for the Royal Bank had been prepared to take over the ailing institution until an insurrection made it fearful of its own assets on the island and reluctant to proceed with any further mergers.[157] But the bid had revealed that the capital of the bank had been wiped out and the collapse served as a loud punctuation mark to H. C. McLeod's campaign for external examination.[158] Only a few days before the failure, H. M. P. Eckhardt, the Canadian Bankers' Association's official eulogist, had an article in the *Bankers' Magazine* entitled "Canadian Banking Practice — the Detection of Fraud," arguing that fraud by a general manager was almost impossible and praising the directors of Canadian banks for the close watch they kept on officers, the general manager of the Ontario, Charles McGill, and the president, G. R. Cockburn, were duly charged with fraud.[159]

Investigation by the liquidators revealed the following instances of "sound banking practice." Under the heading "other securities" appeared $778,000 which simply did not exist. At various times the bank had purchased $220,000 worth of its own shares in the name of "the officers' guarantee fund [sic]" in order to protect prices on the open market. It also had speculative losses of $170,000 in American railway stock. These items and other similar ones summed to $1,653,000, while the bank's paid-up capital was $1,500,000 and its reserve $700,000, leaving only $547,000 to meet any possible losses on $12 million in discounted paper.[160] Further investigations revealed that certain large sums, which appeared on the books as loans to New York brokers, never reached those brokers but were used by McGill and his sons to speculate in stocks in New York — over one million dollars' worth of dealings by McGill with four brokers alone, plus a series of smaller ones.[161] It is noteworthy that the Ontario had, in twenty-five years, learned one lesson. Industrial lock-ups were not the cause of its ultimate demise. The shareholders and depositors who lost their money had the consolation of knowing that they did so according to the best banking principles.

In the aftermath, the Bank of Montreal, guaranteed by the other banks for up to $2,500,000 after the double liability was exhausted, took over the assets of the failed concern. A shareholders' association, formed under the leadership of Sir Casimir Gzowski and other leading Toronto financiers, unsuccessfully fought the Bank of Montreal merger.[162] Cockburn, the president, was actually acquitted of "wilfully" signing the false statements to the federal government.[163] As usual, a junior official became the scapegoat, and McGill got five years.[164]

In 1910 came the collapse of the notorious — even by Canadian standards — Farmers' Bank. The bank was promoted by a Liberal Party organizer and former member of the Ontario legislature, W. Beattie Nesbitt, who was joined by one W. R. Travers as general manager. Travers had formerly been manager of the Merchants' Bank's Berlin branch. When he was shifted to its Hamilton branch, the customers of the Berlin bank gave him $420 in gold as a present.[165] The gold apparently went to his head. The bank had difficulty in selling enough stock to pay the $250,000 deposit necessary to get a certificate to operate from the Ministry of Finance. Travers offered to sell the required stock for a 10% commission. He then lied about the number of shares sold, accepted promissory notes as payment, and on the basis of the notes which he endorsed borrowed $100,000 from the Trustee and Guarantee Company to make up the balance of the mandatory deposit. After he got the $250,000 back from the Treasury Board, he paid off the loan. These sums were all recorded as paid-up capital. Then the fun began. In the words of Sir William Meredith, who headed a Royal Commission of investigation after the debacle,

> the subsequent management of the affairs of the bank was characterized by gross extravagance, recklessness, incompetence, dishonesty and fraud and has resulted in the entire loss of the paid up capital and the whole of the deposits.[166]

Sir William's prior involvement in the Bank of London debacle undoubtedly made him somewhat of an expert in such matters. As soon as the bank's certificate was granted, Travers and Nesbitt, joined by a new accomplice, George Wishart, began a series of mining jobs which encompassed stock speculation in Wishart's Porcupine mine, another bout of speculations in a Cochrane mine using a third party as a front, loans secured on the Helca mine property, and above all, the huge Keeley mine job into which $1,156,000, twice the paid-up capital of the bank, was sunk[167] — literally and figuratively. The mine made only one shipment in its entire life. In addition, Travers forged a minute from the board of the bank authorizing him to lend to the mine at his own discretion, and he used $156,000 in bank funds to make purchases of stock in his own name.[168] He used another $60,000 to buy himself the Lake Shore Country Club.[169] Money lost in mines was hidden by revaluing the stock in the bank's books with assistance from some illegal deals with Continental Securities Company of Winnipeg.[170]

The beginning of the end came in the sleepy Ontario town of Lindsay, where a branch of the ill-fated Home Bank opened next door to the local Farmers' branch. Three of its employees, including a former general manager of the Farmers', began circulating rumours among local farmers that the Farmers' Bank was unsound, and that all deposits ought to be transferred to the Home Bank. The three were charged with conspiracy.[171] Though actuated by the worst of motives, if they had been successful they would have managed to save the depositors' money — until the Home Bank itself failed in 1923.

By the time the conspiracy charges were being heard, the stock market was no longer enthusiastic about the Farmers'. Travers took $150,000 to Syracuse in the bank's notes, which he lent to the directorate of the People's Mutual Life Company to purchase shares of the bank's stock at 130 — at a time shares were being quoted at between 35 and 40 in Toronto and had dropped as low as eleven.[172] When the collapse came even with the double liability enforced, a loss of $1,806,437 was expected to result.[173] The result of the failure was the impoverishment of many depositors.[174] In fact, several branches continued to accept deposits after the head office was closed.[175] The stock was held in a large number of small towns and villages in Ontario, and it is doubtful if many of these stockholders even knew of the existence of the double liability.[176] It is even more doubtful that small investors and farmers would have purchased so much of the stock if the bank had not been given a *de facto* vote of confidence from the Treasury Board by the granting of the certificate.[177]

How such an institution got a certificate is a good question, and the answer appears to be not completely unrelated to the fact that Travers contributed heavily to a $120,000 testimonial to Finance Minister W. S. Fielding.[178] The Liberal whip had gone with Travers to urge Fielding to grant the certificate, and it proved a successful trip.[179]

The Farmers' failure was the first major test of the central note redemption fund established with such accolades by the chartered banks to "secure" the notes of defunct institutions. For a public uninitiated in the mysteries of banking legislation it was a rude shock to find that in fact the central redemption fund did not defend the value of the notes until every last penny was squeezed out of the failed institution. In the unlikely event that there were then any notes unredeemable from the assets, including all the funds placed in the bank by the depositors, then the other banks would be called upon to pay up through the fund. To make sure that the noteholders did not present their notes and demand restitution from the central fund, the chartered banks cashed $320,000 of Farmers' notes, deposited them with a Toronto trust company drawing six per cent interest, and waited for the liquidator to settle the assets of the bank. Thus the deposits of the failed institution functioned as protection for the redemption fund, rather than the redemption fund protecting the noteholders.

The failure provided useful election material in 1911, and several Tory candidates in rural Ontario promised that the double liability which threatened to ruin many farmers would not be enforced if the Conservative Party won office.[180] This appeal did a great deal to offset the pro-Reciprocity feelings of the farm community. In fact, once in office, the Conservatives did nothing to relieve the distress despite petitions.[181] The shareholders asked the courts for exemption on the grounds that fraud had been used to solicit their subscriptions.[182] The depositors launched a countersuit arguing that any fraud by Travers and company was done as an agent of the shareholders, and they were therefore responsible for the result.[183] The shareholders lost their case and sought an appeal to the Privy Council; the appeal was denied.[184] Warrants were issued for several of the leading participants in the festivities. Travers himself was arrested and charged with theft.[185]

Travers got six years, and Nesbitt had a long holiday in the United States[186] where by now he was sure of the company of many kindred souls.

Bank Failures in the West

Bank failures in the West were two in number — and both were, in the final analysis, brought on by the eastern banks, who wanted the western interlopers out of the way.

The Commercial Bank of Manitoba was the outgrowth of a private banking firm, McArthur, Boyle and Campbell of Winnipeg, who carried over into the chartered bank all of the business and accounts of the private venture in 1885.[187] A great deal of the stock had been sold in England at a substantial premium.[188] It was an aggressive bank which by the time of its failure in 1893 had nine branches and a paid-up capital of $552,650 in theory, while its reserves of specie and Dominion notes were never more than nine per cent of its circulation at a time when other banks in Canada claimed to be holding 50 to 60%. On suspension, its immediately available cash was only 15% of circulation and deposits.[189] And while the other banks had a paid-up capital of 83% authorized on average, and nearly 100% of that subscribed, the Commercial had only 37% subscribed and 28% "paid-up", much of it purchased with promissory notes.

It was very much a one-man operation. McArthur, its president, had formerly been manager of the Merchants' Bank Winnipeg branch in addition to his private banking experience. All of its business, like that of the private bank, was local, and much of it the older banks refused to undertake. Large accounts for local improvements led to lock-ups and losses, and redemption problems began to occur. It became increasingly dependent upon the Merchants' for advances, and when further advances were refused, suspension followed.[190] At the time of suspension, both McArthur and the general manager were heavy personal debtors to the bank.[191] When wound up, its overdue debts were found to be $415,285 and its bad debts $330,750, out of current loans and discounts of $1,146,383.[192] Ultimately the stockholders lost $300,000.

The only other western chartered effort (except the Crown Bank, which was absorbed by a Toronto bank) to get off the ground was the Bank of Vancouver, born in 1910, buried in 1914. The fledgling institution got heavily into making loans to local enterprise; while these appeared on the books as short-term loans, they became in fact long-term investments. Of total assets of $2,753,714 in November 1913 before the trouble came out in the open, only $106,068 appeared as railway and other bonds and stocks, while current loans and discounts were $1,704,673.[193] But when it was finally liquidated a full $941,000 of the "current" loans were written off.[194] Troubles began early in 1914, and the large banks refused to grant any assistance to tide it over,[195] and an effort to sell the ailing institution to the Royal did not succeed. The situation was especially delicate at that time because the Province of British Columbia was about to float a loan in London and the failure of a bank would be "certain to reflect upon the credit of the province."[196] In March 1914, the bank's capital was reduced by 50%. In December, rumours began to circulate that it was insolvent, and the scandal-wracked failure of Dominion Trust led to a financial stringency that made it impossible for the bank to realize quickly in some of its outstanding loans. The other chartered banks still refused to help, and a run commenced, leading to suspension.[197]

The Record of the Chartered Banks

The record of stability of the Canadian banking system is alarming, and the myth of stability sheer propaganda. Nor by any piece of statistical subterfuge, apart from a simple head count, can it be claimed that the small banks had a worse record than the large. The cause of the problem did not lie in individual moral depravity. There was certainly no lack of that, but the banking system itself provided fertile ground in which the swindles could be perpetrated. The problem was the structure of the banking system. Overcentralization of control permitted a few men at the head office to wreck the bank. Every one of the failures occurred because of decisions taken at the head office. This renders ludicrous the frequent assertion in Canadian banking circles that the centralized branch system was better insofar as it prevented the local banking facilities from coming under the influence of local businessmen. The inference that local control would generate instability hardly follows from Canada's appalling record of banks plundered into insolvency by their own directors at the head office. There was no system of outside inspection to check them. Competitive note issue, lacking the restraint of any reserve requirement, along with the logic of non-price competition via that note issue and by a proliferation of branches, lent a deep structural instability to the entire system.

Lock-ups in industry were not the cause of failure in most cases. The bulk of the banks that collapsed overextended themselves in mercantile loans and discounts and manipulations with their call loans, and hence conformed to the principles of the banking school on which the Canadian system was predicated. Apart from the Sovereign — the exception that proves the rule because of its Dresdner and Morgan connections — and the frightening example of the Farmers' Bank, none of the central Canadian or Halifax commercial banks transgressed the precepts of orthodoxy in terms of type of business. (Methods were something else again.) But with the "French banks" in small Quebec centres and the little non-Halifax Maritime banks and those in the West, it was a different story. They were local banks, and closely connected with local industrial capital formation. When they failed, due to lock-ups, they left in their wake a real contribution to their localities' industrial growth. When the commercial banks failed, they left nothing but criminal charges behind them.

There can be no doubt that the comparative ease with which the Maritimers began making the transition from commercialism to industrial capitalism was due in no small measure to the entrepreneurial character of its local banking system. On the other hand, the central Canadian commercial banks served only to perpetuate a staple-extracting commercial economy. When the Maritime banking structure disappeared — by takeovers by central or Halifax commercial banks or by failure, together with the tight control exercised by the central Canadian bankers through the federal government to block the creation of new local banks of issue and deposit — its demise showed a remarkable synchronization with the end of economic and social advance in the area. Maritime underdevelopment and the loss of its financial independence went hand-in-hand.

Notes to Chapter IV

1. *CBC*, 1913, p. 264.
2. Data based on H. C. McLeod, "The Need for Outside Inspection"; *Globe*, Nov. 22, 1906; and B. Beckhart, *The Banking System of Canada*, pp. 334-7.
3. *CBC*, 1913, p. 352.
4. *MT*, Dec. 15, 1906, p. 871; *CBC*, 1913, p. 507.
5. Bank of Nova Scotia, *Annual Report*, 1909, p. 20.
6. *RCRLC*, *Nova Scotia Evidence*, p. 220.
7. See for example *MT*, Dec. 15, 1906, pp. 871-2.
8. *Montreal Witness*, Dec. 1, 1906; quoted in Bank of Nova Scotia, *Annual Report*, 1907, p. 30.
9. See for example, H. M. P. Eckhardt, "Causes of Bank Failure" and "A Study of Bank Failures."
10. *MT*, Dec. 31, 1868, pp. 310, 314.
11. *MT*, Jan. 14, 1869, p. 342; May 20, 1869, p. 630.
12. *MT*, July 16, 1873, p. 915; Breckenridge, *Canadian Banking System*, p. 439.
13. *MT*, Dec. 26, 1879, p. 751.
14. *MT*, May 20, 1881, p. 1354.
15. Bank of Nova Scotia, *The Bank of Nova Scotia, 1832-1932, p. 66.*
16. *MT*, Oct. 18, 1878, p. 504.
17. *MT*, Oct. 11, 1878, p. 474.

18. *MT*, Dec. 2, 1881, p. 668.
19. V. Ross, *Bank of Commerce I*, p. 135.
20. *Bank of Nova Scotia*, p. 66.
21. *MT*, Dec. 2, 1881, p. 668.
22. *MT*, March 18, 1887, p. 1094.
23. *MT*, Oct. 8, 1880, pp. 418-9.
24. *MT*, Oct. 15, 1880, p. 444.
25. *MT*, July 23, 1880, p. 99.
26. *MT*, Dec. 16, 1881, p. 731.
27. *MT*, March 11, 1887, p. 1063.
28. *MT*, April 29, 1887, p. 284.
29. *MT*, May 6, 1887, p. 1309.
30. *MT*, Aug. 6, 1886, p. 155.
31. *CBC*, 1913, p. 324.
32. *Yarmouth Telegraph*, April 7, 1905; Dept. of Finance, *Yarmouth Bank Liquidation File*.
33. *MT*, March 10, 1905, p. 1205.
34. *MT*, April 11, 1908, p. 1708.
35. *Yarmouth Liquidation File; MT*, Feb. 1907, p. 1223, says that the president was acquitted. This appears to be an error.
36. *JC*, March 11, 1910, p. 334.
37. "Report of the Liquidators to the Secretary, Canadian Bankers' Association," March 17, 1910, *St. Stephen's Bank Liquidation File*.
38. W. W. Johnson, *Sketches of the Late Depression*, p. 79.
39. *MT*, April 19, 1878, p. 1236.
40. *MT*, July 16, 1880, p. 70; JC, Aug. 8, 1879, p. 787.
41. W. W. Johnson, *Sketches of the Late Depression*, p. 78.
42. *JC*, May 30, 1879, p. 438.
43. *MT*, July 25, 1884, p. 96.
44. *JC*, Jan. 20, 1879, p. 544
45. *MT*, Sept. 19, 1879, p. 355.
46. *MT*, Nov. 21, 1879, p. 611.
47. *MT*, Jan. 23, 1880, p. 861.
48. *MT*, Jan. 30, 1880, p. 893.
49. *MT*, May 6, 1869, p. 601; June 10, 1869, p. 681; July 18, 1869, pp. 742-3.
50. *MT*, May 27, 1869, p. 648.
51. *MT*, June 24, 1869, p. 711; Dec. 24, 1869, p. 294.
52. J. F. Norris (ed.), *The Consolidated Bank of Canada: A Compilation*, p. 15.
53. *MT*, June 28, 1872, p. 1029; Nov. 8, 1872, p. 372; J. F. Norris, *Consolidated*, p. 5.
54. *MT*, June 5, 1874, p. 1255; June 19, 1874, p. 1316; June 11, 1875, p. 1399; June 18, 1875, p. 1427; May 12, 1876, p. 1285.
55. W. W. Johnson, *Sketches of the Late Depression*, p. 78.
56. S. Thompson, *Reminiscences of A Canadian Pioneer*, p. 290; R. S. Longley, *Sir Francis Hincks*, p. 23.
57. Province of Canada, Legislative Council, *Sessional Papers*, vol. XIII, 1854-5, Appendix 2, gives the report of the Select Committee and the evidence in the charges against Hincks. Gustavus Myers, *History of Canadian Wealth*, and R. S. Longley, *Sir Francis Hincks* contain fairly thorough discussions.
58. Province of Canada, *Confederation Debates*, March 7, 1865, p. 741.
59. W. Holt, *The Opium Wars* (New York, 1964) contains an account of Elgin's activities in China.
60. R. S. Longley, *Hincks*, pp. 394ff.
61. F. Hincks to John A. Macdonald, Feb. 10, 1873, *Macdonald Papers*.

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63. *JC*, June 7, 1878, p. 487.
64. *MT*, June 13, 1879, p. 1534.
65. J. F. Norris, *Consolidated*, pp. 8, 15.
66. J. F. Norris, *Consolidated*, pp. 15 *et passim*.
67. *MT*, Dec. 1, 1876, p. 613; Aug. 23, 1878, p. 241.
68. *MT*, Sept. 26, 1879, pp. 384-5.
69. J. F. Norris, *Consolidated*, pp. 18ff.
70. *JC*, Aug. 8, 1879, p. 785; *MT*, Aug. 15, 1879, p. 207.
71. *JC*, Sept. 1879, p. 177; *MT*, Oct. 24, 1879, p. 495; June 14, 1879, p. 1463.
72. J. F. Norris, *Consolidated*, p. 27 *et passim*.
73. J. F. Norris, *Consolidated*, pp. 78, 92 *et passim*.
74. J. F. Norris, *Consolidated*, *passim*, gives a detailed account from trial transcripts and judgements.
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76. *JC*, March 20, 1908, p. 552.
77. *MT*, May 13, 1911, p. 1918; JC, Jan. 31, 1908, p. 223; Dec. 19, 1902, p. 793.
78. *JC*, Jan. 24, 1908, p. 163.
79. *MT*, Jan. 25, 1908, p. 1214.
80. *MT*, Jan. 25, 1908, p. 1209.
81. *MT*, June 15, 1907, p. 1977.
82. *MT*, March 21, 1908, p. 1588.
83. *MT*, Feb. 13, 1910, p. 1430.
84. *JC*, Jan. 31, 1908, p. 203.
85. *CBC*, p. 215.
86. H. M. P. Eckhardt, "Causes of Bank Failures," p. 49.
87. B. E. Walker to G. L. Pease, 24 Jan. 1908, *Walker Papers; JC*, Jan. 24, 1908, p. 166.
88. *MT*, July 12, 1895, p. 48.
89. *MT*, Dec. 13, 1878, p. 744.
90. *MT*, March 8, 1895, p. 1165.
91. *MT*, July 12, 1895, p. 48.
92. *JC*, July 19, 1895, p. 113.
93. *MT*, July 19, 1895, p. 78.
94. *MT*, Oct. 11, 1895, p. 468.
95. *JC*, July 12, 1895, p. 67.
96. *JC*, July 19, 1895, p. 114.
97. *JC*, Oct. 25, 1895, p. 873; *MT*, Dec. 7, 1895, p. 813.
98. *MT*, Oct. 11, 1895, p. 463; Nov. 1, 1895, p. 558.
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100. *JC*, July 28, 1899, p. 197.
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102. J. M. Courtney to W. Weir, president of La Banque Ville Marie, July 29, 1892.
103. R. Sedgwick to J. M. Courtney, Sept. 19, 1892.
104. *JC*, July 28, 1899, p. 197.
105. *JC*, Sept. 22, 1899, p. 731.
106. Memo re Bank Ville Marie prosecutions, Jan. 24, 1910, *Liquidation File*.
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108. *MT*, Dec. 8, 1899, p. 743; Jan. 5, 1900, p. 874.
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110. Liberals of Argenteuil to Sir Wilfred Laurier, Oct. 30, 1900.
111. *MT*, Aug. 5, 1898, p. 171; March 25, 1900, p. 1543; Nov. 9, 1900, p. 588.

112. *JC*, Aug. 4, 1899, pp. 259-260.
113. *MT*, Aug. 4, 1899, p. 145.
114. W. W. Johnson, *Sketches of the Late Depression*, p. 79.
115. *MT*, Nov. 3, 1876, p. 504; June 8, 1897, p. 1412.
116. *MT*, July 22, 1881, p. 94; Aug. 19, 1881, p. 206.
117. *MT*, April 6, 1910, p. 1311; July 20, 1900, p. 83.
118. *MT*, May 2, 1908, p. 1836.
119. *MT*, May 30, 1908, pp. 2001, 2007.
120. *MT*, July 18, 1908, p. 214.
121. *MT*, May 29, 1909, p. 2120.
122. *MT*, July 4, 1908, p. 13.
123. *MT*, May 15, 1909, p. 2051.
124. F. W. Hibbard to Deputy Minister of Justice, Nov. 3, 1908; *St. Jean Bank Liquidation File.*
125. *MT*, June 20, 1908, pp. 2115, 2124.
126. F. W. Hibbard to Deputy Minister of Justice, Nov. 27, 1908.
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128. *MT*, May 29, 1909, p. 2120.
129. *MT*, May 15, 1909, p. 2051.
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131. *JC*, June 26, 1908, p. 1175.
132. See Report of the Registrar, Exchequer Court of Canada, vol. 12, no. 1, 1909; *Bank of St. Hyacinthe, Liquidation File.*
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142. *MT*, Nov. 20, 1891, p. 602.
143. *MT*, Aug. 26, 1887, p. 265.
144. *MT*, Sept 30, 1887, p. 425; Dec. 2, 1887, p. 704; June 1, 1888, p. 1408; Aug. 24, 1888, p. 204.
145. *MT*, Nov. 18, 1887, p. 640.
146. *MT*, Dec. 16, 1887, p. 756.
147. *MT*, June 29, 1888, pp. 1606-7.
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150. *MT*, Aug. 11, 1893, p. 164.
151. *MT*, June 7, 1889, pp. 1416-7.
152. *MT*, July 4, 1884, p. 14; July 11, 1884, p. 36; Aug. 8, 1884, p. 152.
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156. *MT*, April 17, 1896, p. 1334.
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158. *MT*, Oct. 20, 1906, p. 567.
159. *MT*, Oct. 20, 1906, pp.565.
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161. *MT*, Jan. 5, 1907, p. 993; *Globe*, Jan. 1, 1907; Jan. 3, 1907.
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182. *MT*, Nov. 4, 1911, p. 1934.
183. *MT*, Nov. 11, 1911, p. 2037.
184. *MT*, Nov. 25, 1911, p. 2234.
185. *Globe*, Jan. 1, 1911; Jan. 17, Jan. 18, 1911.
186. *MT*, Jan. 21, 1911, p. 315.
187. *JC*, July 21, 1893, p. 120.
188. *MT*, July 27, 1888, p. 92.
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192. *MT*, Aug. 25, 1893, p. 229.
193. "General Statement, Bank of Vancouver, Nov. 29, 1913," *Bank of Vancouver Liquidation File.*
194. E. Buchan Liquidator, to H. T. Ross, Assistant Deputy Minister of Finance, May 13, 1916.
195. General manager, Bank of Vancouver, to T. C. Boville, Deputy Minister of Finance, Feb. 11, 1914; *MT*, Jan. 16, 1914, p. 178.
196. President of the Canadian Bankers' Association to Deputy Minister of Finance, Feb. 14, 1914.
197. *MT*, Dec. 18, 1914, p. 18.

There is hardly a little town in western Ontario which has not in the last few years been the victim of these so-called private banking enterprises; and many people who have been attracted to them by the higher rates of interest they have been offered have been losers to a very considerable degree. In the city of Toronto, I know of two cases, which are well authenticated of men having actually suicided because of losses they have suffered in these concerns.

W. H. Bennett
House of Commons, 1898

CHAPTER V

The Rise and Fall of the Private Banking System

Pre-Confederation Patterns

Of the four component parts of the English banking system, the London commercial banks and, to a limited extent, the Bank of England, had their counterparts in Canada; the private "merchant banks" like the Barings or Glyn, Mills did not. An institution that was, on the surface, analogous to the country bank seems to have flourished in Canada—the private bank. But on a deeper view, there were fundamental weaknesses in Canadian private banking compared to the English country bank.

Canadian private banks in general failed to exercise the independent industrial functions of an English country bank, largely because of the tight control over the Canadian financial apparatus held by the chartered banks. Under the law, the private banks were not even permitted to use the term "bank" after 1890. The main impediment was, however, in the note issue power. Unlike English country banks, Canadian private banks, except between 1850 and 1855, could not issue notes. Before 1837 they were stopped by the Colonial Office. In 1837 the Province of Upper Canada banned private note issue, a ban extended to the lower province under the Act of Union, and to each new province entering Confederation after 1871.[1] The lack of issue power was the single most important factor tying the Canadian private banks into the existing chartered bank structure and preventing them from becoming either full-fledged independent industrial or competitive commercial banks.

The exceptional period in the province of Canada came with the passage of the Free Banking Act by the Reform Party administration in 1850. Chartered banks in the province were all subordinate directly or indirectly to big produce dealers and financiers in the major commercial centres—and were largely Tory institutions. The Free Banking Act was copied directly from that of New York, which had emerged from the Bank of the United States struggles,[2] and the experiment was designed to foster competition on both economic and political levels. It drew fire from the Lords of the Treasury, but after the 1846 repeal of the Corn Laws and the granting of fiscal freedom and responsible government it was impossible for the British government to directly force the Canadian financial system back into line. Nor was it necessary to do so, for the Canadian financiers could be depended upon, in the final analysis, to remake themselves in the desired image.

Under the terms of the Free Banking Act, individuals in partnerships or joint stock companies could issue notes. Only unit banking was permitted. The minimum capital was set at £25,000. And as security for note redemption, provincial securities of not less than £25,000 (currency) par value were to be deposited with the Provincial Receiver General. Few banks were ever established under the Act, and of them the three survivors after its expiry, Molson's, Zimmerman's and the Bank of the Niagara District, were all chartered in 1855. Zimmerman's failed in 1857; the Niagara District was absorbed by another bank in 1875; only Molson's had a long independent existence. The results were disappointing to the architects of the policy. But the principal reason for its abandonment turned out to be surprisingly predictable — the free bank experiment scared off British capital. As Sir Francis Hincks, then Prime Minister, explained in the legislature,

> . . . no English capitalist was disposed to furnish money to Canada through the agency of private banks. But English capitalists would recognize the large chartered banks, because these banks had been known for many years as a safe means of investing capital. Capitalists had confidence in them, but they would not have confidence in private banks established under a new banking system.[3]

The need to attract foreign investment thus dictated a return to strict financial orthodoxy.

With Confederation, all chartered bank experiments ceased and the federal government replaced the Colonial Office as the regulator of colonial (provincial) banks. The subsequent bank acts were, to all intents and purposes, written by the very chartered banks who were supposed to be regulated by them. And one of the major objectives of financial legislation was to curb the activities of the myriad private banking operations that intermittently sprang up across Canada.

Operation of the Private Banks

The private banks exercised a variety of functions. A very few did begin to behave like industrial banks, promoting industrial capital formation in their respective localities. A few evolved into chartered banks. But the overwhelming majority were simply appendages of the orthodox commercial banking system. They performed specialized brokerage and financial functions in the major urban centres, or they acted as agents of the commercial banks in small centres. In geographic terms, the private banks that performed industrial functions were most prominent in the Maritimes, apart from Halifax where their operations were orthodox. There were also cases in small towns in Quebec and Ontario. In Montreal, in most of Ontario, and in the prairies, the private banks operated in strictly commercial and financial modes. This geographic division of function corresponded exactly to that of the chartered banks. Maritime banks, private or chartered, and Quebec banks in small centres acted on principles diametrically opposed to those of the central Canadian and Halifax commercial banks.

All of the private banks did a loan and deposit business, their loans coming out of their own capital as well as deposits, and from a line of credit most of them maintained with one or more chartered banks. It was through the credit line that power was exercised, and the private banks, denied the authority for independent bank note issue, functioned as circulating agents for the notes of the particular bank with which they dealt. The chartered bank thus extended a loan to the private bank; the private bank would make loans to its customers out of its local deposits or out of the funds loaned to it by the chartered bank; the borrowers from the private bank would then give the private bank promissory notes and other paper as collateral, which paper the private bank would deposit with the chartered bank as collateral for the credit line. The claims of the chartered bank on the private were preferred claims on its assets, and in effect, the depositors in the private bank functioned as security for the chartered bank advances. On the other hand, depositors in the private bank had no security.[4]

The use of a private bank as an agent of the chartered was an important feature of the Canadian banking system before the great waves of chartered bank expansion occurred. It permitted the chartered bank to control the banking business in a small community without assuming the risks and without the expenses of maintaining a branch. Virtually all the prairie and rural Ontario private banks were set up in towns that initially were too small to support a chartered bank. The overhead costs of private banking tended to be lower than those of the chartered banks,[5] partly because private banks were often a part-time occupation of merchants. The private banks' profit rates were typically higher than a chartered bank's—on a much smaller volume of business. They had to be higher, for the private banks paid more for deposits, generally two per cent more than the prevailing cartel rate, and in the 1890's they paid six per cent minimum for advances from the chartered banks. At the same time, their business tended to be riskier.

Profits thus went to the chartered banks indirectly through the agency of the private bank, which functioned as a financial analogue of a licensed venture in industry. The proliferation of private banks, especially in Ontario in the 1880's, was due directly to the chartered banks' encouraging their growth, much as the wholesale dealers' patterns of competition at that time produced armies of commercial travellers and petty retailers. It was the note circulation function that was paramount. As prices fell secularly over the period 1873-1896, the chartered banks were forced into all manner of expediencies to try to keep their notes in circulation. Price deflation meant a dimunition in the requirements for a circulating medium, and the response was for the chartered banks, on a competitive basis, to promote the growth of circulation agencies in the form of private banks, since the costs of banking in the smaller communities were too high to justify a branch. The typical small community could only support one small bank; then as business built up, or even in anticipation of expansion, the chartered banks moved in directly, displacing the private bank and taking over its business. The change in the relations of private and chartered banking reflected the shift in the chartered banks' liability structure towards the savings deposit business. The private banks, formerly complementary in the note issue business, became competitors for the community's savings. The result was a campaign of financial annihilation. Small banks were bought up, or destroyed by calling in their credit lines. While the private banks had operated in small urban or rural areas as agents of the chartered, it had meant a net inflow of funds into the locality. The chartered bank credit line and/or notes sent for circulation were a supplement to the local savings mobilized for local investment by the private banker. But once the savings deposits became the prime object of the chartered banks' attention, rather than their note issue, the flow ran in reverse. The chartered banks moved into the localities and drained savings out, especially from rural Ontario as the Canadian agricultural frontier shifted from Ontario to the West.

The little private banks for a while bulked large over-all in the Canadian banking structure. In 1881, when chartered bank branches totalled about 320, there were 174 private banks. In 1890, the chartered banks' branches had risen to 426 while the private banks had grown to only 179. The distribution had begun to change. Maritime private banks were declining and western growing. Private banks peaked about 1895, then began to decline absolutely as well as relatively as the chartered banks begun their rapid western expansion. In Ontario after 1895, when rising prices brought a revival of the note issue business of the chartered banks, the private banks declined rapidly in numbers. The savings business now justified the establishment of a branch, and the note issue power no longer needed the aid of the local private banks to maintain the circulation. The decline of private banking in the prairies came a little later as the prairie communities grew sufficiently to support chartered bank branches. By 1910, the private banks numbered only 97 while chartered banks branches totalled 2,363. Many of the rural Ontario and western private banks had branches as well. In the larger centres in the East, branch operation was absent: in these areas, the private banks functioned more as specialized financial institutions—as brokerage firms for example—rather than as commercial banks in the proper sense of the term.

The rise and fall of private banking reflected the needs of the chartered banking system, and the chartered banks' legislative power. The 1880 revision of the Bank Act began to limit the activities of the private banks, for under the legislation of that period they were required to state clearly on their advertising that they were not incorporated. Some private banks even began to desist from using the term "bank" after that revision,[7] though in fact there was as yet no legal requirement for them to do so. But the rule that their banks be clearly designated as unincorporated was enforced. In 1887, two private banks in Lachute were prosecuted for violating the Bank Act on these grounds.[8]

The next Bank Act revision did abolish the use of the word "bank" altogether.[9] By then the chartered banks were better prepared to undertake more of their business directly. By the early 1890's, the savings deposit business became the central concern of the chartered banks, and the private banks were competitors in the field — the more so since the hundreds of little banks could not be disciplined into establishing savings deposit rates in conformity with those set by the chartered banking cartel. The future of private banking appeared on the agenda for discussion at the second annual meeting of the Canadian Bankers' Association in 1893.[10] And by the time of the sixth annual meeting, the chartered banks were boasting of the efficacy of their spy network, which reported private banks to the Ministry of Finance for prosecution if they carried the word "bank" even on their letterhead.[11]

The heady expansionary years, especially after 1900, ushered in the major and final squeeze on the little bankers. As the chartered banks expanded into small urban centres or rural communities, the private banks were either absorbed directly, failed, or forced increasingly to undertake only the high-risk type of banking — which itself carried a greater chance of failure.[12] Then, too, the relative depopulation of rural Ontario during the rise of the wheat staple in the West reduced the field of operations of the private bankers, who were often very closely attuned to the needs and prosperity of the Ontario farm communities.[13]

To guard their position, the private bankers attempted to organize. Following the all-too-well-known example of their chartered brethren, the Canadian Private Bankers' Association was formed in 1902. Delegates met at Toronto and elected a slate of officers: a president, Thomas H. Cook of Sarnia and a series of provincial vice-presidents. The vice-presidents included several of the best known private bankers in Canada: J. Alloway of Winnipeg, J. C. McIntosh of Halifax, D. H. McDonald of Qu'Appelle.[14] But the difficulties of co-ordinating the hundreds of banks scattered across the country, frequently in the most out-of-the-way areas, were apparently insuperable, for the organization did not appear to get beyond the stage of its preliminary organization. Private banking died quickly. By 1914 only some 60 were left, and these included many of the abundant supply of stockbrokers in the major urban centres who did a client's deposit business on the side.

Private Banks in the Maritimes

The decline of Maritime private banks is especially noteworthy, for those that survived were all Halifax or St. John banks and performed this type of brokerage function, while those that vanished were industrial banks, a pattern precisely the same as the fate of the chartered Maritime banks.

Maritime private bankers, like their chartered counterparts,

TABLE V (1)

Private Banks, 1880-1914

	*1880**	*1881**	*1885*	*1890*	*1895*
Ontario	84	143	136	133	151
Quebec	10	13	11	12	14
Manitoba	—	5	15	16	23
Saskatchewan	—	—	—	8	5
Alberta	—	—	—		
British Columbia	1	1	1	3	3
Nova Scotia	4	4	3	3	3
New Brunswick	7	8	3	4	3
Total	106	174	169	179	202

	1900	*1905*	*1910*	*1914*
Ontario	146	77	51	31
Quebec	12	15	13	4
Manitoba	22	20	14	7
Saskatchewan	14	17	15	12
Alberta		1	1	2
British Columbia	2	1	—	—
Nova Scotia	2	2	1	1
New Brunswick	3	3	2	4
Total	201	136	97	61

Source: Dun, Wiman and Co., *Mercantile Agency, Reference Book, Dominion of Canada,* quarterly.

*The growth from 1880 to 1881 is probably due simply to reclassification.

were active providers of "entrepreneurial" ability and capital for long-term investments. In Moncton, for example, the early 1880's saw a boom led by investments in a sugar refinery, cotton mills, gas, iron, and various textiles industries. It was financed chiefly by local capital raised in large measure through the efforts of the Moncton private banks, notably Josiah Wood, a shipper and private banker.[15] Wood's father had been involved in the traditional Moncton industry, shipbuilding. Wood was typical of these new Maritime entrepreneurs in that he put the funds accumulated in the old commercial pursuits to work in the new industries. Wood himself sat on the board of the Moncton Sugar Refinery, and invested in foundries and an enamel works. He was also a promoter of Eastern Trust, and acted as an agent of the Halifax Banking Company as well as operating the private bank.[16]

In Yarmouth a similar role was played by the Hon. L. Baker, again a shipper and private banker, who led the local community of shippers and West Indies merchants into a series of industrial ventures such as textiles, a steamship company, and even a hotel.[17] Baker later became president of the Bank of Yarmouth, into which he merged his private banking business. It is certainly true that traditional economic pursuits such as wooden shipbuilding were in decline in this period, and Yarmouth was a centre that would be hit especially hard by the loss of the industry. As one indicator, six local marine insurance firms failed in Yarmouth from 1881 to 1886, leaving a Boston firm in complete control of the remaining business.[18] But Maritime capitalists were vigorously making the transaction to a new industrial economy, unlike their central Canadian counterparts, and in this the work of the local banks was indispensable. Of this trend, Yarmouth and Moncton are both excellent examples. The explanation for Maritime decline clearly must be sought elsewhere than in "Acts of God" like the vagaries of world demand for wooden ships.

There were many examples of this kind of industrial private banking in the Atlantic provinces. In St. John, a private bank was instrumental in promoting a tobacco company in 1892.[19] In the same city, Thomas Maclellan merged his private banking business with the Maritime Bank, with its long record of industrial promotions, and as a result the private bank failed in the wake of the collapse of the chartered bank.[20] In Bridgewater, Nova Scotia, a local private banker collaborated with a Boston financier and local mining men to promote a local mining company in 1897.[21]

In the old commercial centre of Halifax, the private banks performed orthodox commercial and financial functions. One of the oldest private banks, and indeed one of the oldest banks of any kind in Canada, was the Halifax Banking Company, established in 1825 and not chartered until 1872. Its founder was Enos Collins, a pre-Revolutionary New England loyalist who earned his fortune in piracy. When he got too old to fight, he set up a business equipping and financing other privateers.[22] Like most of the Halifax mercantile community, his prosperity depended on a continued state of armed hostility. Peace brought depression, and in times of peace the cream of Halifax's commercial community would gather in a coffee house and denounce the government, calling for "loud war by land and sea."[23] In 1814 alone, Collins had a stake in no less than 18 captured prizes. His warehouse was soon full of goods garnered indifferently from piracy or the West Indies trade. The lack of banking facilities in Halifax at the time was of considerable inconvenience to the privateering community, who would wend their way to the private money changers to exchange the broad assessment of coinage in which they were rewarded for their economic service. Collins was prominent among these money changers. His fortune, acquired in such pursuits, was in quieter times turned to a private lending business to merchants out of which, in conjunction with leading merchants like Samuel Cunard, the founder of the Atlantic steamship line, he evolved the bank.

Other Halifax private banks, active in the 1870's and later, showed similar business preferences, restricting their activity to orthodox exchange and financial functions. One of these, Almon and Mackintosh, failed in 1878 under rather unusual circumstances. While funds had been locked up in real estate and in shipping, it was not clear whose funds they were. In 1873, when the firm commenced, they claimed a paid-up capital of $200,000 from Almon's father's bequest. In reality, they had only $30,000, the rest being lost in speculation. However the losses were kept a secret, and the public image remained one of solid business foundation. The myth seemed to have attracted a great deal of business and several small firms tottered and fell after Almon and Mackintosh suspended.[24] Out of its ruins grew J. C. MacIntosh and Co., a large investment and brokerage firm, which spread successfully across the Maritimes and by 1911 had a branch in Montreal and a seat on the Montreal Stock Exchange. Its head office remained in Halifax, making it something of an exception to the prevailing trend towards monetary centralization. It was, however, a perfect case of the Halifax private banking norm.[25]

Normal in every way was another Halifax bank, James S. Macdonald and Co., which was brought down in 1882 as a result of its speculations in ranch lands during the Northwest land boom. Its account at the Merchants' Bank of Halifax was badly overdrawn, and the cashier of the private bank vanished, leaving behind $10,700 in shortages.[26] Equally representative of the financial and commercial orthodoxy of Halifax private banks was Huse and Lowell, whose claim to fame — and fortune — grew out of Greenback speculation during the American Civil War.[27]

There were exceptions of course. The Halifax firm of Farquhar and Forest, bankers and brokers, while mainly involved in urban real estate speculation, also tied up their funds in a tannery which helped precipitate their failure in 1895.[28] But, in general, the distinction between the Halifax private banks engaged in currency speculation, real estate deals, commerce, or the export of funds to other parts of Canada on the one hand, and the Yarmouth, Moncton, St. John, and other industrial banks on the other, is very pronounced.

Private Banks in Quebec

Quebec's pattern of private banking was somewhat unusual. On the one hand, chartered banks were widely distrusted in the rural and small town areas as instruments of anglophone domination and as a means by which the savings of the poor were put at the disposal of the enterprises of the rich — the Montreal commercial community. Moreover, as a result of the high degree of development of Montreal financial institutions, there was less need for private banks performing specialized financial functions in that city. Montreal certainly had an abundance of brokers, but they were relatively less involved in private banking than their Toronto and Halifax counterparts.[29] The great bulk of Quebec private banks were in the small towns.

But the private bank never assumed the importance that these factors would suggest possible in Quebec. Most of them were anglophone, and the obvious alternative, the government savings banks, while suitable outlets for working-class savings, failed to provide either agricultural credit or local control. Hence a unique form of institution — La Caisse Populaire — evolved. The idea of the Caisse Populaire was actualized by Alphonse Desjardins, a leading Liberal and former president of La Banque Jacques Cartier. Desjardins evolved the notion of a co-operative savings bank from European precedents but adapted it to the peculiar socio-economic problems he saw in the Quebec of his day. Reflecting his distaste for the money-lords of the Canadian banking system whom he blamed for wrecking La Banque Jacques Cartier, the Caisse Populaire was premised strictly on local control by its depositors. It was designed, too, to fight against the drain of funds out of farm and small urban communities in Quebec to the major uban centres. All the local workers' and farmers' savings were to be used locally for a number of purposes, above all for farm credit and the general class of small borrower. Desjardins was a populist and a nationalist, and he saw in the notion of a co-operatively and locally controlled savings bank at once an instrument for the economic resurgence of French Canada and a means of offsetting the stifling paternalism of a powerful state structure in the hands of railway promoters and financial manipulators. It would also free the "little man" from the usurious grasp and shameful financial exploitation exercised by the banks over workers in the urban centres.[30] Speculation was explicitly prohibited. The charter of the first Caisse Populaire, that established at Lévis in 1900, had a clause that stipulated, "La Société s'interdit formellement et jamais toute spéculation de bourse ou opération aléatoire quelconque."[31] The movement spread quickly, and by 1914 there were 122 such co-operative banks in Quebec, nineteen in Ontario, and the beginning of a substantial spill-over into the Québécois-populated areas of New England.[32]

In industrial banking a few cases could be mentioned, of which Charles Arpin, the boot and shoe magnate, is outstanding. His St. Jean private bank formed the base not only of the large-scale boot and shoe factory which actively exported to other provinces, but helped support his involvement in numerous other enterprises—a mortgage loan company, grain dealing, railway promotion, an enamel ware factory, and a major navigation company. A similar instance was that of Andrew Somerville, the country registrar in Huntingdon, Quebec, who used his private bank to promote a series of manufactures, in addition to establishing a private trust company business.[33] The collapse of a local organ factory which was put into assignment on the demand of the Eastern Townships' Bank led to Somerville's bank's failure. And this quickly precipitated the collapse of the largest foundry and agricultural implements manufacturing firm in the area.[34]

Various other types of private banks existed in Quebec—some largely in mortgage lending,[35] some in brokerage,[36] others the outgrowth of different types of mercantile activity.[37] However, they were few over-all, and the importance to the evolution of the Quebec economy was marginal.[38] Nonetheless in Quebec, albeit on a very limited scale, the Maritime pattern seems to come out—some instances of industrial banking in small centres, while in the larger centres the private banks performed more orthodox financial and commercial functions.

Private Banks in Ontario

Several types of private banks existed in Ontario, performing several different functions: some complementary to, some competitive with, and some completely independent of the chartered banks.

One type was the specialist financial broker in large urban centres. Edmund Walker, for example, entered the Canadian financial scene with his uncle's private banking firm and bureau de change. He made his name and greatly improved his uncle's financial position on the day the Bank of Upper Canada failed by speculating in its notes.[39] In 1867, he joined a Hamilton private bank dealing in foreign exchange, bank notes, specie, U.S. government securities, "and all kinds of incurrent money"[40] activities which, with the possible exception of foreign exchange dealings, were non-competitive with the commercial banks. In 1868, Walker joined the Hamilton branch of the Bank of Commerce.

Other notables in Canadian finance started similarly in Ontario private banks and from there launched careers in chartered banks. Henry Taylor, the Bank of London's president, bought his discharge from the British Army in 1863 and went into private banking, from that base becoming involved in a series of financial operations, especially banking, mortgage loan companies, and insurance. [41] Gabriel T. Somers, private banker at Beeton and Cookstown, sold his bank to the Traders Bank, of which he became a director. He also became president of the Ontario Securities Corporation and a promoter of Continental Life Assurance,[42] and in those capacities rose to become a kingpin in the Toronto Liberal Party establishment.

The relationship between chartered and private banks sometimes ran in reverse, especially, though not always, in the wake of chartered bank failures. The former local managers of the Central, Federal, Consolidated, and other banks established their own private banks after the failures, for example, in Norwood, Lucknow, Dresden, and Seaforth.[43] A former manager of the Bank of Commerce established a private bank at Niagara-on-the-Lake, while that at Teeswater was the creation of a former Trader's Bank branch manager.[44]

The function of banker and broker were often inextricably interlocked. The brokerage firm, Gzowski and Buchan, also did a banking business. Among their principal activities was the fradulent manipulation of Federal Bank stock in collaboration with William Mara and Co., Cox and Worts, and Forbes and Lownsborough, the last of which, as both brokerage firm and private banker, failed as a result of the Federal crash in 1884.

The Federal case was not the only Ontario example of the close link between private bank cum broker and chartered bank. When Brown's Bank (W. R. Brown and Co.) failed inToronto in 1869, the Royal Canadian Bank and the City Bank were its largest creditors, and the only creditors in fact to come out of the wreck unscathed. Brown's Bank had a tangled history. In 1864, a publishing firm's owner gave the City Bank a $50,000 guarantee of Brown's indebtedness. He then sold out his holdings in the publishing firm, transferred all of his fixed property to his wife, and joined Brown's firm. It was announced that up to $20,000 of new capital had thereby been brought into the bank; in fact, nothing was. But the already insolvent bank's reputation for stability was enhanced, and more deposits were attracted. Funds were then poured into gold speculations in New York on which heavy losses were incurred, followed by losses on American railroad stocks. Apart from the two banks, whose claims were preferred, the estate yielded about five cents on the dollar to the unfortunate creditors and depositors.[45]

Brown's Bank was of course a phenomenon of a major urban centre. It was also a bank of considerable size involved in a fair range of commercial banking pursuits. As the chartered banks grew and increasingly dominated business in the urban centres, and subsequently of course the rural ones as well, the private banks' range of activities became more limited. An example of the shift of activities among the urban private banks is the case of Hamilton's Stinson's Bank, established in 1847 and operating for a long time with a credit line from the Merchants' Bank of Canada.[46] It shifted its activities increasingly into American real estate and out of Hamilton commercial banking. When its owner assigned in 1900, he had over $800,000 in debts. Hamilton deposit money had been poured into Illinois real estate. His holdings of fourteen quarter-sections in the city of Superior alone were valued at six million dollars, but his claim was endangered by the U.S. government's contention that he had used fraud in obtaining the pre-emption rights. While Stinson won the litigation, the Canadian depositors lost their money, and made vain efforts to have him extradited back to Canada to face charges.[47]

The great majority of Ontario's private banks operated in small towns and villages in agricultural areas and performed an essential role in servicing Ontario agriculture, by the provision of deposit facilities for farmers, by making mortgage loans and long-term advances, and by promoting agricultural implement and other farm-oriented industries. Apart from the deposit function, the chartered banks did not undertake these operations once the private banks had been eliminated, and the deposit business the chartered banks took over often meant a drain of funds from the community to the major urban centres or to the prairies.

Some of the private banks became a bit over-eager to perform full banking functions, including the forbidden note issue. A private bank in Bothwell, established by two American farmers with a credit line from the Federal Bank, ran short of funds in 1885 and began counterfeiting. The owners then absconded back to their Dakota farm in a fashion strikingly similar to that pioneered by a good many chartered bank directors of the period. The Federal Bank's account was secured of course, and the burden of the failure fell on the depositors.[48]

The origins of the private banks in the small centres were diverse. As noted, they included several cases of former local managers of chartered bank branches establishing private banks. But much more common were private banks growing out of strictly local business concerns, especially various forms of mercantile activity. Drygoods merchants in several cases established banking firms, as did lumber dealers.[49] Insurance agents sometimes operated the local bank, as did those in Barrie and Tiverton who closed up and absconded in 1883 and 1897 respectively.[50] A number of doctors, lawyers, magistrates, and even postmasters had banking operations.[51] But general stores were among the most common origins of the private banks in Ontario.[52] There were many reasons for this development. The chartered banks' longstanding indifference to farmers' and artisans' savings deposits created a void into which the merchant-banker could logically fit. Moreover, a farmer depositing with a local merchant with whom he had longstanding trade during seasons or times when he had surplus cash, for example, just after marketing the harvest, would be a logical corollary of the merchant providing him with a credit line during times of shortage.[53]

The links between private banking and farm or farm-related economic activities were numerous, and often very close. In some cases the relationship to the farmers did not go beyond the bank backing flour and feed stores.[54] Sometimes it was a grain dealer himself who ran the bank.[55] But frequently the links went much deeper, for instance in the case of private banks deeply involved in mortgage lending and in the promotion and support of food processing, agricultural implement manufacture, and other types of small, local, farm-oriented industries. The Glencoe Agricultural Manufacturing Co. had two private bankers on its board of directors in 1882.[56] In 1883, a private banker joined the directorate of the North American Agricultural Implement and General Manufacturing Co., a large merger of London area firms.[57] From its inception in 1879, the Agricultural Implement Manufacturers' Association of Ontario had J. A. Mahon, a London private banker, on its executive committee.[58] The Mahon Banking Co. collapsed with the end of the Winnipeg land boom, into which it had poured a large part of its assets following the refusal of the Bank of Montreal to extend its credit line. Depositors lost $40,000, and many local firms who had been carried by the big bank were badly squeezed. The failure revealed a large overdraught by the cashier plus some bogus cheques, the funds being used for speculating on his own account.[59]

There were many other cases of private bankers in the implement industry. The Chatham postmaster, Samuel Barfoot of Barfoot's Bank, was also a director of the Chatham (Ontario) Manufacturing Co., which made wagons. W. W. Farran, of the banking firm Farran and Tisdale, was a partner in Farran, Macpherson and Hovey, the oldest thresher manufacturers in Canada.[61] And the failure of the bankers South and Co. at Pekin in 1906 was due to its advances to a local wagon works and plough shop.

The bankers also made a contribution in other facets of farm-based business. Some were involved with cattle raising or dealing.[63] One firm of private bankers promoted a grain and milling business at Burlington.[64] The Brantford Packing Co., established to process both meats and vegetables in 1899, was the creation of a local farmer along with Lloyd Harris, the implement magnate, who collaborated in the private bank Harris, Cook and Co.[65]

Several private banks failed because they had overextended credit to farmers in their area. This problem became especially acute in 1895, when poor crops and low prices led to the inability of the private banks to realize on the farmers' notes. Donald Fraser, a longstanding private banker in Kingston and a former local manager of the Merchants' Bank, was one of the casualties. As usual, the chartered bank credit line was secured by customers' paper and other assets, while the deposits were unsecured and left to bear the brunt of failure.[66]

Samuel Barfoot quickly followed the Fraser failure for the same cause. Barfoot had offered a savings rate higher than the cartel rate and attracted a lot of deposits away from the chartered banks: this was undoubtedly a factor in their refusal to extend him further aid. Of his assets, over half were locked up in real estate mortgages. Of his deposit liabilities, nearly $100,000 were in savings deposits while only $25,000 were in current account. Barfoot's Bank was sound; the only reason for failure was the hostility of the chartered banks. The depositors were completely paid off with three per cent interest.[67]

In real estate speculation and mortgage lending, the record of the private banks was considerably less praiseworthy. Mortgage lending to farmers did bring down some banks.[68] But the banks also had a penchant for urban real estate speculation,[69] and above all for the lands of the Northwest Territories where speculation during the Winnipeg land boom left an enormous trail of broken banks, including an insurance broker in Lindsay and a firm of Ingersoll lawyers.[70] Not only land, but timber and railways in the area drew the bank's attention and precipitated collapse. One Bowmanville banker locked up all his deposits in a

Manitoba railway scheme, went to England to get backing for it, and on being unsuccessful, cabled his associates that the visit had failed. Rumours then flew around Bowmanville that the bank had failed, a depositors' run started, and the bank suspended.[71] But of all the banks to fail in the wake of the Northwest land rush, the Fawcett system was the most spectacular.

No better summary of the essential attributes of Ontario private banking can perhaps be found than an examination of the operation and collapse of the Fawcett empire. W. F. Fawcett's private banking system was the largest in Canadian history. It involved both direct branches and a complex of interlocking partnerships spread throughout southwestern Ontario.[72] When failure hit Fawcett in London in 1884, a total of ten private banks suspended with him with aggregate liabilities that were estimated to run close to a million dollars.[73]

Direct branches under Fawcett's control existed, apart from the London headquarters, at Watford, Arkona, and Alvinston. In addition, with one Charles Livingston, who had joined the Watford branch in 1876, there evolved a partnership, Fawcett, Livingston and Co., with branches at Dresden, Thomasville, and Wardsville.The former manager of Fawcett's Arkona branch opened a bank in New Hamburg with Fawcett as a sleeping partner in 1880. In 1881 a Strathroy group joined Fawcett to establish the Oxford Banking Company at Woodstock. Fawcett was also a partner in W. O. Smith's Bank at Thornbury, in the Mitchell Banking Co., the Dresden Banking Co., and the Millbrook Banking Co. On top of this, Fawcett was a director of the Bank of London, of another chartered bank project which never got off the ground, the London Trust and Stock Co., and the North West Railway.[74]

TABLE V (2)

The Fawcett Bank, 1884

Liabilities		*Assets*	
deposits	$196,280	bills receivable & mortgages	$ 37,002
other	20,000	current account due	3,725
Total	$216,280	real estate — Watford	20,000
		real estate — Northwest	20,000
		office furniture, etc.	3,500
		timber limits — Northwest	200,000
		cash on hand	3,000
		Total	$267,228

When suspension came late in 1884, Fawcett blamed a depression in the cattle trade, claiming that many dealers to whom he had made advances were unable to realize at cost covering prices. He also claimed the first failure of the Federal Bank had cost him a lot. It was not a very credible explanation, especially once the assignees began to examine the books of the banking system. For the five branches directly controlled by Fawcett, nearly 80% of the assets were represented by timber limits or land in the Northwest, the real value of which was very uncertain in the wake of the collapse of the land boom.[75] On his more legitimate business over a decade or more before failure, Fawcett had lost $145,297.

The remaining banks in the empire, for the most part, registered failure shortly after Fawcett himself—W. O. Smith and Charles Livingston almost immediately.[76] Another independent banker at Watford faced a depositors' run after the Fawcett debacle and wound up without losses, while Fawcett's brother, who had a large sash and.oor factory and was dependent on the bank's advances, also failed.[77] Livingston retired to the post of editing a newspaper in Honolulu[78] while some of the branches of the Fawcett system passed into other hands. The Wardsville branch fell into the hands of two brothers who used all its funds for bucket shop speculations, and then absconded in 1887.[79] The Watford branch, where the expansion of the empire began with Livingston's arrival in 1876, passed to a new private banking firm, who sold out to the Merchants' Bank in 1899.[80]

On balance, the private banks of Ontario clearly played a central role in the agricultural prosperity of the province in the late nineteenth century when Ontario was still the Canadian agricultural frontier. There were always a few cases where the farm communities undoubtedly rued the presence of the banks. To take but one case, the Guelph Banking Company offered six per cent interest on savings deposits, attracted farmers' deposits from a large area, and put the proceeds to work in bucket shops under the auspices of E. S. Cox. When the bank failed, Cox could add the first private bank to his already impressive total of destroyed chartered ones.[81] But the general record of their operations is very favourable.

In addition to agriculture-based activities, which absorbed the great bulk of their assets, certain private banks contributed substantially to the establishment of small-scale local industries in some of the smaller centres. The bank of C. W. Anderson, reputedly Canada's most complete private banking operation,[82] in Oakville and Palmerston, was a case in point. Among other factors precipitating his demise was the bank's involvement of its funds in the local electric light system, a creamery, a mill, and a hay dealing business as well as real estate speculation. The Bank of Hamilton, which extended the credit line, seized everything: the creditors and depositors received nothing.[83] Similarly in 1883 the New Hamburg bank, Denison and Crease, was forced to fail by the chartered bank which held the private bank's paper, and it pulled two woollen factories down with it, in addition to a battery of local traders.[84] Waterford's local private bank, L. Becker and Co., locked up its capital in a local electrical company, the promoter of which was a partner in the bank. The electrical company failed shortly after the bank suspended in 1894.[85]

A complex of private banks in the Formosa-Mildmay area promoted a number of local industries. When Formosa's largest bank, F. X. Messner and Co., failed, it precipitated a run on several of the area's other private banks. Messner was a merchant and a brewer as well as a banker and the chief magistrate of Formosa. He paid six per cent on savings deposits at a time when the chartered banks paid but three, and collected most of the local savings.[86]

Following his failure the Mildmay bank, Carrick Financial Co., went into liquidation when a writ was issued against it by its parent, the Bank of Commerce. Its balance sheet looked very orthodox on the surface. Its liabilities were about $39,000 in deposits and $25,000 in a Bank of Commerce credit line. Its assets were $57,500 in bills, $3,360 in mortgages, and $3,500 in overdue debts. The real meaning of the bills became clear only after the bank failed. One partner had carried on a mill on the side, another a foundry: both firms depended on the bank and both closed upon its failure. The Carrick failure managed to bring down a Walkerton hotel as well.[87] Most of the assets went to the preferred claims of the chartered banks or to legal costs and commissions; the depositors and other unsecured creditors got only 28 per cent of their claims.[88]

One other outstanding case of industrial promotion by Ontario private bankers is worth mentioning, namely that of the Rathbun Company of Deseronto, founded by an American émigré, E. W. Rathbun, who pioneeered a long list of industrial innovations in Canada. He was the first to install a roller flour mill, and one of the first to manufacture pre-fabricated housing, wood alcohol, and cement.[89] By as early as 1882, the firm of Rathbun and Son employed 900 men and had achieved a very powerful place in the Ontario lumber business through a series of major railway contracts. The company soon expanded and diversified into everything from shipping, wood products, freight cars, cement, shingles, building supplies, and even matches in competition with the Ottawa Valley lumber baron E. B. Eddy. Electric tramway promotions, flour milling, and finally primary iron and steel attracted the resources of the Rathbuns, who were among the very few examples of local businessmen becoming major tycoons on a national scale in Canada in competition with the established commercial and financial giants of the big cities.[90]

Private Banks in the West

Private banking in Manitoba was pioneered by W. Alloway and H. Champion, two former militiamen with the Wolsely expedition sent out in 1871 to suppress the Métis unrest. Beginning in freight and moving into real estate loans, they became heavily involved in dealing in Métis land scrip.[91] The Métis land scrip system was an open invitation to fraud,[92] and the ultimate benefit accrued to a handful of land speculators and Hudson's Bay Company officials, who bought it on terms that made the Manhattan Island purchase look like a monument of philanthropy, and sold it to incoming settlers during the western boom. Alloway and Champion did not deal directly in land, but only in scrip, later moving into tax certificates and foreign exchange dealings for immigrants. They also pioneered the small loan business in Winnipeg at a time when the chartered banks were not interested in it.

The Winnipeg land boom ushered in a real growth of private bankers in the province. Even Alloway and Champion do not seem to have regarded banking as serious business until after the boom was underway. In 1881, immigration into Canada was 47,991; in 1882 it was 112,458; in 1882 alone 70,500 people migrated to the Northwest, generating a real estate boom. One bank estimated that over eight million dollars moved to Winnipeg that year for investment in land.[93] Among the investors were several private banks who failed as a result of their speculation. In addition to the Macdonald Company of Halifax, there was a great wave of Ontario failures as a result of northwest land dealings. And the speculative mania claimed its share of Manitoba banks as well. One Winnipeg private bank with a branch at Portage la Prairie got into trouble over its real estate deals and assigned in 1883 on demand of several chartered banks.[94] Private banks were reported as nonexistent in the West in 1880; by 1883 there were 21 operating, falling to 15 in the liquidation that followed the boom. Even after the boom, land speculation figured as a cause of Manitoba bank failures.[95]

One of the earliest Manitoba private banks, after Alloway and Champion, was that established by Duncan MacArthur, who later promoted the chartered Commercial Bank of Manitoba.

The private bank, MacArthur, Boyle and Campbell, had a rapid growth, for its promoters were well connected with eastern Canadian and British capital. W. Lewis Boyle, for example, acted in 1886 as the collection agent for English debenture holders when certain Manitoba towns were in default on their interest.[96] But it was MacArthur who was the key factor in the partnership. MacArthur commenced his banking career as the Winnipeg manager of the Merchants' Bank of Canada, which continued to back his private bank and even stood behind the promotion of the Commercial Bank of Manitoba in 1886. So close were the relations of MacArthur to the Allans of Montreal who controlled the Merchants' Bank that in 1885 a member of the Allan family, a cousin of Sir Hugh's, joined MacArthur's private bank as a partner: it thereupon became MacArthur, Boyle and Allan until 1887 when the Allans broke off relations and established a new Winnipeg brokerage firm, Allan, Brydges and Co., in partnership with C. J. Brydges, one-time general manager of the Grand Trunk Railway.[97] The rupture between the former partners probably resulted from MacArthur's involvement in Manitoba efforts to break the CPR monopoly by establishing competing lines to American roads and via them to the Grand Trunk.[98]

In any event, it is clear that MacArthur's local sympathies grew over time. He was a prominent figure in numerous operations in Winnipeg, taking the lead in mustering local capital for express and telegraph companies, mines (in conjunction with American investors), and local manufacturing. As well, his private bank was strong enough in 1886 to act as the underwriter for the bonds of the Saskatchewan and Western Railway.[99] That year the private bank evolved into the Commercial Bank of Manitoba. After the failure of the chartered bank in 1893, MacArthur returned to private banking, in which he was still active as late as 1914. So too, following Ontario precedents, did at least one of his branch managers.[100]

Other Manitoba private banks followed the MacArthur pattern of representing an alliance of a Manitoba entrepreneur (usually an Ontario émigré) with the facilities and connections of a central Canadian private banking and/or brokerage firm. Osler and Hammond of Toronto extended into Winnipeg in 1884 with a local partner to form Osler, Hammond and Nanton, a firm still active in 1914 in private banking and brokerage. Montreal banker and broker R. S. Ewing did likewise in 1900 with Simpson, Mitchell and Ewing, a firm which extended into a number of financial operations, trust, loan as well as general brokerage.[101]

Private banking did not reach Saskatchewan and Alberta until after 1885, and its growth was never as strong as in Manitoba. For in Manitoba banks were established and got on a sound footing well in advance of the main rush of settlement, while in the other two provinces the beginning of the great expansion in 1896 led to such a rapid inflow of chartered banks that there was little space or time for the evolution of a system of private banks. In 1890 the entire Northwest had only four chartered bank branches. By 1914 Saskatchewan alone had 280.

Some of the private banks in the Northwest evolved a branch system, and they tended to spread through the same sort of web of partnerships that characterized Ontario developments. For example, one of the earliest, Lafferty and Smith at Calgary, split up in 1889.[102] In its place came two firms. F.G. Smith, at Calgary, T.N. Christie at Moosomin, and H. Lejeune at Regina formed a new bank, Lejeune, Smith and Co., with branches in all three towns. The other new firm, Lafferty and Moore, established itself in Calgary, Regina, Edmonton, Lethbridge and Moosomin.[103] Several other branches were opened, including one at Vancouver. These branches of both firms were often organized as partnerships between the main firm and a local businessman. The Lejeune, Smith and Co. Regina branch was organized as a partnership between Lejeune and Christie, of the main firm, and a Regina businessman. Their Calgary branch was a partnership of Christie and a merchant of that town.[104]

Prairie private banking bore a striking similarity to that in Ontario. The origins of most of the banks seem to have been mercantile, and very often they were the creation of Ontario émigrés who formed the core of the entrepreneurial class in the Northwest. As in Ontario, a few got into mortgages; some had very close financial connections abroad, permitting them to transact international business in bank drafts; others specialised in emigrants' remittances and the like.[105] The system of branch banking also resembled Ontario's, with the branch network peaking around 1900, a little later than that in Ontario. Thereafter, the chartered bank expansion tended to nibble away at them, branch by branch. While takeovers occurred from an early date — the Merchants' Bank branch at Brandon (1883) was the result of the takeover of a branch of a Manitoba private bank, and the Union Bank's agent displaced Lafferty and Moore in Moosomin in 1890[106] — it was in the later period that the great rush of takeovers occurred.[107]

After MacArthur's bank, a second western private bank that eventually evolved into a chartered bank was the Weyburn Security Bank, founded in 1902 by six Americans who had purchased a large block of Saskatchewan land and begun to do a lumbering business. The bank evolved out of the lumbering enterprise, which was inconvenienced by the lack of banking facilities.[108] It established its first branch in Weyburn, later taking over the facilities and part of the name of the Weyburn Security Company. The bank's business was mainly farmers' loans, on which it charged from eight to ten per cent at a time when the legal maximum was six: however, that still made its loan rate a lot less usurious than that of the chartered bank branches of the period. It grew quickly, and by 1913 it had ten branches. The bank was a boon to local businessmen, who asserted that during the crisis of 1907 the little bank had done more to keep them afloat with its accommodation than had all the four chartered banks with whom it co-existed in Weyburn, including the Commerce and the Montreal.[109]

Gold brought banks into British Columbia in the wake of the rush of prospectors. The first of these was Macdonald's Bank,[110] established in 1859 as a private bank of deposit — and issue, for before Confederation with Canada there was no colonial office prohibition on private note issue in B.C. Several other private bankers followed Macdonald, including two agencies of Wells, Fargo that evolved into independent banks.[111] All of these institutions were essentially extensions of San Francisco gold merchants. In addition, Lafferty and Moore established a branch in Vancouver which lasted only about a year. And the American brokerage firm of John Burke of Tacoma established a branch, J. M. Burke and Co., in Vancouver in addition to its branches throughout Washington and Idaho. The B.C. branch failed in 1893.[112]

Chartered banks began operating in B.C. from an early date. The first were the Imperial Banks, the Bank of British North America, and the Bank of British Columbia. The Bank of British Columbia was chartered in 1858, with a set of directors headed by Eden Colvile of the Hudson's Bay Company, and several directors of other big colonial banks.[113] The Hudson's Bay Company was deeply involved in transportation and commodity trade during the gold rush, and this bank was a logical extension. The colonists themselves tried to float the Colonial Bank of British Columbia but without success. The imperial bank began operating shortly after Macdonald's Bank, and was joined in 1862 by the Bank of British North America. For a while Macdonald had been prosperous, his activities mainly revolved about moving gold to San Francisco, the sale of bills of exchange, and making advances on gold dust. But the new banks pushed him hard. He failed in 1864 and absconded to the U.S. with his creditors in hot pursuit.

After the Macdonald failure the field was left to the two Imperial banks and Garesche, Green and Co., a private bank that evolved out of the Wells, Fargo agencies. Then in 1885 Lord Strathcona drove the last nail in the coffin of the prospects of B.C. private banking, for with the completion of the CPR the eastern chartered banks, led by Strathcona's Bank of Montreal, poured into B.C.

In 1892, Mrs. T.T. Green, widow of the late A.A. Green, partner in the private banking firm, bought out the Garesche estate and became sole owner of the bank, later admitting F.H. Warlock as a partner."[114] The new firm, Green, Warlock and Co. continued to function as the Wells, Fargo agent and conduct a private banking business without issue power for a year. Then in 1893 an American panic led to a drain of gold from New York to London. So tied into the vagaries of world bullion movement was the B.C. private bank that it faced a run, suspended, and failed. Its total liabilities were over $500,000, of which about 70 per cent were deposits."[115]

Settlement of the estate dragged on for years. The chief beneficiaries of the failure, apart from the chartered banks, appear to have been the trustees. These ran up handsome salaries, while after six years the depositors had still not been fully compensated and the owners had not received anything. The trustees were asked to quit, but announced they were "not disposed to do so."[116]

A few minor private banks carried on in B.C. after the Green, Warlock failure, but not on the same magnitude. It was the end of an era in the province's financial history. The last of B.C.'s little private banks passed away in 1907.

The Record of the Private Banks

The private banks performed a number of functions in the Canadian capital market, generally as an arm of the commercial banking system. They provided commercial bank facilities in small centres which could not support a full-fledged chartered bank branch, but they did not offset the gap left by the chartered banks' aversion to financing industrial capital formation. Only in the Maritimes did private banks perform an important industrial entrepreneurial role in any numbers, and in this respect they parallelled the Maritime chartered banks' behaviour. Only in the Maritimes, and in a very scattered few instances in Ontario and Quebec, did the private banks seem to approximate the English country bank in their activities. And even then they were constrained by their lack of issue power, which doomed all private banks to functioning, in part at least, as circulation agents of the chartered banks who extended them a credit line. In Ontario, the banks were often very close to the farm community, fulfilling many banking functions and promoting agribusiness in ways that the chartered banks who displaced them did not. On the prairies, with a couple of very notable exceptions, they appear to have behaved largely as appendages of eastern chartered banks. In B.C., like the chartered banks, they were involved predominantly with gold and other kindred financial operations. It can certainly be claimed that the private banks displayed a greater innovative and entrepreneurial capacity than the chartered banks, but their over-all contribution to industrial growth was badly hampered by the degree of domination the established banks could exercise.

The private banks were criticized for their instability. In 1898 W. H. Bennett denounced them in the House of Commons as weak institutions that led to great losses by their unfortunate depositors.[117] In fact, the charge makes little sense. There were two great waves of private bank failures. In 1883 and 1884, with a spillover into 1885, large numbers of failures occurred, the result of the bursting of the National Policy boom and the collapse of land values in Manitoba. Again, the period 1893 to 1899 brought a second wave of failures whose reasons were more complex: several B.C. failures depended on conditions in the gold market; in Ontario the state of grain prices or certain small, local industries were the major factors. In many cases, too, failures were precipitated by chartered banks who wanted the little banks out of the way.

TABLE V (3)

Private Bank Failures, 1894-1913

Year	*Number*	*Year*	*Number*	*Year*	*Number*
1894	6	1901	1	1908	0
1895	6	1902	6	1909	0
1896	3	1903	6	1910	0
1897	5	1904	2	1911	1
1898	5	1905	4	1912	0
1899	2	1906	0	1913	0
1900	6	1907	0	total	53

Source: Calculated from data in *Dun's Review*, 1895-1914.

Even taking the failure data at face-value, the failure rate does not seem very high. According to privately published figures of

Dun, Wiman — which may not be entirely reliable, but in the absence of federal insolvency legislation were the best collected — in 1895, six failed out of a total of 202; in 1900, six of 199; in 1905, four of 135. Over the period 1894 to 1913, 53 failed. Yet several hundred were likely to have been operating during that period, many wound up without losses, and many were taken over by chartered banks.

The failure data of course includes the many brokers who did a banking business on the side, and who were tightly interlinked with chartered banks. When chartered banks failed, private banks in the major cities would thus fail automatically, and this biases the comparative failure records against the private and in favour of the chartered banks. And the fact that private bank failure was frequently at the whim of the chartered bank also stacks the cards against them. Even ignoring all these factors, and taking as the total of private banks operating the 1895 total of 202 — a procedure which again overstates the instability of the private banks since with sales and voluntary liquidations there were many more than 202 operating over the 1894-1913 period — the private bank failure rate is about 20 per cent. It is thus better than the chartered bank record, even with all the biases. The propaganda about the instability of small, local banks, which was so much a part of the program of self-edification launched by the big chartered banks of the period, fails on these grounds too.

Notes to Chapter V

1. E. P. Neufeld, *The Financial System of Canada*, p. 165; *MT*, July 31, 1891, p. 135.
2. B. Hammond, *Banks and Politics in America*, pp. 572-3.
3. Cited in R. M. Breckenridge, "Free Banking in Canada."
4. *MT*, Jan. 29, 1886, p. 859.
5. *MT*, March 9, 1883, pp. 1003-4.
6. M. Morris, "The Land Mortgage Companies . . .," p. 264.
7. *MT*, Oct. 12, 1883, p. 406.
8. *MT*, Aug. 19, 1887, p. 235.
9. *MT*, July 31, 1891, p. 130.
10. *MT*, May 26, 1893, p. 1404.
11. Canadian Bankers' Association, "Sixth Annual Meeting, Minutes," *JCBA*, vol. V, no. 2.
12. *Farming World*, Aug. 15, 1905, p. 607; *MT*, March 13, 1903, p. 204.
13. *CBC*, 1913, p. 182.
14. *MT*, Aug. 4, 1902, p. 1298; *JC*, April 14, 1902, p. 1711.
15. T. W. Acheson, *The Social Origins of Canadian Industrialism*, p. 68. This is an excellent examination of some of the forces making for the transformation in the Maritime economy.

16. G. B. D. Roberts and A. L. Tunnell (eds.), *Standard Dictionary of Canadian Biography*, vol. 1, p. 552; *MT*, Sept. 11, 1885, p. 288.
17. H. J. Morgan (ed.), *Canadian Men and Women of the Time*, p. 44.
18. S. A. Saunders, *Economic History of the Maritime Provinces*, p. 18.
19. *MT*, May 6, 1892, p. 1332.
20. *MT*, Jan. 11, 1884, p. 1332.
21. *MT*, Jan. 29, 1897, p. 1000.
22. V. Ross, *Bank of Commerce*, I, p. 26.
23. V. Ross, *Bank of Commerce*, I, p. 57.
24. *MT*, March 29, 1878, p. 1149.
25. A. G. Brown and P. H. Morres, *Twentieth Century Impressions of Canada*, pp. 447, 850.
26. *MT*, Aug. 4, 1882, p. 120; Nov. 17, 1882, p. 540; Nov. 24, 1882, p. 568.
27. *MT*, Sept. 7, 1888, p. 262.
28. *MT*, Nov. 29, 1895, p. 685.
29. There were of course private banks operating in Montreal. These tended to display a certain specialization of function to justify their existence, in contrast to the general banking business typical elsewhere. For example, the Chinese importing firm Sue Shang and Co., which acted as the CPR's agents in numerous facets of its Chinese trade connections, did a private banking business specializing in Asian remittances through a series of connections with Chinese banks and foreign banks in China.
30. See Claude Ryan, "Alphonse Desjardins: une Méthode et une Pensée Très Actuelle," *Le Devoir*, 13 Mars, 1975 which describes the intellectual origins of the movement. See Desjardins' own account in *The Cooperative Peoples' Bank*.
31. Quebec *Sessional Papers*, 1901, vol. III, no. 49.
32. Canada, *Cost of Living Report*, vol. I, p. 835.
33. Anonymous, *Canada Under the National Policy*, p. 125.
34. *MT*, Jan. 26, 1894, p. 923; Feb. 2, 1894, p. 952.
35. For example, the case of R. G. Meckle, one of the Lachute private banks prosecuted in 1887 for not specifying his bank was unincorporated; he failed in 1893 with virtually all his assets in mortgages or land purchases. See *MT*, March 3, 1893, p. 1034; March 17, 1893, p. 1046.
36. For instance, William Weir, of La Banque Ville Marie notoriety, whose private bank and brokerage house collapsed with the chartered bank. *MT*, June 29, 1900, p. 1210.
37. See for example *MT*, March 11, 1898, p. 1187 for an example of a Quebec City coal dealer who got into banking on the side. When he failed in 1898 he brought down a local tobacconist with him.
38. There were a few scattered instances of private banks on the model of the rest of Canada in Quebec. For example, an instance of private investment banking is provided by the early operations of Donald A. Smith (Lord Strathcona), who began as a Hudson's Bay Company chief factor in Labrador. The wintering partners and other officials who received their share of the profits or their salaries while in the posts had little opportunity to spend them. Hence some 85% of the funds found their way into the hands of the Hudson's Bay Company's official banker for safekeeping. But Strathcona, from an early point in his career, began to act as a private banker in competition with the Company. He paid the officers three per cent interest, invested the proceeds in Bank of Montreal shares, and soon became one of the largest shareholders in the bank. However this example is illustrative only of itself — there was no pattern of similar behaviour elsewhere in Quebec or Labrador. (B. Willson, *The Life of Lord Strathcona*

and Mount Royal, pp. 145-6; E. E. Rich, *The Hudson's Bay Company*, vol. II, p. 819.)

39. G. T. Glazebrook, *Sir Edmund Walker, p. 10.*
40. "Misc. Banking Memoranda," *Walker Papers.*
41. *MT*, Aug. 3, 1883, p. 120; May 5, 1893, p. 1313.
42. *RCLI, Evidence*, pp. 1364, 1401-22; *MT*, April 28, 1899, p. 1412.
43. *MT*, Dec. 7, 1888; Nov. 9, 1888, p. 524; June 14, 1895, p. 1604; Aug. 17, 1883, p. 177.
44. *MT*, April 18, 1890, p. 1286; July 13, 1900, p. 38.
45. *MT*, Feb. 25, 1869, p. 442; March 11, 1869, pp. 473-5; April 29, 1869.
46. *MT*, Nov. 3, 1876, p. 499.
47. *MT*, Feb. 9, 1900, p. 1038; Feb. 25, 1900, p. 1106; March 16, 1900, p. 1209; May 11, 1900, p. 1478; June 15, 1900, p. 1636.
48. *MT*, Oct. 2, 1885, p. 372.
49. *MT*, Jan. 22, 1892, p. 864; April 1, 1892, p. 1184.
50. *MT*, March 16, 1883, p. 1028; March 5, 1897, p. 1178.
51. *MT*, June 17, 1892, p. 1516; April 20, 1883, p. 1172.
52. *MT*, Dec. 1, 1876, p. 616; March 9, 1894, p. 1118; March 20, 1896, p. 1202.
53. *MT*, Nov. 8, 1889, p. 552.
54. *MT*, June 22, 1883, p. 1499.
55. For example, in the town of Belmont in 1891 the banker and grain dealer, who had paid a savings rate well in excess of the cartel rate, absconded leaving large losses. Gabriel Somers' bank, too, grew out of his grain-dealing business. See *MT*, July 24, 1891, p. 99; July 31, 1891, p. 128.
56. *MT*, Sept. 1, 1882.
57. *MT*, Aug. 10, 1883, p. 149.
58. *MT*, Nov. 7, 1879, p. 549.
59. V. Cronyn to B. E. Walker, Feb. 26, 1883; R. W. Smylie to B. E. Walker, Feb. 26, 1883; *Walker Papers; MT*, Feb. 23, 1883, p. 936.
60. *MT*, Feb. 14, 1890, p. 999.
61. *Globe*, Nov. 24, 1890.
62. *Globe*, April 3, 1906.
63. *MT*, Oct. 28, 1892; Feb. 24, 1893, p. 1003.
64. *MT*, April 7, 1899, p. 1313.
65. L. Harris to B. E. Walker, Nov. 20, 1902 *Walker Papers; MT*, Aug. 4, 1899, p. 135.
66. *MT*, Oct. 4, 1895, p. 429.
67. *MT*, Oct. 18, 1895, p. 501; Oct. 25, 1895, p. 526; Dec. 4, 1896, p. 741.
68. *MT*, Sept. 1899; July 31, 1885, p. 120.
69. *MT*, May 27, 1898, p. 1542; June 3, 1898, p. 1525; June 17, 1898, p. 1642. It was Toronto land investments for example that absorbed half of the deposits of a Bracebridge banker in 1898 and precipitated his failure when the market collapsed.
70. *MT*, Nov. 16, 1883; p. 540; July 3, 1885, p. 9.
71. *MT*, Dec. 21, 1883, p. 681.
72. The pattern of interlocking partnerships was common throughout Ontario, and was reproduced subsequently in the prairies. It probably facilitated the intercommunal transfer of funds, and certainly facilitated the process of growth, both by bringing in new capital to the bank with the partnership and by bringing in local expertise. Another prominent example, illustrating even greater flexibility than the Fawcett system, was the multiplicity of bank firms in which Loftus Cuddy of Amherstburg was involved. In 1878, a branch of the Johnston Banking Co. of Strathroy was established in Amherstburg in partnership with Cuddy, and which he took over completely in 1883. Cuddy's bank then established a Bothwell branch, which

was closed during the bad years of the mid-1880's. In 1891, Cuddy moved to Cleveland in conjunction with his extensive coal investments there, and was succeeded in Amherstburg by Messrs. Fall Bros. In 1893 Cuddy returned to Canada, and the Amherstburg Bank, then the sole bank in the town, was reorganized as a partnership, Cuddy-Falls Co. See *MT*, May 11, 1883, p. 1255; June 4, 1886, p. 1376; Dec. 18, 1891, p. 719; *MT*, Dec. 17, 1893, p. 970.

73. *MT*, Sept. 26, 1884, p. 344.
74. *MT*, Aug. 25, 1876, p. 211; Aug. 27, 1880, p. 232; Feb. 4, 1881, p. 892.
75. *MT*, Nov. 28, 1884, p. 614.
76. *MT*, Oct. 17, 1884, p. 429; Nov. 14, 1884, p. 546; Jan. 2, 1885, p. 746.
77. *MT*, Oct. 17, 1884, p. 429.
78. *MT*, Aug. 21, 1885, p. 203.
79. *MT*, July 8, 1887, p. 38.
80. *MT*, Dec. 8, 1899, p. 735.
81. *MT*, Feb. 3, 1888.
82. *MT*, Dec. 19, 1890, p. 740.
83. *MT*, Jan. 9, 1903, p. 919; March 6, 1903, p. 1199.
84. *MT*, Oct. 12, 1883, p. 400; Oct. 17, 1883, p. 428; Nov. 2, 1883, p. 484.
85. *MT*, April 3, 1894, p. 1278; April 20, 1894, p. 1316; Aug. 3, 1894, p. 137.
86. *MT*, Jan. 1, 1897, p. 874.
87. *MT*, Jan. 29, 1897, p. 915; Feb. 19, 1897, p. 1107; Feb. 26, 1897, p. 1141.
88. *MT*, Jan. 28, 1898, p. 980; July 14, 1899, p. 49.
89. *MT*, Nov. 27, 1903, p. 678.
90. *MT*, Dec. 22, 1882, p. 680; Dec. 29, 1882, p. 708; Dec. 30, 1887, p. 803; March 20, 1896, p. 1199; Aug. 9, 1895, p. 762; Dec. 3, 1897, p. 752; *CE*, Nov. 1894, p. 248. In addition to the long string of activities already mentioned, the Rathbun's collaborated with another rather powerful Kingston private bank, Folger Bros. and Co., to run the North American Telegraph Co. from 1880 to 1899, when they sold the telegraph to an American syndicate. The Folger Bros. had quite a long record of promotions itself, albeit more in utilities, transportation, and mining than in industry. In addition to the telegraph, the Folger firm ran a line of St. Lawrence steamers, and in 1887 along with Toronto brokers and New York capital it promoted an iron mining operation which was slated to eventually begin smelting. The Folgers were also tied up with George Stephen in the construction of the Pembina branch of the St. Paul, Minneapolis and Manitoba Railway. On the Folgers see *MT*, July 28, 1899, p. 103; July 23, 1897, p. 100; May 20, 1887, p. 1370; Oct. 4, 1887, p. 484.
91. P. Lowe, "All Western Dollars," p. 17.
92. See for example D. Creighton, *John A. Macdonald*, II, p. 387; G. F. G. Stanley, *The Birth of Western Canada*, 2nd ed., Chap. XII.
93. Anonymous, *Canada Under the National Policy*, p. 25.
94. *MT*, Oct. 27, 1882, p. 452; Nov. 9, 1883, p. 512.
95. *MT*, Jan. 7, 1898, p. 883.
96. *MT*, Dec. 24, 1886, p. 725.
97. *MT*, Sept. 18, 1885, p. 316; Nov. 4, 1887, p. 574.
98. N. Gilbert, *Awakening Continent*, p. 210.
99. *MT*, May 23, 1884, p. 1309, Nov. 6, 1885, p. 510; Aug. 28, 1885, p. 232; June 2, 1886, p. 6; Oct. 29, 1886, p. 491.
100. *MT*, Aug. 24, 1894, p. 233; March 1, 1895, p. 1124.
101. A. G. Brown and P. H. Morres, *Twentieth Century Impressions of Canada*, pp. 605, 610, 613.
102. *MT*, March 8, 1889, p. 1032.
103. *MT*, May 7, 1889, p. 1322.

104. *MT*, Sept 28, 1894, p. 408; June 12, 1895, p. 40.
105. See for example *MT*, June 24, 1892, p. 1549; *CBC* 1913, p. 395. D. H. McDonald and Co. of Qu'Appelle grew out of an old lumber dealing firm that evolved a private banking business on the side and in which McDonald had been a partner. This bank was one of the few to become active in the Northwest mortgage market. Another of Qu'Appelle's private banks, that of S. H. Caswell, grew out of a merchants' business, outbid the chartered banks for deposits, and was able to sell drafts on any place in Canada, the United States, or Britain. See R. C. McIvor, *Canadian Monetary, Banking, and Financial Development*, pp. 47-9, 90, 99.
106. *MT*, May 4, 1883, p. 1228; Dec. 19, 1890, p. 740.
107. One of the largest of the Northwest banks, Cowdry's, opened a new branch as late as 1899 in Pincher Creek. Only three years later, Edmund Walker paid a visit to the West to secure two of the Cowdry branches for the Bank of Commerce. See *MT*, Nov. 17, 1899, p. 640; B. E. Walker to J. H. Plummer, Sept. 15, 1902, *Walker Papers*.
108. *MT*, Oct. 22, 1910, p. 1721; Dec. 24, 1910, p. 2619.
109. *CBC* 1913, pp. 424-6, 112.
110. R. L. Reid, "The First Bank in Western Canada," p. 294.
111. E. O. S. Sholefield, *British Columbia*, I, p. 641.
112. *MT*, July 14, 1893, p. 38.
113. A. Baster, *The Imperial Banks*, p. 142.
114. *MT*, Feb. 5, 1892, p. 928.
115. *MT*, April 6, 1894, p. 1254; March 9, 1894, p. 1118.
116. *MT*, July 26, 1901, p. 101; Aug. 9, 1901, p. 172; Aug. 23, 1901, p. 233.
117. *HCD*, April 19, 1898, p. 3720.

In every stock jobbing swindle everyone knows that sometime or other the crash must come, but everyone hopes that it may fall on the head of his neighbour, after he himself has caught the shower of gold and placed it in safety. Après moi le déluge! is the watchword of every capitalist and of every capitalist nation.

Karl Marx, 1867

CHAPTER VI

Financial Institutions and the Accumulation Of Capital

Financial Intermediaries and the Capital Market

The post-Confederation period witnessed the financial integration of Canada. Though the banks played the dominant role in the evolution of the capital market and the creation of a national pattern of flow of funds, other institutions grew up to take on specific roles. Still others declined over the same period, as their roles were displaced by the growth, monopolization, and diversification of other financial institutions. The period from 1873 to 1896 saw the decline in relative importance of the chartered banks and the expansion of private banks and mortgage loan companies. From 1896 to 1914, the relative rates of growth were reversed, chartered banks growing, mortgage companies declining, and private banks approaching extinction. Over the entire period, other types of financial institutions grew steadily, especially insurance companies, the organized stock exchanges, and the fledgling trust companies.

Given the specialization of the banks in commercial loans and discounts, and given their continued domination of the financial structure, it is important to ascertain if the other institutions plugged the holes left behind by the banks. The main financial requirements of the period, apart from commercial loans and discounts, were for mortgage money, long-term debt capital for business and government, and equity financing for industry. Yet despite the growth of financial institutions — which in theory should have been equipped to service these needs, in part at least — the bulk of the new financing went into mortgages, and the supply of loanable funds for long-term debt or equity in Canada remained chronically underdeveloped.

Insurance Company Operations

Accident and Fire

While Canadian companies dominated life insurance, there were significant numbers of foreign companies active in it and other fields. British firms were especially strong in fire insurance, a field which attracted American firms, too, in increasing numbers after 1900.

TABLE VI (1)

Federally Chartered Insurance Companies, 1913

	Canadian	*U.S.*	*British*	*Other*	*Total*
Fire	29	29	24	2	84
Life	27	10	7	1	45
Other	26	29	13		68

Source: *CYB*, 1914, pp. 598-600.

Accident insurance, and to a lesser degree fire insurance companies, are supposedly institutions that do not make a lot of open market investments. The usual rationale is that they are subject to sudden and, compared to life insurance companies, relatively unpredictable demands to pay up on policies, and therefore have to keep a large amount of their assets in ready cash or quickly liquifiable forms.[1] Such is the stereotype — the Canadian reality was a little different.

The origins of accident insurance companies in Canada did not lie in the inspiration of some mythical entrepreneur, altruistically assessing a public need. Rather, the accident insurance companies emerged from the efforts of large employers of labour — notably in the transportation sector, where the emergence of a large-scale labour force came first in Canada — to escape their liability under common law for accidents injuring or killing their workmen. Such a development also permitted the employing company itself to maintain control of the policy funds and put them to work in its own interests rather than placing them at the disposal of an independent institution for open market investments.

The Allan steamship line, for example, wholly owned the Citizens' Insurance Company, and all of the employees of

Allan's transportation empire were docked one per cent of their wages for mandatory coverage. The resulting policy was more expensive than the private ones, the coverage was only operational during the working day, and no document to establish the claim legally was ever issued. In the case of the Grand Trunk Provident Society, the company exacted a disclaimer from its employees, freeing the company from all liability for damages due to death or injury. While the company never contributed anything to the fund, the directors of the Grand Trunk had absolute control over the use of the money. In effect, the employees paid to absolve the company from liability. This plan was held up by the Ontario government as a model on which other accident plans should be based.[2]

The origins of fire insurance companies in Canada were very different from those of the accident companies. In the 1830's the first fire insurance company in the Province of Canada was organized by Francis Hincks in conjunction with the Boult's of Liverpool, pioneers in British fire insurance and relatives of Hincks. Like banks, then, fire insurance in Canada was a British transplant. In the decades that followed this beginning, actual organized fire insurance companies operating in Canada were relatively rare: typically the chartered banks, acting as agents and salesmen for British companies, were the source of policies — to the extent business bothered to take them out. By the 1870's, however, a fair array of domestic and foreign-owned fire insurance companies were active in Canada.

Canada was notorious for its huge conflagrations which wiped out large industrial areas and with them, in theory, threatened to destroy fire insurance profits as well.[3] Partly the fires were due to the all-pervasive use of wood as a cheap building material; partly the fires were due to flimsy construction of factories and mills, in turn caused to some extent by the exactions of the fire insurance companies who used the resulting fires to justify huge rate increases.

Fire insurance was a very profitable business in Canada, despite the companies' protestations. From 1867 to 1913, only once, after the great fires of 1877, did the annual losses paid exceed the premiums received. And the premium receipts were rarely less than 30% more than losses; frequently they were double or even more than double the level of loss disbursements.[4]

British companies dominated the business in Canada, though their relative share of premiums declined from 64% in 1869 to 52% in 1912. While in 1869 Canadian-owned companies did 28% of the premium business and American only about eight per cent, by 1912 the Canadian firms' share was down to 22% while the Americans controlled 26%. Fire insurance was the only major financial intermediary activity in which the Canadian relative share fell over the period. The critical point came in the 1890-1895 period. In 1890, Canadian fire companies did well more than double the premium business of the American firms, but for the next nine years their premium business fell absolutely while that of the American companies doubled between 1890 and 1895. Not until 1912, however, did the American firms finally overtake the Canadian. British firms also grew quickly in this period, attracted no doubt by the fact that Canadian insurance rates were among the world's highest.[5]

That the rates were so high must be credited to the success of the firms in organizing their cartel. It had begun in 1872 as the Canadian Fire Underwriters' Association, including all of the joint stock companies in Canada. The progress of the cartel was assisted by the Mackenzie administration's insurance legislation. In 1874, George Brown organized the Isolated Risk Insurance Company in Toronto to try to secure the business of the Tory-controlled Beaver and Toronto Mutual Fire Insurance Co., and placed Alexander Mackenzie in the presidency.[6] In 1875, a bill was passed requiring all mutuals operating in more than one province to make the same mandatory deposit of securities as the joint stock companies.[7] Richard Cartwright, in introducing the bill, assured the Commons that the Ontario mutuals doing business only in Ontario would be unaffected, though he suggested that circumstances might arise when the requirements of security deposit might have to be extended to them.[8] Beaver Mutual was then declared to be within the jurisdiction of the bill, and a $50,000 deposit required. Beaver petitioned for an extension of time, for up to three years to pay the deposit. This was refused, and the company wound up in 1877.[9]

Perhaps even more conducive to cartelization were the results of the great St. John fire of 1877, which followed a year of intensive rate cutting by the fire companies. The ratio of losses paid to premiums received topped 225%. Property loss reached $20 million, with two-thirds of the city destroyed, and insurance liabilities came to over six-and-one-half million dollars. Two small New Brunswick companies failed; one Ontario-based company also failed; several suspended and reduced their capital; and the Royal Canadian, a pioneer among Canadian fire insurance companies in doing business abroad, had its New York license revoked because of the extent to which its capital had been impaired by its losses in the fire.[10]

After 1885, a year of exceptionally low payments for fire losses, the cartel tightened its grip, and agents were forbidden to deal with other firms that were not members of the cartel. Rates went up 40% immediately; and were raised another 20% shortly after.[11] The result was the formation in 1885 of the Millers and Manufacturers' Fire Insurance Co. by a group of industrialists headed by James Goldie, the Guelph miller, to try to cut fire premiums for mills and factories.[12] Other Canadian industries began to step up the rate at which they insured with "underground" fire companies, American mutuals not licensed to solicit business in Canada. It was the beginning of open economic warfare that continued to rage unabated between the manufacturers and the fire cartel. The protected manufacturers called for free trade in insurance, while, in their efforts to cut off the flow of business to the U.S. undergrounds or destroy the independents, the fire cartel insisted that they too were entitled to protection.

Neither of the manufacturers' responses to the cartel proved adequate. While the Millers' and Manufacturers' tariff averaged 25% below the cartel rate, and varied according to risk while the cartel tariff was uniform, the new firm was too small to carry the insurance load of any sizable industrial company. It was therefore rendered relatively powerless by the cartel's refusal to permit any of its members to engage with it in joint underwriting.[13] This was a serious problem, for joint action by the small companies was essential. In 1894, for example, J. R. Booth's Ottawa sawmill required its fire insurance to be underwritten by 20 British, five American, and three Canadian companies.[14] The British firms too were several times larger than the Canadian firms in general, and certainly larger than the independents. And the British firms were all safely ensconced in the cartel.

The other alternative, the American mutuals, was only of very limited efficacy, for in insuring with the firms who were not allowed to operate in Canada, the manufacturers had no guarantee that the policy would be enforcable in court. Under the circumstances, many manufacturers simply did not bother to insure, or had only very limited insurance and very shoddy factories.

In 1904, the Canadian Manufacturers' Association called for collective action against the cartel. Its Insurance Committee, conscious that each manufacturer in isolation was helpless before the cartel but that jointly they could wield countervailing power, proposed

> that we organize for the purpose of collecting premiums and paying losses, and that we collect on the basis of scientific inspection. Our suggestion aims to eliminate commissions, reduce expenses, and return profits to policy holders.[15]

There followed a series of efforts to organize their own mutuals, which failed to take hold. Nor was any concept of pooling successful: the fire cartel would deal with firms only on an individual basis.[16] The cartel renewed its efforts to block the flow of business to the undergrounds as well. In 1909 it sponsored a bill before Parliament that would have barred Canadian manufacturers from dealing with the American mutuals. The CMA sent a delegation to Ottawa to fight the bill, and a compromise was arranged restoring the status quo ante bellum: the American mutuals could not solicit in Canada, but the manufacturers could purchase policies in the U.S.[17] Within a year the fight was raging again. The cartel, reorganized as the All Canada Insurance Federation, pledged itself anew to cut off the flow of business to the U.S.[18]

The fact that Canadian manufacturers had a clear preference for the American fire insurance companies, especially the mutuals, over the British and Canadian joint stock cartel, coupled with both the legal hazards of insuring with "underground companies" and the inability of American firms operating from the U.S. to solicit business in Canada, led to the logical solution — the migration of U.S. fire insurance companies to Canada where they took over an increasing share of the available business.

The manufacturers were not alone in their differences with the cartel. Municipalities across Canada, but especially in Ontario, regarded it with ill-disguised animosity. For the cartel frequently would arbitrarily order a municipality to make sweeping changes in its fire equipment or its waterworks or face massive increases in rates on all establishments in the town. After Welland in 1896 was ordered to install a $50,000 waterworks system or face a 50% rise,[19] and Hamilton and Guelph, who did not give the cartel satisfaction, had their rates increased in 1897, the municipalities began to call for a switch to mutuals or else to a system of municipal fire insurance.[20] This last was a most unfortunate idea, for in a bizarre way it did come to pass. Municipalities often were called upon to grant loans or gifts of cash to rebuild factories and mills gutted by fire and without any insurance.

The use made by the companies of the funds derived from the extorted premiums is rather curious. Part of them, of course, went simply to enrich a few financiers, of which the Standard Fire Insurance Co. provides a good illustration. This firm was organized in 1877 and grew quickly through mergers. In 1883 it failed, due to the efforts of its president, D. B. Chisholm, who absconded, and its inspector. Between them, in the words of the new president, they "unsparingly plundered those unlucky enough to be cajoled into investing their capital therein or insuring their property therein whenever losses occurred."[21] The firm was kept afloat for a while by heavy loans from the Federal and Exchange Banks (much of which was promptly reborrowed by Chisholm), and finally expired.

In terms of their asset portfolios, fire insurance companies did hold very significant amounts of stocks, bonds, and debentures at the same time that their liquidity preference was very high. British companies very early took the lead in real estate lending, and over the 1900-1914 period, Canadian and British companies shifted heavily into that field.

TABLE VI (2)

Fire Insurance Company Assets

Year		Total Assets	% Stocks Bonds Debentures	% Real Estate Loans	% Cash Items and Bills Receivable
1900	Can.	6,029,107	58	0.6	33
	U.S.	16,480,531	87	0.0	13
	Brit.	1,501,932	56	23.0	6
1914	Can.	17,501,179	51	18.0	21
	U.S.	35,852,077	81	0.1	14
	Brit.	10,467,422	39	42.0	18

Source: Superintendent of Insurance, *Reports* 1901, 1915.

Life Companies

Life companies, by contrast to fire, are expected to accumulate great amounts of funds suitable for long-term investments. During the pre-war period the Canadian insurance tariff was one of the highest in the world, while life insurance holdings among the working class were widespread[22] — except for the black population of southern Ontario and the Maritimes who were regarded as bad life insurance risks.[23]

In terms of their investment activities, life companies in Canada were initially heavy holders of municipal bonds. In 1880, these were over 40% of their total investments. But over time these holdings were decreased substantially, with a shift into corporate stocks and bonds and foreign securities. Mortgages too, dipped sharply after 1891 down to 24% in 1904,[24] but thereafter rising. Canadian companies gradually increased their hold on the Canadian life business, until by 1914 they accounted for over 70% of the total assets of life companies in Canada, precisely the opposite pattern to fire insurance.

TABLE VI (3)

Life Company Investments

Class	% *1881*	*1891*	*1901*	*1911*
Real Estate Loans	30.68	42.96	28.94	35.57
Policy Loans	9.07	8.46	9.77	12.11
Government Bonds				
— Canada	0.06	0.23	0.41	0.8
— Provinces	0.08	0.22	0.65	0.34
— British and colonial	—	0.22	0.25	0.26
— Other	—	0.55	0.18	0.21
Municipal Bonds	40.64	14.51	15.29	11.89
Railway and Corporate Bonds				
— Canada	1.02	2.91	13.05	11.79
— U.S.	—	—	3.13	10.22
— Other	—	—	0.29	0.65
Stocks				
— Canada	2.24	3.19	5.91	4.89
— U.S.	—	—	0.88	2.45
— Other	—	—	—	0.4
Cash	2.51	1.89	1.64	1.30
Total $	$7m	$23m	$66m	$189m

Source: Superintendent of Insurance, *Report*. Vol. II, 1929, p. xxxii.

Over all, the foreign life companies invested much more in long-term finance to industry and government than the Canadian ones did. And as the Canadian firms increased their share of the life insurance field, this problem was accentuated, especially in light of the Canadian companies' strong and growing infatuation with long-term investments abroad.

The Royal Commission on Insurance charged that the Canadian life companies "tend to become powerful aggregations of money with financial rather than insurance aims" and vehicles for speculation.[25] The problem was not the aggregate of investments in long-term securities but the type of security held, and especially the amount of equity, which could, and often did, represent pure water. In addition to their activities at home, which were so deeply involved with mortgage lending, the insurance companies were actively engaged in speculative promotions abroad both in investments and by the provision of interim finance. And to the

TABLE VI (4)

Life Insurance Company Asset Items

Companies		% Total Assets				
	1890	1895	1900	1905	1910	1914
Canadian						
s.b.d.	% 24	27	39	49	37	30
r.e.l.	% 45	38	49	26	31	36
British						
s.b.d.	% 55	55	53	60	56	39
r.e.l.	% 33	36	36	29	33	47
American						
s.b.d.	% 85	79	86	85	78	69
r.e.l.	% 1.5	1.7	3.0	2.5	5.8	13

s.b.d. = stocks, bonds, debentures
r.e.l. = real estate loans

Source: Superintendent of Insurance, *Reports*, Vol. II, various years.

extensive degree that these companies were vehicles for the personal and particular promotional activities of a few financiers rather than a stable source of long-term finance for business and government in general, their contributions to the development of a Canadian bond market was that much the weaker. Large amounts of funds were locked up in a few interconnected financial webs based on the alliance of railway companies with banks and life companies, rather than being made available to the capital market as a whole.

