THE UNDERDEVELOPMENT OF ATLANTIC CANADA

1867-1920

The Underdevelopment of Atlantic Canada 1867-1920: A Study of The Development Of Capitalism

By

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Abstract

The present study has attempted both a linear and a structural analysis of the development/underdevelopment of Atlantic Canada. The necessity of the "evolution" of capitalist industrial production and its subsequent transition to competitive corporate capitalism and finally monopoly corporate capitalism was deduced from a structural model of "capital". In conjunction with this "movement of capital", propelled ahead by inherent contradictions within the production of capital, we have traced its phenomenal correspondence -- the creation of a capitalist state and a national economy, the rise of new classes and fractions of classes and the decline and fall of old classes and fractions thereof, and the concentration an centralization of units of financial and productive capital. Concurrent with these developments we saw the development of industrial production in Central Canada and the rise and demise of industry in Atlantic Canada. These two events -- the development of industry in Central Canada and the deindustrialization of Atlantic Canada -- it was shown were not distinct, but rather mutually conditioned.

What this study indicates, with regard to development studies in general, is the methodological bankruptcy of the neo-classical perspective, the analytical shortcomings of staple theory, and the possibilities of Marxism as an alternative

mode of approach. In particular, it shows the importance of a wholistic, historical and structural approach.

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INTRODUCTION

Today per capita income in Atlantic Canada is significantly less than the Canadian average. Unemployment is usually about 50 per cent higher, and proportionately, the region has only one quarter as many persons employed in manufacturing as does Central Canada.

Scholars, steeped in 'neo-classical' thought, usually explain Atlantic 'underdevelopment'[1], on the one hand, as arising from the technological innovations of the last half of the nineteenth century, in particular the introduction of steel and the development of steam driven engines, and the corresponding 'revolution' in transportation. On the other hand, the absence of manufacturing, for the most part, is believed to be a function of the cost of transportation to Canadian markets, and the absence or high cost of materials and energy.[2] Little, if any, attention is paid to 'inner, substantial relations', including the 'internal contradiction' of capitalist production, and consequently, little emphasis is placed on the 'laws of development' or conflict between classes or 'fractions' of classes.

This perspective is one derived from a mode of economic thought which emphasies "the pull of demand and of utility in consumption", as opposed "to the cost of production", in the determination of the 'value' of a commodity. The 'exploitation' of labour is 'downplayed', if not eliminated (sic), by the stress on 'the satisfaction of desires and needs of consumers'. But what is more important, here, this shift to the 'level of desires and utility' conditioned, and was conditioned by, an individualist or atomistic bias in economic thought, hence the emphasis on mico-analysis in contemporary economics.[3] Little wonder, given the 'individualist or atomistic bias' that the 'underdevelopment' of Atlantic industry is treated as unique, the consequence of location factors for example, rather than the consequence of the general tendency of capital.

The Atlantic economy, however, exhibits characteristics similar to those found in regions in numerous other 'developed' countries, and the so called 'third world' in general. In fact, the structure of the world economy, in the present age of imperialism, is characterized, on one hand, by the universalization of the 'market' and production for 'exchange value', and on the other hand, by the 'uneven development' of productive forces.

Obviously the process of 'uneven development', that is, the juxtaposition of regions characterized by an 'advanced division of labour and technical innovation', and 'the production of raw materials and foodstuffs' is, itself, part of the general tendency of capital. With regard to this process -- the reciprocal determination of development and underdevelopment -- two sets of relations are especially important. First, capital is drained off to industrial regions through plunder, unequal exchange, and credit systems, thus blocking, to a greater or lesser extent, industrialization, and reinforcing and perpetuating underdevelopment in dependent regions. Second, and this is of particular relevance to the destruction of indigenous industry in dependent regions, the concentration and centralization of capital is a function of the 'crisis' of productive capital. Specifically, the concentration and centralization of capital is a consequence of the inevitable overproduction of commodities and the subsequent cut-throat competition and destruction of competing units of capital. Hence the importance of access to external sources of capital, i.e. bank capital, in order to sustain price wars and/or develop new technology and so reduce the cost of production.

Traditionally, we have argued, researchers investigating the Atlantic problem have focussed on 'relationships of surface appearances' such as the introduction of steam power and the consequent decline of wood ship building. On this level alone, however, it is impossible to grasp the operations of a system. How, for instance, does one reconcile the decline of shipbuilding with the fact that between 1880 and 1890 the rate of industrialization in Nova Scotia and New Brunswick was higher than in Central Canada?[4] And how, in turn, does one reconcile this with the fact that the total number of persons employed in manufacturing in Atlantic Canada in 1935 was about one-half the number employed thirty-five years earlier?

The present study is an investigation of the 'deindustrialization' of Atlantic Canada. On one level this involves an analysis of the historical relationship between 'surface (visible, quanitifiable) elements' such as trade relations, tariff rates, and the dollar value of production. But the study is also an analysis of the development of capitalist production in Canada. In particular, the logic of the development of capitalist relations, from the dominance of commercial capital during the first half of the nineteenth century, to the emergence of corporate capitalism (in both its competitive and monopoly forms) after 1880, are examined. Capitalism is seen as a dynamic system, with the stress on internal contradictions and conflict between classes and 'fractions' of classes. This is not to say that transportation costs, etc., are not explanatory, but that they are not sufficient.

The work at this 'inner level' is essentially deductive, but supported by corresponding 'facts' or 'surface element'.

The model of capitalism is itself ahistoric in the sense that it corresponds with no 'concrete case'. We must always 'move' to the level of 'surface appearances'. The Marxian method allows us to comprehend the deindustrialization of Atlantic Canada -- the foundation of its current pattern of underdevelopment -- as a pattern of determination.

The thesis argued here is that the development of Central Canada and the underdevelopment of Atlantic Canada were reciprocally determined. In particular, between 1867 and 1880 the situation of Atlantic Canada was radically altered. On one hand, its old commercial orbit -- its trade patterns with Britain, the East Indies, and the United States -- was underdermined by Britain's adoption of free trade, the abrogation of reciprocity with the United States, Confederation and the raising of a national tariff wall, and the world-wide depression and general slow-down in trade. On the other hand, within Confederation, the leveling of the inter-colonial barriers to the free flow of commodities and capital, and the subsequent consolidation of a national market -- via railway and tariff policies -- and the "universalization" of a system of branch banking, all combined to reorient the Atlantic economy inward. Henceforth its fate was inseperably intertwined with that of Montreal and Toronto. These new relations, within the context of the commercial revolution and the world-wide slow-down, laid the grounds for the emergence of corporate capitalism.

The nature of capital is such that unless it is "employed" in some aspect of creating/realizing "surplus value" it ceases to be capital and reverts to merely money. By the same "token", it is exactly because capital is employed in some aspect of creating surplus value that it 'reproduces' itself on an extended scale. The 'crisis' of capital is capital's inability to continue to extend its own reproduction.

In both Atlantic and Central Canada, in reaction to the 'commerical crisis', merchants' capital and financial capital were transformed into productive capital, especially after the implementation of the protective tariff in 1879. But, in turn, the rapid growth of productive capital transformed itself, generally, into overproduction and productive capital "entered" its crisis. The renewal of the extended reproduction of any particular unit of capital presupposed the destruction of competing firms and the subsequent extension of the surviving capital into the markets of its former competitors. The crisis, thus, was marked by the tendency towards the centralization of capital.

In conjunction with this "state of affairs", the branch banks of Central Canada, aided and abetted by the Federal Government, penetrated the Atlantic region. Federal banking legislation, passed in 1870, effectively arrested the development of independent community banking in Atlantic Canada, leaving the region "open" to the extension of the Montreal and Toronto controlled branch banking system. This system functioned to drain off capital to Montreal and Toronto. The effect was two-fold. First, it limited the access of Atlantic industry, within a national market, to external sources of capital during an era marked by chronic overproduction. Second, the 'decapitalization' of the region inhibited the emergence of new indigenous units of productive capital. The result was the destruction and decline of Atlantic industry, and the corresponding centralization of control of productive capital in Montreal and Toronto.

With regard to analytical content, chapter one examines 'neo-classical economics' and in particular, 'location theory' and 'staple theory'. All are found "lacking". The Marxian categories -- 'value', 'capital', 'wage labour', and 'class' -- are then introduced. These categories, which make up the 'inner structure' of bourgeois society, provide the basis for an analysis of capitalism as a dynamic system.

But obviously it is only in the historical context that the concrete case, i.e. Atlantic industrialization, is, ultimately, intelligable. Accordingly, chapter two examines the development of several elements in Atlantic and Central Canada during the first half of the nineteenth century. These elements corresponded with the functioning of merchants' capital, but what is important, they also conditioned the emergenc of units of productive capital. In their unity they constitute our point of departure, or if you will, our stage.

In particular, British merchant capital in Atlantic Canada was a principle determinant of the development of 'staple' production, especially the fishing and timber industries. Both these industries were characterized by decentralization -- the absence of a metropolitan centre in the sense of Montreal -- dependence on a world market, and the dominance of 'merchants' capital', organized around the Atlantic banks. These banks were generally small, commercial organizations with few if any branches. Their small size was a consequence of the relatively low level of indigenous capital accumulation, generally. Along side these "peculiarities" of the structure of the Atlantic economy, in conjunction with the development of staple production, the introduction of a money economy and immigration and land policies laid the foundation for the emergence of a wage labouring class and capitalist production.

Similarly the economy of Central Canada was shaped by staple production. Merchants' capital introduced a market and credit system, and in general, dominated the production of staples. Unlike Atlantic Canada, though, the merchant 'fraction' of the bourgeoisie was not scattered among a number of communities, each with its separate lines of communication to world markets. Rather, the region was integrated by an extensive transportation system, dominated by Montreal and Toronto. These centres were 'trans-shipment points', Montreal the entrepot of the St. Lawrence trade route, and Toronto the entreport of the New York line of commerce. In both cities industry tended to concentrate. Moreover, the extensive communication/transportation infra structure of the region, together with the dominance of Montreal and Toronto merchants, conditioned a system of branch banking.

The third chapter analyses the commercial crisis in Canada -- the context of Confederation -- and the functioning of the State in consolidating a national economy, or if you will, extending and reproducing capitalist relations. Attention is especially paid to the basis of Atlantic opposition to the union scheme and the commercial policy, i.e. tariff rates, railway construction and rates, and harbour construction of the Federal Government. On the one hand, this policy adversly effected the flow of trade through Atlantic ports. On the other hand, it conditioned the development of a substantial trade between Atlantic and Central Canada, heavily balanced in favour of the latter. This interprovincial trade, in turn, (1) both presupposed and conditioned the organization of large industrial units, producing for a national market; (2) made competitors of units of productive capital indigenous to Atlantic Canada and Central Canada; and (3) perpetuated the chronic trade deficit of the Atlantic region, thus adversly effecting indigenous capital accumulations in general and the accumulations of bank capital in particular.

The fourth chapter analyses the emergence of the joint-stock company and the consequent growth of production and the development of overproduction in Canada. The joint-stock company is regarded as a strategy for combining or centralizing capitals already in existence. Specifically units of merchant's capital and financial capital were centralized and transformed into productive capital, either creating new productive potention, or consolidating existing productive units. In most cases the corporate form was promoted by banks and, in turn, banks appropriated to themselves a portion of control of industry. This "influence" was almost always exercised towards the abolition of competition between units of productive capital.

Finally the remaining two substantive chapters analyse the concentration and centralization of capital in Canada and especially the development of monopoly corporate capitlism. In particular, chapter five examines the destruction of independent community banking in Atlantic Canada and the consequent curtailment of credit, and the corresponding universalization of the branch banking system and the concentration and centralization of bank capital in Montreal and Toronto. Chapter six analyses the transition from competive corporate capitalism to monopoly corporate capitalism, and the concomitant destruction of indigenous Atlantic industry and the concentration and centralization of productive capital in Central Canada.

The transformation of merchant's capital and financial capital led to the establishment of large units or productive capital but it also resulted in overproduction. Overproduction, it is argued, is inherent in capitalist production, and in a "closed system", is ultimately mediated by the destruction of productive potential, i.e. the ruin of one firm by another, hence the tendency towards monopoly. The importance of the access of Canadian industry to external accumulations of capital, given the structure of a national market and chronic overproduction, is obvious. The access of indigenous Atlantic industry, however, was limited by (1) the decentralized distribution of industrial and financial organization; (2) the relatively small accumulations of indigenous bank capital; (3) Federal legislation; and (4) the universalization of branch banking and the subsequent draining off of capital to Montreal and Toronto.

In the ensuing competition indigenous Atlantic industry was overwhelmed by the more heavily capitalized/financed firms of Central Canada. On the one hand, the decline of Atlantic manufacturing was a function of the destruction of independent local banking and the subsequent curtailment of credit, "prohibiting" the formation of new industrial units. On the other hand, the deindustrialization of Atlantic Canada was a function of the extension of the Central Canadian markets into the Atlantic region and the destruction of existing indigenous units of productive capital. By 1900 control of virtually all important Atlantic industry, save iron and steel, had passed from local entrepreneurs to Montreal and Toronto based capitalists, usually organized around the branch banks of Central Canada.

