

Trends in the Business History of Canada, 1867-1914

R. T. Naylor

Volume 11, Number 1, 1976

Québec 1976

URI: <https://id.erudit.org/iderudit/030814ar>

DOI: <https://doi.org/10.7202/030814ar>

[See table of contents](#)

Publisher(s)

The Canadian Historical Association/La Société historique du Canada

ISSN

0068-8878 (print)

1712-9109 (digital)

[Explore this journal](#)

Cite this article

Naylor, R. T. (1976). Trends in the Business History of Canada, 1867-1914. *Historical Papers / Communications historiques*, 11(1), 255-267.
<https://doi.org/10.7202/030814ar>

All rights reserved © The Canadian Historical Association/La Société historique du Canada, 1976

This document is protected by copyright law. Use of the services of Érudit (including reproduction) is subject to its terms and conditions, which can be viewed online.

<https://apropos.erudit.org/en/users/policy-on-use/>

Trends in the Business History of Canada, 1867-1914

The period from 1867 to 1914 has attracted a disproportionate share of Canadian historians' attention, and for good reason. It was an era bounded at one end by the consolidation of the state structure of federated British North America, and at the other by the country's reluctant entry into the twentieth century. It was the era when the foundations of state and nation, economy and society were laid in place. It witnessed the consolidation of the economy on a transcontinental basis — commercial and financial integration, the completion of the main pieces of infrastructure necessary for the wheat economy that followed, and the interrelation of the various regional economies into a national whole based on a clear division of economic function among them. It also saw the consolidation of the main political apparatus — the departments of government, an initial vertical division of political function among various levels of government, and the establishment of national political parties, the political developments being of course directly derivative from the economic ones. These events transpired in and were decisively influenced by a world economic order in the process of radical change. The Pax Britannica reached its apogee at mid-century, and had begun its inexorable decline by the time the Canadian economy and policy were consolidated. Canada as a nation-state, economically and politically was the creation of a Victorian order already in decay.

History is primarily a means for understanding the present; indeed the only path towards such an understanding. Our current structures, for good or bad, are explicable in their functioning only in terms of their origins and evolution over time. Hence the volume of attention given to the period stretching from Confederation to the great squabble over the division of the world's spoils in 1914-1918 makes good sense.

In terms of volume the historical literature on the period is massive. But it still exhibits many serious gaps especially in the field of business history and general economic development. A deluge of material continues to be turned out on the lives of politicians. But these politicians were, in the great majority of cases, businessmen too. George Brown's politics and ideological position can hardly be separated from his position as *de facto* leader of Toronto big business. His timber, land and railway interests, his position as publisher of Canada West's largest newspaper — these were the foundation of his politics. George-Etienne Cartier, who was, along with Francis Hincks, a founder of the corporate

welfare state in Canada; Charles Tupper, who appears to have entered politics as a man of modest means, and managed, remarkably, to leave it very rich without a single major scandal to blemish his career; W. S. Fielding, who represented certain coal companies in Halifax and in Ottawa; these and many more have drawn long analyses of their political antics almost entirely detached from their personal business interests or those of the class of men they represented in Ottawa or the provincial legislatures. Only in the cases of Francis Hincks and A. T. Galt, of the major political figures of the nineteenth century, have business and politics been at all properly integrated — and even then a lot remains to be said.

The economic literature of the period is also wanting in many important respects. Certain variables have been examined at length — the impact of the tariff, land settlement policy, some facets of banking development. But many more have been totally neglected and the interrelations between those parts that have been studied have been inadequately examined.

Finally on the subject of the literature, the task of pulling together the two elements mentioned — the detailed examination of many interrelated facets of the pattern of economic development, and the role of the government and therefore of the political leaders of the period who were also businessmen or represented businessmen in shaping these very patterns — has barely begun. It was with a view to trying to move towards that integration as well as detailing some neglected patterns of development that *The History of Canadian Business* was written.