Ignoring Sun Life, the largest Canadian company and the worst offender, whose promotional activities were largely in the U.S., the best example of this use of the insurance funds is provided by Canada Life, the central institution in the Cox empire. George Cox had begun his career in Peterborough as a telegraph company official and local agent for Canada Life. In 1877 he was an organizer and the first vice-president of the Peterborough Board of Trade.[26] In the next few years, his activities included railway promotions, real estate speculations, and the promotion and operation of financial institutions— accident insurance, fire insurance, and mortgage loan companies. His railway connections grew rapidly, bringing him into close relations with the Grand Trunk through his presidency of the Midland Railway, whose London board was headed by Sir Henry Tyler, president of the Grand Trunk. The year 1884 saw the creation of Central Canada Savings and Loan Company, which thereafter played a major role in the Cox empire. The next year Cox's political rise began with his election as Mayor of Peterborough. During all this time he had been surreptitiously buying up equity in Canada Life, and much to the disgust of the existing board, by 1892 he was in a position to elect himself director. He became vice-president in 1900. His two sons joined the firm in various positions and consolidated the empire.[27]

Cox was active in politics as well. After George Brown's death, strenuous efforts were made by Lord Strathcona to secure control of the *Globe* to silence its criticisms of the CPR. Cox, with Robert Jaffray, headed the list of eminent Liberals who saved the paper. Fund raiser and organizer of the operation was the Ontario Liberal Party bag-man, W. T. R. Preston.[28] In 1896, both Jaffray and Cox were rewarded with Senate seats. They apparently got them for free at a time when W. T. R. Preston was in charge of selling Senate seats for $10,000 each to raise funds for the party.[29]

Cox made good use of Canada Life for his various adventures. In 1899 a writ was issued against him at the insistance of a group of policy holders to compel him to repay all sums he had illegally pilfered from the company, estimated to run up to $50,000 per year.[30] And huge sums were poured directly through the company into firms in which Cox was interested. The company was especially fond of trafficking in the equity of financial, railway, and utility companies. Electric utilities were especially popular until about 1907, when the movement of life funds into real estate speculation on a vast scale began. Dominion Coal was another firm in which the equity dealings returned great profits to Cox and his Dominion Securities Company.[31]

The investment behaviour of Canada Life is of critical importance, both because it was the second largest in Canada, and because its behaviour was typical of the other firms, though the smaller were often not so speculative in their preferences. In 1900 it made loans in security of stocks, bonds and debentures of three million dollars, of which industrial equity represented only about $90,000. Out of nearly $4.5 million in stocks and bonds owned, only 10% were industrial. These were one rolling stock company, directly linked to railroad operations, and Dominion Cotton Co., a merger of some of the holdings of the Montreal commercial capitalist community. In 1905 out of $18.3 million, less than five per cent went into industrials, of which the great majority was in rolling stock firms again, the rest in cotton and primary iron and steel. In 1910, stocks, bonds, and debentures were down to $14.8 million reflecting the movement into mortgages: some seven per cent was industrial, and of this the same firms as in 1905 got the benefit, except for a small holding of the bonds of Patrick Burns and Co., the new Calgary meat packing firm.

Cox also controlled Imperial Life with the assistance of Joseph Flavelle, who fronted for Cox in National Trust, and A. E. Ames, whose brokerage firm was kept solvent only by secret loans from Canada Life. At one point he tried to secure Manufacturers Life as well. But this firm remained in the control of William Mackenzie and Donald Mann as a vehicle for their utility and railway promotions, and as a source of funds to support Henry Pellatt's stock speculations.[32] The investment portfolio of Manufacturers Life was roughly the same as Cox's with a slightly greater penchant for foreign investments and no industrial investments at all. Mackenzie and Mann's various operations were well financed, however.

The Independent Order of Foresters was one of the leading insurance operations in Canada. it was also a source of considerable material well-being for its president, Dr. Oronhyatekha, who made ever-increasing salary and expense account demands upon it during its early years.[33] Its investments were hidden by working through the Union Trust Co., which it had promoted out of an old moribund Ontario trust company. The IOF held all the shares in Union Trust except for a few which went to George Foster and two others as qualifying shares.[34] Foster then became managing director. All of the uninvested surplus of the IOF was turned over to Union Trust at a guaranteed rate of return of four per cent. Foster poured the funds into timber limit and land speculations, some of which involved deals with the property of the Hon. Rodmond Roblin, Premier of Manitoba, into U.S. railroad securities, and into helping officers of the company with their personal speculations. In return, Foster got a share of the profits.[35]

The tendency for one financial intermediary to be interlocked with the promotion and operation of another is very pronounced in Canadian financial history, as the Canada Life and IOF cases demonstrate. One of the most complex, and therefore illuminating instances concerned the activities surrounding Continental Life.

The operations tended to revolve about Gabriel Somers, the former Beeton private banker and grain dealer. Continental Life grew out of an old Ontario life and accident company. Among its assets were $25,000 of Atlas Loan Co. debentures which passed on to Continental Life. In 1902 they matured and were paid off, but the manager of the Atlas, who was a director of the Continental, got the life company to repurchase the debentures.

Atlas failed in 1903, and there was a loss to Continental. To hide it, the debentures were then "sold" to Somers. In return, the Continental was to pay Somers two-and-one-half per cent of its premium income to cover any losses on the debentures. The funds for this deal were borrowed from the Traders Bank, the rather shady operation promoted by H. S. Strathy, the broker who had helped wreck two other banks; the Traders' was also the bank to whom Somers had sold his private bank. In 1903, Continental's directors promoted the Ontario Securities Corporation, with Somers as president, and the security firm subscribed for all the unsubscribed stock of Continental. It was then used to divert all sorts of profitable security deals away from Continental Life and into the pockets of the directors, financed with funds from the life firm which made big "loans" to the security company, some of them secured by equity of the Sterling Bank which the directors were busy promoting. To get the $250,000 deposit necessary to commence operations of the bank, the security company was given securities from Continental Life's portfolio, disguised as a sale, to pledge to another bank for a loan. The rest of the required deposit was acquired by the security company subscribing for stock at a large premium in the same Sterling Bank whose flotation was the object of the exercise, and using the stock, whose value was thus inflated as security for further borrowings from Continental Life.[36] Even George Cox had never managed to pull off an operation like that.

The Bond Market

The changes in insurance company investment behaviour parallelled those of the banks. Both institutions showed an increase in interest in the bond market until about 1905, and thereafter a movement away, in relative terms, from long-term bond investments. In light of the enormous share of intermediary assets accounted for by the two institutions, their behaviour had great repercussions on the development, and later the underdevelopment of the bond market in Canada, and hence on the ability of governments, railroad companies and industry to secure financing within Canada.

In 1870, only 9.3% of the funded debt of the Dominion government was held within Canada, and by 1900 it was down to 3.7%. Thereafter it held steady, until it began to decline in 1909, reaching 0.4% in 1914. Yet the absolute growth of the funded debt from 1895 to 1913 was only about 15%. At the same time that the relative share held in Canada declined, Canadian holdings fell *absolutely*. In 1885 nearly $20 million had been payable in Canada; by 1914 $700,000.[37]

From the over-all figures for public issues by all levels of government and corporations, the deterioration in Canada's ability to absorb its own funded debt is very striking. In 1906, Canada absorbed 43% of its public issues. By 1908 it was down to 12%. While some recovery occurred, the growth in the reliance on foreign, especially British, portfolio capital was pronounced.

While exact figures are not available, it seems that the reliance on British capital began to be strongest in 1905, when $30 million issues were floated by each of the Canadian Northern and the Grand Trunk Pacific railways in conjunction with the new transcontinental drive, and taken up largely in Britain.[38] In 1906, total borrowings declined greatly. At the same time, large amounts of Canadian capital were drawn off into the Cobalt mining speculation and away from the bond market, which served to make the percentage of bond issues taken up in Canada inordinately low. While this was a once-for-all shift in the flow of funds, the essential trend away from bonds by institutional lenders remained. In 1907, the crisis adversely affected municipal debenture sales, with one estimate of the amount "undigested" running as high as $25 million. It also reflected the westward shift in the flows of economic activity: of the successful

TABLE VI (5)

Canadian Bond Issues

Year	*In % Canada*	*In % U.S.*	*In % Britain*	*$ Total*
1904	n.a.	n.a.	n.a.	34,249,247
1905	n.a.	n.a.	n.a.	134,874,531
1906	43	8	49	53,987,008
1907	18	6	76	86,635,740
1908	12	4	84	196,357,411
1909	22	4	74	265,158,252
1910	17	2	81	225,100,590
1911	19	7	74	239,992,988
1912	16	12	72	230,782,982
1913	14	13	73	351,408,629
1914	20	12	68	188,900,000

Sources: calculated from E. R. Wood, *Review of the Bond Markets of Canada 1906 - 1910* and *CLRII*, p. 910, with adjustments. *MT*, Oct. 27, 1916 gives slightly different estimates.

issues that year, 99 eastern municipalities accounted for about six million, while 39 western towns accounted for eight million.[39] The municipal issues were hardest hit of all during the stringency, because they tended to rely most heavily on Canadian markets, the level of Canadian absorption of municipals being usually 80 to 85%.

In terms of access to the British market, railways and utilities tended to be most favoured. In 1907, for example, they accounted for 43 million of 52 million corporate issues, leaving less than nine million for industrial and navigation companies. By 1909, however, Canadian industrials too were welcomed in London.

In the absence of the insurance companies and banks there was little to take up the slack in the Canadian bond market. The two large Quebec savings banks tended to invest up to 50% of their deposits in bonds, but in 1910 the total came to only about $17 million. And little could be hoped for from government savings banks. Wealthy individual investors tended to favour real estate mortgages, bank and intermediary equity, and railway and utility equity to bonds. The trust and loan companies, too, preferred mortgage lending.[40] The attraction to mortgages reflects the linkage of the big financial institutions to the growth of staple industry in the West, that is, the impact the "wheat economy" had on the direction of the flow of funds in the Canadian capital market.

The Mortgage Market

Despite the interest of life insurance and trust companies in mortgage lending, the field remained dominated for a long time by the mortgage loan companies. The mortgage loan companies differed sharply from the insurance companies with respect to their liability instruments, and to some extent in their asset structures as well. The insurance companies generated their funds largely within Canada from policies, and were active exporters of capital in addition to their mortgage lending. The mortgage companies did not export capital, but imported large amounts from Britain by the sale of debentures there.

One of the earliest companies to make extensive use of the sterling debenture was the Canada Permanent Loan Company. Its first effort to issue them came in 1862, but was unsuccessful. Legal problems existed at that time, for the validity of the use of the debenture by a loan company under existing legislation was open to doubt. More important, for it was much more difficult to change, was the reluctance of British capital to move into Canada after the railway debacles. By 1875, the Canada Permanent's capital was three times its 1862 level, its reserve fifteen times as great, and it had paid an unbroken string of dividends of 10-12% per annum. Under these circumstances a debenture issue of $334,000 was floated in Britain, the first of a stream that continued for forty years. [41]

Initially their domestic deposit business was of considerable significance, much to the chagrin of the chartered banks who, blocked from mortgage lending, argued that the mortgage companies therefore should stay out of the deposit business.[42] As the U.K. market for their five-year debentures widened, the deposit business was increasingly ceded to the chartered banks. Deposits as a percentage of total liabilities fell from 25.7% in 1870 to 11.3% in 1915.[43] By 1893, of $115 million worth of current loans, $110 million was secured by real estate, and of their deposits and debentures of $80 million, $50 million was borrowed in Scotland.[44] Britain, as a nation characterized by old wealth, was an ideal source of funds, and the landed gentry were the principal holders of the debentures.[45]

The mortgage market underwent a great burst of activity during the boom years of 1879 to 1883, and the after-effects lasted for several years. Profits from real estate were very substantial, and rendered even more so by the all-pervasive practice of cheating the farmers by compounding the interest. Sometimes payments were required on a monthly basis while interest was calculated on the entire principal. New laws were enacted to force them to stipulate the real rate of interest. [46]

Funds poured first into investments in the old provinces, but as the surplus of funds relative to demand began to make itself felt on their earnings position, companies began to switch to Manitoba, where rates of return were higher.[47] Canada Permanent alone put more than a mllion dollars into speculation there between 1881 and 1883, and the collapse nearly brought down the company with it.[48] Other outlets were found for the surplus funds in Ontario by encroaching on the banks' business. This, in fact, was a fairly old practice. As early as 1869 the Colonial Securities Company went into short-term lending with its mortgage funds.[49] But by the early 1880's the loan companies were even discounting notes illegally, following a big drop in their mortgage business.[50] By 1885, the pressure on their earnings position from a fall in mortgage rates and a rise in the cost of sterling borrowings was severe enough to force mergers of several institutions in an effort to reduce competition. But the squeeze continued, and by 1887 the former spread between debenture and deposit rates was gone.[51]

It was a time of generally falling interest rates, and the rise in the cost of sterling debenture borrowing requires some explanation. Part of it no doubt lay in the fact that, though there were no losses to debenture holders, British investors may have been frightened by the orgy of speculation, and the ensuing liquidation, and by the behaviour of a few of the companies involved.

Notable among these companies was the Ontario Investment Association which was active in the field of sterling borrowings during the land boom.[52] This company was promoted in 1880 by a London group including Henry Taylor of the Bank of London. And its first board included the manager of the Federal Bank, the president of Imperial Oil, the broker H.S. Strathy, and the private banker J. A. Mahon, along with William Meredith and John Labatt.[53] It was not the best set of credentials with which to begin, and the company lived up to them in the full. The company had a meteoric career, absorbing three other mortgage firms in its first few years before it crashed dramatically.

In early 1883, the company's portfolio of assets included mortgages of about one million dollars, and also loans on stocks, bonds, and debentures of over $800,000 at a time when mortgage companies in general were putting well over 80% of their assets into mortgages. While a lot of the companies were trying to develop business supplemental to mortgage lending, none did it on the scale of the Ontario Investment Association. Difficulties began when the English agents of the company stole some £10,000 from it. The company then decided to replace the loss with a subscription of one dollar from each shareholder instead of taking the funds from the reserve.[54] It was an interesting innovation in finance; the real rationale did not come clear for some time.

By 1885 Henry Taylor was the general manager of the company, and within two years the company had failed. An ingenious system had been worked out between its president and solicitor whereby cheques were issued under the signature of the president payable to the solicitor for certain of the company's transactions; and in fact the funds were diverted into speculation. Both president and solicitor absconded, and the failure led to a run on the Bank of London, which collapsed under Taylor's management soon after. [55] In the ensuing liquidation it was discovered that the reserve of $500,000 had been completely lost and its English agents had continued their systematic robbery.[56] The firm had made huge loans on a series of unauthorized securities, including loans on its own stock. The loans on the stock of the company were over $660,000, one-third more than the entire nominal (and non-existent) reserve. Most of the loans had been made in the names of persons who really did not receive the funds; the money in fact went into Taylor's pocket, or to the solicitor and president. In light of the fact that sterling debentures accounted for $1,561,476 of a total of $1,816,505 in liabilities,[57] the failure must have had some impact on the feelings of British investors about Canadian mortgage investments.

Another victim of the end of the Winnipeg land boom was the Montreal Loan and Mortgage Company, which failed in 1884. Over half a million dollars in real estate reverted to it through advances that went into default. In 1883, this land produced a net revenue of only $12,000. Mortgages were yielding 4¾% while the company had $500,000 in debentures outstanding on which it paid five per cent. Moreover, the late manager, George Craig, was always short on his cash, and had given no bond or security. The president, auditor, and directors all "borrowed" from it, but Craig was the chief beneficiary.[58] In 1884, following the issue of a warrant, he took a quick trip to New York where he had a joyful reunion with his brother, Thomas Craig, the Exchange Bank robber who had also found it convenient to emigrate.[59]

These were not the only casualties of the collapse of the period. The Canadian Banking & Loan Co. of Hamilton folded up after its manager, D. B. Chisolm, of Standard Fire Insurance fame, absconded.[60] Then, too, there were the mergers. In 1883 under Frank Smith's presidency the English & Scottish Investment Company of Canada merged into the London & Ontario Investment Co. In 1885 Western Canada Loan & Savings was taken over by an English firm, Omnium Securities Co. Both of these mergers were prompted by downward pressures on interest rates.[61] And there were a series of other liquidations, in 1887 and 1888, some three besides the Ontario Investment Association.[62] The condition of many of these companies had been hidden by falsified returns. In fact, this problem of fraudulent returns was a widespread one among institutions who had less to hide than the Ontario Investment Association. The Lampton Loan and Investment Co. made a point of falsifying to disguise the fact that it regularly exceeded the legal limit on its deposits with impunity.[63]

Another outgrowth of the real estate boom years of the early eighties was the Credit Foncier Franco-Canadien. It was projected to be the largest loan company in Canada.[64] The promotion of the company dated back to 1877 when an envoy was sent to France by a group around E. T. Paquet, the Provincial Secretary of Quebec, to sound out members of the Bourse and the Banque de Paris et des Pays Bas on the project. The same group were interested in trying to float a provincial loan there at the same time, but both projects failed. In 1880 the effort was renewed when Jonathan S. Würtele arrived in Paris on behalf of the Chapleau Government to try to arrange a provincial loan. Both Adolphe Chapleau, the Premier of Quebec, and Würtele were directors of the Credit-Foncier du Bas-Canada which sought a loan in Europe to extend its operations in Canada. Würtele was to negotiate on their behalf, and the company later decided to proceed with the more grandiose project of the Quebec-France joint venture. A new charter was secured, as the one for the Bas-Canada prohibited foreign directors and imposed a series of other restrictions uncongenial to French promoters.[65]

The charter carried with it a series of special concessions including one clause that stated,

> A privilege of 50 years, dating from the day of its final constitution is granted to the Company. The said privilege consists in the fact that the Government of the Province binds itself not to authorize within its territory the formation of any other Credit Foncier in any way represented in France.[66]

Why the government of Quebec should have been so eager to grant a monopoly of access to French mortgage money for 50 years is a moot point, but it would be surprising if it had nothing to do with the personnel of the Canadian promotion team. The Lieutenant Governor of the province had been president of the Canadian syndicate that produced the scheme, and the six syndicate members who became the local directors consisted of Chapleau himself; Würtele, soon to become Treasurer of the province; the provincial secretary, the Hon. E. T. Paquet; the Hon. I. Thibodeau, former president of the Executive Council, former legislative councillor, and president of the Banque Nationale which functioned as Canadian bankers to the operation; another member of the Quebec legislature, who was also a director of the bank; and the president of Molson's Bank.[67] To make doubly sure, it was alleged that bribes of $30,000 had been distributed to members of the legislature.[68]

The floatation of the company was an equally interesting operation. All of the equity except some 300 shares to qualify the Canadian directors was marketed by the French bankers in France, with the Canadian promoters slated to get a share of the profits.[69] And the profits were substantial. The first issue of stock brought a premium of 750,000 francs, which was treated as profit and divided amongst the Canadian and French promoters. A second issue brought a premium of 15-20% which accrued to

Würtele and Chapleau. The shareholders thus paid 15-20% for a chance at dividends when in Quebec the year before only two, or at most three of the 26 loan companies operating therein declared a dividend.[70]

The charter of the company had stipulated that the maximum rate it could charge on loans was six per cent, and the monopoly powers were justified on the grounds that the company would lower mortgage rates in Quebec. In the provincial election, the Chapleau campaign in the rural districts was based on the claim that he had brought the company to Canada and eased the mortgage situation. After Chapleau was returned with a majority unprecedented in Quebec history, the company immediately began to lobby to have the ceiling raised to seven per cent.[71] The Credit Foncier claimed that a financial crisis in France was impeding its operations and that it could not float its debentures in Paris while hampered with the six per cent ceiling. In fact, the real reason for the inability to float the issue was the stock manipulation that had accompanied its promotion and which had undermined its credibility. French investors were also frightened off by the fact that since the company was authorized to issue debentures of an amount up to five times its paid up capital, there was little security for the debenture holder.[72]

The company had also secured a Dominion charter to operate elsewhere in Canada. In eastern Canada its interest rate was limited to six per cent, but west of Ontario it could charge up to seven.[73] Soon, following the decrease in the field for mortgage lending, it was demanding additional powers like the ability to lend on securities as well as land.[74] Efforts to get the interest rate ceiling lifted were fought in the Commons. At that time Quebec's depopulation was being powerfully assisted by mortgage companies whose claims drove many farmers and their families to New England for part-time work in the mills to help pay off the debts. At the same time, lands forfeited or sold because of debts passed into the hands of big land envelopers who held them for speculation.[75] Not only was the requested rate increase granted, but by 1883 it was up to eight per cent.[76] Three years later, the Credit Foncier claimed it had floated a $1,200,000 debenture issue in Switzerland at four per cent.[77]

The progress of the company was rapid. In 1888 Sir Adolphe Chapleau became president of the company,[78] replaced on his death in 1898 by the Hon. Mr. Justice Jonathan Würtele.[79] The Credit Foncier began operating in British Columbia as early as 1893, one of the first eastern-based mortgage companies to do so.[89]

By the time the Credit Foncier began its operation in the far

West, conditions in the Canadian mortgage market were changing. By 1894, the use of sterling debentures reached a peak and began to fall absolutely as borrowing rates continued to rise and lending rates fell. Slow growth of the mortgage companies in terms of relative share of intermediary assets coincided with the slowing of sterling borrowings, and at the same time the chartered banks made a strong move into the savings deposit business. By 1893, the tendency was already strong for the mortgage companies in Ontario to shift to urban lending for factories, houses, and warehouses, with less money going to the Ontario farms. There were two factors involved in determining this reallocation. Individual lenders as well as the newly emerging trust companies were tending to increase the competition in the field of farm lending,[81] a competition already rife from the 69 mortgage loan companies operating in Canada in 1896. By 1898 the former practice of paying a commission on loan business brought to the companies was abandoned in the continuing profit squeeze.[82] Moreover, many farmers were able to settle their debts, especially after agricultural product prices rose after 1896 — mortgage debts were fixed in nominal terms while farmers' money incomes were rising. The shift to urban mortgages was a natural one to make, considering the virtual absence of new farm land in Ontario, the generally improved conditions that followed the move into mixed farming in the 1890's in the face of sagging grain prices, and the surge in home ownership in Toronto and other big Ontario cities. In 1900, farmers in Ontario not only met all their interest due, but that year alone settled one-sixth of the principal outstanding.[83] Wealthy farmers soon became mortgage lenders in their own right.[84] And as the early years of prosperity unfolded, the progress of manufacturing attracted more and more funds into urban real estate. Funds locked up for years in the wake of collapse of earlier bubbles were freed, leading to sharp competition and rate cutting.[85]

In addition to urban speculation, the deluge of funds in the hands of the mortgage companies made its way into other outlets. Loans on securities became more common. The Credit Foncier received an amendment to its Quebec charter permitting it to move into stock, bond, and debenture loans to use up the big flow of funds coming into its treasury.[86] The cashier of the Freehold Loan & Saving Co. helped himself to its funds to speculate in New York, and was jailed for his efforts.[87]

The new patterns produced their share of disasters too. The first was the Homestead Loan and Savings Society of Hamilton in 1897. It was one of the old style of "terminating building societies," whose termination in fact came as a surprise to everyone but its secretary, who had been busy inflating the value of its mortgages to make the firm look solvent and therefore justify the continuation of his salary.[88]

That same year came the failure of the misnamed Farmers Loan and Savings Co. which poured all of its funds into speculation in Toronto suburban land, much of it vacant and unproductive. When the bubble burst, it was left with nearly $1.4 million in unpaid mortgages. Its condition was hidden for a while by systematic falsification by the directors. Profits were assiduously calculated by taking the capital stock, reserve, and borrowings, adding seven percent, and entering this as part of the investment account.[89] Its creditors received 55¢ on the dollar, and it had the distinction of being the first mortgage company to produce losses for sterling debenture holders.[90]

Not learning from the experiences of the Farmers, the York County Loan Co. also invested heavily in Toronto suburbs. It invested in a number of other things as well. Its president, a former preacher from England who ran a life insurance business as well, put the money of the company into a magazine that he published, a grocery store and even a piano factory, which must make the York County the only case in financial history of a mortgage loan company involved in industrial promotions.[91] Most of the funds, however, seem to have been diverted into urban real estate speculation through a real estate company he also owned.[92] These funds were drawn to a large extent from rural savings, for the company had scores of glib and smooth-talking agents roaming Ontario and conning "servant girls and country bumpkins."[93] Efforts were made to sell it to another loan company, but the deal did not materialize, the company was ordered into liquidation by the court, and its president charged with conspiracy to defraud.[94]

In addition to urban real estate speculation, the mortgage companies had become increasingly involved in loans on securities, and this too took its toll. In 1903 came the rather predictable suspension of the Atlas Loan and Savings Company of St. Thomas in the wake of the failure of A. E. Ames and Co. The president of the Atlas was a partner in the brokerage firm. Until 1898, the business of the Atlas was orthodox enough, borrowing on deposit and debenture at 3.75 to 4.25% and loaning on mortgage at 5.5 to 6.1%. Then, however, it shifted its portfolio into stocks and bonds, and raised its interest rates from 3.4% in 1900 to 4.7% in 1901 at a time when other companies were offering 3.5%. In 1903 it reached 5.0%, and later climbed to 6.0%. The bulk of the savings of the people of St. Thomas were secured by the company and put to work in the type of stock operation that wrecked A. E. Ames and Co.[95]

In addition to urban speculation and stock deals, the Ontario companies began to look west well in advance of the rush of settlement. For the rates and market conditions in Manitoba and the Northwest improved as grain prices moved upward and the existing small settler community found its condition somewhat more solvent.[96] Few of the companies active in the West were local promotions, such as the Land and Investment Company of Manitoba, a creation of the former Premier Thomas Greenway with a cabinet minister and other notables.[97] The great majority were eastern companies. While the Manitoba North West Loan Co., for example, was headquartered in Winnipeg and did almost all its business in the Northwest, most of its capital was controlled in Toronto, and its headquarters moved there shortly.[98]

A series of mergers resulted from the squeeze on loan company earnings during the period. The first was the absorption in 1898 of the Manitoba North West by the Canada Landed and National Investment Co., a firm in which George Cox figured along with former Prime Minister of Canada Mackenzie Bowell. Some of the assets of the Manitoba firm went to Cox's Central Canada Loan and Savings. Only a year later, there was another merger of firms active in Manitoba: Canada Permanent absorbed three other firms including the London and Ontario, itself an earlier merger.[99] That same year, Sir Casimir Gzowski and George Cockburn promoted a merger of three firms into the Toronto Mortgage Co., to cut competition in the Toronto area.[100]

No further large-scale mergers occurred until 1906, when two further amalgamations occurred around the Huron and Erie Loan and Savings Co. and the Lambton Loan and Investment Co.[101] But by then the mortgage market was on the verge of another major transformation.

As late as 1905 and 1906 the mortgage market was reported badly overcrowded.[102] Insurance companies were still in the process of shedding their mortgage portfolios. Sun Life moved more funds into utilities, while Canada Life reported more losses on mortgage lending than in any other investment.[103] But by 1904 the downward trend of mortgage rates had begun to change in Ontario, although not until 1907 did Saskatchewan mortgage rates begin to climb, and then very modestly. By 1904 the decline in the level of foreign debenture liabilities of the mortgage companies was arrested, and foreign, especially British investment grew steadily. By 1907 the great influx of population into the new wheat areas made itself felt, and new wheat production began to flow. By 1908 the relative rates of return to mortgage companies on mortgage lending (as opposed to other securities) was reversed, with mortgages taking the lead once more. In addition to the new inflow of sterling debenture funds, Ontario farmers' savings were becoming available for western loans.[104] The new surge in mortgage lending was based in part on a drainage of funds from the mixed farming areas of Ontario and Quebec, to sustain the loans to the wheat-growing regions of the prairies.

Throughout the period 1896 to 1913, four trends stand out in the mortgage rate structure.[105] Rural rates were consistently higher than urban; the smaller the urban centre the higher the rate; western rates were highest, Maritime second highest and central Canadian lowest; and within the West the rates were highest in the areas of most recent settlement. The east-west flow of funds parallelled that of the banking system, with insurance company policy funds and mortgage company deposits raised in the East and shipped west along with the debenture money borrowed in Britian. Furthermore, ownership and control of the insurance and mortgage companies, like that of the banks, remained vested in central Canada — a development quite unlike the American pattern where mortgage companies grew up in the West to service the West.[106]

Saskatchewan, while paying the highest rates, received the greatest amount of eastern funds. By 1913 over and above debts of about $40 million to implement dealers and $55 million to land companies and eastern retail outlets, there was $65 million in mortgage money invested in the province. Total debt charges topped twelve million per annum, payable to central Canadian business.[107] Over 80% of Saskatchewan farms were mortgaged, and it was in precisely those districts where farm prospects were poorest that the mortgage load was heaviest. Nominal rates ran as high as 15%, with the real rate raised above this by the frequent device of subtracting a preliminary "fee." Average indebtedness in the province on mortgages was $1,500 per farm or five dollars an acre. In the seven American prairie states immediately to the south, only 45% of the farms were mortgaged. In the 15 months between June, 1912 and August, 1913 there had been 1,723 sales and proceedings for mortgages in Saskatchewan, while in the State of Victoria, with an Australian state government farm finance plan in operation, there were a total of 28 farms sold in the fifteen years from 1898 to 1913.[108]

But the burden went deeper than "excessive and extortionate" rates, even with the secular upward trend of the nominal rate

TABLE VI (6)

Mortgage Market Conditions

Year	*Sterling Debentures (1) Liabilities ($ million)*	*Ont. rural*	*Ont. urban*	*Sask. rural*	*Yield Indices (2) Loan Companies Mortgages*	*Average Yields On Other Securities*
1896	44.7	105.7	96.4	100.0		
1897	40.4	105.6	101.1	100.0		
1898	40.4	103.7	100.7	100.0		
1899	37.4	101.1	100.5	100.0		
1900	35.7	100.0	100.0	100.0	100.0	100.0
1901	34.9	99.1	99.7	100.0	99.4	100.3
1902	34.3	98.6	99.6	100.0	98.7	100.7
1903	35.1	98.4	100.7	100.0	99.7	99.4
1904	35.1	100.3	102.8	100.0	99.7	98.6
1905	43.6	101.1	102.9	100.0	100.5	100.4
1906	46.9	102.0	105.7	100.0	101.7	102.2
1907	49.9	105.3	110.5	101.7	104.9	108.5
1908	55.3	108.7	111.3	101.5	106.6	105.7
1909	43.8	106.5	108.1	101.8	107.4	105.4
1910	69.3	106.7	109.5	100.9	108.1	106.2
1911	72.2	108.3	110.0	100.9	110.2	107.9
1912	49.2	111.1	112.4	101.9	110.6	112.8
1913	56.7	118.5	122.2	104.4		

Sources: (1) *SYB, CYB* various years.
(2) *CLR II*, pp. 713, 735.

and tricks like the preliminary fee. For the structure of mortgage credit was squarely inappropriate for the farmer's needs. Under the prevailing system there was little chance to pay off: the final payment was set so high that the borrower would have little possibility of being able to meet it out of his current year's income. The mortgages were for a term of about *five years,* and renewal was almost inevitably necessary under new terms."[109] It was a structure closely related to that of the bank accommodation system — with preliminary fees and discounts, and short terms to force renewal under new and more onerous terms, compounding the interest in the process.

The Stock Exchanges, the Bucket Shops, and the Money Market

Organized security dealings in Canada grew out of the staple export trades. The Toronto Stock Exchange was established in 1852 by grain millers, merchants, and bill brokers, in part to deal with wheat and flour for export,[110] and in part to facilitate the inflow of capital from Britain at a time when interest rates there were low, and the Grand Trunk project was in full blossom. It was not established primarily with a view to facilitating domestic capital accumulation. Regular meetings began in 1861, though it was not incorporated until 1879.[111] In 1882 Henry Pellatt, partner in one of Toronto's oldest brokerage and private banking firms, Pellatt and Osler (with E. B. Osler), was elected president.[112]

Similarly, the Montreal Exchange had very early roots in commodity trade. Organized trading in Montreal seems to date from 1832, when an issue of £50,000 of equity in the Champlain and St. Lawrence Railroad was subscribed in Montreal through a stock book opened in the Exchange Coffee House.[113] But the origins of the exchange really lie in the weekly meetings of bill brokers to draw up price lists in the 1850s. A Board of Brokers was formed in 1863, becoming the Montreal Stock Exchange in 1872, and incorporated in 1874. D. Lorne MacDougall, one of the original members of the Board of Brokers, became its first chairman, and he is credited with being the virtual founder of the exchange. [114] Growth was very slow. There were originally 40 seats on the Montreal exchange, all of which were not filled until 1901, when the number was raised to 55.[115] In 1876 a seat cost $2,500. In 1897 the seats sold for even less, sometimes as little as

$1,800. But with the great surge of speculation that began in that period the demand for seats skyrocketed. By 1900, on the retirement of J. A. L. Strathy, his seat sold for $10,250. [116] By 1902 a Toronto Stock Exchange seat cost $14,500. [117] And by 1908 the Montreal seats sold for $25,000. [118]

The domestic intermediary function of the exchanges was virtually non-existent until after 1870 when Canadian money for the first time became available cheaply for investment in infrastructure.[119] And the financial and transportation companies were the only ones at first to make any real use of the exchanges. This reflected the social gap between manufacturers and the mercantile community that controlled organized finance and the transportation networks. While the first joint stock industrial company in Canada was A. T. Galt's Sherbrooke Cotton Mill established in 1844,[120] the corporate form in industry remained rare until near the turn of the century. The heaviest users, the cotton and sugar mills, were in fact created by commercial capital. In 1873 the Toronto exchange listed banks, insurance companies, building and loan societies, and one gas company. Its bond listings were all railway or city debentures and those of Dominion Telegraph. Ten years later its listing was essentially the same, with still not a single industrial. [121] And over two-thirds of the business in 1883 was accounted for by bank shares, with most of the rest insurance and loan companies.[122] In Montreal the same year, the exchange listed 22 bank shares, 17 loan and building society shares, 2 telegraphs, 2 gas companies, a few railroad and government bonds, 10 insurance companies, and the equity of four cotton mills,[123] these being the only industrials.

These patterns of stock dealing were of course the creation of the brokerage firms then active. Although in theory the dealings in financial and transportation company stocks should have been more stable than speculation in industrials, the record is otherwise. It was a standard technique of the brokerage firms of the day when manipulating bank stock to get together and sell large amounts of a particular stock which they did not own in the expectation that the effect would be to depress its value, at which point the brokers would buy cheap and fill the sales orders they had already contracted to fulfil.[124] These practices took their toll of brokerage firms. C. Dorwin and Co. suspended in 1869 in Montreal, its principal leaving Canada in a hurry with some of the cash, the other partner, one of the Gault brothers, remaining behind.[125]

More significant was the collapse of the Bond Bros. in 1876, for it illustrates that the practice of "kiting" was already a fine art among Canadian brokers. Louis Forget, Strathy and Strathy

(H. S. and J. A. L.), and Messrs. Bond Bros., the cream of Montreal's brokerage community, established a phony system of mutual credit for their gambling. Forget drew a cheque for $54,000 on the Exchange Bank in favour of Strathy, and one for the Bond Bros. who were to delay cashing it. But in fact they broke the agreement and cashed it immediately, so that when Strathy presented his cheque to Forget's bank there were no funds to cover it. The objective of the exercise was to try to get control of the Montreal Telegraph Co. by buying the equity on margin.[126] In fact the end result was the suspension and failure of the Bond Bros. who found themselves with $2,200 to meet liabilities of about one million. Their creditors included eight banks, two building societies, and nearly $400,000 to Sir Hugh Allan.[127]

In addition to dealing in bank, utility, and transportation company stock from the beginning, Canadian brokers were enthusiasts for American equity, and by 1876 their New York dealings were as heavy as their Canadian ones,[128] a situation which remained roughly constant until World War I.

Concomitant with the rise of organized exchanges came the inevitable efforts to suppress competition. This took the form of a vendetta against the "bucket shops." These bucket shops were widespread, for one attribute of the Canadian population of the period was its fondness for gambling in stocks and even in commodity futures. One bucket shop in Napanee thrived on pork futures until taken to court in 1886. The judge referred to the operation as "dealing in pork without any pigs."[129] The bucket shops, like the brokers from whom they differed only by social class, operated on a branch basis. One of the largest in the 1880's was E. S. Cox and Co., which had small offices in virtually every town in Ontario and used telegraph instruments rented from the Great North Western Telegraph Company as well as having the co-operation of Canadian Pacific's telegraph facilities.[130] Some operated across Canada: Hanaran and Co. of Toronto had Montreal branches, while one Montreal bucket shop in 1886 opened a Halifax branch.[131]

In 1888, the orthodox brokers pressed for legislation to classify the bucket shops as ordinary gaining houses. But complications resulted. For it proved exceedingly difficult to define the bucket shop operation in such a way as not to include the activities of virtually every established broker in the country. Their business was, after all, precisely the same, and the sole objective of the bill was to open up the business formerly done by the bucket shops for takeover by the established brokers. Amidst a spate of self-righteous denunciations of their godless behaviour, the Bucket Shop Act was passed, sponsored by J. J. C. Abbott, who had won his spurs as Sir Hugh Allan's chief bargaining agent in the Pacific Scandal contract. The criterion by which the bucket shop was distinguished from the orthodox broker or commodity dealer was that the transactions of a bucket shop were simply speculation on the course of prices and did not imply there would be any delivery of the merchandise.

On its passage in 1888, the Act led immediately to a wave of arrests of bucket shop operators in Montreal and Toronto. Hanaran and Co. had both its Montreal and Toronto offices raided and it was selected for a test case. Convicted in respect to dealing in American railway stock, the principal of the firm appealed and the conviction was overruled on a technicality.[132] The Act itself was still untested. That same year, E. S. Cox was acquitted of all charges with respect to his destruction of the Central Bank.[133] For his role in wrecking the Federal, the private banking and brokerage firm of Forbes and Lownsborough, and the private Guelph Banking Company, he was never even tried.

The bucket shop operators very quickly evolved a possible means of escape from the impact of the new law by claiming to be acting as the agents for parties in foreign countries, which would help circumvent the delivery criterion,[134] but not for several years was the new technique tested in court.

After 1895 came a new bout of suppression, probably prompted by the beginnings of a mining stock boom. Following an evangelist revival in St. John, New Brunswick, in which the bucket shop was denounced as immoral, the Baldwin Bros. were raided by the city police leading to the arrest of "the manager, the telegraph operator, and a prominent citizen who happened to be the only customer."[135]

In 1896, the new system of evading the law was aired in court in a grain dealing case. A Toronto broker bought grain in Chicago for a Chicago buyer, lost money on the deal, and claimed that his Chicago client had promised to indemnify him. The Chicago client tried to avoid payment by declaring that the sale and delivery were purely fictional, and that the deal was solely for the purposes of price speculation. The judge found with the plaintiff, though he denounced both parties.[136] It is interesting to note that the Toronto broker whose activities were denounced was charging one-eighth of a cent a bushel commission on wheat futures at the same time the organized brokers in the Winnipeg Grain Exchange charged one cent. The decision in the case may well have been a factor in London in 1897, when four bucket shops were raided but no arrests made. The custodians, accused of keeping a common gaming house, were let off with a warning.[137]

Not so fortunate was the manager of the Montreal Investors' Guarantee Co. in 1899. This company attracted a lot of funds on deposit with promises of three per cent per month return. Its manager closed up and absconded when the threat of arrest was made.[138]

While the Investors' Guarantee seemed a fringe operation, many of the Montreal bucket shops were so indistinguishable from the orthodox broker that often the same people ran both operations.[139] One illustration was the tangle of brokerage operations surrounding the Banque Ville Marie debacle. Most of the funds stolen by the clerk J. J. Herbert went into the bucket shops through an established broker James Baxter, as did some of the borrowings of the president William Weir, who ran a brokerage firm along with the chartered bank. The bucket shop into which the money went dealt in both equity and commodities. When the crash came, Herbert called upon Baxter to assist him in leaving Canada, and he was hidden away for sometime, going out only at night dressed in women's clothing. Baxter went to prison along with Weir and other officers of the bank.[140]

Further efforts were made in subsequent years by the brokers to stamp out their competition, but the shops continued to thrive, especially in Montreal. By 1907 some of the large ones were doing up to 20,000 shares a day in business and contributing up to $7,000 per year to government revenue by stamp purchases.[141] Moreover, as the Canadian stock market evolved, the big established brokers were so openly involved in precisely the same type of speculation for which the bucket shops were condemned that it became increasingly difficult to justify the suppression.[142]

The exchanges changed a great deal over time, especially after the new era of prosperity led to easy money and rising security prices.[143] With the Klondike gold rush and the flood of mining promotions in B.C., mining equity for the first time became a widely accepted investment among the Canadian middle class. Most of the funds for speculation from Canadian sources and even from abroad were channelled through Toronto brokers who played an active part in the mining promotions. During 1896, three to four times as many telegraphic messages concerning the B.C. mining speculation emanated from Toronto as from Montreal.[144] Mackenzie and Mann, Pellatt, George Cox, Robert Jaffray, and other Toronto notables were early entrants.[145]

New exchanges were formed to handle the mining equity. In 1898 fifteen Toronto brokers formed the Mining Stock Exchange, and closed it to further entrants,[146] a fact which may have contributed to the creation of a rival Toronto Mining and Industrial Exchange. These two merged in 1900 under the esteemed presidency of E. S. Cox,[147] and in 1902 became incorporated as the Standard Stock and Mining Exchange of Toronto, with additional powers and new listings of railway, utility, and iron and steel shares.[148] Montreal also felt a round of speculation, which culminated in 1899 with the formation of a mining exchange, but even then most of the trading during the speculative wave was bank and railroad stocks.[149]

It was mining stock and other securities connected with the new prosperity in the staple industries that led to the formation of exchanges in western cities. While the first effort to form a stock exchange in Winnipeg to deal with bank equity, railway and mining shares, and wheat came during the Winnipeg land boom in 1882,[150] the exchange was in fact never established until 1903, and did no business until 1907.[151]

In B.C., some seventy brokers in Rossland formed the first mining exchange in 1897,[152] but it did not last long. Most of the B.C. stocks were dealt in in Spokane, and the need for local flotation facilities with the growth of mining led to the creation of the Vancouver Stock Exchange in 1907. By 1908, the new exchange was listing shares of the Cobalt, Ontario, mining companies once the silver boom began there.[153] Finally, in 1914, the opening round of the Calgary oil rush led to a great wave of speculation and an inflow of venture capital that culminated in the establishment of the Calgary Stock Exchange to trade in petroleum and gas equity, thus completing the roster of Canadian stock exchanges.[154]

Many of the new promotions had their shady side. In 1897, fifteen Toronto brokers were hauled into court and charged with falsely advertising the capital of the companies they represented in an effort to attract new subscribers. These brokers represented all of the large houses in Toronto, and all charges were duly dismissed.[155] In addition, brokers did a great deal of open swindling in their stock dealings, publicizing fraudulent quotations so they could bull or bear the stock at will, a process abetted by the periodic flooding of markets with promoters' stock.[156] Once the Cobalt boom started, the brokers and promoters took the government certificates stating there was ore in the claim and used them to dupe British investors into thinking the mine had government backing.[157]

Industrials slowly made their appearance on the exchanges, but remained very weak. Over the course of 1899 Toronto traded four major industrials — CCM, Commercial Cable, Carter-Crume, and Dunlop Tire, all of them licensees of American firms and all connected to George Cox or his immediate associates. The great bulk of trading remained in banking and loan company equity, utilities, or mines.[158] Despite the steady inflation which should have made them buoyant, industrials over the 1900-1913 period were the weakest shares on the exchanges, except for telegraph companies and similar utilities.[159] Bonds traded rose about two-and-one-half times on both exchanges. Stocks on the Montreal exchange rose nearly seven-fold, but in Toronto they dropped absolutely. And in both, industrials were only a small percentage of total shares traded, in Montreal falling from 3.5% in 1901 to two per cent in 1913. In both exchanges the only exception was 1909, when because of a wave of merger activity the volume of industrials traded rose substantially.[160] The industrial merger movement had the effect of introducing widespread industrial stockholding in Canada for the first time,[161] very much as the gold rush of 1896 had for mining stocks.

The nature of the equity changed, but much of the brokers' activity remained constant, included the usual series of failures. In 1898 Thomas Lownsborough (formerly of the failed firm of Forbes and Lownsborough), who had got back into broking, collapsed again after clients failed to keep up their margins.[162]

The traffic in American stocks remained abundant. In fact, before the war the business in American equity done by Toronto and Montreal brokers exceeded that done in Canadian shares.[163] And it was this trafficking in American shares that brought down A. E. Ames and Co. in 1903.[164] Ames had been kept afloat for a while by secret loans from Canada Life,[165] but a sharp contraction in the money market in 1902 precipitated failure. In the final analysis, Ames could only pay off 25% of his debts. He asked his creditors to accept the rest in the form of equity in a new joint stock brokerage house, and thus A. E. Ames and Co. Ltd. was created.[166]

The links to the U.S. stock market went deeper than simply trafficking in American equity. New York bucket shops and brokers maintained offices in Canada. One large New York bucket shop, M.J. Sage and Co., failed in 1906 and caused severe losses in Montreal.[167] And late in 1908 and early in 1909 a series of four American brokerage failures all involved Canadian losses.[168] But it was above all through money market conditions that the linkage was forged.

Money market conditions were extremely important in explaining the course of stock trading, since the great majority was done on borrowed money. The rate of interest on short-term loans varied inversely with stock prices. For example, when funds were diverted to moving the crops and the money market tightened, stock prices would be adversely affected, and so too would the volume of trading and the ease of raising funds for new enterprises. Thus, once again the requirements of a staple-extracting economy and the banks' concomitant involvement with commodity movements conflicted with the requirements of a modern industrial economy, indirectly via the stock market as well as directly through the banks' asset portfolios. But in addition the banks' call money operations were centred in New York, where call and short loans as a percentage of banks' total assets exceeded call and short loans in Canada. And the banks' figures badly overestimated the amount of a "call market" in Canada, for the loans in Canada were not nearly as callable as in New York, and bore much higher rates.[169] In fact, the Bank of Montreal, the largest bank in Canada, refused to make call loans in Canada at all on the grounds that Canadian equity had no outside market which reduced the callability of loans. [170] And of course, the resulting absence of call money helped create the thinness of the equity market that justified the refusal to advance on call.

TABLE VI (7)

Call Money Market Conditions, 1901-1913

Call Loans as % Total Assets of Banks

	1901	*1902*	*1903*	*1904*	*1905*	*1906*	*1907*
In Canada	6.6	7.1	6.8	5.3	5.5	6.4	5.1
Abroad	7.9	8.0	6.0	6.1	6.7	6.7	6.2
	1908	*1909*	*1910*	*1911*	*1912*	*1913*	
In Canada	4.5	5.0	5.1	4.9	4.9	4.6	
Abroad	6.1	11.1	9.2	7.2	7.1	6.3	

Call Money Rates

	1901	*1902*	*1903*	*1904*	*1905*	*1906*	*1907*
Montreal	4.96	5.28	5.70	5.07	4.76	5.57	6.00
New York	3.69	4.39	3.64	1.82	4.15	6.78	5.89
London	2.45	2.63	2.93	2.29	2.25	3.47	3.49
	1908	*1909*	*1910*	*1911*	*1912*	*1913*	
Montreal	5.47	4.21	5.25	5.48	5.39	6.26	
New York	1.90	2.72	2.87	2.55	3.75	3.28	
London	2.01	1.98	2.55	2.10	2.85	3.50	

Sources: *CLR II*, pp. 739 - 41; C.A. Curtis, *Statistical Contributions*, p. 67.

The avowed objective of the chartered banks' maintenance of call loans in New York was to create a buffer system to insulate Canadian credit conditions from world stringencies. The result was precisely the reverse. In 1902, at a time when call loans in New York were rising, Canadian brokers complained of a shortage of money. A collapse of the speculative boom resulted directly from the banks' calling loans in Canada following an American crisis in addition to the usual problem of the diversion of funds to crop movement.[171] The same problem emerged in 1907, when Canadian loans were called and funds diverted to commercial loans and discounts.[172]

Faced with these gaps in the Canadian capital market, Sir Rodolphe Forget, a Montreal financier and nephew of Sir Louis Forget, attempted in conjunction with French capital to float La Banque Internationale in Montreal, with the express purpose of using the bank funds to make loans to Canadian stockbrokers, underwriters and promoters, notably himself. The bank was beset by difficulties both within Canada and without. First came the refusal of the Ministry of Finance to issue it a certificate because it had hidden the double liability from the French shareholders who subscribed for 80% of the equity. An additional factor was that Rodolphe Forget had declared for the Tory cause in the 1911 election and was running against the Mayor of Quebec, who was a close friend of Laurier.[173] After the Tory victory the certificate was issued. For the French shareholders the result was disastrous. The Canadian directors engaged in a spate of deals aiming to enrich their friends and associates, and when the French directors sent representatives to Canada to investigate, they were physically barred from the directors' meeting. A French government investigation ensued.[174] The bank tottered and verged on collapse. Henry Pellatt secured control late in 1912 and merged the institution into the Home Bank, with heavy losses to the shareholders of La Banque Internationale.[175]

In addition to simply performing illicit activities, the bank had hidden them by falsifying returns to the federal government. As a reward, Sir Rodolphe was appointed by the Tory government to the parliamentary banking and commerce committee, which was responsible for shaping legislation regulating the operation of financial institutions and otherwise standing on guard for the monetary morality of Canada.

Miscellaneous Sources of Funds and the Distribution of Income

One much neglected intermediary of considerable importance was the Catholic Church in Quebec, which absorbed large amounts of wealth, helping to impoverish its followers and precipitate that very flight of population from the Province which it so vocally deplored. By encouraging population growth too, it contributed to the subdivision of land and soil exhaustion. It also engaged in mortgage lending to French farmers to buy out the English in the Eastern Townships, for the French were subject to the tithe while the English were not.[176] Money raised by rents, tithes, or borrowed at zero interest was ploughed into steamships, railways, banking, and finance.[177] The earliest incidents of such transfers sanctioned by law involved the St. Lawrence and Atlantic Railroad Charter, in which the Sulpicians and other bodies were given authority to subscribe stock and to lend money to the company. All of the parishes along its main line as well as several Montreal orders subscribed.[178] There were even cases of parishes subscribing stock in industrial firms locating nearby.[179] But no public accounting was ever made of the Church's investments, and hence there is no way of estimating its importance to the intermediary process.

There were many instances where organized capital markets, such as they were, were bypassed by investors. Town councils subscribed stock in firms, and so would groups of citizens of a particular locality. The city of Kingston was especially zealous in this respect. In another case, in 1882, the woollen mill in Woodstock, New Brunswick, was erected by the stock subscriptions of the farmers of the area.[180]

Individual stock subscription depended, of course, on the degree of inequality in the income distribution. In a pioneer economy with relatively equal distribution of income, the great bulk of income is consumed. But with the progress of social differentiation increasing amounts became available for capital formation through the savings of the rich.[181] By 1889, the hardening of class lines and the concentration of capital had proceeded to such a degree that complaints over the closing of the Canadian frontier were heard, and immigration agents were urging new men to head west where more opportunity existed.[182]

Despite the accumulation, there was a trend to increased American direct investment in resources and manufacturing. The problem again lay in the tying-up of funds in certain fixed patterns of investment. As with institutional investments, which tended to remain and reproduce in the same sector in which they were initially accumulated, so too with individual wealth, which tended to stay in the same general fields in which the fortunes were made. In 1893, the five richest men in Canada were all railwaymen: D. McIntyre, Sir Donald A. Smith, R.B. Angus, and William Van Horne of the Canadian Pacific Railway; and J. Hickson of the Grand Trunk.[183] Twenty years earlier, the richest had been George Stephen and Sir Hugh Allan, also railwaymen and Montreal financial magnates. Twenty years later, in 1913, railwaymen again tended to top the list. Of the 42 richest men in Canada and those who controlled the greatest aggregations of funds, in terms of their principal preoccupations, ten were in railroads, seven in banks, nine in insurance and other finance, eight in utilities, four in grain mills and only four whose chief

TABLE VI (8)

Real Income 1900 - 1913

Year	(1) *Wages Index*	(2) *Index of 15 Foods*	(3) *Workman's Rent Index*	(4) *Family Budget Index*	(5) *G.N.P. per capita Index-current*
1900	100.0	100.0	100.0	100.0	100.0
1901	102.0	107.0			
1902	104.3	104.0			
1903	106.1	107.0			
1904	108.1	107.0			
1905	111.6	117.0	112.3	108.7	
1906	114.5	120.0			
1907	119.2	130.0			
1908	121.1	135.0			
1909	125.4	143.0	140.0	122.4	
1910	129.7	141.0	150.0	127.3	160.0
1911	133.1	135.0	154.7	131.5	
1912	139.3	155.0	135.6	137.8	
1913	142.9	146.0	149.6	138.8	

Sources: (1) *CLR II*, p. 427.
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interests were industrial. Of these, men linked to the Canadian Northern and Grand Trunk railways abounded. And of the top ten in terms of corporate assets controlled, six were railwaymen, two were financiers, one was a banker and one in utilities.[184]

But at the same time that great fortunes were being consolidated, living standards for the working class were deteriorating: real wages fell during the great expansion after 1896. Even for a select group of highly skilled, well organized workers, money wage rates barely kept ahead of the cost of living. Rents rose more quickly than money wages, and the share of rent in total expenditures tended to rise.[185] Food costs rose very quickly, and between 1900 and 1910 while per-capita GNP rose 60% in nominal terms, money wages for the selected group rose only 30%.

Moreover, any attempt to gauge the course of real income and its distribution must take account of the highly regressive structure of taxes prevailing. Government revenue per head of population rose from $9.78 in 1901 to $21.74 in 1913, while over the same period the proportion of total taxes accounted for by the steeply regressive customs tariff rose from 73% to 82%.[186] It is also noteworthy that during this period of rapid inflation, money wage reductions were one of the most common causes of strikes, and that in such disputes employers won three times as often as employees.[187] Such a deterioration in living standards of the mass of wage earners was the precondition of the accumulation and concentration of the great fortunes that sustained the development of Canadian financial institutions of the era.

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129. *MT*, Oct. 15, 1886, p. 436.
130. *HCD*, May 14, 1888, pp. 1405-1412.
131. *MT*, Oct. 1, 1886, p. 380.
132. *MT*, July 27, 1888, p. 96; Aug. 10, 1888, p. 151; Sept. 7, 1888, p. 268; Sept. 28, 1888, p. 357.
133. *MT*, Oct. 5, 1888, p. 835; Oct. 12, 1888, p. 413.
134. *MT*, July 13, 1888, p. 39.
135. *MT*, April 12, 1895, p. 1318.
136. *MT*, May 15, 1896, p. 1471.
137. *MT*, May 14, 1897, p. 1499.
138. *MT*, Sept. 15, 1899, p. 331.
139. *MT*, Oct. 4, 1895, p. 428.
140. *MT*, Jan. 5, 1900, p. 874; Jan. 12, 1900, p. 916; Aug. 17, 1900, p. 202.
141. *MT*, Feb. 16, 1907, p. 1267.
142. *HCD*, July 21, 1903, pp. 7006-7010.
143. B.E. Walker to T.C. Higgins, Jan. 21, 1896, *Walker Papers*.
144. *MT*, Oct. 9, 1896, p. 486.
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147. *MT*, June 29, 1900, p. 1712.
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151. R.C. Bellan, *The Growth of Winnipeg*, p. 156.
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155. *MT*, Jan. 22, 1897, p. 976; Feb. 5, 1897, p. 1045.
156. *MT*, March 26, 1897, p. 1281.
157. *MT*, July 20, 1907, p. 93.
158. *MT*, Jan. 5, 1900, p. 880.
159. *CLRII*, p. 625.
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161. *Globe*, April 13, 1910; July 4, 1911.
162. *MT*, Sept. 9, 1898, p. 329.
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166. *MT*, Jan. 15, 1904, p. 912.
167. *MT*, April 24, 1906, p. 257.
168. *MT*, April 17, 1909, p. 1854.
169. *CBC*, 1913, p. 310; *CLRII*, pp. 739-741.
170. *FP*, April 6, 1907.
171. *MT*, Oct. 11, 1902, pp. 1569-70; Dec. 19, 1902, p. 791.
172. *FP*, March 23, 1907.
173. *MT*, Feb. 1, 1913, p. 273.
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175. *MT*, Dec. 14, 1912, p. 886.
176. Goldwyn Smith, *Canada and the Canadian Question*, pp. 20-21.
177. G. Myers, *History of Canadian Wealth*, p. 17.
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179. *JC*, Jan. 9, 1880, p. 671.
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181. J.S. Mill, *Principles of Political Economy*, p. 69.
182. *RCRLC*, *Ontario Evidence*, p. 759.
183. *JC*, March 17, 1893, p. 419.
184. *GGG*, June 25, 1913.
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186. *CYB*, 1916, pp. 538, 547.
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If Caesar were to reappear upon earth...Rothschild would open and shut the Temple of Janus; Thomas Baring...would probably command the Tenth Legion, and the soldiers would march into battle with loud cries of Scrip and Omnium reduced, Consols and Caesar.

Reverend Sydney Smith,
Letters on American Debt, 1844

CHAPTER VII

Canada and the International Flow of Finance Capital

Patterns of Foreign Portfolio Investment

To a substantial degree, the terms of Confederation were designed explicitly to placate British investors after the Grand Trunk debacles of the 1850's and 1860's, and to restore the Province of Canada's sagging credit. Yet despite the efforts of the Canadian politicians British confidence did not return on a great scale until after the great expansion began at the end of the century, though there was, of course, substantial foreign and British investment in Canada before that date.

In 1881 in London there existed a chain of debts, the structure of which reflected the financial hierarchy envisaged in the Confederation arrangements. At the top were £6.3 million of imperially guaranteed Canada four per cent bonds, a total of £19,233,840 in unguaranteed Dominion debt at four, five, and six per cent, plus a range of other bonds: B.C., P.E.I., New Brunswick, and Quebec, mostly carrying Government of Canada guarantees, totalled £3,319,600, while the borrowings of municipal governments came to £3,340,497. In addition, a Canada Central Railway loan of £500,000 carried a Government of Canada guarantee. Unguaranteed railway debts whose nominal value came to £47 million also existed. Part of these were not bonds and debentures but preference stock. At that time, then, Canada's funded debt in Britain came to about £70 million, on which interest and dividend remittances were about £3,150,000 per annum. However, the total is deceptive. Much of it represented the cumulation of loans over a long period. The rate of return at that time was lower on Canadian securities than that available on British bank loans and mortgages[1] which restricted the flow of British money to Canada.

By 1896, foreign capital of all types in Canada was estimated to have reached a cumulative total of $1.2 billion, of which nearly one billion had been British and the great majority in railroad and government securities.[2] Of this, Dominion-Government-funded debt payable in London was $218 million in 1896. The provinces had been active in London since well before Confederation, and their borrowing continued whenever possible. The Bank of Montreal after Confederation began developing a substantial business in underwriting Quebec government issues in London[3] and even a few issues in the United States,[4] the 1874 London issue being done in conjunction with the British-Canadian private bankers, Morton, Rose and Company.

For both the provinces and the Dominion a great upsurge in borrowings in London occurred at the end of the century, especially after 1907. Two provincial government issues in 1899 were placed there, by British Columbia and by Nova Scotia. From 1907, all the issues of the federal government were placed in London, as were those of Quebec, Nova Scotia, P.E.I. and B.C. From 1909 on, Saskatchewan floated issues in London. Manitoba, which had earlier placed issues in Montreal and Chicago, switched to London in 1910, and Alberta, except for one 1913 New York issue, negotiated all of its loans there.[5] Much of the prairie provinces' borrowings, in addition to local railroads, was in conjunction with their takeovers of the Bell Telephone network in those provinces.[6]

British funds flowed into many fields, especially after 1905, in addition to government borrowings. The largest share went to railroads (to build two new transcontinentals); government finance, including some municipal debentures, came second; and after 1908 the flow into industrial bonds began to rise to support a merger wave. Utilities, with their monopoly position and links to the state structure, were also popular. And there was substantial investment in the purchase of land through land companies, although mortgage lending remained largely the prerogative of Canadian institutions, aided, of course, by British purchases of mortgage loan company debentures. Nor was there any significant share of "mercantile" debt of the sort that in earlier periods accounted for such a large share of Canadian borrowings in Britain, for the Canadian chartered banks had taken over this function.

There were also some investments by other than public issue. British investments directly in branch plants did occur, though they were rare, while British purchase of industrial bonds was substantial — precisely the opposite pattern to that of American investments. There were some holdings of British insurance companies, but these cannot be regarded as an inflow of capital since most, if not all, of the policy funds with which they were made were generated inside Canada. And there were of course a number of private investments or individual holdings of bonds and equity in financial institutions, private debenture sales, and direct purchase of real estate by individuals. By 1914 these items could not have totalled more than $200 million, while total British investments in Canada were close to three billion dollars.[7] A number of estimates of British capital invested in Canada from 1896 to 1914 exist, of various degrees of credibility. While it is generally regarded as an underestimate, *The Economist's* data yield the best breakdown by classification of investment for new public issues in London over the period.

The opening years of the boom saw the level of new public issues in London actually fall; Canada's balance of trade was in surplus over-all and there was a great deal of retirement of existing debt. Mining issues in conjunction with the Klondike and B.C. gold, lead, copper, and silver rushes were the most noticeable change in the early period. Over the next few years, railway issues tended to dominate. Then, with the commencement of the wheat boom proper after 1907, major changes in the structure of debt occurred. Insurance companies switched out of bonds and municipal debentures into mortgage lending, the banks tended to reduce their security holdings as a share of total assets, and as a result municipalities turned increasingly to London. Government expenditures on infrastructure rose sharply in this period, as did the amount of railway investment, sending both to the London capital market with ever-growing demands. In addition, from 1909 to 1912 there occurred a rush of industrial bond floatations in conjunction with the Canadian merger movement.

Policy Towards Portfolio Investment

The slow flow of British investment to Canada after Confederation was the object of considerable consternation, and policymakers' efforts were directed energetically towards encouraging the stream. Macdonald at one point tried to instil some enthusiasm for Canadian investments into Baron Rothschild by promising land for the establishment of a Zionist colony in the Northwest.[8] Once the flow began, efforts were redirected towards keeping it coming. Even before the National Policy, the prize

TABLE VII (1)

Canadian Public Issues in London, 1896-1913

(new issues net of refunding)
£ 1,000's

Year	*Federal and Provincial*	*Municipal*	*Railway*	*Utility*	*Mining*	*Misc., Including Industrial*	*Total*
1896			54				508
1897	2,381		305		1,125	1,000	4,811
1898		213			1,328	120	1,661
1899	481				130	200	861
1900			630				630
1901		499	1,153				1.652
1902		411	255	60		2,270	953
1903			4,065	67		315	4,447
1904			4,087	53		364	4,504
1905		73	9,636	253		605	10,567
1906	1,182		6,874	62		642	8,759
1907	1,500	690	2,020	511	150	215	5,186
1908	5,629	5,000	12,453	2,080		1,361	27,504
1909	9,903	2,150	8,061	2,124	20	4,555	26,403
1910	11,755	3,350	6,426	1,619	145	13,094	36,343
1911	505	4,152	19,608	na	na	na	41,215
1912	970	5,286	29,347	na	na	na	46,983
1913	7,877	13,612	11,431	na	na	na	44,119

Sources: *Ec*, July 8, 1911, p. 62; June 13, 1914, p. 1431.

point of contention between the financial spokesmen of the two political parties was their respective ability to lower the rate of interest at which Canadian issues were floated in London.[9] Also important were the links between the high tariff and the relative attractiveness of the country for portfolio as well as direct investment. In 1878, New South Wales' securities were the highest of colonials in London, selling at four to five per cent more than Canadian. But after the 1879 Tilley Budget speech, Canada's securities rose quickly: by 1881 they were two per cent above New South Wales and second only to British consols.[10] From 1878 to 1882, mortgage rates inside Canada fell from four to two per cent and many old mortgages were paid off.[11] The federal government advanced the propagandistic claim that this and the accompanying interest rate decreases were due to the National Policy, in a vain effort to convince farmers that they too had a great stake in the protective system.[12] But it was exactly at the time of the National Policy that the great flow of British funds into mortgage company debentures began, and these two events, while occurring roughly simultaneously, were due to totally different causes.

Federal control over banking and currency, and the additional security resulting from the federal assumption of provincial debts, were both reinforced by the disallowance power, which was used as an instrument in the effort to secure high credit ratings abroad. In 1888, a Quebec act designed to enable the province to issue new debentures in a roll-over operation with respect to some outstanding debt was disallowed on the grounds that it would affect the provincial credit adversely, and hence reflect badly on the credit of the other provinces and the Dominion as well. The following year, a New Brunswick mining act was disallowed because it "invades the rights of property which are so important to preserve for the credit of the whole country," and in 1893 an Ontario statute was disallowed on similar grounds.[13] Then too, the myriad of federal disallowances of provincial railway charters from 1871, especially those of Manitoba, were prompted in part by the need to secure the CPR monopoly as a defence of its power to raise bond capital in Britain on the security of its earnings.

Once the inflow of British capital got underway in sizeable proportions, any and all threats to its security, real or imagined, were denounced and avoided, anything from labour unrest to "socialist" legislation. Industrial peace was regarded as essential to preserve the influx. The *Monetary Times* therefore suggested a simple solution to industrial disputes:

Canada wants capital. Extremists of any variety will scare it

> away. Capital and labour will not always be bitterly grappling. . . . Differences should be balanced by a little thinking. To direct capital to Canada, it is necessary that employers and employees be reasonable beings.[14]

The flow of British capital depended upon high credit ratings which, in the opinion of Sir Edmund Walker, depended in turn upon (1) the enormous natural resources of Canada, (2) "the agricultural and pastoral basis of our industrial life," i.e. the production of staples to provide cheap food for Britain, and (3) "respect for law and order." The flow was threatened by the irresponsibility of the press, by the spread of "democratic sentiment" with concomitant "hatred of success," as well as by labour strife.[15] And without capital there could be no immigration.

> Our power to receive . . . immigrants depends on our credit with England. We enjoy at her hand the best credit of any country in the world. Every foolish operation in Canadian finance imperils that credit.[16]

The greatest of these "foolish operations" was the Ontario Hydro operation, whereby the municipalities and manufacturers forced the nationalization of private power monopolies. Strenuous efforts were made to secure federal disallowance on the familiar grounds that the power operation injured Canadian credit in Britain, for the province entered the field of power transmission and distribution, and later production, in competition with a number of utility firms of the Mackenzie-Mann group supported by large investments of British funds.[17]

The British financial interests and the Canadian power magnates mounted a strong campaign against Hydro. British opinion was led by Professor A. V. Dicey who contributed his view that the legislation was unconstitutional. Lord Ridley of the so-called "Tariff Reform League" claimed it would ruin Canadian credit, as did many other British bankers and brokers who flooded the Minister of Finance, W. S. Fielding, and Lord Strathcona (then High Commissioner in London) with cries of discrimination, "unBritish behaviour," despotism even beneath the dignity of central American republics, and even the opinion of the *Financial Times* that likened the nationalization to the repeal of the Magna Carta.[18]

The agitation failed to force disallowance, and the British funds continued to flow to Canada — with one exception. In 1909 Ontario attempted to float a power loan in Britain of $3,-500,000. The issue was boycotted, the Canadian banks lining up with those in Britain to prevent it being taken up.

A few years later, very similar vituperations were heard from the president of the Grand Trunk Railway to try to exact more public support and ward off nationalization:

> The repudiation of this legitimate indebtedness in any arrangement made with the government would not only injure the Grand Trunk Company's credit but might induce a spirit of hostile criticism on the part of the investor in Grand Trunk securities in London and New York that might easily react upon the credit of the country.[19]

The Colonial Stocks Acts

No sooner had Confederation granted a modicum of nominal financial autonomy to Canada, than its politicians were anxiously attempting to subvert it by restoring to Britain a substantial financial control through the Colonial Stocks Acts. These acts were designed to facilitate the integration of the colonial capital markets with those of the imperium, and narrow the interest rate differential between British and colonial securities. British investors had to be convinced that colonial securities were as safe as British, and this required a tightening of British control over colonial finances.[20]

The first Colonial Stocks Act was unsatisfactory to the colonies. Sir Julius Vogel, Prime Minister of New Zealand, who led the new colonial dependence movement, had sought to have colonial securities admitted to the Trustee List. But all the Act gave the colonies was a specially low composition stamp duty on the transfers of their inscribed stock in London.[21]

Canadian inscribed stock gained admission to the Scottish Trustee List in 1884,[22] but not to the English list. The reasons for the Scottish inclusion probably had to do with the large amount of Scottish investment in Canadian mortgage, loan, and building societies' debentures, and the large number of Scottish firms operating in Canada under imperial charter. An attempt was made in 1888 to secure admission to the English list, the Lords approving but the Commons rejecting. In England the yields on colonial inscribed stock by the mid-1890's were higher than on consols or British corporate bonds, the differential being imputed there directly to the absence of trustee status.[23] Yet, despite the lack of admission, Canadian securities continued to do better than those of any other self-governing colony,[24] a credit to its many other policies to court favour among London money-magnates.

In 1900, a new Colonial Stocks Act set out the conditions for admission of the colonies' inscribed stock:

1. The colony shall provide by legislation for the payment out of the revenues of the Colony of any sums which may become payable to the stockholders under any judgement, decree, rule or order of a Court in the United Kingdom.

2. The colony shall satisfy the Treasury that adequate funds (as and when required) will be made available in the United Kingdom to meet any such judgement, decree, rule or order.

3. The colonial government shall place on record a formal expression of their opinion, that any Colonial legislation which appears to the Imperial Government to alter any of the provisions affecting the Stock to the injury of the stockholders, or to involve a departure from the original contract in regard to stock would properly be disallowed.

In addition, to protect existing British investments in Canada, a further pledge was required that only Canadian revenues would be liable for the stock and dividends, and that no claim directly or indirectly against British revenue would be permitted.

Provincial securities, despite constant efforts,[25] were not admitted to the list, although Australian state securities were. In Canada, the constitution barred the individual provinces from bringing their legislation directly under the scrutiny of the Imperial Government for approval or disallowance. The Australian states, too, had gained admission while still individual states.[26] Moreover, under the terms of the Commonwealth of Australia Act, the Australian states remained nominally the dominant economic units, while the Canadian provinces had been totally subordinated to the federal government. The Canadian provinces, therefore, lacked the revenue sources that Australian states could command, with a resulting decline in their security.

W. S. Fielding predicted great benefits to Canada from the Act. He foresaw a reduction of two percentage points in the interest rate on the inscribed stocks, which over ten years would sum to a net saving of two-and-one-half million dollars.

There are vast sums of money in England in the hands of trustees who have to invest it in the best class of securities. . . . The gain that we shall make by this action of the British government in coming to the assistance of Canada will be in actual cash equal to every penny we spend for the sending of the Canadian soldiers to South Africa.[27]

A more candid confession of the rationale behind the war policy would be hard to find. Canada, he predicted, would soon add two million a year to its debts and actually pay less interest than it did in 1900.[28]

The actual effects of the Act are difficult to unravel.[29] The yields on colonial stocks in fact rose rather than fell. It is conceivable that the colonies lost some of the benefits of the Act by swamping the market in 1900.[30] And in colonial securities in general, the gap between their average yield and that of British widened after 1900, until 1907.

TABLE VII (2)

Average Rates of Return on Securities

Year	*U.K.*(1)	*Colonial*(1)	*Foreign*(1)	*Canada Funded Debt*(2)
1888	4.35	3.43	5.61	3.94
1893	2.92	4.09	5.53	3.79
1898	2.81	3.07	3.97	3.67
1899	3.44	3.27	5.11	3.67
1900	3.35	3.20	4.05	3.67
1901	3.00	3.40	5.34	3.67
1902	3.12	3.21	4.94	3.67
1903	3.44	3.21	5.77	3.67
1904	3.46	3.78	5.83	3.63
1905	3.39	3.78	4.99	3.63
1906	3.37	3.85	5.14	3.66
1907	3.61	3.99	4.90	3.57
1908	4.00	4.04	4.95	3.56
1909	3.60	3.96	4.88	3.56
1910	3.72	4.19	4.85	3.53
1911	4.01	4.03	4.85	3.44

Sources: (1) R.A. Lenfeldt, "The Rate of Interest on British and Foreign Investment"; (2) Dept. of Finance, *Public Accounts*, 1915, p. 75.

Canada, in fact, made relatively little use of the Act. Of all the four Dominions its borrowings were the least, amounting by 1910 to $42 million at the same time its borrowings in Britain in all classes of securities were the greatest of all the colonies.

Dominion Government Finance

By the time of the advent to power of Alexander Mackenzie's government in 1873, Canadian finances were in a chaotic state.[31] Excessive public spending in the dying days of the Macdonald government had occurred in a frantic effort to buy its way out of the opprobrium that resulted from the Pacific Scandal. After Sir Richard Cartwright's tariff adjustments the situation improved somewhat, but by 1876 the budget deficit was again acute,[32] and foreign investors remained anxious, until the "protective" tariff of 1879. The National Policy was initially a great success as a revenue source, budgetary surplus in conjunction with government savings bank deposits sufficing to pay for public works. And the new revenues restored investors' confidence, placing Canadian securities at the top of the colonial list.[33] By late 1883, however, the budget surplus disappeared in the face of economic collapse.

With the loss of revenue, Tilley was forced to try to place a four million dollar loan in Canada late in 1883.[34] It was almost a total failure. Tenders were received for only $1,177,000, of which only $977,000 was acceptable. The spring of 1884 saw Sir Leonard off to London to try to raise $50 million, $29 million to pay off maturing debentures and $21 million to be given to the CPR[35] as a reward for its role in the 1882 election.

At that time London was not very receptive to Canadian securities. A loan of five million pounds was placed at 3.5% but at a discount of nearly ten per cent. This loan for the CPR by Tilley's own admission was necessary only for political purposes, that is, to buy seats by generating patronage along the route; and Tilley affirmed that if the CPR were built slowly it could finish the line within the contract time on its own resources.[36] In early 1885, Tilley was back in London seeking another loan, which, while it was taken up a little above par, bore an interest rate half a per cent higher than its predecessor.[37]

Once the immediate demands of the CPR were met, little new Dominion borrowing except to meet maturing issues occurred until after 1896. It was a time of generally falling interest rates.[38] In 1892 a Canadian loan was placed at three per cent, though it sold at a large discount. But by 1894 Canadian three per cent debentures were quoted at par, and a new loan bearing that rate sold at a much lower discount.[39]

When Laurier took office, the state of Canadian credit was as much a Liberal as it had been a Tory preoccupation. Prominent Liberals immediately began to press for the recall of Sir Donald A. Smith (Strathcona) from his lofty position as High Commissioner on the grounds that he would use his position to divert British funds into his own enterprises.[40] Laurier at one point planned to replace Smith with Sir Richard Cartwright,[41] a move that would have effectively rid domestic politics and the Liberals of Cartwright's embarrassing presence in the face of the distrust he engendered among big business, would have at least partially placated Cartwright after the chartered banks refused his application for the post of Minister of Finance, and would have taken care of the problem posed by Smith all in one stroke. But Smith was judged to be more dangerous in Canada than in London and left at his post.[42] And in fact Fielding's 1897 50-year loan was easily raised at 2.75%, most of it earmarked for railways,[43] especially the CPR, and so there was little need for Smith to exercise anv diversionarv tactics for the time being.

Between 1897 and 1902, no federal loans were floated in London, for by 1898 buoyant tariff revenues produced large and growing budgetary surpluses sufficient to pay for the public works.[44] But by 1903 the extravagant development schemes of the Laurier administration in response to corporate greed and the insatiable appetites of the new railroad lines forced the federal government to turn to London again[45] as a prelude to the great rush of borrowings after 1907.

Provincial Finance

Under the Confederation terms, those provinces whose debts were relatively heavy had to pay interest on the amount by which their debts exceeded a certain level, while the others got a sum for interest on the amount by which their debts fell short of what was judged their fair quota. In total the Dominion assumed $125,645,148 on behalf of the provinces, and at the same time secured all the major revenue sources. In turn the provinces received a subsidy, partly in the form of a small specific grant of between $100,000 and $240,000 depending on population, plus a variable subsidy of 80¢ per head of population up to two-and-one-half million, and 60¢ per head thereafter.

There were a few special alterations. P.E.I. was given extra because of its absence of crown land. New Brunswick later got an increase in subsidy in return for surrendering the rights to impose certain timber export duties to the federal government. And the prairies, whose land was seized by the federal government to give away to eastern big business, received a few special grants. There were some additional revenue sources — stumpage fees on timber, royalties from minerals, crown land sales, except for the prairies, and liquor licenses for all the provinces. In addition, all provinces imposed succession duties and taxes on financial and transportation companies by number of branches or paid-up capital in the first case, and mileage, gross earnings, or real estate in the province in the second case. B.C. and Quebec intermittently taxed other corporations, while B.C. and P.E.I. experimented with income taxes. For most provinces, however, the subsidy from the federal government remained a very important source of funds.

The paltry subsidy of 80¢ per head from the federal government, together with its usurpation of most of the politically feasible revenue sources, left the provincial governments, as it was intended to do, in tight financial straits.[46] Pressures for alteration of the terms of federation began almost immediately, especially from Quebec and Nova Scotia. For the latter, the minor adjustments of 1868 that followed the open purchase of its champion Joseph Howe relieved the dissatisfaction to some degree, but only temporarily.

In Quebec during the Chapleau administration the clergy stepped up their agitation for a system of colonization railroads within the province to help fight the outflow of population. And this led directly to demands for an enlarged subsidy from the federal government.[47] In the absence of increased federal aid, recourse was had to external borrowings. In 1879 Quebec placed a loan in New York through the Bank of Montreal and two New York banks.[48] The following year it announced the "success" of a loan in Paris.

This was the loan that Chapleau's comrade-in-arms and eminent frontbencher Jonathan S. Würtele was supposed to have negotiated for the province while in France on the Credit Foncier promotion job. The purpose was to acquire funds for the colonization railway schemes; the loan of £800,000, payable in either London or Paris, was sold at 98 bearing five per cent interest. The brokers in Canada for the issue were two Montreal firms, Louis Forget and Co., and Jonathan S. Würtele and Co.[49] The spectacle of the Treasurer of the province underwriting and handling the very loans he was responsible for on behalf of the province went unchallenged, a comment not on Würtele's reputation for honesty so much as on the astounding degree of corruption which was then the norm of Canadian public life. The brokers in Paris turned out to be the same group of bankers who were busy with Würtele and Chapleau in the Credit Foncier stock manipulation. And in the final analysis, far from being an innovation in Canadian public finance, the so-called French loan turned out to be a fraud. The funds for the loan were actually British, and the sole effect of the French front, apart from the obvious public relations, was to add an extra layer of brokers with claims to a commission.[50]

The Chapleau government also sought new internal revenue sources from Quebec's natural resource endowment. But the effort to restore some semblance of provincial control over timber limits led in 1882 to the formation of the Timber Limit Holders' Association, which included all of the banks who had made large loans on security of the limits. The Bank of Montreal, the Bank of British North America, Molson's, La Banque Nationale, George Hague representing the Merchants, and John MacDougall of the Quebec Bank were all involved with the leading timber firms in the successful fight to secure their tenure and keep Chapleau from increasing their payments to the province.[51]

It was under the Mercier administration that the agitation from Quebec for more federal money became most acute. In 1887, Mercier called an Interprovincial Conference at Quebec in order that the provinces could collectively push for better terms. Out of the Conference came a call for repeal of the federal disallowance power, for the establishment of the provinces' right to levy excise taxes, a request for the federal government to stay out of provincial public works, and opposition to the federal government's interference with Manitoba's railway projects which threatened the CPR's monopoly.[52]

Behind Mercier stood a bizarre alliance maintaining him in power. On the one hand were the railway promoters to whom he virtually presented the keys to the provincial strongbox; on the other were a few highly placed ultramontanes in the hierarchy who were pressuring for re-endowment of the Jesuit order under the guise of compensation for the earlier seizure of their estates. Mercier needed money to satisfy the demands of both groups. In 1887, Quebec's deficit reached three million, and that year he tried unsuccessfully to float a loan for that sum in New York.[53]

His inability to fund the debt led the next year to an effort at a forced conversion loan. If the bondholders refused to accept the new loan, Mercier decreed that the interest rate on outstanding bonds would be lowered to four per cent. The Quebec Legislative Council, the citadel of Montreal finance in the Quebec Legislature, forced Mercier to back down and agree that the compulsion clause would not be enforced.[54] Demands from London bondholders that the Act itself be repealed brought an ever-pliant Macdonald government into action, and disallowance followed.[55]

The Mercier government was forced into a number of fiscal expediencies, including direct taxes on commercial companies, which led to howls of outrage from the downtrodden merchants and manufacturers of the province. Taxes placed on mining companies resulted in the mining promoters threatening to leave the province — the Huntingdon copper mines actually staged a short-lived shutdown — and led to the creation of a special mining lobby to press for the abolition of the tax. Canadian promoters and British capitalists involved in Quebec railway ventures were alienated by his imposition of a tax on their earnings and his insistence on the right of the province to appoint two directors on every line receiving a provincial subsidy. In 1891, his efforts to raise foreign loans were even further impeded by the Baring Crisis. While an attempt to float a ten million dollar loan in Belgium failed that year, a temporary loan of four million was underwritten and partially taken up by the Banque de Paris, the Credit Lyonnais, and by their offspring, the Credit Foncier,[56] a rather strange realm of financial activity for a mortgage loan company to be pursuing.

It was during the 1891 financial difficulties that Honoré Mercier made a fiscal manoeuvre that eventually proved his undoing. That year in the federal election campaign Laurier promised Mercier an additional $400,000 per year of federal money if the Liberals won in return for Mercier's moral and financial support.[57] It seemed like a good investment, but the provincial treasury was empty. To generate the needed money, a scheme was concocted whereby the Quebec stationer claimed to be short of the means to fulfill his contract for the provision of paper to public offices, and applied for an "advance". The immediate "advance" was $30,000, with another $30,000 promised, while the total requirements of the stationery department were only $20,000 a year. A letter of credit for the sum advanced was cashed at one of the Quebec savings banks and the funds diverted into Liberal Party coffers.[58] In fact, the move was not unique in the 1891 campaign, for the Secretary of the Government Printing Bureau in Ottawa was likewise busy diverting federal public money into the Tory election fund.[59] In addition, Liberal funds came from money earmarked for the Quebec government's subsidy to the Baie des Chaleurs railway. A lot of the remaining funds for the Baie des Chaleurs line went into settling the personal debts of some of Mercier's ministers, some of it to build a new house for a member of the government.[60]

Provincial elections in Quebec were financed by a somewhat different arrangement. For example, Mercier's administration blackmailed a contractor on the Quebec Court House to inflate his charges from $200,000, the original tender, to $800,000, the difference being siphoned off largely into election funds. If the contractor had refused to inflate the expenses, the government threatened to strike out all the sums due him from the estimates. After these operations were unveiled in the *Globe*, the Mercier government charged seditious libel and took out warrants against all newspaper proprietors who published the charges. The choice of seditious libel was an extremely astute move politically. A charge of criminal libel would have involved a trial to determine the truth or falsehood of the allegations. But to make seditious libel stick, all that was required was that the publication of the charges tended to bring the government into disrepute, with no necessary reference to the veracity of the claims.

The very narrow Macdonald victory in 1891 was also the defeat of Mercier. His cabinet was dismissed from office by the Lieutenant Governor[61] at the request of the Tory government on charges of corruption. It was a classic case of Satan denouncing Sin. An appeal to "the people" followed, which permitted the bond holders to add their forces to those of the federal government to ensure his defeat. The new government repudiated some of his political debts and reclaimed some of the lavish railway bonuses. Mercier himself faced charges, but selective use of bribes allegedly ensured his acquittal.[62] The jury was thus bribed to find Mercier not guilty of corruption. In 1895 the new government repealed the taxes on commercial companies,[63] though some corporation taxes were later imposed.

Despite the fact that the chief *raison d'être* of the government that succeeded Mercier was to stabilize the provincial budget and thus reassure foreign investors, the credit of the province remained suspect for some time. During the years between the fall of Mercier and the inauguration of Laurier, two new overseas loans were effected, one in England via Montreal's Hanson Bros. brokerage firm, the other in France through the Banque de Paris-Credit Lyonnais group. Although this five million dollar loan bore only three per cent, it sold at a huge discount at 77 at a time when Dominion three per cents were being placed at or near par.[64] For the French investors, notably the banking clique, it was a fine gift.

The other provinces had far less exciting fiscal histories. Nova Scotia was the second major source of discontent over the terms of federation and, with P.E.I., the first to join Mercier in his campaign for better terms.[65] During the boom years of 1879-1883 its revenues were adequate. And in 1884 its extra revenue needs were met by floating a $400,000 loan at five per cent within the province itself. The loan was taken up at a premium, and English tenders were unable to match local offers.[66] But the province's deficits started to mount and the search for new revenue sources began. In 1892 it placed its first loan since Confederation in London at 3.5%. That year, too, it raised the royalty on coal mined within the province by 25% to 12.5c per ton over the strenuous objections of the small mine owners.[67]

Nova Scotia's share of the federal purse increased after Laurier's victory when W. S. Fielding, the former secessionist Premier of the province, joined the federal cabinet as Minister of Finance. The result was the creation of a system of iron and steel subsidies, the immediate beneficiary of which was Nova Scotia. It also led to the upward revision of the coal duties in 1897 to try to increase the Canadian market for Nova Scotian bituminous, and with it the provincial revenue. After the new cabinet was formed, a bill passed the Nova Scotia Legislature declaring July the first a public holiday for the first time. In spite of these changes, Nova Scotia's revenues were still inadequate. In 1899 it had to resort to the London capital market once more.[68]

All of the western provinces were heavy borrowers, mostly in direct relationship to railway development schemes. The result was to make provincial politics little more than a struggle among railway promoters for shares in the spoils. In some cases it also led to provinces being chained financially to conditions imposed by outside financiers. In 1896, B.C. was unable to help build rival roads to the Rossland gold diggings to break the CPR monopoly, because it had pledged not to increase its debt for two years as a condition for prior loans in London.[69] And when it did subsequently borrow, its success was varied. An 1899 loan at three per cent through the Bank of British Columbia (which operated as its fiscal agent) succeeded, while with a 1902 three per cent loan the underwriters ended up absorbing 80% of the total.[70]

Municipal Finance

The need for municipal borrowing abroad in relative terms was until 1907 lessened by the fact that banks and insurance companies held sizeable portfolios of their debentures. But on the other hand their absolute revenue requirements and consequent need for borrowing were raised considerably by the results of the "bonusing system" whereby municipalities on a fiercely competitive basis offered sweeping tax concessions or cash handouts to tempt industry into their sphere of authority. Even where bonusing was absent, manufacturers could be safely counted on to use their political power to reduce their share of the tax burden and shift the revenue raising activities to borrowing. Montreal's efforts to extend its tax base by putting more of a load on manufacturers led in 1899 to a protest meeting of manufacturers headed by the Hon. George Drummond. Out of it grew a new Montreal Manufacturers' Association to replace the dormant one formed in the 1870's to agitate for the National Policy. The Association's successful campaign to avoid taxation was ably assisted by its legislative arm, the Legislative Council of Quebec.[71]

Municipal borrowings abroad, when necessary, were until well into the first decade of the twentieth century not very easy to effect for most eastern towns and even more difficult for the West. The West was particularly burdened by the result of federal government development policy, both in the loss of revenue from Crown lands and in the tax exemption granted the CPR. As a result, the entire burden of financing the building of necessary infrastructure fell on the settlers at the time when they were most in need of all available cash to establish themselves on their farms.[72] Thus the tendency to seek funds through outside borrowing was all the greater at the same time the security to be offered the potential buyer of debentures was reduced by the loss of revenue.

Manitoba from an early date had difficulty keeping its municipalities solvent. The towns overextended their borrowing, much of it in England, during the years of the land boom when money was easy to get. The deflation of land values that accompanied the end of rapid growth led to the collapse of revenues. Portage la Prairie was the first to go into default. It attempted without success to negotiate with its English creditors through W. Boyle Lewis, one of the partners in Duncan MacArthur's private bank that negotiated some of the loans, to cut down the burden of interest.[73] Emerson followed it into default, and then a string of municipalities — Neepawee, Gladstone, Minnodosa, East Selkirk, Morris, West Lynne, and Rapid City — did likewise. A Manitoba commission was established to scale down the debts to a level the towns could repay, the difference assumed by the province. Portage la Prairie, for example, was found capable of meeting only 40% of its total debt.[74] Manitoba's problems did not end there. Brandon went into default a decade later.[75] And although no losses to debenture holders occurred, the legacy of western difficulties made their securities suspect in Britain for a long time thereafter.[76]

Nor were Eastern municipalities free from the problem of jittery foreign investors. This sensitivity showed itself strongly in 1890-1891 when the Baring crisis prevented Toronto from raising a loan on the open market and it had to rely on temporary borrowings from banks to tide it over.[77]

The Baring Crisis resulted from the degree to which the then senior partner of the house, Lord Revelstoke, involved its assets in the Argentine. By one account, he had bought the Buenos Aires water works for \$24 million, of which \$21 million went into the actual purchase and the other three million into bribes. The return on the investment was to come from the exploitation of its monopoly in the rates charged to houses supplied. Revelstoke also put large sums into a thoroughly shady deal in land grant and irrigation bonds of one of the Argentinian provinces that were not worth a third of their face value, and took ten million of bonds of another province, of whose total revenue of \$4.8 million the year before, four million was already spoken for in interest claims on past debts. There was also a large investment in Argentinian railways. An ill-timed revolution cost Toronto its financial agent and resulted in difficulties in marketing its debentures.[78]

The Baring Crisis affected Montreal as well. The city's administration rivalled that of the province of Quebec in both extravagance and corruption. In 1888, its credit was already so low that a £840,000 issue sold in England via the Barings at 83 and contained as well a commitment by the city to limit its borrowings to a maximum of fifteen per cent of its assessment. By 1890, the original loan was exhausted and the city was forced to rely on interim borrowings until a new long-term loan was possible.

The difficulties of Canadian municipalities in floating their loans abroad were protracted. In 1902 the second annual meeting of the Union of Canadian Municipalities, a municipal congress formed to co-ordinate certain activities with regard to public utilities, considered the possibility of municipalities combining to cut down their borrowing costs. It was further hoped that by borrowing on a united basis they might secure a provincial or Dominion guarantee.[79] The similarity of these proposals to the old Municipal Loan Fund pork barrel was striking, and in light of the fact that the Grand Trunk Railway was about to launch its second great assault on the financial resources of Canada, it is fortunate that nothing concrete materialized from these plans.

Even as late as 1905, problems of floating abroad remained. That year, western towns issued \$4.6 million, eastern \$4.4 million; and of the total, 80% was absorbed in Canada, 15% in the U.S. and only 5% in Britain. British municipal debenture yields were as high as Canadian, thereby curtailing the demand, while the only U.S. demand came from American insurance companies who had to make a deposit of securities with the Canadian government in order to do business in Canada. While the flow of British funds began to pick up in 1906, not until 1913 were all the barriers down and Canadian municipal debentures, especially western, readily acceptable. The result was a great flood of municipal borrowing.[81]

Undoubtedly part of the reason why Saskatchewan and B.C. appointed official boards to control and limit municipal debts, and Nova Scotia adopted a similar constraining policy, was the tendency of the towns to overload themselves with obligations whenever external capital was easily had.

Public Utilities Investment

Electric utilities and gas and waterworks were popular investments for Canadian financial institutions and for British and foreign investors, because their monopoly position in the communities they serviced guaranteed a rate of return in proportion to the level of rates that could be extorted from consumers. The financing of electric utilities in particular, power plants and street railways, underwent a rapid transformation as electricity's role in the economy grew in importance. Once electricity came to be accepted generally as a source of power or light, and the geo-economic advantages of Quebec and Ontario in its large-scale production were appreciated, then the mode of production underwent a major change as the small local power plants became the targets of promoters who merged and integrated electrical systems to extract higher rates from industrial users in particular. Transportation and financial magnates took control of the systems, and manufacturing interests along with municipalities fought back.

Initially many of the little municipal electrical plants were owned by local entrepreneurs and built by them with their own capital plus substantial grants and other assistance from the municipalities concerned. The plant itself would be built by one of the large electrical companies like Royal Electric or Canadian General Electric. Municipalities gave cash gifts, bond guarantees, free sites, etc., to the electric companies — and to gas and waterworks systems as well. A guarantee of monopoly was often a precondition of operation.[82] Monopoly may well have been encouraged by the municipalities themselves, for the municipal share of the receipts from the utility operations was one of the most important sources of municipal revenue.

When monopoly was not granted, it could often be secured by merger. As early as 1884, Toronto's two electric utilities merged under the auspices of Henry Pellatt and E. S. Cox, the numbers racketeer.[83] Three operating in Ottawa were merged in 1894.

Mergers in St. John, N.B., followed the absorption in 1894 of local utilities by a CPR group, Van Horne, R. B. Angus, and T. Shaughnessy.[84] That year, too, Sydney, Nova Scotia, had its two light companies consolidated and in turn in 1901 the merger was further amalgamated with all the other utilities in the city by the Halifax promoter B. F. Pearson.[85] Maritime Telegraph and Telephone, one of the largest Atlantic utility operations, combined several Nova Scotia firms in 1910, and added another dozen by 1913, including control of P.E.I.'s telephone system.

As electrification spread, so did outside promotion and the use of Canadian financial institutions, especially life insurance companies, as both underwriters and sources of investment funds. Until 1907, of the bond holdings in utility companies of the insurance firms of the George Cox empire, some 80% were in utility promotions in which he had a direct interest.[86] After 1907, the structure of life company assets shifted in favour of mortgages, and British funds, while present in some measure before 1907, began to move into Canadian utilities on a greatly expanded scale.

TABLE VII (3)

New Public Issues of Canadian Utilities in London, 1902-1910

(£1000's)

Year	*Electric Power*	*Gas and Water*	*Tramways*
1902	—	—	60.0
1903	—	66.5	—
1904	53.0	—	—
1905	138.0	—	115.0
1906	62.0	—	—
1907	411.0	—	100.0
1908	754.0	79.3	1,146.6
1909	291.0	94.0	530.0
1910	429.0	—	1,190.0

Source: *Ec*, July 8, 1911, p. 62

There were cases of British direct investment in Canadian utilities, especially in B.C. As early as 1891, a British syndicate under the Presidency of Sir Charles Tupper, then High Commissioner in London, was formed to attempt to secure control of Canadian gas and waterworks.[87] The B.C. Electric Railway Company and the Vancouver Power Co. were both controlled by a British firm.[88] And reversing the normal procedure, British arms manufacturer Sir Charles Ross promoted the West Kootenay

Power and Light Co. to furnish power for mines, smelters and refiners while Charles Hosmer, head of the CPR telegraph system, formed a Montreal syndicate to put up the money for Ross's project.[89] But British direct ownership was very marginal compared to the flow of British bond investment after 1908. And the great Canadian electrical monopolies were formed before the inflow of British funds, using the services of the Canadian insurance companies.

In Ontario, a long series of unsuccessful attempts had been made by the Legislature to get private capital to harness Niagara Falls for the generation of cheap power before a charter was granted in 1902 to a syndicate headed by William Mackenzie. With the Canadian Northern magnate was an illustrious band — Sir Henry Pellatt, and Senator Frederick Nicholls of Canadian General Electric, with Senator George Cox and Sir Edmund Walker in the wings. Since the syndicate's members already controlled distribution in Toronto and other localities, their project met with immediate opposition from manufacturing interests throughout the province. In the Ontario Legislature the Tory opposition disapproved of the deal, given the fact that all the beneficiaries were leading Liberals, and some Liberal members joined in opposition, including W. Beattie Nesbitt, who was one of the first advocates of public ownership[90] before he won fame for the Farmers' Bank disaster.

In Quebec, the fact that several suitable power generation sites existed prevented the issue from producing the polarization which Niagara introduced in Ontario.[91] In 1901, however, Royal Electric and two other firms under the control of Rodolphe Forget were merged with Sir Herbert Holt's gas monopoly into the Montreal, Light, Heat and Power Co., the infamous "Octopus of Montreal," under Holt's presidency. With him on the board were Louis and Rodolphe Forget, Sir Hugh Montagu Allan, and Senator Robert Mackay.[92] The merger subsequently absorbed its rivals by buying them out at inflated prices covered by bond issues in Canada and in Britain. Enormous amounts of water too were introduced into the equity. At the time of union the shares of both Royal Electric and the gas company were at 250 and paying dividends of ten per cent. Afterwards the stock never got above 105, and while it paid four per cent the dividends in the early period at least were not justified and hence came in part out of capital.[93] The principal rival that it did not absorb, Shawinigan Water and Power Co., was locked into a long-term supply contract, and the Octopus was then in a position to ruthlessly exploit its monopoly to secure the earnings to pay for the bond issues that had been used to buy out its rivals.

During 1908 it was selling power for $80.00 per unit that it had obtained from the generating company for $14.00 per unit.[94] Objections grew stronger.

In 1906, the Montreal city council had obligingly added 30 years to the lease of the gas franchise to the firm, a monopoly of the gas mains, and a guaranteee of the monopoly of the electric power supply. The Executive Committee of the Montreal branch of the Canadian Manufacturers' Association recommended expropriation,[95] and its legal counsel contended that the city had no power to grant an exclusive franchise to any company to use the streets of the city.[96]

Along with the protests of manufacturers, many of whom continued to use steam power in their Montreal factories because of the costs of electric power,[97] there emerged the Union of Canadian Municipalities, pledged to fight the privately owned utility companies in general and Herbert Holt's Octopus in particular by using the municipalities' collective strength against their utility overlords. Its oracle, the *Canadian Municipal Journal*, contended that

> no municipality, however large and powerful, could hold its own against the lobbies which secured legislation which overrode municipal rights. The only escape from such tyranny was an alliance of the interested victims.[98]

Although its efforts against Holt met with little success, the Union did provide powerful assistance to a number of towns struggling with transportation and utility companies: Halifax against the Grand Trunk Railway; Montreal against the attempt by the Terminal Railway to secure a free perpetual monopoly of the use of the streets; Fort William, Winnipeg, Toronto, and other cities against their electric utility or street railway companies. In the case of Ottawa versus its electrical company, the result was a drastic rate reduction that cut costs to the town and its consumers by nearly $300,000 a year. The Union helped force a rate reduction on Bell Telephone, whose rapacity had incurred the ire of several municipalities as well as the Toronto Board of Trade.[99] But its most important role was in preparing the ground for the assault of municipalities and manufacturers on the Pellatt-Cox-Mackenzie-Walker syndicate that had Ontario's electrical supply under lock and key.

Once begun, the movement for public ownership of utilities spread quickly. By the end of 1903, 37 cities and towns in Ontario had taken control of their electric light plants, and 78 of their waterworks.[100] But municipal ownership of little local utilities and provincial ownership of a huge system of generation, transmission, and distribution were two different matters. In 1902 the Canadian Manufacturers' Association declared its adherence to the principle of public ownership, and that body was the key instrument in toppling the Liberal Party in Ontario and installing a pro-nationalization Tory administration. Helpful in securing the CMA's adherence was the example of the U.S., where about 50% of the commercial hydro power was at that time controlled by J. P. Morgan and General Electric. The fact that Senator Fred Nicholls, head of Canadian General Electric, was a leading figure in the private power syndicate must have been thus doubly threatening, despite his having been formerly president of the CMA. And the example of Hamilton, the most industrialized city in Ontario, which had used cheap power as a drawing card for migrant industry, was a powerful influence on the policy of the new Tory administration bent on effecting widespread industrialization in Ontario.[101]

The importance of securing access to cheap power for industrial development was underlined by other factors in the markets for energy in the late 1890's and beyond. The danger of reliance on water power became clear in 1895, when drought forced the closure of many mills in Ontario and Quebec. Some began to switch to steam to prevent a recurrence.[102] Steam, however, was a relatively costly source of energy, especially in the absence of the huge, accessible timber stands for fuel typical of earlier decades.

By 1899, oil was a sensitive issue. The huge Standard Oil trust had secured a virtual monopoly of the refining industry in Ontario, and it began immediately to exact higher prices. Pressure from Ontario manufacturers led to some countervailing adjustments in the tariff,[103] but there remained an ever-present threat. In addition, by 1900 the natural gas fields of southern Essex county were becoming exhausted, and some factories began searching for another fuel.[104] A further complication lay in the fact that the gas fields were for the most part controlled by American companies, especially United States Gas and Oil, which supplied Detroit consumers by diverting supplies away from Ontario factories. A Dominion Government order-in-council was passed, demanding that the company supply gas at any point on its pipeline to all companies and persons at a rate ten per cent below the American rate.[105] In addition it had export quotas which it generally exceeded. It announced it would accede to Ottawa's demands, and surreptitiously continued to export. A sheriff in Essex tried to seize the pipes to stop the export, but was blocked by an injunction. However, the company finally agreed to cease exporting.[106]

It was only a few months after the Essex gas war that a coal famine hit Ontario factories, forcing some to close. The famine resulted from a strike of Pennsylvania miners.[107] The alternative source of coal was the much more expensive Nova Scotia bituminous. It was in the midst of this energy crisis that the Ontario power syndicate began to face the ire of the manufacturing interests, culminating in the nationalization. Ontario's power production, already growing quickly under private ownership, in short order outstripped Quebec, which still suffered under the grasp of the Octopus.

TABLE VII (4)

Hydro Power Production

Year	*Quebec*	*Ontario*	*Canada*
1900	83	54	173
1905	184	203	355
1910	335	491	977
1914	664	859	1951

(millions of horsepower)

Source: *CYB*, 1936, p. 361.

The street railway systems which became a mania about the turn of the century followed the same pattern of evolution as the other electrical utilities. The electric railway systems of small towns tended to be locally owned and financed in part by assistance from the municipality in various forms. Municipalities would pool funds to build some of the interurban lines, for example the towns served by the Galt and Preston Electric Railway, including Berlin and Waterloo, or the Hamilton, Guelph, and Galt line.[108] St. Thomas in 1897 supported the establishment of a tramway by guaranteeing the company's bonds.[109] Some of the lines were owned by outsiders: Canadian General Electric owned the London system, with the assistance of Canada Life's underwriting,[110] and it built the Brantford system and later seized it for nonpayment of its construction account.[111]

In the larger cities across Canada, railway promoters and financiers figured largely in the system. William Mackenzie, for example, secured control of the Winnipeg system and subsequently, in conjunction with a New York group, of the Toronto Electric Railway. The first system in Toronto was built by the Edison Electric Co., who bribed several aldermen to secure their support for the establishment of the trolley system.[112] In 1895 the company passed into the hands of a new syndicate headed by William Mackenzie and including George Cox and the CPR contractor, James Ross. Further bribes were necessary to secure the assent of the city council to the new 30-year monopoly.[113]

The syndicate's next problem was a piece of legislation that limited their capital to one million in equity. A new syndicate was then formed, consisting of the same group as the old, to "buy" the system in order to swell the stock to six million.[114] The only real investment was a bond issue of $2.2 million: the stock itself was pure water, and within a short time its market value had fallen drastically — but not before its promoters, affectionately dubbed "the Toronto railway gang" by the *Monetary Times*, had reaped substantial profits. The gang then sought a charter for a London and western Ontario line but were refused by the Ontario Legislature, which passed a new electric railway act to prevent any repetition of the Toronto stock-water job.[115]

Toronto's utility woes were not confined to the consequences of the Mackenzie-Cox-Pellatt power syndicate or the tramway group. The city and its citizens also engaged in a series of legal battles with Sir Frank Smith's Consumers' Gas Company monopoly to reduce its exactions.[116] One lawsuit in 1894 tried in vain to recover one-and-one-half million dollars of payments that had been secured in excess of the legal maximum charges.[117]

In Quebec, the Forgets and their associates were key figures in several of the largest street railway systems. Montreal had two systems in the early 1890's, one controlled by the Forgets and William Mackenzie, the other under the wholesale merchants J. R. Thibodeau, J. S. Bousquet, R. L. Gault, and David Morrice.[118] The Forget's Montreal Street Railway Co. had the city council well in hand, and the council offered it unlimited merger power plus sweeping rights to expropriate real estate. Though these clauses were struck out of its charter by the Quebec legislature in 1894, that did not impede its expansion.[119] Local lines were quickly acquired, and in 1901 it absorbed the other major Montreal system, Sir Louis Forget becoming president and James Ross vice-president of the new operation.[120]

The improved access to foreign capital after the turn of the century permitted far more grandiose schemes, notably Sir Rodolphe Forget's Quebec City adventures. In 1909 he launched in France the Quebec Railway, Light, Heat and Power system, a holding company controlling all the gas, electricity, and tramway facilities in the city. In addition, a number of subsidiary railway and utility operations were launched in other areas, with capital subscribed both in France and Belgium. These operations were assisted by the fact that the federal Postmaster General, Hon. Louis Pelletier, put his name on the prospectus as an assurance to the investors.