Notes to Introduction

1. For instance, the 1966 total earned income for Nova Scotia and New Brunswick, as a percentage of the national average, was 69 per cent and 67 per cent respectively. With regards to manufacturing, in 1961 only 2.79 per cent of all employees in manufacturing (excluding primary and local manufacturing) in Canada were found in the Atlantic provices. Calculated on the base of population, the proportion of persons found in manufacturing industries in Atlantic Canada was about one quarter the proportion found in either Quebec or Ontario. See T.N. Brewis, Regional Economic Policies in Canada, 1972, pp.16, 22-23.

2. For an example of this mode of scholarship see J.M. Careless, Canada: A Story of Challenge, 1965, pp. 285-286.

3. See Maurice Dobb's review of the impact of Jevons on economic thought, in Theories of value and distribution since Adam Smith: Ideology and economic theory, 1976 (reprinted), pp. 166-170.

4. Between 1880 and 1890 the number of manufacturing establishments in Atlantic Canada, as a percentage of the total number of Canadian manufactures, increased from 20.3 per cent to 24.5 per cent. Similarly, the number of persons employed in manufacturing rose from 18.1 per cent to 18.8 per cent of the Canadian total. Reported in The Maritime Provinces In Their Relation to the National Economy of Canada, a publication of the Department of Trade and Commerce, 1948, p. 98.

5. The number of persons employed in manufacturing in Atlantic Canada fell from 69,529 in 1890 to 34,976 in 1925. Reported in ibid, p. 99.

CHAPTER ONE

The Problem of Perspective, Political Economy and Marx's Method

Neo-Classical Economics

The break between the classical economy of Adam Smith, David Ricardo and Karl Marx, and neo-classical economics is a shift in perspective away from a wholistic view of economic life with its emphasis on the interdependency of economic political and ideological relations, towards a micro-analysis of individual market behavior. This shift has two main aspects. First, the very boundaries of the subject of study were reconstructed such that the now relevant "system of economic variables and their area of determination was virtually identified with the market, or with the set of interconnected markets that constitute the sphere of exchange".[1] Second, with regards to the principle determinants, the emphasis shifted from the circumstances and conditions of production towards demand and consumption variables. From this shift of emphasis emerged several distinguishing features of the neo-classical school.

"(1) Neo-classical economics, which defines its object of study as the allocation of scarce means to unlimited ends, is inevitably ahistorical.

"(2) It is predicated upon a perspective of social harmony and while it acknowledges that conflicts can arise in practice, it believes them to be transitory in principle and contingent in nature.

"(3) It identifies three factors of production -- land, labour and capital -- which are all materially indispensable for production. It then asserts that these factors are socially equivalent to each other.... (T)he common position is that the owners of these factors are rewarded in the form of rent, wages and profit respectively, according to what they contribute to the value of production. This excludes any possibility of exploitation.

"(4) Although it has no adequate concepts for distinguishing capitalist society from any other form of society, neo-classical economics takes the traditional property relations of capitalism as universal and desirable.

For nearly one hundred years neo-classical economics has provided researchers with a general orientation, not only to economics, but to social relations in general. With regards to underdevelopment, at an "international level" Andre Gunder Frank has delineated three approaches characteristic of this school. First, the 'ideal typical approach' proposes that development is contingent on the abandoning of traditionality and the adopting of pattern variables characteristic of developed countries, i.e. universality, achievement orientation, and functional specificity. Second, the 'diffusionist approach' sees development as resulting through the diffusion of cultural elements from the developed to the underdeveloped countries. Finally, the 'psychological approach' assumes development to be principally a function of entrepreneurship. Hence, assuming behavior to be a function of personality, it is argued that increasing need-achievement, etc., will increase the probability of indigenous individuals being entrepreneurs and thus development.

Frank has examined these three modes of approach and found them all empirically inaccurate, theoretically inadequate and ineffective with regards to policy.[3] But what concerns us here is their neo-classical underpinning. In all three "cases" underdevelopment is seen as an original state of "third world countries" and developed countries are seen as benign, helpful agents of development. The underdevelopment of each region is seen as "unique" rather than a pattern of determination, and class antagonism and relations of exploitation are denied.

Similarly, at a national level "development theory" ignors conflict, relations of exploitation and, generally, the interconnected processes of development and underdevelopment. Differential regional growth and development is usually explained by some form of "cost and benefit" analysis undertaken by the firm, and in particular, by 'location theory'.

Location Theory

All countries have regional inequalities in the sense that there are significant and persistent differences in prosperity between areas within each country. Indices used to measure inequality, such as income per capital, unemployment rates, and net emigration, all indicate that Atlantic Canada is a relatively depressed region. Conventional wisdom, propagated by Canadian texts, has it that this state of affairs arose from the nineteenth century "revolution" in transportation and trade. In particular it is argued that the inroads made by iron and steam, and Britain's adoption of free trade undermined the Maritime's "golden age of wood, wind and water". In conjunction the high cost of transportation to Canadian markets and the absence or high cost of materials and energy (with the exception of coal and iron ore) in Atlantic Canada "prohibited" the development of manufacturing.

The selection of these elements as determants of development rests on a set of hypothesis called 'location theory', a body of knowledge within the tradition of neo-classical economics; or at best it rests on an Americanized version of staple theory which emphasises locational factors and stresses the neo-classical notions of steady growth and social harmony. More will be said of staple theory later.

On a micro level 'location of the firm theory' is a favorite for explaining differential regional growth and development.[4] It asserts that the decision of a firm to locate in a particular region/centre is the outcome of an analysis of the factors involved in the determination of its profit. For instance, industries which find transportation costs of paramount importance select locations which minimize distance to raw materials and/or markets; industries for whom labour costs represent a high proportion of production costs are attracted to places with abundant cheap labour; and large consumers of inanimate power tend to locate near sources of cheap electricity or coal, etc.

Closely related to this level of analysis is Perroux's concept of 'growth pole.'[5] Simply put, given the initial location of a particular firm, the conglomeration and increasing concentration of firms in a centre is explained by 'external economies'. Specifically, industries using the output of a particular firm tend to locate nearby, thus (1) reducing transportation costs; (2) assuring itself of a source of input; and (3) increasing the probability of the 'motor industry' securing sales and thus tending towards producing at optimum, and hence lowering its production costs and consequently lowering the input costs of the "associated" industries.

Here we might draw attention to the fact that just as economic activity is not distributed evenly among regions, it is not distributed evenly within regions. As the concept of external economies implies, economic activity is clustered. The location of clusters or 'nodal centres' is generally determined by special locational advantages that lower the transfer and processing costs of goods. One particularly important case is 'points of trans-shipment'.[6] At these sites commodities brought in by one type of carrier, i.e. ship, train, truck, must be unloaded and reloaded onto another type of carrier. This provides an opportunity to process materials taken off one carrier before they are reloaded. In turn, industries associated with the processing industry, in conjunction with banking and wholesale and retail firms, all tend to concentrate at the centre.

More generally 'stages theory', an extension of location theory, has emerged as a theoretical framework.[7] Central to this theory is that it sees development as an internal evolutionary process. In the first instance the inhabitants of a region, it is argued, engage in "providing the necessities for existence". (Whether this means production for the use of the producer, or production for a market within a self-sufficient community is unclear.) In this "original state" the mass of population is located according to the distribution of natural resources. A critical requirement for development is improvement in transportation, thus reducing transfer costs. The lower costs stimulate both inter-regional trade (that we are dealing with production for a market is now clear) and the shifting of the region's resources, i.e. capital and labour, into productive sectors which provide the greatest competitive advantage within the new inter-regional economic system. Given this regional division of labour and rationalization of production, and the subsequent increased productivity of labour, per capita income tends to rise. In turn the increased rate of capital accumulation increases aggregate demand and allows for capital diversification, in particular the development of mass manufacturing.

In an examination of location theory what first forces itself into view is the identification of the determinants of development with the market to the exclusion of political and ideological relations. Consequently economic variables (narrowly defined at the level of the market) are regarded as autoonomous or isolated, and conflict is perceived as contingent and transitory. Secondly, there is no model of society as a set of structural relations and, in particular, there is no conception of 'mode of production'. Thus there is no delineation of the 'inner necessity' or 'laws of capitalist development' as a process. In the absence of a set of concepts required to explain the functioning of the capitalist system, it is inevitable that what location theory selects as a determinant(s) of development is ultimately haphazard.

International Trade Theory

The inadequacy of location theory even as a description of the national development of "New World Countries", never mind "Third World Countries", is obvious. In the first place there was no "initial stage" in North America. Rather, from the outset regions were initially developed because their natural resource base provided a direct incentive for capitalist exploitation. This proposition is the point of departure for 'international trade theory', essentially a reaction to location theory.

International trade theory explains development and underdevelopment by the integration of colonial and neo-colonial economies into a world economic system dominated by developed capitalist nations. This system is characterized by (1) the universalization of the circulation of commodities,-- resulting in a unified world market and a corresponding tendency towards common world market prices; and (2) the uneven development of capitalist production within and between 'social formations'. The latter feature, the internationally hierarchized and differentiated system of varying levels of labour productivity, in its turn, has given rise to a differential system of varying national costs of production.[8] This juxtaposition of a world market and uneven development, and the corresponding juxtaposition of a common world price and varying national prices of commodities is the basis of international trade.

Within this school a number of theorists, notably Andre Gunder Frank, Immanuel Wallerstein and Arghini Emmanuel have combined a revolutionary position with international trade theory. A new orthodoxy known as 'structuralist economics' has grown up. The emphasis here, though it shifts from person to person, is on analysing relations of 'dependency' and relations of 'unequal exchange'. On the one hand Frank, Wallerstein, Osvaldo Sunkel and others in the "Frank tradition" have stressed the importance of the conditioning of underdeveloped countries as suppliers of raw materials and importers of manufactured goods. This structure of production and consumption, and its dependency on foreign markets, foreign technology and foreign capital, they argue, both causes and perpetuates underdevelopment. The emphasis is clearly on dependency.

On the other hand, a new "perspective" has emerged, particularly in the person of Emmanuel, which emphasises the unequal exchange aspect of trade. The main thesis is that underdeveloped countries function as sources of 'surplus-profit' for foreign capital, and it is this net transfer of surplus profit from the 'dependent country' to the 'dominant country' that is the basis of underdevelopment. This thesis, though its roots can be traced to Karl Marx, is of relatively recent origin and is certainly less known and expounded than 'dependency theory'. Accordingly, we have below delineated three cases of unequal exchange.[9]

In the first case, during the colonial phase of imperialism marked by the export of commodities, the "capital" of developed countries realizes higher profits in the markets of colonies than in home markets provided two conditions are met. First, the costs of production and hence the price of commodities in the developed countries must be lower than world market prices. This, of course, requires a higher productivity of labour in the developed country than the world average. Second, the world market price must be lower than the national prices in the colony. Under these conditions "capital" realizes surplus-profit by selling its commodities at world prices in the colony.[10]

In the second case, the point of departure is the fact that the colonial phase was also characterized by the conditioning of resource extraction and 'staple production' in dependent social formations. Generally in the dependent social formations the average level of labour productivity was below the world average. Now, in the case where the productive forces of a colony were conditioned to produce almost exclusively for export, often the value of the exported goods was not determined by the specific quantities of labour expended in their production but by the hypothetical world average. That is, the value of the commodity was determined by the quantity of labour which would have been expended in its production had it been carried out with the average international level of labour productivity. International trade in this instance, then, involves a net transfer of surplus value to developed countries. What is more, if the commodity exchanged is a raw material (the usual case) this unequal exchange tends to lower the general price of raw materials in the developed country, thus lowering the organic composition of capital and hence increasing the rate of profit at home.

In the third case, though the above relations continue to function, imperialism today is not so much characterized by the export of commodities as it is by the export of capital. The export of capital has given rise to two related instances in the production of surplus-value. First, if productive capital is invested in a country where the average organic composition of capital is lower than in the home country, and given a particular rate of labour productivity, then the rate profit will generally be higher. This assumes, as do all the above cases, that we are dealing with profits that have not entered the 'equalization process' and thus do not tend towards an average rate of profit.[11] Second, the relatively high level of underemployment in underdeveloped countries acts to force the price of the labour-commodity below its value, thus increasing the rate of exploitation and hence profit.[12]

It is apparent that structural economics, in contrast to location theory, rests on the conception of a 'structure' as a system of mutually supporting and conditioning elements, none of which can undergo a change without effecting changes in all the other elements. Thus the observation by Sunkel that:

> the characteristics of underdevelopment ... (are) at set of normal features inherent in the functioning of a given system. ... (A) t the root of these characteristics there exists a system which normally produces and continues to produce those results as long as development policy continues to attack the symptoms of underdevelopment without dealing with the basic structural elements which give rise to underdevelopment.[13]

But structural economics, not surprising given its trade theory origins, analyses development and underdevelopment at the level of trade relations, essentially in a quantitative fashion. Underdevelopment, it is argued, is a function of the interpenetration of foreign capital and the consequent conditioning of resource extraction, and the draining off of surplus value through international trade and the "rent" paid foreign capital. The dynamics of development, thus, are conceived external to production, at the level of exchange.

Imperialism, however, is merely a phase in the development of capitalist relations. To conceive of development/ underdevelopment as a function of imperialism (whether characterized by the export of commodities or the export of capital) is to essentially beg the question of the laws of capitalist development, of which imperialism is one 'moment'. These laws of development are internal to the structural relationships constituting the capitalist mode of production. Structural economics, however, has no set of concepts constituting the inner structure of bourgeois society. Hence, at best it is only able to import the laws of capitalist development.