It is a very rough book in many ways. Many threads of argument are incomplete. A great deal of supplementary work is needed to confirm and to expand on the issues raised, and to round out the history. For these lacunae, and for the many patches where the work is dull and obscure — neither of which any facet of Canadian history is entitled to be — an apology is due the reader. The length too is likely excessive. And there are factual errors as well as errors of interpretation that are obvious to me even so soon after its publication. Apologies are due for these as well.

I make no apology, however, for the methodology. It is deliberately non-quantitative, even anti-quantitative, for the very good reason that the derivative essays into the field of quantitative economic history witnessed in Canada of late generally ask all the wrong questions and then try to answer them with the wrong set of assumptions. The results vary from the tedious to the absurd — the “what if the Prairies were made of rock” school. The economy is an instituted process, and what is needed first and foremost is institutionally oriented studies. This I have attempted to do, and have eschewed quantitative techniques in favour of what might be called a literary variant of the minimum information — maximum likelihood method. Indeed if I had had my choice in the matter I would have carried my anti-quantitative convictions to the point of even omitting the page numbers.

Within the period under review (and beyond to the present) *two* inextricably interrelated themes characterise the economic development of Canada. First there is the cosy relationship between business and government, or more concretely of big business and government, for Canadian governments and their policies have been especially sympathetic to the needs of the mighty, and Canadian government policy has been directed squarely at accelerating the process of concentration of economic power. Second, and closely linked to the first, is the central role of foreign capital — to build infrastructure, finance staple extraction, and establish manufacturing capacity. The attraction of this foreign capital has been a prime preoccupation of Canadian governments. All manner of policies have been concocted to facilitate the inflow of outside investment preferably in big prestigious projects which generate a return flow of political capital to the governments' responsible. Both of these attributes of Canadian development have deep historical roots; deeper than is often appreciated.

Government and Big Business Before Confederation

The federal and, to a lesser degree, the provincial and municipal governments were crucial instruments for the fostering of capital accumulation. As Innis very aptly put it:

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.

Because of the central role of the state in the process of accumulation, politics turned in large measure on the struggle of various business interests to capture control of the state structure in order to turn it to their advantage. The tight interface of government and big business was based on their complementary objectives (not to speak of personnel). Business sought to use the state as an instrument of financing business activity and to restrict competition; government sought to use big business as a source of direct political support during election campaigns and to generate the visible economic returns — growth, rapid industrialization and job creation — that could be dangled before the electorate in the late nineteenth century and beyond to the present.

The use of the state as an instrument of capital accumulation is in evidence in Canadian history from the earliest years of the French regime. Indeed in the very early years business and government were identical, jointly embodied in the fabric of the monopoly chartered trading and colonization company. Throughout the French regime, after 1663 when the state and commerce were formally divorced, the state was active in subsidizing large scale industry directly through long term investment — as in iron and steel and shipbuilding, and indirectly by virtue of being a principal market for the products of these industries. The state was equally active in the staple trade, regulating entry to restrict competition, and defending the trade routes that were essential to the prosecution of

that trade. Not surprisingly, despite the formal divorce of commerce and the state, those most directly interested in the successful prosecution and monopolization of the trade were also of dominant influence in the state structure itself. Not for nothing was the Sovereign Council of New France referred to as the Beaver Aristocracy.

The Conquest imposed a new set of government-business relations. The struggles of the Lower Canada Assembly against the mercantile elite that controlled the Executive Council, the Family Compact of Upper Canada and its links to the Bank of Upper Canada, the Welland Canal Company, and the Canada Company, and the domination of Halifax's Council of Twelve by the leading wholesale merchants and West Indies traders of the city are well known and need no elaboration here. Suffice it to note that, especially in the field of banking and transportation infrastructure, the use of the state to defend monopoly and divert public funds to private purposes was well known and well rehearsed in the early years of British rule.

But more important than these pioneer episodes were the new set of state functions assumed in the 1840's in the Province of Canada. As Britain loosened its grips on the political process in the colonies and as the movement towards responsible government progressed, an indigenous business class for the first time gained virtually unrestricted access to the mechanisms of the state, to control of taxation and expenditure, to the use of the state's credit for borrowing to finance private enterprise, to manipulation of currency and banking law. It was the era of the triumph of the "Reform" forces in the political process, and, as in Britain during the great age of "Reform", it witnessed a systematic and thorough corruption of the state structure. The Assembly fell into the hands of promoters whose purpose was to lay seige to the public purse and carry it by storm.