For the French investors the result was another Forget catastrophe. The prospectus was a collection of lies. Great claims were made about pulpwood carrying traffic available to the railroad subsidiaries. The pulp traffic was supposedly generated by three companies: one of these was bankrupt at the time the prospectus was issued, another had no operating plant at all, and the third was a lumber company rather than a pulpmill. The prospectus was worded to deceive the investors into thinking the subsidiaries' bonds were guaranteed by the utility company, and the holding company itself was presented as a merger — thereby deceiving the French investors into thinking they had first claim on the assets when in fact they ranked second.

By 1913 the stock was almost valueless and French bondholders had lost about 17,860,000 francs. Part of their loss was due to the diversion of their money into private speculations by the promoters, and part went to pay unearned dividends on the promoters' stock before the crash came. The French bondholders referred the issue to the National Association for the Protection of French Investors in Foreign Securities, a body which, in conjunction with a similar British group, acted as an international financial policeman. After Forget's plundering in this and in the Banque Internationale affair, Canadian securities were not exactly a popular investment in France.[121]

British Industrial Bond Investments

After 1908, British funds flowed freely into industrial bonds to support a great merger wave. This merger wave occurred as a result of a particular confluence of events. The 1907 upward tariff revision assured higher prices for the mergered firms which were chronically overcapitalized, and hence permitted them to pay dividends on their severely watered stock. The new merger wave was not industrial in origin, but the work of a handful of Montreal, and to a lesser degree, Toronto financiers who organized the combines on a grab-and-run basis. The year 1909, when the wave began, was a particularly appropriate one. Industrial share prices, always weak, reached a new low, call money rates were at their lowest point for the period, and, of course, British funds were available for the first time.

The costs of the merger wave fell on the consumer. An enormous amount of monopoly power was achieved by the combines formed, and the resulting price increases fed the inflation of the period. It also introduced chronic inefficiency into Canada's industrial structure, making the new water-logged firms totally dependent on the tariff to maintain their prices and pay interest to British bond holders or dividends to promoters. As with railway finance during the period, much of the British investment was a complete waste from the point of view of contributing to Canadian economic growth. But the costs were not realized until after the war, when a great wave of liquidations afflicted the industrial mergers and the railways.

Conclusions

Canadian governments historically showed an almost paranoid sensitivity to the state of Canadian credit in London. Confederation itself was little more than an elaborate exercise in public finance. And subsequent government policy was directed at maintaining and improving the state of confidence Confederation had introduced into the minds and pockets of British financiers.

These conciliatory policies took many forms. Beginning at least as early as the Galt tariff of 1859, Canadian fiscal policy had as its primary objective the raising of revenue to bolster the salability of Canadian government securities abroad. This objective lay in part at least behind the Nation Policy tariff of 1879. The centralization of fiscal power in the hands of the federal government was accompanied by its close control over banking and finance, again with a view to stabilizing the overseas market for its debentures. The federal power of disallowance was used against provincial statutes that threatened to invoke the ire of British financiers. And the federal government even proved willing to place its legislation directly under the purview of the Imperial Government to gain admission to the much-desired Trustee List. The most important function played by the Dominion's High Commissioner in London was precisely that of maintaining friendly relations with Lombard Street.

The result of the usurpation of all feasible tax sources by the Dominion with a view to bolstering its credit led to a squeeze on the revenue resources of the provinces. As a result, provincial governments were forced into a policy of rapid resource alienation to generate royalties to finance their fiscal responsibilities. When these proved inadequate, bonds had to be sold abroad and pitched political battles for "better terms" fought with the Dominion government. For the municipalities, too, fiscal crisis was always on the horizon, and the opening up of the London market for municipal debentures led to a scramble for access.

British capital flowed into other fields beside government debt. Public utility bonds, with the generally guaranteed monopoly returns the utility companies enjoyed, were a popular investment. And the attitudes of British finance to the nationalization struggle were an important part of the campaigns conducted for state takeover of the larger utility operations. For a brief time, industrial bonds issued by the great mergers formed in Canada in the first decade of the twentieth century also attracted British money. But more than any other category, it was in railway finance that the flow of capital was most critical.

Notes to Chapter VII

1. *Ec*, Oct. 8, 1881, p. 1245.
2. S. Bates, *Financial History of Canadian Governments*, p. 32.
3. M. Denison, *Canada's First Bank*, p. 184.
4. H. Marshall, F. Southard and K. Taylor, *Canadian-American Industry*, p. 15; *MT*, June 25, 1880.
5. *CLR II*, p. 735.
6. S. Bates, *Financial History*, pp. 212, 235, 259.
7. Cf. *MT*, Oct. 27, 1916, pp. 5-7; J.Viner, *Canada's Balance of International Indebtedness*, p. 126.
8. John A. Macdonald to A. T. Galt, Feb. 26, 1882, *Macdonald Papers*.
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It costs the Candian people more to maintain and operate Sir William Mackenzie and Sir Donald Mann as public burdens that it does to maintain our entire military and naval forces. William and Donald are certainly expensive playthings. But then they do have such a winning way.

Grain Growers' Guide, June 11, 1913

CHAPTER VIII
High Finance and the Canadian Railways

Early Ventures

Sir Henry Tyler, long head of the London board of the Grand Trunk, once claimed that "the prosperity of Canada is the prosperity of the Grand Trunk Railway."[1] It was no idle boast, for at the time of Confederation and for a few years after both verged on bankruptcy simultaneously. But soon rival schemes to drain the coffers of the Dominion, provinces, and municipalities were afoot. And essential to the success of any railway enterprise was the ability to float bond issues in London.

Dominion government borrowings for railway building began in 1869 with an Intercolonial Railway Loan of £1.5 million, carrying an Imperial Government guarantee and another half million unguaranteed. So responsive were British investors to the financial prospects of the new Dominion — and of course the Imperial guarantee — that the tenders totalled over eight million pounds, and the loan was ultimately taken up entirely by the Rothschilds at a six per cent premium. Thereafter railway finance became a complex business, and the first prerequisite to its success was the appropriate Minister of Finance.

In 1854, John A. Macdonald had described Francis Hincks as a man "steeped in corruption to his lips." With such qualifications Hincks was a natural choice for the finance post, and after he was secured a safe seat in Ontario in 1869, his talents were zealously applied to finding the funds for a new wave of railway building that would far eclipse his work in the 1850's. His first task was the readjustment of the provincial debt allowance. Nova Scotia had been overloaded with railway debts in the last moments of Charles Tupper's rule, and the "better terms" campaign launched by Joseph Howe turned in large measure on the desire to have the federal government assume the burden of Tupper's profligate patronage. Hincks's consolidation and rationalization of the Canadian debt structure drew fire from the Lords of the Treasury: the funds from the 1869 loan, instead of going into public works, were diverted into paying off the large floating debts to the Bank of Montreal and the Barings and Glyn, Mills which had figured so large in these institutions' pressure on behalf of Confederation.

Nor were Hincks's other financial operations better received. In 1870, a set of duties on articles of ordinary consumption — grain, coal, flour, and salt — were introduced, in large measure with a view to raising revenue for public works. The outrage that followed forced their withdrawal in 1871, but by then another source of cash had come to light. Deliberations between the United States and Britain had begun with a view to settling outstanding grievances, and, among other matters, the fate of the Nova Scotia fisheries hung in the balance. Sir John Rose, formerly delegated as Canada's chief representative, was disqualified. At that time his banking firm, Morton, Rose and Co., acted as agents for the sale of U.S. government bonds in Britain, while his American affiliate, Morton, Bliss and Co., was threatened with legal action by the American government. The fear that Rose would sell out Canadian fishing interests to stabilize relations with the American government led to Hincks being delegated to Washington. Hincks pushed hard for the sale of the fisheries for cash to distribute to railway magnates and for a British bond guarantee for the planned transcontinental. Despite the vehement opposition of Joseph Howe, and the consternation it caused in Ontario, John A. Macdonald blithely assented.[2] The Imperial Government ultimately granted a guarantee of up to £2.5 million for the transcontinental in addition to the Intercolonial Railway guarantees still outstanding.

In 1873, another Intercolonial loan bearing an Imperial guarantee for £1.5 million plus a £300,000 loan to buy up the Hudson's Bay Company charter rights were taken at a 1½ per cent premium through the Barings and Glyn, Mills. While the Tory government publicly congratulated itself on the state of Canada's credit and the financial genius of the new Finance Minister, Sir Leonard Tilley, the loan in fact reflected the British government's credit through the guarantee more than Canada's; and compared to the 1868 loan, part of which was unguaranteed, the results were less favourable.[3] It was clear that the investors' euphoria that followed the creation of the new Dominion had begun to wear off by the time the Pacific railroad project was slated to begin.

The Pacific Project: I

It had been confidently expected that the Grand Trunk would assume the task of building the Pacific railway, but a stockholders' coup in 1869 resulted in a new set of officers pledged to a policy of retrenchment and maximum dividends. By 1869, the Grand Trunk was again on the brink of insolvency, and the Barings and Glyn, Mills had once more secured writs of attachment to protect it from its other creditors in order to defend the priority of their claims. The government had to look elsewhere, and was immediately presented with a major quandary — satisfying two competing syndicates of highly placed Tories, one representing Toronto, the other Montreal, for without the ability to hold a reasonably strong position in both Ontario and Quebec, Macdonald's tenure in office would be short. The problem was further exacerbated by the equally compelling claims each group had for Macdonald's favour. The Toronto group, headed by Senator David Macpherson, sported eight Senators and M.P.s, plus leading Toronto and Ontario business figures including Mayor John Walker of London, Sir William Howland, Casimir Gzowski, and Frank Smith. It was a syndicate with excellent Grand Trunk connections as well as considerable political power. It was under Macpherson's direction that funds had been embezzled from the Northern Railway in 1869 and 1872 to pour into Conservative election coffers including those of Francis Hincks, as well as being siphoned off into a testimonial fund for John A. Macdonald — funds which Macdonald very properly refused to touch, turning them over instead to his wife's trustees for handling. In return the Conservative government offered to discharge all of the Northern's £500,000 debt to the public for a mere £100,000.[4] Well might Sir Richard Cartwright remark on the antics of the Highland Scots, Macdonald and Macpherson, that

> The ancestors of these gentlemen, in times gone by, stole many a head of black cattle, and if they got caught they were sometimes hanged for it. Their descendants milk the Northern Railway cow on the sly, and get presented with a testimonial.

In the case of the rival syndicate, Sir Hugh Allan, Canada's richest capitalist, doyen of Montreal's commercial and transportation community, headed a string of nineteen Senators and legislators plus a long list of other Montreal eminences — Andrew Allan, Victor Hudon, D. McInnes, and Sandford Fleming among others. To tighten his hold, Sir Hugh went to work on the Montreal Tory machine, buying newspapers and their editors, and hiring bushy-tailed young lawyers as organisers and eulogists. Sir George Cartier, the Grand Trunk Railway's solicitor and the kingpin of the Macdonald cabinet, suddenly discovered his 45 moutons had lost their way and could now be found grazing in other pastures. Nor could the fact that Sir Hugh's Merchants Bank of Canada had absorbed a number of Macdonald's debts when it had taken over the defunct Commercial Bank have lessened Sir Hugh's influence in leading Tory circles.[5] In addition a program of stock distribution to Dominion notables was undertaken, Macpherson alone demanding $250,000 of stock in the syndicate and threatening to make trouble if he did not get it. And hundreds of thousands of dollars found their way into the election funds of the Party leaders in 1872.

Allan received his charter under terms negotiated by John Abbott and Francis Hincks. A reshuffle of directors absorbed several of Macpherson's allies; new faces were added; others, especially the offending American financiers who were very active in the project, were dropped.[6] The Grand Trunk was partially mollified by the promise of a gift of the Intercolonial Railway, which would give it effectively an eastern Canadian monopoly.

In 1872 the plans for the new railway were well in hand. Sir Hugh had begun the preparation for an eight million pound bond issue of which £2.5 million received an imperial guarantee, and another £1.1 million carried a guarantee under the Canada Defence Loan Act of 1870.[7] Without the guarantee, prospects of success of the issue were slim. For the Grand Trunk's heavy borrowings continued to absorb a large amount of potential investment funds, as well as undermining the confidence of investors in the ability of Canadian railroads to ever make a return. Even as Sir Hugh was preparing for the issue, the Grand Trunk was making a fresh offering of ten million pounds of equity, with the hope that the new capital would finally suffice to put the line in a condition to pay dividends.[8]

In addition to an enormous subsidy in cash and 50 million acres of land, the government pledged that for 20 years it would never sell its lands for less than $2.50 an acre unless by prior agreement with the company, to avoid having government sales reduce the average price the railway company could extract from its lands. It was further stipulated in the charter that the government would undertake to extinguish Indian title to the lands. The contract was to be supervised by a board of three trustees, one oppointed by the government, one by the shareholders, and one by the bond holders: all decisions were to be made on the majority principle — in other words by the capitalists involved. As was often the case in similar arrangements, the contract inspired the animosity of those left out, who revealed, through Liberal M.P. L. S. Huntingdon, the degree to which the Macdonald ministry had been blatantly bribed with personal and election gifts to secure the charter.

When the Pacific scandal broke, the Macdonald government had already been weakened by losses in Ontario and Quebec. He had retained power largely by virtue of the over-representation accorded to British Columbia and Manitoba.[9] But with the desertion of Donald Smith from the Tory fold, the Macdonald coalition collapsed and thus ended Sir Hugh Allan's Pacific ambitions.

The Saga of Labrador Smith

Because of his critical importance not only to railway development but to the entire sweep of Canadian history from Confederation to the First World War, a digression in the career of Donald A. Smith (Lord Strathcona) seems in order. This most important Canadian capitalist of the period, like so many other financiers, was a Scot by origin, born in Forres, Morayshire, appropriately enough the place where Macbeth first met the witches. In 1838, in a classic example of unequal exchange in operation, Smith came to Canada — the steamer bearing him up the St. Lawrence passing on the way the ship carrying the last load of *Patriotes* of the 1837 rebellion on their way to exile in Australia. Smith entered the employ of the Hudson's Bay Company and was soon posted to Labrador.

The fur trade was his central preoccupation, for in his capacity as Chief Factor or Chief Trader his income was derived through a share of the profits from the trade. It was a barter trade based on the exchange of commodities such as gunpowder or alcohol, which effectively tied the Indians to their source of supply in return for furs. The Indians were totally dependent upon supplies of gunpowder for survival, and were perpetually in debt to the company. Profits could be increased by the reduction of the quantity of powder offered for a fixed amount of furs.

During the course of Smith's tenure in Labrador, starvation and ensuing murder and cannibalism wiped out half of the Nascopie Indians, and completely eliminated the Eskimo from the south shore;[10] this famine had resulted from the Indians' not having obtained sufficient supplies of gunpowder from the company's servants.[11]

In addition to his share of the profits from the fur trade and from the private banking business he conducted in competition with the company, Smith also pioneered a salmon fishery. The men working the fishery had to give half their catch to the company as rent for nets and for the use of the ports, which were situated in the best fishing areas and directly under the control of the company.[12] Although the cannery he established was abandoned after the area around it was completely depleted of salmon, the company remained the largest buyer of salmon on the Labrador coast until well after the turn of the century.[13]

The profits of these various activities flowed to Montreal where, especially after he became head of the Montreal Department in 1869, Smith became increasingly involved with the commercial and financial elite, notably his cousin George Stephen and Sir Hugh Allan.

Smith's connection with the Northwest began in earnest in 1869 when he was sent to Manitoba as Macdonald's emissary to bribe Louis Riel to leave Canada. At that time the transfer of the area from the Hudson's Bay Company to the Dominion Government was in motion, a transfer which would have resulted in the centralization of power in the fur trade in Smith's hands in Montreal. Smith's next step was a visit to England as a representative of the wintering partners of the company to present their claims to a share of the funds being paid to the company by the Dominion for their rights to the area. News of the pending transfer threw the market for HBC stocks into panic, and Smith proceeded to buy up all that were offered at from £9/0/0 to £12/0/0 per share.[14] He returned to Canada as Chief Commissioner of the company, whose prospects for a future increasingly depended upon the terms on which it could sell the huge area of land left in its hands after the transfer.

In 1871, the Macdonald government made its decision to proceed with the Pacific Railway and subsequently granted the charter to Sir Hugh Allan's syndicate, the board of which Smith initially appeared upon. Smith's presence was expected to ensure close co-operation with the Hudson's Bay Company in the matter of land sales and especially to secure its influence among London bankers in marketing Pacific railway securities. Smith's name was dropped from the final syndicate, and although Macdonald and the Tories continued to expect his assistance in Parliament, Smith bolted the Tory cause and brought down the Macdonald government, on Guy Fawkes Day, 1873.

Behind this change of allegiance there was a serious purpose with respect to his western ambitions. Sir Hugh Allan's syndicate linked up to Jay Cooke, who wanted to extend his Northern Pacific into the Canadian prairies.[15] The linkage to an American line was essential to any CPR plan, and a key link would be controlled by whoever secured the charter to build from Pembina in Manitoba to the border. In 1871 and 1872, a series of petitions and applications for such a charter were made, including one from Smith, George Stephen, and some Montreal associates.[16] Nor was this Smith's only Manitoba venture of the year, for also in 1872 he introduced bills in the House to incorporate the Bank of Manitoba and the Manitoba Insurance Company.[17]

Smith's ambitions were thwarted when Sir Hugh Allan was forced to withdraw from the contract. For the Hudson's Bay Company, whose future profitability hinged almost totally on the potential for land sales, and whose equity had shot up after the Allan contract was concluded, it was a major blow.[18] Pressure from pro-government circles began to build for the government itself to construct the railway,[19] and Macdonald apparently assented, though no public statement was made. Macdonald further promised to a visiting representative of the British labour movement that the great tracts of land in the West would be available free of all cost.[20] Faced with the possibility of government construction and therefore no sales of government land at remunerative prices, the Hudson's Bay Company shareholders saw their prospects of recouping their fortunes from land sales vanish. In addition, Montreal in 1873 was alive with rumours that Sir Hugh Allan planned a new Northwest Company to compete with the Hudson's Bay Company for the fur trade. Smith's disenchantment with the Macdonald government is easily comprehensible. So too is the fact that by 1878 he could be back in the Tory fold, pushed by the Mackenzie administration's refusal to budge from the principle of public ownership of the CPR, by the fact that a Tory-controlled Senate spitefully rejected his applications for a Pembina branch charter, and by the fact that his investments in the Montreal textile industry were threatened by British and American competition.

Smith's return to the fold was not an easy one, for few figures in political history apart from Benedict Arnold and Warren Hastings have incurred the opprobrium directed at the Member from Selkirk. The 1878 election in fact saw Tory funds poured into attempting to secure his defeat. While he won the election, the victory was contested on the grounds that the voters had been bribed. A judge investigated, and solemnly decreed it to have been a fair fight, only to have an embarrassing debt of his honour to Donald Smith exposed by less credulous constituents. A new contest saw Smith's money flow liberally into the riding to no avail, and the former member returned to Montreal, reflecting sadly on the public immorality of an electorate that would take his money and still vote against him. Alexander Mackenzie's 1873 decision to introduce the secret ballot may well have been another of Smith's grudges against his former chief.

The Pacific Project: II

The failure of Sir Hugh's Pacific ambitions was duplicated in other endeavours as the Grand Trunk London board commenced a counter-attack against potential competition. In 1875, Sir Hugh attempted to raise money in London for his Northern Colonization Railway scheme — a project supported by the Quebec government as part of a program to colonize Quebec's forbidding interior to stem the flow of population to New England. The Grand Trunk and its allies in the British financial press fought the loan and were successful in blocking it.[21] In 1875, the president of the London board of the GTR asked the Colonial Office to intervene and disallow any Quebec Act which contravened the 1852 GTR subsidy program, with the potential competition of Allan's North Shore and similar projects specifically in mind. The Colonial Office declared it had no business interfering — though 1875 elsewhere was a turning point in British imperial history, marking as it did the Suez Canal seizure when British foreign policy and foreign investment for the first time became explicitly and mutually reinforcing. Nonetheless the GTR's London antics proved so disturbing to Canadian credit in general that Alexander Mackenzie requested John Rose, then de facto High Commissioner in London, to call on the Barings and Glyn, Mills to have them put pressure on the GTR's president to shut him up[22] — the chain of authority involved was an interesting illustration of the prevailing power structure.

Under the Mackenzie administration, an effort was initially made to continue the policy of subsidizing a private syndicate to build the line. However, the panic of 1873, which saw the failure of Jay Cooke, the bankruptcy of a large part of the American railway system, and the flight of British capital from North

American railway ventures, effectively ended that strategy. Mounting Canadian budget deficits in spite of increased tariffs, together with the limitation of the country's borrowing powers in Britain, led to a policy of slow construction. The road was divided into four sectors for purposes of contracting, with construction to be supervised by the Department of Public Works. Ownership was to remain vested in the Dominion Government. To assure that the contractors were capable of undertaking the work, they were required to have a capital of $4,000 per mile, of which 25% was to be deposited with the Receiver-General. They were to get a guarantee of interest in bonds issued at four per cent for 25 years plus 20,000 acres per mile in alternate sections. To guard against speculation, two-thirds of the land grant was to be sold by the government on behalf of the contractors and the other third delivered directly to them. Cash subsidies of up to $10,000 per mile were also authorized. Under one variant or another of this format the railroad edged forward during the Mackenzie years.

In the interim, a Tory-sponsored secessionist movement sprang up in British Columbia headed by disappointed fortune hunters and the B.C. federal M.P.s who had counted on large gifts of CPR stock to secure their allegiance to the Dominion.[71] The Mackenzie government attempted to placate the province by advocating rapid building of the Esquimault and Nanaimo Railway, but the Tory Senate threw out the bill. The political turmoil in the Pacific province led to a series of shortlived governments, culminating in 1878 in an avowed secessionist group taking office in Victoria.

All of the clamour for faster construction had sent Sandford Fleming to England on behalf of Mackenzie in an unsuccessful effort to tempt British contracting firms to invest their money and energy in the road. Although progress was slow and the line remained in government hands, that did not prevent the construction from creating a fair array of minor fortunes among the Liberal Party faithful before the return of the Macdonald government to federal office in 1878.

The year 1878 was a propitious one in Dominion politics. John A. Macdonald, just five years after being turned out of office as a result of the worse political scandal since that which toppled Francis Hincks in 1854, returned to office with an unprecedented majority. His program of "protection" to some industries and to a lot of British bondholders certainly played a role. A great deal of support too, came from contractors disappointed at the lack of spoils under the Mackenzie regime. And, as it was freely contended in Liberal Party circles, a major reason for Mackenzie's defeat, and ipso facto Macdonald's victory, was the key role of bartenders and saloonkeepers in the election. These men, whose political influence over their clientele was considerable, leaned to the Tory camp because so many owed their licenses to Tory patronage, because of Mackenzie's avowed connections with the Temperance League, and because Sir John A. Macdonald's personal habits were such a splendid advertisement for their trade.[24]

Macdonald appointed Charles Tupper to the Ministry of Railways, and immediately Tupper hatched a plan that involved ceding virtually all the prime land in the Northwest to a railway syndicate; some 100 million acres were to be sold at a minimum price of $2.00 per acre. The land was to be placed in the hands of a commisssion on which it was hoped to have Imperial Government representation. Construction and British colonization could then go hand in hand.[25] The CPR was to be an imperial highway. And along it would be settled the unemployed labourers then threatening the social equilibrium of Victorian England. The scheme, which would have involved the ceding of virtually all of the ungranted lands within 20 miles of each side of the line to the company, had to be changed the next year to an American alternate section plan, for American railroads, notably the Montreal-controlled St. Paul, Minneapolis, and Manitoba, were offering more liberal terms for land and thus diverting the flow of immigrants into the U.S.[26]

For a time Macdonald followed the Mackenzie plan of slow construction in pieces as a public work. The sole major departure from Mackenzie's approach lay in the routing of the line. In 1875, Donald Smith and John Schultz had both requested Mackenzie to run the railway line through Winnipeg, where both held land, instead of 30 miles north through Selkirk. Mackenzie, however, insisted on the shortest possible route and refused. But in 1879 Macdonald rerouted the line through Winnipeg, against the advice of his engineers.

By the end of 1879, with a new high tariff yielding large budget surplus and the gloom long overhanging world money markets dispelled, Macdonald changed policy again, and decreed in favour of a private syndicate again. In 1880 a new syndicate, composed of a group of financiers dripping with the spoils of the St. Paul, Minneapolis and Minnesota railway job, undertook the task. They numbered Smith, Stephen, R. B. Angus, and Duncan McIntyre, all eminent Montreal financial and commercial figures; J. S. Kennedy of New York; together with the Americanized Canadian railway magnate J. J. Hill, and the Canadianized American railway magnate William Van Horne, who joined shortly thereafter. Under the terms of the new contract, huge gifts of cash and completed lines and surveys were supplemented by a land grant of 25 million acres and a variety of tax concessions. Construction and operating materials were exempted from duty; land granted was exempted for 20 years after the grant (an exemption that was extended and even introduced into the acts establishing the new provinces of Alberta and Saskatchewan in 1905); the equity was forever tax exempt; and western monopoly was guaranteed. To assure continuity of control, the transfer of stock to non-shareholders was subjected to a directors' veto until the completion of the contract. Rates charged were exempt from government interference until the profit rate reached ten per cent. Opposition emerged immediately, with a largely Ontario-based group offering to build the line at a lower cost. The new group was led by Sir William Howland and included George Cox, the insurance magnate; James McLaren, an Ottawa lumber baron; Alex Gibson, the New Brunswick cotton magnate; John Walker, the perpetrator of oil swindles; and A. B. MacMaster, a noted banking figure. Curiously enough, this group of Liberal-Party-affiliated financiers offered to build the line specifically without a tariff exemption, while the Conservative group demanded the abeyance of the tariff for purposes of construction. The Liberals would maintain the National Policy: the Conservatives would undermine it. The Liberal Party group clearly could command the resources necessary for the job as well as could the Montreal syndicate, but was obviously hampered by its party connections, and its offer in fact may well have been simply a political manoeuvre.

The project was immediately beset by capital market problems. The suspicion already surrounding Canadian railway investments was exacerbated by the Pacific Scandal and the Grand Trunk's hostility towards competitors. Relations between the Conservative Party and the City of London were far from cordial. During Macdonald's ten-day de facto impeachment in the House in 1873, Lord Rosebery, a member of the Rothschild family, sat in the gallery and observed the proceedings.[27] It was hardly an edifying advertisement for Canadian railway finance. While in opposition during the mid-1870's, the Conservatives had fought back against the GTR's anti-Hugh-Allan campaign by charging the Barings with misleading the Liberal Minister of Finance, Richard Cartwright, for corrupt reasons, and by assailing the very institution of the Canadian financial agents in London. Despite Francis Hincks's intervention on behalf of the Barings and Cartwright, the slight could not have helped Conservative Party relations with the bankers.[28] In 1876, Sir Hugh Allan had spent several months in Britain again trying to raise money for a colonization railroad in Quebec, but the loan was attacked in the financial press even though it was nominally a Quebec government loan, not a railway one.[29] In 1879, Duncan McIntyre's Canada Central did successfully place a £500,000 issue there, but it required a Dominion Government guarantee of five per cent interest for twenty years,[30] and this at a time of very easy money in Britain.[31] Canadian railways' earnings record continued to deteriorate. Over the period 1870-1879 the Grand Trunk paid dividends only in 1879, and then it was restricted to two per cent on its first preference shares. The Great Western paid nothing at all, and was only saved from complete bankruptcy by its through traffic between the two parts of the U.S. via the southwestern Ontario peninsula.[32] Throughout 1880 the stocks of both these lines continued to deteriorate.[33]

The new CPR syndicate adopted the policy of financing by sales of equity, which, together with gargantuan subsidies from various levels of government, especially the federal, in the form of cash gifts, land grants, and gifts of completed lines and surveys, was expected to enable them to avoid fixed interest debt and the concomitant problems that plagued the other lines. In turn, the federal government expected to finance the giveaway program and its other infrastructural requirements from the proceeds of the government savings banks and the "protective" tariff.

While the syndicate has been given a great deal of credit for farsightedness with its "shares only" policy, it is not at all clear that it was a voluntary decision. For initially an imperial bond guarantee was sought, and refused.[34] In 1800 too, Sir John A. Macdonald, Sir Charles Tupper, and the Minister of Railways J. H. Pope made a pilgrimage with McIntyre and Stephen to the London office of the Grand Trunk to beg Tyler to join the project.[35] With his refusal automatically came that of the Barings and the Rothchilds. And, in any event, since the huge cash gifts and government loans to the syndicate had to be covered by federal government bond issues, all that the policy of avoiding bond financing meant was that the federal government, rather than the CPR syndicate, did the borrowing — an index not so much of financial acumen as of political manipulation. Furthermore, the entire rationale of favouring equity financing instead of more readily salable bonds turns theoretically on the hope of avoiding a burden of fixed interest debt that would drain the cash resources of the line from the outset. For the CPR this explanation makes no sense. From the start it paid dividends of five per cent out of capital, and since the equity on average yielded but 40% of par value, the real drain on cash resources from the beginning was of the magnitude of 12.5%, far higher than would result from bond financing. The real reason for favouring equity financing probably turned on the desire to avoid the loss of control of the line to bond holders in the event of its being unable to cover its interest charges. It was CPR policy to spread ownership of the equity, apart from the blocs of stock held by the promoters themselves, among a large number of small shareholders to assure continuity of control even after construction was completed.

Sales of equity and of lands were essential to the financial success of the line. While land grant bonds and lands sold relatively freely until the crash of 1883 — British capitalists being much more willing to invest on the security of the land grant than in the equity of the line itself — the equity sales ran into problems from the start. Throughout Europe, capital markets were already partly closed to the project by the former Dutch bond holders of the St. Paul Railway, who had been cheated by Smith, Hill, Stephen and J. S. Kennedy when the group purchased their road in 1873, and they spread the word about European markets to avoid the new syndicate's securities.[36] Furthermore, after Macdonald unsuccessfully tried to retain its affections by more promises of government largesse,[37] the GTR turned all its connections against the CPR to block the marketing of its securities in London.[38] The GTR was successful enough that it even blocked another colonization railroad loan sought by Sir Hugh Allan and the Hon. Thomas McGreevy in 1883,[39] while the year before George Cox and Robert Jaffray had placed an issue of Midland Railway bonds there, bonds which because of the link between the GTR and the Midland were sold easily.[40] The announcement made to the GTR shareholders meeting in London was emphatic:

> Let it be known that the pursestrings of England are closed, and then means will be found to bring this wonderfully aggressive syndicate to its senses, and you will hear of no more competitive schemes.[41]

The result was that the CP syndicate turned increasingly to New York and Amsterdam to sell its equity.[42] In 1881 New York had been tested and found receptive to a land grant bond issue underwritten by the Bank of Montreal and some New York banks, including J. S. Kennedy and Co,[43] though in 1883 some trouble resulted from J. J. Hill leaving the CPR and trying to close New York to it.[44]

By the end of 1883, some $65 million nominal value of stock had been issued. The first five million had been taken at par by the promoters under the terms of their contract. The next $20 million they also absorbed, at 25% of its par value — for a total of $25 million in stock at an average of 40%. The next $30 million were placed in New York and Amsterdam at 61. Thus a total issue of $55 million yielded $25,300,000 in cash. Another $4,950,000 cash advance was secured from the government in return for a pledge of ten millions in stock. To bolster salability even during construction, a five per cent dividend was paid out of capital and subsidies — representing for the promoters a 12.5% return on their investment. Nonetheless, by the end of 1883 the prospects of further issues in New York seemed exhausted, partly perhaps because of Hill's active opposition, partly too, in all probability, because the initial watering operation frightened off potential investors in the U.S. who bore some sizeable scars from the antics of their own railway promoters, but chiefly because of the crash of railway financing in the U.S. that year following an orgy of overbuilding of several years duration.

In a futile effort to maintain sales of equity, London and New York financiers advised that a government dividend guarantee system be instituted. Accordingly, a cash deposit was placed with the federal government sufficient to guarantee three per cent dividends on the common stock. It was, if anything, counter-productive, for it froze a large sum of ready cash without yielding any significant new inflow through sales of new stock.[45] In 1885, Liberal leader, Edward Blake pointed out that, omitting the last sale of ten millions, the company had raised about $25 million in cash; while, counting the subsequent two dividends, the company would have paid out, or provided for by the deposit with the government, dividends of a larger amount. Of the seven million already paid out in dividends, the syndicate members alone had been repaid $3.6 million on an investment of ten million. Thus, before the road was open for traffic every cent of cash put in by the initial shareholders would have been repaid or set aside for dividends.

Under the circumstances, the company's appeal for government aid after 1883 is readily understandable. The high cost of the CPR in relation to estimates and the rapidity with which it exhausted government aid and its other revenue sources was due to a number of factors, apart from the drainage into dividends, not least of which was the high cost of buying up every Grand Trunk feeder line it could find in an effort to destroy its rival and monopolize Canadian traffic in the East as well as the West. This competition was especially bitter after the 1883 rift between J. J. Hill and Van Horne. Until then, the idea of an all-Canadian route evidently was not taken very seriously by the promoters, for not until then was the issue resolved. And Van Horne's plan to run the line north of Superior in order to generate long-distance through traffic for the CPR in lieu of local western traffic — with its implications of sharp competition for Hill's Great Northern — led to the rift.[46] In addition, the barren section would have to be supported by a concerted invasion of GTR traffic in the east.

Moreover, the construction itself produced opportunities to imitate the behaviour of some of the more notorious American lines, for much of the work was done under contracts made with the North American Construction Company. According to Liberal Party critics who might have been lying, but then again might well have told the truth, the company was formed "for the purposes of vastly increasing the costs of that road, and of putting the increased cost into the pockets of a ring of speculators." Just who this "ring of speculators" were was at first difficult to determine. The construction firm claimed to be headquartered in Walton, New Jersey — which sparked off an unsuccessful hunt on the part of the opposition to ascertain the existence of any such municipality among New Jersey's multitude of havens for fly-by-night firms. However it appeared that of 25,000 shares, some 20,000 were held by the CPR. The nature of the bargains struck between the CPR and its prodigy were a closely guarded secret, the Minister of Railways refusing to divulge them in the Commons.[47] It was charged that the construction firm was paid for its work fully in cash, rather than in cash and stock as had been agreed to earlier, and as a result the cash reserves of the CPR were drained off, forcing it to apply for more government aid.[48]

Financial difficulties, real or concocted, led to new demands for public assistance. In 1884, George Stephen presented himself in Ottawa with a hair-raising tale of the adversity and misfortune that would follow the collapse of his line. The Bank of Montreal and other banks would fail; high unemployment would stalk the land; a long string of wholesale houses, including that of the Honourable Frank Smith, a member of the cabinet, whose credit advances had been an important part of the CPR short-term financing, would go bankrupt; and Canada's credit abroad would be ruined. The government was ready to comply. To keep a modicum of dignity in the proceedings, Tupper in 1884 appointed a government auditor, Edward Miall, to investigate the CPR accounts to see if it merited further aid. Miall, then Deputy Minister of Inland Revenue, was well suited for the task. Described by the surveyor Henry Hind as "an accomplished manipulator of forged figures," Miall had previously been responsible for falsifying fishery statistics on behalf of the Macdonald government for purposes of the Treaty of Washington negotiations.[49]

In 1884, the CPR received a federal loan, part of which was immediately diverted into buying stock in the North West Land Co. to keep up the value of the equity.[50] This land company was set up by the CPR magnates with a view to dealing in CPR lands, and the collapse of the Manitoba land rush hurt it. It subsequently foundered.

The federal loan had been secured by a first mortgage on the line, a first lien that had to be eliminated if the CPR hoped to sell its securities elsewhere. Further federal gifts were forthcoming, some poorly disguised as sales of land back to the federal government at prices bearing no relation to the prevailing depressed value of Manitoba land.[51] This operation, coupled with the pledge of some first mortgage bonds, removed the government's general first lien on the assets of the line and cleared the air for a bond issue. By this time both the Barings and Glyn, Mills had been wooed away from the GTR, and George Carr Glyn, Lord Wolverton, and Alexander Baring, Lord Revelstoke, both appeared as trustees for the loan which the Barings marketed. The Barings acted as agents for all of the CPR's subsequent issues until 1889, when Revelstoke refused any further aid. His plea was that the CPR was sufficiently mature to market its own securities, but his reluctance to undertake any further CPR financial operations probably resulted from his enthusiasm in involving his bank in Argentine railways, utilities, and government bonds, a zeal which culminated in the collapse of the House of Baring in 1890. In any event the 1889 issue of CPR bonds probably had no need of Baring's aid, for it carried a federal government guarantee of interest in exchange for the cancellation of the CPR's monopoly clause.

The "monopoly" clause in the contract was a mandate for the CPR to determine the structure of commercial arteries in Manitoba, with the federal government obligingly disallowing any charters that failed to meet with the company's approval. The most serious effort to find an alternative access route to the American lines was Premier John Norquay's Red River Valley Railroad project. In 1887, Norquay attempted to raise money in both London and New York, but the federal government had disallowed the railway, and his efforts failed in both places.[52] Donald Smith had given instructions to the Manitoba financial agents, Morton, Rose and Co., to block any issues. And John A. Macdonald himself sent word to John Rose's bank to destroy

Manitoba's credit.[53] Norquay attempted to float a $300,000 bond issue, of which $2,000 only was taken up.[54]

Norquay continued to ignore the disallowance, and proceeded to build from his available revenues. Macdonald and Tupper had initially agreed to permit the line to be built, but at the CPR's request they had gome back on the commitment and disallowed the bill. In addition, Donald Smith secured injunctions to block the Red River Road from crossing his properties in the province. And when Norquay tried to have the railroad built under the Public Works Act a judge disallowed it. Ultimately it was the threat of military intervention that blocked progress. As a last resort, the City of Winnipeg had offered to issue municipal debentures to pay for the line, but only if it received a prior guarantee of completion. The possibility of military intervention prevented the contractor from being able to make such a guarantee.[55] Norquay resigned soon after.

While until 1888 lines competitive with the CPR from the south were assiduously fought and defeated, complimentary lines to the north of the CPR In the West or feeders and branches in the East were built at a feverish pace. In the East, a system of subsidies of cash was used to complement those of the provinces and municipalities. Tupper began the new federal subsidy program in 1882 when the provinces and municipalities, nearly exhausted of funds by the demands of the railways, began begging for federal aid. Cash grants of up to $3,200 per mile were made available to a series of "carefully selected" lines. Fresh votes of cash subsidies were made each year, setting off a scramble for charters. The most important principle of "careful selection" was the party affiliation of the promoters. And a long list of Tory M.P.s and their political allies collected their share. The line in the East that received the largest share of federal subsidies, the International Railway running from Maine to Montreal, collected a total of $2,250,000 up to 1886: its president was John Henry Pope, Minister of Railways.[56]

In the West, a different subsidy principle was used. A series of misnamed "colonization" railways based on land grants was initiated in 1884 and discontinued in 1894 for the very good reason that the Conservative government simply ran out of land to give away. Six of these lines were ultimately absorbed into the CPR, and the remaining four into the Canadian Northern system later on. Under the terms of the colonization railway system, the line could buy up to 6,400 acres of selected land anywhere in Manitoba or the Northwest for $1.00 per acre. In addition, several borrowed from the Manitoba government under its 1885 Railway Aid Act: provincial debentures were issued and the funds advanced to the railway secured on the land grant at $1.00 per acre. The regulations were subsequently modified to allow the railroads a free land grant, rather than the nominal charge of $1.00 per acre. The story of the change of regulations seems to be bound up with the history of one of the colonization roads that was shortest on mileage but longest on political connections, the North West Central, later known as the Great North West Central. It was founded in 1885 by a syndicate of M.P.s who took over the charter of a defunct line. While under the presidency of James Beaty, a leading Toronto Tory and M.P., it included on its directorate the Hon. John Norquay, Sir Charles Tupper, and three other federal M.P.s.[57] Initially slated to receive a land concession of up to 6,400 acres per railway mile at $1.00 per acre, its promoters managed to secure a change in the regulations giving them the land as an outright gift. It was charged, with impressive documentation, that $100,000 in cash had been used to bribe the Minister of Interior to secure the land grant, and Beaty admitted to having received free $386,000 worth of equity in the line being reorganized. Upon completion of these preliminaries, plans were laid to complete the line quickly, timing the construction to coincide with harvest time so that big bonuses could be squeezed out of the municipalities en route. Without the bonuses, the railway could then refuse to complete the line and leave the towns with no way of marketing the local harvest. Progress under Herbert Holt's direction was rapid for a while,[58] then it halted in 1887, with the workers in Holt's firm complaining they had not received any wages for a full year. It underwent a series of reorganizations with little result. In 1897, the latest of a series of contractors found himself working as a foreman of a road gang on the railway under orders from its receiver in order to earn a living while awaiting the close of litigation around his and other creditors' claims.[60] Finally in 1898 the CPR absorbed the line, its land grant becoming a source of great profit.

Others of the "colonization" railroads are worthy of note. The Manitoba and North Western, for example, had as its solicitors a law firm comprised of the eldest sons of John A. Macdonald and Charles Tupper. This line, in addition to its federal land grant, received ample assistance from the Manitoba government as well. In 1885 Manitoba loaned it $787,500 on the security of its land grant—which in effect meant Manitoba would be buying back its own land seized from it by the federal government in the Manitoba Act in the event of default. In addition, it issued bonds at a rate of $22,000 per mile, when independent engineering estimates put the cost at which it could be built at $12,000-15,000 per mile. By 1900, not only had it not repaid Manitoba any of the principal, but its arrears of interest totalled $336,500. It was subsequently absorbed by the CPR.[61]

A similar fate awaited several other colonization railroads. The Manitoba South-Western's rocky political career under the leadership of the Lieutenant Governor, John Schultz, also finished with it in the CPR-Tory camp. Alexander Galt's Alberta Railway and Coal Company presented him and a collection of British financiers with untold wealth in coal, timber, and lands in Southern Alberta before being sold to the CPR. The Calgary and Edmonton, promoted by CPR director Edmund Osler, in addition to its land grant of 6,400 acres per mile, got a federal mail subsidy of $80,000 per annum and issued five-and-one-half million dollars in first mortgage bonds. In total, its promoters raised $28,000 per mile on bonds and land while the cost of the road by the company's own figures was but $13,000 per mile, and according to other estimates was as low as $7,000. Yet when it opened, its roadbed had already deteriorated to the point of virtual unusability, and it was quickly absorbed by the CPR.

It is worth noting that the federal mail subsidy of $80,000 per annum was tantamount to a surreptitious guarantee of interest for those lines that received it. The Calgary and Edmonton actually arranged with the federal government that its mail subsidy would be paid directly to the London agents who were trustees for the bond holders. A similar arrangement graced the Qu'Appelle, Long Lake and Saskatchewan Railway and helped it sell $3,500,000 worth of bonds in addition to receiving 1,400,000 acres of land. Its promoters walked off with somewhere between one and two million dollars in profit. This line was then leased rent-free to the CPR.

The investment of Canadian resources represented by the CPR and its affiliates was enormous. By as early as 1888, total investment in Canadian railways was valued at nearly $684 million of which federal and provincial governments had contributed over $150 million and the municipalities another $13 million. Over $190 million was represented by bond issues, virtually all in Britain. Some 12,332 miles of line had been built with another 660 under construction.[62] There was some slowing down of federal government investments, especially after 1891 when the sugar duty remission took a large slice out of customs revenue. But by 1896 the stage was set for a round of creating millionaires out of friends of the Liberal Party to balance those established from public funds by the Tories. That year, Sir Donald Smith made the claim that he would have been $200,000 per annum better off if he had never touched the CPR[63] —

calling to mind Sir John A. Macdonald's earlier assessment that "that fellow Smith is the biggest liar I ever met."[64]

Railway Policy and Politics

Elections in Canada were often little more than a tug-of-war between the big railway companies. The importance of the railroad companies to the functioning of the democratic process included assisting in economic blackmail, ballot box stuffing, bribery, and all the other standard accoutrements of the Canadian political process of the day. The railroads were the biggest employers of labour, and the employees of the lines, even after the introduction of the secret ballot, could usually be depended upon to vote in a bloc. Moreover, apart from direct election subscriptions, the railways' economic power was enhanced in their links to the rest of the business community.

To try to keep its loyalty, John A. Macdonald had offered the Grand Trunk any public money that the CPR left behind in its periodic raids on the treasury, but to little avail. In 1882 he pleaded with the general manager to "put [his] shoulder to the wheel and help us as of yore in the Elections. In return for such aid I shall endeavour to do all I properly can for the GTR." This assurance, together with his plea that "I have as you know uniformly backed the GTR since 1854 and won't change my course now"[65] contrasts rather sharply to his public statements on the Kingston wharf and Sarnia land jobs in 1860, when he publicly claimed as his main defense that "I opposed the Grand Trunk from its conception."[66]

His appeal for aid in 1882 appears to have succeeded. Both of the big railway companies worked avidly for the Tory cause, ferrying Canadians resident in the U.S. free of charge to their former constituencies to vote Conservative. But as the tension between the CPR and the GTR mounted in Eastern Canada, relations between the GTR and the Conservative Party quickly soured. By the time of the notorious 1891 election, the Grand Trunk, on orders from London, put all its resources into the battle against Macdonald, while Van Horne took the field for the government.[67] Charles Tupper offered to drop the duty on U.S. coal in favour of the GTR, for an estimated saving of £50,000 per annum in exchange for its support in delivering its vote en masse. The offer was respectfully declined. The General Manager of the GTR's Michigan lines announced he was busy rounding up émigré Canadians to carry them free to Canada to vote Liberal. And in the aftermath of the election Macdonald asserted that the GTR had nearly defeated him.The narrow Tory victory was assured by the CPR's returning a Tory in every riding but one through which its main line passed.[68]

The CPR's support was not a labour of love. It was the year of J. J. Hill's big offensive against the CPR's mining and Pacific cargo business in B.C. And in the East the question of control of the Intercolonial Railway was at the fore again. In 1889, the CPR had begun buying up Maritime links. Sir John A. Macdonald had indicated a willingness both to subsidize an Atlantic fleet for the CPR and to give it the Intercolonial. On Sir John A's death just after the 1891 election, John Abbott, Hugh Allan's old bargaining agent and former CPR director, took over the Prime Minister's post. A near-revolt of his chief Quebec lieutenants, Hector Langevin and Adolphe Chapleau, was smoothed over by Van Horne, and plans proceeded for the transfer of the Intercolonial. John Abbott's death brought the Maritimer John Thompson to leadership, and with it a refusal to give the Intercolonial away. His successor Mackenzie Bowell concurred, only to have Sir Charles Tupper's son lead a cabinet revolt against him. Just by the remotest coincidence Sir Charles arrived back in Canada at that opportune moment, and in 1896 he led the Tories triumphantly into electoral disaster. Donald Smith, whom many had favoured for the Tory leadership, was dispatched to London to replace Tupper as High Commissioner, and he immediately began work on a prospectus for a bond issue based on the CPR receiving control of the Intercolonial Railway.[69] But the Liberal victory spelled an end to the CPR's ambitions in the East, and made it inevitable that public funds would be poured into breaking the line's political and economic hegemony of the West.

In the provinces, railway politics were equally intricate. Quebec, despite its periodic fiscal crises, continued its colonization railway project until 1891. In addition to such early eminences as Hugh Allan, Quebec railway promotions owe a large share of the provincial debt to one Christopher N. Armstrong, railway entrepreneur par excellence—meaning simply a remarkable capacity for investing other people's money. His first project was the Montreal and Sorel Railway in 1882, the funds for which all came from London bond sales. After Armstrong had duly examined the tenders and selected himself as contractor, building began—and ceased well short of its objective. When it was discovered that 40% of the funds raised by bond sales never reached the coffers of the company, the bondholders threatened action. Within a year of being issued, the bonds were in default, and although they had been purchased at 97, the British investors turned the bonds over to a Canadian syndicate at one-third their face value. A series of federal, provincial, and municipal grants permitted periodic renewals, and Armstrong managed through one financial trick or another to stay a step ahead of the bailiffs until 1894, when a group of his patchwork promotions were sold off at a sheriff's auction. In the interim, Armstrong's star had continued to rise, and in 1891 he was a central figure in the Baie des Chaleurs Railway scandals that rocked, and ultimately toppled the Quebec provincial administration of Honoré Mercier.

The affair turned on a longstanding project for a railway in the Gaspé. It was a seedy promotion from the start, and hence Armstrong was an appropriate choice of contractor in 1885. Sporadically, pieces of line were tacked down with provincial subsidies. In 1890, Mercier pledged completion to the constituents if a by-election result was favourable. After the electoral victory a new vote of aid was made, including $280,000 to take care of certain old "privileged" debts. As soon as it was voted, Armstrong presented a bill for $298,000 for work that was never done, and $175,000 was approved for payment—of which $100,000 was retransferred to a group of cabinet ministers for sundry electoral and personal expenses. After the Mercier government had been dismissed, Armstrong still kept his $75,000 share.

Mercier's discomfiture failed to dampen Armstrong's enthusiasm, and by 1893 he was in business again, trying to turn his patchwork of bits and pieces into a genuine railroad. A long string of eminent financiers and politicians supported him—J. R. Thibaudeau, J. N. Greenshields, Alphonse Desjardins, and Sandford Fleming—the secret of securing their support being simply to lie. He told them the federal government had agreed to a bond guarantee and a cash grant, though it was all to be a closely guarded secret. His new project, the Atlantic and Lake Superior, was incorporated on April Fool's Day, 1893. The British financial press, which had not forgotten Armstrong's earlier antics, fought the project and blocked its bond sales. In 1894, the sheriff seized a number of his lines. The remaining bits were finally put into receivership in 1900. A complex subsequent history included a reorganization by a syndicate headed by the receiver, a fresh infusion of British money, and periodic appeals for government support which yielded a fund of financial absurdities but little cash and even less railway mileage.[70]

It is clear that Chris Armstrong should have heeded the old adage that entrepreneurs should go west, for British Columbia at the turn of the century was fertile ground for his type of operation. The return of Macdonald to power in 1878 led to a mysteriously abrupt end to the B.C. secessionist movement, and to a new charter for the Esquimault and Nanaimo Railway. Robert Dunsmuir was given a federal subsidy of $750,000 plus 1,900,000 acres of land containing the bulk of the Vancouver Island coal mines not already in his possession by the terms of a bill sponsored by John Henry Pope in 1884. The railway was to be only 78 miles in length. On Robert's death in 1889, his two sons James and Alex took over the mining and transportation empire, and with it British Columbia politics.

British Columbia at the turn of the century, especially after the new minerals rush, was graced with a remarkably straightforward and economical political system. Instead of parties, governments were based on factions of no professed political principle whatsoever, glued together with largesse from the public purse and periodically bursting assunder in a wild individualistic scramble for larger shares.[71] Under the regime of John H. Turner in 1898, the spoils system reached its apogee. The business of buying and selling railway charters was placed on a scientific basis with the actual establishment in 1898 of a British firm, the London and Vancouver Finance and Developing Co., explicitly to deal in charters. It did a profitable business.[72] Mining companies competed with railway promoters for public favours, and Turner was happy to oblige. He therefore did not hesitate to assume the dual role of head of a government overseeing the administration of mining royalties and the building of infrastructure to service the mines on the one hand, and director of various mining companies on the other. Under attack by the "opposition" for his divided loyalties, Turner's defense consisted in claiming that his presence on the boards of the mining companies had been requested by the British financiers who controlled them because of the extra security it gave their investments![73] Turner's defeat led to a series of unstable ministries called in by an even more unstable Lieutenant Governor who was notorious for his lack of respect for certain types of private property, especially that of the CPR and certain coal mining companies. [74] One of his choices for Premier fell upon a former Attorney-General of Manitoba who in that previous capacity had fought the CPR's monopoly clause. Direct intervention both by the CPR and by leading eastern financiers like George Cox and Robert Jaffray failed to block the Premier's appointment. The political contest, however, went in favour of the railways, the Premier resigned, and the Lieutenant Governor was dismissed by the federal government in order to stabilize business conditions. [75] The situation found a temporary equilibrium with the advent to power of James Dunsmuir, an open tool of the CPR whose most distinguishing characteristic in his administration of office was the number of gifts to railways and mines he pushed through the provincial Legislature.[76] A few years later, his Finance Minister, Richard McBride, shifted the province's allegiance to a new set of railway promoters.

In Manitoba, the CPR was equally unsuccessful in maintaining power even with the fall of the Norquay government, for the new Premier had divided loyalties. Under an arrangement worked out in 1887, the solicitor of the Manitoba Central Railway had control of certain charters that the St. Paul, Minneapolis and Manitoba Railroad, under J. J. Hill's direction, wanted to acquire, but which required alterations in the Manitoba railway act. In return for election funds, Thomas Greenway pledged to make the required alterations. Greenway lived in fear that the CPR and the Dominion Tory government would spend large sums to ensure his defeat, and his demands for election contributions from Hill's road escalated.The new funds were forthcoming after Greenway signed a document agreeing to make the described changes.[77] These transactions came to light in 1899, when the Greenway government was defeated by the Conservative Party led first by John A. Macdonald's son, and later by Rodmond Roblin, who threatened to nationalize the railways.[78] The "nationalization turned out to be a rate fixing agreement with the new Canadian Northern syndicate.

In Alberta, the relationship of the CPR to provincial politics was circumspect, and it was itself not directly involved in the fall of the government in 1910 when A. L. Sifton, brother of Laurier's first Interior Minister, took power from the Tories. The problem revolved about the curious relations between the government and the Alberta and Great Waterways Railway.[79] The province gave the railway a guarantee of its bonds for up to $20,000 per mile. These bonds were then sold at par to J. S. Morgan and Co. of New York, the banking house of J. P. Morgan's nephew, who in turn immediately disposed of them in London at 110. The resulting profit was $500,000, part of which apparently returned to Alberta as a rake-off to the promoters and to the Premier, who had pushed through the necessary legislation.[80]

The New Railways: I

The last years of Tory rule in Ottawa were exceedingly unpropitious for railway adventures. The Baring Crisis of 1890-1 followed by the Panic of 1893 deranged the international flow of financial capital. Deep depression did the rest. In 1895 even the CPR passed its dividend. The Canadian patriot, Lord Mount Stephen (George Stephen) was earnestly advising friends to dump their CPR stock, which fell to 35 and would have kept going down had not one of the Dutch financiers who had earlier helped market CPR equity managed to tempt German money into it.[81] When prosperity and Wilfred Laurier arrived simultaneously in 1896, new developments on the railway front were inevitable. The West opened and Van Horne appointed Clifford Sifton as Laurier's Minister of the Interior. But the protest against CPR monopoly could only strengthen as the Dominion's financial capacity to launch a new transcontinental grew.

Developments, however, were slow. In fact in 1899 Laurier announced an end of the system of free cash bonuses to new lines. Henceforth to earn subsidies the lines had to return services like mail carriage to the government. The announcement was greeted with pleasure by the established lines which had been built with subsidies, for it meant that all new competition had to build with its own resources.[82] Sir Edmund Osler, for one, denounced the old system of railway subsidies.

> These railway subsidies . . . are a main source of corruption in elections, such as we are now having exposed. It is from such subsidies that the money is supplied to pay the men who have been engaged in ballot box stuffing and the election frauds which we hear so much about. These men are not committing these crimes for nothing. They are paid with the money of the people.[83]

Sir Edmund's words undoubtedly carried extra weight in light of his first-hand experience in the utilization of railway subsidies from his CPR and Calgary and Edmonton connections.

Though no new transcontinentals were immediately launched, railway development on a more local and specific basis did occur, and with it ample seamy promotions, especially in the far West following the gold and mineral rush. One of the more spectacular operations was the White Mountain Pass Railroad, a British promotion in the Yukon during the gold rush. The syndicate, headed by the Duke of Teck and including an impressive array of parliamentarians, merchants, and bankers in the U.K., noteable among them the Hon. Sydney Carr Glyn, was formed in 1897. Its principal Canadian contact was the Montreal broker Edwin Hanson.[84] In addition to a railway, the company took over a steam barge line and a fleet of steamers and secured virtual monopoly of the route from Skagway to Dawson. Its capital consisted of £7,500,000 in bonds and £1,700,000 of equity which was mainly water.[85] But the return from water was fabulous in the gold rush days, when even the Bank of Commerce, which Laurier had appointed government banker in the Klondike,[86] and the Bank of British North America, were charging 24% on loans.[87] By 1901, White Pass was the richest and most profitable operation in the Yukon, even more so that the big American mining, trading, and transporation conglomerates who literally oozed gold from every pore.[88] In fact, so extortionate were the rates demanded by White Pass that the Dominion government was forced to intervene and impose a new rate schedule on the average only one-third the level of the old: in some items the reductions were 80% and more.[89]

White Pass was a temporary phenomenon; its orientation was exclusively towards exploiting the Yukon gold fields. The minerals boom in the Pacific region that ushered in the new age of prosperity had other, more lasting effects, for it was out of the B. C. mines that the Canadian Northern system took shape. And the prosperity of the period brought in its trail the second round of transcontinental construction.

The mode of financing the second round of transcontinentals had to be very different from the first. Land grant potential was almost exhausted; in the final analysis the CPR got 75% of all railway land grants ceded. And the tariff drawbacks and tax exemptions that had been awarded the CPR were no longer feasible. The second round of building was linked to the decisions to make renewed efforts to foster a Canadian primary iron and steel industry, which greatly escalated construction costs, all of which had to be covered, by bonds issued in Britain.

The CPR, by contrast, continued and improved upon its policy of attempting to avoid a fixed interest debt. From the time of its completion to the Pacific coast in 1885 until 1914, common stock issued rose four-fold, preference stock and debentures were issued to raise new money, and bonds outstanding were reduced to one-third their former level.

The decision to build two new transcontinental lines was an economic absurdity, but a politcal necessity following the failure of Laurier to effect a merger of the two new promotions in 1903 after a lot of strenuous effort. Pressure was mounted not only from Laurier and the government, but from Toronto financiers such as Edmund Walker, though without success.[90]

TABLE VIII (1)

Canadian Pacific Railway Finance

	1886	*1914*
Mileage	4,651	13,280
Capital		
— common stock	$65,000,000	$260,000,000
— bonds	47,785,019	16,492,642
— 4% preference stock		78,224,073
— 4% debenture stock		173,340,458
Total cost of construction	$139,975,281	$491,340,458

Source: U.K., Dominions Royal Commission, *Central Canada Evidence*, p. 403.

For the Grand Trunk Railway the year 1883 had marked the high-water-point of its prosperity; that year enough money was squeezed from the line to pay dividends on not only it guaranteed, but even all of its first, second, and third preference stock. It would never happen again. Not until 1900, apart from a fraction in 1887, was anything at all paid on its second preference; not until 1902 was even partial payment made on its third preference; the first preference share payments were irregular and seldom full; and even the guaranteed passed its dividend from time to time. In 1883, the par value of its securities was £16 million, while their market value was £12 million: by 1894, the market value stood at £3.5 million.[91] It was a ripe time for another shareholders' coup; Sir Henry Tyler was unseated, and Sir Charles Rivers Wilson, who had served under Lord Cromer in the reorganization of Egyptian finances and as a former Comptroller-General of the National Debt in England, was selected to replace him. A policy of renewed aggression against the CPR followed. And in 1902, a deal for a second transcontinental line was worked out with the Laurier government.

The Grand Trunk had been designed as a through line from Montreal to the American Midwest. Hence a total reorientation and the construction of a complete transcontinental system were necessary, the Grand Trunk Pacific in the West and the government-built National Transcontinental in the East. But first, of course, it was necessary to consult "the people."

It was like old times. The 1904 election pitted the Grand-Trunk-Liberal-Party nexus against the CPR-Tory machine. To build or not to build, that was the question: and all means fair, and more often foul, were employed in trying to answer it. Laurier tried to sell the arrangement to the electorate on the grounds that "Canada Cannot Wait." But one of his cabinet ministers resigned in protest, claiming it was Senator Cox, president of the Bank of Commerce, who could not wait: his bank was apparently so deeply involved in railway finance that only a flood of public money would save it from bankruptcy.[92] The CPR-Tory forces went to work purchasing newspapers and their editors, leading to a series of remarkable changes of editorial opinion. The former Liberal minister was eagerly cultivated by the Tory machine, and he co-operated to the extent of resigning from the chair of the Railway Commission.[93] CPR victory was expected to finally yield the elusive prize, the Intercolonial Railway. In the end, the will of the people was made known, and the GTR's transcontinental ambitions confirmed. A flood of British capital into Canada followed.

In addition to the bonds issued in London directly by the railway companies, large issues bore government of Canada guarantees, and not a few guarantees of the provincial government as well. For the Grand Trunk Pacific, the federal government guaranteed 50-year first mortgage, ordering bonds at three per cent for an amount up to \$13,000 a mile on its prairie section and up to 75% of cost on the mountain section, while the remainder of the cost was to be met by the issue of four per cent first mortgage bonds of the GTP guaranteed by the GTR.[94]

The western construction led to a repetition of the national political battles in British Columbia, where the CPR put its new Premier, Richard McBride, to work against the project. The most effective technique was the banning of the import of oriental quasi-slave labour on top of whose broken limbs and bodies the GTR hoped to build its line at a minimum of cost. The federal government disallowed all the B.C. legislation; but nonetheless restrictions on Chinese labour escalated, and with them the labour costs of the line.

For the eastern division, the National Transcontinental, the government took direct responsibility for the line. A board of commissioners headed by a former Premier of Quebec, a close political ally of Laurier's, handed out contracts to the party faithful with an appalling lack of regard to the rank of the tenders.[95] A substantial amount of the contracting went to the Grand Trunk Railway itself. The GTR acted as middleman since it did not have a single piece of the equipment necessary for construction, and it sublet the contracts to a small group of favoured firms who in turn sublet to subcontractors. The sublet arrangements prevailed on the sections of the line let directly by the board as well. All of the layers demanded their share of the swag and construction costs soared. The contract awards bore no relationship to the amounts of the tenders,[96] and anomalies like

55,959 board feet of railway fence in the middle of a stretch of primeval forest occurred with appalling regularity.[97] Numerous frauds were pointed out by the chief engineer, but the Laurier government's supposed investigation was such a farce that opposition members refused to take part in the hearings. All charges of corruption were dismissed by the committee.[98] After the change of government, a fresh investigation discovered the scamping, doctored accounts, and irregularities in the tendering. But by then the damage was done, for as early as 1910 the Grand Trunk was publicly suggesting it might renege on its commitment to the National Transcontinental.[99]

The New Railways: II

The story of the Canadian Northern Railway is astonishing even by Canadian standards. It is essentially a story of how two men created and realized upon political influence to build an enormous railway and transportation empire and a system of grain mills, mines, and other enterprises without investing a penny of their own money. It began in 1884 when two CPR contractors, Donald Mann and William Mackenzie, met while working on the Kicking Horse Pass contract under Herbert Holt, Chief Engineer. In 1886, one of the most powerful of the CPR contractors, James Ross, brought Mackenzie, Mann, and Holt into a partnership with him. Among other monuments the united forces left behind as testimony to their capacities could be numbered the notoriously scamped and derelict Calgary and Edmonton line and the fabulous promoters' profits of the Qu'Appelle, Long Lake and Saskatchewan. The partnership dissolved in 1892 with each member setting out for greener pastures, Holt to become one of the dominant figures in Montreal's plutocracy, Ross into a firm of consulting engineers, Mackenzie to dabble in farming and politics, and Mann, after a short expedition in search of contracts abroad, staying in the West and running up a fair list of slick promotions in B.C.[100] In some cases the new careers were found wanting in charm and excitement. Mackenzie, for example, joined up with Ross in a Toronto street railway swindle before returning to the West and rejoining Mann in 1896.

That year they secured the charter granted by Manitoba to the Lake Manitoba Railway and Canal Company in 1889, after the CPR's monopoly clause had been cancelled. Their first three short lines were bankrupt local railraods which they "purchased" at a very generous price from the Bank of Commerce, which thereafter functioned as banker for the CNR in precisely the same way the Bank of Montreal functioned for the CPR. And the three short lines carried with them a land grant and a province of Manitoba guarantee.

In the new syndicate, Mackenzie and Mann held all the common stock, which corresponded to not a penny of actual investment, and financed all construction from bond issues backed by generous guarantees and huge cash subsidies.

The prairie provinces' railway guarantees began in 1885 with the Northern Pacific and Manitoba, followed by further Manitoba guarantees to the Hudson's Bay and Lake Manitoba lines in 1889 and 1892[101] in desperate attempts to introduce a modicum of competiton. The province, like Alberta and Saskatchewan after it, had no revenue from natural resources or land sales, since these remained the property of the federal government and therefore of the CPR, together with substantial residual holdings by the Hudson's Bay Company. This served to make them all the more excessive in their guarantees to competitive lines. And the land grants made from Manitoba lands were in fact often used by the railway companies to discharge their obligations to the province. Both the Lake Manitoba and the Manitoba and South Eastern, after their integration into the CNR network, "repaid" prior loans by "selling" Manitoba back some of its own lands.[102]

From Manitoba the promoters made their way into the chaos of B.C. politics around the turn of the century and reached deep into the muck to seize their share of the mineral booty. Under the terms of a deal worked out with the Laurier government in 1898, Mackenzie and Mann were to be contractors for a railway to the Klondike in return for 25,000 acres of mineral lands for every railway mile, a total of 37,500,000 acres in lands selected by them north of the 60th parallel. In addition, while miners working government lands paid a ten per cent royalty on minerals, those on the railroad land would pay the government only one per cent. The government further pledged that no Canadian railroad competitive with theirs would get any government aid for five years, and that for the next ten the syndicate would have first refusal in any line from Stickeen to a port in B.C.[103] Laurier had learned well from his years in opposition.

The Yukon miners immediately objected to the plan which would give Mackenzie and Mann the ability to cover all known gold lands with a blanket claim, and force all free miners in the area to deal with them.[104] But the arrangements proceeded. The next move was to secure a subsidy of $4,000 per mile from the Turner government in British Columbia for a line from a B.C.

port to Lake Teslin, supplemented by a Dominion subsidy of \$6,000 per mile. For good measure B.C. added a monopoly guarantee. But the Tory Senate threw out the Klondike bill, the House refused to grant the \$6,000 per mile, and B.C. withdrew its offer when the Turner government fell.[105]

Up to this point all of the Mackenzie and Mann projects had the backing of the CPR [106] But once the B.C. deal failed, the scene switched back to Manitoba and relations with their mentor began to deteriorate shortly after. What Roblin meant by public ownership of railways now became clear. In 1898 the syndicate bought the Port Arthur, Duluth and Western Railway from the Toronto General Trust[107] and carired it into Manitoba, linking up with the Manitoba and South Eastern, one of the lines Manitoba had built in spite of Dominion disallowance. The new syndicate was now a direct threat to the CPR for with its Winnipeg-Port-Arthur connection it could now function as an independent wheat carrier.[108]

An interesting arrangement with the newly elected Roblin government followed in 1901. The government would secure from J. J. Hill's Northern Pacific 354 miles of its feeder line into Manitoba in a 999-year lease and then transfer the lease to Mackenzie and Mann, the government continuing however to assume all responsibility. In addition, it would guarantee 290 miles at \$20,000 per mile. [109] Thomas Shaughnessy, then head of the CPR, was alarmed, and offered an immediate rate reduction to stop the deal. But it was off and running with Dominion sanction.[110] And a new transcontinental system was in the making.

Several key figures became associated with Mackenzie and Mann. In 1902, Edmund Walker of the Bank of Commerce was responsible for authorizing a three-million-dollar loan to aid them in the burst of feeder line construction they began that year. [111] The solicitor of the Canadian Bankers' Association, a leading corporate lawyer, Z. A. Lash, joined the team. And most important, R. M. Horne Payne was wooed from the CPR. A former member of a City of London stock brokerage house, Horne Payne, among other operations, founded the British Empire Trust Company to bring British funds to Canada, esepcially given the new trustee status for federal government debentures. It was claimed that Horne Payne alone was responsible for moving \$500 million in British money to Canada, no small part of which flowed directly or indirectly into CNR financing.

The Roblin government's gifts to the CNR did not cease with the 1901 guarantee. More guarantees continued to flow, including one to build CNR feeder lines to some gravel pits of which Roblin was the owner.[112] And when the various pieces of the CNR system were integrated in 1905 in an enormous roll-over operation, the four per cent consolidated debenture issue that accompanied it bore a Manitoba guarantee.[113]

This by no means exhausted the potential for exacting guarantees, for in 1905 as well the CN's $30 million London issue carried a federal guarantee.[114] In 1906 came a thoroughly despicable public relations stunt when an attempt was made to get 90-year-old Henry Hind, the surveyor on many of the initial explorations of the West, and a man who had courageously exposed the corruption and fraud that surrounded the CPR and the Macdonald government, to ride on the CNR system to the Pacific.[115] Although Hind appeared to have refused to make the trip, it did not impede the onward march of the CNR. In 1908 Saskatchewan began to guarantee CNR bonds, followed by the other provinces.

Apart from Manitoba, it was in British Columbia that the CNR took the most active role in local politics. For some time it had been "business as usual" in the Pacific Province. James Dunsmuir had left office under a cloud of railway scandal. His successor was dismissed unceremoniously by the Lieutenant Governor when it transpired that the honourable first minister had been busy opening tenders for work on a wagon road after they had been called for by his government, and then submitting his own tender at a lower figure than those he had found on the other tenders submitted. Former Finance Minister Richard McBride, who had broken with Dunsmuir, was now called to form a government, and quickly re-established good relations with Dunsmuir and the CPR, especially as the GTR construction proceeded. Then in 1907 McBride offered a railway charter to Mackenzie and Mann, a deal which led immediately to the resignation of two cabinet ministers. But McBride's victory in the 1909 provincial election led him to proceed with his arrangements with Mackenzie and Mann, which involved a guarantee of up to $35,000 per mile for 600 miles of line from the Rockies to the coast.[116] The only thing missing now was the money to cross the Rockies. At that point, relations with the Laurier government began to sour.

Up to 1911, the CNR had expanded at a truly phenomenal rate. From 1905 to 1911, the Laurier government alone had guaranteed $56 million in bonds for the line. But Laurier balked at the idea of the enromous expense of yet a third line piercing the Rockies, and refused to subsidize it.

Nor did his refusal to give them the Intercolonial Railway help relations. The 1911 election saw the CNR united with the CPR to defeat Laurier, and the Tory government that followed

TABLE VIII (2)

Canadian Northern Expansion

	1897	*1907*
trackage	124 miles	2,640 miles
locomotives	3	190
cars	87	7,279
equity	$200,000	$37,750,000

Source: Stevens, *Canadian National Railways II*, p. 58.

was quick to show its appreciation to the CNR promoters. Bond guarantees and cash gifts from the federal government followed, concerning which the *Grain Growers' Guide* wryly commented, "The Government has called in the big bankers to ask their opinion on the matter, and has evidently received permission from the Kings of Finance to aid the knightly twins." However, London bankers began to advise some restraint, and the new federal gifts generally carried a greater government presence including holdings of voting stock.

Thomas Shaughnessy objected to the subsidies to the CPR's rival, but was successfully mollified and the arrangements proceeded with.[117] As for the use of the money, Mackenzie and Mann also functioned as contractors for the construction of the line, and it was charged at the time that they used the construction contracts to siphon the public money off into their own pockets.[118] In light of the size of their other business interests and the paucity of personal resources with which they commenced their careers, there was likely a substantial amount of truth to the allegation. By 1916 the line had amassed a total of nearly $212 million in guarantees over and above nearly $39 million in cash subsidies.[119] And of course the Grand Trunk was exacting its share of guarantees at the same time.

TABLE VIII (3)

Canadian Northern Bond Guarantees

Granted By	*Par Value of Guaranteed Issue*
Dominion	$104,613,247
Alberta	18,950,361
Saskatchewan	14,762,546
Manitoba	25,501,865
Ontario	7,859,947
British Columbia	39,953,124
	$211,641,140

Despite the guarantee by the federal government when the Grand Trunk tried to market its first issue in London, the bonds sold at a heavy discount, at 83, due to the fact that the CPR through Lord Strathcona had turned the tables on the GTR and discredited the issue among the leading private banks. This process was repeated when Sir William Mackenzie went to London to try to place the Canadian Northern's first issue.[120] Sir William apparently could not resist joining in the game, and began spreading disparaging rumors about the Grand Trunk among Scottish bankers.[121] However much fun this process might have been for the railway magnates, it was an expensive game for the Canadian taxpayers who ultimately bore the costs of the new lines. Later, R. M. Horne Payne of the CNR directorate domiciled himself in London to offset Strathcona's influence and spent his time urging British investors to place their funds in CNR bonds or those of related enterprises and avoid municipal and government issues.[122]

On top of all the other absurdities, the two new transcontinentals put the publicly guaranteed funds to work laying track over much the same areas, at the same time driving up construction costs, producing bottlenecks in the supply of labour and materials, and prolonging the period of construction, thus increasing their interest charges.[123] Moreover, the over-expansion of trunk lines did a great deal to increase the staple-extracting orientation of the economy, for the railroads were forced by the need to cover their fixed interest charges to abet the quick extraction of raw material for export.

Notes to Chapter VIII

1. *MT*, May 16, 1884, p. 1286.
2. R. S. Longley, *Hincks*, p. 371.
3. *Globe*, Oct. 3, 1873.
4. Alexander Mackenzie *et al*, *Reform Government in the Dominion* (Toronto, 1878), pp. 103-113; 132; *HCD*, March 8, 1878, p. 1004.
5. D. Creighton, *John A. Macdonald*, II, pp. 8, 34, 38, 57.
6. Pacific Railway Return: Charter, Correspondence, Etc., Canada, *Sessional Papers*, 1873.
7. *Ec*, May 4, 1872, p. 543; May 24, 1873, p. 622.
8. *Ec*, June 7, 1873, p. 686.
9. Sir Richard Cartwright, *Reminiscences*, p. 101.
10. K. MacNaughton, *Lord Strathcona*, p. 79.
11. U.K. House of Commons, Select Committee on the Hudson's Bay Company, *Report*, 1857, p. 3.
12. B. Willson, *Lord Strathcona*, p. 99.
13. W. Grenfell, *Labrador, The Country and the People*, p. 338.
14. W. T. R. Preston, *Lord Strathcona*, p. 38.

15. M. Wilkins, *The Emergence of Multinational Enterprise*, p. 135.
16. House of Commons *Journals*, vol. V, 1872, p. 57, *Canada Gazette*, vol. V, Dec. 9, 1871.
17. *HCD*, May 14, 1872, p. 528.
18. *Ec*, Jan. 14, 1873, p. 714.
19. *Mail*, Oct. 22, 1873; *MT*, Oct. 17, 1873, p. 369.
20. London *Times*, Oct. 7, 1873; *Ec*, Nov. 1, 1873, p. 1327.
21. London *Times*, April 6, 1875.
22. G. R. Stevens, *Canadian National Railways*, I, p. 324.
23. M. Robin, *The Company Province*, p. 57.
24. See Richard Cartwright, *Reminiscences*, passim.
25. *HCD*, May 19, 1878, p. 1894.
26. W. T. Easterbrook and H. Aitken, *Canadian Economic History*, p. 422.
27. Richard Cartwright, *Reminiscences*, p. 111.
28. Alexander Mackenzie *et al*, *Reform Government*, p. 171.
29. *CFC*, Oct. 14, 1876.
30. *MT*, Nov. 14, 1879, p. 576.
31. *Ec*, Jan. 15, 1881, p. 75.
32. *Ec*, March 27, 1880, p. 353.
33. *Ec*, Feb. 19, 1881, p. 227.
34. K. McNaughton, *Lord Strathcona*, p. 226.
35. Sir Charles Tupper, *Recollections*, p. 140.
36. W. T. R. Preston, *Lord Strathcona*, p. 316.
38. H. Gilbert, *Awakening Continent: The Story of Lord Mount-Stephen*, p. 94.
38. *MT*, Jan. 5, 1883, p. 739; Jan. 19, 1883, p. 795.
39. *MT*, Oct. 19, 1883, p. 431.
40. *MT*, Aug. 25, 1882, p. 205.
41. *MT*, April 20, 1883, p. 1177.
42. *MT*, Jan. 5, 1883, p. 739.
43. *MT*, Aug. 27, 1881, p. 1082; Sept. 3, 1881, p. 1110; Dec. 31, 1881, p. 1626.
44. W. Vaughan, *Sir William Van Horne*, p. 110.
45. *HCD*, Feb. 19, 1884, p. 380 *et passim*.
46. W. Vaughn, *Van Horne*, p. 77.
47. *HCD*, April 23, 1883, pp. 778-9.
48. *HCD*, Feb. 11, 1884, p. 222.
49. H. Y. Hind, "The Canadian Pacific Railway . . .," p.1.
50. *MT*, Feb. 8, 1885, p. 882.
51. *MT*, March 13, 1885, p. 1031.
52. *MT*, Aug. 26, 1887, P. 264; Sept. 23, 1887, p. 397.
53. G. R. Stevens, *Canadian National Railways*, II, p. 15.
54. *MT*, Oct. 14, 1887, p. 407; Dec. 30, 1887, p. 819.
55. H. Gilbert, *Awakening Continent* p. 216.
56. *HCD*, 1886, vol. II, p. 1000; See esp. G. Myers, *History of Canadian Wealth*, Chap. XV.
57. *MT*, Aug. 14, 1885, p. 177.
58. *MT*, Nov. 18, 1887, p. 639.
59. In fact James Beaty had a great deal of experience in these kinds of operations, dating at least as far back as a piece of highway robbery known as the "York Roads Job" of 1850. That year the Hincks administration put on the market in Upper Canada a lot of roads and other properties supposedly costing the government more money to maintain than they returned. Beaty on behalf of his York Roads Company bought up a number of roads into Toronto, the deal being consummated without parliamentary approval. He subsequently established a pro-Ministerial paper called the *Leader* an investment from which he reaped a major pecuniary advantage in the form

of government waiving of certain sums due as installments on the purchase price of the roads or interest thereupon. The initial purchase price was $300,400. By Beaty's own admission inside of a decade the returns had been well in excess of that amount. Earnings had been assured by his company running down the alternative roads until they were impassible, and thus diverting all traffic along the Dundas Street route to Toronto on which they could collect more tolls at less expense, at the same time jacking up the toll rate as their monopoly was consolidated. By 1860 Beaty was in arrears to the government some $149,508 on the purchase price, and still had another $180,240 in principal falling due in the future. The government then obligingly wrote off some $93,920 of the debt, and deferred until 1869 the date on which any of the purchase money would fall due. (See for example Canada, Seventh Report of the Public Accounts Committee; *Sessional Papers*, 1858.)

60. J. S. Willison, *The Railway Question in Canada*, p. 52.
61. Manitoba, Royal Commission on the Financial Affairs of the Province, *Report*, *Sessional Papers* 1900, p. 448.
62. "Railway Statistics," *Sessional Papers*, Vol. 8, No. 13, 1888.
63. *MT*, Aug. 28, 1896, p. 303.
64. *HCD*, May 10, 1878, p. 2564.
65. Cited in H. Gilbert, *Awakening Continent*, p. 98.
66. *Globe*, Nov. 29, 1860.
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The History of
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1867-1914

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Born in 1945, Tom Naylor did graduate work in political economy at the University of Toronto, at the London School of Economics, and at Cambridge. He now lectures at McGill University.

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Tom Naylor

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Volume II

Industrial development

FOREWORD BY
ERIC KIERANS

The History of Canadian Business 1867-1914

Volume Two

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Industrial Development

R. T. Naylor

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CONTENTS

The Canadian Pacific Company should be taken over by the Canadian Government, and when that happy time arrives there will be an end to undue competition, and the Grand Trunk proprietors will be glad to help the Government in any way they can in making as little loss as possible in working the Canadian Pacific Railway.

Sir Henry Tyler, 1885

CHAPTER IX

Staple Production and the Canadian Railway System

Western Expansion, 1870-1896

Immediately after Colonel Garnet Wolsely had made Manitoba safe for democracy, civilization, and Donald A. Smith, there came a second army of invasion, composed of land speculators and dealers in Métis scrip. Land grants of 160 acres each were distributed to the troops with the option of selling it, and the land speculators secured the bulk of these lands as well. The effect was that even by 1870 bona fide settlers were being pushed away from the Winnipeg area to more inaccessible areas.[1]

The transfer of Rupert's Land to the Dominion from the Hudson's Bay Company was followed by the Manitoba Act, which marked a watershed point in Canadian political development. Under the terms of the Act, all public lands and natural resources were annexed to the federal government for distribution as railroad subsidies or political patronage. From that event the Macdonald coalition that had created Confederation out of land-hungry Liberals and capital-seeking Tories, already weakened by defections, began to crumble. The Liberal wing of the coalition was increasingly alienated from the policies of land monopolization and favouritism towards Montreal commerce. In 1869, Macdonald was desperate enough in his efforts to maintain some semblance of a coalition that Francis Hincks was brought into the Cabinet as nominal head of the Ontario Liberal wing. By the time of the 1872 election, Hincks was so closely identified with the Tory camp that his presence was a liability, helping to produce the serious losses of the Macdonald government in Ontario and Quebec. The Pacific Scandal and the subsequent

Liberal administration under Alexander Mackenzie restored the traditional party structure — commercial Toryism versus agrarian Liberalism. It was the need for a new class coalition to revive the Tory cause, a coalition based on an amalgam of Montreal commercial capital with a rising Ontario protectionist industrial capital, that led directly to the National Policy and the restoration of the railroad magnates to power, hence determining the pattern of western development to be followed.

During the decade that followed the crushing of the first Riel rebellion, growth of Manitoba and the Northwest was slow. The Homestead Act of 1872, while containing provision for free grants of up to 160 acres, did not include any pre-emption provisions, placing the potential settler, who could not make such a small farm commercially viable, at the mercy of whichever land or railway company owned the adjoining sections. Land speculators, and the high prices demanded for lands near to transportation facilities, drove many potential settlers to the U.S.[2] The largest of the private landlords was the Hudson's Bay Company, which had been left in control of the areas around the fur trading posts plus one-twentieth of the total land to be chosen from the fertile areas. The contentious problem of the claims of the wintering partner to a share of the proceeds of the transfer and of the land had been settled. Donald Smith had gone to London to fight for their cause, had secured a payment for their share of the fur trade, had done nothing for their much more important claim to a part of the lands, and had been made land commissioner of the HBC in 1874 by a grateful London council.

By 1880, conditions were ripe for another effort to settle the West with white farmers. Enormous blocks of land were ceded to the CPR, and other smaller lines promoted by eminent Tories, most of which were eventually absorbed into the CPR, received land grants as well. One of the largest of these was the Alberta Railway and Coal Company headed by Sir Alexander Galt with a group of British capitalists, a resource road built to tap the coal lands Galt was given by his confrères in the federal Parliament. In the final analysis, ten western "colonization" railways received land grants, generally from a different province (or part of the North West Territory before 1905) from that through which the roads' mileage ran. Manitoba, fortunate in having been bequeathed responsible government by Louis Riel, got 1,287 miles of railroads for three-and-one-half million acres; Alberta 805 miles for thirteen million acres; Saskatchewan 885 miles for over fifteen million acres. All ten of the railways selected Saskatchewan lands, while only three had mileage there. And of the three an enormous percentage of their grants were in

Saskatchewan, 99%, 89%, and 72%, while their respective Saskatchewan mileages were but 43%, 19%, and 22% of the total. Land companies, too, began early. In 1880 John Schultz (one of the instigators of the Riel rebellion and one of Winnipeg's leading speculators — subsequently rewarded with a knighthood and the Lieutenant Governorship of the province) formed a land speculating company called the British and North West Colonization Co.[3] In 1881 Sir John A. Macdonald announced that government land, apart from the Homestead areas, would be sold, not given away,[4] the reverse of his policy in 1873 just before his defeat. Macdonald had learned from experience that if he had to choose between the support of Ontario farmers and the support of Donald Smith, Smith was the better political proposition.

The result of the new policy was to open the way for an enormous wave of speculation. The land boom began to develop around Portage la Prairie following Tupper's announcement that a colonization road would pass through the town,[5] and it spread to Winnipeg and further to the west. With it came renewed pressure to force the Indians into reserves, and expropriate the existing Métis holdings. New land companies were formed, the largest of which was the British North West Land Company established by the CPR syndicate. It received from its parent a five million acre concession along with half interest in each townsite west of Brandon to the eastern border of B.C. along the main line.[6] Another company, the British Canadian Colonization Co., floated with an authorized capital of one million dollars; the Honourable Alexander Mackenzie, its president, with George Cox and Robert Jaffray on its board, acquired 100,000 acres in Qu'Appelle.[7] Most of the so-called colonization companies wound up in a few years, relieved of their responsibilities by the federal government, the sole beneficiaries of their activities being the company directors.

The peak of the land boom coincided with the 1882 election campaign, in which the National Policy, the CPR contract, and the alienation of the West were all dangerously under siege in Ontario. Part of the problem was alleviated by the Great Gerrymander of 1882, whereby one-sixth of Ontario was effectively deprived of representation. Under the pretense of adding four more seats to Ontario's representation, the borders of 54 constituencies were changed so that although the Liberal Party had almost exactly divided the vote in 1882 and 1887, and had a majority in 1891, it had a sizeable minority of seats each year.[8] In addition, in the Northwest by the end of 1882, some 2,295 townships had been applied for by leading Tories, most subsequently granted, and the effect on the elections was quite pronounced.

While such tactics sufficed for the federal level of politics, the tendency for the opposition to become entrenched in the provincial houses proved a distinct problem for the Tory machine. Ontario in particular remained stubbornly Liberal. In 1885, in a desperate attempt to break Oliver Mowat's administration, the Conservatives under William Meredith and with the collaboration of the federal party undertook to bribe certain members of the Liberal ranks with offers of cash or government office to cross the floor. Unfortunately for the architects of the scheme, one recipient took the cash, presented it to the Speaker of the Assembly, and unveiled the entire conspiracy.[9]

The West, including the disputed territory in northwestern Ontario, was a huge patronage-generating machine. After the disputed territory was allocated to Ontario, Macdonald decreed that not a stick of timber would accrue to the province, and the area was parcelled out to Conservative favourites. In the disputed territory of 115 timber limit applications, 110 were Tories, five Liberal; all were granted permission to cut in the area. In addition, vast areas of land were given out.

In the West, the traffic in land was lucrative. One Tory M.P. got an area for \$250 that he sold immediately for \$100,000. Another received \$650,000 for a parcel that cost \$7,500. Grazing lands were another eagerly sought prize. By early 1886 some two-and-one-half million acres were leased to party favourites at one cent an acre, yielding \$66,255.50 to the federal government in revenue. Coal was another prize, most of the coal lands being ceded to A. T. Galt to supplement the townships he had already received.[10]

The completion of the CPR to the Pacific coincided with a second outbreak by the Métis under Louis Riel. The Métis, pushed even further west by the eastern land grabbers, and having lost their traditional livelihood by the disappearance of the fur trade, the buffalo hunt, and their monopoly of prairie transportation by virtue of the rise of the railways, rose in rebellion. They were accompanied by several Indian nations left starving on arid reservations as Ottawa, in the face of the collapse of revenues from the tariff in the 1884-5 recession, cut back allocations to minor priorities like the fulfilment of its treaty obligations in favour of maintaining the flow of public money to the CPR. As a result of the hanging of the Métis leader, the Métis assumed a role in Canadian history that few contemporary Métis would have conceived possible. The Métis regarded themselves as a "new nation," a nationality totally distinct from British North Americans of either anglophone or francophone nationalities. Yet the Métis were pushed firmly into Canadian historical folklore as representative of the treason of the anglophone towards the francophone. Two political forces were responsible for this transmogrification. In Quebec, Honoré Mercier came to power in 1886 on a program of hysterical nationalism so designed as to give him the political leverage to extract a larger share of the public purse from Ottawa to give away to his friends, who were busy promoting local railways, especially for colonization within Quebec. In Ontario the Clear-Grit-Liberal administration used the crisis to whip up an equal xenophobia in an attempt to strengthen the province by embarrassing Ottawa and therefore acquire more freedom from the actions of the Montreal commercial capitalists who controlled the Macdonald administration.

Others too got their share of the spoils of the West. After the actions of speculators and the government had goaded the Indians and Métis into rebellion, the volunteers in the expeditionary force got 320 acres each plus $80 in scrip which could be applied to the purchase of Dominion land or the rent of grazing land, with the option of transferring the rights to someone else. Americans, too, registered an interest and in 1884 a plan was hatched by S.J. Ritchie, Senator Payne (an iron and nickel promoter who was linked to Standard Oil), and Erastus Wiman to try to secure part of the Northwest for the U.S. Wiman, however, revealed the plan to Macdonald.[11]

This was not Wiman's only foray into the Canadian Northwest. He had begun his career as the Canadian agent of the American mercantile agency, Dun, Barlow and Co., and on Charles Barlow's death joined the U.S. firm which thus became Dun, Wiman and Co. By 1880 he had begun a series of promotions of railways and land in Staten Island,[12] and in 1886, in conjunction with these, he penned the following request to John A. Macdonald after the suppression of the second Riel rebellion and the seizure of the Indian and Métis leaders.

> Would you like to get rid of Poundmaker, the Indian who, I understand, is a prisoner?. . . Sitting Bull, when he was a prisoner of the United States Government was rendered innoxious by being taken out by "Buffalo Bill" as a curiousity and exhibited through the country in his great show "The Wild West." This show intends to exhibit on Staten Island during the summer months. I have a very large interest, as you perhaps know in the traffic between Staten Island and New York and this is one of the attractions we are going to use. Buffalo Bill (who is a member of the Nebraska Legislature) and Mr. Saulsbury are the owners of the show, and are anxious to get hold of Poundmaker.[13]

Getting control of western land was a relatively easy matter, but selling it was much more difficult. Both the CPR and the Bay initially tried to market land in large amounts during the early years of the new rush of settlement. The CPR worked through Sir A.T. Galt, at that time Canadian High Commissioner in London, to propagate news of its holdings among prospective immigrants, and Sir John Rose, George Stephen, and the Canadian Department of Agriculture helped the promotional campaign. The Department of Agriculture took the liberty of adding twelve degrees to the data on the June mean temperature in the Northwest, and 24.5 degrees to the February temperature. Professor John Macoun, the Dominion Field Naturalist and Botanist, published a book containing this and similar misleading information, and the CPR used Macoun's figures in its advertisements to try to sell its stock and its lands. Numerous deaths through freezing occurred among new arrivals who had no idea of the real climatic conditions,[14] and Henry Hind's denunciation of the fraud went unheeded.

TABLE IX (1)

Homestead Entries

Year	*Entries*	*Cancellations*
1875	499	303
1876	845	153
1877	845	457
1878	1,788	1,377
1879	4,068	2,045
1880	2,074	679
1881	2,753	937
1882	7,483	3,845
1883	6,063	1,818
1884	3,753	1,330
1885	1,858	597

Source: *CYB*, 1926, p. 923.

Lands sold freely until 1883; then the collapse came. With the end of the boom, over 60% of the lands sold by the Hudson's Bay Company largely to speculators, went into default.[15] The London governors, with a body of stockholders greedy for dividends to placate, were forced to try to continue to sell lands and fed the downward spiral in land values, until near the end of 1883 when Donald Smith seized control of the company and effected a virtual merger of its policy with that of the CPR.[16] Thereafter, the HBC withheld from selling land until conditions improved. The CPR, too, adopted the strategy of not selling until all government free lands had been ceded, after which a higher price could be obtained.[17] In 1880, Sir Richard Cartwright had predicted that alienation of much of the land into the hands of a few big companies would seriously impede settlement,[18] and this turned out to be an accurate forecast. Under Laurier, the land grant system was virtually abolished, partly through shortage of land left for giveaway, partly because of the blockages to settlement that had resulted from the earlier policy.[19]

Manitoba as early as 1878 had begun to fight the absentee land ownership system imposed upon it. That year, it levied a school tax of one cent an acre on resident-owned lands and five cents on non-resident, but this tax was invalidated in court.[20] In 1884, a tax was imposed on unpatented lands, denounced as unconstitutional, and abandoned.[21] With the ending of the boom, Manitoba moved to protect bona fide settlers against the speculators by exempting from seizure any real estate under occupation up to the value of $2,500 and furniture worth up to $500, and abolished other techniques used to uproot settlers.[22] The result was a howl of outrage from the creditor class in Canada, from the wholesaler dealers and banks in particular. These were all branches of eastern, especially Montreal institutions, and with their allies in the financial press they began a campaign for disallowance.[23] However, the Act stood. Some conciliation may have been provided eastern interests by the fact that, at George Stephen's request, the law was repealed which had prohibited settlers on government land from having mortgages in excess of $500, or at an interest rate greater than six per cent.[24]

While the flow of European immigration continued to move unabated to the U.S., efforts to stop the outflow of population from Quebec to New England proved equally in vain. Industrial underdevelopment and the resulting chronic unemployment were the problem, while the solutions proposed went little beyond efforts to force a return to the land. Such was the rationale behind the spate of colonization railroad projects undertaken by the province at the request of the Church.[25] In 1884, to supplement the provincial colonization road project — then in difficulty because of Mercier's inability to find more funds — Father Antoine Labelle (known as "the Apostle of Colonization" to his followers — namely the big railway magnates like Hugh Allan) organized a lottery to raise $100,000 for such a project, but it was disallowed by the Quebec upper house.[26]

A return to the land project was self-defeating in any event, for much of the exodus from Quebec was attributable to the mortgage companies who drove many off the farms. Land hoarding, together with the Church's encouragement of population growth, led to the subdivision of farms beyond the limits of subsistence, and rapid soil exhaustion resulted. While the bulk of the emigrants went into factory work some took up abandoned farms in New England,[27] or free land in the American West.[28] In addition to the permanent labouring or agricultural émigrés, a very large temporary group migrated to the brick works or hired on as seasonal agricultural labour during harvest seasons to try to pay off mortgages on their farms. By 1891, it was estimated that there were a total of 400,000 Québécois employed as wage workers in the eastern U.S., especially in the cotton and shoe factories.[29]

A large exodus from the Maritimes and Ontario occurred as well. By 1890, the bulk of the mining, lumbering, and farming population of Michigan was reckoned to be émigré Canadian.[30] The safety-valve of emigration to the U.S., which helped keep the lid on discontent with the government in Canada, met with considerable opposition in the U.S. In 1889 Calais, Maine, began enforcing the Alien Labor Laws to keep Canadian workmen out, and some unemployment in border New Brunswick areas resulted.[31] The complaints of Canadian workers being used in violation of these laws became more general during the critical 1889-1890 period.[32] In 1893, too, there was an instance, probably one of many, of the use of unemployed Canadian workers as strikebreakers in U.S. lumber yards, which led to the strikebreakers being driven off the work yard physically.[33] During industrial recessions in the U.S. the émigrés tended to return home.[34]

With the National Policy in ruins, the tariff failing to generate sufficient employment, the West empty, Ontario in revolt, and discontent rife in Manitoba and Nova Scotia, the Old Chieftain rose to the occasion. A time of grave national crisis required strong, imaginative leadership. The Macdonald government responded by falsifying the 1890-1 census returns, bribing the statistician to exaggerate the number of factories and hands employed.[35] In one riding, the census takers were given instructions to include in the list of factories all blacksmiths, shoemakers, and artisans engaged in handicraft production. In another, 72 new industries were reported as having begun since 1881 — in fact not a single one existed.[36] To increase the apparent population, the names of people who had moved to the U.S. were carefully reported as still present in Canada.[37] The Macdonald government was saved that year only by the gerrymander and by working the loyalty cry to a maximum, a strategy which included rewarding Erastus Wiman for his information regarding S.J. Ritchie's northwest ambitions by campaigning on the issue that a Wiman-Cartwright plot for annexation existed.[38]

The "Laurier Boom"

While homestead entries troughed in 1896 along with wheat prices and thereafter began to trend upward, it was not until 1902-1903 that a major burst of settlement occurred, with wheat output tending to lag settlement by about three years, the average gestation period of wheat.[39] With it came the return of the land companies. The CPR's reorganized Canada North West Land Company directed by Van Horne, R.B. Angus, Thomas Shaughnessy, E.B. Osler, with the grain dealer W.D. Matthews and the miller Robert Meighen new additions,[40] was the largest of the companies. But there were several others of note. The Minneapolis, Duluth and Western Canada was a joint venture of American and Canadian capital which purchased 1,100,000 acres in Saskatchewan to settle families from the American northwest states.[41] Another was the Saskatchewan Valley Land Co., organized by a syndicate of Toronto financiers including Edmund Walker and well represented in Parliament in the Liberal Party ranks. Under Sir Clifford Sifton's tenure in the Ministry of the Interior some 250,000 acres of choice lands were sold to the company at $1.00 per acre, lands which were easily worth $8.00.[42]

By about 1905, European capital was anxious to join the great prairie land barbeque. French, Belgian, German, and Dutch money flowed in, either in the form of mortgage companies whose shareholders as well as debenture holders were European or in the form of land companies directly owning large tracts of farm and urban land. Their activities centred in Winnipeg, in which submetropolis their Canadian head offices were usually located, managing their domains throughout the prairies and B.C. Winnipeg boasted as well the headquarters of the Hudson's Bay Company and a horde of independent land brokers and speculators.[43]

Both the HBC and the CPR began marketing land again. The alternate-blocks method of land grant proved a boon to the companies, for the improvements put into his block by the settler automatically raised the value of the railway block adjacent.[44] The HBC similarly adopted the policy of selling only parts of its holdings in a section, and waiting for the settlers' efforts to raise the value of the residual.[45] Under the CPR's system of sales, no more than two sections totalling 1,280 acres could be sold to one individual. One-twentieth was to be paid in cash, the rest in nineteen annual instalments at six per cent, and the entire debt could not be settled in less than five years.[46] The CP lands rose rapidly in price after 1902. That year they averaged $3.26 an acre, by 1908 $9.54, and by 1911 $14.69. Canadian Northern's lands, small by comparison with the CPR's, sold for somewhat less because it had acquired inferior land by its takeovers of local roads with provincial land grants. In 1908, its lands averaged $8.32, and by 1911 $12.00.[47] The HBC's lands sold for a little more than railroad tracts. At just the moment when the price of lands began to trend sharply upward, the federal government again obliged the railways and land companies by cancelling in 1905 the pre-emption rights that had been introduced into the Homestead regulations in 1890.

TABLE IX (2)

Railway and Hudson's Bay Company Land Sales

Year	*Acres Sold*	*Average Price Per Acre*
1893	120,211	$2.93
1894	68,668	3.02
1895	114,713	1.94
1896	108,016	3.34
1897	222,225	3.23
1898	448,623	3.18
1899	462,494	3.28
1900	648,379	3.27
1901	621,027	3.36
1902	2,201,795	3.56
1903	4,229,011	3.46
1904	1,267,187	4.39
1905	990,005	5.09
1906	1,642,684	6.01
1907	1,237,759	6.02
1908	346,693	8.00
1909	109,373	11.08
1910	1,184,790	13.36
1911	1,406,651	13.59
1912	1,329,390	13.70
1913	707,149	13.95

The numerous little land companies naturally had more difficulty marketing their lands than the CPR and the HBC, who had had first choice of the best. They had to resort to tricks like blanketing adjoining homesteads by fictitious entries, enabling them to hold these free lands vacant until there was a prospect of selling their own land. Then the settlers would be sold their quarter-section on the promise that the company would then cancel its claim to the adjoining quarter in favour of the settler.[48]

To find a settler population for the land, an inflow was encouraged from the Maritimes and rural Ontario, which had undergone relative declines in population; a great influx of European immigrants was encouraged as well, many of them nominally via the agency of the North Atlantic Trading Company. Prior to its formation, individual booking agents were paid bonuses for the immigrants they diverted to Canada.[49] But in 1899 W. T. R. Preston, the Immigration Commissioner, and Donald Smith, the High Commissioner, organized the booking agents in London into a combine incorporated in Amsterdam, since the Netherlands was the only European country where there were no laws prohibiting the solicitation of emigration to other countries. (These laws proved rather sticky on occasion: at one point Lord Strathcona was persona non grata in Imperial Germany, with a warrant out for his arrest for flagrantly violating them.)[50]

Under the terms of the arrangement between the Interior Department and the North Atlantic Trading Company, the company had to do nothing at all to earn its bonus of $5.00 per head of family, $2.00 for all other members. Its bonus was paid not according to numbers of emigrants sent, but according to those arriving at certain ports of entry from certain countries. By 1906 the unearned payments reached $300,000, payments which were sent to Strathcona for administration.[51] Although the immigrants selected were supposed to be agricultural only, in fact Preston's habit of encouraging an influx of skilled and unskilled labour led to the unions calling for his dismissal.[52]

And once again western land was used as a cheap sort of pension fund for soldiers. For the veterans of the South African War a scrip system for up to 320 acres was established in 1908. Predictably, speculators were among the chief beneficiaries, with scrip sold to them by the veterans at $200-$500 — rising to $1,200 in 1910 immediately after the Ministry of the Interior granted an extension to the time limit for selection. As the new limit approached, the scrip fell in value, and by the beginning of 1912 "unlocated scrip was just as worthless as Confederate notes." However, the location time was extended again, and the scrip shot up in value.[53]

The Agricultural Frontier

The western wheat farmer was the foundation of the "national policy." Piled on top of him were the exactions of the railroads, elevator companies, tariff-coddled manufacturers, and the banks and mortgage loan companies. All of these concerns contributed to the creation and maintenance of a single cash-crop frontier in the West. The five-year mortgage schemes which almost always had to be renewed, the banks' three-month notes, reliance on advances from implement dealers, and debts to grain moving firms locked the economy into the staple trap. Farmers' problems with the implement dealers had a long history. In the 1870's and 1880's, when Ontario was the centre of the wheat staple, independent or quasi-independent dealers would roam the countryside conning farmers into the purchase of useless machinery or swindling them on promissory notes, or both.[54]

In the West, before the National Policy, the implement business was largely in the hands of American firms operating through dealers in St. Paul and other border cities. But after the tariff, Ontario manufacturers, led by the Harris firm, began to set up distributing agencies there. By late 1882, John Watson had a distribution branch in Winnipeg, the largest in the city, and his agents were active all over Manitoba.[55] That year, too, exports of implements from the Gurney foundry reached B.C.[56] While one of the Macdonald government's multitude of select committees with a keen eye for political advantage and a blind one for the truth where the two conflicted, claimed that the effect of the tariff was to give Canadian firms virtually the whole of the northwest trade,[57] in fact American dealerships established in Winnipeg had little difficulty maintaining the American hold. In 1883, the agricultural implements tariff was raised again to try to force the American firms to establish manufacturing branch plants in Canada.[58] No branch plants followed the tariff, except one short-lived venture, and for some time the American hold in the West was strong.[59] But gradually, with the considerable aid of American patents, the Canadian firms won the West.