Staple Theory

The insights of Harold Innis, generally referred to as staple theory, have in the last twenty years been more rigorously worked into a set of hypothesis by Douglass North, in the United States, and Richard Caves and Mel Watkins, among others, in Canada.

In the work of Innis, staple theory, like structural economics, was clearly in the tradition of political economy and was about dependency. Innis, in the following, recognizes the interconnection of economic and political relations, and the inter-related processes of development and underdevelopment.

> Energy has been directed toward the exploitation of staple products and the tendency has been cumulative. Energy in the colony was drawn into the production of the staple commodity both directly and indirectly in the production of facilities promoting production. Agriculture, industry, transportation, trade, finance, and governmental activities tend to become subordinate to the production of the staple for a more highly specialized manufacturing community. 14

With the recent work of Tom Naylor there has been a renewed emphasis on the dependency side of staple theory. But generally, since the late 1950's, the quantitatively biased work of American and Americanized scholars has stressed the "steady-progress view of Mackintosh", emphasising both locational factors and social harmony. Caves, for instance, writes:

> As well as staple-induced growth, there will be 'an underlying steady swell of neoclassical growth' such that 'export-based growth may explain a large part of the variation in the aggregate rate of growth...".

and

> The staple version includes no ... likely appearance

> of a maldistribution of income especially if the rents accruing to natural resources (in the staple region) are allotted somewhat randomly among the erstwhile workers and capitalist elements of the population ... .(A) happy partnership of immigrants labour and capital (sic) is further cemented by windfall gains to the fortunate finders of natural resources.[15]

The following version of staple theory, in the Mackintosh tradition, draws heavily from the work of North[16] and Watkins.[17] In its perspective, i.e. its emphasis on social harmony and its "blind belief" in steady-progress, and in its selection of market factors as determinants of development, it reflects its neo-classical underpinning.

Given a capitalist dominated world economy, staple theory first proposes that "capital is attracted to any promising favourable profit opportunities in the amount necessary to create whatever requirements are needed ... to exploit the resource."[18] The principle(s) export commodity "developed" by this capital is referred to as a 'staple'. Staple exploitation and the external economies created by the staple industry, North argues, economically binds an area together and determines its growth and development.

The development of a region is believed to be directly related to the 'export base'. In this regard Watkins has delineated three sets of relations determining growth and development. First, if exploitation of the resource requires large investments in transfer facilities, then external economies are created and particular industries develop as off-shoots. This Watkins calls the 'backward linkage'. It subsumes investments in the "home-production of inputs" for the export sector. The most notable example from Canadian history was railway construction and the most important off-shoot was the iron and steel industry.

Second, staple production induces investments in home industries involved in processing the staple output. Historically these industries, in particular lumber mills, shipbuilding and wheat and grist mills, were most important in the Canadian economy. In turn each of these industries, as did the iron and steel industry, created external economies for associated industries. This set of relations Watkins calls the 'forward linkage'.

Finally North and Watkins argue that the success of staple exploitation determines the level of the per capital income of a region, or more correctly the level of wages and rate of capital accumulations. Specifically, in proportion to the growth of staple exploitation, (1) the buying power of the workforce grows, increasing demand for consumer products, and (2) the accumulations of indigenous savings grows. These savings, it is argued, ultimately spill over into new kinds of economic activities, in particular in home industries producing consumer commodities for local, then national and finally international markets. This set of relations Watkins characterizes as the 'demand linkage'.

Staple theory in its quantified Americanized form is a travesty of Innis' work and is subject to all the criticism of neo-classical economics. In contrast, staple theory in its dependency form -- clearly in the tradition of political economy -- recognizes the interdependency of development and underdevelopment, thus overthrowing the neo-classical emphasis on social harmony. But the Innis version, like structural economics and, of course, location theory, has no set of conceptsexplaining the operations of society, that is, it has no conception of the inner necessity of development. The level of its analysis consists in establishing the linear causality of observable phenomena rather than the immanence of development. It has, for instance, no theoretical constructs to explain the transition from individual competitive capitalism to corporate monopoly capitalism. In the last instance, like structural economics, staple theory, while professing to explain "the successive opening up of the country", begs the question of capitalist development -- the very context of national growth and development.

The Appearance and Inner Structure of Capitalism

While science accepts that a world exists external to our conception of it, what science studies is not that reality but a theoretically defined object by means of which it strives to grasp the real world. Hence Althusser's conception of a science as a system of concepts defining an object of systematic investigation.[19] Bearing this in mind let us turn to Marx's conception of the method of political economy.[20]

At first glance, he argues, it seems correct to begin an analysis by examining the real and concrete, i.e. with population "which is the foundation and the subject of the entire social act of production."[21] But upon inspection, he continues, the population is an abstraction if, for instance, we leave out the classes of which it is composed. And these classes, in turn, are meaningless without the categories on which they rest, i.e. wage labour, capital, etc. What's more, these latter categories presuppose exchange and prices, etc. Hence, if we begin with what appears concrete we move analytically towards ever more simple concepts. Alternatively, if we begin with a "number of determinant, abstract, general relations such as division of labour, money, value, etc.", we can, through the concentration of many determinations, ascend "from the simple relations, such as labour ... to the level of the state, exchange between nations and the world market".[22] Hence the obviously correct method is to move from (1) the construction of the general, abstract determinants of all forms of society i.e. mode or production, to (2) the construction of the historically specific categories which make up the inner structure of bourgeois society, i.e. value, capital, wage labour and classes, to (3) the concentration of these determinations. It is this concentration of many determinations, the unity of the diverse which is in the end, the concrete.

To return to Althusser, a science presupposes a system of concepts or simple relations constituting a structure reflecting a reality. Scientific work is making concrete, through the concentration of simple relations, that system of concepts and thus theoretically reproducing reality. In particular, an analysis of the immanent nature of the development of capitalist relations presupposes a system of categories which make up the 'inner structure' of bourgeois society. In this regard, the simple relations of use value, exchange value, abstract and concrete labour and surplus value, and the more complex relations of exchange, capital, wage labour and class are examined below. They provide our point of departure for examining the concentration and centralization of units of capital in Canada, and the concomitant under-development of Atlantic Canada and development of Central Canada.

Use Value, Exchange Value and Exchange

All commodities, Marx argued, have two aspects, that of use value and of exchange value. Let us start with use value.

A commodity is an object of nature transformed by labour into a form which satisfies some human need. It is this utility of a thing, he writes, that "makes it a use-value", and at the same time makes it unique. It is evident that when we are dealing with different commodities we are dealing with qualitatively different use values. If an object has no use value for anyone, then regardless of the labour that may have been spent in its production it is not a commodity. Here we might mention that 'production for use value' is the molding of an object for the direct use of the producer. Conversly, 'production for exchange value is the production of a commodity for exchange with another person for a different commodity of equal value.

In capitalist society the mass of commodities are produced for exchange rather than the direct use of the producer. The problem now arises of how the value of one commodity can be determined in order that it can be exchanged for an equivalent value of another commodity.

Obviously, Marx reasoned, all commodities must have something in common such that the values of commodities are "capable of being expressed in terms of something common to them all, of which thing they represent a greater or lesser quantity."[23] Marx dismisses use values on the grounds that they are qualitatively different and hence not reducable to a common element. By reduction that leaves us with commodities being the product of labour. At first glance, however, it appears that the type of labour that produces cotton, for instance, is qualitatively different from the type of labour that produces iron. But upon closer examination we realize that all concrete labour shares the common property of being human labour in the abstract. It all consists of being "labour-power expended without regard to the mode of its expenditure",[24] and as such is measurable by its duration. Hence, Marx, concluded that the value of the commodity being exchanged is determined by the quantity of abstract labour embodied it.

Up to this point we have examined value as a simple relation or abstraction. The category value, however, is absurb in the absence of exchange, and exchange, in turn, presupposes a medium of exchange. Thus before turning to the categories "capital', 'wage labour' and 'class', an examination of money is in order.

The first property of money is as a 'measure of commodity exchange'. It is the yard stick against which "commodities to be exchanged... (are) transformed in the head into common relations of magnitude ... and thus reciprocally compared".[25] Money, in this instance, is imaginary.

Second, money acts as a 'medium of exchange'. The conditions for the development of this aspect of money are created by the production of exchange value which necessarily requires the spatial and temporal separation of producer and consumer. In this role it serves "as the form of manifestation of the value of commodities, or as the material in which the magnitudes of their values are socially expressed".[26] This phenomenal form of exchange value, since the differences between the magnitudes of value is quantitative, must be divisible at will and equally capable of being reunited.

The third property of money is that is plays the part of the 'universal equivalent of all particular commodities'. That is, "the money-form is ... the reflex, thrown upon one single commodity, of the value relations between all the rest."[27] Gold and silver, being easily divisible and equally capable of being reunited, was a natural for the 'universal-commodity'.

It is important not to confuse money as merely the manifestation or symbol the value of commodities with money in the form of a single commodity playing the role of the universal equivalent of all particular commodities. Money in the latter form is not a symbol but has the property of existing alongside particular commodities as a commodity and thus exchange value. The importance of this is that when a particular commodity is exchanged for money the exchange value of the commodity is realized in one stroke. Exchange for the sake of exchange rather than for the sake of a particular commodity is now possible.

Capital and Wage Labour

The existence of exchange value in both a particular commodity and in the universal commodity, along with production for exchange value, are preconditions of capitalist production. Buying in order to sell, whose aim is the obtaining of exchange value, contains the first elements of capital.

To begin with, all new capital first appears as money. What first distinguishes capital from money is the difference in their form of circulation. Money which circulates in the form C-M-C, the transformation of commodities into money and the change of money back into commodities, remains money. The purpose is to exchange qualitatively different use values. But the form C-M-C exists only in unity with the form M-C-M, buying in order to sell. Now it is evident that the form M-C-M would be absurd if the intention was to exchange by this means two equal sums of money. Rather the purpose here is to withdraw more money than was put into circulation. The increment over the original value is what Marx calls surplus value. It is this tendency of money in the circuit M-C-M to renew itself on an extended scale that transforms money into capital.[28]

But commercial capital -- money employed in the circulation M-C-M -- merely intervenes in the productive process. It does not posit production but is dependent on goods being continually thrown into the sphere of circulation. Capital only becomes the foundation of the productive process through the incorporation of labour into capital. In particular, capital divides itself, on one hand, into the materials of production, and on the other hand, into living labour.

The connection between them forms the productive process, a process which reproduces capital on an extended scale.[29]

The labour of a person stripped of the means of production does not exist as use value for that person, but it does for capitalists owning means of production. As such workers sell their labour, as a commodity, to capitalist. In return workers are paid a wage equivalent to the exchange value of the labour-commodity. The question now arises: if labour determines the exchange value of commodities what determines the exchange value of labour? The answer is simple. Obviously the exchange value of one quantity of labour is equal to the exchange value of a similar quantity of labour Would not, then, the exchange value of a quantity of labour be equivalent to the cost of reproducing a similar quantity of labour, i.e. the cost of food, clothing and shelter. But if the capitalists buy labour at the cost of reproducing it, and if they buy and sell commodities at the value of the labour embodied in them, then how does capital renew itself on an extended scale? We shall return to this problem shortly.

The phenomenal form of the exchange between the capitalist and worker appears as an equal exchange between free human beings. Moreover, capitalist production which presupposes equivalent exchange in the market, seems the basis of all equality and freedom. In feudal society, for instance, personal dependence characterized the social relations of production; serfs were compeled to provide lords with services and payments in kind. In capitalist society, however, individuals interact through commodity exchange, each person free to seek his/her self-interests. But how free and equal are we? Clearly the exchange of commodities has broken down local and personal bounds. Concomitant, however, it has also developed "a whole network of social relations spontaneous in their growth and entirely beyond the control of the actors".[31] It is only because one sells that another can buy and vice versa. Consequently we are all forced by our needs, by our dependency on the products of others, into a market were the mass of us sell our labour power in order that we might eat. Clearly what appears at first free is not quite so free.

Now to return to our problem. If commodities are exchanged for their equivalents (labour power being treated as a commodity), and hence capital exchanges itself for equivalent values of material objects and labour, how does capital grow? The answer, again, is simple. When capital exchanges itself it exchanges itself for something qualitatively different; a given amount of objectified labour for an amount of living labour. The surplus value which capital has at the end of the productive process is the result of exchanging value-positing activity for a predetermined value.[32] Thus, from the capitalists vantage point the exchange of identical exchange values appears fair; but for the workers the exchange of living, value-positing labour for the cost of reproducing that labour appears unequal.

Social Classes

We have now located the most general concepts that constitute, for Marx, the theoretical structure of his object of 'political economy' -- the concepts of value and use value, the concepts of abstract and concrete labour, and of more concrete relations of exchange, capital and wage labour which, in turn, constitute the basis on which the fundamental classes of bourgeois society rests.

Exchange, we saw, is an empty abstraction without the categories of use value and exchange. First, exchange is not even conceivable, it would appear absurd, without a conception of use. Second, without the category of exchange value the rate at which commodities are exchanged seems accidental and purely relative. In turn, exchange value, itself, presupposed the discovery by Marx of abstract and concrete labour. Similarly, money contains the categories use value and exchange value, and capital contains the categories use value, exchange value and surplus value. Money, while its utility is as a means of exchange, is conceivable only as abstracted exchange value. What distinguishes capital from money is the component surplus value. Surplus value, in turn, is a function of the relationship of living labour to capital whereby capital renews itself on an extended scale. Hence capital is conceivable only as it exists in the unity of capital and labour, a process which presupposes exchange.