It began on a small scale in the Sydenham era with an individualistic scramble for contracts, offices, and government cash grants for road building and the like. Lord Sydenham's description of the process is worth recalling. In a letter to Lord John Russell he exclaimed,

You can form no idea of how a colonial parliament conducts its business. I got them into comparative order and decency by having measures brought forward by the Government, and well and steadily worked through. But when they came to their own affairs, and above all to money matters, there was a scene of confusion and riot of which no one in England can have any idea. Every man proposes a vote for his own job; and bills are introduced without notice and carried through *all* their stages in a quarter of an hour.

At the time Sydenham wrote, England was in the throes of the Hudson railway mania, and hence it is quite likely that, contrary to Sydenham's contention, a good number of eminent British politicians knew precisely about what he was talking. As to Sydenham, being the architect of the spoils system in Canadian

politics he was the last person who should have been shocked at its consequences. But, as Gustavus Myers aptly put it,

Sydenham was no doubt impressed by their primitively uncouth methods as compared with those in England where the most flagrant jobs are put through with a polished ease and leisurely equanimity, thus covering them with a nice gentlemanly elegance. Centuries of experience have taught this as a fine art.

The stakes in the game mounted rapidly as railway fever swept British North America in the late 1840's and early 1850's. Canada in particular embarked on an investment program that far eclipsed that of the canal building phase of two decades earlier. The role of the state in the first wave of railway building was two fold. First, by controlling the distribution of charters the state could directly determine the presence or absence of competition, generally the latter. Second, the state put its tax revenues and borrowing power to work to finance the construction of railways directly through cash aid and indirectly by pledging its credit on behalf of private investors in the form of guarantees against the failure of the private sector.

The aftermath of the railway building orgy was felt in a number of critically important ways. Commercially its effects were twofold. Canada was more firmly integrated into the Atlantic economy during the Age of Steam and Steel. At the same time internally many new centres were opened to staple exports and for imported manufactures. Financially — and politically — the province came more solidly under the control of British financial interests at exactly the time when formal decolonization of certain parts of the empire by the British government was at its zenith. In terms of internal politics a number of changes resulted. A hardening of party lines followed from the struggle of major cities to use the railway to control and extend their respective commercial hinterlands; at the same time public office became the easiest route to fast fortune. 'Responsible government', that is to say, the subservience of ministries to the swarms of promoters who crammed the Assembly floor totally transformed the role of the state in Canadian economic life. The most important function for which the Canadian governments became 'responsible', in all senses of the term, was the servicing of the massive public debt the railway age engendered. And the most important political after-effect of the railway age was Confederation itself, a political event whose genesis is inexplicable without reference to the second major theme, the crucial role of outside investment in the pattern of economic development of which Confederation was a part. Again as Innis aptly put it, "Constitutions, statutes, supreme court and privy council decisions are credit instruments." Confederation was very explicitly an act of public finance reflecting Canadian business and political leaders' preoccupation with and commitment to the maintenance of confidence of outside investors.

Foreign Capital and Canadian Development Before Confederation

The concern of Canadian politicians and business leaders with maintaining a congenial climate for foreign investment also goes back to the earliest years of

settlement. External investment in fact was inseparable from the colonial state apparatus itself in the opening years of the French regime — once again the monopoly chartered trading and colonization jointly embodying both. After 1663 with the formal divorce of commerce and government, an influx of French government subsidies monies was essential to the maintenance of government activity, the development of trade infrastructure, and the building up of several key industries during the French regime. On private account, external funds came in chiefly in the form of long credit for the plying of the wholesale import trades and for the financing of the fur trade.