With their victory the problems of the wheat farmer multiplied. Under the system of competition among implement firms, retail prices were maintained and competition took the form of a proliferation of dealers extending credit facilities. The farmer purchased implements from the dealers on time, paying from seven to ten per cent on the notes before they fell due, and ten to twelve after, during the period of the wheat boom. And, in fact, if a sale was made on time, prices were raised five to ten per cent above cash prices even before the interest was added on. Credit that cost the implement firms six per cent to obtain in central Canada was thus extended to western farmers at a minimum of twelve. Moreover, notes were generally scheduled to fall due in November, forcing farmers to throw their produce on the market as soon as threshed to meet the note.[60] And these exactions occurred over and above the fact that spot cash prices in Canada were higher not only than American but even than the foreign export prices of Canadian-made agricultural machinery. In 1895, after a cut in the tariff, prices in neighbouring Canadian and American farm communities were about equal. But by 1907, after mergers in the industry and after the tariff revision, a spread of about fifteen per cent between the higher Canadian and the American prices was recorded.[61] At the same time, the export prices of Canadian-made implements were as much as 20% below domestic, despite the fact that both domestic and export sales received the same rebates on duty paid on imported inputs. The effect was equivalent to a subsidy to the Argentinian or Australian wheat farmer to assist him in competition with the Canadian wheat farmer on world markets.[62]

In addition, the old problems of phony advertising and derelict merchandise remained acute. In 1913, Alberta had to pass special legislation to protect farmers from the dealers. Under the terms of the Farm Machinery Act, any contract that a judge deemed "unreasonable" was not binding. And the vendor had to stand behind all representations of his agents during negotiations for sale and to guarantee the quality of first-hand machinery.[63] The passage of the law led to the predictable cries of protest from the implement dealers and the financial press.

With the shift in the locus of wheat farming to the West had come an initial restructuring of eastern agriculture towards mixed and dairy farming. Even in 1890, well before the main surge of western wheat production, a bishop in Quebec put the tithe on hay as well as grain because of the switch from grain to pasturage.[64] After 1896 came the disruption and stagnation of Ontario mixed farming, and a drain of population out of the rural areas. Part of the loss of population was to the new wheat areas of the West, part of it went to feed the demand of the new industrial growth of Ontario for labour. Farm labour became increasingly difficult to obtain in the face of the lure of higher wages in the cities or of independent farms in the West.[65] Large areas of Ontario's farmland in Bruce, Huron, Kent, Grey, Lambton, and Middlesex counties ceased producing food.[66]

As mixed farming stagnated while industrialism grew, the need for imports of food increased substantially. For the West itself was a net importer of food of all sorts. Even flour for consumption was imported into the prairies,[67] because of the peculiarities of the commercial patterns that evolved under the auspices of the National Policy. At the same time that food costs in Canada, including flour prices, were escalating rapidly, Canadian wheat flour was selling in England considerably cheaper than in Canada despite the enormous difference in physical distance to market. Frank and Robert Meighen's Lake of the Woods Milling Company reported the following price structure in 1913. The difference in price was imputed to the fact that the costs of distribution in Canada exceeded the cost of transportation to the U.K. By 1900, Ontario grain was cheaper to produce than American, but Ontario grain ceased to be marketable abroad because of the discrimination of the railroad companies in favour of American, and subsequently western Canadian grain.[68]

TABLE IX (3)

Domestic and British Prices of Canadian Flour, 1913

Grade	*Domestic Price*	*English Price*
First Patent	$5.50	$ —
Second Patent	5.00	4.10
Mixed	4.80	4.00
First Class	4.95	3.70
Second Class	3.30	3.27

Source: *CLR I*, pp. 756 - 7.

The Grain Trade

The grain trade of the western provinces made its first hesitant step in 1876, when a shipment of 807 bushels was sold for export at 85c per bushel.[69] The same year, T. E. Kenny's wholesale export and import firm in Halifax made its first export shipment of grain,[70] the origin of which was probably local.

Progress was slow. Winnipeg's rail connections to the outside world were not completed until the St. Paul, Minneapolis, and Manitoba Railway reached the city in 1878. In 1880, A. W. Ogilvie and Co. began selling wheat from Manitoba to Minnesota for milling[71] and the following year it opened a mill in Winnipeg.[72] The Ogilvie mill was somewhat of an exception; most mills in fact located in central Canada, with the prairies functioning as a raw material hinterland. There were also efforts in Halifax from as early as 1883 to get a share of the grain trade, when Halifax merchants established a flour mill there to compete with western mills and to try to develop a grain export trade with Newfoundland and the West Indies.[73] A grain elevator was built too on the Intercolonial, was destroyed by fire and replaced at great expense, and then remained idle until 1903 when Manitoba grain began to flow through Halifax for the first time.[74]

The movement of grain was tightly cartelized, if not in the hands of outright monopolies. In 1884, the CPR magnates formed a wheat syndicate to move grain to the Lakehead and hold it for export. Grading of wheat at Port Arthur was conducted by a company official, and from the start complaints over the grading from farmers were heard.[75] And that year the Manitoba and North West Farmers' Union began calling for a number of reforms: the right of the province to charter railways and control natural resources, building of the Hudson's Bay Railway, repeal of the tariff on agricultural implements, and amendment of the provincial municipal act to permit municipalities to build elevators, grain warehouses, and mills and to issue debentures to defray their cost.[76] During the second Riel rebellion Ottawa had fears of white settlers joining the Métis and Indians.[77]

Until the second round of transcontinentals, the CPR had a monopoly of movement of grain, and while it built an elevator in Fort William in 1888,[78] this was not competition for the Ogilvie Company, for the CPR and Ogilvie's worked hand in glove. A. W. Ogilvie too had joined George Stephen and the Gaults of Montreal in promoting the Sun Life Assurance Company in 1885.[79] And when Ogilvie's was reorganized in 1902, the Bank of Montreal underwrote a bond issue for the new syndicate, both the Bank of Montreal and the Royal Bank underwrote a preference issue,[80] while Sir Edward Clouston of the Bank of Montreal, Sir Hugh Allan of the Merchants, and Sir Herbert Holt of the Royal all sat on the new firm's board of directors.

The CPR enforced monopoly in provision of elevators by refusing to deal with any but elevators built to CPR standards, and would not allow the loading of grain from flat warehouses or direct from farmers' vehicles. The result was to drive out of business many of the smaller grain buyers. Moreover, the monopoly given particular elevators in certain localities made it easy to cheat farmers in grades, weight and prices.[81] Many of the elevators continued to be under the control of eastern milling companies; Ogilvie, for example, as early as 1894 had a system of 42 elevators across the prairies and into Ontario. Its largest milling operations were concentrated in southern Ontario and Montreal.[82]

While the ushering-in of the new prosperity after 1896 saw the creation of a great deal of new elevator capacity and new firms organized, farmers by 1898 were already complaining of being fleeced by a combine of grain buyers in control of storage facilities.[83] Almost, it seems, to prove the point, within a few months of the farmers' complaints an effort was launched to merge all the leading elevator systems. Though the merger was not effected, a cartel of the elevator companies was formed and operated openly.[84] A few minor companies existed in the grain movement business. Erastus Wiman with the American flour milling industrialist C. A. Pillsbury established a system of canal and lake shipping to move flour.[85] But until the entry of the new railroads competition was negligible. And after their arrival it was restricted to the proliferation of "plant," not rate reductions. Periods of chronic car shortage, real or contrived, still emerged during crop moving season, and railway employees used to demand bribes from farmers to ensure priority to their harvest.[86]

The same considerations were true with the grain buyers. Attempts to organize grain dealing in Winnipeg began in 1883, though not until 1887 was the Winnipeg Grain and Produce Exchange opened, and incorporation was not secured until 1891.[87] Initially, seats sold for only fifteen dollars, but with the advent of the wheat boom prices shot up until the last seat was occupied in 1906 for $4,000.[88] Commissions were fixed at one cent a bushel on all grains, and cartelization was enforced by a system of fines, or by the expulsion of members not conforming to the fixed price system. Any effort by buyers to try to deal independently was checked by the organized dealers' bringing their collective power to control prices to bear, and wrecking the independents. The exchange embraced most of the elevator owners and grain buyers of the West, and the rest could generally be expected to conform to the rules.[89]

Until 1901 there was no futures market in Winnipeg. All hedges were made through Chicago. Then a movement headed by Sir Rodmond Roblin to establish a futures system and a clearing house for options resulted in its organization.[90] Rather predictably, the establishment of the futures market was followed almost immediately by a campaign against the "bucket shops" at the request of the exchange. The Premier of the province — Sir Rodmond Roblin — ordered the police into action. The largest of the independents, the Canadian Stock and Grain Co., was raided and its president and officers arrested, but they began operations again as soon as they were out of jail, the police having neglected to confiscate their books. A second raid was more successful, and that seemed to be the end of the independent futures dealers.

The bucket shop operations were simply added to the repertoire of the established brokerage firms. One of them, Richardson and Sons Ltd., engaged in some speculation on behalf of a farmer in 1911 on which losses occurred. The farmer was sued for recovery of the losses, and the Manitoba Supreme Court dismissed the farmer's defence that the deal was illegal and therefore unenforceable. The Supreme Court of Canada reversed the decision, however, and brought forward the old doctrine that if no delivery was intended the contract was simple gaming and therefore illegal. A few years later Richardson and Sons fought and lost another bucket shop case on the same grounds.[91]

In 1906 the Grain Growers' Grain Co., the farmers' co-operative, secured membership on the grain exchange, and was expelled the next year. A suit was brought against the exchange by the Grain Growers' Co. as being a combination in restraint of trade on the grounds that through the North West Grain Dealers Association it controlled the elevator system as well, and because the high fees charged for membership blocked participation.[92] But the case was dismissed. The Grain Growers' Association was reinstated to the exchange after it was made an issue in the 1907 Manitoba elections, and restrictions were placed on the exchange leading to its dissolution and reorganization on a voluntary, non-incorporated basis as the Winnipeg Grain Exchange in 1908. While the format of operations had changed, the character had not, nor had the farmers' antagonism to the organized dealers and speculators. A series of royal commissions deliberated on the complaints of the farmers. Typically, all farmers called as witnesses claimed that futures trading by the speculators hurt the farmer, all grain dealers called as witnesses claimed it was good for the farmer, and the Commissioners concurred with the grain dealers.

Railway Competition and Cartels

In the 1870's the northwest trade of Canada was nonexistent, and the major railways concentrated their attention on the grain-exporting states of the American midwest. The Great Western and the Grand Trunk extended to the southwest in competition for the trade — the Grand Trunk gradually outdistancing its weaker rival, which was cramped by the lack of access to sufficient long-term financing to sustain an extended traffic war. In

1871 the Grand Trunk built the International Bridge at Buffalo from funds raised by a bond issue in Britain, and this yielded it a connection to the New York Central, the Erie, and other U.S. routes, giving Ontario easy access to New York and New England.[93] It was estimated at the time that an extra £100,000 per annum worth of traffic was diverted to the GTR by the bridge.[94] By 1880, the Grand Trunk had pushed its own line to Chicago, and the only thing saving the Great Western from bankruptcy was the American traffic.[95]

The American traffic was critical to other roads as well. Both of the companies organized in 1871 to compete for the CPR contract stressed the need for American connections in their charters.[96] And when in 1888 a quarrel broke out between the Allan Line of steamships and the Grand Trunk, the Allan Line diverted its ships to Halifax away from Portland and caused a boom in Halifax.[97]

As the West opened up, the lure of traffic there attracted more of the railroads' attentions. In 1879 the GTR sold its unprofitable Rivière du Loup section to the Dominion government and used the funds to acquire a western outlet to Chicago, giving it access to the western American railways, and via them to Manitoba and the Northwest.[98] The new CPR syndicate of 1880 too was born from an American-based road extending into Manitoba. And the American lines themselves began extending north as the Manitoba government initiated a series of efforts to fight the CPR's western monopoly. In 1881, Jay Cooke's Northern Pacific bought a controlling interest in the Manitoba South Western, a line promoted by the future Lieutenant Governor of the province, Dr. Schultz. At George Stephen's request, Macdonald refused it a land grant,[99] and it was soon absorbed by the CPR, Donald Smith assuming the presidency.[100] That began a long series of conflicts between Manitoba and the CPR, culminating in the granting of a guarantee of $6,500 per mile to the Northern Pacific in 1888 after the CPR's monopoly clause was revoked.[101] The same year an arrangement was made between the St. Paul, Minnesota, and Manitoba, now under control of J.J. Hill who had left the CP syndicate, to permit the GTR to enter Winnipeg on St. Paul tracks.[102] Later that year the GTR took over the Northwestern railroad to begin to establish its own system in the Canadian West.[103]

In the East, the war between the GTR and the Great Western produced a great deal of apprehension over the value of their holdings by the British investors of both lines. In 1879, the Manchester shareholders of the Great Western met and urged union with the Grand Trunk.[104] By 1881, the fears for the returns on investment from the continuing rate war[105] pushed the GTR closer to agreement, and early in 1882 the war was secretly ended,[106] followed by the absorption of the weaker line into the Grand Trunk.[107] The critical factor precipitating final agreement was the threat newly posed in the East from the CPR. And with the merger the GTR secured every rail approach to the Canadian Northwest through the United States except for J.J. Hill's St. Paul line. The CPR also attempted to secure the Great Western, and its absorption would have involved no doubling of lines, for the CP had no lines in the area served by the Great Western, whereas the GTR and its smaller rival had duplicated facilities. When the CP bid failed, the syndicate had to lay down its own track, with the result that three lines existed to service enough traffic to sustain one[108] at a time when the GTR was unable to meet its fixed interest charges.

But the intrusion of the CP into this territory did not lead to rate competition. Freight rates remained fixed while competition took the form of a proliferation of feeder and branch lines and systematic efforts to wreck each others' credit ratings. Early in 1883, the CP secured Duncan McIntyre's Canada Central and made a move towards leasing the Credit Valley.[109] In response, the GTR secured the North Shore Railroad for $5 million from a syndicate of members of the Quebec Legislative Assembly who had just bought it from the Quebec government for four million.[110] An arrangement between the two lines was almost achieved on the basis of the CPR's being left in control of the Northwest while the GTR was to keep a monopoly of the western Ontario-Montreal traffic.[111] But the peace was broken. Henry Tyler denounced the CPR's intent to hook up with Cornelius Vanderbilt and intrude into the Montreal-western Ontario trade. The CPR secured the Credit Valley line with exactly this in mind.

That the space was open for it to do so was in part the result of the fact that the GTR had promised the Government of Canada that it would use the proceeds of the sale of the Rivière du Loup section to lay double tracking between Toronto and Montreal. Instead, it diverted the funds to its extensions into the American Midwest grain trade. In 1884, a new effort was made to divide up traffic; while it was unsuccessful, the tacit freight rate fixing agreement was nonetheless maintained. Later that year, a more successful arrangement was made by which the GTR gave the CPR running rights over its North Shore line while the CPR gave the GTR rights on a line from the North Shore to the GTR main line.[112] These arrangements were regarded with some alarm among those who used the railways, and the 1884 CPR loan contained a clause forbidding the CPR to merge with the GTR.[113]

The arrangements broke down in short order, but the tacit price fixing lasted even during peak moments of hostility[114] partly no doubt due to the pressure of British bondholders. In 1891 a formal agreement was concluded. While outright merger was prohibited, to expedite the agreement Duncan McIntyre was elected to join the GTR board. The intention of the arrangement was then baldly announced by Sir Henry Tyler:

> We are thoroughly agreed that we will, so far as these two companies are concerned, maintain rates, and that we will get all we can out of the Canadian people.[115]

At the same time the companies were fixing rates, CPR rates were impervious to government regulation. Under the terms of the charter the rates could not be reduced until the profit on capital invested reached ten per cent, "in other words, never."[116] This stipulation may well have favoured the issue of common stock for financing, as opposed to bonds, for by suitably watering the stock the rate of profit could always be kept below ten per cent.

Competition during the period, and indeed the next as well, took the form of extending feeders or absorbing other short lines to develop traffic, especially in resources, the burden of which fell on the taxpayer through government subsidy and guarantee programs. After its main line was complete, the CPR pushed feeders into phosphate mines in Quebec, copper in Sudbury, coal in Lethbridge,[117] and in 1892 absorbed the Montreal and Western, a resource road controlled by a syndicate headed by Sir Adolphe Chapleau.[118]

The Grand Trunk's position continued to be precarious. By 1894 its fixed charges exceeded revenue by £224,000. Having nothing to lose, it commenced an energetic expansion program against the CPR, which began to embrace the West, hitherto a CP preserve, after the great expansion began. When the Canadian Northern system was in its infancy, an attempt to buy it failed, for the GTR could not meet the price, and the stage was set for a replication on a grand scale in western Canada of the absurdities already achieved in southern Ontario, with three complete railway lines each eager to generate long-distance traffic. Yet even then it was not until 1898 that bitterness over the Klondike traffic led to a rate war between the CPR and the GTR, lasting only three months.[119] And at that, it was restricted to passenger traffic. Nonetheless British investors were decidedly uneasy and fearful of depreciation of their securities,[120] a restlessness that came to the surface again with each new manifestation of serious railway hostility that might lead to rate cutting.[121]

During the opening years of the new expansion, rate competition took new forms. In 1897, while the railway lines kept to their fixed schedules, their express company subsidiaries and electric railway affiliates waged bitter rate struggles. As early as 1887, American Express had agreed to withdraw from Canada in deference to the CPR's Dominion Express Co.[122] Shortly afterward the GTR promoted a rival Canadian Express Co. and rate war broke out. But in 1897 the war stopped and collusion began.[123] These express companies were the source of fabulous returns to the parents under the new arrangements. While their actual assets in 1911 were only $800,000, they were capitalized at five million, all held by the parents, and were paying dividends on that sum.[124] Dominion Express had cost only $5,800 to build, the CPR invested another $24,500 in its operations, and by 1916 its assets reached $2,834,000 and it had returned $13,500,000 in dividends. The express companies of both major lines for many years had blocked the establishment of a federal parcel post which would compete with their traffic.

Also in 1897 there was an outbreak among electric railways in southwestern Ontario, behind which stood the two railway companies. The Galt Electric Railway ran freight for the CPR to Galt, Hespeler, and other nearby towns that the CPR did not service. The Grand Trunk covered part of the area with its Harrisburg-Guelph line, but asked the Galt electric line for a similar arrangement to that of the CPR. When this was refused, the GTR put freight wagons on the electric railway route and began delivering goods free of charge. In retaliation, the CPR and the Galt electric line arranged for free delivery by wagon at points reached by the GTR line but not formerly by the Galt or the CPR.[125]

Towards the end of the century, in the West the CPR was faced with a challenge from the American roads before the two new trans-Canada lines were under construction. J. J. Hill began a series of forays into the B.C. mining districts, followed by a move into Manitoba. This last was countered by an arrangement between the two lines whereby Hill would extend west with the aid of the Manitoba government, then withdraw, selling the lines constructed from public funds to the CPR in return for concessions on the West Coast.[126] This arrangement was stopped by the fall of the Greenway government which was promoting it, and the coming to power of Rodmond Roblin with his "nationalization" plans. Within a year, Mackenzie and Mann had running rights over nearby U.S. lines to use as an outlet for Manitoba wheat,[127] and the Canadian Northern system was on its way to glory.

The traffic arrangement with the American lines was not a new phenomenon, for international pools and cartels, as well as price fixing arrangements, were frequent adjoints to domestic cartels from at least as early as 1871, when the Great Western entered into a 21-year earnings pool with the Michigan Central, both roads bonding themselves not to interchange traffic with any new line across Canada and Michigan.[128] In 1880, the Grand Trunk made serious efforts to come to terms with the American trunk lines over the Chicago trade, an agreement delayed by quarrels over the division of the market and finally settled by Vanderbilt, who acceded to the GTR's demands for a larger share.[129]

In the West, arrangements with American lines were essential to the early entrants. In 1879, the St. Paul and Pacific (St. Paul, Minneapolis and Manitoba) reached a uniform tariff agreement on freight with the Northern Pacific in flagrant and open violation of the agreement between the Stephen-Smith-Hill syndicate and the Canadian government which gave them control of the Northwest trade.[130] By 1883 J. J. Hill had broken with his CPR confrères and the St. Paul line became an object of the Grand Trunk's attentions.

The CPR, because of J. J. Hill's hostility and because the Grand Trunk had a long, fruitful working relationship with the American lines, was seldom involved for long in the major American pools and cartels. In 1895 it tried to join the Union or Joint Traffic Association, a huge pool of nine trunk lines including the GTR, but negotiations failed. This trunk pool was formed to control the Chicago to Atlantic coast traffic. It was not only the CPR that was a problem. The Grand Trunk itself broke ranks shortly after the pool was formed, and began cutting rates. Under J. P. Morgan's auspices a new agreement was eventually worked out, but now the CPR refused to abide by it.

There followed a rate war mainly in the U.S. from New York to Winnipeg, with CP rates falling to half those of the pool, forcing the Northern Pacific and Great Northern to come to terms.[131] While the U.S government prosecuted the cartel, this seemed a minor deterrent, for the CPR joined a few months later.[132]

At the same time the freight pool was being organized, efforts were made to organize passenger traffic. The Transcontinental Passenger Association was formed by all the U.S. and Canadian lines in 1897, but this broke down with the Klondike rush and the outbreak of rate cutting there.[133] And in 1898 the CP was expelled from the immigration clearing house by the American trunk lines, shutting it out of immigration traffic at Boston and New York,[134] though it seems that Van Horne and Hill did achieve a consensus on rates in 1898 before their efforts at a Manitoba arrangement.[135]

By 1900, J. J. Hill had begun another concerted drive against the CPR in B.C., including taking control of a series of valuable collieries.[136] His line had also made forays into Ontario and Quebec, establishing itself as a new grain outlet. In Quebec it was given free use of the government docks, and all steamships run in connection with the road were exempt from harbour, port, and other dues for five years.[137] The Laurier policy of favouring rivals brought the fury of the CPR upon the federal government. After the Intercolonial was completed to Montreal, almost all of the domestic traffic originating along it was turned over to the Grand Trunk. When the federal government in 1900 refused the CPR an interchange arrangement with the Intercolonial that would have monopolized the eastern end of the trans-Canada traffic, the CPR threw its weight behind the Tories in the general elections. It gave particularly heavy backing to Sir George Foster against the Minister of Railways in St. John, New Brunswick,[138] but had to wait until after 1911 to collect its reward.

It was in the West that the bitterest battles were fought and the resulting damage the greatest. Competition in the West took the form of building feeder lines to tap resource traffic and the grain trade and divert it along the trunk line. Wherever resources were found, the railways were quick to enter. This was due in part to the heavy burden of fixed interest charges on the new lines, which forced them to develop long-distance traffic in raw materials as quickly as possible. Rapid exploitation of mines and timber lands resulted, with the output being exported from the resource-producing area rather than processed locally. In addition, the heavy peak-load character of grain traffic, which was the *sine qua non* of success, forced double tracking to capture the return flows of merchandise — and double tracking by all three transcontinental lines. In part, too, the wasteful process of building competitive feeder lines was built into the logic of railway competition. Since rate wars were disastrous, especially for lines with heavy fixed debt charges to meet, competition by quantity of facilities was the sole recourse — over and above their shenanigans in the London capital market.

Because of this structure, the West was reinforced in its position as a staple-producing hinterland dominated by eastern commerce and finance. With the boom in the mining districts in

British Columbia and Yukon near the end of the nineteenth century, for example, pressure mounted for the building of the Crow's Nest Pass Railway. The Dominion government gave the CPR a guarantee of up to $11,000 a mile to build the line, which not only served as an access route to the Kootenay Mining District and permitted eastern Canadian mercantile interests to replace the Americans in controlling the area's trade,[139] but secured the company's position in southern B.C. as well. In the process a series of feeder lines were acquired in 1897 with access to mines and smelters, along with the B.C. Southern Railway, which brought with it 3,350,000 acres of land and six square miles of coal fields.[140] In 1898, the CP went on to acquire the Colonization and Western Railroad of B.C., adding another 1,600,000 acres to its holdings.[141] In 1901, it established a fleet of coastal steamers to tap the developing Pacific coast trade.[142]

By 1903, the Canadian Northern system was becoming a serious threat to the CPR's western hegemony, for by that date it had 1,276 miles of track, 857 in Manitoba, and had added grain elevators and docks at Port Arthur to establish its share of the west-east grain flow. In addition, the CN telegraph system duplicating existing CP facilities was in operation.[143] The CP was alarmed, and began to consolidate its holdings, taking over a number of lines including the Calgary and Edmonton which it had formerly leased.[144] In 1905 it solidified its hold in B.C. by acquiring the Esquimault and Nanaimo Railroad, and with it 1,600,000 acres on Vancouver Island.[145] The next year it secured the Alberta Railway and Immigration Company and with it coal supplies.[146] And in 1910 it entered Shawinigan Falls, tapping the trade associated with the rapid growth of pulp and paper and other industries that collected about the large power developments there.[147]

The Canadian Northern kept pace with its older rival. 1906 saw a substantial increase in its grain, cattle, and coal traffic. In addition, it began shipping large amounts of iron from Port Arthur to the U.S. for processing, and began a series of takeovers of Ontario and Quebec railroads, giving it access to Ottawa, Montreal, and many urban Quebec centres. Its mileage reached 2,482. The importance of developing the raw material trade to offset fixed charges and to keep up with the CPR's rate of expansion was fully recognized by the directors. Grain traffic by itself was inadequate and risky, for one poor crop meant trouble for the railroad. But other raw materials did not entail the same climatic hazards, and the iron ore exports, the directors reported, "will enable your company to face years of bad crops, whenever they come, with equanimity."[148]

Some processing of the ore into pig iron under the federal iron bounty program began in 1907 at Port Arthur in the refineries of the Atikokan Mining Company, wholly owned by Mackenzie and Mann.[149] In 1908, the CN acquired a series of small railroads. In one coup it got the Qu'Appelle, Long Lake and Saskatchewan, giving it access to an enormous grain-growing area in central Saskatchewan.[150] In 1910 it followed the CP into coal lands in B.C. and Alberta;[151] in 1911 it was tapping the huge timber limits near Prince Albert and expanded its Alberta coal contacts. That year it established its own steamship line, and began extensive connections with, and direct lines to, American pulp and paper and timber producing areas.[152] By 1912 its coal traffic was growing at a rate of 120%; it carried 32% of the total grain traffic; and its mileage reached 4,400.[153]

Freight Rate Discrimination

Although the rate structure tended usually to be fixed between companies, a great deal of discrimination between various users was built into the common tariffs. This discrimination took four forms: favouring American over Canadian traffic, favouring the East over the West in Canada, discriminating in favour of raw materials one way and finished goods the other, and encouraging long-distance (especially international) trade as opposed to local traffic.

In 1871, the Dominion Board of Trade objected to the Grand Trunk's granting of better terms to American than Canadian freight over equivalent distances, a discrimination regarded as particularly galling in light of the amount of public assistance given the line. Instances had arisen whereby instructions were issued to leave all local freight untouched and send all the available cars to Sarnia to secure the American through trade.[154]

Montreal in particular was under the complete control of the GTR at a time when Toronto was connected via the Great Western to the New York railways and Toronto freight rates were only half of these paid by Montreal shippers over equivalent distances. In addition, the GTR tended to divert Montreal's export trade to Portland while its local produce accumulated without transportation facilities. By December of 1873, the accumulated stock of grain in Montreal due to lack of railway service reached over a million bushels of wheat and 90,000 of flour. Furthermore, the through rates from Chicago to Liverpool were 80c per 100 lb., while the through rate from Montreal to

Liverpool was 93c per 100 lb. for wheat; at the same time Chicago was 1,145 miles from the sea and Montreal 297.[155] The milling interests of Canada were particularly vehement in their objections to the GTR's discrimination.[156]

The CPR charter was supposed to put an end to these problems. Instead, the new railway was immediately faced with charges of discrimination of its own. In 1880, the Winnipeg business community began to fret about the possibility that traffic would be diverted along the syndicate's Pembina branch and the St. Paul, Minneapolis and Manitoba to Chicago, completely bypassing Winnipeg.[157]

The CPR, once operational, discriminated in favour of American grain as effectively as had the GTR. In 1890 it was carrying wheat from Winnipeg to Halifax for 63.5¢ per 100 lb., while it carried it from Minneapolis to Portland and Boston for 42.5¢, and to New York for 37.5¢. General merchandise flowing back showed a similar pattern. The first class rate from St. John to Winnipeg was $2.64 per 100 lb., and from Montreal to Winnipeg $2.08; while from Portland and Boston to Minneapolis the company charged only $1.05 per 100 lb.[158] The CPR thus exploited to the full its monopoly within Canada while its rates were kept down to a lower level in the U.S. by the cartel agreements or the intermittent rate wars. The effect on wheat shipment was especially harmful, as it raised the costs of shipping from Winnipeg to Liverpool one-third above the rate from Minneapolis to Liverpool,[159] a factor that must have contributed to the retardation of development of the Canadian West.

After 1900, the CP began to undercut the rates of the Great Northern and the Northern Pacific in contiguous U.S. territory, and the differential between Canadian and U.S. rates grew.[160] In addition, the CP schedules listed higher charges on transcontinental rates to B.C. towns than to nearby American ones, which favoured American over Canadian merchants wherever they came into competition; it gave U.S. cattle exporters an advantage over Canadian; and it augmented its discrimination with a system of secret rebates to favoured shippers, reducing the real charges below the nominal.[161]

The rate structure prevailing at the turn of the century not only favoured American routes over Canadian but also trans-Atlantic trade over intra-Canadian, Vancouver-Liverpool costs for some items being less than Vancouver-Toronto. The result was to undermine substantially the protective incidence of the tariff, contributing in no small measure to the manufacturers' ever-escalating demands for higher protection on certain commodities, such as cotton and woollens.

TABLE IX (4)

Freight Rates Per 100 lb., 1901

Route	*Class*	*Mileage*	*Trade*	*Local*
Chicago-St. Paul	1	410	$ .60	$ —
Winnipeg-Moose Jaw	1	398	1.20	1.26
Chicago-St. Paul	2	410	.20	—
Winnipeg-Moose Jaw	2	398	.49	.58
Montreal-Halifax	1	746	.56	—
Winnipeg-Calgary	1	840	1.82	2.08
Montreal-Halifax	2	746	.28	—
Winnipeg-Calgary	2	840	.77	.94

Source: Royal Commission on Railway Grievances, *Report*, p. 47.

Item	*Liverpool-Winnipeg*	*Liverpool-Vancouver*	*Toronto-Winnipeg*	*Toronto-Vancouver*
calicoes	$1.52	$1.74	$1.38	$1.73
cotton cloth	1.96	2.29	1.82	2.25
misc. dry goods	1.96	2.60	1.82	2.25
carpets	1.96	2.60	1.82	2.75
wool clothing	1.96	2.40	1.82	2.85
hemp carpet	1.09	2.20	1.82	2.75
oil cloth	1.58	1.58	1.24	1.70
kid gloves	1.96	3.26	1.82	2.85

Source: *IC*, July 1901, p. 303.

Within Canada, discrimination in favour of through traffic over local prevailed. And the rates in Canada were higher in the West than in the East for equivalent mileages and identical merchandise.[162] Nor could this be justified in terms of cost differentials, for the prairie sections of the railroads were much cheaper to build and operate than those in central Canada. Agitation against the discrimination began early, and by 1887 Van Horne had denounced Manitoba businessmen who complained of it as "annexationists."[163]

Rate fixing and rate discrimination led to serious enough opposition that the government was forced to that tried-and-tested, time-wasting, and dissent-deflating tactic, the establishment of a royal commission. This commission was enpowered to investigate whether or not freight rates should be regulated. Just to ensure that it was objective, Sir Alexander Galt was appointed as its one-man commissioner. Much to everyone's surprise, he reported that, in his considered opinion and with due regard to all the evidence, no regulation of railway rates was necessary. As a result, until 1903, the only body to whom appeal could be made against the rates charged by railways was a House of Commons committee — staffed of course by the same M.P.s who so often relied on railway largesse to win their seats, if not their extra-parliamentary daily bread.

The parliamentary railway committee was openly a tool of the railways, and pressure mounted for the creation of an independent regulatory agency.[164] But this was of little consequence. Despite the building of the new transcontinentals and the promises of Van Horne and others that expanded volume would lead to lower rates, no changes were made. Volume doubled in ten years after the turn of the century, but the discrimination remained.[165]

The Commission took the position that east-west discrimination was justified on the grounds that in the East there was competition from waterways and U.S. lines, and that rate cutting by the big lines would bankrupt the weaker and leave the CPR with a monopoly.[166] It was bizarre logic. The West was to bear the burden of the East's competition. As to the bankruptcy of the weaker lines, it would make little difference to rate charge, and happened in any event. The argument about water competition in the East was ludicrous, for very few points were linked by water routes except the Great Lakes area.[167]

The rate structure served to reinforce the West's staple-extracting role. Even the only significant case of rate reduction helped to confirm the division of labour. Under the Crow's Nest Pass agreement negotiated between the two sovereign bodies, the CPR and the Dominion Government, freight rates on wheat and flour from any point in the prairies to Fort William were reduced three cents per 100 lb., while rates on some items of merchandise consumed on the prairies were reduced on the east-west run. There is a critical theoretical point involved here. Just as reducing the rate of tariff on imported inputs holding constant the nominal rate on finished products serves to heighten the effective degree of protection inhering in any nominal tariff structure, so too will railway rate discrimination. If the freight rate one way is lower than the other on raw materials, with the opposite relation holding for finished products, the amount of protection afforded for manufacturing at one end against the possibility of competition from the other is increased significantly. And rate reductions on raw materials and finished products that are restricted to one-way flows in opposite directions increase the effective protection inhering in the rate structure.

Such discrimination could clearly work to the advantage of one locality over another, as well as affect the east-west balance. Within the West before the Canadian Northern became important, the CP controlled the competition of local merchants by giving them special distributive rates. Winnipeg was granted special rates which made it the distribution centre of the West. When this was threatened under the Crow's Nest Pass agreement with its east-west reductions, the CPR re-established the differential in the city's favour.[168] Calgary merchants in 1902 could ship along the Calgary-Edmonton branch into Edmonton territory while Edmonton merchants could not ship back.[169] The result was to make one centre, in this case Calgary, more attractive to eastern business as a distribution centre, and a large number of wholesale branches of eastern business moved into that town.[170] Complaints over this were rampant throughout the West, for which town got the special distributive (traders') rate was entirely the decision of the company. In addition, the secret rebate system could be used to hide the differential.

In the East, rates favoured Montreal over Toronto. From Toronto to Montreal in 1904 general merchandise moved first class for 50c per 100 lb., fifth class for 25c; while from Montreal to Toronto the equivalent rates were 44c and 22c. In addition, raw material rates from Toronto to Montreal were lower than from Montreal to Toronto.[171]

Manufacturers Versus Railroads

The manufacturers saw in the railroad companies the greatest threat to their profit position. As early as 1882 it came to light that grist and saw mills manufactured in Brantford at the Waterous plant and shipped to Brandon had a markup due to freight one-third more than when they were sent to Australia via New York.[172] Fears over the proposed Great-Western-Grand-Trunk merger were rife, for much of Ontario would then be in the grips of one great railroad, and the rest in the hands of another, with no price competition.[173] That the railways could offset the effect of a tariff by appropriating the revenue themselves, and could dictate the location of manufacturing, was recognized early.[174] And complaints of favouritism given to American producers, and to international over local trade, were constant grievances until well after the turn of the century.[175]

There were many instances where rates on the export of raw materials were more favourable than on exports of finished or semi-finished products made from that raw material. Until 1900, the Grand Trunk gave special low rates on the export of sawn logs to American pulp mills. Not until the CPR agreed to alter its special system of rates for the export of lead ore was it possible for smelting to get underway at Rossland, B.C.[176] Needless to say there was a price attached to its concession — namely that the federal government institute a system of bounties to lead smelters. And the CPR's Consolidated Mining and Smelting Company operation at Trail monopolized almost all of the smelting of lead, and hence received virtually all of the cash bounties. It was the Intercolonial and Grand Trunk discrimination in favour of the long distance over the local traffic in coal that came close to wrecking the Londonderry iron and steel works in their early years. From the milling industry the long-standing complaint that it cost more to ship flour to Liverpool than wheat was heard time after time.[177] And during the wheat boom the spread between the export rates on flour and wheat widened sharply from 1.5¢ per 100 lb. in 1900 to 12¢ per 100 lb. by 1913. Canadian millers were thus hindered in their competition against British millers.[178] Such a rate structure helped, no doubt, to impede the development of grain milling in Canada at a time when food costs were skyrocketing.

For the farmers too, of course, the railways were a constant source of monopoly exaction. Not only did the railways help the destruction of wheat farming in Ontario by their discrimination in favour of American grain, but once the West was opened up to large-scale production the wheat farmer there was forced to pay tribute in many forms. The spread between export and domestic prices of farm implements made in Canada, and the Canada-U.S. differential, were due in part at least to the system of rate discrimination. To move implements from Toronto or Montreal to the Pacific Coast of Canada in 1904 cost $1.38 per cwt., while to ship them from Boston, Portland, or New York to the coast over the CPR cost $1.30. The general machinery rate in Canada was $1.53, for the U.S., $1.45. From Chicago to the sea, cattle cost 28¢ per cwt. to move on Canadian lines, while from Toronto it cost 23¢ — the difference in distance was 500 miles. From Buffalo to Boston cattle cost 15¢ per cwt; from Toronto to Boston, 25¢ — making a difference of up to $1.50 per head. The spread was just as bad over longer hauls. From St. Paul to the sea over the CPR the cattle rate was 40¢, while from Winnipeg it was 62.5¢.[179] These patterns certainly helped ensure that Canadian cattle were shipped south to the American export centres, at the same time ensuring higher meat prices in Canada than in the U.S.

The CMA underwent a substantial reorganization in 1900, and while many changes resulted, its antagonism to the railway companies did not alter, especially vis-à-vis the tariff issue:

> The railway companies truly control economic destinies in this country; they are absolute monarchs . . . .The railway

> companies do not hesitate to say that in arranging for their rates they consider the protective tariff, and rather than our manufacturers should obtain that protection which has been granted them, the railways come and reach out their hands and take it themselves.[180]

Baron Shaughnessy of the CPR was reputed to have explained the American-Canadian rate differential to Canadian manufacturers by saying, "you have the tariff." While protection in Canada led to high commodity prices, no small part of this represented protection to inflated railway rates, and thus to the British security holders.

The individual manufacturers were helpless before the power of the railroads, but manufacturers as a whole, organized into bodies like the CMA, were conscious of their collective bargaining strength against the railroads, representing as they did many major customers. The railroads were also aware of it, and refused to deal with firms except on an individual basis.[181]

Efforts were also made, to no avail, by manufacturers to form alliances with organized farm groups as a united front of the "productive" class against commercial capital in general, and the railways in particular. But the tariff was the critical wedge. The CMA rhetoric emphasized the increased demand for farm products that would result from higher protection to industry.

> If the request of the Canadian manufacturers for increased protection is granted, instead of the money of our farmers going over to the United States to pay American workingmen, it will remain in Canada and will be paid out in wages to the Canadian farmer in payment for food.[182]

This argument about harmony of interests among the productive sectors of society against the parasitical ones ignored one crucial point, that the farm community whose organized support the CMA attempted to secure was not oriented towards production for home consumption in a balanced self-sufficient economy. The growing part of the farm sector was geared to producing staples for export markets. Its sales were effected on unprotected markets, while its purchases were within the protected sphere, resulting in a deterioration of its terms of trade. The resultant asymmetry doomed all efforts to bring the greater part of the farm sector within a protectionist frame of reference. Some farm groups did in fact seek protection, but these were groups like B.C. fruit growers, whose markets were mainly Canadian and who faced direct competition within Canada from American producers. Such groups were exceptional.

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The people of the United States would be glad to join with the people of Canada in developing this great area.

H. N. Whitney, 1910

CHAPTER X

Patents, Foreign Technology, And Industrial Development

Invention and Industrial Growth

The use of imported technology had a role in the development history of most advanced industrial economies. Theft of technology and skilled workers, even the murdering of artisans to preserve secrets from potential or real competitors, and similar policies — all played their role in European mercantilist strategy. The preservation, or attempted preservation of industrial secrets as an objective of national policy was also in evidence even well into the nineteenth century. Britain, for example, tried to maintain industrial hegemony through the prohibition of the export of machinery and the blocking of the emigration of skilled labour. At the same time, other countries were earnestly stealing and bribing away British technique and workers, with the result that in France and Germany, much of the textile industry (to name but one of major importance) grew up under the tuition of British émigré workers.[1]

A policy of preserving industrial secrets externally really required strict preservation internally as well. International monopoly required national monopoly, for the obvious reason that a system of small competitive firms could not possibly be closely controlled in terms of the secrecy of industrial technique. And in the late eighteenth and early nineteenth centuries it was common opinion that industrial growth was best secured by widespread diffusion of industrial techniques among domestic firms. Thus, in Britain in 1754 the state sponsored the Society For The Encouragement of Arts, Manufactures and Commerce, which offered premiums to inventors who were willing to put their devices at the free disposal of all industrialists, and many of the leading industrialists did refuse to take out patents. The implication of this was that the patent system could be a hindrance to innovation in a highly competitive system of small firms.[2] But by the end of the nineteenth century, the presumption was strong that technological advance came fastest in established, wealthy oligopolies, though in Canada in 1913 a government commission recommended that the revocation of patent privileges be used to force competition in the event of combination in restraint of trade.[3] An examination of the operation of the Canadian patent system suggests that it both fostered and hindered innovation at the same time. It helped to create, as was its intent, the rapid replication of American techniques in Canada, while it hindered the development of indigenous innovative capacity.[4]

Historically, there have been four distinct ways in which Canadian dependence on American technology and industrial capital has manifested itself. First was the theft of U.S. techniques, processes, and patterns; second, the immigration into Canada of American industrial entrepreneurs: both of these seem to have been standard until 1872, but much less in evidence thereafter — with the spectacular exception of the primary iron and steel industry. Following the Patent Act of 1872 and the National Policy of 1878-9, two other means became dominant — licensing of American patents in Canada and/or joint ventures with Canadian capital, and direct investment in branch plants.[5] While from a purely technological point of view it was simply a matter of degree, from an economic and a political perspective there was an important distinction in that theft of patents and immigration of entrepreneurs implied domesticating American technology to Canadian requirements, while licensing and branch plants implied domesticating the Canadian economy to U.S. technology. And the second two, unlike the first two, implied a measure of extraterritorial control, for licensing was as much a means of integration of the productive apparatus of the two countries as was direct investment. While the ownership relations differed, the control relationship did not. Furthermore, industries could and often did change as regards the pattern of control exercised by parent over subsidiary. In Canada over short periods of time there were instances of direct investment preceding licensing, licensing preceding direct investment, and direct investment remaining direct investment. Over the long run the level of foreign ownership of virtually every industry, and especially the most modern, capital-intensive, and technologically advanced, increased fairly steadily.

Pre-Confederation Patterns

Prior to Confederation, American technology entered Canada in the form of stolen patents, often copied from imports, and in large migrations of American skilled workers and entrepreneurs, who brought with them their savings, their technical knowledge, and often their machinery as well. For example, saw milling, the first industry to be established on any scale on capitalist, as opposed to handicraft lines, and the leading industry in Canada for the most of the nineteenth century in terms of employment and capital invested, was introduced by Americans who imported with them the capital, the machinery, and the skilled labour.[6]

American entrepreneurs in fact formed the industrial leadership of Ontario and the Eastern Townships before, and even well after, Confederation. Among the more prominent were Wall and Jackson, who built the first paper mill in 1804; E. W. Hymen's tannery in 1835; the Gurney iron foundry of 1842; J. William's carriage works in 1845; Cossitt, Massey, Frost and Harris in agricultural implements; Goldie, the leading Ontario flour miller; Raymond in sewing machines; Hiram Walker, Gooderham and Worts in distilling; to name but a few. [7] To a considerable extent, the migration of American entrepreneurs and capital coincided with the shift in Canadian consumption patterns with American goods largely replacing British in woollens and cottons, iron tools, axes and scythes, and similar products. It is impossible to completely unscramble the direction of causation, but the fact that American goods were cheaper than British, and were more suitable to Canadian agricultural conditions,[8] lends support to the view that demand was the initiating factor: the migration of American farmers and artisans to Canada led to the Americanizing of tastes and preferences.

In 1844, the first cotton factory in Canada was founded at Sherbrooke by A. T. Galt on a pattern to be repeated many times subsequently. Galt, a British born financier and land speculator, joined two Massachusetts capitalists who put up much of the venture capital and provided the management ability. The corporate form facilitated the division of function implicit in the venture, Galt providing commercial connections and the Americans the industrial capacity. The machinery was all imported.

In the capital goods industry, the first important Canadian ventures were very short-lived. Several engine works appeared rather suddenly in the boom of the early 1830's and disappeared just as quickly in the crash of 1836-7 — in one case with the help of the Bank of Upper Canada. Even earlier, two engine works to service steamships appeared in Montreal in the 1820's, one arising from the efforts of imported American engineers, the other from British.[9]

Two other industries that merit special attention because they represent fairly advanced technology for the period are agricultural implements and sewing machines. Sewing machines are especially interesting because Singer was the first American multinational firm in the modern sense, and was an early entrant into Canada, establishing its Montreal branch plant in 1885. But unlike many of the early American branches in relatively new industries, Singer never dominated the Canadian market. In 1857 Charles Raymond, an American from Massachusetts, received the patents on a machine competitive with Singer's and migrated to Canada, establishing an unsuccessful factory in Montreal in 1860, and a successful one in Guelph, Ontario, in 1862.[10] In 1869 the Raymond Sewing Machine Company produced an offspring when two of its foremen left to establish, with two local craftsmen, a new sewing machine company in Guelph. The venture was very profitable until 1874. It was then reorganized as the Guelph Sewing Machine Co. and persisted until the last of the original four partners went into assignment in 1882, possibly a victim of the National Policy which had provoked adverse criticism from some members of the sewing machine industry.[11]

Equally successful was another American émigré, R. W. Wanzer, who arrived in Hamilton from Buffalo in 1855. With the backing of Edmund Gurney, Wanzer's "Canadian" sewing machines found their market all over the world.[12] The distinction at the time between the American émigrés in the 1850s and the Singer branch plant two decades later was marginal to the business community in Canada, and to its politicians. Both represented the eagerly cultivated movement of American industrial capital and technique. The long-run consequences were, of course, vastly different.

The agricultural implements industry, as opposed to simply making tools on a handicraft basis, began when an American émigré, Daniel Massey, imported a thresher into Ontario and copied it. In 1851, his son returned to Canada from a visit to New York with the Canadian patent rights and patterns for the Ketchum mower and Burrell reaper;[13] in 1855 they acquired the rights to the patents on the Manny combine.[14] Similarly, F. T. Frost of Frost and Wood, another American immigrant, imported most of his parts from the U.S. and made his implements according to American patents he had acquired in 1861 and used without paying any royalties.[15] The American firms supposedly gave him the patents out of friendship, but in all likelihood, the fact that non-residents could not secure patent rights in Canada had something to do with it as well. The Harris family, too, were American émigrés who had acquired the patents from the American inventor of the Kirby machines.[16]

In 1853, the government of Canada itself got into the act of trying to facilitate the influx of U.S. technique in the agricultural implements industry. William McDougall was sent to the U.S. to examine patented machinery and report on the possibility of its introduction into Canada. The Department of Agriculture published his report along with detailed descriptions of certain coveted machines. In 1857, the matter of technological transfers was again in the fore with the reorganization of the administration of the patent law. The fact that the Department of Agriculture was empowered to administer patent matters demonstrated clearly the type of American technology that was most desired in the overwhelmingly agrarian province. That year two Boards of Arts and Manufactures were established in both parts of the united province on which academics, agricultural experts, and representatives of the boards of trade and of the Mechanics Institutes of the two regions would sit and promote the diffusion of technical knowledge in general, and the establishment of exhibitions of models of foreign agricultural implements in particular.

It was largely through Canadian interest in promoting the influx of American technology in the agricultural implement industry that the pattern of Canadian patent legislation took shape. In 1849, the first general Patent Act of the Province extended the validity of Upper Canada or Lower Canada patents to both parts of the united province of Canada. And it stipulated that machinery from the U.S. or other parts of British North America could continue to be imported freely. Thus no Canadian patent could interfere with the influx of U.S. technology. In 1857 the Act was extended further. Any Canadian was free to pirate technology from abroad and patent it, *except from the U.S. and the Empire.* Canadian patents could not be issued that would interfere with the free diffusion of American technique. American patents could be freely copied, but the pirating could not become the legal prerogative of any one person. It was generally felt that by leaving the whole field of U.S. manufacturing open to Canadian mechanics and manufacturers they would quickly appropriate everything valuable for reproduction at home, especially for agricultural implements. In fact this failed to occur on the desired scale. Canadian capitalists often could not shoulder the heavy fixed costs necessary to produce under

American patterns. And the fact that anyone else resident in Canada could also pirate the patent and compete against the initial pirate deterred them. Moreover, American inventors took whatever defensive strategy they could to block the pirating. In those cases where pirating led to manufacture in Canada for re-export to the U.S., the remedy lay in the banning of such imports; and certain Canadian industries' products were put on New York's contraband list in 1857.

Agitation by American industry mounted through the 1850's. Under the existing laws, Canadians could get patent rights in the U.S. on the same terms, albeit at a slightly higher fee than Americans while foreign patents were still prohibited in Canada; American manufacturers began pressuring for the Canadian government to grant them patent protection *as a precondition of their introducing American technology freely into Canada.* McDougall declared in favour of the change in his 1853 report:

> I am convinced that a change in our Patent Laws by which the inventors of valuable machines in the United States could obtain the protection of a patent in Canada for a short period . . . would be the means of readily introducing numerous American inventions which under the present system are not introduced at all; or only by individuals who, hearing of them by chance, possess sufficient enterprise to become their own importers. It is now the interest of the American inventor to keep as far away as possible from the Canadian frontier.[17]

He recommended that foreigners should get patent protection in Canada on the condition that they establish *either* a manufactory *or* a warehouse in the province; at that time the influx of technology itself was the objective regardless of whether it came via imports or by local production. He further recommended a system of £100 bonuses for the introduction of certain types of machinery by private enterprise.

The extension of general patent protection to American "inventors" was not forthcoming, and as a result the American government retaliated by withdrawing patent privileges to Canadians. This left Canadian patent legislation in a completely unsatisfactory position. The inability of Americans to get patent protection deterred them from exporting their machinery and equipment to Canada, while the inability of Canadians to secure a patent for pirating American patterns impeded them from copying and reproducing American technique. A partial solution evolved in the form of a series of special Acts of the Provincial Legislature granting patent protection in special cases to Canadian "representatives" of U.S. patent-holders. Each of these required a separate vote of the Legislature, and they always stipulated that the patent had to be manufactured in Canada within two years to retain its validity. This two-year clause was unique to the special Acts: it was not part of the general legislation.

While in theory American inventors could directly apply for a vote of special patent, in fact they were virtually always refused. The result was to foster a system of patent brokerage with Canadians acting as agents, or sometimes buying up American patents cheaply. Success in obtaining the special Acts depended much less on the merits of invention than it did on the parliamentary influence of the foreign inventor or his Canadian agent. And of course it failed to secure for bona fide Canadian inventions any protection abroad. During the 1866 session, eight special patent Acts passed the Legislature, all of them involving processes for refining, smelting, etc. of primary products; a reflection, in part at least, of the opening of the petroleum boom in southwestern Ontario. One Quebec resident secured a patent for petroleum refining as Canadian representative of three U.S. inventors including his brother. Two other petroleum refining patents were secured by other Canadians on behalf of foreign inventors. Another case involved a process for turning peat into coal, another iron smelting, another a pulping process for wood, and two others were for mineral refining. Of the eight only one went directly to the U.S. inventors: all others had Canadian intermediaries and in four of the seven intermediated cases, the Canadian agents were members of the Canadian Parliament.[18]

Post-Confederation Patterns

In 1869 the first federal patent act was passed, modelled, predictably on the Province of Canada legislation, and stipulating that only residents of the Dominion could take out patents. British subjects had to fulfil a one-year residence requirement, and manufacture had to occur within three years of the patent being granted.[19] While the intent was to facilitate the imitation of U.S. patents or the inflow of American entrepreneurs, in reality the domicile clause was easy to evade, a simple affirmation legally sufficing. With the 1872 Patent Act a radical new departure occurred.

In the debates concerning amendment to the law, the leader of the opposition, Alexander Mackenzie, asked for an amendment that would stipulate that no patent be granted if a manufacturer was already in the process of producing in Canada.[20]

This and other protective clauses were built into the new act. Patents could be granted to an inventor if his invention had not been in public use or for sale in Canada for more than a year prior to the application, thus protecting the Canadian "owners" of already pirated inventions. Patents, too, could not be given if a patent existed for the device in another country for more than twelve months prior to application in Canada. This clause not only protected past thefts but opened the door to copying all patents from the U.S. that were already established in functioning industry. Moreover, it forced the Americans in the future to seek immediately a Canadian patent. And if, during that twelve months, any person in Canada commenced to manufacture in Canada, the manufacturer retained the right to continue to produce. Thus, once the Americans sustained the risk and the expense, the Canadian manufacturers could take advantage of it free of charge *in the home market*, helping to free Canadian industry of the need to put money into industrial research, and Canadian governments of the need to invest in technical education. If a foreign patent also existed, the Canadian patent expired at the earliest date of expiry of any foreign patent. Patents too, could be taken out by designated agents of the inventor and joint applications were permitted.

But the most important section of the Act was clause 28:

> Every patent . . . shall be subject . . . to the conditions that such patent and all the rights and privileges therein granted shall cease . . . and the patent shall be null and void, at the end of two years from the date thereof unless the patentee, or his *assignee or assignees* shall, within that period have commenced; and shall after such commencement continuously carry on in Canada the construction or manufacture of the invention or discovery patented . . . at some manufactory or establishment for making or constructing it in Canada, and that such patent shall be void if after expiry of twelve months from the granting thereof, the patentee or his assignee or assignees for the whole or a part of his interest in the patent *imports*, or causes to be imported into Canada, the invention for which the patent is granted.[21] [Emphasis added.]

The use of agents, the two-year manufacturing stipulation (some politicians had pressed for one year), and the import nullification facets of the Act all assured that it would have an enormous impact on Canadian industrial development. Under its effects, as much and perhaps more than under the tariff of 1878-79, there occurred a proliferation of American branch plants, joint ventures, and licensing arrangements. American technology for British markets became Canada's industrial *raison d'être*.

And this result was consciously solicited. The Canadian Manufacturers' Association from its inception had proudly declared its adherence to a philosophy of industrial continentalism and second-hand technique:

> In certain realms of thought we may follow Oxford or Cambridge, or Edinburgh, or Dublin, but when it comes to driving shoe pegs by machinery we follow Massachusetts. . . Our cotton machinery, brought from England, though it may be, is worked so as to produce goods like those of Lawrence and Fall River, not like those of Blackburn and Preston. Our agricultural machinery is made after Ohio and Illinois patterns, with perhaps a few Canadian improvements: our stoves are copies from Albany and Troy. [22]

The impact on Canadian innovative capacity of the ease of access to American industrial technology was negative. In 1869, when only Canadians could take out patents, 588 were granted. By 1899, 30 years later, Canada's population had doubled, its GNP per capita had risen sharply, and it had felt the first four years of the great expansion of the pre-war period, but the number of patents granted to Canadians stood at 701, while that same year Americans were granted 2,312 in Canada.

TABLE X (1)

Patents Issued by Country of Residence

Year	*Total*	*Canada*	*U.S.*	*Britain*
1855	92	92	—	—
1860	150	150	—	—
1865	162	162*	—	—
1870	556	556*	—	—
1875	1,323	523	n.a.	n.a.
1880	1,408	492	843	50
1885	2,447	610	1,498	85
1890	2,428	620	1,623	116
1895	3,074	707	1,980	179
1900	4,552	707	3,216	254
1905	6,647	888	4,451	309
1910	8,233	1,198	5,021	342
1914	9,241	1,334	5,220	558

*Province of Canada until 1865, thereafter Dominion.

Some of the most restrictive clauses of the 1872 Act were modified slightly. Some exceptions were granted for short periods in the case of non-manufacture. In a few cases, imports were permitted without nullifying the patent if the importing was of

TABLE X (2)

Patents Issued to Canadians, 1868-1885

Year	*No.*	*Year*	*No.*	*Year*	*No.*
1868	546	1874	530	1880	492
1869	588	1875	523	1881	558
1870	556	1876	575	1882	538
1871	509	1877	533	1883	612
1872	671	1878	454	1884	607
1873	n.a.	1879	479	1885	610

TABLE X (3)

Provincial Distribution of Patents in Canada, 1874-1885

	1874	*1875*	*1876*	*1877*	*1878*	*1879*
Ontario	344	348	340	340	315	308
Quebec	147	136	153	132	102	134
New Brunswick	19	24	19	22	16	16
Nova Scotia	14	14	21	34	17	16
Prince Edward Island	4	—	—	2	3	2
Manitoba	1	—	1	—	—	2
British Columbia	1	1	2	3	1	1
Total	530	523	536	533	454	479

Sources for all tables: *SYB*, 1888-1904; *CYB*, 1904-1914; Dept. of Agriculture, *Annual Reports*, 1881-1914.

short duration, and designed to build up a domestic market for a product prior to undertaking full-scale manufacturing.[23] Over time, the courts tended to modify the manufacturing clause so that all that was required was that the patentee advertise himself as willing to supply on demand, with no need for manufacturing in the absence of demand for the patent to retain its validity.[24] These modified interpretations were built into the Patent Act Amendment in 1903[25] along with abandonment of the clause that held a patent to be void as soon as its earliest foreign patent expired.[26]

Nonetheless, the effects of the policy were the submergence of Canadian innovative capacity under a flood of American-imported techniques. The pirating process and the emigration of American entrepreneurs paled by comparison to the deluge of assembly operations established by American firms in Canada; the assembly bias of the operations ensured both by the fact that simple assembly sufficed to maintain the patent and by the increase over time in the staggering of tariffs with low or zero rates for inputs and semi-finished goods.

While the total number of patents granted rose quickly after the 1872 act, the proportion going to Canadians fell from 100% in 1869 to 33% by 1884 to 16% by 1908. The fastest rate of growth of Canadian patents occurred from 1855 to 1872, thereafter leveling off until 1903, followed by an acceleration. But the rate of acceleration of Canadian patents was less than that of foreign, especially American, and the gap widened. Furthermore, the most striking fact to emerge from the figures is that patents issued to Canadians fell absolutely after the 1872 patent act, and fell absolutely again after the high tariffs of 1878-79. In 1876 at the bottom of a great recession, Canadian patents stood at 576. Not until 1883, at the very top of the much vaunted National-Policy-CPR boom, was the figure again reached. Apart from one unusual year in 1886, not until 1895 was the level of patents issued to Canadians to reach and maintain itself at the level achieved in 1869.

One major problem impeding Canadian innovation was the lack of financing available to the industrial sector. Not only did it suffer from the indifference of the commercial banks, but direct aid to industry from the federal and provincial governments was absent, apart from primary iron and steel at the end of the century. Few private banks too were of any use, apart from such spectacular cases as Daniel Stewart of Aylmer who bankrupted himself by dealing in patent rights in 1878 and absconded leaving $21 in the till.[27]

Under the terms of the 1872 Act, U.S. manufacturers had to begin manufacturing in Canada within two years at a time when direct investment was possible by only an elite of firms, and when the supply of Canadian entrepreneurs with access to venture capital to join in licensed ventures was short. The Canadian inventor, too, had to find an assignee to undertake manufacture if he could not afford to do so himself. As a result a class of professional patent dealers sprang up, who perpetrated frauds on such a magnitude that, within ten years of the Act that gave them birth, new legislation to curb them had to be considered. These patent jobbers, especially in agricultural implements and similar lines of tools, would obtain patents, usually American, and sell the rights to farmers, by convincing the farmers that they could manufacture it themselves as cheaply as they could buy the product. Inevitably the cost of handicraft manufacture would far exceed the means of the farmer, who would be left with a worthless patent. The promissory note with which he paid would be taken and immediately discounted. The contemplated legislation stipulated that any promissory note issued in conjunction with the sale or rental of a patent had to be clearly marked as pertaining to a patent, and when the patent turned out to be valueless the note was null and void.[28]

Over time, more legitimate forms of patent jobbing emerged whose effect was to facilitate the exploitation of foreign, especially American, inventions in Canada. For example, in 1895, a Toronto firm, Dominion Specialty Manufacturing Company, was formed for this express purpose,[29] joined two years later by a Montreal firm, Universal Patent Developing Company.[30]

Financing of indigenous innovation, on the other hand, continued to be a major problem. In 1902, a bill was presented to the Commons proposing to extend the life of patents from 18 to 30 years to assist the Canadian inventor who needed more time to get an enterprise on its feet. The Toronto Board of Trade objected to the extension, since it would mean "the possible tying up for a very long term of valuable inventions of British and foreign patentees, thus depriving the people of the Dominion of the benefit of them."[31] This bill did not pass.

The blatant theft of patents from poor inventors who could not afford the legal expenses or other commitments necessary to secure a patent was a common phenomenon, the benefit accruing to the manufacturers who secured the invention without the need for royalties.[32] Nor did the international theft of patents entirely disappear, though it did diminish considerably. The courts, and even the Judicial Committee of the Privy Council, still had their share of contentious patents to consider.

The International Movement of Patents: I

In the area of agricultural implements, the difficulties experienced by farmers over the activities of professional swindlers dealing in implement patents, and in fact in fraudulent obtaining of notes in conjunction with all manner of implement transactions,[33] were no doubt made worse by the fact that American implement manufacturers had particular difficulty in getting adequate patent protection. Even after the National Policy they were reluctant to build branches in Canada.[34] Canadian firms using pirated or rented U.S. patents with minor modifications had already cornered the market which, in Canada, was an extremely large and therefore lucrative one. It was the patent system, not the tariff, that was responsible for "Canadian" firms established by émigré Americans using American techniques, maintaining control of the Canadian market, when so many other industries were swamped. It also remained the most continuously prosperous industry in Canada, flourishing throughout the 1870's depression when commerce was totally disrupted.[35] It continued to grow and prosper, and in the first decade of the 1900's the Massey-Harris merger accounted for a full fifteen per cent of the value of Canada's total manufactured exports.

The essential pattern of reliance on U.S. patents in the agricultural implements industry did not change after Confederation. In 1882 John Watson of Ayr secured the use of Deering models.[36] He was not alone; for virtually every firm in Canada advertised its ability to produce on American patents during the 1880's,[37] including a firm of post-Confederation American émigrés, Patterson and Bros. Ltd. of Woodstock, Ontario,[38] and the Noxon Bros. of neighbouring Ingersoll.[39] When Edward Gurney attempted to enter the field of agricultural implement production, his strategy was to attempt to have a harvester patent secured by A. Harris Son and Co. invalidated on the grounds of non-manufacture in Canada. This suit was unsuccessful.[40] Thereafter Gurney remained out of the implement field. It was clear that securing patents was more than just the key to finding markets, but also an effective barrier to keep new entrants out of the industry.

The actual efforts of American firms to break into the field with branch plants were few and far between. As early as 1860 a branch of a Rochester firm, Hall Bros., was established in Oshawa, the first American branch plant in Canada, but it was short-lived.[41] Two other attempts were made by joint ventures in the early 1880's. The North American Agricultural Implement Co. established in London in 1883 was based on the patents of the John Deere Plow Co. and the Moline Wagon Co., and its board of directors included the presidents of both of these American firms. But it soon abandoned the field and moved to other forms of toolmaking. The other effort was the Toronto Reaper and Mower Co., a partnership based on Whitby patents — Whitby had been careful to secure full patent protection in Canada before joining the joint venture.[42] The firm built the largest harvester factory in Canada before being absorbed by the Massey company in 1881.

As in other industries, the patent law provided room for intermediary and jobbing activities. In 1878 for example, a Truro, Nova Scotia, businessman secured American patents and instead of manufacturing himself he advertised his willingness to enter into an agreement with a Canadian firm for their manufacture.[43]

In 1890, the Deering Co. purchased a site at Hamilton for a branch plant, but not until 1904 did International Harvester, which had absorbed the Deering firm, actually build a branch plant. Ironically, Deering's strength was due to one of the rare instances of a flow of Canadian innovation to the United States. The Harvester was invented by Charles and William March, whose father had joined William Lyon Mackenzie's rebellion against British rule in 1837, and had subsequently moved with his entire family to Illinois. Their patents turned out to be defective and open to infringement; and many U.S. firms made open use of them in the 1870's and later.[44]

But Deering and International Harvester remained an exceptional and very late case, the norm being Canadian use of U.S. patents. About the same time as International Harvester began to make its move, the first successful takeover of a Canadian firm occurred when the John Abell Engine and Machine Co. of Toronto could not secure enough funds in Canada to continue to operate and was forced to sell to an American merger, producing the American-Abell Engine Co.[45] But after the merger the implement business of the Canadian branch seems to have been discontinued. In the 1870's, during a very brief period when there was some significant competition from imports from the U.S., Cossitt and Bros. called for increased protection, not through tariff increases but by alterations in the laws governing trade marks to prevent foreign firms from being able to register words as trademarks in Canada if the word had been in use in Canada for a number of years. This would ensure that brand loyalty built up by U.S. firms would accrue to the Canadian patentee, an especially important factor in light of the number of American farmers settled in the Ontario agricultural frontier. Other implement firms called for strengthening of patent protection. The demand for tariff increases was conspicuously absent.[46] The use of patents continued to grow, and thereby blocked out American branch plants. The McCormick Machine Co. of Chicago tried to establish a branch plant in the early 1890's, and then simply licensed Cossitt Bros. to manufacture the McCormick Binder.[47] American patents also lay at the basis of the establishment of the Bissel Manufacturing Co. in 1901.[48] Massey-Harris in 1902 became involved in a lawsuit launched by the inventor of the Hancock plough for alleged infringement of his patents.[49]

Another industry closely linked to agriculture was the manufacture of barbed wire. The same pattern prevailed, but with even closer dependency since the firms making barbed wire in

Canada were all licensed by U.S. firms,[50] rather than involving some pirating as well. The Dominion Wire Manufacturing Company, founded by Montreal wholesale hardware merchants F. Fairman and J. Cooper,[51] and the firm of H. Ives and Co., established by the American émigré wholesale hardware dealer under the auspices of the Washburn and Moen Manufacturing Co. of Worcester, Mass.[52] were both examples of the use of American industrial techniques to make the transformation in Canada from commercial to industrial capital. The main burden and risk of the innovation had already been absorbed by the American inventors.

The industry's development was a fairly involved process, with considerable legal entanglement resulting from the operation of patent laws. In 1879 the Canada Wire Co. was incorporated by H. R. Ives and his associates as a Montreal-American joint venture.[53] The firm immediately began production by copying the barbed wire of Washburn and Moen, the leading U.S. producer. Washburn was so zealous to protect its patents that it ran a series of threatening advertisements in Canadian papers as follows:

> You are hereby notified that in putting *barbs upon wire*, or in making a *barbed wire fence*, or in using or dealing in barbs for wire or barbed fence wire, not under license from us, you are infringing upon our patents, and we shall hold you accountable for damages for all infringements . . .[54]

The threat seems to have been aimed at Ives in particular, for apart from Washburn's licensees in Montreal, the only other producer was the Dominion Barb Wire Fence Co. of Montreal. The firm was established by the wholesale hardware merchants, Cooper and Fairman, to produce yet another American patent. And in fact in 1881 Washburn launched a suit against Ives for infringement.[55] Ives promptly launched a countersuit against Washburn's Montreal licensee on the grounds of importation and non-manufacture within two years,[56] suggesting that the licensee was really a front operation only pretending to manufacture in order that the American firm would maintain its patent.

In the early 1880's there were many Canadian firms who secured access to patents from the several existing U.S. producers,[57] and to consolidate the Canadian market Washburn and Moen had to first effectively cartelize the American producers under its leadership. This was done very effectively, and the American competitors were brought under a strict price and patent arrangement.

By the late 1880's, Washburn and Moen had extended into

Canada the hold they had achieved on the American barbed wire market. Against the Lyman Manufacturing Company they had obtained an injunction to stop it from making more wire than their licence agreement stipulated.[58] H. R. Ives and Co. had become a licensee.[59] Several Canadian firms had been proceeded against to prevent them from manufacturing anything but Washburn and Moen patents, such an exclusive contract having been part of the patent arrangement.[60] In 1888 there were but three Canadian firms manufacturing wire,[61] that of Fairman and Cooper, the Ives company, and the Ontario Lead and Barb Wire Co., which was licensed by another American firm.[62] Not until 1893 did an American branch plant become established for the purpose of barbed wire manufacture, and by 1896 it was in liquidation.[63]

In Ives's case, he paid royalties well above those paid in the U.S. by licencees, the difference undoubtedly due to the tariff. This firm needed the tariff to justify its existence, for under the terms of the licence the U.S. firm agreed not to export to Canada, but nothing in the agreement prevented Canadian retailers from going to the U.S. and buying the products there. Only the tariff would permit the Montreal wholesalers-turned-manufacturers to control the retail trade. The barbed wire cartel simply passed on the higher licence fees to Canadian consumers (farmers and retailers) through higher prices possible behind the tariff wall,[64] part of the tariff protection thus accruing to the American firm which held the patent.

In other facets of wire or cable production the same pattern of licensing existed. The Canada Screw Co. of Hamilton was established as a de facto branch plant of the American Screw Co., and made use of its patents, including those for cutting and pointing wire.[65] In 1898, however, the American parent sold the firm to a Canadian group headed by its Canadian manager, C.A. Birge,[66] and only licensing remained as a formal connection between them.

In fence wire and similar products there were several American licensees active. The B. Greening Wire Co. of Hamilton got the sole Dominion rights from one U.S. firm to manufacture its steel wire chains. The American Braided Wire Co. successfully sued its licensee for patent infringement on the basis that he had cut prices on the parent, and this price cutting was contrary to the contract. The judge ordered the defendant to repay to the licensor all the profits the licensor had lost by the price cutting of its licensee.[68] Also linked to agricultural development, in part at least, was the growth of the Canadian Fairbanks-Morse Co. Ltd. which began as a branch plant in 1900 and was taken over by a local board headed by an American émigré in 1905, becoming a licensee. Its output included a wide range of machinery and mechanical equipment. Almost all of Canada's grain output was weighed on its scales, and its ploughing and other engines were among the most widely used in the country.[69]

The flow of American patents into Canada occurred in virtually every conceivable industry, occasionally without bothering to inform the American inventors. For example, the largest and most successful firm in Canada's eminently prosperous musical instruments industry, the Bell Organ Co. of Guelph, produced organs that were copied from American models by William Bell, the American immigrant who founded the firm.[70] But licensing was much more the rule after the 1872 Patent Act. Samuel May, who built the first billiard tables in Canada copying U.S. models, diversified his imitations in 1886 when he used U.S. patents in the Dodge Wood Split Pulley Co. of Canada in Toronto.[71] Both of May's industries were described as "unique," an early euphemism for monopoly. May was so successful an imitator that he was heralded by the CMA as a true "captain of industry"; the patent pulley was soon supplying not only many "Canadian" firms like the Ottawa lumber industry, but even got on an export basis through its London agents.[72]

Furniture firms too used American patents for all manner of operations. The Edgar Manufacturing Co. of Hamilton produced a patent spring support for chairs under licence from a New York firm.[73] James Hay of Woodstock was sued by an American firm for infringement of patents for a machine to prepare cane for furniture.[74] Hay's firm later became locked into long-term supply contracts with Singer's Canadian branch plant.[75]

Moncton as early as 1877 had a licensee of a U.S. firm producing plumbing equipment, [76] a field into which the Ontario Lead and Barbed Wire Co. branched, also under licence, in 1887. There were even American licensing arrangements and joint ventures in the overcrowded stove, foundry, and boiler business.[78] And in 1890 a joint venture of New York and Canadian capital was formed to buy and sell patent rights for explosives,[79] another industry which Americans operated in Canada through patent arrangements.[80] Even cheque books were made in Canada by the Carter-Crume Co., a wholly Canadian-owned licensee.[81]

Bicycles were a tremendously successful Canadian industry by the turn of the century, and many of the firms, including the misnamed Canadian Typography Co., produced American patents in Canada for export to Empire markets.[82] The CCM merger too was built on patents from the American Bicycle

Company, which granted the firm the rights to the Canadian market. And of the wave of failures that struck in 1896 following a great rush of capital into the new industry, at least one was caused by the firm having locked up its capital in the purchase of patent rights.[83]

The international patent system worked asymmetrically. Gurney, the stove maker and founder in the 1870's, complained that the U.S. patent office was hostile to Canadian industry, that he could not secure patents to his inventions in the U.S. Of course, Gurney's inventions may have been based in no small measure on earlier pirating from the period when he first migrated to Canada. The boot and shoe industry had similar complaints.[84] One of the pioneers of the industry in Canada, Louis Coté, had worked as a hired hand in the boot and shoe factories in New England before returning to St. Hyacinthe, where he set up his own factory in 1863. He was already a leading "inventor" of machinery by the time the firm was established. Subsequently he became involved in legal battles over patent rights in the U.S.[85]

Although the boot and shoe industry was exclusively Canadian-owned, the use of American machinery had been absolutely essential to its early development, and it was via the producers' goods, rather than the consumers' goods production, that American influence was exercised. One American patent pool, the Mackay Association, leased boot and shoe machinery to little factories all over the U.S., initially for a royalty payable per pair of shoes, later an annual lump sum rental.[86] These machines were also standard in Canada, and the early 1870's saw several factories established in Montreal to make the machinery. The Mackay group did not have a Canadian patent, and hence the Canadian companies — notably one that included Guy Boivin, the rather unstable Montreal manufacturer — simply copied the American machinery. But the U.S. firm so drastically undercut prices on the machines that the Canadian firms failed.[87]

A critically important change in the industry occurred in 1891 when the Goodyear Shoe Manufacturing Co. of Canada was established in Montreal to buy patents in shoe machinery. Charles Goodyear, the American rubber magnate, had for several years been in control of the Canadian rights for boot and shoe machinery, and had been manufacturing. The new reorganized firm included among its Canadian participants, James C. Holden, partner of H. B. Ames in one of the largest Anglo-Canadian shoe manufacturing firms.[88] Ames-Holden now had direct control over the use in Canada of the American machinery, and quickly came to achieve a near-monopoly in the industry so long dominated by small semi-handicraft firms, despite efforts by French firms to get control of the vital patents and stage a comeback.[89]

The Migration of Patents: II

While there was considerable inflow of American inventions into basic and mechanical industries of an earlier vintage, or even later ones like typewriters,[90] it was in the new high-technology industries of the second industrial revolution that the dependence grew to an absolute. In these industries, applied science was extremely important, and in this regard the Canadian educational system was an abysmal failure. Canada entered the second industrial revolution suffering simultaneously from an antiquated educational system, a shortage of industrial capital, and an entrepreneurial class of which a large part had already acquired the habit of dependence.

The shortage of skilled labour was a problem in many industries by the end of 1870's, necessitating imports of skilled labour, while at the same time a surfeit of unskilled existed.[91] Many of the great public works too were designed and supervised by American engineers. [92] By 1900, with industrial expansion well under way on a major scale, many employers who had tried to provide on-the-spot training to fill the need for skills abandoned it in favour of imports of skilled men from the United States and Germany: on-the-job training of men who had no occupational training at all was too slow.[93] By 1913, the situation was chronic in virtually every major industry; in some, orders were refused because of the lack of trained personnel.[94]

The educational system of Canada was more a hindrance than a help. It was made provincial jurisdiction under the terms of Confederation at the same time the provinces were stripped of adequate sources of funds to support it, provincial revenues being diverted by the federal government into the construction of commercial infrastructure. In the prairies, the situation was exacerbated by the lack of revenue from natural resources, the public lands being in the hands of the federal government, the CPR, the Hudson's Bay Company, and a host of eastern land-speculating firms.

As early as 1882, the CMA began to point with anxiety to the lack of facilities for technical education,[95] and its admonitions continued, to little avail.[96] In central Canada, the tax system usually exempted real estate held as an investment by the classically and professionally oriented colleges [97] while technical and vocational schools were starved of funds. In contrast to the United States, where a series of land grant colleges turned farmers' sons into engineers, the Canadian educational system blocked the vocational training of the offspring of people from lower-middle-class and working-class backgrounds in favour of refining the deportment of the children of the commercial elite, who eschewed any vocation that resembled work. As a result, there was a glut of professionals—doctors, lawyers and clergymen—such that, according to the CMA:

> Lawyers' offices are overstocked with impecunious new graduates, so too physicians' . . . It is this surplus in an honourable profession that supplies the demand for abortionists and similar questionable characters.[98]

Until World War I, no industrial research was done in Canada.[99] The ease of access to foreign technology and the facility with which skilled labour could be imported combined with commercial domination of the educational system to prevent the necessary adaptation.

The impact of the imported second industrial revolution effected a considerable transition in Canadian industrial structure, producing a series of new industries and transforming many old ones. Drugs and chemicals, for example, were very much affected by the inflow of American patents and technology. The first chemical-based fibre production occurred under license to George Drummond and John MacDougall in 1882.[100] Even in fuel oils some of the technological advance was derivative, with the Rathbun Co. producing under licence, while ironically one of the kerosene pioneers had been the Nova Scotia engineer Abraham Gesner.[101]

The rubber industry in Canada began on a small scale in the 1880's, making fire and garden hose, bicycle tires, and similar mechanical products. Some licensing arrangements existed; some of the firms were independent. Gutta Percha, for example, began as a branch plant but was so successful that in 1884 the Canadian firm was incorporated separately,[102] and by 1887 its sole association with the parent was via licensing. In 1899 a syndicate including George Cox and Edmund Gurney, Jr., was formed to establish the Dunlop Tire Co. of Canada, taking over the business formerly done in Canada by American Dunlop,[103] while the same year the stock broker Senator Robert Mackay headed the Montreal group who promoted the Boston Rubber Company's Canadian affiliate.[104] These firms, especially Dunlop, were tied into the bicycle industry as well as producing consumer goods.

But with the advent of the automobile the industry was transformed from one producing light consumer goods to one manufacturing producers' goods tributary to the automobile industry, and a wave of takeovers and branch plant establishments occurred.[105]

The automobile industry itself forms a case par excellence of licensed ventures being converted into wholly-owned subsidiaries. The automobile industry was in Canada exclusively foreign in origin, largely American with some early British presence. Patent protection seems to have been the cause of the foreign domination, for there were fruitless efforts of Canadian capitalists to enter the field. As early as 1896 a group of Québécois entrepreneurs subscribed $150,000 for the Moto-cycle Company of Canada to make "horseless vehicles,"[106] but this firm seems to have come to naught.

The Canadian roots of the industry were twofold: first, distributing outlets of U.S. firms which later undertook manufacturing; second, the outgrowth of Canadian carriage works[107] or, in one case, a bicycle manufacturer. The first group evolved more or less directly into branch plants once a local market of sufficient size to justify manufacturing was assured; the second group formed joint licensed ventures with the American producers and later regressed to branch plants.

Ford of Canada was founded by a Canadian carriage maker, Gordon McGregor, in 1904 who turned over 51% of the equity to the parent firm in exchange for Ford patent rights in perpetuity and control of Canada and the empire markets, excluding Britain. Robert McLaughlin too began as a carriage maker and entered a joint venture with Buick in 1907. Everett-Metzer was established on a licensed basis in 1908 evolving into Studebaker-Canada by 1911. The story of Willys is a little more complex, though essentially the same. In 1896 the Lozier Manufacturing Company was established in Toronto Junction as a joint venture of Canadian and American capital to build bicycles, typewriters, and motor vehicles, all under American patents.[108] It became part of the CCM merger in 1899, and CCM thereafter formed a division known as the Russell Motor Company which acquired the Willys and Overland patents. Duryea too came to Canada as a joint venture. One early case of British involvement came with the Still Motor Co. Ltd., of Toronto formed by a Toronto group to make the English Still patents. By 1900 the English firm had bought out the Canadian interest, converting the firm into a branch plant.[109]

In the case of the joint ventures of Canadian carriage or bicycle works with American automobile factories, a strict division of labour was usually worked out, leaving the Canadian interest to build the chassis, while the engines and more technically advanced parts were imported from the American parent.[110] For despite early growth with a number of major firms established and flourishing,—one of the most outstanding of which was the Waterous Engine Works established by an American immigrant in 1884 at Brantford[111]—the Canadian machine and engine works industry seemed to regress late in the century. At the same time a flow of American branch plants and licensed ventures began.

In 1882 the Ingersoll Rock Drill Company was formed to make machine drills and air compressors based on the models of the Massachusetts Ingersoll firm, its Canadian promoters being the Montreal wholesale hardware merchants F. Fairman and James Cooper.[112] In 1889 the Canada Rand Drill Co. followed at Sherbrooke to make machinery on the Rand patterns; it was a joint venture of A. C. Rand of New York with S. W. Jencks, a Sherbrooke engine manufacturer.[113] Many other cases appeared subsequently, [114] especially in mining machinery, and particularly after 1896 when the new mineral boom began. James Cooper reorganized in a larger scale as the James Cooper Manufacturing Co. [115] Waterous too moved into mining machinery. In Nova Scotia, the old Robb Engineering Co. in Amherst began manufacturing engines under licence from their American controllers.[116]

In flour milling machinery the same patterns emerged. Many innovations were brought to Canada in the early post-Confederation period by the American E. W. Rathbun, among the many new techniques he introduced into Canadian industrialism.[117] In 1885, a joint venture of John Bertram of Dundas with American capital established a roller flour mill machinery company.[118] Then in 1896 a Stratford company secured the patents of a Milwaukee mill machinery firm to manufacture in Canada.[119]

In several other machinery fields the same pattern occurred. In 1898, a large rotary engine works opened under licence, ranging from machines for foundries and metal works[120] to the early gasoline engines for industrial use.[121] American technology, capital, and patents were involved in a Montreal joint venture with A. F. Gault in 1898 in the first attempt to introduce textile machinery manufacture into Canada.[122]

The electrical products industry is, along with automobiles, virtually synonymous with the second industrial revolution.

Patents and patent laws were instrumental in creating a "Canadian" electrical industry in both the utility and the manufacturing facets. American Bell in 1880 established and initially wholly owned all the equity except for that needed to qualify a local board in the Bell Telephone Co. of Canada. The local board was headed by an American, along with Montreal wholesale dry goods men J. R. Thibodeau and Duncan McIntyre.[123] The company immediately acquired the telegraph properties of four Canadian companies as well as several Canadian telephone firms.[124] It followed a policy of encouraging Canadian stockholding, and by 1885 it was majority-controlled in Canada.[125] But the patents remained American-controlled. In telegraphs the same setup prevailed. Dominion Telegraph Co., established in 1881, had 4,250 of its 5,000 shares owned in Canada, but Western Union controlled the firm through the patent rights it leased.[126] In production of electrical components, Westinghouse entered Canada via a licensed venture wholly owned in Canada in 1882, while Canadian patent laws forced Edison to establish a Canadian branch plant within two years of building his American one.[127] Bell, too, was forced to build a manufacturing subsidiary in Montreal because of patent restrictions, and a licensed joint venture tied into the Bell system was established later to make cable and wire.[128]

Access to American patents was essential to success in the industry from an early date, not only in manufacturing, but also in the utility aspect. And the big companies used their control of patents to try to defend and augment their position in the industry. In 1883, a Canada-U.S. joint venture, the Sperry Electric Light and Motor Co., was established in Toronto to try to acquire patents to manufacture electrical machinery and parts, without apparent success.[129] The next year saw the establishment of a rival telephone company and a new telephone exchange in Toronto, both infringing on Bell patents.[130] Although one of Bell's patents was voided on the grounds of non-manufacture and continued importation the next year,[131] it did not seem sufficient to ensure its rival's success. The Sperry case was only the first of a long series of patent battles launched in Toronto by Bell's rivals —all were largely unsuccessful.[132]

Similarly, the Montreal-based oligopoly run by Edison Electric Light Co. successfully battled against locally owned firms to establish its hegemony and extend it. In 1889, the Royal Electric Co. fought the Edison Electric Light Co. over a patent for the manufacture of electric lights. The patent however was upheld.[133] By 1900, the Royal Electric had abandoned all efforts to manufacture parts and the Canadian company became purely an electric light and power supplier.[134]

The 1900 capitulation of Royal Electric came at the same time another Canadian-owned operation, the Toronto Street Railway Co., was forced to abandon the manufacture of electric parts and confine itself to utility operations because of patent infringements,[135] and in both cases the successful party was the firm that grew out of Edison's Canadian branches, Canadian General Electric. The merger of Edison's two plants with two other licensed ventures was effected in 1892 by a syndicate headed by Senator Frederic Nicholls at the same time as the American merger. The Canadian group at first held only a minority of the shares with an option to buy out the American equity. This option was exercised by 1899, and Van Horne and Herbert Holt joined the directorate of the firm whose sole linkage with the parent firm thereafter was through licensing.[136] Following the consolidation of its manufacturing rights in 1900, the board by 1902 consisted of Nicholls, George Cox, Rodolphe Forget, Herbert Holt, E. B. Osler, Robert Jaffray, James Ross, W. D. Matthews and Van Horne.[137]

In 1896, Westinghouse and American General Electric formed a patent pool arrangement,[138] and this arrangement was extended to Canada. Westinghouse in Canada evolved from simple licensing into a joint venture heavily dominated by its American parent at the same time Canadian General Electric moved in the opposite direction.[139]

Canadian Marconi, a relative latecomer, was set up as a licensed joint venture under Andrew Allan in 1907.[140]

In every facet of the electrical industry, American dominance manifested itself.[141] The year 1890 saw the establishment of a Montreal firm planning to go into the business of building underground telegraph and telephone cable systems. The list of promoters and their vocations spells out clearly the relations of Canadian and American capital in the industry: one American civil engineer, one American mechanical engineer, one American "capitalist," one Montreal contractor, and one Montreal merchant.[142] Even for a little local utility company like the Reliance Electric Co. of Waterford, access to American technique was essential to success, so much so that the company locked up half of its capital in patents and failed in 1894 in the wake of the collapse of the local private bank that had kept it afloat.[143] Gurney, who had tried unsuccessfully to break into agricultural implements by contesting the Harris company's American patents, spared himself the ignominy of defeat and simply secured a licence to manufacture arc lights from a U.S. inventor.[144] The only significant example of the flow of technology working in reverse was the Wanzer lamp, invented by R. W. Wanzer of Hamilton. It was the exception that proved the rule, for Wanzer, the sewing machine magnate, was an American who retired back to the U.S. at the end of his Canadian business career.[145]

Canadian Industry and Its Northern Vision

Branch plants, joint ventures, licensing arrangements — in one very important respect the difference between them is negligible. All represent a form of industrial dependence and a stifling of indigenous innovative capacity. The greater the success achieved in introducing American technology, the poorer became the record of Canadian achievement.

The Canadian strategy was a conscious one. Canada refused to join the International Union for the Protection of Industrial Property, a patent union which included the U.S., Germany and Britain, the three principal sources of supply of patents for Canadian industry, because under the terms of the union, each country afforded to the others' citizens the same patent rights as it gave their own. For Canada to have joined would have precluded the enforcement of the prohibition of imports clause in its patent law. And when at the Colonial Conference of 1907 the idea of uniformity of patent laws throughout the Empire was considered, Laurier contended it would only be an acceptable move if Britain included for the first time a compulsory working-up clause in its patent legislation.[146]

One British commentator, Sir Lloyd Wise, pointed out to the CMA in 1904 what he thought to be the danger of such clauses. He noted that similar clauses in French patent law had led earlier to a migration of German dye firms into France and that these had outcompeted and destroyed the French industry. "Surely," he said, "that cannot be the sort of effect which you, as manufacturers, would desire to see brought about in any branch of Canadian industry?"[147] It was, of course, a rhetorical question, but the rhetorical answer would have surprised Sir Lloyd, for the CMA, which he was addressing, was dominated by the representatives of branch plants, joint ventures and licensed firms who required precisely such a migration of American industry at the expense of independent development to justify their existence.

As the barbed wire case showed, the licensing system was not completely independent of the existence of high tariffs between Canada and the U.S. Reciprocity of tariffs was anathema to the licensees. One early exception was the Massey firm in agricultural implements, long free trade inclined. But by the late 1880's even this firm was beginning to have second thoughts.[148] In all probability this change of heart had something to do with the new U.S. patents the firm had begun to lease with less leniency or permanence than that which had accompanied its early borrowings. Sewing machine makers were adamantly opposed to Reciprocity,[149] with the noteworthy exception of Charles Raymond.[150] Raymond, the American émigré, had earlier acquired absolute patent rights while the newer firms were totally subservient to the American parents.

Many other industries in the 1880's counted themselves opposed if their goods were covered by U.S. patents. For the legitimately licensed firms making goods in U.S. patents, Reciprocity would pass them by, leaving them corralled in the Canadian market, while they were blocked by the licence from taking part in the American one. And in the long run there would be no reason for the American manufacturers to renew the licence arrangement. For other Canadian manufacturers, who made goods on U.S. models either because the U.S. patent did not extend to Canada or because it had lapsed through non-compliance with Canadian law, Reciprocity spelt immediate doom. U.S. firms would then enter Canada, while they themselves would be blocked from entering the U.S. by American patent laws.[151]

Conclusion

Canada's technological dependence was both deep-rooted and consciously cultivated. Technology, like capital and labour, was something to be attracted from a more developed area, and Canadian government policy from an early period assiduously solicited an influx of American techniques.

In the pre-Confederation period, the inflow of American technology was in part an incidental by-product of the migration of American master-craftsmen to Canada. In part it was the result of the pirating of American inventions. Occasionally both processes went hand in hand — most notably in the agricultural implements industry. So eagerly did the province seek to aid the inflow of American technique that it even refused to allow Canadians stealing American technology to patent it, and thus inhibit others in the province from copying the same technique.

After Confederation the patterns changed. Retaliation from the U.S., and the failure of the laissez-faire approach to patent-pirating to engender a sufficiently rapid diffusion of American technology into Canada, led to the Patent Act of 1872. Under this Act, Americans could protect their patent rights in Canada if and only if they manufactured the product in Canada either by themselves or via Canadian licensees, within two years of the patent being issued. As a result, a pattern of licensed ventures sprang up in Canada in a variety of fields.

Initially the northern migration of American technique was a general phenomenon, not centring on any particular field. But as the century drew to a close distinct patterns emerged. In particular the high-technology, capital-intensive, rapid-growth industries of the second industrial revolution made their appearance in Canada via the licensing of foreign, chiefly American techniques. Automobiles, machinery production (especially for modern mining technique), electrical apparatus, and chemicals were all almost completely derivative arrivals in Canada.

The impact on Canadian development patterns was enormous. The share of patents granted in Canada to Canadians fell sharply after the 1872 Patent Act and continued to follow a downward trend. Even in absolute terms, the number of patents granted Canadians declined for many years. The possibility of indigenous technological development was cast to the winds in favour of hothouse growth based on dependence on American technique.

Notes to Chapter X

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125. M. Wilkins, *The Emergence of Multinational Enterprise*, pp. 50-1.
126. *MT*, Dec. 2, 1881, p. 668.
127. M. Denison, *The People's Power*, p. 20.
128. *MT*, July 7, 1899, p. 10; H. Marshall, F. Southard, and K. Taylor, *Canadian-American Industry*, pp. 69-70.
129. *MT*, Nov. 2, 1883, p. 484.
130. *MT*, July 25, 1884, p. 99.
131. *MT*, Jan. 23, 1885, p. 854.
132. Some of the patent arrangements were complex and not all one-way. In 1882, the Canadian Telephone Co. tried to prevent Bell from infringing on its patents. The case was settled out of court by an agreement between the two and the Electric Despatch Co., whereby the contested patent was transferred to Bell who agreed to sell it for ten years to the despatch company. Bell further agreed to stay out of that line of business except for message services. All telegraph lines and wires of cabmen, carters, and others were transferred to the central office of Electric Despatch, but most were transferred back to Bell in 1883. In 1887, the Great North Western Telegraph Co. opened — under American licence —and it got a telephone from Bell which it used for special messenger services. Electric Despatch objected and sued to block it, but failed to do so. Electric Despatch soon faded from the scene (*MT*, Dec. 7, 1888, pp. 649-9). In 1887 came another major effort to break Bell's hold, when on behalf of the Toronto Telephone Manufacturing Company Bell was taken to court over one patent granted Alexander Graham Bell and three granted Thomas Edison which Bell owned; and voidance of the patents on the grounds of importation and non-manufacture was sought. It won the right to use the Bell patent, but lost the three Edison ones. (Department of Agriculture, *Annual Report for 1887*, p. xvi; *Annual Report for 1888*, p. xviii).
133. Department of Agriculture, *Annual Report for 1889*, p. xv.
134. *MT*, Dec. 14, 1900, p. 751.
135. *MT*, Oct. 12, 1900, p. 457.
136. C. L. Barber, *The Canadian Electrical Manufacturing Industry*, pp. 1-2; *MT*, Dec. 15, 1899, p. 772.
137. *MT*, Feb. 28, 1902, p. 1126.
138. *MT*, March 27, 1896, p. 1254.
139. *FP*, Aug. 4, 1908.
140. *MT*, Nov. 30, 1907, p. 871.
141. Another sorely contested technique was that revolving about an electric process for calcium carbide production. One Boston entrepreneur secured a patent and decided to set up a Canadian plant in conjunction with another American, H. N. Whitney, and the Montreal financiers Louis Forget, J. N. Greenshields, and Herbert Holt. In 1896 they found that their patents conflicted with those of Thomas Willson of St. Catharines, who already had a plant in operation in conjunction with another American group (*MT*, Oct. 30, 1896, p. 581). The quarrel was settled by the Whitney syndicate's leasing Willson's patents. It was one of the very rare cases where American control of the Canadian industry relied on a Canadian patent (J. H. Dales, *Hydroelectricity and Industrial Development in Quebec*, pp. 51, 54).
142. *MT*, Jan. 3, 1890, p. 796; April 11, 1890, p. 1252.
143. *MT*, Aug. 3, 1894, p. 137.

144. *CE*, May 1894, p. 14.
145. *MT*, March 30, 1900, p. 1277.
146. Colonial Conference, 1907, *Minutes*, p. 493.
147. *IC*, Nov. 1904, pp. 267-8.
148. *SCC*, *Evidence*, p. 356.
149. *CM*, May 15, 1885, p. 1185.
150. *Globe*, Jan. 5, 1891.
151. *CM*, April 15, 1887, pp. 111-2.

Whenever a man comes to Canada to live and to contribute in any manner to the material success of the country, he may very properly be considered a Canadian. His birth place may be Europe, Asia, Africa, an isle of the sea, or even the land of the Yankee, and protectionists will be ready and willing to acknowledge him a Canadian. There would be no objection to him whatever because of his nationality. And the same as regards his money.

Canadian Manufacturers' Association, 1893

CHAPTER XI

Commercial Policy and Direct Investment

Manufacturing Investment, 1878-1895

One key objective of the National Policy was to shift the locus of industrial production from the U.S. and Britain to Canada. It also aimed to shift Canadian commercial patterns so that manufactured goods flowed on an east-west nexus, while industrial capital in Ontario and Quebec would be able to capture both the Northwest and the Maritime market. It mattered little if the capital invested in manufacturing was of Canadian or foreign origin. In fact, given the underdevelopment of Canadian industrialism, an inflow of foreign direct investment was an obvious prerequisite if the strategy was to succeed. As the CMA quaintly phrased the matter, "The market is reserved for Canadian manufacturers. The way for our Yankee friends to obtain a percentage of the Canadian trade is to establish their works in Canada."[1]

While the National Policy was not as successful in forcing a rapid reorientation of Canadian commercial patterns as its architects had boasted it would be,[2] some impact was felt immediately, and it grew steadily. In the East, some industries felt the effects of central Canadian competition very quickly; in the West, "Canadian" firms began to displace imports from the U.S. And the branch plant movement began with, and even in anticipation of, the high tariff.

In some cases, American firms were quick to make their move, and the migration was welcomed in Canada with enthusiasm. A Halifax journal made a formal appeal to American manufacturers to move in as soon as the tariff went up on the grounds that, with their superior access to capital, better management, and technical expertise, they would have a considerable edge over all competitors, notably local firms.[3] The *Monetary Times* fretted, lest the tariff be inadequate to tempt firms to jump over it.[4] The *Journal of Commerce* noted:

> There are fourteen pin factories in the United States, nearly all located in New England. . . .Canada should support one or two. Here is a hint for St. Hyacinthe or St. Jerome with their splendid local privileges.[5]

But most enthusiastic of all was the Canadian Manufacturers' Association, which decreed,

> It is of small moment where the capital comes from that may be employed in developing our industries. When it is invested it at once becomes Canadian capital. . . .We gladly welcome all American capitalists who desire to join our procession in our march to industrial development and national greatness.[6]

The first wave of American direct investments in Canada was largely involuntary. The U.S. was a substantial net debtor throughout the late nineteenth century, and not until the turn of the century had the process of consolidation of the American industrial giants been completed, and with it their willingness to migrate on any scale. American firms preferred to export, and at most to invest in distributing agencies. Furthermore, during the early period, given the underdevelopment of Canadian intermediaries and the lack of access to British portfolio capital to support the American direct investment, the migration of American firms meant the export of scarce capital from the parent. After the turn of the century, the burden on the parents' capital resources was lightened by the expanded availability of Canadian bank loans and British bond capital.

American branch plants began with Hall Bros., the short-lived agricultural implement firm established in Oshawa in 1860. The next instance seems to have been a file works in St. Catharines in 1870. Before the 1879 tariff, only eleven branch plants were operating, of which five were erected in 1878, in the midst of a depression, — indicating that the expected fiscal changes affected the decision for at least some of them. The inflow was sustained by the prosperity phase until 1883, and thereafter it tapered off until 1895, when a new rush began. The initial burst favored the border towns, Windsor in particular,[7] but also Chatham, Walkerville, Sarnia, and others in Ontario. The president of the CMA, Fred Nicholls boasted in 1889 that "there is hardly a town in the province of any importance but has a branch of an American factory that has started in it." His assertion seems somewhat exaggerated, but it was as much a statement of hope as of fact.

TABLE XI (1)

U.S. Branch Plants Established 1870-1887

1870-1875	1
1876	2
1877	3
1878	5
1879	13
1880	4
1881	1
1882	4
1883	5
1884	2
1885	5
1886	2
1887	1
Total	48

Source: H. Marshall *et al, Canadian-American Industry,* p. 12.

In this first period, the bulk of the foreign migrations — whether branch plants, joint ventures, or wholesale movements of the entire company — were caused by the desire to recapture markets threatened by the tariff. Textiles, one of the industries most favoured in terms of domestic growth by the National Policy, attracted the largest share of American, and to a lesser degree, British attention. A branch plant of a cotton batting factory in St. Catharines was established by an American group in 1879, followed by another New York syndicate exploring the possibility of a shoddy factory there.[8] In 1881, an American knitting mill was projected for Montreal, and the following year the American silk firm, Belding Bros., established a Montreal branch in the form of a joint venture with a local capitalist, Belding, Paul and Co.,[9] a private partnership, as were many of the early joint ventures. In the Maritimes, both the Yarmouth, N.S., Cotton Duck Co. and the St. Croix Mill at St. Stephen, N.B., were joint ventures of local capital with Massachusetts cotton mill men who wanted to recapture lost markets,[10] while the Parks' Cotton Factory at St. John, N.B., although its equity was locally held, was financed in part by portfolio capital from a Boston capitalist who held a first mortgage on the property.[11] British capital was represented not only by the involvement of the British cotton machinery industry from afar, but also by the migration to Canada of Clayton Slater, who began a cotton and a wincey mill in Brantford,[12] and the Riverside Worsted Company in Quebec, whose equity was largely held by woollen industrialists in Bradford.[13]

In Ontario, where most of the branch plants located, there was a tendency for the Americans to try to straddle the border, which made Windsor a prime location for Detroit firms.[14] In the Maritimes, the American presence was much more often in the form of joint ventures with local capital than branch plants on the Ontario model, as with three new investments in New Brunswick in 1883, including the Harris Manufacturing Co.[15] which soon became one of the country's largest manufacturers of railway cars.

In Quebec, the joint venture again seemed more common, but with British capital represented as well as American along with local business. Sheffield manufacturers, who had been vehement antagonists of the National Policy and who had petitioned the Colonial Office for interference along with Yorkshire woollen and cotton manufacturers[16] (as they had against the Galt tariff of 1859), found a similar solution to their lost markets. In 1883 a joint venture of Sheffield and Canadian capital established a cutlery firm in St. Henri, while in 1888 Sheffield steel makers joined T.J. and W.H. Drummond, metal merchants of Montreal, in the Montreal Car Wheel Co.[17]

The branch plants established across Canada covered a wide range of products, consumer and producer goods ranging from car wheels to woollens. One American firm making organettes shifted bodily to Montreal in 1880[18] to join Canada's highly successful musical instrument business, whose leader, William Bell, had got his start by copying American models. While not a branch plant originally, Bell's firm in 1891 became incorporated and largely owned in Britain.[19] The branch plants also included a contingent of drug manufacturers who followed the leader after it arrived in 1879.[20] Vancouver managed to attract the branch plant of an artificial ice company in 1891,[21] and a wandering American soda water factory settled there a few years later.[22]

Manufacturing Investment, 1896-1914

Towards the end of the century, new influences began to affect the flow of American direct investment to Canada. The great merger waves in the U.S. spilled across the border. The American multidivisional firms began their international march; the

Canadian economy moved into a prolonged prosperity phase which attracted both American direct and British portfolio investment which also helped support the American influx; and the new industries of the second industrial revolution began to replace the older mechanical and consumer goods industries as objects of the American investors' attentions.

Some observers looked askance at the new inflow. The *Monetary Times* welcomed portfolio investment and new direct investment, but opposed takeovers. It pointed out the ample supply of Canadian savings, and castigated Canadian investors for their timidity. It was not, it felt, a shortage of capital but of entrepreneurs willing to assume risk that led to the American invasion.[23] Only after the Americans initiated ventures did Canadian investors seem to interest themselves in it. The *Monetary Times* supported the American entrepreneur Francis Clergue, who was then domiciled in Canada, in his castigation of the Canadian capitalists' recalcitrance:

> Canadian businessmen, in their cautiousness, have carried their slowness to decide upon a matter too far for their own good, and have in their desire to be absolutely safe let pass many a good opportunity.[24]

These sentiments, of course, overlooked completely the critical role of the banks and intermediaries in mobilizing savings and putting them to work in staple production and commercial infracture, rather than assisting industrial capital formation.

The new wave also represented a closer integration of parent and subsidiary than did the old, with the result that the branch plants were highly dependent on the parents for parts, semi-finished materials, and machinery,[25] a result facilitated by the lowering of raw material rates in the Canadian tariff since the National Policy had come into effect.