The relati~~ons of~~ exchange, capital, wage labour and social classes -- which presuppose a knowledge of the more simple relations of use value, exchange, abstract labour, concrete labour and surplus value -- constitute our model of the inner structure of capitalism. In their unity they reproduce the concrete. Let us then turn to the final category social classes.

In Marxist theory social classes "are groupings of social agents, defined principally but not exclusively by their place in the production process, i.e. in the economic sphere. The economic place of the social agents has a principle role in determining social classes".[34] The word "principle" is stressed because while the economic is determinant, the political and ideological (the super-structure) also play an important role. I shall return to this. In relations of capitalist production two social classes, the owners of the means of production (bourgeoisie) and the actual producers (workers) are fundamental. The division of capital into labour power and materials and the process it posits is definitive of capitalist production. All this is not to say that 'strata' within classes, i.e. skilled and unskilled labour, or 'fractions' of classes, i.e. comprador bourgeoisie and national bourgeoisie, or even other classes, i.e. petty bourgeoisie, do not exist or are not important/necessary.

'Fractions' of a class differ from 'strata' of a class in so far as "they coincide with important economic differentiations and, as such, can even take on an important role as social forces, a role relatively distinct from that of the other fractions of their class."[35] A third term, not yet noted, - 'social categories' - "designates an ensemble of agents whose principle role is its functioning in the state apparatuses and in ideology."[36] While classes in general, and 'strata' and 'fragments' of a class in particular, are

are determined primarily by their place in the productive process, 'social categories' are primarily determined political and ideological factors. 'Social categories' often have the appearance of existing outside social classes (the neutral state), or even of being social classes themselves, even dominant classes. But these 'social categories' do belong to classes; "they have no specific role of their own in production".[37] For the most part their function, whether through the repressive force of the State or ideology, is to maintain conditions conducive to the reproduction of relations of production. The assumption, of course, being there is an affinity between the superstructure and base. They mutually condition the development of each other, but in the last analysis the superstructure is determined by the economic base. Marx's famous note on the appearance of the superstructures of earlier modes of production is instructive:

> In the estimation of that paper, my view that each special mode of production and the social relations corresponding to it, in short, that the economic structure of society, is the real basis on which the juridicial and political superstructure is raised, and to which definite social forms of thought correspond ... all this is very true for our own times, in which material interests preponderate, but not for the middle ages, in which Catholicism, nor for Athens and Rome, where politics, reigned supreme ... This much, however, is clear, that the middle ages could not live on Catholicism, nor the ancient world on politics. On the contrary, it is the mode in which they gained a livelihood that explains why here politics, and there Catholicism, played a vhief part.[38]

'Fractions' of the bourgeoisie, by definition, coincide with important economic differentiations. In particular I am thinking of industrial, commercial and financial capital. More complex yet, we can differentiate between big and medium capital, etc. Further, the world-wide separation of producer and consumer, and the consolidation of a world economic system, makes political and ideological criteria also important in defining fractions of the bourgeoisie. Distinctions exist between 'national', 'comprador', 'internal' and 'external' bourgeoisie. These distinctions arise from the particular bases of power and the nations in which they (elites/fractions) originate. Although he limits himself to 'corporate power' Clement correctly observes that "(i) ideally, this (the delineation of elites) involves not only corporate but other bases of power as well (including, for example, military, political and religious bases)".[39]

On one level, "the national bourgeoisie is 'outochtonous' capital (,) radically distinct from 'foreign' imperialist capital ... ".[40] On a second level, by implication, the "national bourgeoisie that, starting from a certain type and degree of contradacations with foreign imperialist capital, occupies a relatively autonomous position in the iedological and political structure, and thus presents a proper unity."[41] In contrast, the comprador bourgeoisie is that fraction "that does not have its own base of capital accumulation, that operates in some sort as a simple 'intermediary' of foreign imperialist capital",[42] and which is bound politically and iedologically to foreign capital. This bourgeoisie is thus the antithesis of the external bourgeoisie -- that fraction which controls multinational financial and industrial corporations based outside the host country. The interpenetration of capital is the link between the opposites -- the comprador and external bourgeoisie -- which together form a totality.

Conclusion

Neo-classical economics has virtually identified its subject of study with the market, stressing the importance of market determinants to the exclusion of the social-political circumstances and conditions of production. From this emphasis it has "derived a certain individualist or atomistic bias". The consequent preoccupation with micro-analysis has blinded the neo-classical school to (1) the interconnections of social, political, ideological and relations, and (2) to the interdependencies of development and under-development. Development is usually explained, essentially quantitatively, by some combination of locational factors. These determinants, in the absence of a set of constructs constituting a model of production, are, in the last instance, selected haphazardly.

Structural economics and staple theory, in contrast, are within the tradition of classical economics and political economy. Both stress the interrelated nature of social, political, ideological and economic relations, and subsequently analyse development and underdevelopment in its unity -- as a process. But like location theory, for instance, their analysis exists of establishing the linear causality of observable phenomena. They have no set of constructs constituting a model of the structure of society, thus precluding an analysis of the inner necessity of development and thus a knowledge of the laws of development. In the last instance their analysis begs the question of capitalist development. Althusser has with brilliant insight, characterized the method of this school of political economy. He is worth quoting at length:

> Political Economy thought the economic phenomena as deriving from a planar space governed by a transitive mechanical causality, such that a determinate effect could be related to an object-cause, a different phenomenon; such that the necessity of its immanence could be grasped completely in the sequence of a given. The homogeneity of this space, its planar character, its property of giveness, its type of linear causality: these are so many theoretical determinations which, as a system, constitute the structure of a theoretical problematic, i.e., of a certain way of conceiving its object, and at the same time of posing it definite questions (defined by the problematic itself) as to its being, while anticipating the form of its answers (the quantitative schema): in short, an empiricist problematic.[43]

Marx's method is radically different to the above conception. Marx, in the tradition of political economy, stresses the mutually conditioning, interrelated nature of social, political, ideological and economic relations. But he argues that their interrelatedness and the necessity of their immanence cannot be "grasped completely in the sequence of a given", in an essentially quantitative (empiricist) fashion. What at first appears to be real, i.e. population, he argues, upon closer examination is an empty abstraction if classes are left out, and so on. Rather than conceiving phenomena quantitatively he defines the phenomena by the concept of its structure. Marx, Althusser writes:

> does not present economic phenomena -- to illustrate his thought temporarily with a spatial metaphor-- in the infinity of a homogeneous planar space, but rather in a region determined by a regional structure and itself inscribed in a site defined by a global structure: therefore as a complex and deep space, itself inscribed in another complex and deep space.[44]

His method, in a nutshell, is to discover abstract, general relations which constitute the inner structure of bourgeois society, and then ascend from these simple relations by reuniting the abstract determinations, thus leading "towards a reproduction of the concrete by way of thought."[45] Only through this reconstruction of the unity of the diverse is the immanent nature of development comprehensible. We agree with Marx that this "is obviously the scientifically correct method."[46]

The present study, on one level, is an analysis of the linear causality of observable phenomena. But it is also an analysis of the inner necessity of capitalist development. It is through the union of empirical and structural analyses that the deindustrialization and consequent underdevelopment of Atlantic Canada is revealed as a pattern of determination.

Notes to Chapter 1

1. Maurice Dobb, op cit, p. 169.

2. Geoffrey Kay, Development and Underdevelopment: A Marxist Analysis, 1975, pp. 4-5.

3. For a critique of these theories see Andre Gunder Frank, "Sociology of Development and Underdevelopment of Sociology", in James Cockcroft et al (eds.), Dependence and Underdevelopment: Latin America's Political Economy, 1970.

4. For a discussion of this theory see W. Alonso, "Location Theory", in L. Needleman (ed.) Regional Analysis, 1972.

5. See Francois Perroux, "Note on the Concept of Growth Poles", in David McKee et al (eds.), Regional Economics: Theory and Practise, 1970. For a collection of related readings see Niles Hansen (ed.), Growth Centers in Regional Economic Development, 1972.

6. See W. Alonso, op cit, pp. 346-347.

7. For a critical discussion of stages theory see Andre Gunder Frank, op cit. pp. 344-356; and Douglass North, "Location Theory and Regional Economic Growth", in David McKee et al (eds.), op cit.

8. For an excellent discussion of the structure of the world market see Ernest Mandel, Late Capitalism, 1975, pp. 44-74.

9. The reader might wish to return to this discussion of unequal trade after finishing with the discussion of Marxian categories found in the latter part of this chapter.

10. This assumes that there is no effective equalization of the rates of profit. For a discussion of the tendency towards the equalization of the equal rate of profit see Karl Marx, Capital Vol. III, 1974 (reprinted), pp. 173-199. Here Marx notes that, with regard to international trade, monopolies and States which inhibit the free flow of capital and labour counter-act the forces tending towards the equalization of the rate of profit.

11. In this case if we assume a world-wide equalization of rates of profit, then generally the products of countries with a lower than average composition of capital are traded unequally for commodities from countries with a higher than average composition of capital. This is Emmanuel's "unequal exchange in the narrow sense." See Arghiri Emmanuel, Unequal Exchange: A Study of the Imperialism of Trade, 1972.

12. If, in this case we assume an equalization profit, we have what Emmanuel argues is the principle relation of the unequal exchange of imperialism. This he refers to as "unequal exchange in the broad sense.

13. Osvaldo Sunkel, "Transnational Capitalism and National Disintegration in Latin America", in Social and Economic Studies, Vol. 22, no. 1, p.134.

14. Quoted in M. Watkins, "The Staple Theory Revisited", a paper presented to the Annual Meeting of the Canadian Political Science Association Quebec City, May 30, 1976, p. 7.

15. Quoted in ibid, pp. 3-4

16. See Douglass North, op cit.

17. See M. Watkins, "A Staple Theory of Economic Growth", in W. Easterbrook and M. Watkins (eds), Approaches to Canadian Economic History, 1967.

18. J. Stabler, "Exports and Evolution: The Process of Regional Change", in David McKee, op cit.

19. Louis Althusser's conception of science is developed in Reading Capital, 1975 (reprinted). In particular see pp. 22-69.

20. In particular see Karl Marx, Grundrisse: Introduction to the Critique of Political Economy, translated by Martin Nicolaus, 1973, pp. 100-109.

21. Ibid, p. 100.

22. Ibid, pp. 100-101.

23. Karl Marx, Capital Vol. 1, 1974, p. 45.

24. Ibid, p. 46.

25. Karl Marx, Grundrisse: Introduction to the Critique of Political Economy, 1973, p. 144.

26. Karl Marx, Capital Vol. 1, 1974, p. 93.

27. Ibid,, p. 93.

28. see Ibid, pp. 145-153.

29. Karl Marx, Grundrisse: Introduction to the Critique of Political Economy, 1973, p. 304.

30. Karl Marx, Capital Vol. 1, 1974, pp. 81-32.

31. Ibid, p. 114.

32. See Karl Marx, Grundrisse: Introduction to the Critique of Political Economy, 1973, pp. 304-308.

33. See Althusser's reading of Marx, op cit. pp. 79-82.

34. Nicos Poulantzas, Classes in Contemporary Capitalism, 1975, p. 14.

35. Nicos Poulantzas, "On Social Classes", in New Left Review. p. 38.

36. Ibid, p. 40.

37. Ibid, p. 40.

38. Karl Marx, Capital Vol. 1, 1974, p. 86.

39. Wallace Clement, The Canadian Corporate Elite, 1975, p. 37.

40. Nicos Poulantzas, "Internationalisation of Capitalist Relations and the Nation-State", in Economy and Society, Vol. 3, 1974, p. 165.

41. Ibid, p. 165.

42. Ibid, pp. 165-166.

43. Louis Althusser, op cit, p. 182.

44. Ibid, p. 182.

45. Karl Marx, Grundrisse: Introduction to the Critique of Political Economy, 1973, p. 101.

46. Ibid, p. 101.

CHAPTER TWO

Merchants' Capital and the Development Of Capitalist Production

Introduction

The central argument of this thesis is that the concentration and centralization of both financial and productive units of capital in Montreal and Toronto, and the concomitant transition from individual competitive capitalism to monopoly corporate capitalism, conditioned the concurent underdevelopment of Atlantic Canada and the development of Central Canada.

At the outset the problem necessarily arises of the question of the correct point of departure or proper beginning of a study of development. In the preceeding chapter it was argued that Political Economy should begin with the principle simple relations constituting a model of the inner structure of society. At first, then, it seems that we should begin our analysis with a model of individual competitive capitalism.

However, it was also argued that while knowledge of the inner necessity of development presupposes a model of the structure of capitalism, such a model corresponds with no 'concrete case', but rather is of an ideal nature. Thus, a structural analysis is incomplete without a concomitant linear analysis of the historical relationship between surface (visible, quantifiable) elements, and an analysis of the correspondence between the phenomenal and structural levels.