After the Conquest, as was typical of British external investments of the period, British funds replaced French in much the same categories. Prior to and during the Napoleonic Wars the flow of British capital to the outside world largely took the form of government expenditures abroad — for military purposes, subsidies to allied governments, or for the maintenance of the colonial governing apparatus. The only sizeable private outflow took the form of mercantile credit extended from British firms to their overseas agents, and from the agents to those prosecuting the staple trades abroad.

In Canada, after the Conquest, advances of credit from British houses and from the British government were essential to the consolidation of economic power by the anglophone merchants who descended on the colony. British military expenditure provided one of the most important markets for the Canadian farmer, habitant and pioneer anglophone alike. The central role of outside funds, especially from British government expenditures in British North America, in generating prosperity was made clear to all during the Napoleonic and French Revolutionary wars and the war of 1812 with high prices for timber and grain guaranteed by a flood of British military expenditures. The identification of prosperity with a steady inflow of outside capital and therefore the concern to maintain the state of international relations that guaranteed that influx was common to most, if not all, of British North America. In Halifax it was well known that war brought prosperity as a result of the surge of British military expenditure: peace, on the other hand, meant depression. Hence in times of peace the cream of the city's mercantile community would gather in a local coffee house and denounce the government, calling for "loud war by land and sea". And it was contended that the late eighteenth and early nineteenth century Canadian farmer's liturgy contained a double barrelled prayer — for a bountiful harvest and a bloody war.

The post-war years saw the structure of British capital exports change from government expenditure abroad to private loans flowing via the merchant-banking firms to finance canals and state-related infrastructure abroad. While the great bulk of the long term private funds that now flowed out of Britain for the first time went to American state and canal company bonds, the Province of Canada managed to secure some British investment for the St. Lawrence canalization project, especially the Welland Canal. Canal building and financing, prompted by the shift of the staple basis of the economy from furs to timber

and grain, represented a watershed point in Canadian financial history for several reasons. It saw the first major instances of long term private outside capital investment in Canadian history (excepting the old chartered trading company phenomenon which was in more than one respect a type of pristine offshore financial operation). Both American direct investment and British portfolio capital were involved: In addition the state for the first time pledged its credit on a long term basis to a private enterprise. Finally as a result of the canal financing debacles in 1835 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 local funds for other investments. It set the pattern which has been followed persistently since — the pattern of financing heavy works of infrastructure abroad via long term borrowing while Canadian capital moves into shorter term investments.

Of course other types of British capital were also present during the canal building era. British funds were earnestly courted for the banking system by Tory and Reform interests alike. The flow of credit from British firms to agents in Canada to finance the exchange of manufactures for staples was still the foundation of trans-Atlantic trade. Indeed this era saw what may well be the first articulated opposition to the dominating role of foreign capital in Canadian financial history, in the form of William Lyon Mackenzie's well known observation that:

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 of agents of British houses, and thus a chain of debt, dependence, and degradation is begun and kept up, the lines of which are fact 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 fact in British factories.

The late 1830's and early 1840's saw a virtual cessation of the flow of British long term funds to Canada. In addition to the legacy of the political turmoil in the Canadas, the American state repudiations and the collapse of Nicholas Biddle's cotton bubble considerably dampened the enthusiasm of potential British investors in North American securities. At the same time the opening of the British railway mania provided a domestic investment outlet for surplus savings. In Canada the response had been efforts to ease the chaos in the public finances and bolster the saleability of government debentures by such devices as the Act of Union. But the reluctance of British capital to venture to Canada without, and sometimes even with imperial government guarantees caused protracted problems for the financing of major public works projects. It further accentuated the depressed conditions of the late 1840's when even British short term funds fled the tottering colonial economy. It also precipitated a search for new sources of funds especially given the rising tide of railway fever then sweeping the province.