But pressures for more and more branch plants increased. The CMA called for even higher tariffs to draw more foreign industrial migrants:

> We do believe that by revising the tariff and bringing it up to the requirements of present conditions we could cause many more industries to be brought into the country and we would thus aid in the development and upbuilding of Canada.[26]

The laggard British investors were urged to follow the Americans' example and take advantage of the high rates of return prevailing on investments in Canada. British direct investment was urged by the Canadian Bankers' Association and the Association of Canadian Engineers to help preserve the Empire from the menace of American rivalry.[27]

The new branch plants obligingly poured into the country. By 1914, American branch plants in Canada totalled 453, while British branch plants numbered only 20. American branch plants represented an investment valued at $135 million, while British but six million. Of the influx, the Ontario border cities and the other major urban centres received the largest share. Toronto, Montreal, Hamilton and Winnipeg got the most, followed by Windsor, Walkerville and Niagara Falls with Calgary, Guelph, Brantford, St. Catharines, Sarnia and Welland well down the list.[28]

The exodus began to cause some consternation in American circles: Eugene Foss, the Governor of Massachusetts and himself a direct investor in Canada, predicted that Canadian industrial growth based on American branch plants would soon outdistance that of the U.S. itself. The *Wall Street Journal* lamented the outflow in 1913, expressing the fear that it would be followed by a migration of skilled labour as well.[29]

In fact, precisely such a movement occurred. Early propagandists for the tariff had held out hopes of deflecting the flow of emigrants from Europe away from the U.S. and into Canada. American branch plants too were expected to bring labour from the U.S.[30] On both counts the policy initially failed, and the loss of Canadian population to the U.S. continued. Detroit and similar towns in the U.S. attracted the residents of nearby Canadian towns to their factories.[31] But by the turn of the century the process was operating in reverse. Not only did the bulk of European migration now flow to Canada, but American farmers migrated to the Canadian prairies and skilled workers to Canadian branch plants. Instances were noted where the American immigrant workers and executives of branch plants and their families formed the majority of the population of Canadian villages.[32] The American farm population growing in the Canadian West helped to attract American firms as well. In 1913, the little town of Redcliffe, Alberta, boasted nine new firms, of which $600,000 worth of capital was Canadian and $1,150,000 American. Medicine Hat had 18 new firms, mostly American. Winnipeg and Calgary were the western cities most favoured by the American manufacturers.[33]

Given the new importance of the West, with the opening of the prairie agricultural frontier, it was not surprising that wire-and-fencing and agricultural implements firms in the U.S., which previously had been content simply to license, now began to move towards full-fledged branch plants. Wire-and-fencing branches were projected and established in a number of towns by the major American producers in the follow-the-leader pattern typical of direct investment by oligopolies.[34] Although the implement manufacturers made preparations to do likewise just after the turn of the century, the merger of the big American firms staved it off, and only International Harvester itself entered Canada by taking over the Deering site.[35] The rationale for the International Harvester migration was the growing importance of the Empire market. For by shifting to Canada, after its failure to take over the Massey-Harris firm, it got rebates on imported inputs for exported output and very soon began exporting to South Africa and Australia.[36] In 1911 it diversified by taking over an old Chatham wagon firm and began building lorries for the Canadian and Empire markets.[37]

Another industry linked to the expansion of grain cultivation in Canada was the American milling business, the great oligopolies of which, Quaker Oats and the American Cereal Co., descended on Peterborough in 1901. The objective of the plants was to mill Canadian crops of various sorts, partly for domestic consumption and partly to service the Empire market. Quaker Oats arrived as a joint venture of the parent with Edmund Walker, J. H. Plummer, George Cox and Joseph Flavelle, while American Cereal seems to have begun as a branch plant and been absorbed by a new syndicate partly representing Canadian capital into the Dominion Cereal Company.[38]

There were many examples in this period of new American migrants whose objective was, as of old, simply to capture markets in Canada cut off by the tariff and representing a wide range of consumer and producer goods. There were, too, examples of the old pattern of licensing the Canada-U.S. joint venture. 1898 saw the formation of Page-Hersey Iron & Tube Co. by Randolph Hersey of Montreal with E. N. and G. H. Page of Cohoes.[39] But there were distinctly new features to the post-1896 movement. The growth of the West, the rise of new industries, the American merger wave, and the new importance of the Empire market were additional push or pull factors. Moreover, the relative incidence of British industrial investments declined, with notable exceptions such as the Ross Rifle branch plant,[40] or the joint venture of the Lever Brothers with a Toronto syndicate.[41] The Ross Rifle branch was particularly remarkable since Sir Charles Ross was reputed to keep the Minister of Militia in Sir Robert Borden's cabinet, Sam Hughes, on his payroll to advance the Ross product in the Canadian defence establishment. But in terms of percentage of total, there seemed a distinct decline, at the same time the volume of British portfolio investment grew enormously.

TABLE XI (2)

American Investments In Canada, 1911 and 1913

Type (Value in $ millions)	*1911*	*1913*
Branch plants and other industrial	$135.4	$151.5
B.C. mills and timber	65.0	70.0
B.C. mines	60.0	62.0
B.C. land	8.5	60.0
Prairie land	25.0	40.0
Prairie lumber	10.0	10.5
Theatrical	n.a.	3.0
Packing plants	6.0	6.8
Farm implement distribution	8.6	9.3
Life and fire insurance firm investments	43.3	67.8
Municipal bonds sold privately	27.0	n.a.
Purchase of government or corporate bonds	n.a.	123.7
Purchase of urban property	15.5	20.7
Investments in Maritime provinces	12.9	14.1
Total	$417.2	$639.4

Source: F. Field, *Capital Investments in Canada*, p. 24; *MT Annual*, Jan. 1914, pp. 24-28.

TABLE XI (3)

Distribution of U.S. Manufacturing Investments in Canada, 1913

(Branch plants, affiliates, and major warehousing operations)

Province	*No.*	*Leading Cities*	*No.*
Ontario	317	Toronto	94
Quebec	78	Montreal	53
Manitoba	33	Hamilton	46
Alberta	14	Winnipeg	30
New Brunswick	6	Windsor, Ont.	26
Nova Scotia	2	Calgary	9
British Columbia	2	St. John, N.B.	4
Saskatchewan	2	Edmonton	1
Prince Edward Island	0	Vancouver	1
		Charlottetown	0
		Halifax	0

Foreign Investment and Resource Development: Forest Industries

While direct investment in manufacturing was greeted with almost unqualified delight, attitudes towards foreign investment in the resource industries were more critical and divided, and on this issue the antagonism between commercial capitalists and manufacturers surfaced frequently. The railwaymen, bankers, and land companies were eager to abet the rapid exploitation and export of raw materials, while manufacturers called for processing at home.[42]

For the most part, those interested in alienation of resources won out, though there were exceptions. As early as 1836, an attempt was made in Upper Canada to open the door to American takeover of the timber lands by permitting foreigners to hold land.[43] While that act failed to pass by the time of Confederation, the principle of absentee foreign (non-British) ownership was accepted throughout Canada, and early efforts were made by provincial governments to attract American as well as British capital into timber resource exploitation.[44]

Policy towards timber lands varied among the various levels of government. The Dominion Government did not alienate the timber lands it controlled in fee simple, but licensed them. In Nova Scotia, all timber lands were disposed of in fee simple until 1899. Thus, the Dominion Lumber Co., a U.S. firm, bought up 860,000 acres of alienated timber lands from a local syndicate in 1895 and, with it, no less than sixteen lumber mills with already established markets in England.[45] This firm was organized by B. F. Pearson of Halifax on behalf of the Boston syndicate of H. N. Whitney, which was at the same time busy trying to monopolize Nova Scotia coal lands.[46] By 1899, when restrictive measures were finally enacted, 83% of the provinces' timber lands were already in private hands. Even then the leasing policy was a thinly veiled give-away. Leases were for twenty years, renewable for another twenty at 40¢ an acre.

In Quebec, while little outright alienation had occurred, the licence fees were outrageously low, in part a tribute to the political power of the Timber Limit Holders' Association. In New Brunswick, alienation was common, and so too was outside takeover. As early as 1880 the big New Brunswick Land and Lumber Co. fell into the hands of a joint Montreal and New York Syndicate, headed by George Stephen and J. S. Kennedy.[47] In Ontario, the rate of giveaway via licensing went much further than the other provinces, for central Canadian financiers were eager to alienate timber lands or limits into foreign hands. George Cox promoted a firm to deal in pine lands in 1881[48] and huge sales or leases to American or British firms occurred all over the province, sometimes forced by the banks.[49] By 1892, a growing shortage of pine lands in Ontario led eastern capital to move west, building branch saw mills in B.C. In B.C., the vast timber resources were not regarded as having any value at all until 1888, when a royalty of 50¢ per 1,000 board feet was charged on Crown land. And until 1896 alienation in fee simple continued to be standard practice.[50]

In light of the profligate resources policy, it is not surprising that the pulp and paper industry in Canada had a slow and unstable development. The first paper mill in Canada was established in 1804 in Quebec by two Americans who had already established a number of mills in New England in conjunction with a Montreal merchant. The Americans provided the expertise and the Montreal capitalists much of the finance and the marketing facilities. In Nova Scotia, the first paper mill was erected in 1817, and in Upper Canada the Hon. James Crook converted his grist mill into a paper mill in 1825. The Crook mill operated on rags which it paid for in cash or in finished paper, and like all the early mills it turned out only coarse brown wrapping paper until 1828 when it began producing white paper. In the Maritimes, not until 1867 was paper for printing and publishing locally made.[51]

In the provinces of Canada, the industry made little progress for some time. The Montreal-U.S. joint venture died out in 1837. Then in 1865 duties on paper were raised, as a result of this, together with the burning or closing of many American mills in the Civil War, the Canadian industry expanded rapidly on both a domestic and an export basis. By the time of the crash in 1873, there were thirty mills in Canada producing pulp and/or paper. By 1878, ten had failed and seven were idle; only thirteen were operational. Thereafter, the industry underwent some recovery as newsprint prices rose. In 1879, before the tariff, came the first American direct investment in the industry with the takeover of a Nova Scotia mill.[52] By 1882, there were 32 operational pulp or paper mills; four more, including George Cox's Peterborough Pulp Company, were added that year.[53]

In the lumber industry in central Canada, the commercial orientation shifted after Confederation to serving American rather than British needs with the opening of larger settlement areas in the American western farming states. Capital followed, first in the form of outright migration of entrepreneurs (E. B. Eddy, J. R. Booth and others) into the Ottawa and Lake Superior areas.

Capital equipment and skilled labour were largely imported, but a Canadian industry making light tools for lumbering did grow up. The 1873 collapse of primary product prices disrupted the industry; by 1876 even the big E. B. Eddy firm joined the ranks of the insolvent.[54] But by 1880 prices of lumber too were rising quickly, and a wave of prosperity swept over the industry.[55] American capital moved into the Ontario timber limits. The Michigan lumber industry became totally dependent on Canadian supplies, and by 1886 Michigan firms held 1,750,000,000 feet of standing timber in Ontario, virtually all of the output of which was exported as unmanufactured sawn logs.

While export duties had existed on various wood products since 1874, their effect had been mainly to raise revenue. Not for some time were the duties high enough, or applied in the right directions to force processing in Canada. In 1882, the threat of an export duty on elm logs led to an American stave bolt manufacturer migrating to Wallaceburg, Ontario.[56] In 1886, an export duty of $2.00 per 1,000 board feet was imposed on sawn pine logs, forcing a number of Michigan firms to shift the locus of their sawing and planing operations to Ontario.[57] Then began a ludicrous see-saw battle of tariffs between the U.S. and Canada to shift the locus of milling activity back and forth across the border.

In 1888, the duty was raised from $2.00 to $3.00 over the objections of the Canadian lumbermen, whose Lumbermen's Association campaigned for repeal.[58] The U.S. retaliated with an import duty, and the Canadian government capitulated. The export duty was removed, the McKinley tariff in the U.S. reduced the import duty, and the American lumbermen began exporting the best logs to the Michigan mills, dumping the inferior grades in Canada. As the milling industry began to shift back to the U.S., a migration of Canadian lumbermen followed and many towns in Northern Ontario became depopulated.[59]

Pressure for government action mounted. In the House of Commons in 1897 an opposition member called for export duties on logs as

> . . . the means of bringing hundreds of thousands of dollars of capital from the other side to be invested in the sawing of logs on this side . . . this would give employment to our own people.[60]

The new movement towards export restrictions derived from the threat of a new tariff in the U.S., which proposed a $2.00 per 1,000 feet import duty. The Ottawa valley lumber industry opposed any retaliation, as it was closely tied to American mills, but the Georgian Bay producers pressured the federal government for an export duty on pine logs and pulp wood, applicable to any country whose import duties on Canadian lumber exceeded one dollar per 1,000 feet on white pine. They also requested an import duty on lumber entering Canada equal to the duty on Canadian logs imposed by other countries.[61] In 1898, the pulp manufacturers (including those headed by American émigrés like Francis Clergue and E. B. Eddy) met to demand export duties on pulpwood until the U.S. admitted Canadian pulp free.[62] The Canadian Furniture Manufacturers' Association the same year faced problems from the growing shortage of elm and other raw materials because American firms had moved in and cleared out accessible stands.[63] The Association urged restrictions on the export of certain types of Canadian lumber. On the American side, the newspapers pressed for free entry of newsprint to break the hold of the American paper trust.[64]

Ontario made the first restrictive moves. Under the existing American law, import duties would be raised automatically if Canada imposed a new export duty on logs.[65] An Ontario government commission headed by John Bertram and E. W. Rathbun proposed avoiding export duties by instead requiring that all logs cut in the province be manufactured there.[66] Late in 1897, Ontario first prohibited Americans not domiciled in Canada from working the lumber lands in the province, in order to cut off the use of imported seasonal labour, and then proceeded to enact the Rathbun-Bertram plan.[67] Other provinces and the Dominion followed suit. Both soft and hardwood were affected, and American capital poured into lumber mills and pulp and paper plants.[68] Pulp and paper became one of Canada's largest staple exports, especially after the U.S. lowered its import duties.

TABLE XI (4)

The Pulp and Paper Industry

Year	*No. of Mills*	*Capital Employed*	*Employees*
1870	21	610,400	760
1880	36	2,237,950	1,520
1890	58	6,574,121	2,757
1900	53	19,066,319	6,236
1910	72	53,886,933	9,766
1915	80	133,736,803	15,308

Source: N. Reich, *The Pulp and Paper Industry*, p. 68.

The effects of the federal export duties or their equivalent by the provinces was simply to accelerate already existing trends. Investment in the industry had been expanding rapidly even before. And while the industry was largely Canadian and organized into small mills prior to the new duties, there was already some American direct investment as well as British, and it was growing, especially in the late 1890's.

In 1895, the Sault Ste. Marie Pulp and Paper Co. established mills on both sides of the border.[69] *The Empire* protested that the mill would pollute the rivers and destroy the fish, to which the Canadian Manufacturers' Association prophetically replied that "Canada could well afford to have a hundred fishing streams thus ruined on such terms, even if American capitalists were the investors."[70]

In that year another American pulp and paper mill was projected for Arnprior, Ontario,[71] and several others, too, were put into operation. In early 1897, General Russell Alger, Governor of Michigan and Secretary of War in the McKinley cabinet, made a move into the Grand Mère area, subsequently collaborating with Van Horne in Laurentide Pulp and Paper.[72] That year too a British company, the British Columbia Wood Pulp and Paper Co., was formed to buy up an old and small local mill operating on rags and convert it into a pulp mill.[73] After 1898, control of the industry was increasingly lost to Canada as a series of American and British, or joint ventures with Canadian minority participation were formed in Ontario, the Maritimes, and B.C. In Quebec the main rush came after 1906, when restrictions on export were imposed.[74] In 1899, the Ontario government signed an agreement with an English syndicate, the Sturgeon Falls Pulp Co., for the erection of a one million dollar mill. The company got the right to cut and remove wood along the Sturgeon River and its tributaries at twenty cents per cord for spruce, and ten cents for hardwood.[75] This company initially had Canadian minority participation, but in 1907 it was taken over completely by an American syndicate.[76] In 1899 another huge grant was made in the Petawawa area to a U.S.-Canada joint venture on the same type of terms as Sturgeon Falls.[77] By that year the International Paper Co. alone held 1.6 million acres of timber lands.[78] Ontario was by no means the sole beneficiary of the influx[79] — which was aided by the fact that after 1900 the Grand Trunk Railway abandoned its policy of giving special low rates on the export of pulp wood from Canada.[80] In B.C. a great deal of American investment occurred. One U.S. firm bought Prince of Wales Island from a Vancouver group who had gotten it free from the province. In return for cutting rights, the province got one cent an acre plus 25c per cord.[81] In Cape Breton, a New York and Boston group which had sent their logs to Maine mills were forced to build a $750,000 pulp mill.[82] Quebec received the bulk of the American investors' attention, and by 1911 half of the 60 mills in Canada were in Quebec.[83] As an additional dividend, a firm producing capital goods for the industry, the Union Paper Machinery Co., began searching for a suitable branch site in Quebec in 1901.[84]

Over-entry was an immediate problem, and by 1901 many firms had watched profits dwindle to nothing as the price of pulp dropped from $2.50 to $1.70 in 15 months and several failures followed. Part of the big surge of investment had been caused by an enormous demand for newsprint due to the Cuban and South African wars.[85] And peace brought a recession. In Britain, several pulp and paper mills had overcome the usual resistance to Canadian industrial bonds, and by 1906 three of the mills that had successfully floated there had failed.[86]

Foreign Investment and Resource Development: Mining

Salt Mining

The northward migration of the lumber industry produced another spin-off in Canadian industry. The Canadian salt wells in southern Ontario had been languishing for years, with several mines shut down completely; Michigan salt wells, on the other hand, were flourishing by the use of refuse from the lumber mills as fuel. In 1892, salt was discovered on the CPR's property in Windsor, but was not immediately exploited, since estimates at that time placed existing Canadian capacity at three times domestic consumption.[87] In early 1894, when the CPR Salt Well Co. made its first shipment, it was crude salt used only for cleaning purposes.[88] The Windsor Salt Co. was incorporated in 1895 by Van Horne at the head of a group of American capitalists with some Windsor participation,[89] but expansion of the salt industry did not come until after 1897 when the Michigan wells were cut off from their fuel source by the movement of the locus of saw milling into Canada. The immediate result was a major expansion of the Canadian industry.[90]

Oil and Gas

The Canadian petroleum industry, too, remained centred in the southwestern tip of Ontario, with a few minor exceptions.[91] For most of the industry's early history, the producers of crude and the refiners remained largely independent. The wells were generally owned by the farmers on whose land the strikes were made,[92] while the refining aspect of the business attracted outside capital. Initially the refineries were controlled by Canadian capital largely from the urban centres near the wells, though Montreal was represented as early as 1881, when David Morrice got into the refining business behind the new tariff.[93] But American money began to move in in the 1880's. Buffalo and Michigan capital, in which General Alger was heavily interested, established the Sarnia Oil Company which failed in 1890.[94] That year too the Bushnell Oil Company was created by New York refiners with some minority Montreal hangers-on in the form of two oil merchants.[95]

By 1892, the refiners in the Petrolia area began to feel the shadow of Standard Oil looming over them.[96] But for the time being Standard seemed to confine itself to the natural gas fields, working through its subsidiaries in the Essex County fields, to feed its consumers in Buffalo in competition with other American firms already draining Ontario gas off to Detroit.[97]

In the mid-1890's, the Ontario industry began its last boom period, and American capital began to move in on a large scale. There was one critical difference between the new boom and those of old. Parallelling the integration of crude production and refining by then typical in American operations — Standard Oil being the major pioneer in this development — American refining companies led by Standard and followed by others like Bushnell began boring wells,[98] The new wave of strikes began in Essex County and from there spread to Kent and Lambton counties, with American firms the most active in all the new areas.[99] The depth of the new wells and the rising capital intensity of crude production was an effective barrier to the old farmer-operated crude producing units that were still the principal mode of production. But while the American firms were drilling for crude in Ontario, they were not yet active in refining within Ontario, and the vertical integration of the industry took place across the border. By 1899, however, the situation had changed. Standard, through its subsidiary Imperial Oil, had become a virtual monopolist of the refining capacity of southwestern Ontario. So complete was its control that any further crude-producing companies contemplating drilling had to be sure of a long-term contract with Standard to justify their investment. Such was the case, for example, with the Dominion Oil Company, which drew up a phony prospectus claiming to have such contracts with Standard, sold stock widely in the U.K. and U.S. based on that prospectus, and collapsed in a few months after the truth was revealed.[100]

Adverse reaction to Standard's monopoly from Ontario industrialists who were its leading customers led the federal government to reduce duties on imported refined oil. Standard reacted by shifting increasing amounts of refining capacity out of Canada and lobbying for lower duties on imported crude and higher ones on imported refined. The implication was that higher refined duties would lead to an increase in refining operations in Canada and concomitantly to an expansion in employment in the area. A Tory M.P. called for a policy of higher duties that would "transfer that refining interest from the United States to Canada to give labour to our own citizens."[101] The lobby of Ontario industrialists, however, seemed to win the day. The refined duties remained low. And in their stead the Laurier government instituted a system of bounties to crude oil production to try to maintain a flow of oil from the rapidly depleting Ontario wells and to keep down the price to consumers,[102] especially Ontario industrial users. Standard's monopoly otherwise went unchallenged.

Gold

Gold mining in British North America began in 1858 in Nova Scotia, followed by Ontario and British Columbia in 1860. In 1870, another major rush in Ontario left in its train a series of swindles but little production. In 1878 miners began to enter the Yukon. Little gold was produced until the mid-1880's, except for B.C.'s brief rush in the pre-Confederation period. By the mid-1880's, however, the strikes in Nova Scotia had begun to assume a major importance.

American capital was involved in the Nova Scotia gold rush from its beginning in the 1850's, and the importance of New York and New England capital increased with the second rush of the 1880's. What little placer gold had existed was exhausted by the 1880's, and with the change in techniques called forth by the need to extract gold from quartz and other ores, American capital became ever more active.[103]

There was of course some participation by local capital both in Nova Scotia and in the few strikes that were made in neighbouring New Brunswick areas,[104] but by the time central Canadian capital was ready to migrate, attention was again shifting to B.C. and subsequently the Yukon. In 1894, eastern and central Canadian money along with British capital began its headlong rush to the Pacific coast.[105]

Foreign capital dominated Pacific mining of all sorts from the start. By 1896, two-thirds of the 125 mining companies registered in B.C. were foreign.[106] And by 1911 over one-half of the total of mining capital in the province was American-owned.[107] In the intervening years there had been a relative displacement of British by American money.

For some time, the typical pattern of B.C. gold investments was similar to that of the Maritime Mining and Development Co., the first Maritime syndicate to invest in B.C. gold. It was headed by a group of eminent political figures including two provincial cabinet ministers, as well as the private banker Hon. L. E. Baker.[108] Though in fact most of the promotions were of Toronto origin, the same format was used — a group of well known politicians in collaboration with a private banking and brokerage firm — and bond capital would then be solicited in Britain or elsewhere in Europe. The Colorado Gold Mining and Developing Co. was headed by one federal minister and the Lieutenant Governor of Ontario with a large number of British and American shareholders and directors. The Gold Hills Exploration and Developing Co. included one Laurier cabinet minister, the Acting Premier of P.E.I., the Mayor of Quebec City who was also a member of the Quebec Legislature, along with the president of Imperial Oil (before the Standard takeover) and Dr. Oronhyatek of the IOF. Another promotion featured Sir William Howland, former Lieutenant Governor of Ontario, an ex-Minister of the Interior, and Senator Robert Jaffray; while the North Star Mining & Developing Co. was headed by Sir Adolphe Caron and Sir Adolphe Chapleau, both former federal Tory ministers and one the former Premier of Quebec, along with Edward Gurney and a group of New Yorkers.[109] The Big Three Gold Mining Co. was the creation of the former Tory Railway Minister J. H. Pope, another Conservative M.P., and an American syndicate.

Such star-laden bodies, at first, had ease of access to the British bond market, and in 1897 and 1898 nearly £2.5 million was raised there. But by 1899 the stream dried up almost completely, and from 1900 to 1910 there were no public issues by Canadian mining companies in Britain.[110] British funds for equity investment were difficult to raise from the start: the Canadian companies adopted the American system of issuing shares at discounts, a practice unused in Britain, as well as denominating the shares in dollars rather than sterling.[111] But the sudden curtailment of bond capital was due to other causes, notably the disasters that befell the early investments. A series of four major failures struck the British-Canadian mining ventures in the first few years, beginning with the Empire Gold Field, which had issued £200,000 in bonds in 1898 for a saw mill that never operated, a compressor that never ran, and other equipment that never got into the mine. By 1901 all the equipment was abandoned. Three other ventures issued shares at one pound each at the beginning of the boom, shares which by 1901 were worth 2/6, 1/0, and 1/6, making a total loss of £4.5 million.[112]

A great deal of American and Canadian money went into the gold fields as well, part of it to back claims illegally filed by clerks in the employ of the Ministry of the Interior who used their positions to get the best lands.[113] Most of the Canadian funds, and some of the American, came via Toronto and Toronto-based financiers — Pellatt, Cox, Mackenzie and company.

Once mined, the gold was largely exported in an unrefined state. During the Klondike rush none of it was minted into coin in Canada, for until 1908 there was no mint operating in Canada: all gold coin was struck in the Royal Mint in London, or the mint in Birmingham. And when minting facilities were brought to Canada in 1908, it was as a branch of the Royal Mint, whose officials were all appointed by the British government and whose operations were conducted directly under the regulation of its parent. Moreover, during its early existence all the coins struck were British sovereigns from gold refined abroad. Not until 1911 did gold refining auxiliary to the mint begin, and not until 1912 were Canadian gold coins struck.[114]

TABLE XI (5)

Royal Mint Canada Branch Gold Coinage

Year	*Sovereigns*	*Canadian*
1908	3,095.20	—
1909	79,195.27	—
1910	136,325.07	—
1911	1,247,789.00	—
1912	—	1,477,710.00
1913 (3 months)	18,079.67	323,020.00
	1,484,484.21	1,800,730.00

Source: Public Accounts 1914, p. xiii.

Copper and Nickel

A copper rush took place in northern Ontario in the 1840's, parallelling the contemporary one in Michigan, but little American capital moved in at that point; the field was dominated by

British and Canadian firms. A huge bout of speculation resulted from the strike: immense tracts of land north of Huron and Superior were alienated into the hands of a few companies, but very little mining was actually done, and the few fortunes made were largely derived from swindles.[115] Refining was confined to one British firm whose little smelter continued in operation until 1864.[116]

A later strike, this time in Quebec, led to a second wave of speculation, which likewise collapsed, though it tended to leave in its wake a few more permanent investments than the first. Even during its peak the ores were all shipped out to the U.S. or the U.K. for refining, apart from a small amount of work carried on at Canadian sulphuric acid producing plants. The Orford Nickel and Copper Co., an American firm, purchased a property in Quebec in 1877 and built a refinery in New Jersey to process the ore. In 1879 it sank its first shaft.[117] The Canadian Copper Co., another U.S. firm, was also active by that date, and in 1878 it made arrangements to use Orford's New Jersey smelter. In 1882 yet another American syndicate bought a large property in Megantic County.[118] Unlike the first strike American capital, not British, dominated this second rush, though there was some British investment as well.

The British investments were largely the work of L. S. Huntingdon, the Liberal M.P. who, with such fervour and righteous indignation had unveiled the Pacific Scandal in Parliament. Such time as he could spare from saving the nation from the corruption of the Macdonald Tories he spent swindling Scottish investors in two Eastern Townships copper mines. One was sold to a Glasgow group, with Huntingdon acting as broker and receiving a commission from the purchasers. At the same time, by deliberate misrepresentation, he was collecting another commission from the vendors and thus diverted nearly a quarter of a million dollars of the sale money into his own pocket. Suits were launched by the directors, but were stopped when Huntingdon and some friends purchased enough of the by then badly depreciated stock to secure the election of directors friendly to him. In the second mine job Huntingdon appeared as more than just an intermediary, for he added to the property being transferred some 5,000 acres of his own land for $47 an acre, land whose value was independently appraised at 80¢ an acre. The mine too was virtually valueless, contrary to the enthusiastic predictions of the prospectus which Huntingdon had written. It closed shortly, and a suit was launched against him by the second set of outraged directors — but, it seems, to no avail.[119]

In 1886, most of the activity switched to Superior again following a new strike. The CPR immediately began building a feeder line into the new find, and Duncan McIntyre got to work soliciting investments with his glowing report.[120] From the beginning of the rush, most of the best lands were grabbed by merchants and little capitalists from Pembroke, Ottawa, Sudbury, and Sault Ste. Marie, and held for speculation. Unlike the first Superior copper strike, the Canadian presence in mining was marginal and short-lived. Within five years, the leader in the area was Canadian Copper, which had in 1886 passed into the hands of S. J. Ritchie and an Ohio group. Its refining was all done in Orford's New Jersey copper smelters.[121] There were, of course, many other efforts to break into copper by American and British capital, including the Lake Superior Queen Mining Company floated by a St. Paul group in London in 1890. In this case, £155,000 of the £175,000 subscribed went directly to the promoters and vendors of the property, leaving £20,000 only for working capital.[122]

Once the main focus of mining activity shifted to B.C., a great deal of British and American funds moved into the copper mines there.[123] The smelting of copper also tended to be concentrated in B.C., for both the Sudbury and the Quebec ores were exported to American smelters. The Boston group who controlled a large slice of the Eastern Townships deposits and exported the ores to Staten Island tried for several years to secure a Quebec government bounty for refining with the province, without success.[124]

Nickel became important as a corollary of the third round of copper explorations, and Canadian Copper was in the forefront from any early period. Other early entrants included the Welsh firm of H. H. Vivian and Co., which did all its refining in Wales,[125] and the American Drury Nickel Co., which built a smelter in the U.S. in 1892 and connected it to the CPR, along which it sent its ores from the mines to smelter. Several Standard Oil magnates were involved with this operation.[126] The Canadian nickel fields became something of a battleground of competing foreign concerns anxious to secure their raw material supplies.

Nickel was a mineral whose economic and political significance had grown dramatically by the end of the nineteenth century with technological breakthroughs in the production of the nickel-steel so much in demand in the armaments industry that boomed during the scramble for colonies and markets in the pre-World-War I period. At the same time, in Canada, pressure began mounting for government action to shift the locus of refining to Canada to generate employment during the critical years of high unemployment and population loss. By 1890, Canadian manufacturers were objecting to the tax treatment of foreign mining operations who received customs rebates on their imports of American machinery and who were granted federal government cash bounties on their iron and steel output.[127] The argument that the export of raw ore meant the export of employment opportunities was a powerful one, though not sufficiently so to offset the political power of the big mining companies.

In 1890 Ritchie, on behalf of his Canadian Copper, applied for a federal subsidy of $200,000 per annum for ten years plus another $6,000 per mile for a resource railway in order to build a functioning smelter. Ritchie, however, was foolish enough to let the information become public; the result was the immediate formation of a rival Canadian syndicate claiming preference over foreign operators, and no help could be given to Ritchie.[128] Moreover, in 1890 he was dumped from the board of Canadian Copper by the American steel producers who controlled it. Then began a long series of legal wrangles which Ritchie lost, including a suit over one-and-one-quarter million dollars that he had voted himself as a reward for services rendered the company. An effort to sell the company in England was also blocked by his partners, and Ritchie retired after a spate of accusations about bribery, corruption and theft.[130]

In the meantime, Canada Copper was still not refining, despite the fact that it was legally obligated to do so by the terms of its charter. It lacked patents for refining techniques. The English firm headed by Dr. Ludwig Mond would only sell its patents for refining to the company at such a high price as to give it control. A German inventor and holder of a patent for refining, Carl Hoepfner was hired in 1895, but it was stated his process was inadequate. Refining techniques had to be learned by stealing an engineer from Vivian,[131] whose diggings in Canada were closed by 1894. Drury also ceased operations in 1894,[132] and apart from a few small firms, Canadian Copper-Orford had a virtual monopoly for several years. That year a further request was made for a federal subsidy for a smelter, again to no avail.[133]

The Sudbury nickel ranges continued to attract considerable outside attention. British capital was represented by both British American Nickel, an English and Canadian operation in fact controlled by the British government, and after 1899 Mond Nickel, incorporated under imperial statute, itself joined the field.[134] In 1899, Ritchie, Carl Hoepfner, and some Hamilton iron and steel men backed by British steel manufacturers created a group of companies in a new effort to establish a nickel-steel complex in Canada,[135] and these companies purchased large ranges in Sudbury in 1901,[136] the same year that Thomas Edison, a former associate of Ritchie's, paid a visit to the area looking for a source of nickel for his new storage battery.[137]

The campaign for export duties on nickel matte had continued until the federal government passed the requisite legislation in 1897. It was not, however, proclaimed and if it was intended a threat to impose the law if Canadian Copper failed to refine in Canada, it was not taken seriously by the company. In 1898 another American firm offered to build a smelter if the duties were imposed. As early as 1896 Francis Clergue had advocated such duties,[138] and Ritchie and his syndicate now joined him, along with such bodies as the Toronto Board of Trade.[139] Clergue argued that if the smelting of nickel in Canada was inhibited by the lack of access to patents — as had the New Jersey smelter a few years before — the clauses in the Patent Act that stipulated forfeiture for non-use and non-manufacture could be used to force local development.[140]

When the federal government refused to act, Ritchie and his group used their political clout with the Ontario government to have the licence fees and royalties raised for ores exported from Ontario in unrefined form. By 1901 both Canadian Copper and Orford — who merged into International Nickel (Inco) the next year — and Mond Nickel did the first stages of concentration in the Sudbury area, but all the higher stages of refining were still done in the U.S. and the U.K. respectively.[141] There were immediate protests from the companies affected, and efforts to have the federal government disallow the Ontario legislation. Inco for a time switched much more of its activity to its New Caledonia deposits, reducing the amount of mining done in Ontario.[142] True to form, the big banks sided with the nickel firms against the Ontario government and the CMA. Sir Edward Clouston of the Bank of Montreal contended that

> the inevitable result, if it is permitted to remain on the Statute Books, will be the closing of the doors to the flow of English capital into this country. Dr. Mond is a very prominent man, not only in the scientific, but also in the manufacturing world, and if it is known in the London market that, after investing very largely in this country, his property was practically confiscated by the Ontario Legislature, it will have a very serious effect on future English enterprise here.[143]

Other bankers such as Edmund Walker, expressed similar sentiments.[144] The Ontario government was forced to back down, and the familiar threat of closing the London capital market must have helped in forcing that decision.

Lead and Silver

A silver boom occurred in Ontario in 1868 and again in 1906. Americans were first in, and reaped the greatest profits,[145] while the small Canadian firms followed. During the Cobalt silver rush the Canadian banks were flooded with requests for aid which, with the rather bizarre exception of the Farmers' Bank, they refused.[146] The industry quickly passed into American control, with a series of sellouts of established mines with excellent ore bodies.[147] British capital was also active in Cobalt[148] though less so than American.

Silver also figured heavily in the B.C. mining boom, but there it was linked closely to the lead industry. Prior to 1897, all of the lead ores of B.C. were drawn off via the CPR to American smelters for refining, and the large mills, including the North Star Mining Co. controlled by Van Horne, Donald Mann, and others, had contracts with the American smelters for delivery of lead and silver ores.[149] In 1897, with growing pressure for local refining, the CPR agreed to alter its rates to cease subsidizing the export of ore, and the next year it took over a smelter which had opened at Trail a few years before.[150] In 1899 began the first of a series of consecutive federal bounties to encourage lead refining. The Hall Mines smelter at Rossland, established in 1895 to smelt copper-silver ore, added lead in 1899.[151] There were only two other smelters in the province at the time: the Pilot Bros. operation, which was seized in 1898 by the Bank of Montreal and thereafter ceased production and a by then defunct smelter established in 1889 at Revelstoke. Despite pressure from Vancouver and from the Kootenay Board of Trade among others, very little actual refining was done, and the outward flow of ore continued.[152] Under the Dingley tariff, the American smelters could import Canadian ore in bond as long as at least 90% of the product was exported.

Two events intervened. Late in 1901, the bottom fell out of lead, copper, and silver in B.C. followed by a series of liquidations of overcapitalized firms. In January 1901, the London price of pig lead was $77.78 per short ton; by February of 1902 it was $44.03. A surfeit of lead ore now afflicted the American smelters who began to boycott the B.C. product, and new higher duties on ore and pig lead were imposed in the U.S.[153] In 1903, the Canadian government put a bounty of 75¢ per 100 pounds on lead from lead-bearing ores refined in Canada: output rose 500% and the number of mines doubled in two years. By 1905, $20 million was invested in the Kootenay mines and concentrating mills and another $15 million in infrastructure to service the mines.[154] Typically, the smelting interests — namely Consolidated Mining and Smelting, the reorganized CPR-owned firm that owned the Trail smelters — immediately asked for a tariff to supplement the bounty.[155] From 1903 to 1913, when a total of $1,967,708 was paid out in lead bounties, there were only two beneficiaries: Consolidated, and a small Kingston smelter — the successor to Canada's first lead smelter which had operated in Kingston from 1879 to 1882. By 1913, not only was the flow of lead ore to the U.S. stopped, but American ores were coming to the Trail smelters for refining. [156] The recovery of the industry under the bounty plan helped attract British funds in the B.C. mines.[157]

Iron and Coal

The ebb and flow of iron mining in Canada tended to follow that of the primary iron and steel industry more than the demand from the U.S. for ores, for American ores were abundant and more easily accessible than Canadian. There were a few exceptions, however, and by the 1880's some American iron and steel interests in border interests were beginning to register an interest in Ontario ores.

American, and indeed British capital had first ventured into Ontario iron lands during the Marmora and Madoc boom of the 1840's, a boom whose collapse frightened foreign capital away from Ontario iron mines for some time thereafter. By the late 1860's and 1870's, small mines in northern Ontario were exporting to the U.S. on a minor scale.[158] And after the National Policy tariff, American funds began to flow into mining at the same time they were moving into primary iron and steel production, though different groups tended to be involved in the two cases.

The most ambitious of the new American operations was that mounted in 1882 by S. J. Ritchie and his Ohio associates, which involved nothing less than an attempt to monopolize all the available iron lands in Ontario — with the active co-operation of the provincial government. They began with a magnetite site in Hastings county. A resources railroad was taken over and extended to the mine to facilitate the export of ore.[159] Permission was then secured from the Ontario government for the promoters to expropriate all properties along the right-of-way of an enormously expanded railway which was to link up to the CPR. The right-of-way was planned to pass through all the properties that the syndicate desired to secure. But the second thoughts of the

Ohio partners and their growing interest in the copper-nickel belt ended the project.[160]

The primary iron and steel industry in Canada remained rather primitive and small-scale until after 1897. Imports continued to satisfy a large part of the demand for steel products — the CPR, for example, proudly advertised that the wheels on its rolling stock were the finest of Krupp products. As a result, local demand for iron ore was restricted. Exports to the U.S. continued until 1890, but they were not of great significance — from 1868 to 1888 the total value of Ontario iron ore exports to the U.S. came to only $1,300,000, an average of $65,000 per annum. Even that small flow was terminated by an American duty of 75¢ a ton. By 1895 exports to the U.S. ceased altogether.[161] But the revival of iron and steel smelting in Canada after 1897 led to an expansion of mining as well, and American capital figured heavily in the subsequent expansion of both.

Nova Scotia was the only other part of Canada where iron mining was of consequence. Unlike those in Ontario, Nova Scotia iron mines saw little new foreign investment in the period after the National Policy tariff, though not for lack of effort. In 1885, for example, a Pictou company was formed to try to raise foreign funds to exploit a rich mine which had great potential for developing into a primary iron and steel producer. Within fifteen miles of the mine there existed ample coal, limestone, and water power, but American and British capital refused to invest.[162] At the same time the Londonderry steel plant was languishing, robbing that area of a potential market for iron ore. But after the new iron and steel policy, American money, notably that of the H. N. Whitney syndicate, began moving in.[163]

Nova Scotian coal had more consistent success in attracting foreign capital. Apart from the General Mining Association, there were instances of other British investment.[164] And in 1893 the Whitney syndicate, in close co-operation with the Fielding government, began its systematic effort to monopolize the Nova Scotian fields.[165]

Heavy reliance on foreign capital was in fact typical of coal mining operations all across Canada. In 1895, American capital was involved in at least eight of the eleven largest coal mining operations.[166] And British capital figured in A. T. Galt's Albertan empire. One of the larger coal mine operations, the Anthracite Coal Mine Co. in B.C., fell into the hands of foreign investors in 1889 when its Canadian owners were unable to secure further operating funds. It was a profitable operation, which the new owners immediately began to enlarge.[167]

Coal was one of the objects of J. J. Hill's attentions on the

Pacific coast once he began his major campaign against the CPR. In addition to his aquisition of the Dunsmuir collieries on Vancouver island, Hill was heavily involved in the Crow's Nest Pass Coal Company. This was a largely Toronto-based operation headed by George Cox, and including the elite of the Toronto Liberal Party-big business establishment: Joseph Flavelle of National Trust; Plummer of the Bank of Commerce; Henry Pellatt, the broker; E. S. Cox, Canada's leading bucket shop operator; Elias Rogers, Toronto's leading coal merchant; E. R. Wood; and Robert Jaffray.[168]

The CPR-Great Northern fight for the Pacific coal fields began even before J. J. Hill's line entered B.C. Rumours of his planned entry were sufficient to bring the CPR into full battle dress. The Crow's Nest Pass Coal Company initially provided coke and coal to the CPR smelters at Trail. But a wrangle over long-term contracts led to a rupture, and the company began cultivating closer ties to Hill's railway. This relationship was doubly alarming for the CPR. Not only would the coal supplies ease Hill's entry into B.C., but the threatened loss of control of cheap coal and coke supplies meant a blow to CPR-linked smelting and refining operations at a time when rumours were afoot of a conspiracy to capture B.C. mines by J. J. Hill, J. P. Morgan and the Standard-Oil-controlled American Smelting and Refining Co. This alliance was credited with instigating earlier American efforts to destroy the B.C. lead smelting operation conducted by the CPR with federal government subsidies.

The CPR's efforts to stop the Crow's Nest Pass Coal Co. alliance with Hill failed. George Cox and Robert Jaffray fought back: the company was incorporated with Hill securing 30% of the stock.

Miscellaneous Minerals

The lack of Canadian refining or smelting facilities, coupled with foreign control of the mines — either directly through ownership of the equity or indirectly through long-term contracts for the export of raw output — were traits found in many mineral industries. They were typical, too, of virtually every province where mining was an important part of economic activity.

In the era between the decline of copper and the post-war rise of iron mining, Quebec was the chief Canadian source for two minerals, phosphates and asbestos. Phosphate mining on a large scale began by 1880 with French, German, British, and American capital all involved.[169] After 1885, world phosphate prices began rising sharply and the industry grew.[170] Despite the abundance of the material, all processing into fertilizers was done abroad. The Quebec government in the 1880's was in the habit of distributing prizes at agricultural exhibitions in phosphates rather than in cash, and found itself in the embarrassing position of having to import the processed fertilizers from abroad.[171] In 1881, an agreement with a French fertilizer firm was worked out for the erection of a plant in Quebec, but nothing concrete materialized. After 1890, world prices began to slip, and the industry declined.[172]

The same pattern, albeit on a much greater scale, typified asbestos mining. The first strike in the province came in 1878 at Thetford — by an American company which exported the raw asbestos to the U.S.[173] A series of other American investments occurred, in one case with the help of the Bank of Montreal, which sold a mine property it had seized to a New York syndicate.[174] However, both British and Canadian capital were quick to follow the Americans. The United Asbestos Corp., the Anglo-Italian conglomerate which had monopolized the world's supply before the discovery of the Canadian deposits took over a going mine in Canada in 1889.[175] In 1891 a group of Quebec cabinet ministers and other notables headed by Adolphe Chapleau promoted the Coleraine Mining Co. By that year the largest of the Eastern Townships asbestos mines were British or British-Canadian joint ventures.[176]

But despite their ownership the bulk of the output went to the U.S. for processing. At its peak the secondary industry in Canada employed 150 people long after Canada had replaced Italy as the world's leading producer.[177] And during the 1890's the American secondary industry led by the H. W. John's Manufacturing Co. of New York began to cartelize to end competitive bidding for output, forcing the burden of carrying stocks onto the mines. This drove out the small Canadian operators, who had to rely on selling output in advance to secure working capital, and many mines passed into the hands of the American secondary industry.[178]

Some phosphate mining occurred in Ontario, too — by 1894 an American syndicate was digging near Kingston.[179] But most of the early activity remained in Quebec. Where Ontario did have a monopoly was in the surge of interest in arsenic in 1902 when British and foreign capital invested heavily in Hastings County. Its request for an Ontario government bounty for arsenic reduction was not granted.[180] By 1914 the only arsenic produced in Ontario was the by-product of Cobalt's silver-cobalt ores which were smelted in several Ontario locations.

Mining in the Maritimes tended to be controlled to a great degree from New England. Boston capital figured heavily in

New Brunswick's gold, antimony, copper, and manganese.[181] Manganese ores were being exported in a raw state to Boston from as early as 1879.[182] Not until 1903 did the provincial government make a serious move to secure smelting activities by offering a monopoly of the right to search for bog or wad ore on Crown land to any firm undertaking to build a smelter.[183] None did.

In all manner of mining industries the pattern repeated itself. As late as 1914, all feldspar was shipped to the U.S. for processing and use in its potteries. Zinc ore went exclusively to the U.S. from B.C. Of the gypsum produced, largely in the Maritimes, only a tiny percentage was worked into fertilizer or plaster of paris in Canada. Smelting of antimony took place exclusively as a by-product in B.C. lead refining — efforts to smelt in the Maritime mines failed. And of the tungsten output of Nova Scotia not until 1913 was there even a concentrating mill operating.

Conclusion

The policies adopted by Canadian governments to attract American and other foreign direct investment into the country's manufacturing and resources sectors were vigorous and varied. Apart from the patent laws, direct investment in Canadian secondary manufacturing industry from abroad was most energetically cultivated by tariff policy beginning in 1878.

The initial influx of foreign direct investment was not of major import economically; but it was politically, for it whetted appetites for more. Initially the bulk of the influx of foreign capital came in to recapture markets lost because of the tariff. Subsequently more complex forces were at work. After 1896, the export-staple-led prosperity wave induced American direct investment, while the growth of American big business led to a "natural" spill-over across the border. At the same time, the void that was filled by foreign investment can only be accounted for by the pattern of Canadian development, particularly its concentration on staple exports which diverted Canadian capital away from the industrial sector, thus opening it up to the American penetration.

In resource-extracting industries, both federal and provincial policies were more complex, and their precise motivation was often uncertain and subject to change. While the accolades that greeted the migration of direct investment were virtually unanimous, the movement of foreign capital into natural resources was often regarded critically. In the forest industries, a virtual give-away program by the provinces and the Dominion began to change by the turn of the century. The new policy promoted stricter husbanding of resources, with a view to relocating the primary processing of the natural resource inside Canada. This of course induced the desired influx of foreign capital into saw milling and pulp and paper mills, and in turn sparked a boom in the lagging Ontario salt mining industry.

In petroleum and gas, foreign capital was active from the 1890's. A policy of keeping the Canadian refiners in operation to maintain employment in the processing of Ontario's petroleum resources took the form of subsidizing the production of crude oil once the Ontario wells began to exhibit serious signs of exhaustion. In lead mining, the federal government instituted subsidies for smelting to maintain and expand the industry. Iron and steel was the most spectacular case of a resource-based industry expanding subject to government encouragement.

But in other instances federal policy was conspicuously lacking. Gold was not refined in Canada until 1912, as a result of the power of the chartered banks who frowned on any potential competition to their note issue power. Nickel, as well, continued to be exported in its crude state: this reflected a power-play of big international financial interests directed at the Ontario government through the instrumentality of the federal government. And a wide range of other minerals were exported in a raw state.

On balance, Canadian government resource policy was no policy at all. In certain instances, efforts were made to stimulate resource-based processing industries: in others, the exigencies of government finance or private corporate power led to the replication of the traditional policy of rapid alienation and quick resource depletion.

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57. *MT*, July 23, 1886, p. 95.
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59. *CM*, Oct. 16, 1891, p. 244; *MT*, Oct. 10, 1890, p. 435.
60. *HCD*, April 28, 1897, p. 1418.
61. *MT*, April 9, 1897, pp. 1341, 1343.
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73: *MT*, Oct. 15, 1897, p. 505.
74. *Globe*, Jan. 1, 1911.
75. *MT*, March 31, 1899, p. 1282.
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79. *MT*, May 18, 1900.
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81. *MT*, April 18, 1902, p. 1363.
82. *CE*, Nov. 1902, p. 310.
83. *Globe*, Jan. 12, 1911; *CE*, July 1901, p. 351; April 1901, p. 268; *MT*, Sept. 13, 1901, p. 332.
84. *CE*, Feb. 1901, p. 215; *MT*, Oct. 4, 1901, p. 433.
85. *MT*, March 9, 1900, p. 1186.
86. *Ec*, July 8, 1911, p. 62.
87. *MT*, Dec. 2, 1892, p. 636.
88. *CE*, Jan. 1894, p. 266.
89. *MT*, May 17, 1895, p. 1487.
90. Salt existed all over Canada. It had been mined in Manitoba, for example, as early as 1820. But there was little activity apart from the springs at Cardwell, N.B., which began a new phase of growth after 1902 when an English syndicate took it over — the province assisting by exempting it from all royalties for ten years (*MT*, Aug. 25, 1902, p. 1383). In Nova Scotia, a series of efforts to commercially exploit its salt wells proved unsuccessful. By 1914 only southwestern Ontario was producing.
91. The exceptions included a short-lived operation in Cape Breton born out of the desire to break the hold of the Ontario combine in 1876. The company remained in operation for a few years and had some successful strikes but never became of any great importance. (See *MT*, Sept. 1, 1876, p. 240; Aug. 20, 1880, p. 203.) An English operation explored the Gaspé, looking for a source of oil for export to Britain, but failed in 1909. In 1899, another New Brunswick organization was put together by a syndicate headed by the Premier. Despite hopeful reports from experts, Canadian money could not be found and drilling was delayed for two years. By 1905, oil and gas finds were verified and the syndicate went to England unsuccessfully seeking funds. In 1909, an English syndicate took over the operation and, while petroleum remained dormant, its gas operations were a huge success. The English syndicate quickly achieved a high degree of monopoly

through an alliance with an American-owned utility firm, Moncton Tramways, Electricity and Gas Co., which undertook distribution throughout the province.

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95 *MT*, Feb. 14, 1890, p. 988; *Canada Gazette*, Feb. 8, 1890, p. 1625.
96. *MT*, Dec. 9, 1892, p. 667.
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98. *MT*, May 10, 1895, p. 1444.
99. *MT*, Aug. 7, 1896, p. 168; Jan. 22, 1897, p. 976.
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108. *MT*, March 12, 1897, p. 1220.
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118. *MT*, May 9, 1878, p. 1383; *MT*, Feb. 10, 1882, p. 972.
119. *HCD*, May 10, 1878, pp. 140-2.
120. *MT*, July 15, 1887, p. 68.
121. O. W. Main, *Nickel*, p. 12.
122. *MT*, June 20, 1896, p. 1572.
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130. *MT*, Jan. 11, 1895, p. 901.
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135. O. W. Main, *Nickel*, pp. 33 *et passim*.
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Now Mr. Mackenzie said he looked with loathing upon money raised by this "legalized robbery." Gentlemen, we are not so particular.

John A. Macdonald, 1881

Chapter XII

Federalism and the Rise of the Corporate Welfare State

Bounties and Bonuses

In addition to tariff and patent laws, the federal government granted bounties of various orders of magnitude to some primary processing industries, such as the lead and iron and steel refiners and smelters. Occasionally the provinces followed suit. But most prolific of all the levels of government in the granting of largesse to corporations were the municipalities, and of all the multitude of techniques used by various levels of government in Canada to increase the rate of industrial capital formation none was as bizarre as the system of municipal bonusing. In large measure, bonusing was a stop-gap policy to plug the hole in the capital market left by the banks, the financial system in general and the federal government, which channelled funds off into commerce and the construction of commercial infrastructure. Bonusing of industry in effect converted the municipality into an investment banker, facilitating industrial capital accumulation by redistributing income and by providing a further attraction to foreign capital.

It began in a modest way, but soon degenerated into a vicious system of intercommunal warfare. Municipalities competed to drive each other into bankruptcy in order to benefit a few industrial capitalists who often had no need of the gifts. Lured by bribes of every description, capital was tempted to move from other municipalities, from other provinces, from the United States, from Britain, and even from France. The bonusing system encouraged chronic overexpansion of many industries, notably cotton, canning, iron and steel, sugar, furniture factories, and others, helping to precipitate cartelization. Beginning innocently enough with small cash grants or tax exemptions, it grew inexorably. As one municipality succeeded in building or attracting a new industry, others would follow, and the handouts grew. Cash gifts, interest-free loans, free sites, long-term tax exemptions, low or free water, gas and electricity rates, railroad spurs, bond guarantees, even cases of towns paying for dredging occurred regularly. The system passed the bounds of what little reason it might have possessed with subsidies to wages, poor law fashion, and even a case of guaranteeing dividends.

Federal tariff, patent law, and bounties were central to encouraging the inflow of foreign investment, but they seldom determined the actual location of the new industry. This was left to the bonusing system in a great many cases. Railroads, too, clearly affected the distribution of industry, but since federal railway policy aimed at creating trunk lines, it was often left to the municipality to bribe the railway companies into building feeder lines. Within the context set by the federal tariff, patent, and railroad policy, firms would actively solicit bonuses and go shopping for the best terms. Their requests for bonuses were almost invariably granted,[1] at least in the early years, and this would provide them with ammunition with which to exact an even larger offer from another village or town.

But bonusing played a role over and above the distribution of industry: it was accessory to tariffs and patent laws in actually encouraging the migration of foreign firms.[2] While it is unclear whether bonusing — apart from the federal government's iron and steel bonuses — would by itself have actually brought in foreign capital, nonetheless on top of the other policies it helped to induce the entry of firms who were reluctant to move because of tariff protection alone. Canadian industrialization tended to show distinct waves which centred on a particular industry, and these waves of follow-the-leader investment were usually related to some facet of government policy. Bonusing, too, came in complementary waves. Thus, in 1879, tariffs led to a rapid cotton expansion fed by bonusing. Iron and steel, meat packing, pulp and paper, and beet sugar came in waves at the end of the century; and in the case of iron and steel, pulp and paper, beet sugar, and others, a conscious federal or provincial policy change preceded them.

After Confederation, bonusing seems to have been initiated by the Quebec towns, which by the late 1860's were offering tax exemptions on a wide scale[3] — apparently illegally, for in 1870 a bill authorizing the tax exemptions was passed in the Quebec Legislature. The Act, "for the purpose of encouraging the introduction and establishment of new manufactures of all kinds," permitted the municipalities to grant tax exemptions of up to ten years. If any already established firm was injured by the giveaway to the newcomer, the town was granted the authority to extend the bonus to the old firm as well.[4] In southern and western Ontario, the cash bonus system came into vogue quite early.[5] These practices spread to eastern Ontario and to the Maritimes. The West came later, of course, but it too got actively into the game of bonusing eastern manufacturers to move,[6] and there were frequent cases of grants to agribusiness.

That the Eastern Townships of Quebec and southwestern Ontario should be the initiators is readily explicable. Employment was the burning political issue of the day, and these areas suffered the most serious drains of population to the United States. Agitation to stop it began early, well before the National Policy. The Quebec 1870 legislation had just this problem in mind.[7] At its first annual meeting, the Dominion Board of Trade, while still antiprotectionist, had called for an industrial development policy to stop the outflow.[8] Sir John A. Macdonald, in 1876, used the fact that bonusing had become prevalent to "prove" that the farming population wanted protection. Since they had put a tax on themselves by bonusing, they would be willing to accept a tax via a protective tariff.[9] Even before the National Policy, towns had begun to openly advertise their willingness to bargain with industry over the terms of the bonus. Early in 1879 the following advertisement appeared in the *Monetary Times:*

> TO MANUFACTURERS
>
> The Council of the town of Chatham, Ont. is prepared to treat with manufacturers looking to the establishment of manufacturing industries in that town in offering a reasonable bonus therefor.
>
> Parties prepared to establish such on the guarantee of a bonus are invited to communicate with the undersigned . . .
>
> Town Clerk,
> Chatham, Ont., March 18, 1879[10]

The abuses of the system mounted, and opposition grew. Efforts by legislatures, especially Ontario's, to curb it were futile. The individual municipalities dared not desist: the very competitive character of the bonusing craze locked them into a system of Hobbesian behaviour. They could deplore it, but only after working hours, for some other town might take advantage of their hesitation to attract away one of their prize catches. St. Jean, Quebec, a town that was exceptionally active in the bonusing craze, declared in 1888 that "St. John's is not strong enough yet to stem the tide in such matters. We must, to some extent, do as others do or lag behind in the race."[11] In 1910, an Ontario town council concurred that even at that late date "Woodstock must do likewise or remain at a standstill."[12]

The principal beneficiaries were the large American and Canadian firms to whom the bonuses meant simply expanded profit margins. The losers were those who paid for it. The burden fell on the poorer citizens, who paid the highly regressive taxes, and on established local firms, whose rates and taxes went up to support the gifts to newcomers.[13] The costs fell on future generations as well, for despite the exactions from the taxpayers and existing firms, current resources were inadequate to sustain the mammoth barbeque, and debenture issues by the municipalities were a standard and escalating means of fund-raising.

Many of these debentures were taken up in Britain, and formed an important part of the inflow of British portfolio investment of the period. British finance capital was thus made available to the Canadian municipalities, who converted it into industrial capital with the town, not the British investor or the firm, bearing the risk. In this way, much of the British funds went indirectly to support American direct investment in Canada, thus effectively doubling the net international indebtedness that resulted from a particular level of capital inflow.

Most of the municipal debentures, however, were taken up in Canada, by insurance companies and more especially by the chartered banks. The municipality, not the bank or the firm, still bore the risk. A myth promulgated by the bankers in this period to defend the branch system was that no one local bank could sustain the demands for capital typical of the era, but that branch banking could by moving funds from "surplus" savings areas to "deficit" areas. The interregional movement that resulted drained the Maritimes and the small towns of Ontario of the funds to sustain industrial capital formation, and hence increased the burden that had to be carried by such gimmicks as bonusing via debenture issues, which locked the locality into a debtor relationship with Britain or the main urban financial centres of Canada. To the extent that funds flowed back to these areas via debenture purchases by the chartered banks, the banks were often lending back funds already derived from that area, and simply adding another level of intermediation and therefore higher credit costs.

Bonusing Before Confederation

Pre-Confederation patterns are precisely the reverse of those afterward. Before Confederation, the municipalities were heavily involved in financing commercial infrastructure, while the few instances of industrial bonusing that occurred were the prerogative of the provincial governments.

The dubious distinction of being the first industrial panhandler in Canada seems to go to the Acadia Paper Mill, established in Nova Scotia in 1817, which in 1823 received a £100 gift from the Nova Scotia Legislature. In 1825, James Crook, the founder of Upper Canada's first paper mill, was similarly rewarded by his province.[14] In 1834, in Upper Canada Charles Perry, the pioneer of steam engines received £50.[15] In Lower Canada in 1844, a case of private bonusing by a subordinate arm of government occurred when A. T. Galt's British American Land Company gave free water privileges to the A. T. Galt-Massachusetts joint venture in cotton.[16]

Hence, in a very limited way, the elements of the future industrial bonusing system had already taken shape in the form of cash grants and utility privileges. But these were very scattered cases, for large-scale industrialism was still some decades away, and competition among municipalities for industry was nonexistent.

For infrastructure, it was a different story. In fact it was the result of municipal bonusing in the form of the huge pork barrel called the Municipal Loan Fund that gave so much impetus to the Confederation movement. Each municipality was authorized to issue debentures to pay for canals, harbours, roads, and railroads. The debentures of each were pooled in the Municipal Loan Fund, and the Receiver General of Canada was authorized to issue provincial debentures in proportion to the size of the fund. The pooling was expected to increase their saleability in London, and the proceeds of the sale were to be transferred back to the municipalities for investment in railroads and other public works. Each municipality contributed to a sinking fund to redeem the debentures at maturity.[17] The plan was short-lived and not very successful, for it was linked to the free banking system's requirements for a bond-backed currency, and the free banking system tended to frighten away British capital.

Nonetheless, large sums were raised. By 1859, the municipalities of Upper Canada had raised $5,600,000 for railroads alone, on which arrears of interest totalled nearly $2,400,000. Lower Canadian municipalities raised a total of less than one million, with arrears of interest reaching nearly $350,000. Efforts to cover the arrears led to the tariff increases of 1858-1859, a regressive tax to transfer large sums to a few railroad magnates. Small municipalities subscribed sums out of all proportion to their resources, a few examples of which are given in Table XII (1).[18]

TABLE XII (1)

Railway Bonuses, 1859

Town	*Population*	*Loan*
Port Hope	3,000	$740,000
Cobourg	4,000	500,000
Brockville	4,000	400,000
London	10,000	375,400
Ottawa	10,000	200,000
Brantford	6,000	500,000
Niagara Falls	2,500	280,000

One village ran up debts of $300 per capita. The waste involved was enormous. One of the most flagrant examples was the competition between Port Hope and Cobourg, situated only seven miles apart and servicing the same lumbering area. Both invested heavily in feeder lines to the towns to bring traffic into their respective lake ports. Instead, traffic flowed out, and the ports lost all their lumber traffic. The towns became depopulated, and the per capita debt rose as their capacity to bear it fell.[19] It was a portent that was ignored.

Bonuses to Infrastructure After Confederation

Railway construction at municipal expense and to the companies' enhanced profits continued after Confederation, oblivious to earlier expenses. Even before the CPR construction began, the townships and villages of Lanark, Frontenac, Hastings, Addington, and Peterborough — most of which had run up debts to the Municipal Loan Fund — gave a total of one million dollars to the Toronto and Ottawa Railroad Co.[20] With the emergence of transcontinentals, municipalities once again began to build competitive feeder and branch lines to try to tilt the industrial balance in their favour. These lines were largely a gift to the CPR for, unable to cover their fixed costs, most were absorbed at bargain prices.[21] Sometimes of course the CPR got the municipal bonus directly, as in 1882 when it squeezed $100,000 out of Morris, Manitoba,[22] which went into bankruptcy a few years later. However, the direct grants were minor compared to the bonuses given it via acquired lines. By 1916 the CP main line had received $488,458 in municipal cash gifts, while its acquired and controlled lines had got $3,279,605. Nor was the CPR alone. By 1916, the CNR had gotten from various Canadian municipalities some $751,704, while the GTR's total, including its pre-Confederation grants, came to $5.5 million.[23] Some of these grants were not strictly voluntary. The Erie and Huron, which the GTR absorbed, won an 1885 court decision against Chatham, Ontario, forcing it to honour an earlier bonus commitment.[24]

The rationale behind the municipal railway bonus was to provide commercial access to the main lines of traffic. The trunk lines built with federal government assistance were planned with a view to long-distance trade and staple movements. The burden of financing the feeder lines fell upon individual municipalities seeking markets for their industrial or agricultural produce or working to lower freight costs to attract industry. American lines were not left out of the effort to render the municipalities attractive to industry or to break the monopoly of the big trunk lines. The tiny municipality of Amherstburg, Ontario, gave $25,000 to the Windsor, Sandbrook and Amherstburg Railway and a further $5,000 to the Michigan Central to extend into the town.[25] Sherbrooke had paid a total of $150,000 to the CPR main line, to the Boston and Maine, and to the Quebec Central by 1900.[26]

The demands made upon the municipalities by the railway companies for bonuses went far beyond just financing feeder lines: money to build depots and car shops was a frequent request. In some cases the negotiations were complex. The Grand Trunk owed Montreal $700,000 deriving from its takeover of the assets and liabilities of the Atlantic and St. Lawrence in 1853. In 1881, the GTR offered the city $400,000 in equity in payment for the debt; the equity at that time was trading at 23 and the city refused. Montreal made a counter offer of $100,000 cash plus the expenditure of $400,000 by the GTR on a new depot; in effect the city would have paid $600,000 for a $400,000 depot.[27] But the offer was refused and the debt remained outstanding for many years. In 1882 the city of Montreal turned to the CPR and voted it $350,000 cash plus a site that had cost the city $200,000 to build a new depot.[28] The CPR also secured $200,000 from Winnipeg for a depot along with a site and a perpetual tax exemption. In addition, the CPR promised to build its car shops in the city.

Car repair shops, and rolling stock and locomotive manufacturing works with which they were often integrated, were eagerly sought by municipalities to generate employment, so much so that, when Winnipeg was considering bonusing the rival Manitoba and Southwestern railroad, the CPR used the threat of shifting the proposed car shops to Selkirk to stop the bonus. The Winnipeg ratepayers voted 130-to-one in favour of accepting the CPR's terms.[29]

The tug-of-war over the GTR's Point St. Charles car shops began in 1881 when Kingston ratepayers offered it a loan of $250,000 for ten years, and another $125,000 for another two with interest fixed at five per cent, along with the gift of a ten-acre site.[30] The same year, Carleton Place and Perth began competing for the CPR shops, and Carleton Place won.[31] In 1882, Belleville and Montreal began battling to move the Ontario Car Works out of London. Montreal's victory was considerably assisted by the fact that R. B. Angus had secured majority control of the firm, which was then integrated into the CPR's rolling stock program.[32] London did not secure a replacement until 1895, when it gave the Grand Trunk $100,000 to move its car shops from Brantford where they had ended up after Kingston's early offer was rejected.[33] A year later, Van Horne and Shaughnessy caused a lot of commotion by touring Ontario looking for a site for a CPR rolling stock manufacturing plant. Carleton Place won again for $20,000, and the CPR car works in North Bay and Chapleau were closed down. At the ratepayers' meeting the Carleton Place bonus carried 493 to six.[34]

Car works were an early recipient of bonuses in the form of the municipal stock subscription. Thus in 1882, during the early rage for railway manufacturing and repair plants, Peterborough subscribed $20,000 in equity in its firm, though it was a difficult fight at the ratepayers' meeting.[35] Not so for Kingston, which the same year subscribed $35,000 and granted an eighteen-year tax holiday to the Canada Locomotive Company, [36] a reorganized version of the old engine firm under George Stephen's control.[37] It was a bad decision.

As soon as the needy firm opened, it received an offer from a railway company to take all of its output for the next two years.[38] All proceeded well until the late 1890's, when it began to mutter threats about leaving Kingston if a bonus of $50,000 was not paid. This sum escalated in a month to $75,000, the car company claiming that it had an equivalent offer elsewhere. The nature of the offer was revealed in another month's time, when the Bank of Montreal announced that the firm was insolvent.[39] The threats to leave had been a bluff to force the municipality to cover its debts. When this failed, the firm went into assignment. With the growth of the new railways, recovery seemed possible, the car works attracting a number of offers included one from the Mackenzie and Mann syndicate.[40] Another offer from an American syndicate requested a tax exemption, free water, and the town's guarantee of interest on a $100,000 bond issue.[41] The firm was reorganized by a Canadian group headed by an Ontario cabinet minister, [42] and by early 1901 it was again threatening to leave Kingston if its bonus demands were not met.[43] By this time the firm was in such financial need that it would attract and decline a New York offer of $500,000. It had back orders for 103 locomotives, enough to keep it operating for several years. [44] Kingston apparently paid up again, for the car works stayed.

Shipbuilding firms became an attractive proposition for some cities, as witnessed by the extravagant terms they offered to attract them. In 1885 Owen Sound, Ontario, led the way by getting the Polson Iron Works, a firm established in Toronto in 1882, [45] to move its shipbuilding activities in exchange for a ten-year tax exemption, a nine-acre site, and dredging for a launching site done at municipal expense, the launching site being for ships built under CPR contract.[46] This was followed by a gift of $4,000 in 1888 and another of $15,000 in 1889. [47] In 1889 the firm announced it was in financial difficulty and secured a $50,000 loan from the city repayable over 25 years. Its profits for the year before it got the loan were $100,000; its surplus before the loan $188,000; hundreds of thousands of dollars worth of work had been turned down for lack of capacity; and it was paying dividends at fifteen per cent on stock that had been doubled without subscription the year before.[48] Even given the possibility that the firm had faced a genuine short-term liquidity squeeze and that the municipalities frequently had to play the role of investment banker in light of the structure of the chartered banking system, the firm reorganized within a year after which the remaining 24 years of five per cent money from the town was a completely unnecessary gift which would be expected to yield at least fifteen per cent return to the firm's stockholders.

Once its exemption ran out, the firm demanded an extension, which was refused.[49] It then sued the town for recovery of taxes it had paid after establishing itself in Owen Sound but before its exemption became operational — that is, during the period before the production of ships actually occurred. However, the judge ruled that the exemption was only binding on the town for the period that Polson actually produced.[50] The company moved back to Toronto and into liquidation.

TABLE XII (2)

Federal Iron and Steel Bounties, 1896-1912

Type	*Period Paid*	*Total*
pig iron	1896-1911	$7,047,041
puddled iron bars	1896-1907	113,674
steel	1896-1911	6,706,990
steel manufactures	1905-1912	2,868,122
		$16,735,827

Source: Department of Trade and Commerce, *Annual Report, 1913*, Part IV.

In 1889, Collingwood followed Owen Sound's inspiring example by granting $50,000 to a steel shipbuilding firm,[51] followed by a tax exemption.[52] But it was in the Maritimes that the bulk of the steel shipbuilding bonuses were offered. These came on a competitive basis after the turn of the century, when Maritime port cities struggled to restore some of the wealth they formerly had in the era of wooden ships in international commerce.

Halifax started the scramble in 1901 with an offer of $2.00 per ton for ten years and another dollar per ton for the next ten on each ship built. This brought an immediate response from an American company, and bargaining began. Halifax changed the terms to an immediate $100,000 subsidy with another $100,000 payable after the installation of plant and equipment. But the deal was not closed. Nova Scotia offered another $100,000 on top of the Halifax offer, and efforts were made to extract an equivalent sum from the Dominion. Not until 1902 was a taker found, and then only for the less-desired Dartmouth shore, for which Halifax would grant only $100,000.[53] Halifax was not alone. Sydney, Dartmouth, and St. John all offered a substantial bonus.[54] St. John agreed with a British firm for a bonus of $200,000, half in land, half in cash to be used for equipment and machinery.[55]

Along with shipbuilding came demands for bonuses from private docking companies. A British firm began negotiations with Halifax in 1880, and an agreement was reached for a subsidy of $20,000 per year for ten years along with a complete tax exemption for five years and a one-third valuation thereafter. But the Nova Scotia Legislature rejected the arrangement.[56] Not until 1889 was the docking firm established, under much the same terms as those originally worked out. The firm also secured a heavy subsidy from the Royal Navy, and once its original grant from Halifax ran out it asked for another $5,000 per annum for twenty years as well as additional aid from the federal government.[57] The Halifax grant was acceded to, and the use the firm made of it may be inferred from the fact that the year after the new grant the docking company began paying dividends for the first time.[58]

Another sphere of activity linked to the movement of goods was in cold storage warehousing, which began to spread across Canada in the mid-1890's. One of the earliest and largest of these companies was the New Brunswick Cold Storage Co., which in 1897 secured a bond guarantee from the provincial legislature of up to $150,000. Its headquarters was in St. John, but the firm had branches in Sussex, Chatham, Moncton and Halifax. It secured as well a Dominion Government guarantee. The Dominion was immediately faced with demands for bond guarantees from cold storage warehouses in Toronto, Quebec, Charlottetown, and Halifax.[59]

All manner of public utilities, which were almost invariably privately owned before 1900, were voted cash aids to construction and operation, despite the fact that they were run on a profit-making basis. Gifts ranged from a cash grant of $5,000 to the private owners of a dam by Richmond, P.Q.,[60] to a bonus by Rosseau, Manitoba, to start a local newspaper,[61] a somewhat more defensible grant.

Waterworks got all manner of assistance, from cash gifts by Sarnia[62] to tax breaks by Campbellton, N.B.,[63] to a stock subscription by Lindsay, Ontario. Why Lindsay did not proceed to full municipal ownership was unclear, especially to the people of Lindsay after stock juggling by the private firm cost the town $24,000.[64]

After the turn of the century, electric railways and tramways became the rage, and municipalities usually carried the expense of constructing and then let a private firm run it for private profit.

Primary Iron and Steel Subsidies

Next to the railways, those receiving the greatest amount of government largesse were the American bonus hunters who were responsible for the creation of a Canadian primary iron and steel industry. After its slow start, the industry blossomed by the turn of the century. The principal handouts were federal, but the provinces and the municipalities too were active in pouring forth an unending stream of gifts into the industry to such a degree that the Grain Growers' Association dubbed it "the Steal Industry."[65]

The expanded primary iron and steel scheme introduced by the Laurier government, with its bounties to pig iron products, was supplemented in 1900 by a railway subsidies act that required the railroads to use only Canadian-made iron and steel. This act was passed largely at the insistence of Francis Clergue. Despite the bounty system, the iron and steel industry was hampered by high overhead costs due to the smallness of the home market,[66] and Clergue felt the problem could be solved by linking primary iron and steel to railway development and therefore to the opening of the new staple-producing areas of the West. For the first few years there were difficulties in steel rail production which seriously affected Clergue's operations. Other producers were also in trouble.[67] But after the new round of transcontinental railway building got well underway, the industry prospered thanks to its huge grants and links to the railway companies. The railroads and the new primary iron and steel firms were closely interlocked, and once again the Montreal commercial capitalists made the transition to industry via joint ventures with American industrialists in a sea of government largesse. Americans created the Hamilton Iron and Steel industry by taking over and rejuvenating a rolling mill abandoned by the Great Western Railway; the American promoters, Francis Clergue and H. N. Whitney, were responsible for Algoma Steel and Dominion Iron and Steel respectively. In addition to these three major works, Americans took the lead in virtually all the smaller smelter operations that sprang up under the Laurier government's "fostering care." The new schedule of subsidies offered $2.70 per ton for pig made from Canadian ores, $1.80 for that from foreign, $2.70 for the manufacture of steel ingots and for puddled iron bars. The puddled iron bar subsidies were discontinued in 1907, while those for pig and steel continued to 1911. Of the bounties given out, the great majority went to the companies created by American promoters. Between 1883 and 1906, a total of sixteen companies had qualified for about nine million dollars, of which six million went to the three large American-derived firms, DISCO, Hamilton Iron and Steel, and Clergue's Algoma.[68] The 1909-1910 distribution of subsidies, together with the nationality of the principal initial promoters of the firms, is given in Table XII (3).

TABLE XII (3)

Iron and Steel Bounties, 1909-1910

Company	*Nationality of Promoters*	*Amount*
Algoma	U.S.	$ 318,815
DISCO	U.S.	1,029,504
Hamilton	U.S.	238,408
Canada Iron	U.S.-Can.	40,149
Nova Scotia	Can.	97,346
Lake Superior	U.S.	54,629
Ontario	U.S.	4,404
Atikokan	Can.	15,100
Deseronto	U.S.	10,120

Source: *MT*, Dec. 31, 1910, p. 271.

The provincial governments also gave ample assistance. Between 1897 and 1901, Ontario added its own bounty on pig iron, if it was made from Ontario ores. In 1897, too, a bill had been placed before the Ontario Legislature proposing that provincial railway bonuses be paid in iron and steel made in Ontario from ores of which at least two-thirds were mined in Ontario, and that money voted be given directly to the iron manufacturers instead of the railway companies.[69] But this bill did not pass. B.C., though it had no iron smelters of its own, stipulated in 1902 that all railways of the province subsidized with cash or land had to use rails, spikes, etc. made in Canada as long as prices in Canada were no greater than the "open market price" in Great Britain or the U.S. plus the cost of freight.[70] New Brunswick added iron to its offer of a monopoly of rights to manganese bog ores in an effort to attract investment into a local blast furnace, but to no avail.

Nova Scotia was especially compassionate to the new industry. Rather than give a subsidy to pig iron, however, it chose to cut the royalty payable by DISCO on provincial coal in half[71] while all other industries in the province continued to pay the full rate, including Nova Scotia Steel and Coal, which unlike DISCO was locally owned. In addition, DISCO got low dock duties and special low toll charges.[72]

The purpose of both federal and provincial subsidies, as was typical of the whole period, was as much to earn a return on political capital as to build up an industry. The principal beneficiary in the short run was Nova Scotia, which had received the greatest amount of federal aid and therefore hosted the largest iron and steel capacity. The federal aid was in part a delayed reaction to a secessionist movement in the province triggered off by the destruction of several major industries by central Canadian competition, and the rising tide of resentment against the uneven terms of the federation. Such investments drew fire from Toronto capitalists, who opposed the implied infringement of their hegemony and objected to having to pay a disproportionate amount of the subsidy and heavy freight costs for the benefit of a "far eastern" industry.[73]

The municipalities were actively involved in a scramble for a share of the industry. The bonusing craze began shortly after the 1874 tariff revision brought enquiries from foreign firms. In 1876, Toronto began to consider a bonus for an iron furnace at a time when Canada had enough capacity to satisfy its demand already.[74] In 1879, the American group who had revived the abandoned rolling mill in Hamilton asked for and got a tax exemption and free water.[75] Though primary producing facilities were not added for several years, this was effectively the beginning of Hamilton's integrated primary and secondary iron and steel industry.

The prosperous year of 1882 saw the beginnings of the iron rush. Belleville, Ontario, gave fifteen acres, an access right of way, water frontage, and a ten-year tax exemption to an American firm promising a blast furnace.[76] The terms were light, but the furnace was never built. The same year, Kingston and London quarrelled over who would secure another itinerant foreign blast furnace and rolling mill,[77] but again neither was successful.

With the revival of Londonderry and the Quebec forges and the advent of a newcomer in New Glasgow after the National Policy there was little room for new capacity for the time being. In 1885 Selkirk, Manitoba, offered cash and local capitalists offered land for a smelter, but found no takers.[78] In 1889 Lindsay, Ontario, began agitating for a smelter to provide an outlet for the output of its languishing iron mines. An American syndicate offered to construct it and a resource road in exchange for large railway subsidies from the surrounding counties and the province and the right to buy 30,000 acres of iron mine lands.[79] The Ontario government aid requested by Lindsay was not forthcoming.

The Ontario industry began in 1893, when an Ontario group began to pressure the province for a bounty of $2.00 per ton on iron manufactured from Ontario ores and asked Toronto for 100 acres plus $75,000. The same year, with considerably more success, an American group reached an agreement with Hamilton after being pursued by a number of municipalities. Hamilton granted a $35,000 site plus $40,000 in city debentures for a blast furnace, and another $60,000 cash for a steel oven. And Ontario assured it a bonus of $1.00 per ton on the production of iron from Ontario ores.[80] Most of the American money planned for the venture was cut off during the 1893-4 crisis in the U.S., but American promoters remained in charge of the Hamilton Iron and Steel Co.[81] which finally began producing in 1897. It was regarded as a great acquisition for the city, for other industries consuming pig iron would cluster about it, and it was the means by which a number of branch plants were attracted to the city.

The bounty offer by the Ontario government set off a spate of other ventures. In 1895, Kingston was pronounced "jubilant" over the fact that an American blast furnace operation, the Ontario Iron and Steel Co., decided to locate there. It secured a bonus of $250,000 in exchange for first mortgage bonds. It also demanded $50,000, or free water for ten years while Kingston offered $3,000 a year for ten years.[82] Within a few months the terms had escalated, and now included a free site and a bounty of ten cents a ton on iron manufactured over the first five years of operation.[83] Kingston failed to secure the firm, which, after the new federal subsidy program came into effect, located instead at the mouth of the Welland Canal.[84]

Kingston, however, did not give up the battle for a blast furnace. A Montreal firm, Abbot and Co., was offered $50,000 cash plus a site worth $10,000 in 1898.[85] It accepted, then changed its mind and moved on to Belleville. In 1900, Kingston offered $4,000 per year for fifteen years plus a $9,000 site to get another blast furnace operation.[86] Again the bribes failed, and Kingston had to be content with the part-time lead smelter that grew up under the federal lead bounty program in 1908.

Belleville, which had tried to attract American capital into iron smelting in 1882, tried again in 1895. An American promoter was at that time flooding Ontario towns with propositions for a smelter for a site, a tax exemption, and $5,000 per year. The *Belleville Intelligencer* remarked,

> From the letter it would appear that he wants the industrial committee to give him the city, without even a receipt in return. Belleville don't [sic] want industries on such terms.[87]

Others in the town disagreed and, though that particular deal was not closed, in 1898 a fresh proposition from some American promoters was debated. In return for $50,000, a free site, a ten-year tax exemption, and the duty that had to be paid, they would undertake to move the plant of a Connecticut firm bodily into Canada.[88] The Mayor of the city, who led the pro-bonus forces, called for a policy of "nursing industries" and cited the example of Sherbrooke, Quebec, as a town built up by bonuses. Another factor in favour of the project was the fact that Deseronto had just secured an iron furnace which threatened to divert all the iron ore trade off to that town. The opposition stressed the folly of giving $50,000 for a plant that the federal government evaluated at $12,000 for customs purposes.[89] Nevertheless the deal went through; not only did the Connecticut firm migrate, but a rolling mill from New Hampshire was acquired along with the Abbot company of Montreal, which had stopped off in Kingston briefly to pick up a bonus en route.[90] By 1901 the new Abbot-Mitchell Iron Co. had collapsed, and the plant was taken over by another American firm.[91]

A number of towns had followed Belleville and Hamilton. Bancroft tried in 1896 to attract American money into smelting at the instance of local railwaymen, but none materialized.[92] Others were more successful. In Deseronto, the American émigré E. W. Rathbun began the establishment of a smelter which was finished by a new American entrepreneur, F. B. Gaylord, head of Detroit's Gaylord Iron Co. At first the town offered a paltry $20,000. But by raising the bid to $25,000 plus assuring a local market for at least 25% of the output in the form of a contract with the Rathbun Manufacturing Company, the smelter was built and put into operation.[93] In 1899, Fort William granted $50,000 to an American group who created the Mattawa Iron Co. Another $25,000 to the same firm for a silver smelter was added shortly after.[94] Midland got into protracted negotiations with the Canada Iron Furnace Company, a joint venture of American capital with A. F. Gault and the Drummonds of Montreal. The company demanded $80,000 and eventually settled for $50,000, a ten-year tax holiday, and freedom to get its ore from anywhere and thus not be restricted to the output of nearby mines.[95] Collingwood was blessed with the Cramp Steel Co. in 1900 for a cost of a mere $115,000 and 80 acres on the waterfront. It was the creature of an American steel magnate from Philadelphia, though local colour was provided by Sir Charles Tupper and Sir Sandford Fleming on its board.[96]

Some efforts by promoters to secure bonuses came to naught. In 1901, a Toronto and London syndicate began soliciting in Ottawa without success.[97] A pretentiously entitled operation, the Canadian International Banking and Investment Syndicate, claimed to represent Canadian and Mexican capital and offered to erect iron furnaces, precious metal smelters, and a rolling mill for $125,000 plus 110 acres.[98] No one seems to have taken it very seriously.

Bonusing activity occurred in Nova Scotia as well. DISCO, in addition to its provincial coal royalty reduction, secured the right of eminent domain, freedom from all provincial and county taxes, the amazing concession of power to pay dividends on preference shares while its Sydney plant was still under construction, and a relaxation of the provincial laws to allow Americans to sit on its board of directors. The city of Sydney in turn gave the company a free site, which had cost the city $370,000 and which had been purchased with the proceeds of a special debenture issue. It also gave a 30-year municipal tax exemption.[99] North Sydney then gave $30,000 cash to the Nova Scotia Steel and Coal Co., with the pledge of another $20,000 once the firm began production, and a twenty-year tax exemption.[100] Even little Pictou got into the act, giving the Pictou Charcoal Iron Co. $20,000 and a twenty-year tax holiday.[101] At the same time, the old Londonderry iron works were again in complete collapse. They were sold in 1899 by the liquidator to Herbert Holt for $153,000. For this pittance Holt secured a blast furnace, a foundry, a coke oven, a railway and rolling stock, 30,000 acres of iron land, town lots in Londonderry, houses, buildings, plant and machinery, the mines plus an enormous colliery of four square miles of coal leases, 2,200 acres freehold and all the other claims, materials and cash of the company[102] into which so much public money had been placed, over half a million dollars in iron bounties alone, and countless millions indirectly via the tariff.

Such were the origins of the Canadian primary iron and steel industry. Apart from the Nova Scotia Steel and Coal Co., and the British-controlled Londonderry firm, all the largest works and most of the smaller ones were the creation of American bonus hunters who migrated north and sometimes brought the plant with them. There were no actual corporate linkages via branch plants, and hence, like agricultural implements, the industry over time was "Canadianized." The level of subsidies involved in the creation of the "Canadian" industry was largely unnecessary. For despite the long period over which bounties were offered, it was after the new round of railway contruction began in the late nineteenth century that the industry got firmly underway with an assured market. But the firms pressured for the continuation of the system of bounties. In 1902, DISCO deliberately held off building a new plant, which it was planning to set up in any event to coerce the federal government into a renewal of the subsidy scheme. All levels of government contributed to a bonusing scheme on such an order of magnitude that, as one newspaper commented, "Banana growing in Manitoba could be made profitable on the same terms."[103]

The Beet Root Sugar Industry

The system of federal, provincial and municipal subsidies granted in an effort to establish a beet root sugar industry in Canada was second only to primary iron and steel in complexity, and an unmitigated failure in terms of results.

In 1871, the Dominion Parliament exempted from excise all sugar made from domestic beet and granted the potential industry free entry of the necessary machinery for ten years.[104] In 1877, the Quebec government promised a bonus of $70,000 to a beet root sugar refiner[105] but not until 1879 did the predictable scramble begin behind the new sugar duties. It was reinforced in 1881 when the Dominion extended its tariff concession for another five years.

Most of the early activity was in Quebec, where refineries sprang up in Farnham and Coaticook in 1879. Immediate disagreement arose as to who should get the Quebec government bonus; after a great deal of contention it was given to A. F. Gault's Farnham Beet Root Sugar Co.[106] In addition, this firm had secured a $25,000 stock subscription from the town and another of $10,000 from the parish.[107] And in the interim, until the Quebec bonus was paid, both Coaticook and Farnham gave loans to their respective refineries of $7,000 per year for ten years.[108] The early prosperity of the two firms, plus the tariff and hopes of a bonus, attracted foreign capital. In France, L'Union Sucrière du Canada was formed by a group of French sugar industrialists who proposed the establishment of a series of refineries under special tax concessions commencing in Berthierville, in addition to investing in others. In 1881, Belgian capital began exploring the possibility of a refinery at Beauharnois.[109] But by early 1882 the collapse began.

The Farnham refinery got into financial difficulties and was bailed out temporarily by the Quebec government's agreement to pay $40,000 worth of bonuses all at once — out of the $70,000 fund which was to have been stretched over ten years.[110] A few months later, a writ of attachment was issued against the Coaticook refinery, followed within a few weeks by the failure of Union Sucrière with losses of over $150,000.[111] Both the Coaticook and Berthier refineries were sold at liquidators' auctions, with large debts due to the German and Belgian machinery firms who had supplied their equipment; they were then seized by the Dominion government for customs claims.[112] To avoid their fate, Farnham's refinery had switched to cane sugar refining for half the year to avoid having its machinery idle after the beet season was over. But by 1884 it too was closed.[113]

For the next several years the factories and machinery passed from hand to hand. The federal government established its prior claim over the Belgian creditors to the Berthier plant and sold it to a group of Québécois small businessmen who proposed reopening it in 1887.[114] Negotiations stretched on for several more years through Alphonse Desjardins and La Banque Jacques Cartier[115] until the plant was secured and reopened in 1893 by the Montreal food processing firm of M. Lefebvre and Co.[116] Even before that date, as early as 1890 the Farnham refinery began to plan for a reincarnation, placing orders with farmers for beets at $4.50 a ton and negotiating with town councils for an additional one dollar a ton for the farmers. Prospects appeared so bright that the promoter contemplated buying and resuscitating Coaticook as well.[117]

The immediate cause of the new burst of activity in sugar beet refining was that the Dominion Government had capitulated to a then-current trend in European countries of subsidizing beet sugar production over the years 1892 to 1896. For the fiscal year 1892-3, the Farnham refinery got $20,560, while over 1893-1896 Lefebvre received nearly $49,000.[118] Farnham however collapsed once more in 1892. Built at a cost of $250,000, the refinery fetched $26,000 at a sherriff's auction.[119] The Berthier refinery carried on for three years after the expiry of the federal bounty program, then failed along with M. Lefebvre and Co. in the wake of the Banque Jacques Cartier collapse in 1899. In 1900, the town of Farnham bought its local refinery from the Gault Bros. for $25,000 and began looking for a company to revive it for a bonus. Pressure was put on the Quebec government for yet a third effort at beet refining,[120] but by 1901 the action had switched to Ontario, following the federal government's decision to put beet sugar machinery back on the free list.

Efforts to establish the industry in Ontario date as far back as those of Quebec, but not until after the turn of the century was any significant success achieved. In 1878, following the announcement of the Quebec provincial bonus, promoters in Ontario sought a similar grant.[121] Although none was given, Tillsonburg established a beet refinery in 1879, a year before it built a cane refinery, and plans were made to convert an old cheese factory near Galt into a refinery.[122] But these early efforts came to nothing. Some success was achieved in growing cane and sorghum in the province, and for a time a grape sugar refinery operated.[123] In 1890, Ontario government experiments to grow beets were successful, though despite the federal government subsidy no refineries sprang up until Owen Sound secured a short-lived one in 1896.[124] In 1900, a group of promoters asked St. Catharines for $40,000, 20 acres, three million gallons of water a day and a guarantee of 4,000 acres of beets to supply the refinery.[125] This was refused. But that year a beet root sugar association was formed to pressure the province into establishing a bounty system.[126]

In 1901, the province set up a fund of $225,000 to give three-year bounties to beet sugar refineries to be divided among those established, to which another $150,000 for a further two years was added in 1904.[127] The result was sheer pandemonium as municipality after municipality pursued itinerant sugar factories. Refineries sprang up with fat bonuses of cash or stock subscriptions all over the province. Foreign promoters had a field day. A Detroit firm wooed Chatham; a British firm asked for $25,000, water, a free site, and a tax exemption from London; a Pennsylvania syndicate created a scramble among Ontario towns with the ultimate winner being Baden; another Pennsylvania promoter asked Berlin for a $150,000 stock subscription. This was refused, and Berlin then got into a tug of war with neighbouring Waterloo for another refinery. After Berlin won, the syndicate spent $350,000 to import a sugar refinery bodily from Michigan. When another Pennsylvania syndicate announced it would build not one but two refineries, the shock wave spread from one end of the province to the other, Wallaceburg securing one, Brockville the second, for $30,000 each. The surfeit of American capital was due to the fact that the American sugar trust at that time was in the process of squeezing out the little refiners who thus needed but little incentive to migrate north en masse. And they were joined by numerous Ontario promotions in the hunt for the biggest municipal bonus and shares of the provincial bounty fund. Within two years of the establishment of the bounty, the beet association was asking the Dominion Government to bail them out. Even the extension of the Ontario bounty could not protect the industry from a drastic liquidation following the chronic expansion that saw at least seventeen municipalities scramble for the refineries, most successfully.[128]

Other provinces had been active in the struggle to establish a refinery system, albeit not quite so spectacularly. Before the National Policy, New Brunswick farmers exported beets to Maine and early in 1879 an attempt was made to erect a refinery at Digby; later that year the province imported seed from Germany for experiments. Cane sugar was also subject to early attempts to cultivate it within the province, [129] and municipal tax exemptions were offered to cane or beet refineries.[130] But no beet refinery took hold in the province, although the Ontario scramble provoked a bit of jealousy in 1901.[131] Winnipeg tried to secure a refinery in 1898, and P.E.I. bargained with an American beet refining firm in 1900,[132] but apart from Ontario and Quebec only Alberta succeeded in establishing the industry.

The Alberta refinery was established at the same time as the Ontario industry, and was also a case of American surplus capacity migrating north. Alberta's single refinery was established at Raymond in 1901 by a Utah beet refiner.[133] To keep the industry afloat the province initiated a system of bounties to the firm in 1906; they totalled $63,000 before being discontinued in 1910.[134]

The parallels between the primary iron and steel industry and beet sugar refining are striking. Both were subject to a battery of subsidies, bonuses, tariff, and tax concessions from all levels of government. Both represented spillovers of American surplus capacity in response to an active subsidy system at a time of cartelization in the U.S. Both were the creation in large measure of itinerant American promoters and/or migrating plant and equipment, but without formal ties to an American parent corporation. Both, too, greatly overexpanded. The liquidation came early in sugar beets, for by 1913 there were only three producers left in the Dominion, at Raymond, Alberta, and in Ontario at Wallaceburg and Berlin.[135]

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We have discovered that most of these great fortunes have been made by plundering the public; that as fast as we produce wealth, others take it from us; that the conditions that create millionaires and multimillionaires also create city slums and the depopulation of our rural districts.

Farm and Dairy, January 5, 1912

CHAPTER XIII

The Bonusing Craze and Secondary Industry

Even without the existence of federal or provincial subsidies, the competitive system of bonusing industry thrived in all facets of secondary production. Bonusing served to build up local industry, to attract it away from neighbours, and to draw in foreign direct investment. It was partly done on a free-for-all basis, but often distinct patterns would emerge. A particular industry would be regarded as crucial for a municipality's development plans, and one town's success in attracting it would spark a wave of competitive bidding from others.

Bonusing Agribusiness

There were two distinct patterns to municipal efforts to induce the location of food processing industries. In the western provinces, a great number of efforts were made to secure mills of various sorts for the primary processing of grains. Some mills, too, were given central and eastern municipal subsidies, but not on the scale of the West. Instead, the secondary food processing industry, especially meat packing, canning, and beet sugar refining, occupied the attention of central Canada, along with elevators and other means of tapping the western grain trade.

The demand for local milling facilities in the West is at first glance surprising. For with the wheat staple large elevator firms and grain dealers of all types were active there. But these were all geared to exporting wheat. Very little flour was processed for export, and, if left to the devices of the elevator and transportation firms, none of the western wheat and other grains would have been milled for local consumption. The anomaly of being one of the world's largest wheat exporters and at the same time requiring to import flour from central Canada must have struck the western towns, for from a very early date they offered bonuses for the establishment of small, local mills.

One of the first to do so was Rosseau, Manitoba, which in 1878 offered a bonus of 1,000 bushels of wheat and $1,000 worth of real estate for the building of a mill.[1] In 1894, for a similar mill, Brandon offered $6,000.[2] With the growing settlement of the West and the rise of wheat prices, the demand for local mills became more insistent. Offers of bonuses for flour or oatmeal mills came from Rapid City, Wawanesa, Cardiff, Assinaboia and North Cypress by 1898[3] followed shortly by Miami, Alameda, Calgary, and others.[4] But the wheat boom led to the destruction of many local mills by the competition of those of the eastern-based milling companies like Ogilvie's or by the expansion of the western Lake of the Woods Milling Co., which controlled the purchase and distribution of grain for milling within Canada.[5] Increasingly, the prospects of a local mill — especially for flour — became contingent upon securing a branch of one of the milling chains. In 1909, a Saskatoon group headed by its major "*waited on* the Ogilvie company at Winnipeg to secure a flour mill for the city."[6]

Grain mills of various sorts were built in the central and eastern provinces as well. In the early period these were oriented towards providing for local consumption. One of them, the oatmeal mill in Norwich, Ontario, was ruined in 1879 by the National Policy oat duties and forced to refund its bonus.[7] While efforts to create local mills continued,[8] the rise in grain prices in 1896 led to a new emphasis on bonusing facilities to service the export trade, such as Fort William's gift of $50,000 that year to build a flour mill.[9] More common, however, were bonuses for elevators. The CPR extracted $40,000 from Owen Sound for an elevator and flour shed in 1897, and another $25,000 from Windsor the same year.[10] Also in 1897, Kingston gave a gift of $35,000 to a Montreal elevator company, while Goderich in 1898 took $50,000 in stock in a local elevator promotion.[11]

Secondary food processing industries were also in great demand. Shortly after one of its periodic failures in Montreal, M. Lefebvre and Co. was voted unanimously $22,500 to shift to St. Jean in 1897. Within two years it had failed again.[12] Somewhat more durable, though not by much, was the meat packing industry that went through a period of rapid growth around the turn of the century.

The canning of meat for export was attempted in eastern Canada and Quebec in the 1870's. The last of Quebec's efforts, a

Sherbrooke company bonused by the town, failed in 1878, and thereafter canning for export occurred only in two small factories in New Brunswick and P.E.I.[13] Canadian livestock moved into the U.S., especially Chicago, for packing or canning, and in 1878 David Morrice and Co. developed a trade in exporting ice to that city.[14] Small packing firms, of course, were active in serving local needs, and by the early 1890's some of them began to attain a fair size. There were also a few new spectacular promotion jobs such as the Canada (Direct) Meat Co. of Trois Rivières set up to export to Britain in 1890. Its directors included one British cabinet minister, one Canadian federal minister — Sir Hector Langevin, whose corruption was outstanding even among MacDonald's ministers — and the mayor of the city, who helped secure "concessions" from Trois Rivières which were capitalized by the firm. Of £90,000 paid in Britain, the chief promoter (who bore the appropriate name M. Eugene Prosper Bender) pocketed one-half, and the company came to an inglorious end in an English bankruptcy court.[15]

Three events intervened to give the industry a new lease on life. The B.C. mining boom, the railway construction in the West,[16] and the spurt of investment in the forest industries following the new restrictions on export around the turn of the century — all operated to generate a great expansion of demand. In addition, the American tariff of 1897 raised rates on Canadian livestock to such a degree that, whereas formerly immature cattle were sent to the U.S. for maturing and sale to European markets, Canadian farmers and dealers began maturing them themselves.[17] This helped considerably to wipe out the advantage given American stockyards and packing firms by the Canadian railways' discrimination in favour of American routes. Also, the Ontario government planned a $100,000 bounty system to the meat packing industry, of the same type as that given to sugar beets. Although this was not granted,[18] it probably helped create the climate for overinvestment in the industry. In addition, the reawakening of the Canadian salt wells that followed the movement of pulp and lumber mills north may have assisted the industry. And by 1899 in Ontario a pork packing rage had broken out. Farmers in Ontario rural communities were the leading shareholders in the new firms, and fed by municipal bonuses, the industry soon spread to Quebec and the Maritimes, but within a year of the burst of activity it showed signs of overcapacity.[19] By 1903, parallelling the beet root sugar liquidation, a number of these pork packing firms were in bad shape, some had failed, and others followed.[20]

In fruit and vegetable canning a similar pattern occurred, though it began earlier. By 1896 some fourteen companies in eleven Ontario municipalities had received aid, mainly in the form of tax exemptions but occasionally in cash as well — and by that date the industry was already overcrowded.[21] Yet the encouragement of new firms continued,[22] including roving Americans like the Heinz Company.

Another popular acquisition, but in Quebec more than Ontario, was the tobacco factory, and a number of Quebec towns secured small firms with the help of bonuses. At least two towns secured their tobacco firms at the expense of Montreal. Granby paid $25,000 to the Empire Tobacco Co. in 1895.[23] St. Jean gave a bonus of $10,000 to secure H. S. Swain and Sons in 1898 — the town bonus paid for the fixed capital, circulating capital was acquired by accommodation paper, and within a year the firm had failed. The bank's claim was preferred, while the rest of the estate paid about ten cents on the dollar.[24] Some Ontario towns were also "lucky." Guelph joined in, and its bribes secured it the only pipe tobacco firm west of Montreal in 1902.[25] Leamington added an American cigar tobacco firm to its industrial base in 1901.[26]

The Textile Industry

The oracle of the Canadian Manufacturers' Association in 1882 declared that "we cannot by any trick of Protection or National Policy produce crops of cotton on the banks of the St. Lawrence. But we can set up cotton machinery in Cornwall or Montreal."[27] And the municipalities did their best to make that boast come true. For no industry received the amount of attention and handouts with such an assortment of gimmickry as cotton. Other textiles were well treated, too. The industry was centred in Quebec, but by no means confined thereto, and the keen competition for mills was felt everywhere in the central and eastern provinces.

The fun began even before the National Policy. In 1877 St. Jean, Quebec, voted $20,000 in a stock subscription to its local woollen factory.[28] Norval, Ontario, also had one in operation until the next year, when Cobourg, Ontario, bribed it to leave with $2,500.[29] This was one of the earliest cases of subsidized internal migration in the industry. It was a bad choice. After two subsequent bonuses, the firm was taken over and closed up by a Montreal competitor. The influx of foreign firms into textiles also preceded the high tariff. In 1878, a New Yorker was given

$10,000 by Ottawa plus a free 99-year lease of a site and a ten-year exemption from taxes to move his mill there.[30] The stakes were mounting.

After the tariff went up, all restraint was abandoned and the systematic beggaring of neighbours began. In 1879, an English manufacturer, Clayton Slater, offered to migrate to Brantford with his woollen mill "provided he can secure favourable terms."[31] It seems that he could. On the other hand, Yarmouth, Nova Scotia, issued a blanket offer of a ten-year tax exemption to any woollen mill in 1881.[32] Such paltry terms were easy to refuse, however, and local capitalists rather than outside firms had to be relied on to build up Yarmouth's textile industry. That year, Sarnia granted a demand for $20,000 for a woollen mill, meeting it in part out of $13,500 that had been voted previously for a malleable iron works and a match factory, neither of which materialized.[33] Before the recession set in in 1884, at least a dozen Ontario municipalities had voted cash to woollen mills, several others had given them tax exemptions, and some bonusing had spilled over into Quebec and the Maritimes as well. Some of the bonuses turned out disastrous for the towns, not simply because of financial failure. In 1879, Napanee's woollen mill had secured $4,000 and a ten-year exemption. In 1881 its promoters bolted town, leaving a lot of unsettled accounts behind.[34] And in 1887 Markham, Ontario, gave $5,000 to a woollen mill, secured by a mortgage on the plant and equipment to be foreclosed if the mill ceased production. Markham was wise by the standards of the day to have gotten a mortgage, but other parties were wiser. A prior manufacturer's lien existed on the equipment. There was clearly collusion between the mill owner and the equipment manufacturer for the mill packed up and moved to another town offering a bigger bonus.[35] Markham got nothing for its $5,000; the process, one supposes, simply began again in another location.

The woollen mills were generally a small, local industry in the 1880's and 1890's, though there were examples of branch mills of Montreal textile houses or of migrating American and British promoters. As local industries, they provided an excellent example of the municipal government's role as an investment banker. In 1882, a Simcoe small businessman proposed to start a worsted mill but had only $10,000 of his own and his partner's money, while the estimate of fixed capital requirements came to $30,000. The town lent the extra $20,000 interest-free for two years, at three per cent for the next three, and six per cent thereafter.[36]

Other textile firms, too, benefited from the orgy of bonusing.

Strathroy's knitting mill in 1878 got $10,000 and closed down shortly after.[37] A. S. Beauchemin got $2,000 and a ten-year exemption from St. Hyacinthe to build a shirt factory in 1892; it failed in 1883.[38] Victor Hudon secured $8,000 in cash, $20,000 in a stock subscription, and a twenty-year tax holiday from Beauharnois to build a cashmere factory in 1883.[39] After the migrating Englishman Clayton Slater built a wincey mill in Brantford, numerous other towns made him offers.[40] Corset and button factories and all manner of knitting mills were eagerly sought.[41] One Frenchman secured $25,000 from Roxton Falls, Quebec, for a hosiery mill.[42] In 1891 Sherbrooke gave $25,000 to a worsted company, and in 1894, perhaps to commemorate the hundredth anniversary of the Speenhamland decision, it gave a corset company a five per cent subsidy to its wage bill.