What is important with regard to our point of departure is that whereas structuralism defines a relation by its 'concept' a linear quantitative analysis conceives of relationships essentially historically, within a temporal and spatial plane. A model of starting for a linear analysis. What's more, the simple relations or categories, i.e. capital, which constitute a model of capitalism have an independent existence predating the concrete case of capitalist production. Capitalist production did not appear out of thin air. Thus, this study begins with an outline of the development of the principle specific elements which both corresponded with the functioning of merchant's capital and conditioned the subsequent emergence of capitalist production in Canada.

Marx, with regards to the transition from merchants' capital to capitalist production, is worth quoting at length.

> (C)ommerce was the precondition for the transformation of the crafts, the rural domestic industries and feudal agriculture, into capitalist enterprises. It develops the product into a commodity, partly by creating a market for it, and partly by introducing new commodity equivalents and supplying production with new raw and auxiliary materials, thereby opening new branches of production based from the first upon commerce, both as concerns conditions of production originating in the world-market. As soon as manufacture gains sufficient strength, and particularly large-scale industry, it creates in its turn a market for itself, by capturing it through its commodities. At this point commerce becomes the servant of industrial

> production, for which continued expansion of the market becomes a vital necessity. Ever more extended mass production floods the existing market and thereby works continually for a still greater expansion of this market, for breaking out of its limits.[1]

In particular, British merchants' capital conditioned the development of staple production, especially the fishing and timber industries, in the Atlantic region. Both forms of economic activity were characterized by (1) the regional decentralization of the distribution of productive units; (2) dependence on a world marekt; and (3) the dominance of merchants' capital organized around the Atlantic banks. The Atlantic banks which developed in conjunction with staple production, principally functioned to maximize the proportion of capital "working" in the sphere of circulation. They were generally small with few if any branches, the result of the regional dispersal of productive units, and of the relatively low level of indigenous capital accumulations. Along side these "peculiarities" of the Atlantic economy, and in conjunction with the development of staple production, the introduction of a money economy and immigration and land policies laid the foundation for the emergence of a wage labouring class and capitalist production.

Similarly the economy of Central Canada was shaped by staple production and, as such, was dependent on prices in a world market over which indigenous capitalists had little control. The main staples were timber and wheat, both of which developed concomitant with a market, transportation infra structure and credit system. In turn, the money economy and the colonial immigration and land policies formed the basis for the development of a working class. Unlike Atlantic Canada, however, the merchant fraction of the capitalist class was not scattered among a number of communities, each with its separate lines of communication to world markets, but tended to concentrate in the regional entrepots of Montreal and Toronto. This was a logical consequence of the integration of the region by an extensive transportation system. Moreover, the communication infra structure conditioned a system of branch banking centered in Montreal and Toronto. Not surprisingly in both these cities industry tended to concentrate.

These elements, we shall see in later chapters, combined to form the basis of capitalist production, and transformed the society from one dominated by merchants' capital to a society dominated by capitalist industrial production. At this point commerce becomes merely a moment of industrial production, for which a continual expansion of the market is a vital necessity. Let us then turn to an examination of the development of the preconditions of capitalist production in Canada.

Merchants' Capital and the Timber Industry in Atlantic Canada

Within the context of the industrialization of Britain and the urbanization of its population, the presence of France disappeared from Canada in 1783 and a few short years later Britain went to war with the United States. With the war the marginal ground of Nova Scotia, which then included what is now New Brunswick, ceased to be an outpost of New England.[2] As Britain increasingly became industrial its dependence on the importation of raw materials became a powerful factor in its economic and political life: "Capital began to pour out in increasing quanitites to new areas ... to provide new supplies of raw materials and new demands for manufactured goods".[8] Consequently the British North American colonies emerged as rigid political units and staple producing regions in their own right.

Two processes of production in Nova Scotia and New Brunswick predominated during the first half of the nineteenth century -- the production of staples and subsistence farming. The first of these and its two industries, fishing and timber/lumber, was pre-eminant.[4] Both of these industries were characterized by (1) the decentralization or scattered distribution of productive units, and consequently the slow development of regional metropolitan centres; and (2) dependence on foreign markets.[5] And they both, in similar ways, conditioned the Atlantic economy at the dawn of its industrialization. As our interest here is not so much to describe the Atlantic region as it is to describe the preconditions of capitalist production, and as we can clearly see the development of these elements in conjunction with the development of the timber industry, for the sake of brevity little attention will be payed here to the fishing industry.

From its "take-off" in 1808, timber production presupposed a market. Accordingly, it was prices which determined production and production which determined prices. Monoply capitalism has modified this relationship but here we are dealing with a competitive capitalist market. This is not to say that timber production was capitalist production although it increasingly became so. But in its early years, independent commodity producers cut the timber which was then sold to the merchant, though at all times the merchants capital dominated the productive process. The impetus for the development of the industry was the British differential duty. In 1808 Napoleon succeeded in cutting off Britain's supply of timber from the Baltic. Britain then, in an attempt to secure a dependable source of timber, imposed a duty of over one hundred per cent on timber imported from other than her colonies. These duties remained almost intact till 1842. The result of this stimulus was a large flow of capital into the Canadian timber industry.

In Atlantic Canada the men who controlled this capital--the merchants, bankers and timber magnates (not mutually exclusive) -- remained the dominant fractions of the bourgeoisie throughout most of the century. In some cases these capitalists not only controlled the sphere of circulation but were also involved in capitalist production, that is, the process of extraction and primary manufacturing -- shipyards and lumber mills.

Both merchant capitalism and capitalist production presuppose the formation of capital. In particular, before the merchants could take advantage of the high price of timber in Britain capital had to be found to purchase timber rights and cut timber, build mills and shipyards, employ wage labour in production, and finance the movement of the timber-commodity. Essentially three sources of capital were utilized.

First was the merchant's private resources. In many cases these accumulations were the result of previous ventures in the fishing industry, piracy[7] and land-jobbing. The last of these refers to the colonial government turning over to groups of favoured individuals (often the government member and land receiver were one in the same) large traces of land.[8] This alienation of land into the hands of a few was not only a source of money capital when the land was sold, but gave the merchants control of the timber rights in Nova Scotia[9]. The extent of land-jobbing was documented by Lord Durham. In 1834 he reported that in Nova Scotia nearly 6,000,000 acres had been granted leaving 300,000 acres for the purpose of settlement; and that in New Brunswick 4,400,000 acres had been granted leaving about 5,500,000 acres considered fit for settlement.[10]

A second source of capital was the Atlantic banks. Early in 1820 a charter was given for the Bank of New Brunswick at St. John with a capital of £50,000.[11] The debts of the corporation were not to exceed twice the amount of the paid up capital stock. And in 1825 a group of wealthy merchants set up the unchartered Halifax Banking Company.[12] These two organizations were the financial heart of the merchant oligarchy until 1832 when the Bank of Nova Scotia was organized.[13] Most of the capital of the Atlantic banks was paid up capital and not the savings of the larger community. For example, the Bank of Nova Scotia's first annual statement, in 1833, shows £50,000 paid in but only £18,943 in deposits. By 1860 deposits had only little more than doubled. The principle function of these banks was to make available to one merchant the unemployed capital of another. By concentrating large amounts of loanable money capital in banks "the reserve fund of the commercial world (necessary for exchange), because it is concentrated in a common treasury, is reduced to its necessary minimum, and a portion of the money-capital which would otherwise have to lie slumbering as a reserve fund, is loaned out and serves as interest-bearing capital."[16]

Finally, perhaps the most important source of capital was the commercial houses of Britain. The relationship between the British commercial houses and the Canadian merchant capitalists was the class link in the hinterland-metropolis relationship. In some cases branches of parent timber houses "based in London and Liverpool were opened in Canada. The "factors" (managers) of these branches played the role of "middle men", buying timber floated down to the Atlantic ports and arranging its transfer to Britain.[17] But also, British commercial houses loaned capital to indigenous merchant capitalists. With this capital Atlantic merchants financed the circulation of the timber-commodity, and with their profit paid "rent" to the British houses. Easterbrook and Aitken claim that more of the accumulated earnings were remitted to Britain than were retained in the colonies.[18]

Before turning from capital to classes, several brief observations on the nature of the credit system sense it essentially "promoted" staple production in Canada, are in order. First, the credit system which tends to concentrate in one place the savings of many people and then makes them available to one person, "accelerates the material development of the productive forces and the establishment of the world-market."[19] Second, by concentrating savings into a few hands it reduces "more and more the number of the few who exploit the social wealth."[20] Third, it is "the main lever of over-production and over-speculation in commerce ... because the reproduction process, which is elastic by nature, is here forced to its extreme limits ... ."[21] Thus the credit system, while it accelerates, and in cases introduces the development of productive forces and establishes a world market, also accelerates and deepens the violent eruptions of over-production. In Atlantic Canada it was the credit system, and in particular the commercial houses of Britain, which developed staple production in Canada and laid the foundation for the development of capitalist production. But equally important, as we shall see in the following chapter, the economy it conditioned was dependent on world markets and ultimately undermined by changes in those markets.

Is was noted in chapter one that commercial capital is not a foundation of production but presupposes commodities constantly thrown into it from the outside. Commerce, however, creates a demand for commodities and stimulates the development of production for exchange value. Although not the foundation of production it comes to dominate petty commodity production (as well as other modes of production) and creates the conditions for the transition to capitalist production. In particular, the credit system developed staple exploitation in Atlantic Canada which, in turn, raised the material foundations for the emergence of a working class, thereby disintegrating petty commodity production.

The process of production is only completed through consumption, which in the case of production for exchange value presupposes circulation. Who were the people for whom the circulation of the timber-commodity was necessary for them to realize the value of their work/labour? Essentially three indigenous classes were engaged in timber production -- the

~~merchant capitalists~~, the independent commodity producers and owners of small staple related manufactures, and the wage labourers.

The first "class" we have already seen in conjunction with the financing of timber production. For the most part their profit was derived from "buying cheap and selling dear". Little more need be said of their commercial activities at this time. But while their definitive characteristic was their activity in the sphere of circulation, with the growth of staple production merchants were increasingly buying back into production and controlling the productive process directly. In particular the merchant, rather than buy the cut timber, would hire men and "lead" them into the great forests of New Brunswick. Similarly merchants began to extend direct control over the saw-mills and shipyards. By 1850, Lower writes, the "industry had ... got into larger hands."[22] The Gilmours, for instance, set up a lumber firm in St. John, as well as Quebec City, early in the century and then proceeded to establish a number of saw-mills as well as build a fleet of timber-ships.[23] Here then we see the beginning of capitalist production.

A second class of persons involved in the productive process was the independent commodity producers and the owners of small, staple related manufacturing concerns. Especially in the first half of the century the farmer-timberman was "his own man". It was not unusual for the farmer, lured by the idea of "easy money" to try his (the women would stay to manage the farm as best she could) luck cutting timber during the winter months. The usual circuit was for the farmer to, at the end of the harvest, go into the woods and cut the timber which often cost him nothing. In the spring he would run his timber to market and, if it wasn't lost in the run and if the market wasn't glutted, realize money for his labour. This was usually spent on a few manufactured commodities. But in town he might have to wait some weeks before he sold his timber. This meant that the spring work on his farm went partly undone, and subsequently that his harvest was poor.[24] The two occupations, Lower argues, were usually incompatible and "ruined thousands of good pioneers and held up the process of taming the wilderness for many years, especially in New Brunswick and along the Ottawa."[25] However, the early timber trade was instrumental in introducing hundreds of pioneer farmers to a money economy instrumental in helping break down pioneer self-sufficiency.[26]

Similarly, a large and important sector of the workforce engaged in primary processing had control over their immediate work situation and the sale of their product. This "control", of course, is bracketed-given the confines of production for a market. Despite the extension of the merchant's control over primary processing, noted earlier, i.e. the Gilmours, as late as 1871 the 1144 sawmills, on the average, employed only two or three persons.[27] Nevertheless, the merchant, or if you will, the market dominated petty commodity production. That is, their production presupposes circulation. Just as the wage laboureres are dependent on the mill owner or merchant to buy their labour the independent commodity producers and small manufacturers are dependent on the merchant to buy their produce. All these persons are intertwined in market production.