One of the principal responses to the commercial crisis and the curtailment of British investment that went with it was the Annexationist Movement. Far from being an ideological aberration, the movement had a consistent economic philosophy, and a clear view as to how to resuscitate the ailing provincial economy. Its manifesto heralded annexation on the grounds that "The proposed union would render Canada a field for American capital into which it would enter for the prosecution of public works and private enterprise as into any of the present states." It called explicitly for Canadian development to be predicated on the spillover of the industrialization process then in train in the northeastern United States. It stressed the necessity of access to the United States market to stimulate investment of U.S. capital in Canada to alleviate the then high level of unemployment. U.S. investment too would build the great railway works then projected for the colony. All of these protestations have a remarkably familiar and contemporary flavour.

The revival of commerce after 1849 and with it the influx of British capital fleeing the collapse of railway building in England stifled the annexationist alternative for the time being. In fact the flood of British investment and soaring international demand for Canadian grain and timber produced nearly a decade of unprecedented prosperity. With the spread of railways across the province came the accumulation of liquid fortunes in the hands of indigenous capitalists based largely on the loot of the public purse, which purse was steadily replenished by overseas borrowings — until the Crash of 1857. For the next decade economic progress was irregular, the public finances often in chaos, and the provincial government besieged by mendicant railway lines and jittery British bondholders. The stage was set for Confederation.

Confederation and Beyond

Confederation, as is now widely accepted, was an elaborate exercise in public finance designed to shore up the creaky credit of the Province of Canada and reassure British investors in Canadian government and railway debentures. Opponents and proponents of the scheme seemed to agree on that point at least. Again the traditional alliance of big business and government, of railways and banks on the one hand with a chaotic state of public finances on the other, was at work. And again the international flow of financial capital was the central preoccupation.

The concern with the condition of the public debt dictated the new state structure — federal control of the obvious tax sources, banking and currency, the debt consolidation, and the disallowance power — all had an obvious utility in bolstering the saleability of Canadian securities. And they were reinforced by other policies, by the use of the state guarantee principle and the eventually successful struggle to gain access to the British Trustee Lists for Canadian government debentures. Such a plethora of policies was necessary in light of the sorry record of earlier British investment in Canada and the existence of attractive alternative investment outlets elsewhere in the world.

After recovery from the crash of 1873 British funds began moving around the world on an ever increasing scale, into government bonds, railways, utilities, and land in particular. While such investments were present in Canada in all of these categories, they were nowhere available to the degree Canadian business and political leaders had hoped. First Australia, then the Argentine and South Africa drew the British investors attentions to the possibility of investment in the empire, formal and informal; and all the while the U.S. remained the largest single recipient of British funds. It was not until the Klondike gold rush focussed world attention on the possibilities of the Canadian west that Canada's prospects for British investments improved. And the main inflow still had to await full recovery and the initiation of the construction boom after the turn of the century. Thereafter until World War I, Canadian development floated atop a wave of British capital that in some years equalled in value 50% of total domestic gross fixed capital formation. At the same time American investment in Canada had begun assuming significant dimensions.

American investment in Canada from the beginning was oriented more to direct than portfolio movements, and hence assumed radically different patterns than British. While British capital movements to Canada reflected the state of development of organized capital markets in Britain, American penetration into Canada reflected the stage of evolution of the American industrial base. In the period of American growth after the War of 1812 the mode of production, with a few dramatic exceptions, remained essentially handicraft. The market was local while the 'firm' itself was mobile; fixed capital investment was minimal, and the technology required was embodied in the skills the master-craftsman carried in his head. Just as master-craftsmen moved across the U.S. so they moved as well to Canada, especially to south-western Ontario. Capital in the financial sense did not move with them, but the capital requirements of handicraft production could be met by local partnerships or suppliers' credits. Capital in the financial sense in later decades did, however, follow the train they had blazed. A number of important Canadian industries owed much of their origins to the migration of American entrepreneurs, agricultural implements and distilleries being two of the most prominent in secondary industry. There were during the same period important American incursions into the resources field, especially lumbering in the 1840's and beyond, and petroleum in the 1850's and '60's.