But it was to the cotton industry that the municipal cornucopia poured forth its greatest fruits. Most of the Ontario mills got bonuses in cash and tax exemptions to start proceedings.[43] In the case of the Galt, Ontario, mill, failure ensued as soon as the bonus was used up. Sarnia was a pioneer in the process, giving $20,000 to a firm which had demanded $25,000.[44] Sarnia's success in 1879 in the "bargain" was probably due to the fact that the great cotton binge had not yet begun in full steam. Later that same year, Farnham, P.Q., had to pay the full $25,000 for its cotton mill.[45]

Kingston at first was reluctant, and despite its cotton mill's active politicking it twice rejected demands for a cash bonus. [46] The issue was forced when the mill burnt down. The town council and individual citizens subscribed stock to rebuild it "sooner than see it go elsewhere." An eighteen-year tax exemption was added.[47]

The cotton craze spread to the Maritimes as well. In 1879 Truro, Nova Scotia, offered a ten-year tax holiday to a proposed cotton mill.[48] However, the Nova Scotia Legislature intervened and decreed that year that any cotton mill built in Nova Scotia within three years would get a twenty-year provincial, municipal and local tax exemption.[49] In 1885, the city of Halifax was granted permission to go into debt to give $7,000 to the Nova Scotia Cotton Manufacturing Co. under the terms of an 1882 agreement, the funds to be used for such things as railroad spurs.[50] In 1899, too, the tax exemption given to all firms was extended another twenty years for the Windsor Cotton Mill.[51] Nor were New Brunswick firms omitted from the bonusing system.[52]

It was in Quebec, however, that the most active cotton campaigns were mounted. Cornwall, while politically part of

Ontario, was economically tributary to Montreal, and even before the National Policy it gave cash grants to the Canada Cotton Co. and the Stormont Cotton Co. Coaticook contemplated a bonus in 1878, but it had just been robbed by a boot and shoe promoter and hence was hesitant.[53] Farnham, however, was "agitating" for a mill in the face of 100 unemployed labourers in the town[54] — at a time when New England cotton mills, with their great lure to Québécois workers, were booming. The Gault brothers secured yet another cash gift from Cornwall for Stormont Cotton early in 1879.[55] After the National Policy all hell broke loose.

The Montreal wholesalers, turned manufacturers with the aid of English investment and machinery, were now besieged with offers from various municipalities. In 1879 Farnham offered $20,000, but was forced to raise it to $25,000 when St. Jean entered the bidding at that higher level.[56] Canada Cotton the next year squeezed another cash bonus from Cornwall.[57] Also in 1880 Trois Rivières and St. Hyacinthe began competing for the affections of a mill demanding fifteen per cent of capital costs plus a twenty-year exemption.[58] It was a ludicrous proposition, for the firm, the Merchant's Cotton Co. of Montreal, could have inflated nominal capital cost by any amount of scamping or stock watering. In any event, they lost to St. Henri, which offered $10,000 and a ten-year exemption[59] — and lived to regret it, for the company exacted further exemptions as the old ones expired.[60]

St. Hyacinthe was apparently soured on bonusing by its experience, for along with Sorel and Halifax in 1881 it refused to offer any cash, only an exemption, to another potential visitor.[61] Trois Rivières, by contrast, had learned its lesson well, and voted $25,000 for its first mill, easily outbidding Sherbrooke, which was offering only $5,000 and a ten-year tax break.[62] Sherbrooke, however, had other tricks up its sleeve for future use.

Coaticook got over its initial reluctance after the boot and shoe swindle and joined the parade in 1882. Its cotton bonus of $7,500 paid off handsomely — for the firm, which in its first six months of operation earned 43½% profit.[63] Whether this figure is gross or net is unclear, and not particularly important since the company paid no taxes.

Hochelega refused to be left out of the bidding for the presence of the transmogrifying Montreal merchants. After Victor Hudon was dumped from the presidency of his mill by a stockholders' coup organized by the Gault brothers, he joined with Louis Forget and another Montreal wholesaler to organize a new mill with the town's kind assistance.[64] In 1883 Longueuil kicked in $35,000, plus a site on a railway spur, and taxes and water free for eleven years.[65] But these terms were rather high for the time.

Montreal was a less-than-enthusiastic witness to the exodus of manufacturing capacity, and had to take steps to preserve and build its own cotton industry. A group of wealthy merchants of the city offered in 1882 to build their cotton mill there if the city paid what seemed to have become the standard terms — $25,000 cash and a ten-year tax holiday.[66] Another group offered what seemed to be more modest terms, a twenty-year tax exemption and a free site. However, as matters turned out, the desired site belonged to the British American Land Company and its asking price was, not surprisingly, $25,000.

The enormous overexpansion of mills in the period, which later led to drastic liquidation and cartelization, is generally attributed to the tariff, but it is clear that competitive bonusing must bear part of the responsibility. And just as expansion had provided a golden opportunity for the cotton firms to squeeze high and rising terms from the municipalities, so did the contraction that followed. The municipalities had had to pay to attract the mills, and then pay again to hold them.

The chief extortionist in the 1890's was the Dominion Cotton Mills combine, which owned, among others, the Kingston and Brantford factories. Both cities were faced with demands for bonuses in 1898, the alternative being to see the mills closed down and production shifted to Trois Rivières, which was offering cheap power from Shawinigan Falls.[67] In Kingston, where the mill had largely been built by municipal stock subscription, it demanded $50,000 to replace the machinery. From Brantford it demanded that the old site and factory be purchased by the town, the proceeds to be used for a new one, else the old one would be sold for whatever it would fetch and the machinery moved out to Trois Rivières.[68] Both cities capitulated.

The late 1890's were an active time for bonusing. Huntingdon, Quebec, seeing that the cotton mills were on the move again, secured the Montreal Cotton Co. for the gift of a mill property plus 25 years tax exemption in 1898.[69] Longueuil had to pay another $15,000 to hold its earlier acquisition in 1899,[70] while in 1906 the Manufacturing Cotton Co. demanded of Lachine $25,000 and 25 years free of taxes to finance extensions to its plant.[71]

Cash grants to establish firms, cash grants to cover depreciation and/or to expand, cash grants to move, cash grants not to move, free sites, tax exemptions, subsidies to wages — the cotton nightmare repeated itself in all manner of industries, and the municipalities, in general, caught in a trap of their own devising, meekly submitted.

Bonusing In Ontario

While in Quebec the textile industry led the recipients of municipal largesse, that role was taken in Ontario by secondary iron and steel, though it was certainly not the only industrial beneficiary. As in Quebec, the rationale of bonusing was seldom questioned in its early stages, and the practice was widespread and competitive.

One of the earliest to plan a general campaign was Mitchell. In 1876, following the loss of one of its firms to Stratford, it offered $10,000 in municipal debentures to any firm employing more than 60 persons; within a year it had raised the offer to $15,000.[72] The linkage of the bonus directly to the firm's capacity to generate employment grew more common over time, as did the practice of stipulating its use for fixed capital formation. After the tariff went up, of course, the practice of competitive bonusing spread. In 1882, Sarnia ratepayers voted on a group of bonus requests, and the results of the balloting reveal much about the attitudes of the time. For a stove works 460, against 19; for a malleable iron works 459, against 17; for a water works bonus 436, against 42.[73] Almost simultaneously, Stratford held a meeting of leading citizens to plan a bonusing campaign based on free sites and tax exemptions.[74] Private bonuses too made their appearance. One Toronto real estate speculator offered a rolling mill a site for one dollar an acre a year in 1882 in the hope that it would attract other industries [75] — a precedent followed to good effect by Hamilton some years later. Naturally, the terms of Ontario bonuses were inflated over time.

Rolling mills, foundries, and the like were all the rage in Ontario, bringing hefty bonuses with their fair share of bad investments. In 1896, Guelph received a visit from an American promoter who persuaded the town to subscribe $20,000 in equity in his rolling mill while he and his partner took a like amount. Guelph subscribed cash, while the Americans "paid up" by transferring a lot of old iron from Michigan which they then sold to the company as machinery. Two more local stock subscriptions of $20,000 each were raised before the firm foundered. Of the $60,000 paid in, $8,000 was recovered.[76]

Even with such horrors coming to light, the municipalities were caught in a vicious circle, and would not desist, for to stop the give-aways was to lose a firm or firms to another town. Hence a huge wealthy firm like the Massey Manufacturing Co. could squeeze special tax rates and cheap power from Toronto, better rates than smaller and poorer firms, simply by threatening to leave.[77] It did not even need another concrete offer. And if one firm got a bonus, other newcomers would often follow. In 1907, St. Thomas gave $50,000 to a firm formed to build railroad passenger cars. Another group of citizens quickly organized to form a company to build passenger cars, and demanded equal treatment for their infant.[78]

Agricultural implement firms received a lot of attention in Ontario. Haggart Bros. secured a $75,000 loan from Brampton in 1883.[79] Brockville gave a cash gift to Cossett Bros. in 1892, Woodstock to the Patterson Bros. in 1885; Sarnia, Forest, and Grimsby all bonused local firms with cash. And in 1901 when Frost and Wood, a long-established and wealthy firm, proposed to expand, the town of Smith's Falls gave it $20,000 plus the right-of-way of a railway siding.[80]

Many other industries in Ontario received bonuses — salt refiners, tanneries, rubber factories, even little handicraft industries like masons' shops. Distinct waves of bonusing manifested themselves around particular innovations in industry. Pulp and paper began to flourish in Ontario after the 1898 duty changes, and the bonuses flew fast and furious.[81] Cement manufacture became a craze in 1900, and bonuses were on hand to assist its early overexpansion.[82] Carriage works were popular in many towns, to the regret of some like Brockville who spent $50,000 to move a carriage works from Gananoque only to have part of its bonus diverted into the firm's operations elsewhere, and to see Gananoque secure a replacement for only $10,000.[83]

But next to iron and steel, furniture factories seemed most beloved by Ontario towns, and the infatuation was of long duration. The process of bonusing was well underway before the National Policy. Almonte, for example, saw a bonus voted to its local furniture factory in 1877 by a town council composed largely of the shareholders of the firm. One ratepayer took exception and got a court order quashing the bonus, and the firm promptly failed.[84] In the early 1880's, a furniture maker migrated from England to set up shop in Owen Sound, then moved to Toronto and failed. His next stop was Oshawa in return for a $15,000 bonus, which kindness he repaid by failing again.[85] Not intimidated by such experiences, the towns continued to vote aid on a grandiose scale. In 1888, Wingham bonused three furniture manufacturers with cash gifts.[86] And once the new prosperity got underway no small amount of its fruits was obligingly passed on by the towns to local or itinerant furniture companies.[87]

Legislation to curb bonuses in Ontario was introduced in 1888, but to little avail. In 1892, Toronto launched a wholesale campaign to attract new industry, followed by other towns.

Toronto's campaign was based on a blanket tax exemption in manufacturing machinery and plant.[88] Plots were hatched to go even further. The Toronto Ratepayers' Association envisaged a scheme whereby the city was to give free land sites taken from vacant lots plus fifteen years' initial tax exemption followed by 21 years of low frozen assessment to any firm employing more than 20 people. It also proposed a fund of one million dollars be set up to provide interest-free loans to cover up to fifty per cent of fixed costs.[89] The group put in charge of the fund included Sir Casimir Gzowski, Senator George Cox, Hon. Sir Frank Smith, G. R. Cockburn, Sir William Howland, and George Gooderham. Four of them had been implicated in frauds surrounding bank failures, one was later the main object of a Royal Commission enquiry, and the other was a principal Tory backroom dealer in CPR contracts. It was like putting a gang of convicted rapists in charge of a girls' school. But the proposal was not put into effect, and Toronto bonuses were restricted to tax exemptions and services.

Such a planned campaign coming from a metropolis like Toronto is a little surprising. But Toronto, despite its size, did not develop into a major industrial centre for some time. While Toronto dominated much of southern Ontario financially and commercially, it was Hamilton where the greatest amount of industrial activity tended to be centred.[90] Part of Toronto's problem lay in its tax system, which permitted land speculators to acquire great tracts of potential industrial land and drove up the price of sites. In addition, costs of gas and electricity were raised to excessive levels by the control of Toronto utilities by the Mackenzie-Mann group, including George Cox.

Bonusing in Quebec

In Quebec, bonusing spread from textiles to include all types of industry. Among the towns that bonused cotton mills and then went on to bigger, but seldom better things were Farnham, Coaticook, Hochelega, St. Jean, Longueuil, and Lachine.

Farnham, in addition to cotton and beet sugar, gave $20,000 to a Montreal furniture company to build a branch and got into a tug of war with Roxton Falls over another one.[91] Coaticook, after its cotton "success," announced it was eager for more factories, especially boots and shoes and a tannery, but that all manufacturers would find the town "most liberal."[92] Hochelega followed its cotton bonus with a cash gift to a rolling stock company in 1882.[93] Longueuil in 1882 gave H. R. Ives of the Dominion Barbed Wire Co. $10,000 to "establish" a foundry in the town.[94] He took the bonus funds and used them to buy up an existing defunct foundry.[95] A few years later Lachine gave Ives $5,000 to build them a branch too.[96]

Lachine's efforts did not end herein. Over the next fifteen years its handouts included $35,000 to James Cooper (another hardware merchant who, like Ives, moved into manufacture under American licence) $25,000 to a tannery, and $15,000 to a furniture factory.[97]

St. Jean competed successfully with Trois Rivières for a carriage factory in 1888 at a cost of $25,000.[98] But most of the town's activities seemed to gravitate towards the enamel works in that area. As early as 1877, it debated rescuing the St. Jean Stone Chinaware Co. with a municipal stock subscription. It decided against the move and the firm went into assignment,[99] though in 1882 another pottery was rebuilt after a fire with a municipal loan.[100] The Stone Chinaware Co. passed into the hands of Charles Arpin, the private banker who restored its fortunes, but it collapsed once more. In 1893, it tried to rebuild itself again with a municipal bonus, again failing. In 1896, it passed into the hands of a French firm who received a bonus to take it over. Three years later it was again wound up, the works being taken over by a New Brunswick senator who asked for a bonus to revive it.[101] His request appears to have been refused. The pottery, rebuilt at municipal expense in 1882, passed into the hands of an American firm two decades later.[102]

All manner of other Quebec towns went on bonusing binges, including Megantic, which in 1882 offered $5,000 and a twenty-year tax holiday to any new industry with a "capital" of $100,000 or more.[103] Rimouski offered a twenty-year blanket tax exemption to all comers in 1881, followed by a string of cash gifts; it was a lumber area and announced that it wanted to industrialize.[104] Huntingdon guaranteed interest on the bond issue of a match factory.[105]

Pulp and paper mills, after the turn-of-the-century change in federal regulations, became popular in Quebec towns. Hapless Danville, in 1900, gave $10,000 to a pulp mill. A few months later Danville and the township of Shipton were called upon to guarantee the company's bonds to an amount of up to $30,000.[106]

But if any industry in Quebec, apart from cotton and other textiles, could be regarded as a favourite of the towns, it was boots and shoes. Both bonusing and the concomitant frauds began early: in 1877 Coaticook was swindled out of $20,000 by a boot elastic firm.[107] The migration of firms began at least as early as 1880, when Charles Arpin and Louis Coté, then partners, took over a defunct factory in Waterloo, Quebec, and moved it to St.

Jean.[108] Four years later their successors, Séguin, Lalime et Cie., moved from St. Jean to St. Hyacinthe, and St. Jean contemplated a bonus of $10,000 to get them back.[109] St. Hyacinthe, however, had paid them $12,000 to make the move, and they stayed there — for a while.

In 1881 Longueuil, always an easy mark, gave G. Boivin a $20,000 bonus to move from Montreal. Within a few months Boivin was in the midst of one of his periodic failures.[110] The year 1888 saw both Trois Rivières and Lévis bribe Montreal factories to shift[111] while in 1890 St. Hyacinthe added Louis Coté and Bros. to its inventory, another acquisition at the expense of St. Jean.

The year 1895 saw a great burst of activity in the boot and shoe industry, with towns falling all over themselves to acquire members of the overcrowded field. In the first ten months of the year, upward of a dozen firms had failed[112] including Séguin, Lalime and Co. of St. Hyacinthe. The town paid up another $15,000 in the form of a "loan" while the people of the town subscribed $15,000 in stock to save it. But by 1902 it was in liquidation.[113]

The next few years saw the continuation and escalation of the boot and shoe mania. St. Henri acquired a Montreal firm in 1897; St. Jean finally secured a replacement for the firms stolen from it earlier by bribing away Terrebonne's factory; Lachine got a Sorel firm which failed almost immediately.[114] The town of Lévis also regretted its choice in a new bonus, for a new acquisition took the town to court for failing to pay up its bonus on time, and seized town property including the fire engine.[115] St. Henri promptly announced it would grant no more bonuses. The situation was rendered all the more ludicrous by the fact that in 1898 when Lévis made the bonus offer, neighbouring Quebec City alone had 32 boot and shoe firms.[116]

Still, others failed to follow St. Henri's example. St. Louis, Quebec, voted a bonus in 1900, the same year Maisonneuve voted two, and the same year that St. Hyacinthe lost its second acquisition from St. Jean when the Coté firm failed.[117] Delormier voted a bonus to the big James McCready boot and shoe establishment to secure a branch in 1901, and in 1903 St. Hyacinthe replaced its two failures by bribing Ames, Holden and Co. to move their main plant from Montreal.[118] The important distinction between the early and the later thefts was that now it was the growing anglophone boot and shoe firms that were securing aid, while the smaller Québécois ones were falling by the wayside.

The most blatant example of bonusing run amock in Quebec is provided by Sherbrooke. It began innocently enough, with three bonuses in 20 years. But the year 1892 saw it lose a corset company to St. Hyacinthe, and an electrical supply company to Peterborough, while the next year Waterville stole a wooden ware firm.[119] Thereafter, Sherbrooke began a widespread campaign of "nursing" its industrial base, and its record to 1900 is summarized in Table XIII (1).

TABLE XIII (1)

Sherbrooke Bonuses

Firm	*Year*	*Bonus*
Paton Manufacturing	1871	site and $5,000
Meat Factory Co.	1875	$20,000
Worsted Co.	1891	$25,000
Royal Corset Co.	1894	5% on wages
Hovey Bros. Packing Co.	1895	5% on investment
Jencks Machine Co.	1896	$30,000
Gardener Tool Co.	1897	$30,000
Walter Blue Co.	1899	10 year tax break
Brussel Carpet Co.	1899	$17,500
Quebec Central R.R. Shops	1899	$15,000
Rand Drill Co.	1900	$15,000

Source: *MT*, March 23, 1900, p. 1268.

Some of these firms were not newcomers; the Paton firm, a woollen mill, was established in Sherbrooke five years before it received its bonus, and Jencks was founded in 1846, fifty years before.[120] Jencks, one of the largest machinery firms in Canada, was deluged with orders from the mining districts. In December 1894 it asked the town for a bonus to pay for extensions and was granted it.[121] Since it clearly had no need for the extra funds, the bonus was simply a subsidy to profits.

Some of Sherbrooke's bonusing endeavours had a less than happy ending. Gardener Tools had originally established itself in Brockville with the aid of a healthy bonus. It then asked Sherbrooke to raise the ante, and delayed accepting its terms until it was clear that Brockville could not match them. But the plant it finally moved to Sherbrooke was that of the Beaver Saw Works of Hamilton, which it bought out using the bonus funds. Within a year of the money being paid, the firm was in liquidation,[122] a fate it shared with two other of Sherbrooke's efforts.

Bonusing in the Maritimes

Bonusing in the Maritimes was conducted on a far less profligate scale than in the central provinces. In Prince Edward Island it seems to have been totally absent, apart from a couple of early tax exemptions from Charlottetown to local handicraft-style firms.[123] In Nova Scotia, cotton and primary iron and steel absorbed a disproportionate share of what bonuses were voted. There were, though, instances of grist and flour mill subsidies, and spillovers from Ontario into pork packing and canning late in the nineteenth and early in the twentieth centuries were recorded in both Nova Scotia and New Brunswick.

In 1879 the creation of the Halifax Sugar Refinery was greeted by the Nova Scotia Legislature with a twenty-one year exemption from all county rates and local taxes. All future sugar refineries were accorded equal treatment.[124] For the Halifax refinery, the city added free water from each main adjacent to it for ten years.[125] Two decades later, Halifax voted a blanket tax exemption to all firms investing $10,000 or more in plant and equipment.[126] It also attempted to bribe away from Amherst the car works of Rhodes, Curry and Co. The city offered twelve acres of land, DOMCO was to give cheap coal, and the People's Heat and Gas Co. offered gas at nominal rates. In addition the firm, of course, qualified for the tax rebate. The total value of the bonus was about $100,000, but the firm declined.[127] As late as 1909, Halifax endorsed plans for a new bonusing blitz.[128]

Sydney, which topped the Maritime list with its iron and steel give-aways, secured permission from the Legislature in 1904 to give a tax exemption and $10,000 cash to a firm to make cement out of the slag and waste of DISCO. It was a time of rapid expansion of the cement industry throughout Canada, and Sydney was determined to get its share. In the same bill, authority was granted to give a cash gift to the Sydney Manufacturing Company to build railway cars, another booming Canadian industry, and to give a twenty-year tax exemption to the Dominion Glass Company.[129] A few years later the city offered half a million dollars in cash, "and other concessions" to any firm building it a shipbuilding plant,[130] five times the standard level of shipbuilding bonus that had typified the early round of competition in 1901.

The usual type of bonus was handed out to small, local industries in small towns, though with remarkable restraint in comparison to Ontario and Quebec. Amherst in 1896 gave cash gifts to a grist and to a woollen mill. Pictou in 1899 bonused a boot and shoe firm.[131]

In New Brunswick, apart from cotton and little gifts to local industry by small towns, there were a few outstanding cases, for instance, in fish packing or paper. In Fredericton in 1895, one firm received a tax exemption and up to 250,000 gallons of water a year for twenty-five years to build a canning factory.[132] Another cannery got a tax exemption, a free site, free water and a $10,000 loan on which the city guaranteed the interest to build a factory valued at $15,000.[133]

Woodstock, New Brunswick, decided to join its Ontario and Quebec counterparts and get a share of pulp and paper following the export duty alterations, offering one firm $50,000 in 1899. When the deal fell through, it promptly offered the money to a furniture factory.[134] In 1907 Moncton, joined by St. John and Chatham, announced new bonus campaigns based on free sites.[135]

Bonusing in the West

In the West, bonusing was even more restricted than in the Maritimes, and, of course, such bonusing as did occur had to follow the course of settlement. This automatically restricted the time period in which a giveaway program could be mounted.

The first general campaign to be planned seemed to be that of Portage la Prairie in 1886, when ratepayers authorized a debenture issue to buy land to give to manufacturers.[136] This scheme was stopped short by the town's financial straits at that time. St. Boniface in 1895 gave $10,000 to a boot and shoe factory; two years later its efforts to bonus a tin can factory were blocked by the Manitoba Legislature, which frowned upon bonuses.[137] Winnipeg was frequently asked for bonuses, especially by American firms, but it followed the Manitoba pattern and granted few, if any.[138]

In Alberta much the same was true. Calgary gave cash to a local tannery and a creamery in 1894.[139] Medicine Hat gave tax exemptions, utility concessions, and free sites to a number of firms.[140] Again the over-all importance was minimal.

In B.C., bonusing was a little more energetic. Victoria, for example, came close to financial collapse after an orgy of bonusing from 1888 to 1892.[141] In West Kootenay, a municipal stock subscription and a site to build a branch of a Vancouver foundry were granted in 1896.[142] Most noteworthy among B.C.'s bonuses were the efforts to induce municipalities to grant bounties to smelters. In 1895, Vancouver received an offer from an English syndicate to build a smelter for a bonus of five dollars a ton on the first 5000 tons of ore refined. It did not accept this proposition. Two years later, the company had raised its terms to a bonus of $1.00 per ton for the first 65,000 tons, in return for which the city would get $65,000 worth of equity. But instead, Vancouver accepted the bargain offered by an American copper and gold company of a smelter in return for a bonus of 50¢ a ton for 100,000 tons.[143]

Municipal "Fire Insurance"

One of the stranger uses of the municipal bonus was to rebuild factories and mills destroyed by fire. That such was necessary at all reflected the state of fire insurance in Canada, the onerous rates charged by the cartel, the inadequacy of the coverage offered by American underground companies, and the very extent of the great conflagrations that intermittently engulfed Canadian towns because of the nature of the construction of factories and mills. Not surprisingly, too, fires in one town tended to set aflame the competitive industrial ambitions of others, and each conflagration touched off a round of bidding for the pleasure of rebuilding.

For some firms it seemed almost a pleasure to be burned out. Welland Vale Manufacturing, for example, was destroyed in Kingston in 1877 and asked for a $15,000 gift to rebuild.[144] When this failed to materialize, it moved to St. Catharines. A fire destroyed the new plant in 1900, and complicated bargaining resulted. St. Catharines refused it a $100,000 loan, but gave it an eight per cent subsidy on its wage bill for up to $4,000 per year for fifteen years, plus a fifteen-year tax exemption. In the same vote, the St. Catharines ratepayers gave $10,000 to a paper mill and defeated a $2,200 grant for a new collegiate,[145] — illustrating well the industrial priorities of the time, for the entire range of Welland Vale's output was produced under American licence.[146]

Instances of municipalities taking the role of, or supplementing fire insurance companies, occurred all over the country. In Moncton, the town made offers for the rebuilding of a sugar refinery.[147] In 1894, Brandon had to make a loan to rebuild a mill it had bonused to build in the first place only a few months before.[148] Quebec saw a rash of competitive offers following fires. In 1887, the destruction of a Montreal tannery led to renewed economic warfare between St. Jean and St. Hyacinthe.[149] St. Jean had to offer loans to rebuild its pottery and enamel works several times.[150]

In Ontario the same phenomena occurred. A Clinton fire, for example, destroyed an organ factory worth $70,000. Its insurance with ten British and three Canadian companies came to but $30,-000, and the town had to make up most of the difference.[151] The penalty for failing to do so was, of course, to lose the factory. This was especially evident when the McLaughlin carriage factory burned down in Oshawa in 1899 and many towns offered assistance. Belleville made an especially tempting offer of cash and a special bond issue, but McLaughlin "felt a deep loyalty to Oshawa," especially in the face of a $50,000 interest-free loan to be repaid "as convenient." The loan carried at the ratepayers' meeting 572 to ten.[152]

Subsidizing Internal Migration

The most insidious facet of the bonusing craze was the competition between municipalities to bid industry away from each other, a practice that began in textiles and spread rapidly. The *Monetary Times* insisted that only "lame ducks" went bonus-hunting.[153] These "lame ducks" included Massey, Dominion Cotton, the CPR, the Grand Trunk, DISCO, Stelco, Heinz, Yale, the Lever Brothers, McLaughlin, and many more. The rumours of any prospective acquisitions sent town councillors tumbling over each other to attract it. And as the industrial hopes of one town went up in smoke, dozens of others descended on the ruins before the ashes had cooled to offer all manner of inducements for rebuilding.

In Quebec, the typical pattern was towns stealing industry from Montreal, and to a much lesser degree from each other, as with St. Jean and St. Hyacinthe. Montreal was the source not only of a seemingly never-ending supply of textile firms, but also of tobacco factories and many others. Both St. Jean and Granby, for instance, secured their tobacco factories from Montreal in addition to several other firms. St. Jean over 1897 and 1898 secured three other firms from that city, while Granby got a rubber plant, perhaps intended to make up for the fact that it had just lost its enamel works to St. Jean for $20,000 plus the cost of moving.[154] St. Henri secured a biscuit factory from Montreal.[155] Côte St. Paul gave an agricultural implements firm $10,000 to set up in the village: the plant never arrived, and the municipality had to sue for recovery of its bonus.[156] A foundry moved from Maisonneuve to St. Jérôme for a bonus in 1896, moved back to

Maisonneuve for a larger bonus in 1898, and failed in 1899.[157]

Ontario patterns were very different. There was no systematic movement of industry out of Toronto, for Toronto did not exhibit nearly the same degree of industrial development as Montreal, and hence the scope for pilfering its industry was much less. Ontario manufacturing developed in a more decentralized way in a number of major urban centres who raided each other, over and above their energetic efforts to attract American branch plants.

Hamilton had a long history of successful bonus campaigns. As early as 1887 it had moved the Dundas Screw Works away from its home with a tax concession.[158] Dundas was clearly frightened by its burgeoning neighbour, and when John Bertram and Sons, one of Canada's largest and wealthiest machine shops, asked for a bonus, it quickly gave it $12,000.[159] One month later, Bertram announced that it had been the most prosperous year in their history.[160] The bonus was evidently a reward for doing so well. It might too have had something to do with the fact that John Bertram in 1889 had been unanimously elected mayor of the town, whose council now voted the bonus, while his eldest son became president of the Board of Trade.[161]

The habit of attempting to beggar your next-door neighbour afflicted others besides Hamilton and Dundas. Waterloo and Berlin engaged in a contest over a brick company which moved to Waterloo when Berlin failed to meet its terms.[162] The Woodstock, Ontario, wagon works announced it was unhappy over the treatment accorded it by the town, and threatened to move to Ingersoll if it did not improve. Ingersoll, in turn, had to give bonuses to a fruit basket firm and a metal foundry to keep them quiet.[163] In 1889, Collingwood placed an advertisement in the *Monetary Times* extolling its own virtues as an industrial site and offering to bargain with manufacturers over bonus terms. Immediately, Trenton and Belleville placed their own ads claiming similar attractions, including the prospect of bonuses.[164]

Even Hamilton had to be careful. Woodstock voted by a huge majority to try to steal a foundry from it for $25,000 in 1891, while in 1900 Welland and Port Colborne cast covetous eyes on its iron and steel plant.[165] But on balance Hamilton was the biggest gainer, for in addition to attracting a series of Ontario firms it secured a number of branch plants. Some of its transactions were curious. In 1896, the local glass works was compelled to close for lack of orders.[166] Hamilton secured a replacement in the form of the Diamond Glass Works, which bought out the Toronto Glass Works in 1896 and moved it to Hamilton. The firm then purchased the Burlington Glass Works and moved it to Toronto, which by then seemed more willing to be reasonable in the matter of bonuses.[167]

But if the outcome of bonusing was pleasing to the Hamilton authorities, it was quite otherwise with Brantford. In 1895, the Waterous Engine Works, a very large, well established firm, threatened to leave; the city offered it $40,000, another ten-year extension to its existing tax holiday, plus free light and water. Waterous accepted,[168] then promptly raised the terms, demanding that the city buy its old site and grant it another year's tax exemption.[169] Brantford ratepayers voted 1,230 to 179 to comply.[170] It was a mistake, for within a year the Verity Plough Works demanded $15,000 for its old site, a tax exemption, free water, and new main installed at the city's expense. The terms were accepted, and Verity kindly consented to stay in Brantford.[171] Within another year, Dominion Cotton had begun to make its demands, and Brantford acceded. Again in 1898 it gave a ten-year exemption to a screw factory and the Nott Bicycle Co.[172] Less than two years later, Nott demanded a $5,000 cash gift and a $10,000 "loan" to stay.[173] As to the old Waterous building, it was given by the city to a new machine and tool firm among whose promoters was C. H. Waterous, and later became a site for a carriage factory.[174]

Subsidizing Foreign Immigrants

While the habit of subsidizing intercommunal movements was publicly deplored as often as it was privately practiced, the use of bonusing to attract foreign firms, especially American, but also British and French, was almost always lauded. It was the field where bonusing was expected to yield the highest dividends which, for the firms, it often did; while for the municipalities it generated some of the worst abuses.

Again it began innocently enough. Thorold, Ontario, gave a free site and minor tax concessions to a wealthy American glucose manufacturer in 1882.[175] In 1887, Toronto gave an American furniture firm a ten-year tax exemption: when the exemption ran out, the firm moved to Walkerton.[176] In 1888, Brantford raised the terms considerably, giving $20,000 to a New York carriage company.[177] All the border towns of Ontario actively competed to secure their share of itinerant firms.[178] In 1887, a Detroit firm asked London for $50,000 towards its planned investment of $100,000.[179] This, however, was not granted, for London, like Toronto and Hamilton, as a major centre, could usually safely restrict its bonuses to large, valuable tax concessions and avoid the abuses of the cash grant.

It was in the 1890's that the main scramble began, and it increased in intensity with each American firm that announced its intent to make the move.[180] The American firms followed the leader. In 1893 the Odell Typewriter Co. of Chicago went shopping for a site in Canada,[181] followed the next year by the Oliver Typewriter Co. of Iowa, which asked Toronto to make it an offer it could not refuse.[182] Terms were often announced in advance and offers then awaited. [183] One case that illustrates well the financing techniques of the American immigrants came up in the negotiations between Carleton Place and Iver-Johnson of Massachusetts. The firm proposed a joint venture, capitalized at $100,000, to be made up from a $5,000 cash bonus from the town, $5,000 stock subscription by the town, $30,000 subscribed by the citizens of the town, $25,000 by a local firm whose works would be absorbed by the new venture, and $25,000 by Iver-Johnson in the form of "plant" and any stock that could not be marketed at a good price.[184]

The give-aways by Ontario municipalities embraced all manner of gimmicks. Leamington gave $10,000 to the impoverished Heinz Company,[185] later adding an American tobacco firm to its bonus list. Heinz had initially wooed Hamilton, but the bonus vote failed to secure the required majority, in part due to the active opposition of two established canneries who complained of the discrimination in favour of Heinz.[186] Sarnia guaranteed $30,000 worth of bonds for a Detroit firm.[187] Peterborough secured a lock company, and then paid even more to keep it.[188] St. Catharines gave the needy Yale and Towne Company nine acres, free water, a ten year tax exemption and a fixed low assessment. The firm had been founded in 1868, had since absorbed most of its competitors, and by 1911, when it got the handout, had a capital subscribed of five million dollars. [189]

Hamilton again proved eminently successful. The Westinghouse Co. began roving Ontario in 1895 looking for a site and "creating quite a stir in several Canadian towns."[190] It ultimately settled in Hamilton. Hamilton also got a branch of the Mansfield Glass Co. of New York. [191] Why Hamilton needed another glass firm is beyond comprehension. It tempted a large carriage firm from Plattsville to settle, and picked up the Canadian Meter Co., which had stopped over briefly in Windsor in the process.[192] Its most spectacular acquisition since the Hamilton Iron and Steel Co. was undoubtedly the Deering Plow Co. branch, which became part of International Harvester. In fact, the plant was almost lost to Brockville, for Hamilton ratepayers voted only 2,819 to 632 in favour of a $30,000 bonus, while under Ontario statute 3,858 positive votes were needed from Hamilton's ratepayer population. But Deering came in any event.[193]

The credulity of Canadian town councillors spread throughout the northeastern United States, whose firms had only to indicate they were interested in establishing a Canadian branch to be inundated by offers. One Michigan firm was especially adroit at playing the various towns off against each other, and got a free site worth several thousands, free power, a twenty-year tax exemption, and an interest-free "loan" of $13,300 for a factory whose total cost was only $16,000.[194] One Mr. Thomas of Cleveland, a total stranger to the town of Lindsay, offered to build a tannery and a boot and shoe factory. Lindsay "knew" that many other towns and cities would grab at his offer, and gave him a free site. He then borrowed $900 from one chartered bank, $550 from another, and when one of the managers became suspicious, he left town in a hurry.[195]

Canada's fame spread abroad. The Imperial Starch Company got an $8,000 site, a twenty-year tax exemption, electricity for 100 bulbs, and 100,000 gallons of water free per year for twenty years from Prescott.[196] Quebec City gave $12,500 to the Globe India Rubber Manufacturing Co. of Manchester.[197]

French capital, too, became interested in the bonusing system, and it was an important factor in attacting several firms in the late nineteenth and early twentieth centuries.[198] St. Jean, Quebec, was foolish enough to give $20,000 to a French firm to *take over* one of the pottery and chinaware firms with which it had been cursed long before.[199]

The ultimate absurdity came as a result of Toronto's big bonus campaign of the 1890's, which, by 1900, had netted it Lever Brothers. The firm bought a 23-acre site. In turn, Toronto agreed to keep the assessment fixed for ten years regardless of improvements, exempted the firm from local rates for roads, sewers, and sidewalks, agreeing to maintain them free for ten years, and undertook to crib and pile a frontage of several hundred feet along the Don River, and to dredge and maintain a channel fourteen feet deep for ten years.[200] This plan was approved by the Ontario Legislature, subject only to the condition that not more than $60,000 be spent on improvements to the Don, and not more than $1,500 a year in maintaining the improvements.[201]

No other soap maker in Canada had ever received a bonus or concession, apart from one case of a ten-year tax exemption.[202] And the Toronto give-away was illegal under the terms of the 1888 Ontario legislation which forbade bonusing newcomers in an industry where firms had already been established without assistance. Some firms had been established in Toronto making soap and glucose, the Lever Brothers' planned output, for over forty years, and had paid full taxes for that entire period. The Lever plant was built to a capacity capable of supplying five million people with laundry soap. Yet within a hundred-mile radius of Toronto there were fifteen domestically-owned soap firms and no export market existed. Moreover, it was a relatively capital-intensive industry. One firm in Hamilton, operated a plant with one-fifth the capacity of the Lever plant on only twenty-five hands. [203]

Costs of the Bonusing System

Antagonism to the bonusing system began almost as soon as bonusing itself. In 1871, the president of the Dominion Board of Trade condemned it as "protectionism in its worst form, because the poorer classes are thereby compelled to pay the taxes properly due from the factory." [204] In 1906, the president of the Toronto Board of Trade echoed these sentiments, calling bonusing "one of the worst forms of class legislation." [205] In the intervening thirty-five years a great deal of redistribution of income from the poor to the rich, and from established firms to newcomers, had occurred in the name of industrial development.

The municipal tax systems of the period were extremely regressive even without the costs of bonusing. In Montreal between 1876 and 1886 landed proprietors, including businesses, saw their property taxes fall by $82,723 annually, while merchants' annual business taxes were $10,673 less in 1886 than in 1876. The value of property over the ten-year period for assessment purposes had been reduced by $6,898, 578, while 3,600 new buildings had been constructed and rent receipts increased by $477,733. However, only small rents had risen; larger rents had been stationary of falling. Over the same decade, Montreal tenants were paying $49,000 more per annum in water rates. Montreal water rates were so oppressive that working-class families often could not meet them; the water would then be shut off, and the family's furniture seized for the debt and auctioned off at a sheriff's sale. "If a charitable neighbour gave them a bucket of water, the neighbour was liable to a fine of $20 and a month in prison." [206] At about the same time, private firms were getting upwards of a quarter of a million gallons free of charge.

Railways, too, in addition to their hugh cash bonuses, benefited from the tax structure. The CPR began with a blanket tax and tariff exemption. As late as 1900, it refused to pay the Winnipeg school tax and the Supreme Court of Canada upheld its refusal. [207] In 1909, in the states bordering Ontario, the CPR and Grand Trunk had 5,120 miles of line on which they paid taxes of $2,440,000 or $471 per mile. They had 5,320 miles in Ontario, on which they paid $452,000, or $85 per mile. In 1906, the assessment on Ontario farm property was $5.33 per $1,000, while on railway property it was $1.55. [208]

Another important redistributive effect was from the old established firms to the newcomers of which Lever, while a particularly startling example, was hardly unique. One city in 1887 gave $20,000 and a ten-year tax break to bring a newcomer into an industry which already had twelve firms in the city.[209] One of London's victories secured it a cigar box firm which had asked for free water and a twenty-year tax exemption. For a year the request was in abeyance because of the vehement objection of a firm already established. But fortunately for Adam Beck, his rival failed, the bonus was carried, and Beck moved from Galt to London, having gained an indispensable lesson in industrial development policy. His system of cigar box factories stretched to Toronto and Montreal well before he seized upon the idea of a province-wide utility rate bonus to manufacturers.[210]

Complaints from established manufacturers were heard all across Canada. Meaford in 1890 gave a bonus to a stove foundry to move into the village which already had had one such for 23 years; the old firm had through its taxes to pay an annual subsidy of $200 to his rival.[211] Moncton manufacturers in 1899 organized a protest against discriminatory bonuses.[212] In Francis Clergue's fiefdom of Sault Ste. Marie these problems did not arise, for so strong was his hold over the town that the municipal authorities had to consult with him and obtain his clearance before they brought any new firms into the area.[213]

But the competitive nature of the system forced the municipalities to continue the practice despite the patent absurdities. As early as 1881, the village of Elora, Ontario, brought itself to the brink of bankruptcy by issuing debentures at seven per cent, "loaning" the proceeds to a firm which failed, following which the town was then unable to recover the loan. It repudiated the debt and was hauled into court by the debenture holders. Its plea was that (1) the town really had no authority to make the loan; (2) even if it did, it had no authority to issue debentures to pay for it; and (3) the rate of interest of seven per cent was illegal. All were refused by the court and the town had to honour its debts.[214] Another absurdity was revealed by the results of Whitby's bonuses. The town had paid $110,000 to secure railway shops and an organ factory each to employ 50 men — a total cost of $1,100 per job to be created, by itself ludicrous. But a contemporary report noted that "today there is said to be but one man employed in the railway works, while the sole occupant of the organ factory is a cow." [215]

In addition to rich American firms like Yale, Heinz, Westinghouse etc., a number of American carpetbaggers enriched themselves on a grab-and-run basis. As late as 1910, the *Monetary Times* reported, "Our towns are being exploited . . . by men without cash, credit, or reputation."[216] And the competitive system led to all manner of abuses. Intercommunal visits were profitable to the firms, the costs of duplication falling on the municipality. Moreover, many cases occurred in which large sums were paid to shift factories from one town to another, only to have the municipality discover it was the victim of a put-up job, the machinery being virtually valueless.[217] The sole factor mitigating the waste seems to have been the fact that, due to the inadequacy of fire insurance facilities, many factories were built as flimsily as possible — which also made them easier to move. It thus seemed very appropriate that in 1897, after the ratepayers of Port Dalhousie had just voted the necessary bonus to shift a boot and shoe factory out of Toronto, "the people celebrated the event by having a large bonfire."[218]

In 1879, the *Monetary Times* began an anti-bonusing campaign, berating the municipalities for their overzealousness. As the inequities grew, so did the campaign against them.[219] In 1888, the Ontario Legislature received petitions from 45 municipalities and a number of labour organizations asking for severe curbs or abolition of the power to grant bonuses.[220] For the towns had realized that only legal restraints applying all across Ontario could remove the abuses by relieving the municipalities of the fear that, if any of them desisted, some competitor would get ahead. And for the unions the problem of the "runaway shop" was already a serious one. An amendment to the Municipal Act was passed stipulating that:

(1) Two-thirds of the ratepayers had to vote in favour of a bonus;
(2) No bonus could be granted to a firm to establish itself in an industry in which firms had set up in the municipality without bonuses;
(3) No bonus could be given to move a firm from one part of the province to another;
(4) The maximum value of any bonus, principal and interest,

could not exceed ten per cent of the total municipal tax receipts.[221]

In 1899 Quebec passed a similar act.

The legislation was largely ineffectual, for there were many ways to avoid it. Guelph, Ontario, for example, purchased a piece of land for $15,000 and "sold" it to a firm for $250 to move from Galt to Guelph.[222] Changing the name of a firm often sufficed to escape the law. Then too, it was an era when many firms were changing from private to public, and incorporation sufficed to avoid the provisions of the statute. Again, a firm might start a new branch in a bonusing community and gradually withdraw from the original.[223] In 1899, a bill was proposed in the Ontario Legislature stipulating that bonuses could be paid only in the event of loss by fire.[224] But it never passed. In 1902, an amendment was passed to include under the provisions of the 1888 Act all firms who simply switched to an incorporated basis or changed partners, or underwent some other minor alteration of form.[225] In addition, Ontario moved to restrict the amount of the bonus even further by extending the ten per cent maximum to include the value of exemptions, utility rate reductions, services provided, and any other concessions, and it tried to eliminate an obvious and old abuse by prohibiting stockholders in the firms concerned from voting on their own bonuses.[226]

By the turn of the century, Quebec also began to move towards restricting the system. A series of statutes were enacted, aiming, like those of Ontario, to prohibit subsidized intra-provincial migration and the voting of bonuses for firms in industries already established in the town, and to stop the obvious conflicts of interest.[227] These restrictions were vehemently opposed by Sherbrooke, whose real estate speculators saw in bonusing the key to keeping up real estate values by raising industrial demand for sites and increasing the population.[228]

In the West, where bonusing was not rampant in any event, it was further inhibited by legislative discouragement. A number of cities in Alberta had clauses placed in their charters expressly forbidding the granting of any sort of bonus.[229] Some bonusing still went on in the western provinces, serving to transfer income, in the words of the *Grain Growers' Guide*, into "pockets already bulging with the gains of an unjust economic system."[230]

Bonusing was an exceedingly wasteful process, fraught with abuses. Yet it is clear that bonusing fulfilled a need. The great majority of bonuses were voted for *fixed* capital formation. The municipalities were performing an important role in filling a gap in the capital market left by the private intermediaries, who channelled off funds to commerce, and at best advanced to industry only circulating capital — and reluctantly at that. Furthermore, the bonusing system was central to determining the distribution of the existing industrial capacity. Ontario's bonuses favoured such things as secondary iron and steel and agricultural implements; Quebec's tended to develop textiles, boots and shoes, and other consumer goods industries. Within Quebec, bonusing helped diffuse industry from Montreal to other towns. In Ontario it moved industrial capacity from the U.S. and it redistributed it among various major centres, but not out of Toronto. Some Ontario cities, like Hamilton, gained; others, like Brantford, lost heavily and went into secular decline.

Notes to Chapter X111

1. *MT*, April 18, 1878, p. 1295.
2. *CE*, June 1894, p. 89.
3. *CE*, Aug. 1894, p. 126; May 1895, p. 22; June, 1896, p. 55; March 1898, p. 332; *MT*, Aug. 12, 1898, p. 203.
4. *MT*, April 5, 1901, p. 1319; Dec. 13, 1901, p. 757; March 28, 1902, p. 1269.
5. W. L. Morton, *Manitoba, A History*, p. 260.
6. *CMJ*, Nov. 1909, p. 546.
7. *MT*, July 26, 1878, p. 119; April 18, 1879, p. 1296.
8. *CE*, June 1896, p. 55; Aug. 1896, p. 118.
9. *CE*, March 1896, p. 312.
10. *CE*, Jan. 1897, p. 272; *MT*, March 19, 1897, p. 1251.
11. *MT*, Sept. 24, 1897, p. 403; March 4, 1898, p. 1155.
12. *MT*, Dec. 3, 1897, p. 720; Nov. 17, 1899, p. 648.
13. *MT*, Aug. 18, 1878, p. 1296; Dec. 26, 1879, p. 744; Jan. 2, 1880, p. 771; Aug. 13, 1880, p. 176.
14. *MT*, Oct. 25, 1878, p. 529.
15. *MT*, Feb. 14, 1890, p. 995; June 13, 1890, p. 1548.
16. *MT*, July 14, 1899, p. 49.
17. R. Radosh, "American Manufacturers, Canadian Reciprocity and the Origins of the Branch Factory System," p. 34.
18. *Farming World*, June 15, 1906, p. 413.
19. *MT*, Feb. 23, 1900, p. 1112; Sept. 14, 1900, p. 337; *CE*, Jan. 1899, p. 264; Feb. 1899, p. 294; Dec. 1899, p. 233; Feb. 1900, p. 281; July 1900, pp. 62 - 3; Aug. 1900, p. 81; March 1901, p. 245; June 1901, p. 315.
20. *MT*, Feb. 27, 1903, p. 1164; April 24, 1903, p. 1446.
21. *CE*, Jan. 1896, p. 252; Sept. 1896, p. 152.
22. *CE*, Feb. 1900, p. 281.
23. *CE*, Aug. 1895, p. 100.
24. *MT*, March 10, 1899, p. 1185; Nov. 17, 1899, p. 648.
25. *LG*, Sept. 1902, p. 138.
26. *MT*, April 12, 1901, p. 1342.
27. *CM*, July 21, 1882, p. 345.
28. *MT*, Oct. 27, 1876, p. 474.

29. *MT*, March 16, 1877, p. 78.
30. *MT*, Nov. 22, 1878, p. 99.
31. *CM*; Feb. 3, 1882, p. 41.
32. *JC*, Jan. 3, 1881, p. 90.
33. *MT*, Jan. 12, 1882, p. 771.
34. *MT*, July 8, 1881, p. 36.
35. *CM*, Nov. 18, 1887, p. 328.
36. *MT*, Jan. 27, 1881, p. 917.
37. *MT*, April 5, 1878, p. 1172; May 10, 1878, p. 1314.
38. *CM*, Jan. 20, 1882, p. 25; *MT*, Nov. 9, 1883, p. 512.
39. *MT*, July 6, 1883, p. 9.
40. *MT*, March 3, 1882, p. 1077; Sept. 21, 1888, p. 322.
41. *MT*, Jan. 6, 1882, p. 817; Aug. 5, 1881, p. 158; Feb. 9, 1883, p. 875; Oct. 29, 1886, p. 490; *et passim*.
42. *MT*, Sept. 25, 1891, p. 366.
43. *RCRLC, Ontario Evidence*, p. 975.
44. *JC*, Dec. 26, 1878, p. 606.
45. *JC*, June 3, 1881, p. 489.
46. *MT*, April 19, 1881, p. 1263; July 22, 1881, p. 95.
47. *CM*, Feb. 17; 1882, P. 56; *CM*, Feb. 3, 1882, p. 41.
48. *MT*, May 9, 1879, p. 1383.
49. *Statutes of Nova Scotia*, 1879, 42 Vic. Chap. 27.
50. *Statutes of Nova Scotia*, 1885, 48 Vic. Chap. 50.
51. *Statutes of Nova Scotia*, 1899, 62 Vic. Chap. 24.
52. *MT*, May 20, 1881, p. 1346; *CM*, May 26, 1882, p. 199.
53. *MT*, Dec. 6, 1878, p. 717.
54. *MT*, April 12, 1878, p. 1201.
55. *MT*, Jan. 24, 1879, p. 918.
56. *MT*, Oct. 3, 1879, p. 407; Oct. 31, 1879, p. 520.
57. *MT*, April 23, 1880, p. 1254.
58. *MT*, Dec. 24, 1880, p. 726.
59. *MT*, April 21, 1881, p. 1232.
60. *CE*, Oct. 1899, p. 174.
61. *MT*, May 13, 1881, p. 1321.
62. *CM*, March 17, 1882, p. 99; *MT*, April 14, 1882, p. 1260.
63. *CM*, Aug. 4, 1882, p. 410; Aug. 18, 1882, p. 430.
64. *CM*, March 31, 1882, p. 120.
65. *MT*, May 25, 1883, p. 1319; July 6, 1883, p. 9.
66. *CM*, March 31, 1882, p. 119.
67. *CE*, June 1898, p. 52.
68. *MT*, May 27, 1898, p. 1546.
69. *MT*, April 8, 1898, p. 1317.
70. *CE*, July 1900, p. 62.
71. *MT*, Dec. 1, 1906, p. 784.
72. *MT*, April 21, 1876, p. 1213; Oct. 13, 1876, p. 419; April 20, 1877, p. 1200.
73. *CM*, May 12, 1882, p. 179.
74. *CM*, Feb. 17, 1882, p. 58.
75. *CM*, Feb. 3, 1882, p. 41.
76. *MT*, Sept. 30, 1898, p. 438.
77. *CM*, Jan. 20, 1893, p. 37.
78. *MT*, July 20, 1907, p. 103.
79. *MT*, April 13, 1883, p. 1144.
80. *CE*, Oct. 1901, p. 424.
81. *MT*, April 10, 1896, p. 1295; July 29, 1898, p. 136; Dec. 13, 1901, p. 761.

82. *MT*, July 6, 1900, p. 11; July 19, 1901, p. 74; Aug. 23, 1901, p. 229.
83. *CE*, April 1896, p. 339; May 1895, p. 21; Nov. 1902, p. 307; *MT*, Jan. 8, 1892, p. 807.
84. *MT*, March 16, 1877, p. 1051; May 25, 1877, p. 1352; Nov. 16, 1877, p. 584.
85. *MT*, Sept. 14, 1888, p. 294.
86. *MT*, Oct. 5, 1888, p. 380.
87. *CE*, April 1896, p. 340; April 1899, p. 354; Oct. 1900, p. 126; Jan. 1901, p. 192; Nov. 1901, p. 449.
88. *CE*, Dec. 1894, p. 245; *MT*, May 27, 1892, p. 1425; *CE*, Feb. 1898, p. 299.
89. *CM*, Jan. 20, 1893, p. 37.
90. See esp. T. W. Acheson, *The Social Origins of Canadian Industrialism*, p. 204.
91. *CE*, Dec. 1898, pp. 230, 232.
92. *CM*, Aug. 18, 1882, p. 43.
93. *CM*, Jan. 6, 1882, p. 6.
94. *MT*, April 21, 1882, p. 1289.
95. *CM*, March 31, 1882, p. 120; *MT*, July 4, 1879, p. 35.
96. *MT*, April 17, 1885, p. 1193.
97. *CE*, Aug. 1898, p. 114; Nov. 1899, p. 214; July 1900, p. 63.
98. *MT*, Sept. 21, 1888, p. 331.
99. *MT*, Oct. 27, 1876, p. 474; July 27, 1877, p. 123; Oct. 12, 1877, p. 471.
100. *MT*, May 26, 1882, p. 1443.
101. *CE*, Aug. 1902, p. 222; *MT*, Sept. 1, 1893, p. 253; June 5, 1896, p. 1564; April 14, 1899, p. 1345.
102. *MT*, May 23, 1902, p. 1523.
103. *CM*, Feb. 3, 1882, p. 41.
104. *MT*, Aug. 26, 1881, p. 255; Sept. 9, 1881, p. 309.
105. *MT*, May 16, 1902, p. 1481.
106. *CE*, Aug. 1900, p. 81; Feb. 1901, p. 215.
107. *MT*, Dec. 6, 1878, p. 717.
108. *MT*, May 5, 1880, p. 1047.
109. *MT*, July 4, 1884, p. 8.
110. *MT*, May 20, 1881, p. 1345; Nov. 11, 1881, p. 570.
111. *MT*, March 9, 1888, p. 1124; Nov. 23, 1888, p. 583.
112. *MT*, Nov. 22, 1895, p. 660.
113. *MT*, Oct. 11, 1895, p. 463; June 6, 1902, p. 1573.
114. *CE*, Oct. 1897, p. 175; *MT*, Sept. 24, 1897, p. 402; *MT*, Jan. 14, 1898, p. 915; July 6, 1900, p. 7.
115. *CE*, Jan. 1900, p. 257.
116. *MT*, June 3, 1898, p. 1579.
117. *MT*, Aug. 10, 1900, p. 171; Oct. 12, 1900, p. 463; Oct. 26, 1900, p. 505; Nov. 23, 1900, p. 651.
118. *MT*, Dec. 20, 1901, p. 776; Jan. 16, 1903, p. 942.
119. *MT*, Nov. 4, 1892, p. 515; Dec. 8, 1893, p. 698.
120. *SCM* (1885), p. 16.
121. *CE*, Dec. 1894, p. 245; March 1895, p. 329; Jan. 1896, p. 251; March 1896, p. 312; Oct. 1896, p. 179.
122. *CE*, Nov. 1895, p. 193; Dec. 1895, p. 219; Nov. 1896, p. 210; March 1896, p. 313; Dec. 1898, p. 231.
123. *MT*, Dec. 9, 1881, p. 698.
124. *Statutes of Nova Scotia*, 42 Vic. Chap. 27.
125. *MT*, March 21, 1881, p. 1093.
126. *CE*, March 1899, p. 325.
127. *CE*, Jan. 1896, p. 253.
128. *CMJ*, April 1909, p. 172.

129. *MT*, Feb. 12, 1904, p. 1059.
130. *CMJ*. Oct. 1909, p. 506.
131. *CE*, Aug. 1896, p. 118; *MT*, March 24, 1899, p. 1251.
132. *CE*, Feb. 1895, p. 302.
133. *MT*, Sept. 24, 1910, p. 1315; Oct. 1, 1910, p. 1417.
134. *CE*, Oct. 1899, p. 156; *CE*, March 1902, p. 74.
135. *MT*, Nov. 9, 1907, p. 741.
136. *MT*, Dec. 10, 1886, p. 661.
137. *MT*, April 26, 1895, p. 1382; April 2, 1897, p. 1317.
138. *CE*, Aug. 1898, p. 113; Nov. 1898, p. 202; *MT*, April 27, 1894, p. 1350.
139. *CE*, Dec. 1894, pp. 245 — 6.
140. *MT*, Sept. 28, 1900, p. 392; *CMJ*, Nov. 1909, p. 547.
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142. *CE*, March 1896, p. 313.
143. *MT*, Oct. 5, 1895, p. 439; Oct. 29, 1897, p. 560; May 13, 1898, p. 1477.
144. *MT*, Feb. 16, 1877, p. 925.
145. *MT*, July 6, 1900, p. 12; July 20, 1900, p. 75.
146. *CM*, April 15, 1887, p. 111.
147. *CE*, Dec. 1896, p. 240; Jan. 1897, p. 272.
148. *CE*, Oct. 1894, P. 188.
149. *MT*, Nov. 11, 1887, p. 605.
150. *MT*, May 26, 1882, p. 6; Sept. 1, 1893, p. 253.
151. *MT*, Feb. 4, 1898, p. 1017.
152. D. M. Henderson, *Robert McLaughlin*, p. 17; *CE*, Jan. 1900, p. 257; *MT*, Jan. 19, 1900, p. 933.
153. *MT*, Jan. 3, 1890, p. 802.
154. *CE*, June 1901, p. 305; April 1901, p. 269; *MT*, Feb. 12, 1897, p. 1072.
155. *CE*, Oct. 1897, p. 175.
156. *CE*, June 1895, p. 48.
157. *CE*, Dec. 1899, p. 234.
158. *MT*, May 6, 1887, p. 1308.
159. *CE*, Nov. 1898, p. 202.
160. *CE*, Dec. 1898, p. 230.
161. *MT*, May 24, 1889, p. 1350; Sept. 13, 1887, p. 320.
162. *CE*, Dec. 1898, p. 230.
163. *CE*, Dec. 1901, p. 478; March 1902, p. 74.
164. *MT*, May 10, 1889, p. 1294; July 6, 1889, p. 19.
165. *CE*, Jan. 1900, p. 258; *MT*, Oct. 16, 1891, p. 455.
166. *CE*, Jan. 1896, p. 251.
167. *CE*, Nov. 1898, p. 213.
168. *CE*, Jan. 1895, p. 269.
169. *CE*, May 1896, p. 23.
170. *CM*, Jan. 18, 1895, p. 74.
171. *CE*, Dec. 1897, p. 243; Jan. 1898, p. 274; *MT*, Dec. 3, 1897, p. 753.
172. *CE*, Nov. 1898, p. 202.
173. *CE*, Sept. 1900, p. 109.
174. *MT*, Jan. 25, 1897, p. 1695; Aug. 4, 1899, p. 139.
175. *CM*, April 14, 1882, p. 138.
176. *CE*, Oct. 1897, p. 175.
177. *RCRLC*, *Ontario Evidence*, p. 179.
178. *RCRLC*, *Ontario Evidence*, pp. 180, 364-374, 389; *MT*, *Annual*, Jan. 1914, pp. 28-30.
179. *MT*, May 20, 1887, p. 1368.
180. *CE*, Nov. 1896, p. 210.

181. *CM*, Jan. 6, 1893, p. 18.
182. *CE*, Jan. 1894, p. 263.
183. *CE*, Aug. 1896, p. 118.
184. *CE*, Sept. 1896, p. 151.
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We are rapidly passing to the same condition as that which obtains in the United States; corporations control the legislature, they control the government, they get everything they ask; the people get nothing. More and more of the heritage of the people is being handed over to the companies.

W. F. Maclean
House of Commons, 1904

Chapter XIV
The Rise of Big Business

Industrial and Commercial Organization

Whenever competition existed in Canada, so too, it seemed, did an effort by businessmen to avoid it. In this they were powerfully assisted by government policy, both by its presence in the form of high and rising tariffs and by its absence in the lack of enforceable combines legislation. Many combines from the beginning were continental in scope, involving associations of manufacturers, wholesalers, and retailers in Canada with manufacturers in the U.S. and even, on occasion, in Britain. The devices for the regulation of competition were many and varied, ranging from the gentlemen's agreement, to formal trade associations (often under the auspices of the Canadian Manufacturers' Association), to exchanges of directors. It included the vertical and/or the horizontal merger. And, less easy to document, but powerful in its economic impact in those few clear cases that did exist, was the interlocking of directorships and of stockholding between corporations performing ostensibly different economic functions but in fact mutually complementary.

Employers' associations were the most important basis for cartelization. An organization created nominally for such mundane purposes as tariff lobbying or quality standardization quickly became an association for normalizing the credit offered to customers, and from there formal price fixing was a logical next step. Quantity regulation and profit pooling often followed. The extent of employers' associations is impossible to document. In 1905, the Department of Labour published a list of 200 such associations, of which 80 claimed to have been formed since 1901. It was an incomplete list.[1] Just how much it underestimated the extent of association may be judged from the CMA's reaction to the formation of the Department of Labour and the questionnaires the new department circulated. At the 1901 general meeting of the CMA, the following exchange occurred with regard to one of the questionnaires.

> J.R. Shaw: I have never gone to the bother of filling it out myself, but have put it in the waste-paper basket, and I would like to know if that is the course that manufacturers are usually pursuing?
>
> The President: Mr. Shaw wished to know if the form is generally filled up, or consigned to the waste-paper basket.
>
> Chorus of Voices: The waste-paper basket.[2]

One rather characteristic sequence among combines was the transformation from cartel to merger. Initially, loose associations would exist, especially in industries or trades characterized by many small firms. Drop-outs would lead to problems of enforcing the rules, and a formal merger was frequently the only solution.

Mercantile Cartels

The largest and most powerful of the mercantile cartels was the Dominion Grocers' Guild, which had two roots in the early 1880's. In 1883, Toronto and Hamilton wholesale grocers formed a guild to stabilize prices and stop price cutting,[3] while in 1884 Montreal grocers organized their wholesale association to control the dating-ahead of invoices and other aspects of the long credit system. By 1887 their union had 95% of the wholesale grocers in Ontario and Quebec under control, as well as agreements with the sugar refiners and other producers to discriminate in favour of guild members in their pricing policy.[4] There was a striking similarity between developments in the grocery business and those in textiles two decades earlier: in both cases the wholesale merchants were able to assure their control over both producer and retailer by driving a wedge firmly between them. Individual industrialists agreed to deal exclusively with the Guild, and direct connections between retailer and industry were effectively blocked.[5] The Guild was sufficiently powerful to be able to force some English export houses to conform to its rules.[6]

Refined sugar was the most important single item in the grocery trade, and around it the combine arrangements tended to coalesce. Loss-leader sales and price cutting of sugar were curbed at the 1886 meeting of the Guild, with the co-operation of the refiners.[7] The curbs were renewed and the combine steadily expanded. In 1890, seemingly to celebrate the passage of Canada's first co-called anti-combines legislation, the Guild began openly advertising in newspapers the terms on which its members were bound to do business.[8]

The point of the agreement with the refiners was to stop the ruinous competition among the army of retail merchants, and to maintain retail prices. After the combine was effected, retail prices were closely controlled, and price increases exacted from the retailers by the wholesalers were uniformly passed on to the consumer.[9]

In 1892 the agreement on sugar was broken, and cut-throat competition emerged among the myriad of petty retailers backed by the big wholesale houses. Order was restored; then, in late 1894 and early 1895, the combine again broke down, partly because of the dumping of German beet sugars. In early 1897, many wholesale grocers stocked up on sugar, awaiting the tariff *increase* that the Conservatives had led them to expect. The Liberal victory led to tariff decreases, and a lot of dumping resulted. But the cartel got back into business within a few months.[10]

The organization spread from coast to coast, and its stranglehold over trade increased. The principle of strict division of function between wholesaler, retailer, and producer remained its fundamental tenet. In 1904, the Wholesale Grocery Company was refused supplies from the sugar refineries, canneries, starch manufacturers, and other suppliers because the firm was not a member of the Guild, and the Guild refused it membership on the grounds that part of its business was retail.[11] This firm, a co-operative, filed an information against the Guild with the Attorney-General of Ontario, and the Guild was charged with combination in restraint of trade. The case was dismissed by the Court, who contended that

> the proper method of distribution of goods is from the manufacturer, through the wholesale dealer, to the retailer, then to the consumer, because *this is the most economical* method.[12]

The logic was bizarre, for if the division of function were the most economical, it would hardly have required a combine to maintain it. And in any event, it was a rear guard decision, for the tendency was already underway for the elimination of the middleman in industrial and commercial organization. The decision simply helped delay this rational reorganization of the Canadian distributive mechanism whose absurdities played a major role in raising retail prices. It also opened the door for further exactions of the Guild.

The wholesalers' organization provoked a defensive move on the part of those retailers who were in a position to combine. In 1886 a Retail Grocers' Association met in Montreal to complain of manufacturers and jobbers in certain lines selling direct to customers, and of the effects of the wholesale combine on prices. The sugar cartel with the refiners brought renewed protests in 1887, and in 1891 a new, more complete association was formed to offset the power of the combine.[13] In 1910 the Retail Merchants' Association of Canada received a federal charter, and this far-reaching and powerful reorganization celebrated its birth by trying, albeit without success, to block the passage of a co-operatives bill sponsored by the Grain Growers' Grain Association in the federal Parliament.[14]

While not cartels in the strict sense of the term, a series of commercial travellers' associations sprang up to bargain collectively with the railways and to regulate trade conditions. These tended to follow regional patterns, headquartered in various cities which aspired to commercial leadership of their environs. The first was the Commercial Travellers' Association of Canada, formed in 1871 after Hamilton, Toronto, and Montreal commercial houses began to become active in the Maritime market.[15] It was a Toronto-dominated association, and in 1875 A. F. Gault, James Cooper, Robert Simpson, and other Montreal notables in drygoods, groceries, and hardware broke off to form the rival Dominion Commercial Travellers' Association. It was followed by the London-based Western Commercial Travellers' Association.[16]

In addition to bargaining with railroads for special rates for the commercial travellers and their merchandise, the associations were important political lobbies for breaking down regional barriers to commerce. Cases were fought in the courts to stop Maritime and Quebec municipalities from imposing discriminatory taxes against commercial travellers in favour of their own merchants.[17] To defend local prerogatives, new associations sprang up: the leading wholesale merchants of Nova Scotia, including T.E. Kenny, formed the Eastern Commercial Travellers' Association in 1881, and by 1887 the North West Commercial Travellers' Association was in operation, though the Western had since been absorbed by the Toronto-based organization.[18] To increase their bargaining power with the railways, the associations began to negotiate as a unit with them in 1887,[19] the first step towards full integration. Another of their functions requiring collective regulation was long credit. During boom and bust alike, great armies of commercial travellers were sent out by the wholesale dealers, and their dispensation of credit to their customers led to serious losses.[20]

A powerful mercantile combine existed among the coal dealers of Toronto, Ottawa, Montreal, London, and other major central Canadian cities. In Toronto, the Board of Trade was a veritable incubator of cartels, and the Coal Trade Branch was one of its more insidious offspring. All of Toronto's coal was American anthracite. In 1881, a coal ring was formed among the Toronto dealers led by Elias Rogers to push up prices following the tariff, but it was broken by one firm. Another attempt followed in 1883, broken once again by the same firm.[21] Later that year, the U.S. anthracite producers sent representatives to Toronto to impose order among the dealers, who had been engaged in price cutting, by threatening to curtail supplies.[22] Subsequent arrangements embraced the American suppliers in a wholesale price fixing arrangement, and this proved more successful. If any retailer broke the rules, he was fined and the proceeds were divided among the import cartel.[23] Again the objective was to drive a wedge between producers and retailers. The American producers' combine, the Western Anthracite Association, co-operated because of earlier enormous losses from failures of retailers running amok in Canada under the aegis of the long credit system.[24]

In Ottawa, London, and Montreal, the same pattern existed of a coal combine affiliated with the Board of Trade and with connections to the American exporters.[25] No coal combine operated in the Maritimes, and in central Canadian cities where it was inoperative, prices were much lower. Where the cartels did function it was common practice for manufacturers and other large organizations to import their own coal, the burden of the combine thus falling on the working-class consumer.[26]

Mercantile combines with international connections operated in a number of fields in central Canada from the late 1880's, including egg dealers, watch jobbers, and undertakers who were notorious for their frauds.[27] In some cases more than one combine existed, but with market division agreements between them.

Formal reorganization of merchandising in the central and eastern provinces into the department store and chain store was slow. To the extent that restructuring did occur, it involved both the growth of industry into assuming its own sales function and the squeezing of the myriad of petty traders by corporate chain stores.

One example of the first of these trends had occurred in the meat packing industry. In 1890, Ontario émigré Patrick Burns established himself as a livestock dealer in Calgary, and in 1894 he acquired his first packing house. Thereafter he began a series of retail operations in the mining districts of B.C. and later on the prairies. Two further packing plants were added in Vancouver and in Edmonton, such that by 1914 the Burns system embraced three packing plants and over 100 retail shops. Similarly, Gunn's Ltd., the Ontario firm that had produced the Maple Leaf brands of meats since 1873, formed a partnership in 1901 with Charles Langlois and Co., a large Montreal retail food firm, to supply Quebec. The new enterprise, Gunn, Langlois and Co. Ltd., established a series of cold storage plants and branch packing houses across Ontario and even into the Maritimes, as well as warehouses in major centres. By 1911 they had branched into poultry and egg plants throughout Ontario and Quebec, making the firm probably the Canadian leader in the evolution of the new integrated agribusiness mode of production.[28]

In some small towns in Ontario the department store idea grew up as a defensive move by small shopkeepers who merged their various lines of business into one store to cut overhead and fight the drain of business to the big cities.[29] In 1897, too, legislative authority was sought in Ontario to enable any municipality with over 30,000 people to impose special taxes on stores doing more than three distinct kinds of business.[30] Nonetheless, until the war, the small trader remained the dominant mode of distributing commodities.[31]

In the West there were two outstanding contributions to Canada's roster of commercial cartels. 1892 saw first meeting of an organization that long after blighted the prairie farm community, the Western Retail Lumbermen's Association.[32] At first the association embraced the three prairie provinces, but the Alberta dealers broke off to form their own cartel, with no effect on the structure of prices since the dealers respected each others' territory. Both cartels had combine arrangements with the B.C. timber and shingle mills to deal only with their members,[33] and the CPR collaborated by posting combine price lists in its stations — until a commission of enquiry was established, at which point the railway ordered the price lists torn down and destroyed lest they fall into the investigators' hands.[34] Besides price maintenance, the lumber dealers regulated credit conditions. Farmers in the West bought lumber on credit and paid ten per cent on their notes to the lumber firms before the due date, twelve per cent after, and gave the dealers lien notes on almost all their property not tied up already by the banks, mortgage companies, or implement dealers.[35]

The CPR was also active in the creation and maintenance of the western cattle dealers' combine arrangements. In 1906, the Gordon, Ironside and Fares Co. controlled 75% of the cattle exported from Canada. They also had market sharing arrangements with the other dealers and packing firms. The CPR gave the firm secret rebates on the export of horses and cattle under an agreement negotiated by Van Horne. In addition, the CPR's own stockyards were managed by the company.[36] The result was solid price maintenance. Farmers who brought livestock for sale received only one bid. The agreements covered all facets of packing as well as dealing and distribution. The big abattoirs were controlled by the large cattle dealing firms, though the extent of the integration was sometimes hidden. Gordon, Ironsides, for example, adopted the rather modern trick of paying higher prices on the cattle "bought" from their own ranches than from independents to hide their profits.[37] The result of the integration and price maintenance was that butchers who did their own buying, slaughtering, and retailing could make 46% profit and still retail cheaper than the big abattoirs sold wholesale. The problem was to find such an independent firm. In 1908 the big abattoirs were recording profits of up to 60%.[38] What the real rate of profit was, after allowance for manipulation of transfer prices, is impossible even to begin to estimate.

The Cotton Industry

Among the most strenuous cartelization attempts by an important industry were those made by the chronically over-extended cotton producers. Efforts had begun after the crisis in 1883. Several banks, including the Federal, the Nova Scotia, and the Montreal, had made heavy advances to some of the mills and insisted on cartelization and cutbacks as a precondition of further advances.[39] Under David Morrice's auspices, a meeting of the major producers proposed several solutions, including closing the mills one week per month (which held the danger of having the unemployed operatives drifting off to the New England mills) and an eight-hour day (which met with considerable opposition).[40] Agreement was finally reached, and quickly broken, for the mills to shut down each Monday and each Thursday night, to cut output by one-third, and to try to diversify as much as possible. The Canadian mills were all built to produce the same run of grey goods thanks to the energetic sales pitch of the English machinery manufacturers. A bond was posted by all the members, with penalties for breaking the rules, and an association known as the Cotton Manufacturers' Association was established to police the arrangement. Its president was D. McInnis; A. F. Gault held the vice-presidency; and Clayton Slater and David Morrice were among its executive committee members.[41]

With Morrice's assignment came the end of the first cotton cartel, and despite the tariff being increased to 35%, *ad valorem* conditions in the industry were chaotic for sometime. The Park and Sons mill in St. John cut back capacity in 1884 and began to lose its skilled operatives, who drifted back to England from where they had been imported.[42] Then in 1885 it failed completely, with heavy stockholder losses.[43] Its American mortgage holdee foreclosed, then reorganized and reopened the mill a few years later.[44] In the interim the Galt mill had also failed, while that of Windsor, Nova Scotia, ran up heavy losses following Morrice's assignment.[45] Despite the difficulties of the industry, Alex Gibson, the New Brunswick lumber king, built a new mill at Marysville in 1885 , and imputed all contrary advice to a conspiracy by the central Canadian mills to keep out new entrants.[46]

In 1886, another conference with all the mills represented was held in Montreal to try to achieve a consensus on prices and credit terms, to cut back output, and to prohibit practices like dating-ahead of invoices or altering the terms of sales by gifts, etc. Proposals were made for Saturday closure, with the association's officers being empowered to order one-week shutdowns at their discretion.[47] Agreement proved impossible. But the next year a new conference of all the mills but the Gibson did manage to fix prices and renew a bond of agreement.[48] Sixteen mills, including four in the Maritimes, were included. The Gibson mill stayed out, but promised to adhere to the rules.[49] The Chambly mill made the same promise but did not honour it. By 1888 the agreement was in disarray again, though some diversity of output had been achieved.[50]

The Dundas mill announced in May it would pull out of the combine.[51] While the Gibson mill agreed to join, the St. Croix mill immediately pulled out because of an intense rivalry between the two New Brunswick mills.[52] The final breakup led to price declines,[53] but even then the deflation continued. The Windsor, Nova Scotia, mill collapsed. Ontario mills cut back to only partial capacity without any combine agreement. Over the period 1882-1889 the Moncton mill paid only one dividend of two and one half per cent, while those in Stormont, Brampton, Dundas, and Merriton paid none at all.[54] A new cartel agreement was formed in 1890 under A. F. Gault's tutelage to regulate prices and output,[55] but by then the lessons had been learned. Cotton illustrated well the difficulty of maintaining a cartel in an overextended industry during a period of secular deflation. As long as costs and prices in general are falling, the incentive to break ranks and cut prices is considerable: during a period of steady inflation the probability of such break-aways is considerably reduced. In this case it was clear that merger was the only solution to the stabilization problem, and for cotton, with its interlocking directorships at least in the Montreal area, its links to the banks, and its corporate organization, merger was a relatively easy step.

Efforts to merge the cotton mills actually began as early as 1884, when Clayton Slater began to pronounce in its favour following the Morrice failure. Slater's Brantford mill was one of those hit by serious problems of over-production.[56] In 1885, two of the mills, Hudon Cotton Co. and the St. Anne Spinning Co. merged under A. F. Gault, David Morrice, Jacques Grenier, and others. But virtually all directors of the two had been shared anyway,[57] so it was really more a minor reorganization than a serious merger effort. The first of these came in 1889 with a group of New York and English financiers.[58] It failed to materialize, but in 1890 A. F. Gault and David Morrice merged seven grey mills into Dominion Cotton Mills Ltd., and another seven mills into Canada Coloured Cotton Ltd. in 1892.[59] The Bank of Montreal provided interim financing until the bonds were sold.[60]

William Park's mill and that of Alex Gibson stayed out of the mergers. The Bank of Montreal and the combine tried without success to crush Park's mill, but it survived. In 1896 it took on Canada Coloured Cottons in a round of price cutting that became known as the Flannelette War.[61] Gibson's mill was really under combine control indirectly through the Bank of Montreal.[62] Many of the smaller Ontario and Quebec mills were closed down, including those at Merriton, Dundas, Chambly, Coaticook, and even Brantford despite the combine's promise at the time of purchase to keep it operational,[63] and despite the fact that the city fathers had obligingly offered to perform financial cartwheels on command to save it. Windsor, Nova Scotia, and Moncton were closed soon after, and the Gibson mill in 1910.[64]

In 1904 came the final solution to the cotton problem. Despite the 1890 and 1892 mergers, textile prices, including cottons, continued to fall. There was some rallying after 1896, but the price increases did not keep pace with those of other industrial products. In 1904 the major operations, Dominion Cotton Mills, the Merchants' Cotton Co. Ltd., Montmorency Cotton, and Colonial Bleaching and Printing Co., were merged into Dominion Textiles

Co. Ltd. by a syndicate of professional promoters headed by Louis Forget. The earlier cotton merger had been typical of the conservative, industrial merger of the era: the new one was an omen of what the future held in store. For a total investment of one million dollars, the syndicate of outside promoters under the auspices of Royal Trust secured control. The common stock was purchased for $500,000 and immediately paid dividends of 89%. Then an enormous watering operation was mounted, with the common stock revalued at $4.5 million and issued to the directors.[65] To pay dividends on such an overissue, prices had to rise — and rise they did. In 1906 the industry appeared before the Tariff Enquiry Commission pleading for higher protection on the pretext that the mills could not run steadily and that the laid-off workers tended to drift off to the U.S. With higher tariffs and higher prices it was claimed they could pay higher wages.[66] And to prove the point, in the 1907 crisis, in order to generate revenue to pay dividends and interest on the enormous capitalization, a wage cut of ten per cent was introduced.[67]

The Agricultural Implements Industry

The first successful efforts to cartelize the agricultural implements industry came in 1879 with the formation of the Ontario Agricultural Implement Manufacturers' Association under the presidency of James Noxon of Ingersoll.[68] Agreements to fix prices, curtail output, and contract long credit followed in 1883.[69]

Mergers began early. The industry was superficially like cotton, insofar as it made use from an early period of the corporate form in some of the leading firms — though John Watson, and Frost and Wood, did not incorporate until the late 1890's during a rush of industrial reorganizations among many firms.[70] But in fact stockholding was largely confined to the family of the entrepreneurs who had built up their firms from the handicraft stage. The first major consolidation was the North American Agricultural Implements Company at London in 1883. Although the firm quickly moved out of implement manufacturing completely, the merger had several important characteristics. It was a conglomerate merger of several firms in diverse lines of production, including, besides implement makers, a foundry and a wagon manufacturer. And it was organized around American patents, its directors including Charles Deere of the John Deere Plough Co. who became president, and the president of the Moline Wagon Co. of Illinois. Also included were Charles

Murray, president of the notorious Ontario Investment Association, one private banker, Winnipeg distributors, and the brewer John Labatt.[71]

The late 1880's were critical years for the industry as the decline in farm produce prices and consequent rise in the real burden of fixed interest debt brought distress to farm communities. Cut-throat competition prevailed for the existing trade, with a resultant squeeze on profits. Selling costs mounted, due to the expense of maintaining a vast array of dealers throughout Ontario and the Northwest.[72] Small towns could have up to a dozen different dealerships, each tied to a particular manufacturer. And the harvester price war that had broken out in the U.S. spread to Canada. E. Maxwell and Sons, which had shifted from Paris to St. Mary's in 1888 for a $30,000 bonus, failed in 1890. The next year John Watson was pronounced in financial difficulties. The Haggart Bros. of Brampton were rescued from failure by a loan of $75,000 from the town in 1888, exhausted the loan, and collapsed in 1891.[73]

That year saw the merger of Massey and Harris. In contrast to the cotton amalgamations of the period, this one was completely industrial in origin and involved no outside capital, and no water.[74] No plant closure followed. In fact, the year before Massey had absorbed a Sarnia implement firm. The only rationalization involved cutting back on the proliferation of agents in the Northwest.[75] A defensive merger of Woodstock's Patterson and Bros. and Brantford's J. O. Wisner and Son followed, both formerly private firms, now merged as an incorporated enterprise. But the new firm was absorbed by Massey-Harris the next year.[76]

Conditions for the smaller firms did not improve for some time. Farmers were still unable to meet their debts to the implement firms which, like the private bankers of the period and with identical results, had extended them credit. Just as the falling grain and produce prices brought down major Ontario private bankers, the firm of John Watson failed in 1895, followed by a smaller firm in Alliston, Ontario, and by one at St. Thomas in 1896.[77] In 1899, Canadian and American implement firms met in Chicago to fix prices,[78] but by then the deflation had given way to a secular rise in grain prices and the conditions of the industry had improved. A price advance of a mere 20% was decided upon for the year.

The big J. P. Morgan-inspired International Harvester merger in the U.S. spilled over to Canada only via the Hamilton branch plant, and by the takeover of Toronto's John Abell Engine and

Machine Co. and its integration into another American implement complex in 1902.[79] No further major merger effort among the Canadian producers themselves was successfully mounted. Instead, integration took two forms: diversification of product lines and integration of complementary plant by takeover, or cartel arrangements for marketing finished product. In 1901, Frost and Wood moved into the production of seeding and cultivating machines by absorbing an Oshawa firm.[80] Massey-Harris bought part control of the Bain Wagon Works of Woodstock, and an interest in Brantford's Verity Plough Co. Cockshutt completed its range of output in 1912 by buying an interest in a wagon factory and a carriage factory, both of which had been previously tied to Cockshutt by an agreement whereby the implement firm marketed their output in the West.[81] A year earlier, Frost and Wood and Cockshutt had merged their sales departments and divided up the market, Cockshutt getting all of Canada west of Peterboro and functioning there as Frost's exclusive agent, while Frost and Wood occupied a similar position for the East.[82] On the international front, export price fixing arrangements were maintained. At one point, Ingersoll's Noxon Bros. refused to participate, and pressure had to be mounted through their banker to get them back into line.[83]

One industry inextricably related to agricultural implements but which remained independent of them in organization was the binder twine and cordage makers. In 1885 there were but two such manufacturers in Canada, in Montreal and in New Brunswick, joined by a Brantford firm in 1886 [84] and two others by 1888. The costs of the output tended to be lower in Canada than in the U.S., since hemp entered Canada free, but prices were kept up by a cartel arrangement that embraced both the Canadian producers and the American companies who controlled the world supply of raw material from the Philippines.[85] The final product was subject to a tariff in Canada until 1897.

In 1890, American manufacturers and merchants joined Montreal cordage merchants to create two new joint stock firms, Dominion Cordage and Consumers' Cordage, the last of which included J. F. Stairs as a participant. Within a year all of the independent companies had been absorbed by Consumers'.[86] Two thousand farmers reacted by establishing a co-operative in 1893 in Brantford, the city which had hosted the last of the string of firms absorbed by the mergers in 1891.[87] And to meet shortages that tended to emerge at harvest time, some production was undertaken with convict labour in Kingston.[88] The growth of prairie demand, too, led the New Brunswick plant to shift its focus from the declining market in the shipbuilding industry to the grain growing areas of Canada — until it was absorbed by Consumers' Cordage.[89]

The removal of the duty on binder twine in 1897 led to sharp protests and threats of closure from the combine and its affiliates. None in fact closed, and in 1900 the Brantford co-operative declared a 90% dividend.[90] With the expanding demand from the improvement in primary product prices and increased grain cultivation, a series of new firms were established in Ontario.[91]

By 1903 most, if not all, of the producers were involved with the American producers in a price fixing and market division arrangement.[92] Then the American firms became greedy, and had the American government impose an export duty on manila fibre sent from the Philippines to non-American manufacturers.[93] At that time the Canadian market was already glutted: the Chatham plant which had opened only two years before had shut down completely, and even the Montreal combine was operating on a part-time basis only. Beginning in 1904, to avoid alienating farmers by the imposition of countervailing duties, the Laurier government instituted a system of subsidies equal to the American export duty to offset its effects. From 1904 until the U.S. tariff was withdrawn in 1913, $344,224 in subsidies were paid to the industry.[94] The withdrawal of the duty was followed by the restoration of the former system of direct control by American firms of the raw material, and therefore of the firms in the Canadian market dependent upon it. The Grain Growers' Association tried to induce British capital to establish a factory, but to no avail as the raw material monopoly of the American firms blocked them. Late in 1913, the Grain Growers' Grain Company, the western co-operative, tried another route by buying the Canadian rights to a U.S. patent of a knotter attachment that used binder twine made from threshed flax straw.[95] Whether the new technique succeeded in breaking the cartel is doubtful.

The Resource Industries

Early organization in the petroleum industry reflected the dichotomy that long existed between producers of crude and refiners. In 1869, the refiners organized on prices and output, and this immediately called forth a cartel among the well owners to do likewise. The crude association, however, wrecked itself very quickly by contracting to sell at $1.25 per barrel, only to have prices in the open market advance beyond $1.50.[96] Subsequent efforts to regulate the industry were made, especially after the tariff hike of 1873. Both crude and refined associations emerged, and succeeded in keeping Canadian prices more than 100% above American.

Canada was at that time the cheapest crude producer in the world, the costs of production averaging about two cents a gallon. But in Toronto a gallon of refined sold at 35-40¢, the same size gallon of Canadian refined yielding 15¢ in New York. In London, England, Canadian refined sold for 21¢; in London, Ontario, near the centre of the oil industry, it cost 35¢. These price differentials were the work of the refiners' association presided over by Major John Walker of London, (who was also vice-president of Hugh Allan's abortive CPR syndicate). The cartels collapsed after duties were cut by the Liberal administration in 1874.[97] Cartels in both crude and refined emerged and collapsed intermittently until the National Policy gave them a new lease on life.[98]

The immediate effect of the tariff was to produce a merger of four of the leading Canadian refiners into Imperial Oil in 1880.[99] The merger still did not control the majority of the refining capacity in Canada. An effort to coalesce 50% of the total refining plant in 1888 was unsuccessful.[100]

American capital moved into Canadian oil in the 1890's, including the Bushnell Oil Co., which soon became the centre of a coal oil cartel.[101] Standard Oil itself did not appear to be represented in oil refining, though by 1897 it had control of a gas company supplying Detroit, and it had a distribution system for its products throughout Ontario, including market sharing arrangements with local firms.[102] But the facts were somewhat different, for Bushnell had since become part of Standard and was secretly operating as its agent in the Canadian refining centres. Bushnell began a mini-merger movement among the small Canadian refiners, and a series of them were soon absorbed. Standard then set out to acquire Imperial. It secured from the Laurier government a change in the import regulations regarding containerization, which permitted it to undercut the Canadian tariff and swamp the market with cheap oil.[103] After Imperial was forced to sell, Standard arranged with the CPR and the Grand Trunk for special discriminatory rates against other American refiners which were equivalent to an increase in the tariff. Secured in its Canadian monopoly and insulated from American competition, Standard began putting the squeeze on Canadian consumers and manufacturers by raising fuel oil prices or cutting off supplies altogether.[104] The refining industry in Petrolia was eliminated as refining operations were centred in one Sarnia plant, and Petrolia began to depopulate. Objections from Canadian manufacturers led to a reduction in import duties from five to two and one half cents a gallon, just equal to the increase imposed by Standard after achieving its monopoly, and this was followed by crude oil bounties to stimulate production.[105]

The Nova Scotia coal mines had a long history of successful collective bargaining with Canadian governments on coal tariff levels. In 1885, an effort was made by a combine of mine owners to band together to raise money for a railroad to give them better access to the Intercolonial Railway.[106] But co-operation and integration do not seem to have gone beyond this stage until 1893, when the H.N. Whitney syndicate of Boston capitalists got busy following a visit to Boston by W.S. Fielding, then premier of the province. Under the terms of agreement with the Dominion Coal Company, the Nova Scotia government, direly in need of revenue, accepted an increase in coal royalties from ten to twelve-and-one-half cents in return for the granting of a 99-year lease on coal lands acquired, with provisions for another 20-year extension. All of the funds required to purchase existing leases, which had 54 years to run, and which would then be nominally surrendered to the province in return for new and longer leases, were acquired at inflated prices from their English and American owners by a bond issue. Thus a near-monopoly was achieved without any real investment by the promoters.[107] In addition, the province pledged itself to build a railway to move the coal to a Cape Breton port.

For a province which had just won a long and expensive struggle to extricate itself from the cupidity of the General Mining Association, it was a ludicrous arrangement. There was nothing in the lease which precluded the promoters from pocketing a large amount of the capital, and this was promptly done. The lease itself was bonded for $6.5 million.[108] And fifteen million in common shares were issued, plus three in preferred of which $12.5 million represented promoters' stock.[109] U.S. coal duties were obligingly lowered in 1894. Only the prospect of the increased exports following the tariff reduction would seem to justify the enormous amount of water in the stock. Nor did the correlation of American ownership and the reduction of duties pass without notice. The *Globe* took a dim view of the proceedings:

> It will be noticed how cleverly the Yankees transact their affairs. They want our coal and pass a law to admit it to the United States free of duty. But it will be observed that before passing this law, they had already annexed our most valuable

coal mines. . . . The removal of their duty on coal is a roundabout way of annexing a portion of our territory.[110]

Despite the fact that the duty was slashed from 75¢ to 40¢ per ton of bituminous, the export trade growth was very slow. And in 1897 the Dingley tariff restored the 75¢ duty. The Nova Scotia syndicate then faced certain catastrophe with its absurdly watered capital. It requested higher Canadian duties to give it the Ontario market to offset the American loss.[111] This was granted by the Laurier government: the Minister of Finance who cheerfully introduced the legislation to tax Ontario consumers and industry for the sake of a handful of Boston promoters was none other than Whitney's old friend, W.S. Fielding.

Salt mining was another resource industry which, like coal, had been plagued by overexpansion. A combine was active in 1871,[112] and the tariff and the assurance of higher prices led to a round of undercutting of cartel rates,[113] but by 1882 the combine was reconsolidated. This new cartel began openly to advertise its existence and its terms of organization in newspapers, the following notice appearing in the *Monetary Times.*

SALT! SALT! SALT!

The Salt Manufacturers of Ontario having formed an Association and established a central office from which all sales will be made except Table and Dairy Salt sold by proprietors, beg respectfully to announce to the trade that all enquiries as to prices and orders addressed to the Secretary will receive prompt attention.[114]

The combine collapsed, re-established itself in 1885, and collapsed again. A new combine emerged in 1886[115] and was active in the campaign for Reciprocity in 1890. In 1892 in the face of sagging demand, new restrictions on output and the fixing of prices were imposed. One firm broke the cartel, but was barred by an interim injunction issued by a Goderich judge from doing business contrary to the combine agreement.[116] So effective was Canada's anti-trust legislation that cartels were enforceable in court!

With the creation of Van Horne's Windsor Salt following the strikes on CPR property, a new element was introduced into the combine picture. The 1895 price hike[117] was broken by the newcomer — without, it seems, any legal interference. By 1901, Van Horne and other CPR magnates, Strathcona, Angus and Shaughnessy together with George Cockburn, president of the ill-fated Ontario Bank, organized a highly watered merger of salt wells around the Windsor company, known as the Canadian Salt Company.[118] It immediately entered an international salt cartel with the British, American, and some other European producers, which held almost a complete monopoly of the world's salt refining capacity.[119]

In lumbering, the most effective efforts to organize the industry came in B.C., and dated from the virtual opening-up of the province to large-scale timber exploitation for export in 1892. That year, Victoria-based lumber firms formed an exchange to stabilize prices. Shingle mills began to organize in 1893 to prevent price cutting and overproduction. The American mills then began to export and undercut the B.C. mills, who were forced to follow suit or lose their prairie clientele.[120] From this flowed the cartel arrangements between the B.C. shingle and lumber mills and the prairie lumber dealers' associations. The results were sufficiently impressive to spark imitators, and in 1900 shingle manufacturers in New Brunswick, Quebec, and Maine formed a cartel and jumped their prices.[121] In B.C., however, shingle makers were still troubled by overproduction. In 1901 a centralized distribution plan through a Chicago agent was put into effect to try to stabilize prices.[122] In 1903 overproduction again threatened the cartel, and output was restricted by eliminating night shifts and one day shift in four in all mills.[123] More success seems to have crowned the lumber mills' restrictive efforts, for by 1901 they had formed an Association with their American Pacific Coast confreres, and in any event J.J. Hill was making moves towards buying up a lot of the milling capacity,[124] along with his myriad other Pacific Coast ambitions.

By that date two American monopolies had established themselves in mining. From 1900 on, Aluminum Ltd., the Canadian refining subsidiary of the Aluminum Company of America, sat on the international cartel as its parents' representative.[125] And in 1902, J. P. Morgan effected the merger of the American nickel mines and smelters in Canada along with a string of other companies into International Nickel,[126] giving U.S. Steel a virtual monopoly of the mining, refining, and sale of nickel. The only other large firm was the English Mond, and the two colluded effectively.[127] With their connections with the federal and Ontario governments in Canada, and the New York and London capital markets, they blocked any new entrants.[128]

The Food Processing Industry

Developments in cane sugar refining parallel those in cotton — rapid expansion after the National Policy, then drastic liquidation. Over 1884, sugar prices fell 40% and the Kenny-Stairs Nova

Scotia Sugar Refinery alone lost over $200,000. Difficulties were compounded by the fact that due to the method of customs valuation Montreal refiners paid lower duty on their raw requirements, and by the discrimination on the Intercolonial Railway, which gave better rates on raw than on refined sugar moving west.[129] The Moncton Refinery also lost heavily with the fall of prices.[130]

By 1886 some improvements were apparent. The Halifax refinery had absorbed the Woodside Sugar Refining Co. and closed it down, later selling the property in which $750,000 had been invested for $180,000.[131] The Halifax firm then reorganized and refinanced itself with the backing of the Merchants' Bank of Halifax.[132] The Maritime refiners secured the prohibition of yellow sugars, which competed with the low-grade Canadian, an increase of the tariff to 35% *ad valorem* plus one cent a pound, a reduction in freight rates from Halifax to Montreal, and the exclusion of imported beet sugar. As the refiners stressed, "the exclusion of beets means a West India trade for Nova Scotia."[133] Over 1887 the Halifax refinery paid thirteen per cent dividends, while Montreal's Canada Sugar Refinery declared only its usual ten. By late 1888 all debts incurred in reorganizing the Halifax refinery were discharged while the dividend over the year rose to 20%.[134] No cartel was actually required to squeeze out these dividend levels: in addition to the higher tariff, output for the industry as a whole was cut 20% by the burning down of the St. Lawrence refinery, to which the other refiners responded by advancing prices.[135] The Maritime refineries were able to exploit the space created and export to the Northwest.[136]

By 1890, conditions had improved sufficiently for reactivation of the Woodside refinery, which passed into the hands of an English syndicate formed to try to merge all the Canadian refineries, beginning with those in the Maritimes.[137] Permission for the merger of the three Maritime refineries was refused by Ottawa; to circumvent the ban of the merger the syndicate simply had the Acadia Sugar Refinery chartered under imperial statute and proceeded with the consolidation.[138] While the remaining refineries were not incorporated into the merger, a combine arrangement to fix prices was operational.[139] Further merger activity was probably impeded by changes in the tariff. In 1895, to raise badly needed revenue, the Conservative government taxed raw sugar,[140] while Laurier in 1897 kept the raw sugar tariff intact and reduced the refined duty. This drew immediate protests from the West Indies merchants of Halifax, who feared for the loss of their carrying trade in the face of a growing world supply of bounty-fed beet sugar, especially from Germany.[141]

Response to the tariff of 1879 in the milling industry was mixed. Some firms took exception, and in 1886 the oatmeal mills of Ontario formed a combine[142] to lobby for Reciprocity. Before the Association was formed, Ontario alone had 60 mills. The four largest mills alone could have fulfilled the Dominion's total needs. In 1888 an arrangement was entered into whereby the mills ran only one day every two weeks, prices were fixed, and subsidies were paid to some mills not to run at all.[143] The arrangement proved unenforceable and quickly collapsed.[144] Difficulties were compounded by the subsequent establishment of branch plants of the big American cereal companies.[145]

Flour mills began to organize in Ontario in 1881, to regulate the use of credit in their sales. The competition of many small mills made the agreement to restrict credit unenforceable.[146] Excess capacity was again a problem. By 1890, the mills were running full time only two months a year.[147] Led by Ogilvie's, a flour milling merger was attempted in 1890 with the help of an English promoter, but without outside capital. This failed, but a cartel arrangement was evolved including the Hudson's Bay Milling Co., Lake of the Woods, and other leading producers.[148] At the same time the miller's association, now Canada wide, was agitating for tariff reform, for a new duty on American flour, and a change in the spread between the flour and wheat duties, which discriminated in favour of the maintenance and extension of the entrepot trade in American flour.[149] This was a long-standing complaint among Canadian millers, and it continued to be voiced, in addition to the fact that preference was given to the export of Canadian wheat over Canadian flour.[150]

The canning and packing industries fitted the familiar pattern of small firms, ease of entry encouraged by municipal bonusing, and resultant excess capacity and efforts at cartelization. In the vegetable canning industry there were 25 failures from 1885 to 1897, costing shareholders $300,000, yet new firms kept emerging.[151] The first to organize in the packing industry were the Ontario Pork Packers. In response to the tariff issue, they formed an association including both packers and wholesale distributors in 1879, calling for tariff stability.[152] In 1880, it made its first restrictive moves by agreeing on shorter credit conditions.[153] By the late 1880's, it had congealed into an effective unit lobbying for tariff increases, bitterly opposed by the lumbermen whose shanties were the source of much of the demand for the pork packers' products.[154]

Canada's fruit and vegetable packers and canners met first in 1883 to form a price fixing arrangement.[155] In 1894 came the creation of the more permanent Canadian Packers' Association including all but one of Canada's fruit and vegetable packers. The association agreed to make sales only through the wholesale grocers and appointed brokers, with a cash penalty for anyone breaking the arrangement. Output was to be cut 25%, and prices stabilized.[156] Over-entry was still a problem, and bumper crops led to releasing of the members from the combine agreement.[157] By 1905, in the first of a series of mergers, 24 Ontario factories were rolled into Canadian Canneries Company, a two million dollar venture.[158]

The multiplicity of salmon canneries on the Pacific Coast posed similar problems. By 1884 there were already twelve, and the province was still not opened up by the CPR. Dozens more small canneries were added over the next decade-and-a-half. In 1891 a merger of seven canners took place, the others refusing to join. In 1895 an English syndicate acquired a group of nine. But not until the 1897 cartel arrangement, fixing prices and output, was organization effectively imposed on the industry.[159] In 1902 a merger of 44 canneries into the B.C. Packers' Association was effected, with the support of the Bank of Montreal. Capital *issued* came to $2,740,000.[160] To pay dividends and interest, the corporation exploited its monopoly power to the full, reducing prices paid to Canadian fishermen until, by 1910, they fell to half the level received by American fishermen.[161]

In the tobacco industry, no cartels of any degree of success seem to have been organized before the 1900 mergers. The industry had been dominated by small firms and was one of the few in which Québécois competed on equal terms with Anglophone businessmen.[162] But by 1900 the market was consolidated and dominated by two foreign affiliates, the American Tobacco Company and the Empire Tobacco Company, American and British respectively, along with Macdonald's, the largest Canadian firm. The two foreign firms, as part of their international peace agreement, merged their Canadian subsidiaries into one firm operating under licence.[163] After the merger a number of small Canadian plants were bought up and closed to curtail output, in Joliette, Montcalm, and L'Assomption counties, including the Granby plant, and considerable unemployment as well as a substantial curtailment of farm incomes followed.[164] Competition from the remaining outside firms was reduced by the device of forcing dealers to sign exclusive contracts and to maintain retail prices. Macdonald's and the Anglo-American firms arrived at a market sharing arrangement. A Royal Commission declared the arrangements were legitimate and not in restraint of trade![165]

Iron and Steel Industries

The iron founders of Ontario and Quebec, many small firms just emerging from the handicraft stage, celebrated Confederation by the formation of the Canadian Iron Founders' Association to regulate the production of stoves. With the National Policy came the predicted flood of capital into the industry; within a decade its capacity was four times the level the Canadian market could support. By 1888 there were only 18 members from Ontario and Quebec in the Association, with at least 40 outside; hence its impact on the structure of competition appears to have been minor. Moreover, the activities of the Association were restricted to stoves, despite the fact that most founders produced a range of output including agricultural implements of a simple mechanical sort.[166]

Beginning in 1882, a parallel organization functioned in the Maritimes, with more success in fixing stove prices.[167] This association met annually to determine price adjustments and credit conditions.[168] The only early merger of consequence was the 1893 absorption by Rhodes, Curry and Co. of the St. John foundry, James Harris and Co.[169]

In Ontario by 1890 the Association was making renewed efforts to regulate the industry. As one member put it, "The tariff protected them from American competition — it was not enough. They needed protection from themselves."[170] In 1900, American promoters mounted an effort to merge all of the leading stove founders, but failed in the face of resistance from Gurney and other major firms.[171] An effort to effect a smaller merger two years later also came to naught.[172]

Several other cartels operated in various areas of the iron and steel industry. The Barbed Wire Association was a creature of the 1872 Patent Law, embracing all of the Canadian producers, all of whom were licensees of American firms.[173] The tariff of 1879 opened the way to price fixing as well,[174] and the combine succeeded in keeping Canadian prices charged to farmers well above the American level.[175]

One characteristic of the industry was the phenomenon of super-associations embracing a wide variety of interests who in turn also had sub-associations to look to their peculiar needs.[176] Thus, the barbed wire manufacturers were also members of the Iron and Steel Association of Canada. This organization held annual conventions at elegant hotels to fix prices and the terms of sale, that is, the credit terms that each firm offered — the openness of the proceedings being sufficient comment on

Canada's 1889 anti-combines legislation. Among the members of the club were the Montreal Rolling Mills, the Ontario Tack Co., Pillow-Hersey Manufacturing Co., H. R. Ives's Dominion Wire, the Canada Screw Company, the Safety Barbed Wire Co., and the Ontario Lead and Barbed Wire Co. Prices usually followed American trends. Price advances also followed the beginnings of the great expansion of the primary iron and steel industry in Canada, which, despite the switch from tariff to subsidy aid, led to a substantial increase in iron prices.[177]

One of the more volatile sub-associations was that of nail manufacturers, which regulated prices and credit conditions in co-operation with the American cartel. The American organization's exactions reached the point where American merchants were able to go to Europe, purchase nails exported there by the American combine, reimport them paying duty and transport costs, and still profitably undercut the combines' local prices. In Canada the nail makers averted dumping by the American cartel only by paying protection money in the form of a royalty on the output of Canadian factories to the American combine.