Throughout the first half of the nineteenth century merchants' capital dominated independent commodity production in British North America. In cases merchants' capital was transformed into wages to employ men, i.e. dock loaders, in the sphere of circulation. But merchants' capital did not posit production. Increasingly, though, British capitalists exported capital, "thirsting after exploitation". And increasingly this capital was of a "fixed" nature. In part, a published letter, in 1850, to the Right Honourable Earl Grey, on the Subject of Transportation and Emmigration reads:

> We were told last year that we had a "superabundance of capital, a plethora of talent, scientific and commercial," that only wanted "an outlet to be beneficially employed;" and this year we learn that "manufacturers, commerce, shipping, money and credit are increasing, we are evidently approaching, a period, when the nation, like a promising youth, conscious of new faculties and strength will naturally look about for some fresh employment of its accumulated means."28

Capitalist production, however, requires more than capital and "talent". It requires the wage labourer. However not only did Britain export capital but also wage-workers, as ready-made adults. That there was no shortage of wage labourers in Nova Scotia and New Brunswick was the result of two factors. First, it was in the interests of British absentee landlords owning property in British North America, the parishes of Britain and the British Government to dump their overflow of paupers. In 1838, for instance, 893 emmigrants from Britain arrived in New Brunswick; in 1839, 3103 persons came; and in 1830 more than 7500. And this was just the beginning. Immigration, in fact, was more than the region could "absorb" and many were forced to leave for the United States. In conjunction, the landjobbing and the price of colonial land made it inevitable that these immigrants should seek wage labour. Nor should it be assumed that this was a wholly unintended consequence of the colonial land policies. Interestingly Wakefield had argued that the British Government should put a price upon virgin soil, independent of the "law of supply and demand" such that:

> the supply of labour must be constant and regular, because, first, as no labourer would be able to procure land until he had worked for money, all immigrant labourers, working for a time for wages and in combination, would produce capital for the employment of more labourers; secondly, because every labourer who left off working for wages and became a landowner, would by purchasing land, provide a fund for bringing fresh labour to the colony."[30]

In 1831 the sale of Crown Land was put into effect. The Colonial Office's rational was that, with the "high wages" in the colonies, the surplus labourers of Britain could, after a short period of work in the colonies, buy crown land and thus pay the expenses of civil government.[31] In New Brunswick, between 1831 and 1837 1,494,180 acres of the total 4,400,000 acres that had been granted by 1839, were sold. Interestingly, 500,000 acres of these acres were sold to the New Brunswick and Nova Scotia Land Company. In Nova Scotia, between 1831 and 1837, a mere 116,824 acres of the total 6,000,000 acres that had been alienated by 1839, were sold.[32] Obviously workers did not find it so easy to purchase colonial land. Teeple describes the net effect of the 1831 (and 1841) colonial Land Act as "to discourage bona fide settlers from staying in Canada and to increase the accumulation of Crown lands in the hands of speculators."[33]

To summarize the production of timber, in particular, and its spheres of circulation, the distribution of wealth and, finally, consumption: merchants either buy the timber from an independent producer or a small mill owner, or they combine under their own control the means of production, i.e. they own the timber rights, hire loggers and build mills. Next they finance the shipping of timber to the British market where they sell the product, realizing both the value of labour embodied in it and the artificially high market price. When the commodity is transformed into money capital, now larger than when it began its circuit, the merchants pay rent to the London Commercial houses on the capital borrowed, and purchase the mass consumer products of the British working class. Finally they finance the shipment of the British made goods to the colonial market where they are purchased and consumed. It is in this last relation of consumption that the money of the wage laboureres and independent producers is consumed (lost to them forever). The workers are thus forced (of their own free wills of course) to again sell their labour. But whether the capitalists will again purchase from the independent producers the timber commodity, or in the same vein, whether they will divide their money capital into the materials of production and living labour and hence begin the productive process again, is dependent on market prices.

<u>Observations on the Nature of Manufacturing in Atlantic Canada</u>

At this point some observations on the extent of manufacturing in Atlantic Canada are in order. Richard Caves and Richard Halton have argued that the Maritimes should not be understood as a declining region but rather as a slow growing region.[34] This is a "natural" perspective given their neo-classical orientation with its emphasis on steady growth. Central Canada at Confederation, they claim, already led the Maritimes industrially and this has simply contined to be the state of affairs. Though both regions are developing they started from quantitatively different levels of development. As evidence they offer the facts that in 1867 Quebec and Ontario reported 4.6 and 4.5 persons respectively per thousand population in manufacturing whereas Nova Scotia and New Brunswick report only 3.3 and 3.9 persons respectively.[35] Why, they ask, was Central Canada more developed by 1867?. "The most obvious explanation for the greater industrialization of Central Canada is that the major primary products in the Maritimes did not lend themselves to as much processing as did those of Central Canada."[36] Hence there is no question of a mutually conditioning process of development in Central Canada and underdevelopment in Atlantic Canada, but simply a question of different rates of development contingent on the particular staple that is developed.

All this is fine except for the fact that Caves and Halton excluded workers employed in sawmills on the basis "that they were producing for export rather than for the domestic market".[37] A strange criteria for someone examining staples! Yet they do include flour and grist mills while observing that wheat is principally for export. Now it just so happens that sawmills are the largest employers in both New Brunswick and Nova Scotia while the total value added by flour and grist mills to the economies of Quebec and Ontario is thirty-five times higher than the value they add to economies of New Brunswick and Nova Scotia. If, for the sake of consistency, we disallow Caves' and Halton's slight-of-hand and include saw-mills we find that with regards to the number of persons, per capita, employed in manufacturing that the Atlantic economy in 1867 is as industrialized as the Central Canadian economy.

What then of the argument that the primary products in the Maritimes did not lend themselves to as much processing as did those of Central Canada? In fact, an examination of the statistics of the number of employees in the lending manufacturing industries of the regions for 1871, shown in tables 1A and 1B reveal just the opposite. That is, while in Central Canada only about 30 per cent of the workers employed in the ten leading manufacturing industries worked in staple processing industries -- in particular sawmills, lumber products, shipyards and flour and grist mills -- almost 80 per cent of the workers in the leading industries in Atlantic Canada are so employed. In per capita terms, 1 of every 27.5 persons, 52.6 persons, 53.6 persons and 66.0 persons in New Brunswick, Nova Scotia, Quebec and Ontario respectively were engaged in manufacturing in a leading staple related industry.[38] What these statistics do show is the relatively slight importance of manufacturing mass consumer products in Atlantic Canada.

TABLE 1A ABOUT HERE

TABLE 1B ABOUT HERE

As late as 1867 we have seen that dependency on exports implied a substantial import trade. Timber and ships from New Brunswick were sent to Britain in return for liquor, hardware and dry goods, etc.[39] Nova Scotia fish were sent to the British West Indies and ship and timber to Britain in return for hardware, cutlery, ship-chandlcey, china and glassware.[40]

Given the stimulus of foreign capital and the British differential duties (and later reciprocity with the United States) the Atlantic region had oriented itself to a world market as opposed to a British North American or regional market. From table 2 we see, for instance, that in 1865 88.9 per cent of Nova Scotia and 79.7 per cent of New Brunswick imports were from the United Kingdom, the West Indies, the United States or some other non-British region. Similarly 80.2 per cent of Nova Scotia exports and 86.1 per cent of New Brunswick exports went to those same regions. But while the total value of imports that year reached £4,352,706, exports were merely £3,949,207. Nor was this an unusual case. Rather, the region normally suffered a trade deficit.

TABLE 2 ABOUT HERE

The Underdevelopment of Agriculture in Atlantic Canada

This portion of chapter two has been principally concerned with the development of the preconditions of capitalist production in Atlantic Canada. In particular we have seen the development of production for exchange value in world markets, the introduction of a credit system and the development of a [illegible] ructure the introduction of "pioneer [illegible]" to a money economy and the emergence of a wage labouring class. But on the whole it would be erroneous to suppose that a highly developed money economy yet existed. As late as 1865 A. G. Archibald describes the Maritimes as:

> The great body of settlers in the country whose backs are covered with woollens of their own production -- whose feet are shod from the hides of their own cattle -- whose heads are covered with straw from their own fields -- who sleep between the blankets of their own wool and their own weaving -- on feathers from their own farmyards.[41]

This state had its roots in (1) the draining off of surplus from the region via the repatriation of British capital, with substantial interests, and the chronic trade deficit of Atlantic Canada; and (2) the underdevelopment of agriculture and the general persistence of subsistance farming. Ironically the chief cause of this latter situation appears to have been the development of staple production. In fact, concentration on timber and fishing was so general that agriculture barely survived at all.[42] Before concluding this examination of Atlantic Canada several observations regarding the interdependency of timber production and agriculture are in order.

In the first instance the alienation of vast tracts of timber lands into the hands of a few persons both limited the land available for agriculture and inhibited the building of good roads necessary for the movement of agricultural products to markets. The main routes of timber to the sea were rivers and the timber magnates and the colonial government felt little inclination to incur the expense of road construction. Moreover the state of transportation was reinforced by the Maritime settlement pattern of widely distributed coastal towns linked by the sea. This decentralized distribution of population proved to be the most efficient pattern for the timber and fishing industries, but it effectively limited the farmer's access to markets.

The staple industries also adversely effected agriculture by lowering the quantity and quality of available manpower. During boom periods in timber the industry's relatively high wages attracted many young men from farming. And in general, MacNutt writes, "men of capital who attempted large-scale farming inevitably found themselves defeated by the higher wages paid to immigrants in the timber-trade or in the ship-yards of St. John."[43] Even among the independent farmers it was a rare person who did not attempt to combine forestry and farming in New Brunswick or fishing and farming in Nova Scotia, with the latter usually suffering.

The development of agriculture was also blocked by the limited credit available to the farmer. In Atlantic Canada the merchant fraction of the capitalist class dominated the financial institutions. Not surprisingly the Atlantic banks were commercial banks, not general purpose community banks. There was little in any loan capital available to the farmer to finance the starting-up of a farm or farm improvements. Many farmers were consequently forced to "make it" alone. Undercapitalized they often produced solely for use value, many never producing a surplus.

Finally, some farmers, because they found the market so limited, would not produce a surplus, even when "able". Two factors limited the market. First, the dispersed settlements and poor roads impeded access to markets. Second, the colonial government, little concerned with agriculture, was unwilling to pass duties on American flour and other products.[45] The "pioneer" farmer, undercapitalized, was unable to compete in local markets with the products from developed farms to the south. As for the West Indies market, "for a Halifax merchant... it was probably less trouble to pick up a cargo of foodstuffs in Philadelphia, Baltimore, or some other southern port than to secure on locally".[46] Such was the state of agriculture and of the Atlantic economy.

The Interdependency of Timber and Agriculture in Central Canada

The absorption of the North West Company by the Hudson Bay Company in 1821 finally destroyed the old commercial link between the Montreal merchants and the economies of Europe.[47] The North West Company had been a Canadian capitalist enterprise and much of the wealth the company had realized in the fur trade remained in Montreal. Freed from its moment of circulation, a portion of the capital which had financed the movement of furs was transformed into bank capital under the auspices of the Bank of Montreal,[48] founded in 1817 with John Gray, an old fur trader, as president. The export of furs through Hudson Bay after 1821 necessitated an increased dependence on another staple.

A "dual" economy based on the production of timber and agriculture developed during the first half of the nineteenth. To describe the production of timber would be, in the main, to repeat what has been said earlier. Thus the remainder of this chapter will principally deal with agriculture and the beginnings of capitalist production. However, the development of agriculture was inextricably intertwined with the square timber trade. Let us turn, then, for a brief moment, to the timber trade.

Till about 1840 the vaccum left by the decline of the fur trade was filled mainly by squared timber. Like the fur trade this staple followed the rivers. But as the largest trees were cleared out it became necessary to go farther from the larger rivers and the timber became harder to handle. Even on the larger rivers rapids, for instance, proved significant transportation barriers. It was the timber trade that was largely responsible for the early improvements in water transportation, and to a lesser extent, railway construction.[50] The completion of the Welland Canal, for instance was necessary to open the territory above Niagara Falls. Between 1831 and 1841, stimulated by transportation improvements, exports of square timber (cu. ft.) increased from 75,992 to 1,155,086; exports of lumber (ft.) increased from 986,888 to 3,580,811; and exports of staves increased from 137,718 to 2,776,161.[51]

With the westward movement of the timber industry settlement increased in Upper Canada (and the middle West). Settlement was inseperable from the timber trade. Not only did the loggers open the region and the forestry industry provide the new settlers with seasonal work, but the timber trade was largely responsible for immigration itself. The timber ships out of Quebec were always in search of a return cargo which emigration provided.[52] Lord Durham in his 1839 report stated that in the last nine years 263,089 immigrants had landed at the port of Quebec in these "coffin ships".[53] Unfortunately for the British working class reduced to pauperism, the term "coffin ships" was more literal than metaphoric. For instance, the Commissioners of Immigration for 1847 showed that in the year 17,445 British subjects died on the passage to Canada or afterwards in Canadian hospitals.[54]

The timber trade plagued like all staples by a history of scarcity and over-production, finally collapsed at mid-century. Between 1843 and 1845, encouraged by rising prices and the demands of building and railway construction in Britain, the timber trade expanded enormously. In 1846, however, over-production and falling demand drove prices to a ruinous level.[55] The timber trade, in the new world of free trade and steel, never recovered.

The building of the transportation infra structure, however, had extended access of the lumber industry to both supplies of raw materials and markets, in particular American markets. In conjunction, the rapid development of the American mid-West, especially Chicago, and the decline in supplies of American lumber drove up prices.[56] The elements combined in 1854 with reciprocity and the subsequent opening up of the American market to the Canadian forestry industry. It was agricultural production, however, and in particular the production of wheat that was to become the third great staple. In fact, already by about 1840 agricultural products were the main Canadian export.[57]

The Development of Agriculture in Central Canada

For two hundred years Montreal capital had found "employment" financing the movement of furs from the interior, and the flow of goods, i.e. guns, powder and whiskey, westward to pay for the furs. This circulation which was dependent on supply and prices quickly declined at the dawn of the nineteenth century.