As the American firm began to grow beyond its handicraft roots, and as its markets widened the problem of defending its techniques against interlopers began to be an important preoccupation. From the 1850's on, concern with licensing of techniques and the protection of industrial secrets mounted. Such a concern indicated two prior developments — the existence of regional as opposed to local markets and the growth in the size of firms as well as a marked shift towards wage labour-capital rather than handicraft style relations of production. Under the apprentice — journeyman — master sequence the transfer of technique was not only impossible to preclude, it was the very *raison d'être* of the system. Canada showed itself very willing to capitalize on the difficulties of American firms in preserving industrial secrets, and the laws openly encouraged

the pirating of techniques. Such theft of industrial techniques supplemented, and to a degree supplanted, the role of the migrating American master-craftsmen in bringing U.S. industrial techniques to Canada.

The next stage in the movement of American industry to Canada came with the development of the horizontally integrated national firm that emerged along with the national market. Both were the products of the age of steam and steel — of the railroad, steamship, and telegraph and all that these three kindred innovations portended. With the growth of the size of plant and the potential for national and international marketing came a vigorous sales campaign at home and abroad. For Canada it meant two things. It meant a flood of American imports in some lines and the emergence of licensed ventures in Canada to produce American product lines locally. After the tariff of 1879 a few branch plants were added. All these cases — exports, licensing of Canadian affiliates (often promoted by Canadian merchants who had formerly imported the product line) and early branch plants — were manifestations of the drive for markets by the newly emerging American national firms.

Next came the age of the trusts in the United States, in the context of the depressed 1880's. The reaction of American business to the secular deflation and profit squeeze was twofold. First, the formation of pools and trusts to cut price competition — these trusts often extended across the border to include Canadian independent firms in continental cartel arrangements: over time the cartel turned into a full fledged merger in which the Canadian component was reduced to the status of a branch plant. Second, came a desperate search for the means to cut costs to preserve profit margins, the vertical integration movement; and one of its most prominent manifestations was the search for new, cheap raw materials. As a result American capital moved into new resource fields in Canada — in some facets of mining and new timber lands.

Finally came the post 1893 merger wave in American industry when the vertically integrated national firms coalesced into multidivisional firms as the industrial depression of the mid-1890's led to a scramble to unload surplus stocks abroad — and a concomitant proliferation of sales agencies abroad, including Canada, some of which evolved into producing affiliates. It also saw the multidivisional merger wave reach across the border to absorb formerly licensed affiliates into the new organic corporate entity. Out of the multidivisional firm came the first wave of multinationals. The new moves were especially heavily concentrated in the modern industries that typified the second industrial revolution — chemicals, electrical products, automobiles. From the beginning these industries in Canada were foreign controlled either via licensing or outright ownership. By World War I the patterns of Canadian industrial dependence were already in place — Canadian control of backward and consumer goods industries, American control of the modern and producer goods industries a pattern continued to this day. All of this ably assisted by government programs — tariffs, patent laws, subsidies and the like.

Of course encouraging the influx of foreign investment to finance development schemes of various sorts was far from the sole function of Canadian federal governments of the period, albeit an important one. On the domestic front a number of important roles were also played — but these too had historical roots. Sir John A. Macdonald's career after 1867, spent consolidating and manipulating the centralized political structure created at the time of Confederation, was a firm continuation of the Hincks-Cartier tradition. It developed that mutually reinforcing set of government — big business relations within the context of 'responsible' government that those two joint founders of the Canadian corporate welfare state had initially created. Under Macdonald the Conservative Party's power base was built on the unbeatable alliance of the Bank of Montreal — CPR forces with the organized manufacturers' in the Canadian Manufacturers Association, and was generalized through the lower echelons of political-economic power by the distribution of contracts and offices under federal control. Centred around the Departments of Public Works and Railways the spoils system ran rampant under Macdonald's tutelage. As Sir John A himself, in an address to a group of businessmen, quaintly phrased it:

Tell us what you want and we will give you what you need. The politician is the little boy who climbs the tree to shake down acorns to the hogs below.