During gluts, selected factories in Canada were closed to curtail output and maintain prices.[178] It was standard practice to fix retail prices with the dealer. If stocks became excessive instead of lowering prices, the combine would announce increases. Merchants would then rush to purchase before the price hike went into effect, and the burden of carrying stock was then pushed onto the merchants. The Waterous company refused to participate in the nail combine, and the organization then sought to close it by withholding raw material, and subsidizing the nail making machinery producers not to deal with it.[179] Another problem of regulating production was posed by the Montreal Rolling Mills, which dropped out of the cartel in the face of excess capacity in 1896 and began cutting prices. Order was restored, however, and price fixing recommenced.[180]

In the pre-1907 period, two major mergers in the primary iron and steel industry occurred. In 1890, the Nova Scotia Steel and Forge Co. absorbed a New Glasgow mining company and was reorganized into the Nova Scotia Steel and Iron Co.[181] The General Mining Association properties were added in 1900, followed by a series of other local firms, and the merger was reorganized as Nova Scotia Steel and Coal Co.[182] Of its authorized capital of $9.5 million, some $4.12 million was issued. Several features of the merger stand out: its bonds were all sold in Canada, largely in the Maritimes with the help of the Bank of Nova Scotia,[183] control remained in the hands of the Maritime owners of the original firms, and a substantial sum was spent on enlarging and developing its works after the merger[184] — quite a contrast to the contractions that seemed to follow in the wake of some central Canadian efforts.

Equally successful for all but its original promoter was the reorganization of Francis Clergue's holdings into the Consolidated Lake Superior Corporation. Clergue's enterprises by 1901 represented an investment of nine million dollars, all of it from equity.[185] The 1903 reorganization valued the assets at nearly $28 million. Late in the year, scarcity of working capital was crippling the company. Wages were in arrears; workers, faced with starvation, were rioting. In 1904, the Ontario government guaranteed a two million dollar loan for the company, which fell into the hands of an American syndicate through the New York bank which made the loan. Clergue was relegated to a back seat.[186]

Consumers' Goods Industries

Cartels and mergers to achieve market power were found in virtually every facet of Canadian industry before the great merger waves after 1907. The first efforts by the paper manufacturers to organize came after the 1879 tariff, followed by similar abortive efforts in 1886 and 1892. Not until 1900 was success achieved, following a period of declining newsprint prices. The price decline was arrested and reversed by the manufacturers' cartel. The situation was also improved by the enormous demand for newspapers as a result of the Cuban and South African wars.[187] But demand factors alone did not account for the price rise, for over the same period that Canadian paper prices shot up, American prices of paper made from Canadian pulp fell.[188]

In 1889, Ontario's furniture manufacturers organized to find ways of regulating credit conditions in the industry,[189] and the association soon spread across much of Canada with price fixing power,[190] though it remained mainly based in Ontario, amply assisted by municipal bonuses. In 1899, Senator Robert Jaffray tried to promote a merger of 24 Ontario firms with the aid of British capitalists who were to take one-third of the equity. No bond issue was planned, nor were any issues outstanding, and the total mortgage debt of the component firms was only $80,000, much of it non-interest-bearing in the form of bonus loans from municipalities.[191] But the Boer War led to an income tax hike in Britain, and the head office would have had to be located in Britain as a condition for the investment of British capital.

The Canadian manufacturers then went ahead themselves with the merger, and kept out all outside promoters. The primary objective of this company was to rationalize competition among a myriad of small firms and to develop an export trade, especially in Britain, as a vent for the surplus productive capacity.[192] The successful merger, the Canadian Furniture Manufacturers' Co., which controlled 75% of the total Canadian output, led to a scramble among Ontario towns to attract its headquarters.[193] Export trade was developed by the addition of a major exporting house to the merger, and the inclusion of a large number of independent firms into an exporting association with British agencies.[194]

One of the most spectacular and least successful of the mergers of the period was that which grew out of the bicycle manufacturers' cartel[195] when the industry began its rapid expansion near the turn of the century. Five firms were initially purchased by a syndicate headed by Senator George Cox and Sir Joseph Flavelle in a two million dollar swindle called the Canadian Cycle and Motor Co. (CCM). One of the firms was a branch plant of an American firm, most of the rest were licensed by American companies.

The five original firms were purchased for $1,397,500 and the properties were then sold by the syndicate to the new firm for $1,740,000. Of the difference of $342,500, brokers' fees were $20,400, fees to the provincial treasurer $400, and "underwriting costs" accruing to the syndicate members $250,000. Profits of the original firms in 1899, the year of the merger were $300,000; in 1900 they were $195,000; in 1901, $2,000; and by 1902 there was a loss of $130,000, part of it due to the purchase of a sixth firm at an inflated price.[196] As soon as the stock of the original merger was subscribed, it began to fall. The directors then took $450,000 worth off the market at 92 to keep up the quotation, and it was rumoured at the time that the purpose was to maintain the value so the directors could unload their holdings later at an inflated price. In fact the directors chose instead to plunder the treasury by voting $175,000 in dividends in 1901 — when total profits that year were $2,000. The directors, of course, were major stockholders. A series of suits by small stockholders were launched to try to force repayment of the $175,000 and to invalidate the purchase of the sixth firm. Severe cutbacks had to be made to save the waterlogged firm; unprofitable distribution agencies were eliminated, its foreign business reduced, and production centralized by moving the Brantford and the Hamilton plants to Toronto Junction. The only profitable part of the merger turned out to be the section that assembled automobiles on American patents from imported parts.[197] For Hamilton, it was one of its few losses in the bonusing game, for the plant which was closed down had been secured from Windsor in 1900 for a privately subscribed bonus of $25,000.

There were numerous other examples of organizations to enhance market power — efforts by boot and shoe makers and tanners to regulate credit and fix prices, by woodenware makers, by the St. Jean enamel works, the woollen mills, the various metal working industries, etc. Mergers occurred in many lines. Canadian General Electric, formed by a syndicate headed by Fred Nicholls and operating under licence granted from the American parent in 1893, was in trouble from the start; large amounts of water in its stock forced immediate and substantial dividend reductions.[198] Canada-U.S. conferences of rubber manufacturers began meeting to fix continental prices from 1879.[199] Out of this in 1906 came the Canadian Consolidated Rubber Company, a Montreal holding company under the leadership of Hugh Montague Allan and D. Lorne McGibbon. The merger parallelled that in the U.S., and in 1907 a controlling interest was acquired by the American trust. This share increased to a clear majority by 1911, when several new firms were added. The American firm then had a virtual monopoly of the continental market for an industry which the advent of the automobile had revolutionized.[200]

Industrial Mergers, 1907-1914

The early mergers, apart from the 1904 cotton effort or CCM, were largely industrial in origin, and generally conservative in their objectives, though some flagrant cases of stockwatering did occur. Most of them involved either overcrowded industries with many small firms, or the consolidation of relations between American oligopolies and their Canadian relatives. But after 1907 mergers showed distinctly new characteristics.

The new wave followed the upward revisions of the tariff in 1907, and would have been virtually unthinkable without it. The high tariff and assured tariff stability were essential in deciding upon the level of capitalization, for tariffs, bounties, municipal bonuses, and every other species of hand-out were capitalized as assured earnings in determining the water levels of the new concerns.

The new mergers involved outside promoters, generally Montreal, but to a lesser degree Toronto and Halifax financiers as well. These men had no interest in or ability at industrial management, but were interested solely in quick promoters' profits on a grab-and-run basis. The flotations often came to grief, but not before the promoters had garnered their rewards.

The new wave of amalgamation occurred, too, in the context of a confluence of ideal capital market conditions. The year 1909 saw the real beginnings of the merger movement. Industrial common stock prices, always weak, were exceptionally low in the 1907-1909 period.[201] In 1909, call money rates in Montreal reached an all-time low, falling from a monthly average of 5.47% in 1908 down to 4.21, then rising to 5.25 in 1910. And for the first time a flood of British portfolio investment was available for Canadian industrial bonds on a great scale.

It must be stressed that the mergers did not involve any sort of industrial risk capital. The risks, if any, had already been borne by the initial investors who set up the firm, which was absorbed into the merger as a going concern. The finance for the watering job came from borrowings in the form of industrial bond flotations, and included no risk to the promoters, who simply intermediated. The degree of monopoly resulting, together with the tariff, would in fact serve to reduce the risk, if the mergers were sensibly effected, by making earnings more secure.

The tariff was essential to success. The corporations had to raise prices and exact all they could from consumers in the form of oligopoly profits to ensure a sufficient level of earnings to pay dividends on the bloated stock issue and interest on the bonds. Without the tariff these firms would have collapsed. Some of the old cartels had leaned to free trade, for an assured American market would have eliminated the excess capacity that forced the combine arrangement; now they were formally merged, one and indivisible, and converted by a stroke of the pen into powerful lobbies for renewed and heightened tariff walls. Unlike the old cartels, the new mergers had chronic inefficiency built into their fabric by the actions of the outside promoters and their British backers. By 1911, the final decision was forced in the political arena by the defeat of low tariff forces in the Reciprocity campaign. Tariff stability was assured. Canadian industry was consolidated in its position of acute inefficiency, excess capacity, and high prices, with a huge burden of bonded debt for which the Canadian consumer had to pay to settle the interest claims of British financiers. In addition, the technology of the industry was confirmed as derivative of American patents and models.

The leading promoters of the era were Louis Forget and his associates, E. R. Wood of the Cox empire and several other Montreal and Toronto magnates — but above all, Max Aitken

(Lord Beaverbrook). Aitken began his career in Halifax with J. F. Stairs, president of Nova Scotia Steel and Coal and the Union Bank of Halifax. Aitken planned several mergers in Nova Scotia and the Caribbean before he shifted his Royal Securities to Montreal in 1906.[202] Thereafter came a series of mergers, many of the biggest and most controversial of the era bearing his trademark. Before he finished his promotional career he had been involved with Canada Power, Calgary Power, Western Canada Power, Cape Breton Trust, Union Bank of Halifax, Demerara Electric Co., Camaguey Electric and Traction, Puerto Rico Co., Robb Engineering, Standard Ideal Co., Canadian Car & Foundry Co., Canada Cement, and the Steel Company of Canada (Stelco).

The Fielding tariff increases of 1907 triggered off an immediate reaction. The woollen industry had gone into decline during the great expansion, with output falling absolutely from $14 million worth in 1899 to $7.6 million in 1909. The number of mills fell drastically, and employees declined from 6,956 to 4,263.[203] In 1900 the Canadian Woollen Mills Co. was organized by Manville of Johns-Manville, New York, at St. Hyacinthe. It merged five woollen mills, but failed by 1902.[204] In 1904 the British preference was largely eliminated rescuing the woollen mills from oblivion, and after the 1907 tariff changes another effort at merging was mounted. A series of independent mills at Thorold, Paris, Port Dover, Almonte, Brantford, Coaticook, and St. Hyacinthe were merged into Penman's Manufacturing Co., with six million authorized capital.[205] It was a ridiculous capitalization, given that the total output of all 87 mills in Canada in 1909 was only $7.6 million.

The next year, the still overcrowded Ontario canning industry witnessed the formation of Consolidated Canners, which, in a rare event, was forced to reduce its prices when the independent canners fought back. Other mergers occurred in 1908 in the food industry. The Atlantic Fish Co. merger, backed by the Bank of Montreal which provided interim finance until the bonds were sold in London, produced a powerful Maritime fish concentration to parallel the already existing Pacific salmon trust.[206] Over the period 1901-1911 the number of fishermen working from small boats fell by nearly 20%, while workers in canneries rose a like amount,[207] reflecting a shift in the mode of production from independent commodity producer and fish merchant to wage labour and industrial capital.

In 1908, as well, an iron and steel merger took place. The Canada Iron Corporation combined a number of primary and secondary firms, including the Drummond-New York joint venture, the Canada Iron Furnace Co. together with some Ontario mines. This and the big iron and steel mergers to follow included in their overcapitalization a generous estimate of the value of the iron and steel bounties which the federal government lavished upon them, as well as tariffs and local bonuses. The largest of these later iron and steel mergers were the union of DISCO and DOMCO into Dominion Steel, following a victory of the Canadian Northern group over the CPR forces in those concerns,[208] and Stelco, the CPR's subsequent effort to consolidate an integrated iron and steel complex of its own, combining the Montreal Rolling Mills, Canada Screw Co., the Hamilton Iron and Steel Co., Pillow-Hersey, the Hodgson Iron and Tube Works, and Dominion Wire among others. Several of the Stelco components were licensed by U.S. firms, some were the creation of American capital without ties to an American parent, and at least one was a joint venture of U.S. and Canadian capital.

It was the 1909-1912 period when the merger movement proper blossomed forth. In that four years, 58 industrial amalgamations occurred, including some 275 individual firms, with a total authorized capital of $490 million of which 337 million was issued. The new merger wave embraced every facet of industry from canneries to shoes, with iron and steel well represented. Of the nineteen largest from 1908 to 1910, the aggregate capital came to $200 million, of which $165 million was issued while the total capital of the component companies was only $65 million. And of them the total expenditure on new plant and equipment was but $1,100,000.[209] The promoters' profits poured into interest and dividend payments instead of being reinvested in plant and equipment.

One particularly notorious case was that of Max Aitken's Canada Cement operation. In 1901 there were nine plants in Canada with five more under construction, and already overproduction was noticeable.[210] Four of the earlier plants had already been merged by E. W. Rathburn and a syndicate of Philadelphia and Toronto capitalists including E. B. Osler and W. D. Matthews.[210] By early 1903, the cement firms had formed a special branch of the CMA to agitate for higher tariffs, at the same time claiming to have a great export potential.[212] Yet the flow of new capital into the industry continued.[213] Cement dealers in 1906 agitated for tariff reductions to break the cartel.[214] A period of falling prices set in, despite tariff stability;[215] the Bank of Montreal, which backed several firms, began pressuring for restrictions on production. Aitken merged eleven of the 23 existing producers into Canada Cement in 1909. The value of the assets of all 23 was only $15 million, but the new merger was capitalized at $38 million, of which $32.5 million was eventually issued. The owners of the merged factories were paid $1,348,000 in bonds, $4,316,800 in preferred, $2,155,850 in common stock, and $1,001,600 cash — a total of $14,822,250, by itself representing a large amount of water.[216]

TABLE XIV (1)

Business Consolidations 1900-1914

Year	Number	Firms Merged	($ million) Capital Authorized	Capital Issued
1900-1908	8	57	$ 43	$ 33
1909	11	51	139	84
1910	22	112	157	113
1911	14	44	96	65
1912	13	37	97	75
1913	5	16	n.a	n.a.
1914	2	4	n.a.	n.a.

Sources: H.G. Stapells, *The Consolidation Movement*, p. 12; Royal Commission on Price Spreads, *Report*, p. 28; *MT*, Sept. 24, 1910, pp. 1328-30.

The merger coincided with a great building boom in Canada,[217] and as a result the average price of cement in Winnipeg rose immediately from $1.80 to $2.40 per barrel.[218] In addition, the quality of the cement deteriorated, and there were accidents to construction workers, some fatal, and attributed by building inspectors directly to the low quality of the cement.[219] Aitken was awarded a knighthood, and left Canada in 1911 to immerse himself in British politics. The *Grain Growers' Guide* greeted his departure with the prediction, "Probably he will now set out to 'save the Empire' by the cement process."[220]

Merger followed merger as the big waterlogged concerns found their financial salvation in control of markets. To the already enormous Canadian Consolidated Felt Co. in 1911 were added the Ames-Holden and McCready shoe manufacturing firms, giving D. Lorne McGibbon virtual control of the footware market.[221] Canada Leather had control of a minimum of 75% of its market by 1910. Rolling stock companies and foundries, including Nova Scotia's Rhodes, Currey and Co., merged into Canadian Car and Foundry, controlling 85% of total Canadian production. The Canadian Canneries reorganized as Dominion Canneries, adding another 24 small firms and giving it control of 90% of Ontario's output, which constituted 95% of the Canadian total. The Wholesale Grocers' Guild announced that the only way for grocers to still make a profit in trade in the face of such a monopoly was for them to "work in harmony" with the canning merger. [222] The canning merger went one better than its brethren in other industries, for it introduced water not only into its equity but into its products as well. In 1913 a series of samples of canned tomatoes were taken by Dominion government analysts, which showed that one-third of each can was water, while 60% of the samples were below American state government standards.[223] There were no Canadian government standards.

In flour milling came a series of mergers. Maple Leaf Milling issued more than treble the former capital of its constituents. It controlled, as well, a long string of western elevators, while another milling merger, Canadian Cereal and Milling Co., was largely Ontario-based. It was subsequently absorbed into an American-based consolidation, while seven more Ontario milling companies formed another merger in 1911.[224] Meat packing was added to the list of food processing consolidations, and in 1911 the B.C. lumber mills' cartel spawned two mergers.[225]

Not all of the big mergers after 1907 involved Montreal promoters. There were several cases of American-based movements in this period as well as the earlier. Sherwin-Williams Paints was a merger of three firms, one Canadian, one British, and one American, which remained under the American parent's control via licensing.[226] Two large licensed joint ventures in mining equipment and machinery, the Canada Rand Drill Co. (1899) and the Ingersoll Rock Drill Co. (1882), were combined in 1912 as the Canada-Ingersoll-Rand Co. parallelling the parent's merger.[227] In 1906 Bell Canada, one-quarter owned by ATT, bought control of Northern Electric and Manufacturing, in which Western Electric held part interest. Imperial Wire & Cable was also jointly owned and in 1914 the two were merged into Northern Electric of which 44% of the stock was held in the U.S.[228] The gunpowder manufacturers, which had long been a part of a Canada-U.S. trust, were merged under American control in 1911; the only firm not taking part was a branch plant of an American operation.[229]

Another American move that sparked a great deal of controversy was the move into Canada of the United Shoe Machinery Co. This firm, a branch plant, had quickly secured a virtual monopoly by virtue of its patents and through a system of twenty-year exclusive contracts with the lessors of its machinery.

Prices of the machines rose abruptly after the branch plant absorbed smaller Canadian firms.[230]

American moves into the resource industries also occurred as an adjunct to American manufacturing mergers. In asbestos mining, the little Canadian mines relied on advance sales for operating capital, and when a big merger of manufacturers took place in the U.S., the Canadian mines were deprived of advance sales revenue by the combine's new policy of pushing the burden of carrying stocks of ore onto the mine owners. Insufficient funds could be found in Canada to hold the ores, and most of the little Canadian operations were forced to sell high-class properties cheaply to American mine promoters.

In 1909, the Amalgamated Asbestos Co. grew out of the earlier cartel that had followed American purchases of Canadian asbestos mines with Louis Forget's assistance. The Bank of Montreal, the Bank of Commerce, and Royal Trust all supported the merger, which by 1912 had to be reorganized as the Asbestos Corporation of Canada with capital cut 50%.[231]

The merger wave led by Montreal promoters ended as abruptly as it began in 1912. Drastic liquidations portended by CCM and pioneered by Asbestos led to reorganization and capital reductions. The process of retrenchment began before the war and did not peak until 1921. Even before the war cut Canada off from British portfolio investment, British capital was frightened away from Canadian industrial bonds by the early liquidations.[232] For the fact of heavily watered equity meant that bondholders ended up putting up the money for capital expenditure and promoters' profits and expenses, with the result that bondholders had no more security than if they were actually the stockholders. If the company failed they stood to lose heavily; if it succeeded then the water became valuable. A string of firms saw their securities begin to depreciate or even go into default on interest[233] before the war intervened to save them temporarily.

In Canada widespread outcry followed the merger wave as prices of consumer goods and building materials shot up while wages lagged. But public policy was little more than incantation. Oligopoly and monopoly had been built into the fabric of Canadian economic life from the time of the Hudson's Bay Company charter in 1670 to the CPR monopoly clause in 1880 to the great mergers of the pre-war period. The anti-combines act of 1889 was never enforced, and was in any event virtually unenforceable. What little strength the original bill had was eliminated by the Senate, in which the representatives of big business held lifelong tenure. Inserted into the clauses was the word "unduly" whenever the bill decried restraints of competition, and it was otherwise rendered innocuous by being transformed into a hotch-potch of sunny banalities.[234] The only action ever taken against a cartel came in 1902, when Fielding reduced the tariff on paper from 25 to 15% in response to the complaints of the newspapers against the paper combine. An effort to push a bill through the Ontario Legislature forbidding stockwatering after the Dominion Canners merger failed after a stormy session.[235]

Nor were the courts of much use. One of the rare convictions, by the Superior Court of Quebec, held that the United Shoe Machinery Co. was a combination in restraint of trade: it was overturned by the Judicial Committee of the Privy Council, which insisted that legislation rather than litigation was the proper solution.[236] And legislation followed in the best of Canadian traditions. In 1910 the Minister of Labour, Mackenzie King, was forced to act by the vacuum created by the court decision, and by the mounting public pressure, which laid the blame for the inflation of the period squarely at the feet of the great trusts which contributed so much to Liberal Party campaign coffers. Tabling his Combines Investigation Act, he prefaced it with the words:

> I would like the House to understand that in introducing this legislation, no attempt is being made to legislate against combines, mergers and trusts . . .[237]

When the laughter subsided, the promoters got to work once more.

The Act was aimed at abuses of oligopoly power, not oligopoly per se, and such undue abuses of corporate powers were apparently rare indeed: the Act was never enforced, while merger after merger was effected. As to the price rise, this was neatly imputed to the rising volume of world gold production and the inflow of foreign capital,[238] carefully ignoring the fact that Canada's money supply bore little or no relation to gold reserves,[239] and the fact that much of the inflow of capital went to sustain the great industrial mergers. It was a piece of political sophistry that accorded with the best principles of neo-classical economics.[240]

Conclusions

The industrial structure in Canada until the 1890's was fairly traditional. Small firms, often with a local orientation, typified most industries. Many of the consumers' goods industries in particular were badly overcrowded. During the deflation phase of the long cycle, the result was a squeeze on profit margins and vigorous, often unsuccessful efforts at cartelization. Cartels and profit pools were difficult to maintain during a period of secular deflation, for falling costs encouraged firms to break ranks and begin price cutting. Mergers were occasionally attempted during this period as methods of curbing competition, but they were relatively few and far between, partly because of the effects of the deflation and partly because the Canadian capital market provided no scope for dealing in industrial equities. After the inflation phase began, monopolization accelerated. From 1896 to 1907 many new mergers were created, mainly by the participating firms. For secular inflation meant that the former potential for getting one step ahead of competitors by price cutting was restricted due to the prospect of increasing costs over time. After 1907, when tariff stability was assured and capital market conditions improved greatly, the potential existed for a great merger wave. The expectation of continued inflation encouraged enormous stock watering operations, and the inflated prices at which the components of the mergers were purchased would be recovered in part automatically through inflation, in part through the exploitation of the monopoly created — which monopoly price increases in turn fed the inflation. Supported by British industrial bond purchases, the merger wave created an industrial structure totally dependent on the tariff to permit the mergers earnings levels sufficient to pay interest and dividends on their waterlogged capital.

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212. *MT*, Jan. 30, 1903, p. 951.
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224. *MT*, July 1, 1911, p. 121; July 15, 1911, p. 321.
225. *MT*, Oct. 21, 1911, p. 1712; June 17, 1911, p. 2416.
226. *MT*, June 10, 1911, p. 2321.
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228. H. Marshall *et al*, *Canadian-American Industry*, p. 128.
229. *MT*, Jan. 7, 1911, p. 150.
230. *HCD*, April 26, 1910, p. 8000; *MT*, March 4, 1911, p. 916.
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232. *CF*, Jan. 7, 1914, p. 21.
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235. *MT*, Feb. 25, 1911, p. 823.
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237. *HCD*, April 12, 1910, p. 6803.
238. *HCD*, April 12, 1910, pp. 6814, 6817; *CLRI*, p. 28.
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240. See especially J. Viner, *Canada's Balance*, p. 217 *et passim*.

The big bankers are all fighting Reciprocity. It must be a splendid thing for the people.

Grain Growers' Guide, 1911

CHAPTER XV
Reciprocity

Early Debate

Because Canada remained largely an agrarian society, Reciprocity with the United States, at least in natural products, remained on the level of theory, if not in fact, the ultimate objective of federal commercial policy until 1911, when the issue was finally settled.

From an early period, leading manufacturers began to point out the difficulties inherent in Reciprocity. Aside from the issue of patents, where Reciprocity would lead to a wholesale destruction of Canadian business operating in Canada under licence from the U.S., the loss of branch plants was an early and powerful counter-argument. The possibility was also raised that branch plant closures would be followed by a movement of skilled labour and even of Canadian capital to the U.S. The chance of being out-competed by American producers whose longer production runs kept costs down was anathema to many Canadian producers. Leading industrialists like Edward Gurney and Samuel May were active in the fight against tariff reductions, as were various branch plant managers.[1] The sweated labour argument was a popular one. And faced with a drain of population to the U.S. that showed no sign of abating in spite of the National Policy, the CMA outdid its normal standards of sophistry and argued that the loss of population would be worse in the absence of protection.[2]

While farm opinion, and that of a number of export staple industries, was favourable to Reciprocity, it is important to note that in the early period a substantial body of manufacturers, too, favoured free trade with the United States. In agricultural implements, the leading firms were active in the free trade campaign until the late 1880's, when Massey began to hedge. By 1895 too, W. H. Frost, formerly a Reciprocity advocate, announced he would seek election to the Commons as a "National Policy Candidate,"[3] a rather poor euphemism for Tory. Many industries, however, did not show such a change of heart, and these cases are revealing.

In 1888, some secondary paper manufacturers declared themselves in favour of free trade provided it applied to both raw material and finished goods. From their point of view, the raw material tariff more than negated the protection to final product.[4] Nor were they alone, for free trade sentiment could be found in a large number of industries through the 1880's and early 1890's and for a variety of reasons.

A Guelph carriage manufacturer reversed the usual logic and advanced the opinion that Reciprocity would be more useful in blocking the outflow of population than the National Policy had been, and would, moreover, lead to an expanded inflow of American capital. He wanted freer access to the American market for his already substantial exports. Representatives of the organ and piano manufacturing industries also called for free trade, for without the raw material tariffs, they could compete on a continental scale.[5] A furniture manufacturer joined the chorus of complaints against the tariff on raw materials and protested the lack of access to the American market, denying that any real long-term growth of the industry had followed the National Policy.[6]

Several staple industries were strongly in favour of free trade. The malt industry, which had been virtually wiped out by American tariffs, wanted the market reopened. One planing mill operator claimed that prices would fall with Reciprocity but that expanded volume would more than offset any reduction of profit margins.[7] The flour millers called for access to the New England market to ease the excess capacity that had built up in their industry. Canadian mills by 1890 were running two months a year, while New England mills were running 24 hours a day all year and still could not meet demands.[8] The Oatmeal Millers' Association testified before the Combines Committee in 1888 that if Reciprocity existed, the oatmeal millers' cartel would not.[9] Hog producers, flax mills, and other farm-based industries wanted access to the American market, complaining of raw material duties which raised their costs and penned them up on the Canadian market.[10] The ailing salt industry, whose fate at the hands of American trusts had been lamented during the

National Policy debates in the Commons in 1878,[11] turned out to be adamant in favour of Reciprocity. The salt combine kept Canadian prices well above American; with Reciprocity, the refiners predicted the combine would vanish.[12]

While the presence of staple industries in the ranks of the Reciprocity proponents may come as little surprise, the secondary wood products industry's representatives are not so easy to explain in terms of the usual stereotypes of Canadian industry during this period. But even more noteworthy is the fact that woollen firms could be free-trade-inclined. Some small woollen mills, as distinct from those dominated directly by Montreal commerce, were not afraid of American competition but were quite eager for access to the American market. They resented the effects of the National Policy on their commercial patterns. While it assured Canadian woollen mills a market "from Charlottetown to Calgary," it raised their distribution costs considerably.[13] The beneficiaries of the high distribution costs were, it goes without saying, the railroads and the big Montreal-based wholesale distributors.

But the greatest amount of pro-Reciprocity sentiment came from the largest Canadian manufacturing industry—secondary iron and steel. Many small agricultural implement makers, despite the desertion by the leaders, continued to favour Reciprocity. The Erie Iron Works and the Macdonald Manufacturing Company of Stratford complained of high duties on iron and other parts which kept them locked up in Canada. Farran, Macpherson and Hovey had the same complaint, but managed to export in spite of their raw material costs. These firms bought bolts and other parts from the U.S., paid the Canadian duty of 50%, and still paid less than they would for Canadian products, and received superior quality. Again the burden on the consumer was cited, and its underlying cause, the high distribution costs of maintaining an east-west nexus when a large market existed just across the border.[14] Leading entrepreneurs in the industry advanced the opinion that emigration from Canada, which had reached an all-time high, would be reduced if costs of production of industry were lowered.[15]

In addition to the implement firms, many others in secondary iron and steel—stove makers and founders, tool makers and machine and engine works—denounced the raw material duties and claimed that access to the American market would bring economies of scale, cut distribution as well as production costs, and generate the potential for considerable expansion of the industry. In stove making, for example, the National Policy had led directly to overexpansion, and access to the American market was needed to relieve it. Even such specialized firms as the Waterous Engine Works and Raymond's sewing machine factory held out for Reciprocity. Raymond ridiculed the idea of Canada becoming a slaughter market, for he pointed out that under Reciprocity dumping was by definition impossible—the goods would be dumped right back into the laps of the producer again.[16]

A number of critically important points come out of these opinions. Many of the firms expressing them were headed by former National Policy advocates, especially in the secondary iron and steel industry. And their conversion to free trade indicates perhaps more than the conventional view that infants can grow up. With many firms, a more important contradiction of the National Policy came to light. Several expressed the opinion that the level of protection they enjoyed had been more than adequate under the old Mackenzie-Cartwright tariff of 17½%, and that many firms that had flourished under it were wiped out by the National Policy. This would indicate that the level of effective protection resulting from the 17½% so-called revenue tariff was greater than that of the supposedly protectionist National Policy, which had a considerable revenue-raising effect.

The Laurier victory in 1896 on an ostensibly low tariff policy came as a rude shock to some of the business world. The CMA had often noted that its membership was not so much Tory as National Policy in its allegiance,[17] and that the National Policy was the "keystone of political success." [18] It had, as usual, planned a pro-Tory strategy during the 1896 election, fearful of Liberal tariff intentions.[19] The pressure of agrarian opinion and Maritime discontent propelled Laurier into office to the considerable consternation of the CMA and other bodies like the Toronto Board of Trade, whose president, CPR magnate and financier Edmund Osler, immediately asked Laurier to be careful with the tariff.[20]

Just prior to the election, the Quebec cotton mills threatened to close if the results of the election were unfavourable.[21] And after the Laurier victory the Montreal Rolling Mills closed one of its branches, threw 400 men out of work, and announced it would stay closed until the new government's tariff intentions were made known.[22] The Pictou Charcoal Iron Company refused to fire its furnace until the tariff situation was clarified.[23]

Laurier himself was certainly amenable to cultivating the industrial community's support. Prior to the 1887 election he wrote to Edward Blake concerning a Montreal Liberal rally,

It was unanimously represented that the feeling in [the] city

> would be very good, except for the fear among businessmen that a change of administration would bring a radical change in the tariff.[24]

And he asked his leader, Blake, for "some declaration that would satisfy the manufacturers." During the 1896 campaign, Laurier called for a revenue tariff, dismissing free trade out of hand, and promised the business community a sort of permanent incidental protection.[26] Further into the campaign he explicitly promised that no major tariff changes would follow the election.[27]

In fact, no changes of any great economic significance were initiated, apart from a new iron and steel policy. But a series of minor alterations reflected an exceedingly clever political strategy. The reduction in iron and steel duties was complemented by an expansion in the bounties to the primary industry. Refined sugar duties were cut, as a sop to consumers, and at the same time coal duties were raised to pay off the debt due to the Fielding Liberal machine in Nova Scotia. To attempt to convince the farming community that the Liberal Party remained loyal to its Clear Grit agrarian roots, the duty was eliminated on binder twine and cut on barbed wire and agricultural implements. To try to bring a key sector of the industrial capitalist class into the Liberal fold, increases in a range of textiles were recorded, some of them poorly hidden behind a switch from specific to *ad valorem* rates. An empty clause was attached to the tariff permitting reduction by order in council where combines in restraint of trade existed. And a new rising British imperial xenophobia was capitalized upon by the enactment of a 33⅓% imperial preference.

There were a few dissenting voices. The Dartmouth Rope Works and the Dartmouth Sugar Refinery both announced they were closing because of the tariff — and did not.[28] The woollen cartel met, and graciously consented to accept their new 35% *ad valorem* — formerly they had received 25% plus 5c per lb. —if the government struck out the preference clause.[29] But in general the strategy worked magnificently in shattering the old Macdonald grand alliance.

The CMA as a political force simply disappeared; it split down the middle into its members traditional party loyalties once its *raison d'être*, the tariff, was no longer threatened.[30] By 1899 Clifford Sifton, Laurier's new Minister of the Interior, could claim that the tariff was a dead issue.[31] Together with the new strategy of building transcontinental railway lines competitive with the CPR, Canadian commerce, finance, and organized industry was effectively divided on regional lines, and as long as that split was maintained, Laurier held office. By 1901, politics had become so mundane that A. E. Ames, President of the Toronto Board of Trade, could comment on the upcoming election that "that tariff was one of the great questions before the country upon which the parties were able to divide with considerable fervour. . . . No such question is now before the country." The Liberal Party capitulation seemed complete. In response to a request from a reorganized and non-partisan CMA for tariff increases, the Liberal Finance Minister, W. S. Fielding, replied "Educate the people," and the CMA undertook to do just that.[32]

The new CMA owed allegiance to neither party, for it was a merger of the rump of the old Ontario-based organization (which itself was a logical outgrowth of the Ontario Manufacturers' Association) and the Montreal Manufacturers' Association.[33] The Montreal group had had its genesis in the mid-1870's under the auspices of the Montreal wholesale dry goods merchants and other members of the city's commercial elite — E. K. Greene, George Stephen, A.W. Ogilvie, A.F. Gault, D. Morrice, and others.[34] The two bodies, though assiduously cultivated by Macdonald and both tariff enthusiasts, had been sufficiently divided on other issues (particularly railways, which Montreal commercial capital tended to largely control) that the alliance between the two had been one of expediency and the National Policy. In his tariff policy Laurier accomplished what Macdonald could not — the depoliticization of *organized* industrialists.

Apart from the iron and steel policy, and a few changes in the agricultural implements tariff, the only noteworthy Fielding-Laurier departure was the Imperial Preference of 1897. While the Tory Party and the CMA were not enthusiastic, in fact the only industries really affected were cordage and twine, and woollens.[35] Canada's import pattern had increasingly shifted towards iron and steel products, coal and petroleum, raw cotton, and similar goods in which the U.S. had a substantial advantage over Britain. Holes in the tariff for raw material imports thus benefited American exports. This pattern was reinforced by a number of factors. The American branch plants which grew rapidly in Canada after 1896 had a built-in propensity to import from their parents, or their parents' relatives in the U.S.[36] In addition, the conservatism of British industrial patterns, their inability or unwillingness to adapt to Canadian requirements, and the spillover of advertising from American periodicals all helped American goods continue their steady displacement of British.[37] Hence Britain was forced to rely on its old textile export staple to try to keep up a share of Canadian trade, and the imperial preference led to such sharp protests from the big Canadian woollen mills that the tariff was revised upward in 1904. Even the brief respite of 1897 to 1904 was regressive, for it had benefited only an upper-income class of consumers who were financially better equipped to bear the burden of the tariff than the worker or farm consumer who bought only the less luxurious local products.

In exports, the opposite pattern manifested itself. The traditional deficit with Britain gave way in 1891 to a trade balance surplus, which grew steadily. The importance of the British market for staple and manufactured output grew relative to the U.S. during the early years of the boom, though the U.S. market tended to regain some of the lost ground after 1900.

TABLE XV (1)

Trade of Canada

	% Exports to			% Imports from		
Year	*U.S.*	*U.K.*	*Other*	*U.S.*	*U.K.*	*Other*
1880	38	52	10	40	48	12
1885	41	48	11	46	40	14
1890	40	49	11	46	39	15
1895	32	57	11	50	31	19
1900	32	59	9	59	25	16
1905	37	51	12	60	24	16
1910	36	50	14	56	27	17
1913	39	49	12	65	27	8

Source: *CYB*, 1915, pp. 256-7.

Imperial preference was regarded with skepticism by the organized manufacturers. Imperial free trade was rejected out of hand. The tariff was regarded as necessary to offset the advantages accruing to the British producers from their cheap labour, lower capital costs, and lower unit production costs from economies of scale.[39] The only sort of imperial preference acceptable was one that would "raise the general tariff so high that when a preference is granted to British manufacturers, the minimum duties will be sufficient to safeguard Canadian industry."[40]

As to the implement industry reductions, in 1898 the tariff was cut to 17½%, but the raw material rates were reduced by the same proportion. In 1907, a further cut to 15% was matched by a complete drawback on all imported inputs regardless of whether the output was for domestic or foreign markets. The *Toronto Sun* noted the hypocrisy involved in the supposed move towards lower protection:

> When the privilege of free raw material is taken into account it will be seen that the agricultural implements industry, instead of having what might be called a moderate rate of protection, has really a high rate of protection. This is where the "joker" in the agricultural implement tariff comes in.[41]

The Tariff Enquiry Commission of 1906 took evidence all across Canada, and the results were very predictable. Many firms demanded reductions in their raw materials, several of them insisting that the raw material taxes meant negative net effective protection.[42] A number of firms demanded higher duties on their final product, including the Raymond Sewing Machine Co., which 16 years earlier had been actively pushing for Reciprocity. At the same time, the Singer branch plant was expanding rapidly, implying that the level of duties should have been quite adequate.[43] The cotton mills were once again seeking higher duties, joined by the lumber mills, who cited the higher prairie farm incomes as justification for the price increases that would follow the tariff hike.[44] On the other hand, demands for reductions were heard from farm groups across Canada.[45] In 1907 a general upward revision of the tariff was made.

Reciprocity, 1911

During the Reciprocity campaign of 1911, the tensions and conflicts between different groups in the Canadian economy came to the surface, and the defeat of Reciprocity was a watershed point in the history of Canadian commercial policy. Reciprocity was certainly not the only economic issue to surface during the 1911 election campaign. The failure of the Farmers' Bank and Fielding's complicity probably helped to defeat the Liberal Party in several rural Ontario constituencies which would normally have been sympathetic to Reciprocity. The Ontario Hydro agitation of the Ontario municipalities and the Whitney government in Ontario combined against the Liberal Party, many of whose leading lights were directly identified with the power cartel. The Grand Trunk strike of 1910 led to mass dismissals, and the pro-company stance of the Liberal Minister of Labour, William Lyon Mackenzie King, alienated organized labour from the party. But Reciprocity, if not the sole or even the main issue, was an extremely important one, and its defeat the chief long-term result of the election.

Just why Laurier and the Liberal establishment adopted Reciprocity in 1911 is a question that has never been satisfactorily answered. There were undoubtedly a number of factors involved. Farm unrest certainly played a role — 1910 was the year of the "Siege of Ottawa" by organized farmers from across Canada, especially but certainly far from exclusively from the new staple-producing areas. And in early twentieth-century Canada organized farmers were, potentially at least, the single most powerful opposition group to big business interests. Then, too, the Cape Breton coal mines once more played an important role. H. N. Whitney had consolidated his hold on the mines and, ipso facto, on W. S. Fielding, his representative in Ottawa. Fielding seemed the leader of the pro-Reciprocity forces in the Laurier cabinet. In 1867 the coal mines of Cape Breton, led by Charles Tupper, one of the principal proprietors, pushed for Confederation to secure a Canadian market to replace the American one lost in 1866 with the abrogation of Reciprocity. This was a failure. Even after the National Policy, Ontario remained closed to Nova Scotia bituminous, for Ontario capital gradually secured free access to American anthracite. A brief period of lower American tariffs came to an end in 1897. And to salvage the fortunes of the investors in the Cape Breton mines, Reciprocity was a last resort.

American branch plants in Canada played a central role in crystallizing the issues. The American support for the treaty was in fact often based on the hope that free trade would lead to a movement of American branch plants back to the U.S.,[46] despite the fact that the treaty under consideration applied only to primary products. The Governor of Massachusetts, Eugene Foss, who himself had a branch plant in Canada, declared that

> the present tariff system has resulted in securing approximately $300 million of American capital to Canada to build up branch industry which can compete with American factories in foreign markets. It has resulted in stifling the growth of Massachusetts and kept us out of the business and commerce which belongs to us in every right.[47]

The Wall Street Journal issued a call for American firms to move back across the border.[48] Other American journals and business groups such as the New York Chamber of Commerce emphasized the access to Canadian natural resources inherent under the terms of the treaty. The president of the American Association of Manufacturers asked, "why should this country be so anxious to exhaust its mineral wealth and denude its forests that it should bar these products from other countries?"[49] The great American trusts sought expansion of their markets into Canada not only as an alternative to direct investment but also as a way of avoiding renewed outbreaks of violent price wars to extend markets at the expense of rivals at home.

In Canada, organized farmers, with a few exceptions, were the main force behind the treaty, while most business organizations — financial, commercial, transportation and manufacturing, were adamantly opposed. Only a very few resource industries indicated support. The Canadian Bankers' Association advanced the view that British investments in Canada would be injured. To prove that the great bulk of Canadian opinion was opposed, it conducted its own public opinion poll and concluded that

> the consensus of present Canadian opinion as expressed in unmistakeable terms by the Montreal Board of Trade, by the Chambre de Commerce, by the Manufacturers' Association . . .

was antagonistic to the treaty.

The strongest anti-Reciprocity arguments in Canada were precisely the strongest pro-Reciprocity arguments in the U.S. — that Canadian natural resources would be looted and branch plants would leave the country. But inside the Commons the debate was remarkable in that for the first time opinions were voiced that the loss of American branch plants might not be an unmitigated disaster. Liberal members, perhaps out of sheer opportunism, suggested that profits drained out of Canada by American branch plants exceeded the benefits they brought.[52] There was little option for the Liberal Party but to take this line of defence, for the brunt of the Tory assault focussed on the effects of the tariff on American branch plants and the resulting employment generated.[53]

Liberals who crossed the floor did likewise. Sir Clifford Sifton asked,

> Will this proposition assist in transferring American capital to the construction of factories in Canada which has been going on in Canada for several years past at a very rapid rate? Surely we cannot conclude that it will.[54]

The member for Welland, where a number of branch plants had located, broke with his party and credited the tariff with "bringing millions of dollars of capital to our shores to build up manufacturing industry in our land."[55] Quaker Oats threatened to leave Canada if the treaty went through, and this was noted in the debate. Lloyd Harris, of Massey-Harris, and the member from Brantford generalized from the Quaker case and claimed many others were on the verge of leaving. He said,

> I want American manufacturers to be forced to establish plants on this side of the line, and provide work for our Canadian workmen if they want to have the advantage of supply of our home market.[56]

To drive the point home, Massey-Harris threatened to leave Canada if the treaty passed.[57] Sir George Foster, who led the Tory attack, predicted that a drain of population would accompany the withdrawal of branch plants: "Just as the flag follows trade, just so labour follows capital."[58] Foster's denial of the trade-creating possibilities of the treaty, based on his observation that the two countries had surpluses of the same goods, wins him no points for perspicacity, since the same firms were active on both sides of the border.

Outside the House, big business waged a titanic struggle. The Laurier strategy had been to drive a wedge down the middle of industry and commerce, separating the business community into two antagonistic camps; it collapsed as their common interests transcended their sectional conflicts. The Toronto Liberal establishment staged an open collective revolt, led by Edmund Walker, E. R. Wood, and others.[59] The railroads were frightened by the knowledge that J. J. Hill (with his Great Northern system, which had already begun to build an elevator system in Canada),[60] was waiting to divert traffic into the U.S. The CPR then put Van Horne to work against the treaty.[61] Sir William Mackenzie fought it for the Canadian Northern, and while the Grand Trunk in Canada was forced to support Laurier in return for the government's assistance in smashing the strike of its machine shop employees, A. W. Smithers, chairman of the English board of directors, denounced the treaty.[62] Even Rudyard Kipling pitched in on behalf of the opposition.

There were exceptions to the hostility of Canadian secondary industry to the Treaty. One rather strange case of pro-Reciprocity sentiment came from the Patrick Burns Co., the Calgary meat packing firm which went on record as favouring the treaty[63] —at the same time, Sifton had declared in Parliament that Reciprocity would destroy the Canadian meat packing industry,[64] and the CMA did likewise, claiming as well that Reciprocity would expose the Canadian farmer to the rapacity of the American meat packing trust.[65]

Among some smaller manufacturing industries the treaty was welcomed. In Guelph, Ontario, many if not most of the firms declared in favour. Two notable exceptions were the Bell Piano and Organ Company and the Raymond Manufacturing Company, both of which had been pro-Reciprocity in 1890. While they did not actually publicly declare their intentions, both firms let their workmen off with pay during working hours to listen to Tory candidates.[66] In Goderich, a long list of firms including machinery, engine, and tool work, furniture, lumber, and planing mills, vehicle manufacturers, musical instrument makers, and others supported the treaty.[67]

That small manufacturers in highly specialized lines open to severe competition were in favour of Reciprocity, while the big manufacturing interests were almost universally opposed, calls for an explanation. Between the campaigns of 1891 and 1911, a radical change had come over the pattern of Canadian industrial organization—the creation of the waterlogged merger. With these huge mergers the tariff had been capitalized as assured earnings in calculating their water levels, and the loss of the tariff would have threatened their ability to pay dividends and interests on their bloated capitalization. Prices in Canada had to be kept up to squeeze out an earnings level commensurate with their capitalization. Firms which might well have been able to withstand price competition with the American giants with any sensible capitalization had been wrecked by the actions of the Montreal promoters who created the trusts. Strikingly absent from the list of pro-Reciprocity advocates in 1911 was the milling cartel, which had favoured the treaty in 1890. In the interim, the cartel had been replaced by several mergers, and the sole flour mill to favour Reciprocity in 1911 was a small firm left out of the merger craze. The salt cartel too had been displaced by a merger. And in primary iron and steel the only advocates of the treaty were two directors of the Nova Scotia Steel and Coal Co.,[68] the least overcapitalized of the giants in the industry.

The campaign itself led to a sharp rise in American interest in Canada, and Canadian dealers descended on Chicago and did a brisk business in selling securities tied to western Canadian development.[69] And while the CPR directors were avidly fighting the treaty, CPR advertisements in Britain for land or equity sales stated that Reciprocity would double the value of CPR land.[70]

Nor can the Laurier defeat be completely imputed to the Reciprocity Treaty. Apart from the several other economic issues, the revulsion of Quebec from his naval policy did a great deal of damage, while at the same time seven Nationalist candidates in Montreal, nominally Tory, declared for Reciprocity.[71] Moreover, Laurier appealed to the polls with the existing electoral map. A redistribution by population based on the 1911 census would have given ten more seats to the free-trade West, and ten less to the East, for a net transfer of twenty to the Liberal camp.[72]

The Tory tactics too must have helped a great deal, if two

1912 by-elections are any indication. In the appropriately named Macdonald riding in Manitoba, the Tory Minister of Public Works took personal charge of the campaign in collaboration with the provincial Premier, Sir Rodmond Roblin. The two schemers spent a great deal of time terrorizing the electorate by tales of hundreds of "thugs and thieves" from Saskatchewan and Alberta who were supposed to have descended on the riding to work for the Liberals. Roblin, putting into practice the principles he had learned in his campaign to stamp out independent grain futures dealers, ordered the police to arrest a number of Liberal campaign workers who were held without counsel or bail until the election returned a Tory. All of the arrested men were freed; only one was charged, and the case quickly dismissed. However, a court appeal subsequently overturned the election and a new contest was ordered. In the Richelieu by-election the Tory Minister of Public Works was equally active, though without success. It became clear just what the "Public Works" portfolio meant when, on the Minister's instructions, Sir Rodolphe Forget was sent to the riding to bluntly inform the voters that the promise of a subsidy of hundreds of thousands of dollars for a branch railway depended on their return of the Tory candidate.[73]

After the 1911 election produced a Tory landslide, the equity of every large trust in Canada shot up on the exchanges, while the price of wheat fell two cents a bushel in Winnipeg and rose six cents in Minneapolis,[74] and American northwestern railway shares fell while CPR shares rose.[75] No more eloquent and revealing commentary on the nature of the main forces involved, and on the victors and the losers, could have been made. Immediately after the campaign ended, a renewed inflow of branch plants occurred. The enquiries from American firms were reported as never having been so numerous.[76] And in 1913 Governor Foss began moving his machinery to Galt from Massachusetts.[77]

Notes to Chapter XV

1. *CM*, May 6, 1887, p. 263; March 20, 1891, p. 198.
2. *CM*, Feb. 17, 1893, p. 105.
3. *CM*, July 19, 1895, p. 57.
4. *RCRLC, Ontario Evidence*, p. 365.
5. *Globe*, Jan. 9, 1891.
6. *Globe*, Dec. 5, 1890.
7. *Globe*, Dec. 26, 1890.
8. *Globe*, Nov. 27, 1890.
9. *SCC, Evidence*, p. 390.
10. *Globe*, Nov. 24, 1890.

11. *HCD*, March 7, 1878, pp. 859-60.
12. *Globe*, Nov. 20, 1890.
13. *Globe*, Nov. 27, 1890; Nov. 29, 1890.
14. *Globe*, Nov. 24, 1890; Nov. 29, 1890; Dec. 17, 1890.
15. *Globe*, Dec. 19, 1890; Dec. 26, 1890.
16. *Globe*, Dec. 5, 1890; Dec. 15, 1890; Dec. 19, 1890; Nov. 17, 1890; Jan. 5, 1891.
17. *CM*, Jan. 15, 1892, pp. 35-6.
18. *CM*, Sept. 2, 1892, p. 132.
19. *CM*, June 5, 1896, p. 468.
20. Toronto Board of Trade, *Annual Report*, 1896, p. 13.
21. *MT*, July 3, 1896, p. 14.
22. *MT*, March 19, 1897, p. 1243.
23. *MT*, March 12, 1897, p. 1220.
24. Laurier to Blake, Jan. 14, 1887, *Blake Papers*.
25. Laurier to Blake, Jan. 21, 1887, *Blake Papers*.
26. *MT*, June 5, 1896, p. 1557.
27. *MT*, July 17, 1896, p. 77.
28. *MT*, May 21, 1897, p. 1527.
29. *MT*, May 7, 1897, p. 1467.
30. See especially T. W. Acheson, *The Social Origins of Canadian Industrialism*, pp. 400, 451, *et passim*, which is excellent on this, as well as many other points.
31. *MT*, March 17, 1899, p. 1223.
32. *IC*, Nov. 1903, p. 201.
33. *MT*, Oct. 26, 1900, p. 536.
34. *MT*, Jan. 23, 1880, p. 860.
35. E. C. Porritt, *Sixty Years of Protection*, p. 389.
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Canadian capital and clearer northern brains are fast turning the island of Cuba into a modern hive of industry.

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CHAPTER XVI

Canadian Commercial and Financial Expansion Abroad

Investment and Empire

During the period before World War I when Canada was a net borrower, it was also engaged in the export of capital. Nor were these international loans always minor in scale, for during the period 1895-1901 the balance of trade was in surplus over-all and an export of capital net of continued borrowings from the U.S. and Britain occurred.

Because of the unevenness of development of various sectors of the economy, capital tended to flow more facilely internationally and intrasectorally than it did intranationally and intersectorally. These tendencies were particularly acute in Canada before the war because of the sharp division between industrial capital and commercial capital. As with virtually every colonial economy, the dominant stratum of Canada's capitalist and entrepreneurial class was commercial, linked to metropolitan capital, especially British. And it was this commercial group that accounted for the overwhelmingly large share of Canadian investments abroad. Their strength in the Canadian economy in banking and finance, transportation, and utilities was reflected in their extensions abroad and their diversion of funds abroad, to the detriment of industrial capital formation within Canada.

Capital exports went almost exclusively to two areas — to the United States and to the Caribbean and South America. Since the one was a major metropolis and the others economic hinterlands, the role performed by the Canadian ventures in the two areas was very different. The American investments represented substantial outflows of capital from Canada: the others did not, for the South American and Caribbean investments were devices for draining funds from these areas. Thus, the investments in the U.S. helped to develop and strengthen American economic power, while those in the Latin American areas helped perpetuate underdevelopment. Those in the U.S. were either rentier type of investments or oriented toward servicing the movement of commodities; those in the Caribbean and South America were aggressive, domineering enterprises representing substantial economic control.

Investment tended to follow the patterns of trade. Canadian investments abroad fell into the following categories:

(1) Bank establishments in the United States to facilitate capital movements and commodity exchange between the U.S. and Canada. With these banks, and even without the actual establishment of branches, went large amounts of call money and short-term loans and deposits in New York to be used for currency speculation or call loans to stock brokers. Without the Canadian funds, Wall Street would have had difficulty conducting its operations.

(2) Insurance companies established branches in the U.S. which, unlike the banks, actively solicited business there. However, the insurance companies were substantial net exporters of capital from Canada, despite their American business, for they were holders of large portfolios of American securities, especially utility bonds and stocks.

(3) Railway extensions and operations in the U.S. were considerable. Their purpose, like that of the banks, was to facilitate the movement of commodities over long distances rather than to generate local traffic.

(4) A sizeable amount of individual, as well as institutional, portfolio investments existed in the U.S.

(5) The smallest group of Canadian investments in the U.S. were direct investments of industry, horizontal or vertical extensions of Canadian oligopolies, or investments forced by American commercial policy.

(6) A network of banks was established across the Caribbean and beyond which, unlike their American ventures, were active in developing and dominating local banking business. Insurance companies, too, established a dominant position in local business. Both extracted funds for export back to Canada, and their holdings of local securities were virtually non-existent.

(7) Railways and utility operations in Latin America also differed radically from those in the U.S. The railways were

designed to develop local traffic and resources. The utilities were generally wholly owned direct investments, rather than the portfolio investments typical of Canadian holdings in the U.S.

In terms of the chronology of investment patterns, before 1867 most Canadian investments abroad were in the form of currency speculation in the U.S., and in short-term financing of commodity movements, with a few railway extensions after mid-century. After Confederation, while short-term loans continued to bulk large, exports of long-term debt capital began to assume importance, and railway extensions multiplied. By the end of the century, the proliferation of financial institutions' branches and agencies, begun in the 1850's, reached a peak. Towards the end of the century, too, began the large-scale movements of Canadian capital into Latin America, first in the form of direct investments in branches by financial institutions, and after the turn of the century, the utility and railroad promoters. It was a period of consolidation and expansion of the British Empire in which Canada sought its own resource hinterlands.

The movements of capital at the end of the century reflected major structural changes in the Canadian payments position, in its capital market, and its financial institutions. The Bank of Montreal, for example, was the largest bank on the American continent. It had much earlier begun in some functions to replace the Barings, which came close to collapsing in 1890, after a revolution in the Argentine threatened the value of Argentine debentures in which the merchant banking firm was heavily interested. In 1892, the Bank of Montreal assumed the role of Canada's financial agent in London, a role until then exercised by the Barings and the Glyns. And in the Baring reorganization that followed the crisis, substantial shares were held by their lordships Strathcona and Mount-Stephen. The Canadian financiers' presence in such an imperial institution as the Barings reflected well the new division of power in the Empire.

As a prelude to the export of capital, too, changes occurred in the asset-liability structures of various Canadian financial institutions. During the period when the balance of trade was moving into surplus, mortgage loan companies reduced their foreign liabilities, their debentures abroad falling by $17 million from 1893 to 1899. Bank deposits grew 60% from 1896 to 1900, while bank current discounts grew only 40%.[1] Chartered banks began to usurp the great bulk of the savings deposit business, and interest rates were falling. A great increase in call loans for speculations in New York occurred. By 1900 the banks had $60 million invested abroad in call loans, short loans, or railroad securities, and the sum grew steadily.

Life insurance companies also became active in lending abroad, and curtailed their home investments, especially municipal debentures. For the earnings from assisting municipalities in building roads and sewers were a pittance compared to the attractions of foreign utility promotions. In 1891, less than one per cent of their investments were foreign, while by 1911 nearly fourteen per cent were.

TABLE XVI (1)

Life Insurance Company Foreign Investments, 1891-1911

Life Companies	*% Total Investments*		
	1891	*1901*	*1911*
British & Colonial Gov't Bonds	0.22	0.25	0.26
Foreign Gov't Bonds	0.55	0.18	0.21
Corporate & Railroad Bonds			
— U.S.	—	3.13	10.22
— Foreign	—	0.29	0.65
Stocks			
— U.S.	—	0.88	2.45
— Foreign	—	—	0.40
Total	0.77	4.73	14.19

Source: Superintendent of Insurance, *Report*, Vol. 11, 1929, p. xxxii.

The rise of Canada to the role of a mini-metropolis was not a sudden development. Canada's foreign adventures had long historical roots in the logic of Canadian development patterns within the international context of British imperialism, an imperialism that warmed the hearts as it filled the pocketbooks of Canadian commercial capitalism. As early as 1860, Sir Charles Tupper used the phrase "an Empire on which the sun never sets,"[2] fifty years before it became the rallying cry of another staunch Maritime imperialist, Lord Beaverbrook. By 1911 the *Globe* could seriously raise the question, "Will Imperial Government eventually be in the Dominion?" citing the opinion of Sir Frederick Young, vice-president of the Royal Colonial Institute, that Canada would soon become "the centre of the Empire."[3] A leading member of the banking establishment fought Reciprocity in 1911 on the grounds that it threatened the unity of "we, the allied and confederate races of Britain, numbering in all some 61,700,000 *whites.*"[4] Sir Edmund Walker in 1912 assured the Canadian Club of Montreal that "we are determined to do our share and eventually to pay our share towards the perpetuation of the British Empire forever."[5]

Nor were words alone offered. Colonel Garnet Wolsely, who in 1870 had brought "law and order" and an army of land speculators to Manitoba, was soon promoted to the position of chief of staff for the house of Baring. Shortly after his forays into the Canadian Northwest, Sir Garnet Wolsely led the British forces in the war of conquest against the Ashanti to seize control of the West African coastal trade and access to the gold resources of the interior. (It was during this war that Lord Baden-Powell invented his cheerful homily regarding the proper education of the English upper-class youth, pointing out that "football is a good game, but better than it, better than any other game, is that of 'manhunting'.")[6]

In 1882, General Wolsely crushed the rebellion in Egypt against the rule of British capital and assured that Sir Evlyn Baring (Lord Cromer) would be de facto the next Pasha. A regime of corrupt tax collectors were then imposed upon the captive Sudan until the people there rose up in rebellion against their exactions. It then fell to Wolsely the task of crushing the insurrection. Canada at first refused military assistance for the "Gordon Relief Mission" and its bloody aftermath. Canadian artillery battalions were not enlisted for foreign service, and high unemployment in the U.S. had stirred unrest among Fenians, who threatened to invade Canada if she sent troops against the Mahdi.[7] However, a volunteer contingent was mounted, including a large number of Indian and Québécois boatmen. After a Hamilton firm was awarded the contract to supply the Canadian Nile expedition with tobacco, the *Hamilton Times* enthusiastically declared:

> What with Canadian men, Canadian officers, Canadian clothing, Canadian canoes, and the best Canadian tobacco, Gordon is safe.[8]

On yet another imperial front Lord Wolsely was active along with Canadian troops. In addition to the regular Canadian contingent, whose lives Fielding agreed to sacrifice in exchange for the admission of Canadian-inscribed stock to the trustee list, Lord Strathcona equipped from his personal fortune a body of cavalry, known as "Lord Strathcona's Horse," to safeguard British investments in the gold mines of the Boer republics. And of course huge numbers of conscripted lives were patriotically sacrificed in the great struggle over the division of the spoils in 1914-1918.

Canada's stake in all this was far from sentimental. The president of the Canadian Bankers' Association declared at its annual meeting in 1898:

> Are we not part and parcel of an empire that is world wide? . . . Can we do nothing to stimulate and encourage trade within the empire? . . . Of what use is the shedding of our best blood on the sands of Africa or on the snows of the Himalayas if nothing is to come of their sacrifice but military glory?[9]

It was of course a rhetorical question, the answer to which had long been evident.

Pre-Confederation Investments Abroad

Canadian interest in the West Indies predated the American Revolution. Nova Scotia merchants, and to a lesser degree those of Montreal, assiduously cultivated trade ties, and mercantile credit in conjunction with long-distance trade flows was the first export of Canadian capital to the area. From the Revolution until as late as 1900, Nova Scotia merchants struggled in vain against those in New England to establish their hegemony in the Caribbean. Trade in raw materials moved both ways: fish and timber to the Indies; sugar, salt, rum, and molasses back to the Maritimes. To facilitate the commodity movements, the Halifax Banking Company established a partnership in 1837 with the London-based Colonial Bank to service the area. But Nova Scotia merchants remained secondary to those of New England.

In the Far East, the trail was blazed by the Hudson's Bay Company which, while a British company, had a substantial Canadian participation that grew over time. The Hudson's Bay Company posts spread to Honolulu, and from there their trade connections reached the Orient. Canadian trade and investment followed this path.

Capital of the Province of Canada moved to the United States in several forms. One early case of direct investment occurred in 1825, when Montreal capitalists became shareholders in the Erie Canal.[10] This canal was the instrument of destruction of Montreal's commercial hegemony over the American midwestern states,[11] and the presence of Montreal capital in its construction and operation tends to confirm the view expressed some decades later by Lenin that "the bourgeoisie will compete to sell the rope to hang themselves."

Before 1840, Montreal capital played a key role in financing American international trade. The U.S. ran a steady balance of trade deficit with Europe which was covered in part by loans and investments, in part by immigrants' imports of cash, and in part by imports of specie from Spanish America. The specie moved from New Orleans to New York, where it was sold for Province of Canada sterling drafts on London. Canada ran a balance of trade surplus with the U.S., permitting an export of capital to New York for currency speculation, while it ran a deficit with Britain. The triangulation pattern permitted large and profitable foreign exchange transactions for Canadian financiers.[12] Montreal financiers invested virtually nothing in the development of their province, and infrastructure had to be built with imports of British capital. At the same time, Montreal capital moved to New York in such quantities that Canada, from an early date, assumed an importance in American money markets far out of proportion to her size and wealth, helping in the process to perpetuate Canada's relative underdevelopment.

Throughout the 1850's, Canadian commercial capitalists began extending their interests into the American northwest states and became actively involved in crop movements, the objective being to divert American agricultural produce away from New York and the Erie Canal along the St. Lawrence route. During the 1857 crisis, in both Canada and the U.S., bank credit contracted sharply and severe deflation ensued. In the U.S., bank failures were numerous. Chicago being the centre of midwestern commerce, Illinois bank notes in particular were being rejected by merchants all over the U.S., especially in St. Louis, the chief commercial outlet of the area.

But one stabilizing factor emerged. To divert the through trade to Montreal, Canadian banks drained funds from Canada to purchase large amounts of wheat in Chicago, paying for it in drafts on New York. These Canadian purchases provided most of the eastern exchange that was offered on the Chicago market at that critical time, and their operations prevented a catastrophic fall in the price of American grain. They also helped precipitate one of the worst Canadian produce price deflations in its history. Commercial and agricultural distress was widespread; failures escalated due to the credit squeeze, and the sharp reduction in dutiable commodity imports threw government finances into chaos, leading to the new demands for higher taxation through tariff increases to pay off the British investors in Grand Trunk securities.

So helpful were the Canadian banks to Chicago during the crisis that their notes were used for both currency and remittances. The leading newspaper, *The Democrat*, urged the Canadian banks to replace their agencies in the city with full-fledged branches. The Canadian banks, with their "immense control of capital" compared to the local banks, would "provide the nucleus for the establishment of mercantile houses here rivalling in extent those of Montreal, Toronto and Hamilton."[13] Despite

America's industrial strength, Canada's commercial and financial capacities were already enviable.

Thus, even before the Civil War the patterns of Canadian investment in the U.S. were established. It was investment in commerce, in facilitating the movement of commodities, or in exchange speculation associated with commodity movements. The export of capital was at the expense of Canadian development. And it created a north-south flow of funds that seriously impeded east-west integration of the Canadian economy.

The Civil War produced a bonanza for Canadian financiers. By 1863, Canadian investments in U.S. bonds were estimated to total $50 million.[14] The Bank of Upper Canada, the Commercial Bank, and the Bank of Montreal largely replaced the eastern American banks in moving western crops. During the war, too, gold reached 300% in New York, and the Bank of Montreal traded heavily. Borrowers paid in U.S. currency as security, and the bank used the currency to discount high-class trade bills, thus earning a double profit.[15]

The gold with which the Montreal speculated was derived from the Ontario banks by the bank's refusing to settle claims in notes and insisting on specie payments.[16] The result was a chronic drain on the smaller banks' reserves and a credit contraction, the burden of which fell most heavily on Ontario farmers. While the other banks were precluded from taking part in the speculation to any great extent by virtue of the fact that it was their specie that financed the Bank of Montreal's escapades, whenever spare gold could be found they would join the fun on whatever scale their resources permitted. The fledgling Bank of Toronto at one point had to replace a Montreal branch manager who proved over-anxious to commit the little bank's reserves to the speculative mania.[17]

Some of the funds drained off from Ontario also went to provide extra credits to the Montreal wholesale merchants, who were in their glory during the war.[18] For the war meant the breaking up of the marketing patterns of the American northwest farmers, and hence meant the temporary hegemony of the St. Lawrence route over its American competitors for moving American grain.[19] The ultimate result of the siphoning-off of specie from Ontario was to add another tier to the Bank of Montreal's already double profit balance by precipitating the collapse of its two leading competitors. The Bank of Upper Canada passed its dividend in 1864 and 1865. With Macdonald's ministry in office, the government accounts were obligingly shifted from the Upper Canada to the Montreal, followed by the principal railroad accounts. In 1866 the Bank of Upper Canada suspended.[20] The Commercial followed shortly. The failure of the Commercial was due to more than just the Montreal's credit squeeze and the failure of its sister institution, though these were important factors. Its collapse was also bound up with the tangled story of Canada's first railway investments in the U.S.

Railway competition in Canada at the time took the form of the two big trunk lines, the Great Western and the Grand Trunk, seeking to outdo each other in neglecting the needs of Canadian commerce to service the American entrepot trade. Between 1852 and 1853, the Great Western secured £770,000 in Government of Canada "loans" of the usually permanent variety. Of this some $1,225,000 was illegally used to construct the Detroit and Milwaukee Railroad. In addition, the Commercial Bank lent the Detroit and Milwaukee £250,000. The Great Western subsequently foreclosed on its mortgage on the Detroit and Milwaukee and repudiated the £250,000, transferring its account to the Bank of Montreal in the process.[21] A court case ensued, and the Commercial won $1,700,000 worth of Detroit and Milwaukee seven per cent bonds in settlement.[22] Instead of selling them at a substantial loss, the bank decided to hold them, and when the Bank of Montreal's credit squeeze began the Commercial found itself in a liquidity crisis.[23] Under the terms of the agreement (whereby the Bank of Montreal became the government's agent, leading to the collapse of the Bank of Upper Canada), the government could not extend aid to any rival without the prior permission of the Bank of Montreal. This was granted once; then subsequently refused.[24] The Commercial failed shortly after.

Confederation approached with the Bank of Montreal's dominance within Canada virtually unchallenged, while the Canadian banks continued to extend their role in the U.S. even after the end of the Civil War. The American banks only rarely tried to enter the field of foreign banking, and the Canadian ones very quickly got the upper hand. The new Bank of Commerce, Toronto's attempt to fill the void left by the collapse of the two big Ontario banks, quickly moved into buying bills of exchange drawn in the U.S. on cotton and other merchandise, and selling bills drawn on its London correspondents.[25]

Post-Confederation Commercial Patterns

In the post-Confederation period and beyond, Canada remained essentially a resource hinterland for Britain and, to a lesser extent, the U.S., with its payments position showing a new triangulation in reverse of the earlier one. While its balance of trade was in deficit with both Britain and the U.S. until 1890, it thereafter showed a rising deficit with the U.S. coupled with a substantial and increasing surplus with Britain. Even during the 1895 to 1901 period when its balance of trade was in surplus over-all, it was only its large surplus with Britain that offset the continuing growth in its deficit with the United States.

Despite the dominance of primary exports and manufactured imports, there were exports of manufactured goods during the period. It was part of the pay-off from the "industrialization by invitation" strategy based on patent laws so restrictive and tariff walls so high that American firms were forced to establish Canadian affiliates and branches, and much of Canadian-manufactured exports to the Empire and other areas came from these branch plants and licensed ventures. It was part of the commercial strategy of shifting the locus of production northward. Isaac Buchanan's pre-Confederation northern vision looked forward to free trade with the U.S., on the assumption it would force British firms to migrate to Canada to export to the U.S. Instead, American firms moved to Canada to export to the Empire, for, as the CMA put it:

> Canada belongs industrially to the American continental system, though not perhaps in the sense implied by Mr. Goldwyn Smith. The force of material circumstances is upon us, and we cannot escape from it. We must manufacture and manage our manufactures as the Americans do.[26]

These manufactured exports are important not only because the American firms often let their Canadian offspring handle the Empire trade, but also because they dispute the usual presumption that protected industry, by definition, cannot export.[27]

Canadian transportation projects too were part of an imperial design, the CPR being the integral link in Lord Strathcona's "all-red-route," which included steamships and cables on both the Atlantic and the Pacific. To the west the CPR followed the route of the fur trade — to Honolulu — and the Hawaiian Islands came close to becoming a Canadian colony. To cover its deficit in the wilderness stretches, the CPR strenuously developed long distance Pacific trade, planning as well an all-British cable from Vancouver to Japan and China with connections to Australia via Honolulu. The stumbling block to Canadian ambitions was the already existing American presence on the islands. A Hawaii-U.S. commercial treaty had been concluded in 1876, under which the U.S. secured fully 90% of the islands' trade, and which led to a rapid development of sugar production. Renewal was scheduled for 1886, but before it was effected opposition developed in the U.S. from the eastern sugar cartel and the domestic cane and beet growers.

In the interim, pressure grew from B.C. for a reciprocity treaty between Canada and Hawaii. Before 1876, B.C. had conducted a large exchange of its fish, lumber, and coal for the islands' tropical fruits and sugar, but the Hawaii-U.S. treaty had cut it off. With the progress of the CPR towards the coast, the Canada-Hawaii linkage had a new urgency.[28] In 1883, rumours became rampant in Ottawa that a commercial treaty was to be signed between Canada and Hawaii.[29] Although the American treaty was renewed, the Hawaiian officials continued to press for some sort of Reciprocity agreement with Canada.[30] By 1890, opposition from certain sectors in the U.S. led to cancellations of the island's special position in the American sugar markets.[31] American influence on the islands consisted mainly of a group of rabidly annexationist small planters, and a group of large planters who wanted only association with the U.S. for fear annexation would spell the end of their indentured labour system. No such fears of loss of the system existed in the possibility of Canadian relations, for in Canada there was considerable use of indentured labour, especially Chinese, for such projects as railway construction. But an abortive independence bid by the Hawaiians led to American takeover.[32] It also ended Canada's hopes for a Pacific empire there. The B.C. refiners switched their attention to Fiji, where they began to make direct investments in sugar plantations.[33]

But Fiji was a rather poor substitute. Its trade with Canada developed as an off-shoot of the establishment of a subsidized steamship service between Canada and Australia, to which the Fiji government began to contribute in 1892. The next year, the first shipment of tropical fruit from Fiji reached Vancouver.[34] In 1894, the Toronto Industrial Fair displayed a wide range of tropical goods,[35] and that year Fiji, along with Hawaii, was invited to join Canada and Australia in putting into effect an imperial Pacific cable,[36] a project that Strathcona had been promoting for some time.[37] But by 1898 the Fiji government lost interest in its Canadian connections in favour of American, withdrawing the steamship subsidy and with it putting an end to the Canada-Australia line's Fiji stop.[38] The investments in sugar did remain, however.

Canada-CPR interests spread much further east. As early as 1884, plans were afoot for a steamship line run jointly by the CPR and a Japanese company,[39] and the CPR's incursion into the Pacific steamer business followed closely the completion of its main line. Canada had a number of interests in China apart from a potential market for Canadian manufactured goods. Indentured Chinese labour was used in the gold mines during the B.C. rush, for coal mines, and for CPR construction. These de facto slaves were another of Lord Elgin's gifts to the country that had helped him retrieve his Scottish estates from the mortgage company. For upon leaving Canada Elgin proceeded to China as special emissary of the British government and imposed on the Emperor by force of arms the treaty stipulation that Britain could extract supplies of Chinese labour for its colonies.[40]

The CPR's expansion into the Atlantic was much slower; two Canadian-British lines, Cunard and the Allan Steamship Line already existed. In addition in 1880 the Elder-Dempster Line established the Beaver Line from Montreal to Liverpool.[41] In 1899, Van Horne ventured his opinion that "if the people of Canada knew what they were paying for ocean transportation they would rise up in rebellion,"[42] and the CPR's subsequent actions seemed to be geared toward testing that hypothesis. In 1902, J. P. Morgan had fathered a big, waterlogged merger of North Atlantic steamship lines, and the CPR threatened to break his hold.[43] In 1903 the Elder-Dempster's fifteen steamers comprising its entire Atlantic fleet, the Beaver line, were absorbed by the CPR,[44] which then proceeded to carry out its "threat" to the Morgan empire. Strathcona negotiated a combine arrangement with Morgan and all the other North Atlantic carriers to raise passenger rates to North America during the great wave of migration. Steerage rates went up immediately from £3/0/0 to £5/0/0. Since the passages were subsidized by the federal government, in part this represented simply another transfer payment from Canadian taxpayers to the CPR.

The arrangement broke down in 1904 when Cunard pulled out, followed by three other lines, and rate cutting began.[45] Order was soon restored, however, and combine arrangements for freight charges added to the passenger rate agreement. This arrangement permitted Canadian railways and shipping lines to appropriate the benefit of Imperial Preference in the form of higher freight charges rather than have it accrue to consumers in the form of cheaper commodities.[46] By 1911 the freight cartel was complete, while the combine controlled 90% of the steerage traffic.[47] The U.S. government that year prosecuted thirteen members of the combine including the CPR and the Allan Line for conspiracy in restraint of trade.[48] The Canadian Northern, which had just joined the cozy circle at a time when on land its hostility to the CPR was at a maximum, escaped prosecution.

Both the CP Atlantic and Pacific fleets received large federal subsidies directly as well, and even imperial mail subsidies. Their federal subsidies were raised substantially by both Sir Richard Cartwright, the Liberal Minister of Trade and Commerce, and Sir George Foster, his Tory successor, the increases showing a curious correlation to the timing of large gifts of CPR stock by Strathcona to the honourable ministers.[49] In addition, the Canadian lines were rewarded with a rule whereby only goods travelling to Canada on direct steamships would be eligible for the 33⅓% British preference. A similar ruling for immigrants existed whereby they had to come to Canada directly from their place of origin on a single ticket. This last directive was the work of Laurier's Minister of Labour, Mackenzie King, who used it to ensure that Indian immigrants would be effectively blocked without the need for an explicit White Canada policy.[50]

The Caribbean and South America were the areas most favoured by Canadian attentions. As early as 1874, witnesses before a Select Committee investigating manufacturing urged the development of trade channels with the Caribbean and South America to relieve surplus production.[51] But it was after the National Policy that the most active promotion of communication and transportation links occurred. The objectives were two-fold. First was to secure a source of tropical products, especially sugar for the new Canadian sugar refining industry in the Maritimes and Montreal. The main point of the National Policy strategy was effectively summed up by the fact that the first load of ordinary merchandise sent over the CPR to B.C. was a cargo of Jamaica sugar that had been refined in Halifax.[52] The second objective was to secure a vent for the surplus productive capacity resulting from over-investment in industry behind the National Policy tariff. For the first time in Canada's history it was haunted by the spectre of general over-production and resultant industrial crisis, rather than just the commercial crises or problems of periodic collapse of primary product prices as of old.[53] From the excess capacity of the National Policy investments came pressure for Canadian autonomy to make its own commercial treaties,[54] and by 1886 Canada was no longer automatically bound by British treaties.[55]

The Caribbean and South America

For the British West Indies, despite the perpetual interest of Nova Scotia merchants and refiners, and the growing interest of Montreal sugar refiners as well as Canadian manufacturers, the

Canadian relation took second priority to cultivating ties with the U.S. And in fact for Canada the Spanish Caribbean for some time seemed the preferable commercial objective.

During the early 1880's, Canadian manufacturers pressed for increased ties to the British islands. The non-competitive structure of the economies concerned was stressed: the Caribbean would produce raw tropical produce, Canada would export manufactures. And the fact that the area was under the British crown was an additional drawing card.[56] The years 1884 and 1885 saw profound depression in the sugar islands. The growth of bounty-fed beet sugar refineries in Europe and North America tended to depress demand. In Jamaica and in Canada, followed by Trinidad, Demerara, and the Leeward Islands, annexationist sentiment emerged in some quarters.[57] While the bulk of the mercantile opinion in the islands preferred the idea of union with the U.S., the Colonial Office pushed for a Canadian association.[58] The absentee proprietors in England pushed for Confederation,[59] undoubtedly influenced in no small measure by the success the P.E.I. absentees had in using the federal government to defend their claims against popular reform agitation on the island. And for planters in the islands, the indentured labour issue, as in Hawaii, was a factor favouring the Canadian association.

Except for Barbados, which argued its case through its former governor, Francis Hincks,[60] the bulk of island business opinion favoured only a commercial treaty and not outright annexation. Such sentiments went back at least as far as 1855 when Hincks served as go-between in Reciprocity discussion between the Windward Islands and the Quebec Board of Trade which wanted a new trade outlet to make the canals and shipping investments profitable.[61] But it was the sugar crisis that brought the issue strongly to the fore.

Inside Canada some pressure for outright annexation existed, especially after Britain announced it had no objection to Canada annexing Jamaica.[62] But opposition emerged from some circles, including Maritime boards of trade who avidly pushed for Reciprocity with the area, on political grounds — especially the possibility of Canada thereby acquiring a large black population in addition to mere Chinese "coolies." As the *Monetary Times* quaintly put it, "annexation would bring us a population which it is not desirable to have, the representatives of which would scarcely improve the general character of the House of Commons."[63]

At the same time, Canadians' attentions were focussed on

Spanish Caribbean possessions. In 1884 Tupper tried to negotiate a treaty with Spain to give Canada a preference in Puerto Rico and Cuba. Canadian opinion felt that if it got access to Cuban sugar under a Spanish treaty there would be no need to annex Jamaica.[64] Although the U.S. secured a preferential treaty, Canadian efforts continued. The debate over whether a reciprocity arrangement with Spain would permit countries having most-favoured-nation agreements with Britain to demand the same from the Canada-Spain treaty[65] led directly to Canadian commercial autonomy. In 1886, a commercial treaty was signed between Britain and Spain giving Canada a substantial preference.[66] Under the treaty, raw sugar moved to Canada and the Maritimes exported timber and temperate foodstuffs to Cuba and fish to Puerto Rico.[67]

For the British West Indies, though Canadian relations with Cuba helped avert annexation, they also deepened the crisis in sugar. Furthermore in 1888 came the first European sugar bounty treaty prohibiting beet refinery subsidies in return for Britain's agreement not to discriminate in favour of cane. The islands lost their last chance to secure an advantage in Britain for their cane.[68] Canadian interest in the British possessions certainly remained, but it was tempered by its new resource hinterlands, among them Brazil and Mexico.

Reflecting Canada's growing interest in these areas were the efforts to establish transportation and communication links. In 1881, a line of steamers run by French and Brazilian capitalists received subsidies from the Dominion Government and Brazil to ply between Halifax and Rio de Janeiro. The first cargo to arrive in Canada on the first of the line's steamers carried sugar for the Halifax refinery as well as some coffee and other products. Its return cargo was fish, grain, and timber.[69] A second Canada-Brazil line was organized in Montreal by Canadian and British capital, heavily loaded with Grand Trunk magnates, but never became operational.[70] Later the establishment of a subsidized line to Buenos Aires led to some interest in Mexico in negotiating a future Canadian reciprocity treaty.[71]

Subsidies for other lines were also voted, those to the British islands tending however to lag behind. Until 1886 the Cunard Line maintained a direct link between Canada and the West Indies, but thereafter it ceased. The maritime fish trade then went in wooden sailing ships while exports in steamships all travelled via New York.[72] St. John and other cities with sizeable commercial interest in the West Indies trade pressed for re-establishment of direct links.[73] Canada indicated its willingness to subsidize a Jamaican line in 1888 if Jamaica did likewise, but the island refused unless it was also given exclusive control of the Canadian raw sugar market.[74] The next year a series of subsidies did begin, however, giving Maritime ports direct connections to the various Caribbean islands, subsidies which by 1912 totalled \$1,399,128.[75] And by 1898 the cable line between Halifax and Bermuda had extended to Jamaica.[76]

The reciprocity issue did not die out. Canadian manufacturers agitated for improved commercial relations with the British Caribbean. In 1890, George Foster attempted to negotiate a reciprocity arrangement, but the islands preferred to try to break into the American market.[77] In 1893, Jamaica abolished wharfage charges for all goods sent via Halifax on Pickford and Black steamers,[78] but no further moves towards closer relations followed for some time, in spite of the fact that the Pickford and Black line received ample Dominion subsidies as well.[79]

War accomplished what negotiation could not, war being simply an extension of commerce by other means. With the Spanish American war, the U.S. annexed Cuba, Puerto Rico, and the Philippines, and became independent of the British West Indies for its tropical product needs. During the war, the Bank of Commerce, through its Manila agent, carried out a great deal of business on behalf of the American government, including paying the troops and financing food shipments, functions that American banks were not equipped to handle.[80] In the aftermath of the war, lingering Philippines resistance to the takeover caused some consternation in the upper echelons of power in the U.S. government. The Secretary of War called on Sir William Van Horne, who in 1885 had masterminded a plan to transport troops by rail to the Canadian Northwest to suppress the Métis independence movement, and asked him to apply his skills to designing pacification railroads in the Philippines.[81]

The seizure of the Spanish islands by the U.S. opened up the British ones to Canada, for it spelled the end of their American markets. Immediately after the war, the U.S. began admitting Puerto Rican sugar free, and extended a preference to the products of the Philippines and Cuba. Canada replied by extending a preference to Jamaican sugar, the island having been hit hard by the U.S. seizure of the Spanish islands.[82] Moreover, the Maritime export trade in fish to Puerto Rico, which provided most of that island's consumption, was immediately threatened[83] and new markets were sought. In 1899, the situation in the American market improved somewhat for the British sugar colonies with the U.S. imposition of heavy duties against the new round of beet root sugar bounties then the craze in Europe. But the 1903 Brussels convention abolished these bounties, leading to the removal of the American duties, and the loss of the market again for the British islands. Moreover, a Canada-Germany trade war led to the imposition of a surtax on German goods including beet sugar, and opened up more space in the Canadian market for the islands.[84] Prospects of political union between Canada and Jamaica, which had gained more favour in the island after the Spanish-American war,[85] improved even more after the sugar convention. Transportation links were improved, and Canadian exports promoted by CMA and boards of trade of major cities.[86]

Elsewhere in the Caribbean, Canadian ambitions also grew. In 1900 Trinidad and Canada tried without success to negotiate a reciprocity arrangement under which Trinidad would supply Canada with cocoa, asphalt, and sugar.[87] And in 1911 Canadian financiers led by the managing director of Sun Life began a campaign for the annexation of the Bahamas which could provide Canada with a new market, a coaling base for ships using the Panama route for Canadian trade and a naval station which would help Canada's increasingly important interests in the area.[88] In 1912, a trade treaty between Canada and ten West Indian colonies was signed, under which Canadian-manufactured exports got a 20% preference, while some natural products from the Indies entered Canada free, others at a 20% preference.

Further plans for the development of Canada-West Indian economic ties were made at a conference of trade officials in Ottawa in 1913. The Minister of Trade and Commerce, Sir George Foster, pointed out that with rapid growth of Canadian population and income, the demand for Caribbean products would grow. The area's role as a resource hinterland and field for investment was clearly spelled out by Sir George.

> The United States now has within her own territory or affiliated to her by special treaties, a tropical area which goes far towards satisfying her wants. . . . I have always been of the opinion that the West Indies is an underdeveloped country. . . . Development can best be assured by a certain and interchangeable market of such size and such quality, that it will call upon you, for your present protection and your future benefit to meet the more extended needs of Canada. . . . There ought to be a larger investment of capital and a greater co-operation between Canada and the West Indies. You know what power there is in invested capital to draw countries together and develop them. If we can in any way induce Canadian capital to invest in the West Indies, and if we can induce the businessmen of the West Indies, to co-operate with us in the development of their country, there will be common bonds between us that will be mutually advantageous.[89]

The conference went on to call for a new "all red cable" to link Canada and the Caribbean. The only skepticism registered by the Caribbean delegates to the schemes came from one delegate of Guyana:

> One thing we are nervous about in Demarara with regard to sending goods direct to Canada. . . . The railway people may appropriate a certain amount of the preference by raising the freight on the goods and thus nullifying to a great extent the advantages we would get from the preference.[90]

In light of the domestic experiences of Canadian farmers and manufacturers with the railroad magnates, he had just cause for his apprehensions.

Elsewhere in the Caribbean, Canadian business was far from absent. Despite its being de facto an American colony, Mexico continued to attract the attention of Canadian capital, and steamship routes were established with Dominion subsidies to run from Vancouver to the Pacific coast of Mexico in 1906. One effect of the new line was to establish an entrepot trade between Britain and Mexico via B.C.[91] The next year a line along the Atlantic route began operating from Montreal to Cuba to Mexico, providing a great stimulus to trade.[92]

Export Development

The long-distance imperial and far eastern trade was the whole *raison d'être* of transcontinental railway building in Canada. The purchase of the Hudson's Bay Company in 1863 by the International Financial Society, a London investment banking firm, had as its objective the reorganization of the Grand Trunk Railway on a transcontinental basis. The rationale could only have been the far eastern trade, for in the absence of settlement of the Canadian West this was the only source of earnings to salvage the fortunes of the GTR security holders. The Interoceanic Company competing for the Pacific charter stressed that the Canadian route from Britain to the Orient was shorter than any American line. In 1873, the Tory *Mail* greeted the Allan contract with the words:

> We have the means in our possession of bringing the trade of India, China, and Japan to Montreal by the shortest route and at the cheapest rate possible.[93]

In 1878, Tupper justified his choice of possible routes through the Pacific province by stressing that it made

> the distance from New York to Japan 650 miles shorter than any route the United States can afford. So far as European traffic is concerned, the citizens of London, the citizens of Great Britain, will find that they can reach China and Japan by the line of the Canadian Pacific, and over Canadian soil from Halifax, instead of the line now existing to San Francisco, and effect a saving of over 1200 miles.[94]

And the CPR through the prairies followed a more southerly route than that originally planned, a route that avoided some established settlements and the more fertile regions in favour of rapid development of international trade along the shortest possible route. It was no accident that the year 1887, which saw the establishment of the CPR's Pacific fleet, also witnessed the first bottlenecks in the carriage of grain from Manitoba, as the long-distance trade took precedence over domestic in the allocation of the company's resources and energies.

The export of manufactured goods proceeded in a limited, but nonetheless significant way along the commercial arteries created, and in some cases preceded them. Once the National Policy was up and the CPR complete to the Pacific, the heavily protected cotton industry insisted on defying every principle of international trade theory and exported to China in active competition with British and American firms.[95] The cotton exports were not simply short-run dumping, for as late as 1890 a new cotton mill was built for the express purpose of serving the Chinese market. In 1892, four of the Canadian mills were concerned chiefly with exporting to China.[96] While the early shipments of cotton often went via New York firms, the CPR's expansion into the Pacific trade led to direct exports. For the CPR the China trade was crucial to its early profit position, based on long-distance and entrepot trade before the Canadian West developed. Exports of such commodities as Canadian cotton through China's conveniently opened doors were balanced by imports of such commodities as opium to be smuggled into the U.S., and the early monopolization of the tea trade from the Pacific to the Atlantic.[97] By 1891 it was established that the Canadian route to the Far East was twelve days faster than the Suez route, and it was expected that Canada was certain to become at least the chief imperial mail and military route.[98] Another of the CPR's early export developments was the carriage of Standard Oil's products from Ohio to the Pacific coast of the U.S. over the Canadian route,[99] the beginnings of the CPR's long, friendly relations with Standard to the dismay of the Canadian oil refining industry.

A fair degree of export activity occurred among some industries before the National Policy. Boot and shoe exports around the world were reported in 1874.[100] The organs so assiduously copied from American patterns by Bell and engine works built up by émigré Americans like Waterous also reported export activity.[101] The agricultural implements industry was an early leader. Massey, Cossitt, and John Watson exported to the West Indies, France, Russia, Australia, and South Africa by 1876.[102] Even very small semi-handicraft implement firms found export markets.[103]

After the high tariff, very little seemed to change, at least in the short run. The organ and piano industry continued to find foreign markets.[104] American émigrés like Wanzer or Raymond sent sewing machines around the globe, joined by new licensed ventures.[105] The Canadian secondary iron and steel industry in general staggered under its 30-35% *ad valorem* and exported widely. The Canada Tool Works at Dundas had the audacity in 1882 to reverse normal procedure and export lathes to Cuba via a New York wholesale dealer. The Hamilton Screw Company, American-owned but not a branch plant, at the same time announced it was exporting "to all parts of the world."[106] The agricultural implements industry gained more foreign markets after the tariff. Belgium, New Zealand, the Argentine, and the U.S. were added to the list by the late 1880's.[107] In 1888 the Masseys went on a world tour to show off their goods and establish export agencies;[108] the same year, W. E. Massey testified as to his conversion to protectionism. He admitted, nonetheless, that while the tariff was necessary for them to maintain their control of the home market, and while some loss would occur domestically without it, their export business would be unaffected.[109]

After the mid-1890's while Canadian-manufactured exports declined relatively, certain industries remained strong. The great surge in bicycle production and exports occurred to a number of European, South American, and Empire outlets, and even the U.S.[110] At the same time, by 1899, over half of the Dominion consumption of bicycles was imported, over 75% if one included complete sets of parts simply assembled in Canada.[111] Yet so successful were Canadian firms in securing American patents that an English firm was set up with the express purpose of dealing in "Canadian" bicycle patents.[112]

Also very successful during the period were furniture exports to various Empire markets, and even to the U.S.[113] This was especially disconcerting to American producers, and in 1896 the American consul in Belfast wrote to his government that Canadian furniture manufacturers had largely displaced American home and office furniture from United Kingdom markets.[114] In carriages, a similar pattern occurred.[115]

In secondary iron and steel, a fair degree of export activity was reported by leading firms.[116] Some of the large machine and tool firms such as Bertram or the Robb Engineering Works had secured wide markets. One firm actually exported textile machinery to Britain.[117] Just to prove how badly it needed the federal iron and steel bounties, DISCO, as early as 1902, began exporting to New England. It later secured markets with the American railroad companies, who received rails at rates considerably below Canadian prices.[118]

Branch plants and licensed ventures played a significant role as well in the new export markets. Quaker Oats and Heinz were among the food processors established in Canada to serve the Empire market, and most of their output was exported.[119] In automobiles, the typical pattern was to give the Canadian affiliate the Empire trade. Canadian General Electric did not do so well, and its extension rights were restricted to Newfoundland. But Sherwin-Williams allocated to its Canadian affiliate control of the English subsidiary, which in turn controlled those in India, South Africa, Shanghai and even France.[120]

Two points stand out from these export patterns. First, of course, is the prominence of licensed concerns, and to a lesser degree of branch plants. Without the existence of an Empire market, there would be little rationale for such a division of activity between parent and affiliate. Second, in those fields where independent Canadian firms were strong, they were for the most part traditional, mechanical industries. Apart from a few spectacular and short-lived machine works, Canadian presence in modern high-technology industry, except by licensing, was conspicuously absent. Even the bicycle boom was based on American patents. And the two industries that ranked highest in terms of the share of Canadian manufactured exports after 1900, excluding food, were agricultural implements — built by American émigrés on U.S. patents — and iron and steel — largely the creation of American bonus hunters or émigré master-craftsmen of an earlier era.

Manufactured exports were not, however, the core of the Canadian commercial strategy. Agricultural products, both field and animal, were the main object of government attention in efforts to find markets abroad. In the early post-Confederation period, the entrepot trade between the U.S. and Britain remained large. In 1878, some $10 million of Canada's total of $46 million of exports to the U.K. were re-exports. Of this entrepot trade, 95% was in agricultural products, accounting for nearly half of the Dominion's total agricultural exports to Britain. In 1881 again, $11 million of $42 million sent to Britain went as re-exports, overwhelmingly agricultural, and by this date they exceeded the value of native agricultural products sent there.

With the opening of the West, of course, native products — first mainly animal, later chiefly grain — quickly dwarfed the re-export business. The Dominion Government instituted a series of measures over and above shipping subsidies to key markets to facilitate this trade. Cold storage warehouses for dairy and animal products began to spread across Canada in the mid-1890's, supported by federal and provincial bond guarantees. Among the latter was a guarantee from New Brunswick to Sir Frederick Borden's firm, a firm which also subsequently secured a federal guarantee while Borden himself sat in the Cabinet. Cold storage arrangements were also worked out with leading shipping companies and with the creameries that began to spread across the prairies.

The creameries were an object of special attention both in Manitoba and in the Northwest, beginning in 1895 when both the Manitoba and the federal governments began to make loans to keep up or or improve the butter and cheese factories in their respective spheres of authority. The federal Department of Agriculture took over the operation of sixteen creameries, nine of which had been in financial difficulty. Lack of capital, incompetent management, and other causes led to losses to the owners. The farmers began to feel that the proceeds of the operations would be channelled off to reimburse the owners rather than going back to the farmers as a return on their butter and cheese, and stopped supporting the local factories. The Dominion then set up a $15,000 revolving fund to bail them out by making loans, the creamery itself to be operated by the Department of Agriculture until the loans were repaid. After 1905 the burden of maintaining the creameries devolved upon the new provincial governments of Alberta and Saskatchewan.[121]

There were other steps taken by the federal government to promote agricultural exports. Systems of government inspection were established to maintain or improve standards of dairy products for export: at the same time, the Canadian canning industry had a remarkable record of poisoning domestic consumers without any system of workable inspection being imposed.[122] And the Dominion made advances of funds to exporters — an ill comment on the Canadian banking system's performance in even that most orthodox of commercial banking functions, financing Canadian commodity trade, however useful the banks may have been to American commodity movements.

Canadian Banks in the United States

After Illinois' experiences with the Canadian banks' agencies, it relaxed its laws to permit foreign banks to enter, and between 1875 and 1881 the Commerce, the Merchants' and the Bank of British North America followed the Bank of Montreal into Chicago. These banks collectively took most of the grain moving business away from the local banks, which began to model themselves on their Canadian counterparts.[123] In 1886 panic and depression led to all but the Bank of Montreal closing their doors and returning to Canada.[124] But the exodus soon reversed itself, and by 1892 the Bank of Nova Scotia had entered Chicago, followed by others.[125]

Many other American cities received branches of Canadian banks. The grain trade in Minneapolis attracted the Bank of Nova Scotia in 1885. It closed down its Winnipeg branch, which had lost heavily in the collapse of the land boom, and shifted it to Minneapolis.[126] Pacific trade took the Bank of British Columbia to San Francisco and Portland, Oregon, even before Confederation. Its business in Hawaiian sugar grew steadily until it was absorbed by Bank of Commerce, which in turn became active in sugar movements.[127] The Commerce held control of the National Bank of New Orleans from 1900 to 1915. By 1912 the Nova Scotia had eight branches throughout the U.S.[128] That year one Canadian bank alone, probably the Commerce, was financing between 25 and 50% of the total American cotton exports.[129]

New York had a veritable deluge of branches and agencies, attracted by the profits in call money and currency speculation, rather than commodity movements as in the other American centres. These profits on currency speculation were sufficient that in 1870 the Bank of Montreal managed to get itself sued for breaking New York States's usury laws — loans were reported bearing interest rates up to 150-200% per annum. At the same time, until 1913, American national banks were forbidden from entering foreign banking, and for the most part lacked the resources to do so.[130] Canadian bank loans abroad, virtually all in the U.S., net of deposits abroad were $23 million in 1900; by 1909 the net export of funds reached nearly $90 million; thereafter it declined somewhat.

The result of these extensions was to further twist the structure of the Canadian capital market towards north-south flows at the expense of east-west integration. In 1891 it was noted that a virtual currency union of a lopsided nature had been effected. American notes passed at par in Ontario, while those of the remote provinces were at par only by special arrangement. Not until after the creation of the central redemption fund — over the objections of some of the major Canadian banks, coupled with the extinction of Maritime and local banking and centralization of monetary control in Toronto and Montreal—was the anomaly partly rectified. Although Dominion notes then became exchangeable at par, American and British currency remained legal tender in Canada while Canadian was not legal tender in the U.S.[131] At the same time within Canada, Dominion notes, though payable in gold, were for a long time only partially convertible: Canadian banks preferred to deal in American gold.[132] In 1914, the *Monetary Times* remarked on the fact that notwithstanding the large deposits of Canadian banks in New York (nearly $150 million), "Canadian industrial development seems to attach more naturally to Philadelphia and Boston."[133] Financial capital moved from Canada to the U.S., industrial capital back to Canada. Canadian funds went to support American stock exchanges or into corporate bonds. Hence, as a result of financial integration with the U.S., Canada in effect ended up "borrowing" back its own money in the form of direct investments by American firms. The result of the export of funds from Canada to the U.S. was the same in the post-Confederation period as in 1857 and 1866: financial stringency within Canada followed the export of short-term funds, and increasingly of long-term funds as well.

In B.C. the chief circulating medium was gold, in the form of dust or ore certificates, prior to the entry of the Canadian banks to the area. The Bank of British Columbia, the Bank of British North America, and the private banks exported the mineral to the U.S. as fast as it could be dug.[134] When the gold rushes ended, B.C. was left with holes in the ground and debts. The same pattern was repeated in the Klondike rush. Of the $72 million of gold imported into New York in 1896, $10 million was handled by the Canadian banks.[135] Gold dealing during the second rush became centered in Seattle, for the banks operating in B.C. refused to pay as much as those in Seattle. The result was a drain of trade of such an order of magnitude that Vancouver merchants met to organize a fund to subsidize the local purchase of gold and thereby secure the trade of the Klondike.[136] The result of the banks' policies, which facilitated the export of gold and successfully blocked its minting inside Canada until 1912, was reflected in the Dominion reserve position. Of $98.5 million in gold reserves held in 1913, $93.2 million were in U.S. coin, $4.3 million in British coin, only $800,000 in Canadian coin, and about $220,000 in bullion.[137]

In the East, the drainage of funds via the Canadian banks to New York in 1888-9 drove up interest rates and led to complaints from Canadian business over the lack of accommodation.[138] That these drains were possible could be blamed on the tightly cartelized structure of the Canadian banking system, according to one businessman:

> I am informed by leading bankers in New York City that our banks, whenever money becomes tight, appear on the scene and make enormous loans on the most insecure and speculative stocks such as local institutions would not dare do. The result is that they drain every dollar from customers here and many perfectly solvent concerns go to the wall. This has been admitted to me by bank managers here of local offices and the effects upon their customers lamented.[139]

Canadian funds continued to pour into Wall Street stock or gold speculations after the Bank of Montreal's successes in the 1860's. One private bank failed in 1869 because of its gold deals. The Merchants' came close to failing because of unwise gold speculations in 1877.[140] Call loans to New York brokers were a factor in the Ontario Bank failure in 1906. But without the Canadian call money, Wall Street would have been hard pressed to function.[141]

The exports of gold to New York for speculation gradually put Canadian exchanges on a system unusual for the period. Neither gold nor sterling balances served as the banks' first line of reserves. Instead of gold or the key currency of the period, the Canadian banks' reserves took the form of call and short-term loans in New York.[142] This system, the outgrowth of the banks' greed for gold speculation, was defended on the grounds that there was no adequate call loan market in Canada, and that it imparted elasticity to the banking system, permitting the banks to call loans in New York whenever money became tight in Canada.[143] But the record shows very little cushioning of Canadian monetary conditions against the effects of crises from abroad.[144] The effect of the system was to stifle the creation of a short-term money market in Canada, which had to wait until 1953, while treasury bill auctions did not commence until the creation of the Bank of Canada in 1934.[145] Over the period 1900 to 1913, call loans in the U.S. by Canadian banks rose five-fold, while those in Canada little more than doubled. As a percentage of total assets, call loans in Canada in 1900 were 6.2%, while by 1913 they had fallen to 4.4%; over the same period those abroad rose from 5.3% to 8.0%.

Even more doubt is cast upon the supposed rationale of the system by the fact that while in theory the call loans should have been used to impart a seasonal elasticity to Canadian credit, the facts are otherwise. Call loans abroad should have expanded in the summer, as the banks prepared for crop movement, and contracted in the autumn and early winter. No significant seasonal variation in fact existed. And for a system of reserves supposedly so important for Canadian monetary stability, very few banks seemed inclined to participate. Of 36 chartered banks in 1900, only six made call loans abroad, 70% of the total of which was accounted for by the Bank of Montreal, a full eighteen per cent of that institution's assets being involved there.[146] In 1913 of 25 chartered banks, only eight lent any money on call in New York. The Bank of Montreal accounted for over $51 million of the total of $93 million.[147] At the same time, the Bank of Montreal refused to lend on call in Canada.[148]

Even more important was the outflow of long-term funds. In 1876, the Bank of Montreal proved its loyalty to the Crown by purchasing American government and Cincinnati gold bonds.[149] One major reason for the failure of the Federal Bank in 1889 was the long-term credits it extended to American lumber firms.[150] The Ontario Bank's collapse was assisted by its losses on Minneapolis and St. Louis Railway stocks.[151] Railway bonds were especially popular. The Bank of Montreal between 1886 and 1896 bought and sold 111 different American railway bonds of sums from $50,000 to $500,000, of which 35 transactions incurred losses. Its dealings in Government of India bonds exceeded those in Canadian government; it invested in St. Louis debentures more than it had in Toronto, and it even managed to lose $10,000 in an American government bond transactions.[152] These investment dealings were never published. Similarly, the Sovereign Bank's virtual ownership of the Chicago and Milwaukee and Central Alaska railroads was not disclosed until the bank failed.[153] American railroad and tramway bonds, too, attracted the attentions of the Home Bank from an early period, and were a major factor in its ultimate failure.[154]

For a period of four years, from 1906 to 1909, the general manager of the Bank of Nova Scotia, H. C. McLeod, insisted on publishing the bank's investment portfolio — a move which, like his campaign for outside inspection, met with the stern opposition of the banking establishment.[155] In 1910 he was replaced, and no further publication occurred. But from the data provided for those years and some supplementary figures, the bank's investment portfolio can be constructed. A few points stand out. In all years, foreign holdings were about 50% of the total, sometimes more. Included in these were a number of foreign utility bond issues — the Havana Electric Railway, and Rio and Sao Paulo utilities. The American industrial bonds included $150,000 in United Fruit Company Bonds. And of the "Canadian" total, a fair amount was accounted for by items like Bell Telephone bonds.

TABLE XVI (2)

Bank of Nova Scotia Investments, 1906-1909

	1906	*1907*	*1908*	*1909*
Government Bonds			*($1,000's)*	
Provincial	605	598	600	728
Municipal	1,342	1,544	1,647	2,017
Foreign & American	74	196	214	255
Railway Bonds				
American	1,908	1,999	3,093	2,606
Canadian	486	356	405	351
Foreign	129	33	165	—
Industrials and Misc.				
American	311	462	567	711
"Canadian"	250	250	365	804
Foreign	—	—	—	—
*Totals**				
American	2,219	2,462	3,660	3,317
Canadian	2,682	2,749	3,900	3,900
Foreign	129	228	214	255
	4,965	5,439	7,774	7,471

Sources: Bank of Nova Scotia, *Annual Reports*, 1906 - 1909; *CBC*, p. 497.