The period we are here considering, when looked at in a broader temporal and spacial plane, was situated in an age when Britain was industrializing, when the British economy was passing from the dominance of the great landowners, and when the new industrial bourgeoisie was looking for cheap bread to feed its hungry workers. Here was an opporunity for the Canadian merchants to build the new commercial link with the metropolis. From the east end of Lake Ontario to the Mississippi there stretched a fertile plane capable of feeding all Europe. The history of the first fifty years of the nineteenth century is very much the history of the development of agriculture in Central Canada and the struggle of Montreal and New York for control of the trade flowing east and west.[58]

During the 1820's and 1830's about a half-million emigrants came to Canada. Many of these men and women, essential to the development of agriculture, came as ballast in the returning timber ships.[59] By 1825, 497,117 acres of land in the Home District had been patented and 61.7 per cent of this patented land occupied.[60] By mid-century almost all accessible land had been taken up.[61] The settlement of the region, however although necessary for the development of the wheat-staple, was not a sufficient condition. Even the older lakeshore townships, till the late thirties, practiced subsistence agriculture.[62] It remained to "break down" the self-sufficiency of the farmer. The "pioneers" needed to be introduced to a money economy and to have access to markets.

As in Atlantic Canada the combination of subsistence farming and forestry served to introduce hundreds of pioneer farmers to a money economy and to break-down their self-sufficiency. In this regard let us turn to Marx's famous discussion of the solvent qualities of money on production for use value.

Historically, he writes, people produced goods for use value, not exchange value. Overproduction was always a happy accident which, when there was a means of exchange, allowed people to trade for something they would not normally have. The impulse for this trading, moreover, came from people outside the traditional society. But trade created a demand among producers for goods outside their immediate sphere of production. To realize this need people began to engage in production of exchange goods rather than use goods. That is, they purposely overproduced goods (often by specializing) in order to sell in a market so as to be able to buy in a market. Their production now needed to be exchanged in order to be realized as consumption. "Thus, here was a circulation which presupposed a production in which only the overflow was created as exchange value; but it turned into a production which took place only in connection with circulation, a production which posited exchange value as its exclusive content."[63]

Here we see the importance of merchants' capital in the creating of social needs and the subsequent tendency towards production for a market. In many cases, however, it remained till the 1840's before farmers, especially in the newer townships, produced primarily for a market. This was not so much a result of a lack of consumer demand as it was a function of an undeveloped transportation infra structure. For instance, transportation was such that the cost of shipping farm products from the Lake Simcoe area to York was half of their sale value there. Similarly, wheat prices in York, because of transport costs to Montreal, were often 50 per cent lower than in the latter city. The farmers in some localities thus realized so little from the sale of their products that they were forced to practice self-sufficient agriculture.[64]

The building of roads, canals and railways had by 1850, however, opened up even the more remote townships of Upper Canada. Stimulated by access to markets the wheat acreage in Upper Canada increased about 400 per cent during the 1840's.[65] The breakdown of subsistence farming, generally, was marked by the general use of thrashing machines, revolving hay rakes and other machinery by 1850.[66] But we are here moving ahead of ourselves.

In other cases, especially in the York area and the other older townships by the lake, subsistence farming never existed. Rather, a usual course of events was for local wholesale importers and retailers, usually one in the same, to advance to the farmers on their arrival in the area credit on merchandise purchased in their stores. Trading accounts dating from 1891 show that by the turn of the century a large number of farmers were already consumers of manufactured goods.[67] The relationship of debt between farmers and merchants obliged the former to produce for a market and to usually sell their products to the merchant to whom they were in debt. However, till about 1825 farmers were quite likely to pay off their debts with flour.[68] To integrate them fully into a money economy all that was wanted was a supply of currancy.

Not surprisingly, in conjunction with the expansion of market production banking developed in Central Canada. The scarcity of money was a general complaint in the Canadas during the first half of the nineteenth century. Before 1820 trade by barter was almost universal and as late as 1840 wheat was often used as cash in the York area.[70] On the other hand, cash was becoming increasingly prevelent, being derived from the export and sale of timber/lumber and flour, the inflow of British capital which financed the construction of an infra structure, the cash savings of immigrants and, of course, bank notes.

In Lower Canada the Bank of Montreal opened in 1817 and was followed a year later by the Quebec Bank and the Bank of

Canada. These three organizations were chartered in 1821. In Upper Canada the Bank of Upper Canada was chartered in 1819 and after several years of confusion opened in 1822.[71] It was not until 1831 that a second bank, the Commercial Bank, opened. Most of the capital controlled by these early banks, before mid-century stemmed from paid up capital and not deposits. As late as 1841 the ratio of deposits to paid up capital was only 37 per cent.[71]

Banking in Central Canada was controlled by commercial interests and functioned as "handmaiden and tributary to ... commerce".[72] The Bank of Montreal, for instance, was established by fur merchants and dry goods importers; the Quebec Bank and the Ottawa Bank by timber merchants; the Bank of Hamilton by dry goods merchants; and the Bank of Toronto and the Commercial Bank by grain dealers.[73] These banks, as in Atlantic Canada, served as a reserve fund of money capital for merchants. Credit was extended in various forms. In particular loans were made by discounting bills of exchange, by direct advances on personal credit or securities and by issuing bank notes. This last form of credit -- a draft upon a banker, payable at any time to the bearer--is novel in the sense that credit enters into general circulation and functions as money.[74]

Unlike the independent community banks of Atlantic Canada, however, the banks of Central Canada tended to be large with extensive systems of branch offices. And increasingly as trade expanded and economic conditions generally improved, the banks concentrated in their hands the savings of all classes. For instance, in 1831-1832 immigrants deposited more than £300,000 in the Bank of Upper Canada. Yet in 1819, when first chartered, that organization could not raise £20,000.[75] By 1860 the total paid up capital of Central Canadian banks, $25,449,000, was almost ten times that of the New Brunswick and Nova Scotia banks.[76]

The particular development of a branch banking system in Centra Canada was mainly a function of its commercial origins and of locational factors. The early British North American banks operated to provide short-term financing for the movement of commodities to Britain and the United States. As such they were established by merchants in the entrepots of the staple trade. In Atlantic Canada each coastal town had its own line of commerce to world markets. The local merchants tended to pool their capital and organize independent community banks for their mutual benefit. Central Canada, in contrast, had but two routes to the sea. The region, however, was integrated by an extensive transportation infra structure.

At the centre of a complex of water routes, roads and railways were the great entrepots of Montreal and Toronto. While the former dominated the St. Lawrence trade route, the latter was the gateway to the Erie Cannal-Hudson Valley line of commerce to New York. Ultimately regional imports and exports passed through one of the two cities. Not surprisingly, banking tended to concentrate at these points. The banks, in turn, following the development of the transportation infra structure, established an extensive financial network of branches throughout the region. In communities where "idle money" accumulated, the banks inevitably transfered it to Montreal or Toronto where commerce was active and the demand for capital relatively high.

Toronto, however, was not always an entrepot, nor were the farmers the only ones to contract debt. Rather, the role of the local York merchants as creditors and the peculiar circulation of agricultural products predisposed them to also contract debt. More generally, the development of Toronto as a commercial, financial and ultimately an industrial rival of Montreal awaited the development of the New York connection. Acheson succinctly describes the plight of the early York merchant.

> (N)o entrepreneur could escape the implications of a debtor society. The merchant might completely

> replenish most of his (and her) stocks three times a year - certainly he (and she) must do so at least twice. He (and she) normally sold his (and her) goods to yield a net profit of 15 per cent on a retail transaction. A merchant who placed a spring order for goods which wholesaled at Montreal for ₤2000 would pay ₤400 freightage and would retail the stock in York for about ₤2800. Most of this would be sold on credit within 4 or 5 months. It would be at least a year before the businessman (or woman) recieved final payment for all the order. In the meantime he (and she) must restock. By the time he (and she) had recieved payment for his (and her) initial stock, the merchant would have invested an additional ₤5000 in stock, and have ₤6000 in debt still owing him (and her) in the countryside.[77]

The circulation described above fostered a dependent relationship between the merchant capitalists of Montreal and Upper Canada. York was the entrepot of Upper Canada. It was attached to the British market by two lines of commerce. The first ran along the coast of Lake Ontario, up the St. Lawrence River to Montreal and from there to the counting houses of London. The second line ran down the Hudson valley to New York.[78] The commercial welfare of the Montreal merchants' was dependent on the maintenance of the former line and in turn, the York merchants were often dependent on the large importers in Montreal for receiving deposits and making payments to order and for "advancing loans or credits to be met later on by produce, exchanges, or cash."[79] These functions are not surprising considering the Montreal merchants' geographical location, their contacts with the Bank of Montreal and the Bank of London and the York merchants' predisposition for contracting debt. Finally, the York merchants' worked through Montreal merchants because the latter could expedite the trans-shipment of imports at Montreal and promptly fill orders in Montreal.[80] This was important because it meant the York merchants' capital would not be tied up as long and also, it meant the Montreal merchants' could employ their money-capital.

The profit derived by buying cheap and selling dear was divided between the York and Montreal merchants. The average portion falling to each group, however, was determined by the more powerful Montreal merchants. The Toronto merchants argued the Montreal rate of return was too high and this became a continual source of antagonism. The consequences of this conflict, in conjunction with the completion of the Erie Canal, was damaging to the Montreal trade and in later years the flow of goods through Atlantic ports. The canal created a second line of commerce-from Toronto to New York The combination of the American Drawback Act of 1846, which removed duties on Canadian goods in bond through the United States,[81] and the destruction of the British tariff system in 1846 made the route to New York cheaper than to Montreal.

By 1850 more Upper Canadian wheat and flour was sent in bond to New York than through Montreal.[82] The Montreal monopoly was broken, Toronto had become an entrepot in its own right and "western trade had become accustomed to the Erie Canal route".

Before ending this discussion of agricultre and commerce in Upper Canada a further development connected with the circulation of wheat needs to be examined. The rivalry between Montreal and New York for control of the western hinterland was noted above. This rivalry stimulated the construction of a new and more efficient transportation system through Canada. An advantage in transportation by either Montreal or New York would mean the dominance of that particular entrepot. Under the guidance of the Canadian commercial "class" a series of canals and railways were built between 1827 and 1859. Not only did the construction of this infra structure integrate the economy and facilitate the transportation of goods, but what is important here, keep it upwards of 20,000 contruction workers in fairly continuous employment after the 1820's

Between 1815 and 1850 nearly 800,000 immigrants came to British North America. The mass of these men and women settled in Upper Canada. Large numbers of these persons were destitute, fleeing the slums of London and famine and disease of Ireland. By 1838 the population of Upper Canada was 400,000; by 1850 it was almost a million and by 1867, a million and a half. And though most emigrants passed through Lower Canada, with the exception of the Eastern Townships and Montreal, the population of the region reached 700,000 in 1844 and had passed a million by 1867.[84] Coincident with this rapid growth, by 1850, and earlier in Lower Canada, most accessible land in Upper Canada had been taken up. This is not to imply that it had all been settled. Rather, as in Atlantic Canada, large tracts had been alienated into the hands of a few. For the most part most of these persons simply held it waiting for the time it could be sold at large profits. For instance, in 1837 less than one tenth of the land granted in Upper Canada had been occupied.[85] The result, of course, was a wage labouring class. By 1851 the urban population of Upper Canada had risen to 16.2 per cent.[86] Without a penny on their arrival many immigrants never settled the land. In 1858, for instance, three fourths of the European emigrants worked as agricultural or common labourers.[87] Shades of Wakefield:

> Here, then, was an enormous and continuing influx of workers which, added to the proletariat already in Canada, formed a dependent body of surplus labour.

> It constituted to a considerable extent the very kind of labor needed at that time in lumbering, building roads, canals and railroads and in agricultural pursuits... . (T)he era of land clearing, building of roads, canals and railroads was creating fortunes for contractors or owners. From the swelling volume of cheap labor the capitalist could have his pick, employing them at the lowest possible wages.[88]

The railways stimulated industrialization generally, and in particular their construction stimulated the local manufacture of the railways' own equipment and the production of mass consumer goods for the home market. For instance, Good's plow and stove works in Toronto, Gunn's machine and farm-implement plant in Hamilton, and the Ontario Foundry Company in Kingston all turned to the construction of locomotives during the 1850's. And generally, in Montreal, Kingston, Toronto, Hamilton and other centres local manufactures sprang up, producing steel products ranging from boilers, iron rails and railway axles to nails, rivets and nuts.[89] In fact, by 1871 secondary iron and steel products added more value to the Canadian economy than either timber/lumber or wheat.[90] Similarly, railway construction, via the wages of labourers, stimulated the growth of the consumer goods industry in Central Canada. With regard to the local demand for mass goods, during the canal and early railway period (before 1854) construction costs were estimated at about $125,000,000. Almost all this capital came from the banking houses of Britain, much of it borrowed on the strength of security provided by the Canadian Government.[91] Most of this capital was transformed into wages paid to works and contractors. Usually these wages were exchanged for mass commodities which were then consumed,[92] thus releasing the workers from the burden of wealth and freeing them to again sell their labour. It was, of course, the merchants and manufacturers who profited from these moments of exchange and consumption.

Most of what has been said concerns the development of agriculture in Upper Canada and its moments of distribution, circulation and consumption. Before concluding our discussion of this particular production some observations concerning the demise of self-sufficient agricIture in Lower Canada is in order.

The development of agricultural production for a market in Lower Canada presented a series of 'problems' different than in Upper Canada. Essentially it required the destruction of a mode of production, the abolition of the system of seignorial tenure. The seignorial system was feudal in nature. Under the old system of land grants, abolished in 1763, a favoured individual could secure from the government a large grant of land providing he swore fealty and agreed to concede land to any settler who applied for it in good faith. And the habitant, in return for use of the land, owed the seignior a number of obligations of which the most important was the cens et rentes.