The squalid record of the Macdonald ministries need not occupy us here — it is readily available for perusal to anyone who skips the biographies and concentrates instead on the evidence. Suffice it to note the character of the Langevin—McGreevy operations in relation to the Public Works department and the ensuing set of scandals that rocked the later Macdonald governments. The sordid saga of the career of Owen E. Murphy is also a good illustration. Murphy was an excise commissioner in New York during the literally golden year of Tammany Hall. He left the city in a hurry one day with a shortage of some \$50,000 in his accounts. With such credentials he came to Canada and went into the contracting business in close association with Macdonald's Minister of Public Works. When the chief contact man was duly sent to prison, Murphy returned to New York pledged to make good the old shortage. He was asked by a New York *Times* reporter how his fortunes had fared so well in Canada to which he made his immortal reply: "We bribed them all and generally acquired nearly everything in sight. We literally owned the Province". And if the public works gang had not fallen to internal bickering over the division of spoils Murphy was convinced that in a few years, "We would have owned the CPR and nearly the whole of Canada". Naturally such activities had deeper consequences for the functioning of the Canadian polity than simply the corruption of the civil service. For the population as a whole duly apprised by their political leaders of the correct principles of Canadian political behaviour responded appropriately. Murphy was asked for his opinion of the moral condition of the Canadian electorate as compared to that of the U.S., and he replied, "Votes cost more (in Canada) than in New York. I figured in one election where . . . votes cost \$25 to \$30 apiece. I considered this price somewhat high, but we had to have them."

Patronage under both Macdonald and Laurier hinged critically on the railroad and the building of other forms of infrastructure prerequisite to the opening of the west. Once such social overhead capital was in place the balance of patronage dispensation shifted to the provinces.

The direct dispensation of patronage was only one facet of the process of cultivating close relations between business and government: it was undoubtedly the most sensational, but in the long run not the most important. The Macdonald years are better remembered as the period when the corporate power structure we currently live with had its foundations set. In the financial sphere the emergence of the Canadian Bankers' Association with its power to set interest rates, establish spheres of influence, and restrict competition was the outstanding event. Not only was financial legislation so drafted as to systematically eliminate private banking institutions and escalate the minimum permitted size of chartered banks, not only did the bankers' lobby itself virtually and sometimes literally write the very legislation by which the banks were ostensibly regulated, but the Bankers' Association was even given the direct defacto power to pronounce on the fitness of applicants for new charters and therefore block the entry of competitors into the field.

In the field of transportation the major event was the completion of the first transcontinental railway. Here the role of the federal government was twofold — overseeing the conversion of public funds into private profit and the enforcement of monopoly to assure profitability and facilitate the sale of securities to foreign investors. In the realm of land settlement concentration of power was again the federal governments' objective: the west became a vast patronage dispensing machine in which the privileges and grants of large scale colonization companies run by the party faithful or the equally loyal CPR and Hudson's Bay Company forces made a mockery of any notion of opening the west to a flood of homesteaders. In the field of industrial development, concentration of economic power was again liberally assisted by federal policy — both its presence in the form of high and rising tariff walls and its absence in the form of enforceable combines policy. In banking and finance, transportation, land settlement, and industrial development strategy, in all of the traditional pillars of the national policy but immigration policy (where by definition it was impossible) did the federal government show its predilection towards abetting the concentration of economic power. All this was equally true of the Laurier government that succeeded the decaying Tory machine in 1896 with the important departure that the Canadian Northern Railway — Bank of Commerce alliance replaced the old CPR — Bank of Montreal group as the dominant set of corporate interests in Ottawa.

Big government, big business, and foreign investment, the holy trinity of Canadian political economy, were deplored in public and encouraged in private. Recurrent outbursts of populist antagonism to 'the interests' alternated with fits of misdirected nationalist fervour directed against "American" control, but the facts of Canadian economic life remain obdurate. 'The interests' remain in con-

TRENDS IN . . .

trol; foreign investment continues to grow; and no major political force in Canada has ever shown the courage or the wisdom to seek to change the structures that result. Nor indeed does any significant development that would produce the strength of mind to force a drastic restructuring of the basis of our national economic life seem on the agenda for a long time to come. But as historians it is our duty at least to help delineate the nature of the problem, even if the solution must await the action of others.

R.T. Naylor
McGill University