*Totals not exact due to rounding errors.

Insurance Company Activities in the United States

For most of the pre-war period, fire insurance companies did not establish branches in the United States, nor did their holdings of securities appear to be major. Their importance to the export of funds appears to lie in their role in driving Canadian business into purchasing American fire insurance policies, the policy funds then being available to the American companies to make long-term investment in the U.S.

There were, however, some exceptions. The Royal Canadian, on being barred from New York business after the impairment of its capital in the St. John fire of 1877, had that year well over two-thirds of its total investments in U.S. securities, some $680,000 out of $970,000. By 1900, while four of Canada's nine Canadian-owned fire insurance firms did some premium business abroad, two of them accounted for the overwhelmingly large share — the British American and the Western Assurance, both part of the George Cox empire — and for both of these their American business was far more important than their Canadian premium sources.

TABLE XVI (3)

Premiums Received by Canadian Fire Insurance Companies Operating Abroad, 1900

Company	*In Canada*	*Abroad*
British-American	235,868	1,058,215
Quebec	87,494	32,655
Victoria-Montreal	37,474	58,537
Western	329,120	1,655,489
	689,956	2,804,896

Source: Superintendent of Insurance, *Report,* 1900, p. xi.

Moreover, for all but the Quebec Fire Assurance Company, which lost money in both domestic and foreign operations, losses paid as a percentage of premiums received were lower abroad than at home. Perhaps for this reason other companies followed, and by 1913 fifteen of Canada's 29 Canadian-owned fire insurance firms were active abroad, chiefly in the U.S., but not on the scale of the two established leaders, which by 1913 were doing abroad three times the amount of premium business they did in Canada.

In terms of investments, British-American and Western again were in the forefront. As early as 1900, a third of Western's portfolio consisted of American federal, state, municipal, and utility bonds and debentures, while British-American held about 15%. By 1913, British-American foreign investments were over one-third its total, while Western's exceeded 50%.

Life companies had followed the banks in establishing American branches. The first seems to have been Sun Life, which opened its Michigan branch in 1889. The purpose of the branch was to solicit policies among the large émigré Canadian population in the Michigan timber areas.[156] By 1914 every major Canadian life company had U.S. branches. The Independent Order of Foresters led with 24, followed by Canada Life, Sun Life, and others.[157] The life companies, while soliciting local business, were actively engaged in the export of long-term capital to the U.S. In addition to stock and bond investments, they provided interim financing to American promoters. Yet in 1906 they complained that legislative restrictions on their investment portfolio were hampering their competitive position vis-à-vis U.S. life companies.[158]

The long-term investments in the U.S. were based on a deliberate misreading of the law regarding their investment portfolios. Canadian life companies were permitted to hold investments in foreign countries in which they had branches to the extent that they were required by law in those countries to deposit securities as a reserve. But the Canadian companies had put what Sun Life euphemistically described as a "liberal construction" on the regulatory legislation,[159] and had engaged in a wide variety of speculative ventures in the U.S. incompatible with their position as trustees of policy holders' funds.[160] The lead in U.S. investments was taken by Sun Life, but almost all of the companies were involved. North American, a relatively small company, managed to illegally hold $800,000 in Chicago and Milwaukee bonds.

In 1906 Sun Life openly admitted that the best utility investments it felt it could make were those in Ohio, Michigan, Illinois, and Indiana. The threat of public ownership then so rampant in Canada with respect to utilities, with the possible consequence that all the water would be squeezed out on expropriation and the value of its equity holdings considerably reduced, did not perturb the company. For it felt that in the U.S. public ownership of utilities would be unconstitutional.[161] In fact, Sun Life generally preferred American investments to Canadian ones.[162] By 1906 it held $7,900,000 in the bonds of the sprawling Illinois Traction and its sundry subsidiaries, out of a total issued of $18,760,000, and it held $6,975,297 in American equity in its contingent account while not a single Canadian stock appeared there.[163] Sun Life's activities were so successful that it inspired all manner of imitators, even the Sulpician Order came close to bankrupting itself in Detroit tramway speculations.

The Supreme Court of the Independent Order of Foresters pursued a vigorous investment policy that left in its wake a trail of graft that touched the Hon. Rodmond Roblin, Premier of Manitoba, and Sir George Foster. Thus when Foster publicly declared "political corruption is abroad everywhere, in our local, provincial, and Dominion elections"[164] it is hard to tell whether he was condemning or bragging. Of $1,360,614 worth of securities held in 1906, $729,109 were American.[165]

Industrial, Railroad and Other Investments in the U.S.

Canadian industrial investments in the U.S. were a variety of types and motivations; they included branch plants, individual investments, and even an occasional licensed venture. There was relatively little investment in mining, reflecting the conservative structure of the Canadian capital markets, and the ready availability of mineral resources within Canada.[166] There were a few exceptions. In 1887 the private banker, Loftus Cuddy, in conjunction with another Canadian, established a coal mining, transportation, and dealing firm with docks at Erie, fueling wharves in Detroit, car dumpers, steam derricks, and wharves at a number of lakeports. In 1900 they sold out to an American coal trust.[167] There was also an iron mine tributary to one of Canada's railway investments in the U.S., and two later additions, one in coal in 1910 and another iron mine in 1914.[168]

There was also at least one instance of a wholesale migration of a Canadian firm to the U.S. In the early 1870's a woollen firm left Hespeler, Ontario, and shifted its entire plant to the U.S. because Canadian retailers preferred foreign to domestic goods![169]

One of the earliest branch plants was that of E. B. Eddy, the émigré American, who set up a match factory at Ogdensburg, New York, in 1881. But his machinery and equipment were so advanced and so frightened the American match manufacturers that he was given $100,000 for his $15,000 investment and asked to confine himself to Canada.[170] Equally short-lived was a pharmaceutical company in Toronto which took over a Detroit firm in 1880. It then discovered that it was the victim of a fraud, the former owner having flooded the market before the sale, and the company quickly failed.[171]

There were few cases of pulp and paper firms in the U.S. under Canadian control,[172] of which the largest was the Carter-Crume Co. It had a curious history. Initially it seems to have been established as a branch plant in Toronto of an American cheque book firm in 1882. But the company came in part at least under Canadian control, though the patents in which it was based remained American. By 1899 it became incorporated, with participation in the equity by A. E. Ames, Joseph Flavelle, and Hart Massey,[173] by which time it had a branch plant in Niagara Falls, New York, affiliates using its patents in London (England), Berlin (Germany), and Melbourne, as well as another in California with which it divided the American market. When it offered shares in Canada through A. E. Ames and Co., the chief selling point in its advertisements was a reproduced letter from an American patent attorney attesting to the validity of its patents.[174] In 1911 it absorbed a series of other sales book manufacturing companies in New York, but its headquarters remained in Toronto.[175]

There were a few other cases of industrial direct investments in the U.S.: a hemlock bark extract company (1882); textile investments (1885 and 1912); a Toronto soap company with a Rochester branch plant (1885) followed by a Brantford one with a Buffalo joint venture (1887);[176] a carriage factory with a Michigan branch plant (1891);[177] an Alaska tannery (1896); a New York branch of a Toronto paint factory (1897); a mica mining and processing firm, headquartered in Montreal, with a branch factory in New York (1911).[178]

What stands out most in the pattern of Canadian industrial investments in the U.S. is the number of firms in secondary iron and steel. The engine works branch of the American émigré C. H. Waterous was closed down in Winnipeg in 1886 and shifted to St. Paul.[179] Edward Gurney, Jr., the son of another U.S. émigré, added a Boston branch plant to his Canadian holdings in 1890.[180] In 1899 T. J. Drummond, who was involved in a joint venture in Montreal to manufacture railway car wheels, joined in the promotion of a New Jersey car wheel company.[181] In 1902 the Robb Engineering Co. of Amherst, Nova Scotia, established a joint venture in New Jersey, the Robb-Mumford Boiler Works, in partnership with the American patentee of some of the engines Robb made in Canada.[182] Similarly the Canada-U.S. joint venture, Page-Hersey Tubes, absorbed a rolling mill in Cohoes in 1914. Canadian Car and Foundries and several others too had their American branches.[183]

There were a number of cases of individual investments. Canadian money went into iron and steel in Birmingham, Alabama.[184] And by 1907 a group of Montreal financiers held over two million dollars in U.S. steel stocks.[185] By 1914, Montreal holdings of U.S. steel stock reached $7,892,000[186] — nearly eight million good reasons why J. P. Morgan never established a full-fledged branch plant in Canada to compete with the CPR's affiliate, Stelco.

Agricultural implements also saw a chain of American investments. In 1889, the Mann Manufacturing Co. of Brockville arranged for production of its patents under licence in the U.S.[187] In 1910, Massey-Harris took over a New York harvester plant, and when it decided to move into production of gasoline-powered implements it bought up a New York manufacturer of gasoline engines in 1913.[188] In 1911 the Cockshutt Plow Co. opened an Illinois branch.[189]

Just as Canada had manipulated its commercial policy to force the movement of American firms across the border, so too did the United States to cause a return flow. In the U.S. in the 1880s insufficient malt was produced to meet the demands of the breweries; large amounts of Canadian malt were imported. Canadian barley produced a malt that made a longer-lasting beer than the U.S. product.[190] The U.S. tariff on malt was raised, and by 1890 the Canadian industry was all but gone. Plants in Hamilton, Chatham, Galt, London, Guelph, Palmerston, and Toronto closed down. And many malt plants led by the firm of W. D. Matthews, grain speculator and president of the Toronto Board of Trade, migrated to the U.S. and imported barley from Canada — with serious effects on the cost structures of Canadian breweries.[191]

The most ludicrous case of commercial-policy-induced trans-border migrations came in lumbering. Canadian forests were supposedly being denuded in the 1880s by American lumbermen who exported the logs to the U.S. for sawing. Agitation for export duties mounted, and after the duty was imposed, many saw mills, most of them American, sprang up in Canada. (How this prevented the depletion of Canadian forests is unclear.) But the U.S. government retaliated with an import duty on sawn lumber to retransfer the saw mills back to the U.S. The Canadian government capitulated and removed the export duty. This led to a migration of Canadian lumbermen to Michigan pursued by Sun Life, and by 1890 many towns in the lumbering districts of northern Ontario were badly depopulated.[192] By the turn of the century, when pulp duties were imposed by Canada, the flow reversed itself again, and pulp and saw mills moved north.

In addition to bond investments by financial institutions, American railways and utilities attracted direct investment by Canadian firms and individuals. Sun Life's protégé, Illinois Traction, showed net earnings of $1,361,952 in 1906, and $1,-498,689 in the first eleven months of 1907.[193] The results of the earlier investments tempted others. There was considerable Canadian equity investment in border city utilities; for example, Montreal finance was involved in the Detroit and Adrian Electric Railway and the Detroit United Railway.[194] As well, Toronto investors held equity in the Twin City Railway Co. and the St. Paul and Minneapolis Street Railway.[195] The Alabama Traction, Light and Power Co. grew out of the Birmingham, Alabama, street railway built by William Mackenzie's contracting firm in 1899. By 1902 James Ross of Montreal was the sole owner, and sold control to British investors, though the headquarters remained in Montreal.[196] These were the major investments, though Canadian capital was involved in a string of other utilities as well.

One early case involved the Ontario private bank of McGregor and Bros., which was established in 1863 and got rich speculating in greenbacks during the Civil War. It invested heavily in Great Lakes transportation operations run by a Detroit firm, prospered for a time, then began losing money on the investments. A depositors' run began, but was weathered. Unfortunately Molson's Bank took a dim view of the proceedings, and another Canadian private bank was added to the scrapheap in 1877.[197]

One last utility case of interest involved one of the few instances of the migration of a Canadian entrepreneur to the U.S., namely Erastus Wiman, of mercantile agency fame. Among Wiman's activities was the establishment of a tramway system on Staten Island, followed by an electric light and power operation and a series of real estate deals.[198] These operations were not financed directly by Canadian capital but rather by embezzling funds from the mercantile agency. The 1893 bankruptcy of the power operations led to Wiman's arrest on a charge of forgery; he was found guilty but won an appeal.[199] Pushed out of the mercantile agency business by his former partner, R. G. Dun, who had preferred the charges, Wiman eventually established a rival Canada-U.S. agency but, like many of his schemes, it failed very quickly.[200]

In steam railways, apart from Grand Trunk and Great Western extensions, the first major post-Confederation investment was the financial coup of Lord Strathcona, Lord Mount Stephen and company in the St. Paul and Pacific railroad job. In the swindle their excellencies, along with J. J. Hill and J. S. Kennedy, conspired with the receiver of a bankrupt American road to steal the line from its Dutch bondholders for a fraction of its real value, the funds for the purchase in turn being taken illegally from the Bank of Montreal.[201] By 1906, the return from the investment of not one penny of their own money reached $416 million worth of interest-bearing securities over and above the interest and dividends obtained. The returns included those from a huge area of high-grade ore in Minnesota, partly secured by purchase out of the earnings of the road, and partly included in the railroad's land grant. The mine had a perpetual contract with U.S. Steel for all the ore it could produce.[202]

After Confederation, the Grand Trunk undertook extensions into Portland, Maine, into Michigan and to Chicago. Part of the funds for these extensions came from the illegal diversion of the money paid it by the federal government for the Rivière du Loup branch. In 1882, the GTR at the request of Chicago built the Grand Trunk and Chicago line.[203] By 1893 there were 1,000 miles of GTR track forming the chief through road for Maine, Michigan, Iowa, and Indiana.[204] The takeover of the Portland line required an outlay of one-and-one-half million dollars to put it into operating order, and it never earned more than two-thirds of its total rental cost. The Michigan line also ran a steady deficit, part of which took the form of state taxes. In effect, Canadian taxpayers paid a subsidy to the Michigan treasury through Canadian government aid to the Grand Trunk.[205] In 1911 the GTR strove to extend through Vermont and Rhode Island to Providence to reach water there, but this line was impeded by the American companies, who opposed its construction.[206]

The CPR and the Canadian Northern also undertook a series of American extensions, by takeover, by lease, or by new construction. These roads were virtually all designed to facilitate long-distance traffic rather than local business. By 1914, the Grand Trunk held $18.6 million in the equity of its American lines, mainly the Grand Trunk Western and the St. Lawrence and Atlantic, plus four-and-one-half million in bonds. The CPR held $55.2 million in stock and $26.8 million in bonds, while the CNR held $5.5 million in stock and $200,000 in bonds.[207] In terms of mileage controlled, too, the CPR had a substantial lead.

TABLE XVI (4)

Canadian Railways' U.S. Holdings: 1916

Company	*Proprietory*	*Leased*	*Controlled*	*Total*
C.P.R.	145	32	4,771	4,948
G.T.R.	—	—	1,868	1,868
C.N.R.	44	181	—	225
Total	189	231	6,639	7,041

Source: *RCRTC*, p. xxi.

In addition there were substantial portfolio holdings by individuals in American railroads. In 1907, two wealthy Montrealers were reported to hold $30 million worth of securities in J. J. Hill's American lines: others held $2.5 million in the Chicago and Milwaukee.[208] On his death in 1914 Strathcona's holdings still included (despite substantial sales and giveaways) $6,606,000 in equity of the Great Northern, the line J. J. Hill had fashioned from the St. Paul railroad, and $3,380,000 in the Northern Pacific, then also part of Hill's system. [209]

There were substantial holdings of American equities by small-scale Canadian investors as well. The fact that Canadian brokers dealt more heavily in American than in Canadian stocks was in part attributable to the thinness of stock markets in Canada, in turn due in no small measure to the underdevelopment of the call money market for domestic as opposed to New York dealers. In part, too, it was due to the backwardness of Canadian industrial organization, to the fact that the shortage of long-term outside capital for most industries delayed the transition to the incorporated form. In addition to the dealings of brokers, the highly-paid American branch plant managers and corporate executives resident in Canada, whose salaries were drawn from the Canadian earnings of their firms invested heavily in American securities.[210]

Canadian Banking Abroad

Canadian capital became very actively involved in commerce, finance, and public utilites in the Caribbean and South America, and in a few cases even further afield. There were also some resource and agricultural investments in the tropical areas, though not on anything like the same scale as the others. There were a few cases of individual direct investments in the area as well. One of the more short-lived involved a bank clerk who stole $50,000 from the Crown Bank and ran off to the Caribbean with a girl he married en route. He was caught, and a judge lacking all romantic impulses sentenced him to five years in 1906.[211] This was the same year that Senator George Cox revealed his enormous system of financial racketeering before the Royal Commission of Life Insurance: Cox was sternly rebuked.

The Canadian banks led the way for the post-Confederation investments following earlier commercial routes. In the 1860's, the Bank of British Columbia contemplated a Hawaiian branch. Further efforts were made after 1876, when the treaty with the

U.S. sparked off a sugar boom. The bank's proposal was supported by the Hawaiian Minister of Finance, who was a partner in a San Francisco sugar jobbing firm, but the move was never made — undoubtedly because of the failure of Canadian commercial ambitions in the area.

In the Atlantic, the Newfoundland financial crisis of 1894 created the conditions for Canadian expansion. The collapse of several large fish merchant houses led to the failure of both of the island's commercial banks, one of which was headed by the Premier, and which were interlocked with the fish firms. The larger of the two banks, the Commercial of Newfoundland, had been bled white by the depredations of its directors before failure.[212] The crisis also led directly to the suspension of the government savings bank, which had loaned half of its deposits to the commercial banks. The crisis reduced Newfoundland to a state of barter and led to widespread distress among the fishermen.[213] Members of the Newfoundland government went to Canada to try to get the Canadian banks to move onto the island to alleviate the crisis.[214] The Bank of Nova Scotia, the Merchants' Bank of Halifax (the Royal), and the Bank of Montreal responded to the invitation in 1895,[215] with the Montreal becoming the government's financial agent.[216] Negotiations for Newfoundland's entry into Confederation ensued with the enthusiastic support of the Montreal commercial and financial community,[217] the British government, and leading Newfoundland politicians including the Premier. At that time the island was on the verge of completing a railway, the result of which would be a public debt per capita double the Canadian level. The Canadian government asked the British government to share the burden of assuming the debt of the bankrupt island but this was refused, much to the disappointment of the railway contractors who had received Newfoundland bonds, now much depreciated, in payment. The debt question led to the breakdown of negotiations for annexation.[218]

With the growth of the Canadian sugar refining industry and the failure of the banks' Hawaiian ambitions came a quickening of interest in the sugar plantations of the West Indies. In 1882, a group of wealthy Jamaican planters visited Canada with an unsuccessful proposal for a Planter's Bank capitalized at two-and-a-half million dollars to be floated in Canada.[219] In Canada A. W. Ogilvie and M. H. Gault promoted the bank.[220] A charter was granted, but the bank was never established. Other banks were more successful. By 1882 both the Halifax Banking Company and the Merchants' Bank of Halifax (the Royal) had Bermuda branches.[221] In 1889 the Bank of Nova Scotia followed the rum trade to the islands, establishing a Kingston, Jamaica, branch and from there spreading to other British possessions as well as to Puerto Rico and Cuba.

The Union Bank of Halifax established a series of Caribbean branches in Trinidad and Puerto Rico before being absorbed by the Merchants' of Halifax (The Royal) in 1910. The Royal itself quickly took the lead, especially in Cuba. The establishment of its first Cuba branch coincided with the American victory in 1899, and it thereafter began taking over a series of local banks from their Spanish owners, buying the Banco de Oriente, Santiago de Cuba in 1903 and the Banco del Commercia in Havana in 1904. Its activities were by no means restricted to Cuba. In 1912 it bought out the British-owned Bank of British Honduras. By 1910 it had nineteen branches in the Caribbean.[222]

It expanded rapidly under the Reciprocity Treaty of 1913,[223] that year bringing its total branches to 32.[224] Cuba in particular was covered with branches, and by 1914 it reached Venezuela.

In contrast to the Halifax banks, those of central Canada did not move into the Caribbean area, apart from the Bank of Commerce and the Bank of Montreal, each of whom established a Mexico City branch. The Bank of Montreal's Mexican involvement began in 1900, when the United States Banking Company was established there by an émigré Canadian. Because of political entanglements the private bank got into difficulty; the Bank of Montreal, which stood behind it, came to its rescue. In the final analysis the Bank of Montreal lost several million in covering bad debts. The crisis even had repercussions in Montreal, where a few runs started.[225] In 1906 the private bank was displaced by the Bank of Montreal's establishment of a full-fledged branch in Mexico City.

TABLE XVI (5)

Canadian Banks in Latin America, 1914

Bank	*Cuba*	*Puerto Rico & Dominica*	*Mexico*	*British West Indies*	*Central & South America*
Nova Scotia		1		6	
Commerce			1		
Montreal			1		
Royal	22	5		6	3

Source: Deputy Minister of Trade and Commerce, *Report*, 1919.

The year 1906 was a bad one for the Royal as well, for a revolution against American rule in Cuba interfered with its operations there. Its involvement on the island was sufficiently heavy that fears of a lockup of its Cuban assets forced it to forego a large merger in Canada.[226] Alas, the bank it had planned to absorb was none other than the hapless Ontario Bank, which promptly collapsed when the Royal's takeover bid was withdrawn. The directors must have bemoaned the travesty of justice that permitted a Cuban revolution to bring down a bank whose real foreign interests lay in fraudulent manipulations of New York reserves.

The banks in the southern climes did a considerable local business in deposits, and less so in loans. For the West Indies were regarded as a "surplus" area for the banks, the volume of deposits exceeding the volume of loans and investments in the area much after the fashion of the Maritime provinces of Canada, and Newfoundland after 1895. Like the Maritimes, the West Indies suffered a net drain of funds that helped perpetuate their underdevelopment. As the Chairman of the Committee on Banking and Currency in Canada succinctly summarized, "How does it concern us if Jamaica complains?"[227] Deposits in the Royal's Havana branch in 1913 equalled more than double the amount of loans withstanding.[228] The Union of Halifax reported of its Trinidad and Puerto Rico branches that the deposits came to "quite an amount." Notes of the Canadian banks also circulated there,[229] and the importance of local deposits were increased by the fact that they were generally made to current accounts, and did not bear interest. The Royal took its large, free surplus from the West Indies and loaned it on call in New York at two-and-one-half to three percent, none of the surplus ever reaching Canada.[230]

As to the loan business, the Nova Scotia reported in 1910 that it restricted its loans to merchants and that its involvement lay in moving sugar, rum, cocoa, and coffee,[231] that is, in accommodating staple trade and not in local development. The long term investments of the banks in the area were negligible. The Royal and the Nova Scotia held a few Havana municipal debentures. But the Bank of Nova Scotia's holdings of United Fruit Company bonds illustrated well the real interests of the Canadian institutions as far as any long-term investments in the area were concerned, and defined very nicely the relations of Canadian and American capital in the area. Foreign exchange business as well as deposits attracted the Canadian banks, and by 1908 the Bank of Montreal reported capturing two-thirds of the exchange business in Mexico.[232]

Canadian Insurance Companies Abroad

Insurance company overseas branches also proliferated. Sun Life was the pioneer again, establishing its first West Indian branch in 1879, pushed out of Canada into seeking outlets abroad by the pressure of competition for a then-limited business potential inside Canada. It expanded so rapidly that its foreign and American business soon outstripped its Canadian.[233] By 1913, two-thirds of its policy business was done abroad. By 1914 it was present in Honolulu, Japan, China, the Philippines, Hong Kong, Burma, Egypt, France, Belgium, Holland, Britain, Newfoundland, Chile, Peru, Ireland, Thailand, in addition to its Mexican, West Indian, and American branches. Virtually all of the big life companies followed, and by 1914 Canada Life, Confederation Life, Mutual Life, North American Life, National Life, Imperial Life, and Manufacturers' Life had branches in the Caribbean as well as some in continental Europe and the Far East.[234]

Fire insurance companies also spread abroad. Many of the Canadian fire insurance firms established branches in Newfoundland, while the two leaders in the foreign field, George Cox's creations, British-American and Western, spread across the Caribbean, Latin America, and the Far East.

TABLE XVI (6)

Life Companies' Policy Business, 1913

Company	*% Canada*	*% Abroad*	*Total ($1,000)*
Sun	34	66	11,419
Canada	57	43	5,590
Manufacturers	59	41	3,150
Confederation	67	33	2,667
Imperial	88	12	1,591
North American	88	12	1,851
Federal	91	9	1,001
Great West	98	2	3,234
National	99	1	692

Source: Superintendent of Insurance, *Report*, II, 1914, p. lxxv.

Parallelling the banks' deposit business, the insurance companies actively sought local policy subscriptions. This was sufficiently attractive a business to occasionally provoke opposition from established local insurance companies. The Independent Order of Foresters, for example, met determined opposition to its expansion in Australia. This was partly circumvented by bribing the Prime Minister to ask questions prepared by the IOF local representative during parliamentary question periods, the answers to which, also prepared by the IOF representative, were given by yet another M.P. in the company's pay. The only Australian long-term investment made by the IOF consisted of contributions to party election funds.[235]

Other companies made a few investments in locally issued securities. Of the four major insurance companies operating in Japan in 1913, two were Canadian,[236] holding some Japanese government bonds as mandatory deposits. In addition they had some minor holdings of locally issued securities. Confederation Life held a few Mexican and Cuban government debentures, more in fact than was legally permitted. But a slight ambiguity in the legislation regulating insurance companies' foreign investments permitted the companies to ignore the restriction.[237] But the most important role these institutions played in the area was their financing of utility promotions.

TABLE XVI (7)

Canadian Life Companies' Non-U.S. Foreign Investments

	(total at year's end)
1900	$ 110,312
1901	319,603
1902	1,032,472
1903	943,188
1904	1,125,313
1905	1,352,362
1906	921,680
1907	963,831
1908	1,085,955
1909	1,329,558
1910	1,555,829
1911	1,578,108
1912	2,266,161
1913	2,377,339

Source: Superintendent of Insurance, *Annual Reports*, 1900-1914.

The sudden increase in foreign investments from 1901 to 1902 was largely due to two factors. First, the Bank of Montreal's ally Sun Life made a major foray into foreign bond holdings with a number of small investments, raising its total from $135,103 to

$429,811 in a year. Second, Manufacturers' Life showed a similar surge connected with interim financing for Sao Paulo Tramways. The decline in 1903 was due in large measure to the ending of this interim finance operation. The decline from 1905 to 1906 was due to a substantial reduction in the holdings of Sao Paulo bonds by both Manufacturers' Life and Sun Life. The increase in 1909 was largely the result of Sun Life's promotion of the Mexican Northern Power Co. Ltd.

The two firms, Sun Life and Manufacturers', dominated these activities abroad. Sun Life alone accounted for often as much as 75%, Manufacturers' for most of the remainder. The residuals were Confederation Life's Mexican and Cuban government bonds and the few Japanese holdings. While the Sao Paulo utility initially attracted several other insurance companies, Canada Life, Imperial, North American, and the Federal, after 1904 their investments ceased, and the two leaders were left undisputedly in charge of utility promotions.

In addition, Sun Life's investments included debentures of two Chilean mortgage loan firms, and bonds in a Shanghai land company. But they were negligible by comparison to its utility investments.

Canadian Investment in the Caribbean

Utility and railway promotions in Latin America parallelled those in Canada and were undertaken by the same groups of Montreal and Toronto financiers in the same alliances. While Canadian investments abroad were not restricted to the activities of the CPR and CNR magnates and their associates, the great bulk of the activity was accounted for by those two groups.

The flow of investment was a slow process until after the Spanish American war led to a redivision of the Caribbean. Thereafter, Canadian capital flowed with increasing ease into both British and American possessions. Cuba was the first prize to be secured. By 1906 the U.S. and Canada together had some $160 million invested there.[238] While most of the funds in the production of staples like sugar, tobacco, and cotton were American, Canadian capital was heavily involved in utilities and railroads as well as banking, and even to a lesser degree directly in agriculture too.

"Patriotic sentiments have never in the history of the world stood long against the pocket book,"[239] thundered the same William Van Horne who had earlier denounced as "annexationists" those Manitobans who had objected to the CPR's monopoly clause. It was only natural that this American's Canadian-nationalist vision should encompass the export of capital at a time when Canada found it necessary to borrow huge sums abroad to give to railroad promoters and their colleagues. When in July, 1898, Spain signed articles of capitulation, Van Horne's agent "was on the first passenger boat to leave New York for Havana."[240]

Canadian capital had been reluctant to move in, but Van Horne regaled the Montreal commercial and financial community with tales of the Caribbean cornucopia. Another stumbling block was the reluctance of the American occupying authorities to let the Canadians share in the island's fruits. The *Monetary Times* rebuked them, saying that "one of the most disappointing results of American rule is that it has not done more to encourage the speedy in-coming to the island of capital."[241] But Van Horne rectified that by securing the personal assent of President McKinley to set up shop, much assisted by McKinley's Secretary of War, General Alger, who had earlier collaborated with Van Horne in the Grand'Mère, Quebec, pulp and paper works.[242]

A final difficulty was the presence of rival claimants to the utility monopoly. One group forming the Havana Traction Co. consisted of Van Horne with a Toronto syndicate — George Cox, Fred Nicholls, William Mackenzie, A.E. Ames, Edmund Walker et al. On the other hand, New York's F.S. Pearson, who was involved as the consulting engineer in the Cuban Electric Co., in conjunction with an international group including Halifax interests and the Hanson Brothers brokerage firm in Montreal, had a claim on all existing railway properties in Havana. After litigation ensued, the solution was found in a merger under the presidency of Montreal's A.F. Gault. David Morrice, B.F. Pearson of Halifax, W.D. Matthews, and E.B. Osler also joined the adventure.[243] In early 1900, A.F. Gault, William Hanson, and other Montreal notables, each suitably decked out in their Sunday finest and accompanied by their daughters, arrived in Cuba to attend the opening ceremonies of the new tramway system. In addition to the Havana line, the electric railroad system connected Regle and Guanabacoa "a high and healthy city with an ante-bellum population of over 30,000 souls, now considerably reduced."[244] By 1907 a proxy fight gave control of the system to an American group led by the American consul in Havana, whose investigations revealed a rather large shortage in the accounts of the transactions of the former Canadian directorate.[245]

In addition to the electric tramway Van Horne established a steam railway system on the island in 1902. On the board were two American generals.[246] The land for the railroad was not purchased, but seized by the American military authorities and given to Van Horne's syndicate. It was a resource road designed to open sugar lands, and by 1904 Van Horne's company had a sugar refinery in operation.

Though the funds for the railway and refinery were chiefly American,[247] there were several instances of Canadian direct involvement in staple production. In 1899, the Halifax promoters of the Havana Street Railway formed a tobacco company to operate in Cuba.[248] In 1901, two Toronto capitalists established a colony on the island called "New Toronto." Their lands were sold off in small lots for orange groves and other fruit plantations and Canadian planters began to move in.[249] By 1907 the Canada-Cuba Land and Fruit Company was advertising itself as "Cuba's largest Canadian colony," boasting 100 tobacco plantations in operation as well as many thousands of other acres of tobacco and fruit lands open to potential Canadian planters.[250] Montreal capital also moved into fruit plantations, and Cuba soon became a more important source for Canadian fruit importers than the British West Indies.[251]

The 1906 upheaval which frightened the Royal Bank had repercussions as well on the value in London of the securities issued by the various utilities and railroads, and posed some threat to the Canadian claims. While political agitation on the island continued, American intervention restored the Canadian investors' confidence, and the securities were but little affected by subsequent disturbances.[252]

Compared to ventures in Cuba, Canadian interest in Puerto Rico was very restricted. The major investment was the Puerto Rico Railway Co., largely under the supervision of Max Aitken, who developed a substantial promotional career in the Caribbean before his main burst of Canadian activities.[253] It was during his Caribbean sorties that he developed into an ardent imperial federationist, seeking to actuate the idea of the British West Indian colonies being attached to Britain just as Cuba and Puerto Rico were to the U.S.[254] Aitken's Puerto Rico concern acquired a utility monopoly in San Juan and several other towns, controlling electric light and power plants, tramways, and water. In addition, resource extensions to the steam railway were made to develop traffic in sugar and tobacco.[255]

Aitken and Van Horne were both active in the British colonies as well, along with Montreal, Toronto, and Halifax associates. Trinidad had Canadian capital in its telephone system, courtesy of Aitken, and in its electric light and tramway company. Van Horne, George Drummond, A.F. Gault, T.G. Shaughnessy, Strathcona, and James Ross were all on the board of the electric company. The same syndicate was responsible for utilities in Demerara and Kingston.[256]

Van Horne was active in the informal American possessions as well. He established a system of Guatemala railroads in conjunction with an American general and the president of the United Fruit Company. Nicaragua, while not benefiting from Van Horne's attentions, did attract the attention of Montreal investors in its fruit potential in 1911.[257] In fact, so highly regarded in Canada were the possible returns from tropical fruits that in 1912 a Winnipeg securities firm began a big advertising campaign to sell banana lands in central America for $20 an acre. The *Monetary Times* could not restrain itself from pointing out that the typical Canadian investor knew "as much about banana cultivation in central America as he did canal construction on Mars."[258]

Canals on Mars were actually about the only type of utility that Canadian adventurers of the period declined to invest in, as their activities brimmed over the confines of the Caribbean and moved deep into Mexico and South America.

Canadian Investment in Mexico and South America

Mexico's importance to Canadian investors was at least as great as Cuba's, if not more so, though the movement into the country was a little slower. But by 1904 there were enough resident Canadian businessmen in Mexico City to form a Canadian commercial club.[259] The Mexican investment, too, brought to the fore the CNR twins, Mackenzie and Mann, much more than the Caribbean. Donald Mann in fact appears to have been the pioneer of Canadian railway and utility ventures abroad. As early as 1888, while still part of the CPR contracting firm with James Ross, Herbert Holt, and William Mackenzie, he travelled to Panama, Ecuador, Peru, Chile, and even Imperial China at the invitation of their government with a view to building railways there. Only political instability prevented them from beginning.[260]

Mexican Light and Power established in 1902 featured the two promoters along with Van Horne, Cox, E.R. Wood, J.H.

Plummer, James Ross, Clouston and F.S. Pearson. Despite the presence of Plummer and Cox, the Bank of Commerce had no direct interest at all in the new utility;[261] it was completely the Bank of Montreal's affair.[262] Much the same groups were involved in the promotion of Mexican Tramways and both companies prospered for sometime, undertaking a series of extensions and mergers.[263] But by 1908 Mexican Light was in trouble. A tour of inspection by E.S. Clouston led the Bank of Montreal and the English bondholders to force a merger over the protests of the directors of the Light and Power Company.[264]

A long list of other utility and railroad promotions followed Mexican Light. Mexico's Pueblo Light and Power was the creation of roughly the same groups as the tramway and light companies. Mackenzie and Mann joined Herbert Holt in a Monterey sewerage project in 1907.[265] A group of Montreal bankers and brokers secured water concessions and a power franchise for a large mining district, and organized the Mexican Northern Power Company in 1909. It also got the franchise to supply light to Chihuahua.[266] The Mexican Midland Light and Power Co. followed in 1911. Though it was essentially a British company which headquartered in Canada to avoid paying British taxes, there was some Toronto investment in it as well. Its objectives were to secure power, lighting, telegraph, and telephone concessions.[267]

Canadian participation in Mexican business went far beyond utilities. The Canada-Mexico Steamship Co., operating under Dominion subsidy, erected grain elevators in 1909.[268] Victoria money was involved in a Pacific coast resource railroad.[269] Canadian money was tempted into the Kansas City, Mexico, and Orient Railway, which drained timber and mineral resources out of northern Mexico to the U.S.[270] And most important of all was F.S. Pearson's Mexico and North West Railway and Timber Co., a resource road into Chihuahua — one of the towns it serviced modestly adopting the name "Pearson."

As with Cuba, fruit lands attracted Canadian planters, colonists, and investors. The establishment of the subsidized steamship run between B.C. and the Mexican Pacific coast brought Victoria interest in fruits lands, and a concession of 400,000 acres was secured in 1907, followed by the building of the resource road to move the products out of the area.[271] A stream of Canadian colonists from B.C. followed. [272] In addition, Pearson's resource railroad opened up its own saw mills.[273] The Canadian meat packing firm of Gordon, Ironsides and Fare established cattle ranches in the country.[274] And the Montreal real estate broker, D.W. Ogilvie, son of one of the flour milling magnates, was involved in a mining operation there in 1913.

The secret of Canada's success could be summed up in a word: "Diaz." In 1908 Sir Edward Clouston, General Manager of the Bank Of Montreal, returned from a reconnaissance mission to Mexico and announced that he was "particularly struck with the stability of the present Mexican government and the powerful character of the ministry."[275] He even declared Mexican investment to be safer than Canadian, for socialist ideas — which were then deemed rife in Canada as the Ontario industrial capitalists forced public ownership of privately owned utilities — had not disturbed the investors' peace in Porfirio Diaz's Mexico. Clouston's sentiments were shared by A.E. Stillwell, president of the Kansas City, Mexico and Orient Railway, who addressed the Canadian Club of Toronto in 1908. The *Monetary Times* reported that

> his description of Mexico's attractions for the capitalist would make it appear quite a corporate Mecca. As a result of Mexican fair dealing, Mr. Stillwell pointed out, there was invested in the Southern Republic $1,400,000,000 of foreign capital.
>
> The personal element of prosperity of, and faith of the foreign investor in Mexico is vested in President Diaz. He is gifted with a keen judgement and a fine business ability. Mr. Stillwell labelled him as the most marvellous man in the world today.[276]

Unfortunately for the Canadian investors, the Mexican people did not seem to share Stillwell's assessment of their leader. The outbreak of insurrection led to serious declines in London of the value of some of the securities issued by the railroad and utility firms[277] which, because of their monopoly concessions, were all the more vulnerable to political unrest, and the result was the invasion of Mexico City late in 1910 by the Canadian directors of a number of these firms.[278] One of their number, Sir Edmund Walker, proceeded to give advice to the military authorities on how to deal with Emiliano Zapata, whose activities were taking their toll of Canadian profits.[279]

Especially hard hit was the Chihuahua area, where Pancho Villa's rebels were busy requesting "loans" from the banks and blowing up bridges over which F.S. Pearson's Mexico Northwest ran. [280] It was thus given the distinction of being the only foreign promotion of the venerable Dr. Pearson that lost money.[281]

While the two Chihuahua-based operations, Mexico Northwest and the Mexican Northwest Power Co., were hardest hit, by 1913 the spreading insurrection had begun to interfere seriously with Mexican Light and Mexican Tramway as well.[282] Canadian investors began calling for the intervention of British troops to defend their property,[283] and for a change in the political structure. As the manager of the Mexico City Branch of the Bank of Commerce put it, "Democracy has not proved an unqualified success anywhere, and here it is an absurdity."[284] However, Diaz stopped off in Montreal on his way to Europe to reassure the Canadian companies that their Mexican interests would "be safeguarded to the utmost ability" of the new military dictatorship under General Huerta.[285]

Elsewhere the tale of Canadian long-term investments was much more sedate. There were a variety, ranging from the Spanish utility operation, Barcelona Traction, Light and Power, in which Sun Life held nearly a million dollars of bonds (1913) to a Manila tramway which sold bonds in Toronto (1906),[286] to a Venezuelan oil company (1913).[287] But the most important were the series of Brazilian utilities which Mackenzie and Mann began with George Cox, Fred Nicholls, E.R. Wood, B.F. Pearson, and F.S. Pearson in 1899.

That year an old mule-drawn tramway in Sao Paulo was taken over and reorganized as the Sao Paulo Tramway, Light, Heat and Power, including the city tramway, the suburban tramway, and an electric power supply monopoly for the city. It expanded its power plants and its monopoly control to include other cities. Soon the Sao Paulo utility was joined by Rio de Janeiro Tramways, Light and Power, with a monopoly as well of the tramway operations and the generation and distribution of hydroelectric power.[288]

The Rio operation's concessions dwarfed even the considerable ones granted to the Sao Paulo firm: water rights on several rivers, perpetual ownership as absolute private property of a long stretch of the banks of one major river, a huge tramway system, gas and electric lighting monopoly, and a couple of short steam railway routes thrown in for good measure. In addition, the syndicate incorporated a subsidiary, Rio de Janeiro Telephone Company, under Maine law, which in turn bought up a German firm, Brasilianische Elektricitats-Gesellschaft with its monopoly of Rio's telephone system. Like the Mexican operations, those in Brazil were politically vulnerable, and any political unrest caused their securities to fall.[289] However, no serious disturbances were felt. In 1912 the two were merged under E. R. Wood's direction in Brazilian Traction, Light and Power, the stock climbing after the consolidation was effected.[290]

Financing Canadian Investment Abroad

Canadian banks and insurance companies abroad played an indispensable role in the promotion of these enterprises. According to Sir Edmund Walker, the banks did not underwrite, but simply provided interim financing on the security of the underwriting and functioned as bankers for the various operations. The Commerce, for example, serviced the Rio and Sao Paulo utilities. The Bank of Montreal served as banker for some of the principal Mexican operations, while Herbert Holt's Royal Bank backed Van Horne's Caribbean escapades. Walker claimed in 1913 that "Canada hasn't a dollar in the South American enterprises that cost us anything." The funds were raised in Britain, and to a lesser degree in continental capital markets.[291]

While Sir Edmund's contention that there was no direct flow of funds abroad from the banks may have been technically correct for the most part, but this did not mean no money moved out from Canada. It was standard practice for the banks to form alliances with life and trust companies or establish security and loans firms as appendages and slough off the promotion business on them. Senator Cox's Canada Life network linked to the Commerce was the most spectacular, but it was by no means unique. Royal Trust did a great deal of promotional business and interim financing of merger activity in Canada with or without the Bank of Montreal. [292] Mackenzie and Mann, in addition to their links to Cox and Walker, controlled the resources of Manufacturers' Life along with Lloyd Harris and Sir Henry Pellatt.[293]

In fact there were many cases of bondholding by Canadian financial institutions which did cost something in the short run, for although the water that constituted the equity of the utility adventures was unpolluted by any trace of hard cash, the bonds did constitute a genuine flow of funds. In 1905, a $20 million lease of Rio de Janeiro Tramway bonds was floated publicly in Canada.[294] Part of the issue seems to have been taken up by the Bank of Montreal, for in 1906 that institution had over a million dollars in securities of Rio Tramway, and of Mexican Tramway and Electric,[295] providing at least one example of the inaccuracy of Sir Edmund's appraisal. In 1907, of eighteen millions of bonds of Mexican Light outstanding, six million were held in Canada.[296] But it was Canadian insurance companies, rather than banks, that provided the greatest amount of Canadian money flowing into these firms. Most of the attraction lay in the rates of return. In the early period, the bonds of the various utilities were yielding nominal rates of 5 to 5.5%; since most were bought at a discount, the real rates were in fact higher; at the same time Canada bond yields were averaging only about 3.5%. The return to investors in the Sao Paulo utility in 1905 was running at the rate of about one million dollars a year.[297] Nonetheless, most of the long-term capital was raised in Britain, especially in the later years. In 1911, the various Latin American utilities marketed $26,820,000 in senior securities, of which only $320,000 was placed in Canada, the rest in Britain.[298] In 1912, out of a total issue of $42,155,000, 89.5% was placed in Britain, 8.3% in the U.S., and only 3.3% in Canada.[299] The high rate of return on these monopolies — Sir William Mackenzie alone boasted a return of a million dollars from his Sao Paulo investment from 1902 to 1905 — together with the drain of funds from the Caribbean through the banks and insurance companies' deposit and policy business, must have had a favourable impact on the Canadian payments position from the start. These operations provided a flow of earnings into Canada that helped to sustain the heavy burden of interest payments to Britain, and the outflow of long-term capital to the U.S.

The transfer of long-term capital out of Canada met with some hostile reaction, for at the same time enormous loans from Britain were necessary to construct infrastructure or finance government activity in industrial mergers, and American direct investment was accelerating. In 1907, the Royal Commission on Insurance called for regulation of the foreign investments of the life companies. Organized farmers too protested the anomaly. But Sir George Foster made clear in his address to the Caribbean delegates in 1913 that it was government policy to encourage the investment of Canadian capital abroad. It is difficult to see how he could have done otherwise in light of the character of the investment portfolio of the Independent Order of Foresters, in which he was a leading figure.

To them that have shall be given, the federal government seemed to decree, and like true Christians, the honourable ministers piled high the government largesse on the plates of the CPR and CNR magnates and their associates. The same groups that received an overwhelming share of federal handouts in land grants, cash, bond guarantees, iron and steel bounties, shipping subsidies, and the like — much of it paid for with funds borrowed in Britain — were those same groups most actively exporting capital abroad. At the same time that the federal subsidies to the development of agriculture (which employed directly or indirectly three million people) were niggardly and closely supervised, the railway kings were given carte blanche to spend their subsidies. In 1913 alone, Mackenzie and Mann were given a subsidy of $15,640,000 which was, in the words of the *Grain Growers' Guide*,

> thirty-one times greater than the entire grant to agricultural development, and they may spend it in buying coffee plantations in Brazil, wheat lands in the Argentine, or on a picnic excursion to the Fiji Islands.[300]

The literally golden age of Canadian promotions ended with World War I and the drying-up of British loans to Canada. New ventures occurred, but no longer in great waves as in the past, and without the same verve. Most of the growth of Canadian investments would now be limited to expansion of established firms.

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272. *MT*, Jan. 30, 1909, p. 1322.
273. *Ec*, Sept. 18, 1909, p. 1322.

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275. *MT*, March 21, 1908, p. 1597.
276. *MT*, Jan. 18, 1908, p. 1165.
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279. L.R. Wilfley to B.E. Walker, May 20, 1912; B.E. Walker to J.P. Bell, Dec. 28, 1911, *Walker Papers*.
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290. *MT*, June 29, 1912, p. 2619; May 31, 1913, p. 928.
291. *CBC*, pp. 562-3.
292. *MT*, Jan. 8, 1910, pp. 223-5.
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295. M. Denison, *Canada's First Bank*, pp. 222-3.
296. *FP*, March 2, 1907.
297. *MT*, July 7, 1905, p. 1; July 20, 1907, p. 93; *et passim*.
298. *CLRII*, pp. 901-2; *MT*, June 29, 1912, p. 2619.
299. *MT*, Feb. 1, 1913, p. 291.
300. *GGG*, June 25, 1913, p. 10.

[illegible]

Where capitalism followed the more rigid channels of surviving commercialism, or where it arrived later in a highly centralized state, it was part of governmental machinery. In Germany, Italy, and Japan, and in the British Dominions, the state became capital equipment.

Harold Innis

CHAPTER XVII

Conclusion: The Lessons of Development

Canada undoubtedly represents the outstanding case of "industrialization by invitation" as a conscious development strategy, and the lessons to be drawn from Canada's "success" and the resulting structures are important ones. The Canadian strategy in effecting the transition from a mercantile-agrarian economy to a partially industrialized one involved drawing heavily on the resources of two metropolitan economies, from Britain for financial and commercial development and from the United States for industrial. In many respects it was an incompatible mixture.

In terms of industrial development, patent regulations and tariffs both aimed at keeping the border open to the flow of factors of production, while closing it to the movement of goods, thus forcing a northward shift in the locus of American production. Canadian dependence on American industrial capital was deep-rooted. First came an inflow of American entrepreneurs and pirated patents, followed by licensing, and increasingly by direct investment — precisely the opposite sequence to that which would lead to independent industrial development. The tariff, to the extent that it led to capital inflow, solved part of the problem of industrial capital supply.[1] To a certain degree the patent laws did likewise. The risks of invention, and the initial costs, were borne by the foreigner. Thus, by using imported patents, Canadian industry was automatically cast in a non-innovative role and the stage set for the replication in Canada of traditional industrial patterns. This strategy also meant there was less need for the local development of technical skills. To the extent skilled labour was required, it too could be imported.

The adoption of a high tariff strategy in 1879 was due to a number of transformations in the Canadian economy of the period. The end of the American Civil War left a new Canadian industrial capacity that had grown up as a result of the temporary protection of the war but was now threatened by an American industrial resurgence. The problem was accentuated by a number of factors. The discount on greenbacks until 1879 partly offset the protective incidence of the Canadian tariff. The advent of recession in 1873 signalled the beginning of nearly a quarter-century of secular deflation resulting in a squeeze on profit margins, to which increasing numbers of industrialists responded by demands for tariff protection and subsequently by strenuous cartelization efforts. The 1879 tariff schedule contained a range of specific duties whose *ad valorem* incidence grew over time until 1896. Thereafter, *ad valorem* rates replaced the specific duties as secular inflation began to undermine their specific incidence.

The initial demand for the high tariff came from several sources. Manufacturers were by no means unanimous. For many the high tariff was in fact anathema — at least in the short run. But as the effects of the secular deflation were felt more strongly over time, more manufacturers moved into the protectionist camp. With the progress of merger activity, high tariffs became essential for the maintenance of the industrial system.

The traditional manufacturing sector, then, was initially split into pro- and anti-protectionists. To carry a program of high tariffs the Tory strategists effected a coalition of the protectionist camp with the Montreal commercial capitalists. Montreal capital's shift to protection resulted from the movement of leading wholesale drygoods merchants into manufacturing. It also meant that the Conservative Party could weld the split in its Nova Scotia ranks by bringing the Nova Scotia West Indies merchants back into the fold. Sugar refineries built up behind tariff walls stabilized Canadian demand for raw sugar and restored the fortunes of the mercantile houses of the leading Maritime ports who had been threatened with annihilation during the crisis of the 1870's. The breach between the coal, iron and steel, and railway men of Nova Scotia on the one hand, firmly Tory, pro-Confederation, and protectionist, and the old seafaring economy, Tory by ideological persuasion, but anti-Confederate and anti-protectionist on the other hand, was mended.

The tariff had other major objectives. Perhaps most important of all were its revenue goals: the customs were hoped to be sufficient to pay for the main works of commercial infrastructure, along with the yield from government savings banks. Then, too, it was designed to protect foreign capital, both by restoring the public revenues and therefore easing the anxieties of British holders of Dominion public debt, and by protecting certain industries in which substantial amounts of British capital had been invested. It also helped force a northward and to a much lesser extent a trans-Atlantic migration of industrial plant and equipment by stimulating foreign direct investment.

The Canadian tariff of 1879, then, cannot be analysed with the tools of economic orthodoxy, for these are designed to consider the impact of a tariff on an existing industrial structure and resource endowment, rather than its effects in augmenting the economy's over-all supply of capital and labour.[2] Why the influx of American capital was necessary becomes explicable in light of the structure of the Canadian capital market and its inability to channel domestic or British funds into industrial capital formation.

The Canadian financial system was largely a British branch plant. Many of its institutions were designed specifically with a view to attracting British investment. The commercial banking system in particular showed a pattern of British domination very similar to that of American in the industrial sphere. British entrepreneurs abounded at the helm of Canadian financial intermediaries, along with British direct investment in joint ventures in Canadian banks or the wholly owned imperially chartered banks operating in Canada. Insurance companies too were often British-led or British branches. However, with life companies, Canadian control grew over time, unlike the industrial pattern.

The development of the chartered banking system falls into two distinct phases. In the first period, lasting until the 1890's, the economy was in the deflationary phase of the long cycle and the chartered banks lost ground relative to other intermediaries. Note issue tended to shrink, and a great deal of effort was made to keep up the circulation, notably by promoting the formation and proliferation of private banks as circulation agents. Gradually their priorities changed. In the 1890's the savings deposit business became of primary importance, and the chartered banks undertook systematic campaigns to swallow up their offspring in the private banking sector to take over the savings business, subsequently engaging in a major amalgamation effort to absorb the smaller chartered banks as well and to therefore redirect the flow of savings.

In terms of operations, the Canadian intermediaries were completely inappropriate to the needs of an economy bent on industrializing. The commercial banks grew up in the field of international commodity movements, and their adherence to the "real bills" doctrine never wavered. Apart from the Maritime non-Halifax banks and a few others, the banking system, chartered and private, was of little value to industry. In fact it was a positive hindrance, for the system was exceedingly effective in moving savings geographically after the demise of Maritime banking. The savings which had formerly been used to promote local industry in the Maritimes and other areas now deemed "surplus" were moved to the Canadian West to support grain dealers, and otherwise to contribute to the over development of a single cash crop. Similarly, Québécois industry and Ontario mixed farms were drained of the surplus needed to sustain them.

Insurance companies too were involved in staple production for, especially after the wheat boom really commenced, they shifted increasingly into mortgage lending. Not all of their mortgage loans were agricultural. A great deal of money went into sterile speculations in urban real estate. In this activity mortgage loan companies were also very prominent, and made heavy use of debentures sold in Britain to secure funds for their Canadian operations.

The orientation of the intermediaries towards staple movement left a gap in the market for long-term capital which was in part filled by governments. The federal and provincial governments gave direct cash subsidies to the construction of commercial infrastructure and to the primary iron and steel industry associated with the railroad building. The municipalities sold debentures at home and abroad and used tax receipts to engage in industrial fixed capital formation by the bonusing system. New industries sprang up, amply assisted by the municipal subsidies; old industries marched across Canada in search of handouts; municipalities actively competed; and many industries were clogged with new entrants as a result. While the bonusing system and its attendant horrors clearly played a role in fostering industrial capital formation, the wastes were enormous, and the burden fell on municipal taxpayers and established industry: the benefits accrued to the newcomers who were often wealthy foreign firms.

British loans to Canada, to the extent they went into municipal debentures, thus helped support industrial capital formation but via the municipality as intermediary, rather than through the organized capital market. Most British loans, however, went to federal or provincial government bonds or railroad bonds. The federal and provincial loans in turn tended to be spent on the construction of infrastructure, especially railroads.

The railroad loans helped promote an extreme overextension of trunk lines. The railways, through their structure of non-price competition, engaged in a process of building of competitive feeder lines to tap resources traffic for their long-distance trade.

Quick development of staple traffic reinforced the primary exports orientation of the economy and was forced by the need of the railways to generate immediate revenue to cover their fixed interest debt. The result was that local lines and secondary processing alike were underdeveloped. This pattern of commercial infrastructure geared to staple exports, as well as the direct impact of the vast expenditure on the construction of the railroads, contributed to the rapid inflation in the Canadian economy after 1900. Moreover, the railroads discriminated in favour of long-distance as opposed to local traffic. And they tended to keep their rate structures aligned to tariff changes. In effect, the Canadian tariff protected the British railway bondholders by assuring them a flow of earnings to pay the interest.

The industrial structure in Canada until the 1890's was fairly traditional. Small firms, often with a local orientation, typified most industries. Many of the consumers' goods industries in particular were badly overcrowded. During the deflation phase of the long cycle, the result was a squeeze on profit margins and vigorous, often unsuccessful efforts at cartelization. Cartels and profit pools were difficult to maintain during a period of secular deflation, for falling costs encouraged firms to break ranks and begin price cutting. Mergers were occasionally attempted as a method of curbing competition during this period, but they were relatively few and far between, partly because of the effects of the deflation and partly because the Canadian capital market provided no scope for dealing in industrial equities. After the inflation phase began, monopolization accelerated. From 1896 to 1907 many new mergers were created, mainly by the participating firms. For secular inflation meant that the former potential for getting one step ahead of competitors by price cutting was restricted due to the prospect of increasing costs over time. After 1907, when tariff stability was assumed, and capital market conditions improved greatly, the potential existed for a great merger wave. The expectation of continued inflation encouraged enormous stock watering operations, and the inflated prices at which the components of the mergers were purchased would be recovered in part automatically through inflation, in part through the exploitation of the monopoly created, which monopoly price increases in turn fed the inflation. Supported by British industrial bond purchases, the merger wave created an industrial structure totally dependent on the tariff to permit the mergers earnings levels sufficient to pay interest and dividends on their waterlogged capital.

While not completely accurate for all of the time-period under consideration, for the era of the great expansion the following model of the interregional and international flow of funds is of some value in illuminating the geographic and sectoral distribution involved.

The inflow of foreign direct investment into Canada located largely in southern Ontario and the Montreal area. The inflow of portfolio investment came via the capital markets of Montreal and Toronto, and financed either central Canadian industrial mergers or infrastructural spending, largely in the West. Mortgage company debenture funds also flowed via Montreal and Toronto to the west. In B.C., northern Ontario, and Quebec, there occurred substantial amounts of direct investment in resources industries, the bulk of whose products were exported unprocessed. From B.C. the American lumber investments also serviced prairie needs during the "wheat boom." After 1900 a large amount of direct investment in pulp and paper was added in Ontario, Quebec, and B.C.

Central Canada ran a steady balance of trade surplus with the rest of the country, exporting manufactures and importing raw materials. It therefore exported large amounts of capital to the prairies in the form of bank loans, mortgage funds, and sales credit through implement dealerships, for the building of infrastructure. Central Canadian as well as American direct investment flowed into B.C. But the funds exported from central Canada were not to the detriment of its own development. Although small towns in Ontario were drained of their savings deposits, Ontario and Montreal exhibited faster growth over-all than their own savings would have sustained, due to the influx of foreign capital. The funds for export to the West were derived in part from the imports of portfolio capital, and in part from the Maritimes.

The Maritimes provided primary iron and steel and staple exports for Canadian markets. But unlike the West, it ran a balance of trade surplus and the area became a net exporter of capital through the intermediary structure.

Simultaneously with these interregional movements of funds, Montreal and Toronto capitalists undertook substantial exports of long-term capital to the U.S., to the Caribbean, and to South America. The export of capital to the U.S. helped in the formation of industrial capital there through the investments of banks, insurance companies, and individuals. The Caribbean area, by contrast, was a surplus area for the banks and suffered a drain of funds through bank deposit and insurance company policy business. South American investments were largely utilities financed in the main with British capital and therefore provided a net inflow of funds to Canada in the shape of dividends on the water that constituted their stock. The flow of funds into Canada from Latin America helped to pay the costs of servicing the British and American capital invested in Canada.

The obvious question that arises in light of the simultaneous export and import of capital is whether Canada really "needed" to borrow so extensively abroad. Assuming that the funds diverted abroad had been retained inside Canada, it would appear on the surface that the need for external funds would be thereby lessened. In fact no such conclusion can be drawn. The export and import of capital were opposite sides of the same coin, both reflecting something more basic, namely the pattern of dependent development of Canada within the broad confines of the British empire. It was its hinterland status that led to unbalanced development, to a staple orientation of the economy, and therefore to the flow of funds that occurred. Huge imports of capital were required to finance the construction of trunk railway lines and other works. Enormous sums were diverted into land speculations. At the same time, funds moved abroad into railway extensions or financing commodity flows.

One ingredient often held to be indispensable for development is the enigmatic quality of "entrepreneurship"[3] and the "lack of entrepreneurship" is often regarded as the primary reason for Canadian dependence on the U.S in the industrial sphere.[4] While in a modern context the concept of an entrepreneur is largely a polite fiction,[5] in the late nineteenth and early twentieth centuries the issue of the availability of entrepreneurial ability must be given some consideration. "Lack of entrepreneurship" as a cause of industrial underdevelopment and reliance on American patterns and capital is either true but trite, or patently false, depending upon how it is interpreted. It is false in the sense that entrepreneurship can be either industrial or commercial, and Canadian business history shows no lack of commercial capitalists of undisputed ability. In railways, utilities, commercial banking, and finance, "Canadian" entrepreneurs (often domiciled British ones) were strong, and their hold on those sectors of the economy increased over time. The vigour of Canadian finance, utility, and railroad promotions at home was matched by those abroad. British support in the form of portfolio loans was available to these sectors, and with this assistance Canadian entrepreneurs clung to, and replicated, the familiar patterns of development.

This strength was not matched by industrial efforts. Rather, the strength of the commercial sector went hand-in-hand with industrial weakness, by virtue of the absence of funds due to the twisting of the capital market so that funds flowed freely into commerce and staple movements, and away from industry, and because of the absence of independent innovative capacity. Yet here again the phrase "lack of entrepreneurship" is sheer obfuscation. For entrepreneurs are the product of their social context. If by deficiency of indigenous entrepreneurship it is meant that American industrial capitalism possessed some special attributes permitting it to take advantage of productive opportunities which Canadian capitalism in the particular period did not, then the explanation is tautological, and thus trivial insofar as it fails to make specific reference to the objective social conditions of the period, especially the pattern of dependence. For the existence of domination by itself precludes innovation. It creates the social conditions for the replication of existing patterns.

The strength of commercial capitalism in Canada was the result of the British colonial connection, and together they served to lock the Canadian economy into the staple trap. The domination of the Montreal commercial community in the colonial economic and political structure was the outgrowth of the pattern of dependence, and the stultification of industrial entrepreneurship followed from their control of the state and state policy, most notably with regard to the structure of the federally controlled banking system. The resulting vacuum led directly to the reliance on American industrialism, in the form of entrepreneurs, patents, or direct investment.

What are normally regarded as the two great Canadian industrial success stories, agricultural implements and primary iron and steel, are the exceptions that prove the rule. The agricultural implements industry was largely the work of émigré American industrialists whose access to American patents assured them control of the Canadian market without any ownership ties with American parents. The primary iron and steel industry was the creation of American bonus hunters who migrated north, again without formal ownership ties with American firms. It was thus a relatively simple matter to "Canadianize" these two industries, which, too, bore a very direct relationship to the wheat boom through the expansion of farms and transcontinental railways.

Dependence, like protection, was addictive. The very ease of access to British portfolio investment and markets and to American direct investment and technology ensured a particular pattern of development culminating in the reinforcement of the principal structural weaknesses of the Canadian economy during the "wheat boom." This "golden age" of Canadian growth was in some respects an economic catastrophe. British funds were readily available to be misallocated into overextensions to commercial infrastructure or for floating huge mergers, both of which projects led to drastic liquidation after the war and bequeathed to the Canadian economy a huge burden of fixed interest debt owing to British investors. The capital market was shifted increasingly to servicing the production and movement of staples. And American direct investment in manufacturing and resource industries accelerated. As a result, the Canadian economy never fully made the vital transition form commercialism to industrialism. Funds moved internationally to service commerce more easily than they moved intranationally into industry. Lack of integration between commerce and industry reflected the ease of access to external sources, and this obviated any real pressure for the development of policies and financial institutions appropriate to domestic industrial development, or any desire or need on the part of the dominant strata of its capitalist class to change their colonial position.

Notes to Chapter XVII

1. Nurkse, *Problems of Capital Formation*, p. 105. See also *JC*, Sept. 19, 1879, p. 145. Canadian opinion at the time was fully aware of the fact that the tariff by itself was inadequate.
2. Cf. J. H. Dales, *The Protective Tariff in Canada's Development*, who accedes to the fact that the tariff did increase the scale of the Canadian economy, but claims its long-run effect was to reduce per capita income below the level it would have reached in the absence of the tariff. He arrives at this conclusion by utilizing the traditional static resource allocation theorems and in so doing contradicts his own initial premise. For to conclude that the allocation of resources that results from the tariff is less efficient than the allocation that would exist without it must assume that the same resources are available before and after the tariff, a premise explicitly contradicted from the outset. Furthermore, Dales's argument accepts the notion of under-full employment before the tariff to justify his theorems regarding immigration. Yet, according to the best principles of neoclassical welfare economics of which Dales is a dedicated follower, two second-best situations are incomparable in the welfare sense, and his conclusions are therefore meaningless in terms of their own inner logic. See especially R. Lipsey and K. Lancaster, "The General Theory of Second Best."
3. Notably by Schumpeter in *The Theory of Economic Development* and his other writings.
4. See especially K. Levitt, *Silent Surrender;* S. Hymer "Foreign Direct Investment," and M. H. Watkins, "A New National Policy."
5. Cf. the argument of Schumpeter in *Capitalism, Socialism and Democracy* on the withering away of the entrepreneurial function.

Independence is a farce. Canada must belong either to the British system or the American system. . . . If we had to make the choice between independence and annexation, I would rather that we should have annexation and join with the United States at once.

John A. Macdonald, 1881

CHAPTER XVIII

Epilogue: Aftermath of the National Policy

Canadian development policy in the National Policy era was essentially a policy of mercantilism, of consolidation and expansion led by a commercial capitalist class in which the state structure in the hands of that class played a critically active role. Access to foreign capital and technology was the *sine qua non* of success. It was a strategy inextricably related to the state of the British Empire. The Empire provided markets and thereby the rationale for both the expansion of major staples and the influx of American manufacturing investment and technology. Britain supplied, as well, portfolio capital for financial and infrastructural purposes. In 1844 Frederick List had predicted,

> The United States and Canada, the more their populations increase and the more the protective system of the United States is developed, so much the more will they feel themselves drawn towards one another, and the less will it be possible for England to prevent a union between them.[1]

The Canadian strategists of the period felt otherwise. As long as the Empire existed, Canada was safe from the threat of absorption into the U.S. In addition to the "countervailing British influences," there was the anti-imperial sentiment in the U.S. to reckon with. As H.M.P. Eckhardt, hired eulogist of the Canadian Bankers' Association asked,

> If this sentiment is so strong upon the question of controlling inferior races like the Filipinos and the Cubans, what would it be upon the question of Washington interfering in Canadian affairs?[2]

World War I led to drastic reorganization. The beginning of the end of the British Empire, it was equally the beginning of the

TABLE XVII (1)

Government Investment in Railways, 1916

Railway	*Subsidies*	*Proceeds From Land Sales*	*Loans Outstanding*	*Guarantees Outstanding*	*Total*
Canadian Northern	$ 38,874,148	$ 34,379,809	$ 25,858,166	$199,141,140	$298,233,263
Canadian Pacific	104,690,801	123,810,124	—	—	228,500,925
Grand Trunk	13,003,060		15,142,633	—	28,145,693
Grand Trunk Pacific	726,320		70,311,716	43,432,848	114,470,884
National Transcontinental			159,881,197	13,469,004	173,350,201
Intercolonial			116,234,204		116,234,204
P.E.I.			9,496,567		9,496,567
Total	$157,294,329	$158,189,933	$396,924,483	$256,042,992	$968,431,737

Source: *RCRTC*, p. xix.

end of the National Policy. Cut off from the continued inflow of capital necessary to maintain the hothouse growth of the system, collapse began almost immediately.

By 1916 Canada had sunk into railways nearly a billion dollars in subsidies, value of lands sold, "loans," and guarantees outstanding, and much more if account is taken of foregone interest on interest-free loans, tax exemptions, value of unsold lands, and minerals acquired with land grants. But the two new transcontinentals were tottering on the brink of bankruptcy, unable to generate sufficient earnings to meet obligations on their funded debt. Under the terms of the 1914 Canadian Northern Railway Guarantee Act, the federal government had guaranteed a $45 million bond issue, and received in exchange $40 million of the $100 million common stock of the railroad which Mackenzie and Mann had scrupulously avoided tainting with a hint of hard cash. The government also received the power to foreclose and become sole owner in the event of default. The $45 million was quickly exhausted, war closed the London capital market, and Mackenzie and Mann went back to the federal government for more aid.[3] Of the remaining $60 million of equity, most had been pledged to the Bank of Commerce in return for advances. In 1917 a joint agreement of Mackenzie and Mann, the Commerce, and the federal government provided for nationalization, with the government to acquire the shares pledged to the Commerce at a sum to be decided by arbitration.[4] The Minister of Finance in the Tory government who introduced the bill for nationalization was Sir Thomas White, a Liberal who had deserted the party over Reciprocity, and vice president of the Bank of Commerce until he assumed the portfolio. He was also connected with Mackenzie and Mann, Walker, Wood, and the others of the Commerce-Northern alliance in a number of other ventures. The equity, which a Royal Commission deemed valueless,[5] was set at $10.8 million by the arbitration committee.[6]

The Grand Trunk followed its rival shortly. The National Transcontinental, which was to have served as the eastern half of the GTR's new transcontinental, was completed in 1915. The GTR, which was to have leased it for three per cent of its capital costs, promptly refused to carry out the bargain on the grounds that the costs were excessive. It was an astonishing piece of effrontery, given that the Grand Trunk as contractor had done all in its power to escalate those costs and derive the benefit in the form of middleman's profits. The railway then tried to have the government relieve it of all liabilities for the Grand Trunk Pacific as well, and to repay it for any expenditures it had made on that system.[7] During 1915, 1916, and 1917, when the London management was anxious to have the government take over the burden of the Grand Trunk Pacific, they understated the operating revenues of the road by eight million dollars per annum. Then in 1919 and 1920, when sale of the entire system to the Canadian government was being contemplated, they manipulated their accounts to show earnings larger than actually existed.[8]

During 1918, the Prime Minister announced that negotiations were underway for the acquisition of the Grand Trunk Pacific. As a result, "various members of the Government carpet bagged back and forth across the ocean . . . ," acquiring the bonds of the line, Clifford Sifton reportedly among them.[9]

Early in 1919 the government refused further aid, and the railway was called upon to pay up on its guarantee of interest of the Grand Trunk Pacific bonds. The line planned to shut down and create as much chaos as possible, but under the terms of the War Measures Act then in force the railway was put into receivership.[10] Prices of the railway's equity fell precipitously, a depreciation of four million pounds on its guaranteed stock alone, and another one-and-a-half million on its first preference issue. After a vehement anti-nationalization campaign conducted by the railway and by the CPR, the government agreed to assume all securities but the common and preferred stock at par, the value of these last to be determined by arbitration. The result was a substantial rise in the value of the stock.[11] The GTR directors could not resist indulging themselves in a last piece of systematic robbery, voting themselves five years of directors' fees plus large sums for officials in Canada and England. These sums were taken from the fire insurance fund, in violation of the takeover agreement. The directors were forced to refund them.[12]

The arbitration tribunal began its deliberations. On its tours of inspection of plant and buildings, it announced itself surprised at their high quality. Unfortunately for the railway, subsequent investigation showed that the condition was in fact the result of a lot of window-dressing done by the railway specifically to impress the tribunal, and that the railway was really in terrible condition.[13] The tribunal, which included Sir Thomas White, declared the common stock to be worthless, which made the CNR award doubly reprehensible. The Judicial Committee of the Privy Council, the ultimate trustee over the fortunes of British investors in the Empire much as the Royal Navy was for investments in the rest of the world, granted leave for an appeal. Fortunately for the Mackenzie King government, the appeal failed to bring a reversal of the verdict, and the mounting public pressure for abolition of appeals to the Judicial Committee was relieved.[14] The stockholders, supported by a number of British newspapers, began urging a boycott of Canadian borrowings in London. It was a suitably squalid ending to the sordid saga of the Grand Trunk Railway, which had thoroughly debased Canadian politics for three-quarters of a century.

While the Grand Trunk's demise was greatly assisted by the excessive duplications that followed the absorption of the Great Western, and by the rapacity of its English shareholders whose greed for dividends had been of such an order of magnitude that nothing was left for operating revenue,[15] overexpansion during the wheat boom was the ultimate cause of failure of both of the new systems. This pattern of overextension was the result of the logic of railway competition of the period, with the burden of waste falling on the Canadian lower-income taxpayer, who paid for the huge fixed interest debts that followed nationalization.

Bank behaviour once again parallelled that of the railways. During the war, farmers were virtually begged to borrow. The idea was foisted upon them that it was patriotic to borrow large sums to buy larger holdings from the land companies and railways and to grow more crops.[16] Then, too, the very nature of bank competition through branch proliferations while colluding on interest rates, thus raising the overhead costs of banking, led to vigorous efforts to increase the amount of debt contracted by farmers.[17] The end of the war brought recession and a big slump in primary product prices. Wheat had fallen to 67¢ a bushel by 1923, leaving the farmers with drastically curtailed money incomes to meet the heavy burden of fixed interest debt. It was a portent of the problems to face the Canadian economy on a grand scale a decade later. The banks too had begun to cut back on their overextensions after the war. The first banks in the West were absorbed by the more powerful ones, and branch closures occurred in many small communities. The withdrawal of branches increased the burden of the credit squeeze on farmers, for the branches, despite having frequently promised farmers renewal of debts, insisted on settlement of claims before closure.[18]

The drastic liquidation of the early 1920's brought with it a string of bank failures in spite of the enormous amounts of public money poured into the banking system to keep it afloat under the auspices of the Finance Act of 1914. Gold convertibility had been suspended, and the Department of Finance engaged in what it called "rediscounting," while in fact it was making direct loans to the banks. The manna of fiat money continued until 1923; Sir Thomas White having declared that under no circumstance would he let a bank fail. Apparently he did not make the declaration loudly enough for the directors of the Merchants' Bank of Canada to hear; for that institution, insolvent by 1921, failed in 1922. It was the greatest single bank disaster to date in North America. In 1921 in the U.S. 28 national banks out of 8,240 failed, or one in 290, while in Canada the Merchants' was one in eighteen. Moreover, the aggregate loss from the Merchants' alone was as great as the losses from all 28 American banks. The Canadian Bankers' Association propaganda had always insisted that large banks were stable; the Merchants' at the time of failure was the fourth largest in Canada.[19]

While an effort was made to disguise the failure as a merger with the Bank of Montreal, stockholder losses of over eleven million dollars suggest otherwise. The collapse of the bank followed the failure of a stock brokerage firm to which the bank had loaned no less than $3.6 million.[20] The trial of its officers was so blatant a farce that it even outraged the Canadian financial press. Sir Hugh Montagu Allan, in addition to being acquitted of the usual charges of fraud along with the general manager, was actually commended by the judge for his conduct of the bank's affairs during his presidency.[21]

The next year, the Home Bank came tumbling down. In 1922 it had paid a seven per cent dividend; by 1923 its losses were over five million dollars.[22] The dividends the year before were justified at the time by the fact that the president of the bank, who was also a director of Canada's newly formed Canadian National Railways, had stolen one million dollars of the railway's funds and deposited it with the bank to improve the annual statement to the shareholders and the monthly return to the federal government. Five days after its deposit, the fabricated return and report having been duly sent out, the money was removed from the bank and sent back to the railway.[23] The bank's losses resulted from a number of sources: from its American utility holdings, from B.C. timberland speculation, from some thinly disguised real estate deals, but especially from the excessive loans made to further Sir Henry Pellatt's mining stock speculations.[24] Creditors of the bank lost eleven million; shareholders another two-and-one-half million.

In the aftermath, runs began on the Dominion Bank and several others,[25] as the entire banking system verged on catastrophe with a total collapse of earnings due to bad debts. To disguise the extent of the crisis, the banks continued to pay out big dividends. The Union Bank was earning less than four per cent and paying out 9.35% dividends supported from government loans. The Bank of Hamilton earned 7.35% and paid out 12%. The Standard lost money for five years but paid out dividends at 13.4%. La Banque Nationale, whose liabilities had risen to 22 times the level of its capital and reserves, managed to keep up its stock quotations by paying dividends out of its deposits. It was saved by a Quebec government loan of fifteen million dollars, and then merged with another bank into La Banque Canadienne Nationale. The Bank of Hamilton was absorbed by the Commerce. Other mergers followed.[26] The government in 1923 decided to maintain the supply of Dominion notes being loaned to the chartered banks as a permanent part of the monetary system. Under the terms of 1923 Finance Act, not only were public securities of Canadian governments, plus those of the U.K., colonial, or U.S. governments acceptable collateral for advances of Dominion notes, but so too were the notes and bills of the private sector.

In the immediate post-war period, too, were felt the consequences of the merger epidemic. Many of the mergers were in trouble by 1913; the war provided a brief respite; then the bottom fell out. During the commercial recession of 1920-21, a series of drastic reorganizations and reductions of nominal capital occurred.[27] With prices of output falling, drastic liquidations were really inevitable. The watering operations that had created the mergers required a climate of secular inflation to justify them. When the inflationary phase of the long cycle came to an end, so did the economic life of many of the mergers. Some of the mergers had been cursed by the greed of their directors, who drained off their resources into dividends, running down the plant in the process. Many firms suffered cutbacks, including some in sugar and pulp and paper, but especially in the iron and steel industry, which had badly overextended during the railway-building frenzy. These cuts had repercussions in London: English investors, already made very wary by the pre-war debacles, were frightened away from Canadian industrial bonds, which thereafter began to be floated largely in the U.S.

The crisis reflected itself in the state of foreign exchange markets. Canadian exchange in late 1919 and early 1920 fell to a nine per cent discount vis-à-vis American currency, while its exchange rates with Europe moved in its favour. The result was a great deal of liquidation of holdings of Canadian securities by European investors, who sold them largely to Americans. Canadian Northern and Grand Trunk securities were among those moving to North America in considerable numbers.[28]

Canadian municipal debentures were another security of which an enormous volume had been placed in Britain just before the war, and western Canadian municipalities tended to follow the financial fate of the grain trade. In 1919 the city of Prince Arthur went into default.[29] Regina tried to avoid the same fate by taking advantage of the exchange rate changes, paying its interest in sterling which was at a discount with respect to Canadian funds. Bondholders and dealers were outraged, and the city was sued by Toronto General Trust on behalf of the British investors. The city lost the case, and Canadian municipalities were obliged to settle their debenture debt at the old exchange rates.[30]

Those gaining from the state of the exchanges were American investors, whose takeover of Canadian assets was greatly facilitated. The 1909 merger, Canadian Car and Foundry, was among the first to go, passing into Francis Clergue's hands early in 1920 and becoming closely affiliated with American Car and Foundry.[31]

The degree of foreign ownership of industrial securities (bonds and equity) including manufacturing, resource industries, construction, and some utilities declined slightly in relative terms in the immediate post-war period. In absolute terms, however, it continued to grow.

TABLE XVIII (2)

Ownership of Industrial Securities by Country

	% Total held by Residents of			
Year	*Canada*	*U.K.*	*U.S.*	*Other*
1918	56	9	34	1
1919	58	10	31	1
1921	61	8	27	3

Source: *FP*, Oct. 19, 1923.

By 1921, American direct investment in Canadian industry totalled nearly one billion dollars. Direct and portfolio investments by Americans reached $1,084 million, by British $310 million, by other foreign investors $131 millions. Thus a total of

TABLE XVIII (3)

Distribution of Security Ownership by Type, 1921

	Canada	*U.K.*	*U.S.*	*Other*
equity	61	7	29	3
bonds	57	15	18	10
other securities	55	9	32	4
average	61	8	27	4

Source: *FP*, Oct. 19, 1923.

nearly $1,567 million of foreign capital comprising nearly 40% of the total capital was invested in these industries.

The distribution of foreign ownership of securities (including bonds) by that early date already showed certain very critical patterns. American ownership was exceptionally high in automobiles and accessories, electrical apparatus, chemicals and drugs, copper smelting, and non-ferrous metal foundries even before the major takeover of key firms in the high growth-high technology industries began in the early 1920's. And of course even the remaining Canadian ownership was greatly circumscribed by patent control. In textiles and other light industries, the Canadian share was overwhelming. There were two especially revealing cases. In food products, the industries like meat packing and cereal milling most capable of organization on big agribusiness principles were almost half American-owned, while biscuit makers, fish canners, distillers and the like were largely Canadian-owned. In footwear industries, those producing from rubber were two-thirds under American control, reflecting American monopolization of the raw material and the degree of technology implicit in their manufacture, compared to the traditional industry based on leather, which was 98% Canadian-controlled.

Over and above the exchange rate changes and the impact of the loss of new British portfolio investment, the cessation of the growth of the Empire had important effects on Canadian industrial structure. Without an expanding imperial market, the joint ventures and licensed firms of old had no *raison d'être*. A series of takeovers by American parent firms in leading industries embodying advanced technology occurred. General Motors became wholly owned by the parent by 1918. Ford used part of its fabulous return in dividends from its equity of Ford Canada to raise its holdings to 85% by 1927. And by 1923 Canadian General Electric had become majority-owned by the American parent once more.[31]

The remaining Empire market was still an important commercial objective of American firms, though the Canadian industrial intermediaries were no longer required. American firms finished the war with surplus earnings available for export, while Canada sought to replace the loss of British portfolio capital with American direct investment. A steady influx of branch plants resulted. Even during the war, before American entry, informal discussions of a possible tariff arrangement between the Allies and the Dominions had triggered off a movement of American branch plants into Canada who insisted on their right to be reckoned as Canadian firms for commercial purposes.[32]

TABLE XVIII (4)

Distribution of Ownership of Securities Selected Industries - 1921 (%)

	Canada	*U.K.*	*U.S.*	*Other*
lumber-mill	75	8	17	—
lumber-forest	68	1	25	6
pulp & paper	69	3	18	10
cotton	82	1	17	—
woollens	94	2	4	—
hosiery & knit goods	91	4	5	—
meat packing	52	—	46	2
flour & cereal mills	54	—	45	—
other food and beverages	81	5	13	1
steel furnace & rolling mills	71	1	28	—
copper smelting	17	32	46	5
foundry & machine shop	58	7	35	—
brass & copper foundry	38	—	63	—
agricultural implements	52	8	24	16
automobiles	22	—	78	—
auto accessories	20	—	80	—
car construction	66	—	34	—
ship building	47	45	8	—
paints, drugs, chemicals	35	9	55	1
artificial abrasives	—	—	100	—
rubber products	67	10	22	—
rubber footwear	33	—	67	—
leather footwear & tanning	98	—	2	—
electrical generation	68	6	15	11
electrical apparatus	42	14	42	2
petroleum refining	64	—	36	—
construction	83	16	1	—
minerals	54	13	31	2

Source: *FP*, Oct. 19, 1923.

After the war, municipalities were eagerly advertising themselves as attractive places for itinerant American plants to settle. Cheap power, the promise of docile labour, and good sites were all dangled before the eyes of American capitalists.[33] The appearance of American products on the Canadian market was the signal for cities, Chambers of Commerce, banks, and business publications to "campaign" the producer to build a factory in Canada.[34] By 1927, the level of American direct investment in Canada had reached $1.5 billion in book value, nearly six times its 1914 level.[35]

The declining importance of imperial trade, and the accompanying threat the decline posed to the momentum of American direct investment, were especially traumatic during the Great Depression. For with the collapse of world primary product prices came a great increase in the real burden of carrying the huge fixed interest debt with which the Dominion had been bequeathed by its railway promoters. Service charges rose to absorb up to 25% of total foreign exchange earnings.

The policy response was the predictable myopic one of trying to lessen the burden of the problem by increasing its extent, by soliciting more foreign investment especially in the form of American branch plants.[36] The Imperial Preference arrangements of 1931 were defended by the Dominion government on the grounds that they had caused 90 new branch plants to blast their way into Canadian markets.[37] The preceding year the negotiations had attracted 97; the succeeding year saw 92 new entrants; thereafter the new investment fell off.[38]

In the meantime, the banking situation had worsened. The Finance Act of 1923 was supplemented by a return of gold. It was an incompatible mixture. Gold drained out of the country while the reserves of Dominion notes remained constant. The result was a continued steady inflation of the circulation despite the external leakage of gold. At the end of 1928, Canada abandoned gold, well before the onset of the Great Depression, a depression which forced the complete re-organization of the Canadian banking system.

The Canadian dollar failed to depreciate during the early years of the Depression. A continued net inflow of foreign capital — mainly American in the form of a Dominion loan, private loans, and direct investment — kept the exchange rate high. The collapse of world primary product prices led to a severe deterioration in the balance of visible trade. However, the capital inflow not only offset it but was sufficient to cause a net import of some $30 million in 1930. In addition, the banking system's adherence to "sound money" kept the domestic circulation from undergoing a compensating expansion. A high level of the exchanges was actually welcomed as a means of helping to pay off the debt charges due foreigners, despite the fact that it was greatly exacerbating the deflationary pressures already active.

Pressure for the establishment of a central bank took two forms in Canada in the early period. One school argued for a bank which would loan money to the government for such things as public works and would compete with the chartered banks for savings. The second, advocated by some chartered bankers like the general managers of the Royal and the Imperial, though opposed by others, wanted a bank of rediscount. What the second proposal emphasized was a permanent mechanism, privately owned and effectively under direct control of the chartered banks, whereby the commercial paper lying dormant in the banks' portfolios could be liquified. It therefore involved the ceding of the note issue power completely to the central government, or its agent in the form of a central bank.

This last change was really a minor concession. Chartered bank note issue had been increasingly supplanted by government of Canada notes since 1914. The demands of war finance had led to a very marked expansion of the relative importance of government notes. Then the crisis of the early 1920's required loans of government notes to the "stable" banking system to ward off total collapse. A central bank of issue which would exchange the chartered banks' bills for notes was a logical outgrowth of these earlier changes. The existence of such a body on which to unload the worst bills in their portfolios was certainly no hardship to the chartered banks, and was worth far more than the loss entailed in the cession of their already badly eroded issue power.

The Great Depression brought the national policy, the wheat economy, and the British Empire that provided them with a *raison d'être*, equally down in ruins. Private investment in Canada virtually ceased. Incomes in the West fell precipitously as world grain prices plummeted. In B.C. and Manitoba, money incomes by 1933 were only about 50% of their 1928 level. In Alberta they were less than 40%. In Saskatchewan, money income was a mere quarter of its 1928 level and of every fifteen bushels of wheat produced, it was estimated that seven were required to discharge farm debts to mortgage loan companies, land companies, railways, grain dealers, banks, and implement firms. Organized farm parties threatened eastern big business and British finance capital with repudiation of debts and with nationalization of credit and commercial infrastructure. Organized labour, faced with measured unemployment rates of 20% and more, underwent a profound radicalization. But fortunately for the Canadian business class, just when things looked blackest, the Second World War brought respite, rejuvenation, and hope for the future.

Notes to Chapter XVIII

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Glossary of Financial Terminology

The exact meanings of many terms in commerce and finance change over time as financial practices change and as new institutions evolve. As a result, the following definitions are often not completely precise. Rather, they are intended to give the reader a general sense of the nature of the financial operation described, taking account of the historical context. Definitions are therefore cast in a descriptive and functional mould rather than a precise legal one.

Accommodation Paper: Refers to a line of credit extended by a bank to a customer. It can be a short-term loan that takes the form of an overdraft of the customers' account. It could also take the form of a banker's "acceptance" whereby the bank on behalf of a customer, for example an importer of merchandise, "accepts" the liability of paying off the foreign exporter when he demands payment, and in return secures a commitment from its customer to pay off the claim when it falls due. In effect the high credit rating of the bank is substituted for the lower credit of the particular importer by the bank's accepting the liability on behalf of the import merchant.

Ad Valorem Tariff: When a tax or tariff is levied *ad valorem,* it signifies that the tax is reckoned as a certain fixed percentage of the value of the item being taxed.

Assignment: A process whereby a debtor, unable to pay his obligations in cash on demand to his creditors, can avoid "bankruptcy" by assigning his assets in whole or in part to one of his major creditors, who thereafter administers or "liquidates" the assets to attempt to realize his claim.

Bankruptcy: In the case of a bona fide bankruptcy, as opposed to an assignment, the debtor unable to meet his debts submits to a court which appoints a receiver for the property. The receiver, who is not appointed from among the creditors, undertakes to administer and/or liquidate the property so as to meet the debts owed to various claimants to the extent possible out of the assets of the bankrupt person or company. The claims are settled in a certain legally fixed order. For example, the claims to the assets of an incorporated company begin with the bond holders, then the debenture holders, then general debtors, then preferred stock holders and finally, if there is anything left, the holders of ordinary equity or common stock.

Banking School: A philosophy of how banks should behave that emerged out of a protracted debate in England in the early nineteenth century. Among the central ideas that found their way into Canadian banking practice were the notion that the note issue and loans of a bank required no fixed amount of cash reserves in the bank's vaults, which would have tended to limit the extent of the bank's expansion of its liabilities. As long as the bank's discounts were restricted to simply loaning on the security of bills of exchange issued in conjunction with commodity movements, the bank's expansion would be automatically linked to the expansion of commodity trade in the economy as a whole. There would thus be no danger of excess or deficiency of bank notes or loans in relation to volume of trade. See also *real bills* below.

Bill of Exchange: An order to pay a certain sum on a certain date or on demand. It is a debt claim between parties in different countries or separated by a considerable distance in one country which is not perfectly integrated financially. It is an unconditional promise to pay. There are three parties involved, the one ordering payment, the one to whom payment is to be made, and the party who must make the payment, generally a bank. Sometimes there are but two parties, the first and the third being the same. Under some circumstances, when cash is in short supply, the bill of exchange can itself circulate as a means of payment. Each person receiving the bill in payment for a debt will endorse it and then use it in turn for settling his own debts.

Bond: A certificate of debt owed to the bearer, which debt bears a fixed rate of interest and falls due at a specific future date. A bond is generally secured against physical property and is then referred to as a mortgage bond. In the event of non-payment of interest or principal, the holders may seize the property against which the bond is issued and sell it at a public auction to satisfy their claims.

Bucket Shop: A term whose meaning has changed over time: in general it refers to a financial operation involving sales of securities to the public, the nature of which borders on or is overtly illegal. For example, a bucket shop could involve the sale of completely valueless stock certificates in an unabashed swindle. But in the context of late nineteenth-century Canada, many operations involving trading in securities on margin or dealing in commodity futures (see below) which are now accepted as perfectly legitimate were then outlawed in an effort to stamp out small-scale operations and to centralize trading in the hands of a few brokers in major centres.

Call Loan: A loan extended, generally by a bank, which, rather than falling due at a future date specified at the time of the loan, remains outstanding until recalled by the bank on very short notice. Call loans are especially important for brokers buying and selling securities. The broker buys securities from one institution or individual, sometimes the issuer of the securities, and sells them to other institutions or individuals, financing the transaction with call loans from the bank. Because the loan is callable on such short notice, the broker must always ensure as much as possible a quick resale market for the securities before undertaking the initial purchase.

Cartel: An association of merchants or industrialists formed to fix prices or to otherwise restrict competition and exercise control over markets. It may involve profit pooling and sharing arrangements too. However, it does not involve a formal integration of the business units concerned, each of which, therefore, retains its separate legal existence.

Chartered Bank: refers to a bank which is incorporated in Canada by the granting of a charter of operation by the federal government. All bank incorporations in Canada require Acts of the federal Parliament. However, unincorporated or private banks did exist which, while regulated by the federal government, did not require formal statute to permit their operation.

Chattel Mortgage: A debt backed by a pledge of the moveable property of the borrower, for example a farmer's livestock. A mortgage on real estate, by contrast, is secured against immoveable, landed property.

Conversion Loan: A borrowing body may wish to change the interest rates and due dates of its outstanding debts, in which event it might convince existing holders of its bonds to return their currently held bonds and accept in their place a new issue of bonds of different maturity, interest rates, etc. This exchange of one set of debt instruments for another is called a "conversion loan."

Currency School: The converse of the *Banking School* (above). Under the Currency School philosophy of banking, it was felt that the note issue of the banks should be regulated by a fixed "reserve ratio" (see below) to ensure that they be convertible into gold and not issued to excess, resulting in inflation. Furthermore it was held that the notes of a central bank (or the Bank of Montreal in nineteenth-century Canada) should be treated as being equivalent to gold for purposes of the reserves held by the individual banks.

Debenture: Also referred to as debenture stock or even debenture bond, this security is very close to a bond in terms of having a fixed due date and a fixed interest yield. Unlike a bond, however, it has no specific security, but rather is backed by the general credit of the issuer. It is a general charge against the assets of the issuer rather than being a mortgage on specified property.

Discount: Analogous to interest, but the discount on the loan is deducted in a lump sum at the beginning of the loan rather than being reckoned as a percentage of the principal during the term of the loan, as interest payments are. For example, a bank buying a *bill of exchange* (see above) might pay only 90% of its face value. The discount rate would be 10%, for the bill at maturity would yield the bank 100% of its face value while its cost was but 90%. Discounts and interest payments can coexist. A bond sold at a price below its face value, or par value, is said to be sold at a discount. Its yield to the owner then consists of the difference between its purchase price and its full par value at maturity, plus the interest payments calculated as a percentage of the par value. On the other hand, a bond could sell at a "premium," above its face value, in which case its net return to the holder would be less than the interest payments due on it.

Double Liability: Shareholders in an *incorporated company* (see below) generally stand to lose only the sums representing their investment. But, in the case of banks in Canada until the 1930's, all shareholders were liable to pay up to double the amount of their subscribed shares in the bank in the event of its *insolvency* (see below).

Fee Simple: A manner in which lands, especially Crown land, can be alienated. In the case of a transfer of the land "in fee simple," the land becomes to all intents and purposes the absolute private property of the party to whom it was transferred with no provision for reversion of title to the original owner.

Fiat: Translates literally as command or order. A fiat currency is acceptable as a means of payment because a governmental authority decrees that it must be accepted in exchange and for the settlement of debts.

Fiduciary: Means simply "trust." Thus, a fiduciary bank note is one based on public confidence in its ability to maintain its exchange value in terms of commodities or on its convertibility into precious metal or some other money form, the stability of whose exchange value seems assured. Fiduciary also refers to the type of financial operation performed by a trust company which administers funds on behalf of some other party.

Futures Market: An organized system of buying and selling commodities or currency for delivery at some future date. The price at which the exchange will take place is set at the time of trading, while the actual delivery of the traded items at the agreed price will not occur until some fixed date in the future. Futures trading thus functions as a means of guaranteeing supplies of a commodity in the future at known constant prices, thus protecting the purchaser or seller from variations in the prices that could prove detrimental. Clearly the seller hopes to sell forward in time at a price that will be higher than that which will actually prevail in the future, while the buyer hopes to buy for less than the price in the future by contracting to take commodities at currently negotiated prices.

Guarantee: The most important use of the "guarantee" principle in financial transactions is when one corporate body or government authority "guarantees" the payment of interest and/or principal on the securities issued by a lesser body, — for example, a subsidiary corporation in the case of a guarantee by a corporation, or a lower level of government in the case of a government guarantee. Then, too, a government might guarantee a railroad's bonds, or those of some other major corporate endeavour. In the event of the lesser body being unable to meet its debt obligations, the higher authority which guaranteed the debt becomes liable for them.

Incorporation: The process by which a company is organized as a limited liability venture, each shareholder being liable for the debts of the company only to the extent of his subscription to the shares of the company. By contrast, if the company is not incorporated and the liability is not therefore limited, each partner in the company can be called upon to put up all of his personal wealth to meet the obligations of the company, should such prove necessary to completely discharge all of the company's debts.

Inscribed Stock: A type of *debenture* (see above) issued especially by governments. In the normal case of a debenture, principal and interest are payable to the bearer of the security, which security is thus freely transferable and saleable at will to other investors. An inscribed stock, however, is legally registered in the name of a particular investor or investing body to whom alone it is payable. Transfers of title require a formal legal procedure. The debenture is thus protected against theft, fraud, etc.

Insolvency: Simply, the state of a debtor unable to meet his obligations in cash when they are due. It is a general term that does not carry a specific legal connotation as do assignment and bankruptcy.

Kiting: A rather complex financial arrangement which gives the participants use of funds they do not properly have claim to, yet is perfectly legitimate. If B gives A a cheque for e.g. $1,000 drawn on B's bank account, and assuming it takes two days for the cheque to clear the banking system, then for that two days B retains a bank balance of $1,000 while A can deposit the cheque in his account giving him a credit balance of $1,000 as well. Thus until the clearing process is finished, A and B collectively have secured access to an extra $1,000 of bank credit. Kiting is a game many participants can play at once.

Lien Note: A type of short-term debt certificate. It is a promissory note (i.e. a promise to pay) that is secured against certain specified property against which the lender is said to have a lien, (i.e. the ability to seize the property in event of non-payment of the debt.)

Lock-up (or lock-in): The state of a bank loan that cannot be readily liquified, i.e. repaid. If, for example, a bank lends to a manufacturer who uses the loan and all his other liquid assets to build plant and equipment, then the assets are frozen into the plant, and the bank cannot expect repayment until the plant begins to produce and sell its output. The converse case, and from the bank's point of view the desirable one, would involve a loan secured on actual existing commodities, the proceeds from the sale of which are immediately available to cover repayment of the loan when necessary. (See *Real Bills, Currency School, Banking School.)*

Note Issue: Prior to 1935, the great majority of the paper money in circulation in Canada was issued by the chartered banks rather than by the government. The federal government had a very restricted power to issue some notes, but in deference to the chartered banks tended to minimize its issue. Provincial governments after 1867 could not issue notes. The power of note issue was jealously guarded by the chartered banks, for the banks could issue paper at no cost to themselves and use it to buy income-earning assets. After the establishment of the Bank of Canada in 1935, all note issue was undertaken by that institution and the notes of the chartered banks were taken out of circulation.

Patent (of invention): A legal monopoly granted to the "inventor" of an industrial process, mechanical device, etc. The patentee, who might well have bought or stolen the invention from its actual creator, is given a monopoly on its use for a certain number of years. The notion was that, by protecting "inventors," investment in the actual manufacturing of the invention would be encouraged.

Patent (of land): The process of filing a claim to an area of unclaimed land, the certificate acknowledging the claim being a "patent" and the land being therefore "patented." To hold the patent does not mean ownership; ownership follows the issue of a patent only after certain conditions are met with respect to payment, development, etc.

Pre-emption Right: At the time a certain piece of land is transferred to the purchaser, he may also secure the right to purchase in the future another piece of land at a price fixed at the time of the purchase of the original piece. Pre-emption rights were included in land granted to settlers under the Homestead Act in Canada until 1904, but in fact the right was seldom exercised because of the difficulty of finding contiguous government land to claim. The pre-emption right was of little use if the only land available for pre-emption was considerably removed from the initial plot.

Preferred (preference) share: Unlike common stock in a corporation, preferred stock or preferred shares carry a fixed maximum rate of return. Furthermore, the obligations of the company to the preferred stockholders must be met before those to the common stockholders.

Promissory Note: Simply, an unconditional promise to pay made by one person to another for a fixed sum at a specified future date. It may or may not be secured against certain property, and the debt is generally transferable to a creditor other than the one involved in the original contract.

Real Bills: A type of bill of exchange arising out of financing goods-in-process. The "real bills doctrine" of banking was a British transplant. A legacy of the post-Napoleonic-Wars currency debates, the doctrine contended that banks should confine their loans and discounts to those secured on bills of exchange and other paper representing actual commodities in existence. As long as this was done, the supply of credit would always be in step with the supply of commodities whose movement the credit served to finance. Bank credit would automatically terminate when the commodity movement was finished: The whole orientation of "real bills" was thus towards very short-term loans for the movement, rather than the production, of commodities. The same considerations held for bank note issue as well as loans, since the note issue was simply another component of the general credit mechanism controlled by the banks.

Receivership: A company that becomes bankrupt has a court-appointed "receiver" administer the affairs of the company on behalf of the creditors, thus replacing the power of the board of directors elected by the common shareholders when the company was solvent.

Reserve Ratio: Banks are often required to hold a certain percentage of certain liabilities in the form of cash or highly liquid securities so as to be able to meet the demands of their creditors with cash. For example, a cash reserve ratio of, say, ten per cent might be held in the form of gold to meet all demands by noteholders for gold. The reserve ratio would be considerably less than 100% because it is clear that except under very extreme circumstances only a small percentage of noteholders would demand gold in exchange for their notes at the same time. Reserve ratios in modern banking are held similarly against deposits.

Roll-Over Operation: A process of refunding a debt. When a bond or debenture issue is about to fall due, the debtor gets the cash to meet the debt by a new bond issue, sometimes sold to the same group who held the old. The debt thus is said to have been "rolled over."

Scrip: Similar to a promissory note but applying to land. The certificate is transferable and entitles the bearer to a grant of public land. War veterans in Canada used to receive scrip entitling them either to select a piece of government land or to sell their claim to some other party.

Terminating Building Society: An early type of mortgage loan company, formed by a fixed group of individuals for mutual assistance in financing land purchases or building homes. The society was wound up automatically when all members of the group had finished their purchase from the collective funds, and the funds were then redistributed back to the members.

Trust: A term evolved in the U.S. to describe a variant of the cartelization process whereby a group of firms forming the "trust" selected "trustees" either from among themselves or generally acceptable outsiders to co-ordinate pricing, output, profit pooling and other aspects of the cartel's behaviour.

Trust Company: A financial institution whose primary role is the administration of estates or other operations on behalf of another party or company.

Trustee List: In Britain, government regulations were strict as to the type of investments a trust company could make with the funds entrusted to it for administration. The group of securities in which investment was permitted was known as the "trustee list." Because of the considerable volume of funds trust companies could mobilize in Britain, a land of much old landed wealth, admission of their securities to the list was a very desirable objective of corporations and governments seeking to borrow in Britain.

Underwriting: When a corporation or government seeks to sell a security issue, one or a group of financial institutions guarantee to the issuer that it will receive by a designated time a certain specific amount of money for the issue. The simplest way is for the financial institutions to simply buy up the issue at the agreed price and then try to resell it to the general public at a higher price. In effect they act as a type of wholesale security merchant, buying a large lot and then selling the securities retail in small lots to the public. If a buyer cannot be found for all or part of the issue, at the guarantee price, it is the underwriter who must bear the loss or else hold the securities itself.

Warehouse receipts: When goods are received at a warehouse, the receipt issued verifying their existence is often a negotiable instrument and can be used as collateral for bank loans, since the goods against which the loan is secured have been verified by the warehouse man.

Watered stock: Stock watering operations were a method by which financial promoters could earn large profits without the need for any actual cash investment. While a bond represents a bona fide investment of cash, stock need not. For example, a handful of stockholders controlling a company could authorize the issue of new stock and simply distribute it to the existing stockholders, i.e. themselves. They could then have the company which they control pay dividends not only in the initial stock, but also on all of the new paper capital they have created and drain the resources of the company off into their own pockets without any actual investment. The new stock issue not corresponding to any real investment is referred to as "water."

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Errata

p. 5, line 7. There was never any evidence to implicate Meredith himself in the conspiracy that I am aware of.

p. 8, lines 25-28. George Stephen wanted the law repealed—probably because settlers could mortgage their government lands and divert the proceeds into the purchase of CPR land, if the $500 mortgage ceiling on government land were lifted. As a promoter of an insurance company making mortgage loans and as a promoter of the CPR selling lands, Stephen would thus be twice blessed. However, the ceiling was not in fact lifted. I am grateful to Michael Bliss for pointing out the original error.

p. 28, line 18ff. This should read "... no regulation of railway rates by an independent agency." Galt argued that recourse to Parliament, as before, was all that was necessary.

p. 40, lines 19-20. Gooderham and Worts were British, not American, immigrants.

p. 85, lines 22ff. "Mining" here referred to quartz mining of gold as distinct from working of placer deposits. The first placer deposits seem to have been worked in the Seigneurie of Rigaud–Vaudreuil in 1846. B.C. gold was collected from placers by Indians from the mid-1850's. And Nova Scotia's first *major* find was at Tangier River in 1858. Since Nova Scotia gold was almost all mined, it is likely the starting date should be adjusted back two years.

p. 108, lines 6-10. Nova Scotia does win the prize, but the date is wrong. The origins of Nova Scotia's system of corporate welfare can be traced back to its first bounty system—in 1751.

p. 191, line 13. A complex point stated too glibly. The 1874 Federal Act regulating standards covered alcoholic beverages with food regulation inserted as an "afterthought" (J. A. Corry, *The Growth of Government Activities in Canada*, pp. 21-3). Not until 1920 was adulteration defined to include "unreasonable" variation from standard qualities fixed by the Governor-in-Council.

p. 210, line 8. H. N. Whitney was actually out of Domco well before the 1911 elections. It was the coal mine interests, not Whitney himself, that seem to have been powerful in the election.

p. 218, line 4. For "balance of trade" read "balance of commodity trade." The outflow of service charges on previous borrowings was sufficient to keep the overall trade balance in deficit.

p. 223, lines 18-20. The Halifax Banking Company's links to the Colonial Bank were more likely just an agency system rather than a real partnership.

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Born in 1945, Tom Naylor did graduate work in political economy at the University of Toronto, at the London School of Economics, and at Cambridge. He now lectures at McGill University.

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