What is imporant for consideration is that the habitant was usually self-sufficient. That is, they produced for use value, not exchange value. This production did not posit growth. The chief crops grown in 1815, with the exception of potatoes which had been introduced, were the same as those grown a century earlier -- wheat, oats and peas. And the 'chief' cash crop, wheat, was seldom in excess of that required for local consumption.[93] Such production could hardly form the basis of a commercial link with Europe.

Capitalist development required the breaking down of the old institutions and structures. They stood in the way "of mobility of capital investment and enlargement of the home market: the seigneuries being the stronghold of survivals of a self-sufficient, non-commercial, 'natural economy'.[94] Not surprisingly it was the Montreal merchants who led the demand for change. The proponents of seigneurial interests ranged from the Church, the biggest landowner, to the new-English seigneurs who attempted to have what were originally feudal holdings transformed into ownership of capitalist real-estate. But their time had come. Though the struggle was long the Acts of 1822, 1825, 1840 and 1854 eventually led to the abolition of the tenure.[95]

The Development of Manufacturing in Central Canada

Capitalist industry -- the process posited by the division and transformation of money capital into, on the one hand, living labour and on the other hand, the materials of production -- developed along the traditional staple linkages. Each of these, in turn, will be examined. But the 1850's and railway construction in particular marked its take-off. Transportation costs were being substantially reduced and increasingly free of seasonal interruptions. In turn, access to and the expansion in agriculture, and the consequent growth of population created new internal markets. The expanding export sectors, especially lumber for the American market, stimulated processing. Water power was being replaced by steam and capital derived outside the manufacturing sector was increasingly being invested in capitalist industry. Finally, the war tax on American goods and the Galt-Cayley tariff protected the Canadian market from American manufacturers. These conditions all contributed to a substantial widening and increase in manufacturing during the 1850's and 1860's.

Prior to 1850 manufacturing was characterized by small commodity production for a local market and the importation of manufactured commodities and the predominance of processing staples for export. By Confederation, although manufacturing retained many of its early characteristics i.e. the proportion of the population engaged in manufacturing was relatively small; the size of establishments were generally small; and industries were scattered, it had also undergone significant transformation. For instance, whereas in 1851 manufacturing was largely concentrated in a few industries with flour and gristmilling, sawmilling and shipbuilding making up about half the total output value, in 1871 the manufacturing values of these industries had dropped to about one-third of the total. In conjunction the value of manufacturing increased from 31 million dollars in 1851 to 87 million dollars in 1870.[96] This growth and diversification of manufacturing is reflected in the facts that a comparable list of manufactured imports which made up 43.2 per cent of Canadian imports in 1850 accounted for only 24.1 per cent of imports in 1871-72.[97] Table 3 shows that by 1871 "the great bulk of home market manufacturing demand was being supplied by Canadian industry not from abroad".[98] Also, although firms continued to be generally small the average size was increasingly, especially in the larger cities, becoming larger, more heavily capitalized, and beginning to take the form of joint stock corporations.

TABLE 3 ABOUT HERE

During the first half of the century the manufacturing industries employing the largest number of workers and adding the most value to the economy were connected with the 'forward linkage' -- the inducement to invest in industries using the output of the export industries. The most important of these followed the development of agriculture, i.e. flour and gristmills, distilleries and breweries, and the growth of the timber trade, i.e. sawmills and shipyards. The early firms were usually internally financed. Their small size and value of output per worker reflected their local nature. In 1851, there were 952 wheat and gristmills, 101 distilleries, 53 breweries, 2390 sawmills and 11 shipyards in Central Canada.[99] But, for example, the wheat and gristmills of Upper Canada averaged only between 2-3 hands with an annual product of about £177 per firm; and the average saw mill employed about 3 persons and had an annual product valued at Ƀ175.[100] Mary Innis' work on early industrial development in Upper Canada shows that the settlement of the area and the development of small industry were inseperably intertwined. As she put it: "The first necessity of a settler was shelter and food, the second a mill."[101]

Development along the 'forward linkage' was directly tied to the rate of staple growth. Dispite the midge and soil exhaustion and the subsequent abandoning of wheat farming during 1860 in the older townships of Upper Canada,[102] wheat continued to be the most important crop between 1850 and 1880. In fact, the highest wheat production ever in Ontario -- 40.9 million bushels- came in 1882.[103] By 1871 expanded production formed the basis of a flour and grist mill industry which employed 2759 in Ontario with the relatively large ratio of value of product to worker of almost 10,000.[104] This statistic underscores the fact that production was becoming centralized, firms larger and more capital intensive. Similarly, the shift from the timber exports for the British market to sawn lumber for the expanding American market was accompanied by the growth of the saw mill industry, an increase in the capital-intensiveness of that particular industry, and the average size of a firm and an increase in the concentration of production.[105]

While output per worker was generally much lower than in wheat and grist mills -- about 800 dollars per worker in the average sawmill -- some mills by 1870 had reached a very large production capacity. This, in part, was a function of the introduction of steam which was in general use by 1870. Ryerson reports that "whereas in 1851 it had taken all 1618 sawmills in Upper Canada to produce 400 million feet of lumber, twenty years later a total output of 365 million feet was accounted for by six (steam-driven) mills alone."

Second, development followed the 'demand linkage'-- investment in home industries producing commodities for consumption in local markets. An important determinant of the rate of investment in home industries producing consumer goods is the size of the domestic market. This, in turn, is a function of the size of and access to population and their ability and willingness to buy. In this respect the first half century, as we have seen, witnessed the construction of an infra structure, the settlement of Upper and Lower Canada, the growth of towns and emergence of a wage labouring class and the development of a money economy.

By 1870 the bulk of commodities for consumption in the home market were manufactured by Canadian industry. For the most part these firms were begun by small craftspersons, financed internally and served a very local market. But improved transportation and the growth of markets (and the introduction of the factory system into Canada beginning in 1860's) culminated in the establishment of relatively large manufacturing firms in the larger towns and cities. For instance, the average boat and shoe firm in Toronto, in 1850, employed 16 workers as opposed to an average of 2-3 for Upper Canada; the Toronto carriage firms employed 8 as opposed to 3-4 for Upper Canada; the average tailor shop 24 workers as opposed to 6-7. This larger average size of manufacturing firms in Toronto reflects its growth as a regional metropolis in particular and increasing importance of manufacturing firms as propelling industries in general. Although the distinction between service and propelling[108] industries is a difficult one, Spelt has concluded on the basis of distribution and average size of establishments that, generally, agricultural implements, car and locomotive works, cotton factories, ship-yards, bookbinding, edge tool, distilleries, engine building and musical instrument making firms had become propelling industries in South-Central Ontario.[109] And in Montreal the boat and shoe industry and the tobacco and sugar refining industries can be classified as propelling. By Confederation Montreal firms produced three-fourths of all boots and shoes manufactured in Central Canada,[110] and William Macdonald's giant tobacco firm dominated tobacco manufacturing in Canada as did Redpath's refinery in the sugar industry.[111] Finally, as manufacturing industries were becoming propelling industries in their own right so were merchants beginning to extend direct control backwards over the productive process. For instance, at mid century W. H. Merritt had moved from his trading and shipping into milling and barrel making; W. P. Howland, a dealer in flour and grain, ahd become a large-scale grain miller; and Peter Lamb had begun to manufacture boots and shoes.[112]

Industry following the 'forward linkage' and 'demand linkage' tended to develop from small firms. But a number of industrial firms linked 'backward' -- investments in the home production of inputs for the export sector -- were relatively large and capital intensive from the outset. The most important of these were the steel producers, the motor industry of the secondary iron and steel industry. To a large extent these endeavours were financed by indigenous commercial-banking interests. Here was an early merger of industrial and commercial entrepreneurs. The growth of the industry is truely remarkable.

Prior to 1850 there was little iron and steel industry in Central Canada. Then in 1857 the Victoria Iron works was established in Montreal, followed by Peck, Benny and Company in 1864 and the Montreal Rolling Mills in 1869.[113] This latter organization was capitalized at 200,000 dollars which had increased to 500,000 within four years.[114] In Ontario the Toronto-Wire and Ironworks was founded in 1854, the Toronto Rolling Mills in 1859, the Great Western's rolling mill at Hamilton in 1864 and the Steel, Iron and Railway Works Company of Toronto in 1866.[115] From practically nil twenty years earlier, by 1871 rolling mills, iron smelting furnaces and steel making factories had a total output valued at 1,778,000 dollars. And other secondary iron and steel firms -- boiler making, engine bulding and railway car factories -- had a total output valued at 1,771,000 dollars; and foundries and machine workings industries, tin and sheet iron working industries and agricultural implements firms had a total output valued at 11,063,000 dollars.[116] In fact, in 1871 secondary iron and steel products, as a percentage of total manufacturing value added, ranked as the most important sector in the country.

In summary, Central Canada's economy was built on staple production, itself dependent on world markets. The efficient exploitation of the timber and wheat-commodities required the settlement of the region, the construction of an infrastructure, development of a money economy and a credit, the creation of a wage labouring class and the development of Montreal and Toronto as entrepots. The credit system in general, and in particular the banking institution, rested in the hands of an indigenous commercial class which, on the whole, dominated the productive process. This class mediated between the small commodity producers, and in particular farmers, were independent. On the other hand, in important sectors of the economy production was capitalist though usually arising, especially in firms which have been conceived of as 'forward' and 'demand linked', from "small-scale craftsmen producing in their own workshops." Such transitions were, of course, made possible by elements which developed in conjunction with staple production. Finally, as these firms increasingly became propelling industries, the commercial class were extending backwards control over the productive process.

The Nature of Merchants' Capital In Capitalist Production

This chapter has been principally concerned with merchants' capital and the development of the precondition of capitalist development in Atlantic and Central Canada. In both cases merchants' capital introduced a credit system and money economy, and gave rise to the tendency towards production of exchange value for a world market; i.e. staple production, and consequently, together with colonial immigration and land policies, laid the basis for the subsequent development of a working class and industrial capitalist production.

In each economy, however, regional economic peculiarities evolved, i.e. independent community banking versus branch banking, conditioned by location factors, politics and regional variations in staple production (not unrelated). These relations, we shall see, in conjunction with other diverse economic and political factors conditioned the new emerging industrial order. Merchants capital here was originally merely the intervening movement between extremes it did not control, but equally, which did not control it. Its profit arose from the fact that it exploited the differences between the prices of production in several countries.[117] Merchant's capital, however, not only introduced the pre-conditions for capitalist production but thereby transformed its own nature. Before concluding this chapter let us briefly examine the nature of merchants' capital within capitalist production.

The independence of the circulation process and the productive process, though the former may dominate the latter, disappears within capitalistproduction. "(M)erchant's capital", Marx writes, "is reduced from its former indpendent existence to a special phase in the investment of capital ... It functions only as an agent of productive capital."[118] In pre-capitalist societies it was not the produced commodity which gave rise to commerce, but commerce which turned the product into a commodity. Especially in the case of agriculture in Canada we have seen the subordination of production more and more to exchange value by making subsistence more dependdent on sale rather than immediate use value. But in capitalist societies both production and circulation are merely phases of capital in the reproductive process.

Marx, in a discussion of merchant's profit in capitalist production, develops the inter-dependency of productive and commercial capital. Briefly, the merchants are dependent upon industrial capital producing goods for the market; the industrialists, to the extent the merchants do not employ their capital in the circulation of commodities must themselves undertake their circulation thus decreasing the portion of capital directly engaged in production. Since merchant capital adds nothing to the commodity but has surplus value at the end of its circuit the question arises: "How does merchant's capital attract its share of the surplus-value or profit produced by produtive capital".[119] In appearance profit seems to originate from the sale of the commodity above its value. This assumes that the industrial capitalists sellstheir commodities to the merchants at their value; that circulating capital does not go into forming the general rate of profit. But Marx has shown, assuming capitalist production, that "merchant's capital enters the formation of the general rate of profit as a determinant pro rata to its part in the total capital."[120] In reality, total profit is calculated on both total productive and total merchant's capital. The merchant's profit is thus included in the average rate of profit. "(T)he price at which the industrial capitalst ... sells his commodities is thus smaller than the actual price of production of the commodity... Just as industrial capital realizes only such profit as already exist in their value of commodities as surplus-value, so merchant's capital realizes profits only because the entire surplus-value, or profit, has not as yet been fully realized in the price charged for the commodities by the industrial capitalist."[121]

This touches, here, on the Tom Naylor debate. Naylor, in the absence of a concept of mode of production, argues that there is a "fundamental contradiction" between capital in the sphere of production and capital in the sphere of circulation. This "contradiction" he has elevated to "the key (in part) to development in Canada".

> The greatest contradiction among the strata (fraction) of the bourgeoisie appears between the industrial-capitalist entrepreneur and the mercantile-financial entrepreneur. The first operates in the sphere of production, the second in distribution. Thus, maximization of the mercantile surplus will minimize the industrial surplus. Furthermore, industrial capital is typified by a high ratio of fixed to circulating capital and is concomitantly long-term and often high-risk, while mercantile capital is typified by a low ratio of fixed to circulating capital and is directed towards short-term, relatively safe, investment outlets.[122]

In pre-capitalist societies capital in the sphere of circulation has a more or less dissolving influence on the particular producing organization and hence exists in "contradiction". But in a society where capitalist production predominates it is clear that no fundamental contradiction exists between productive and circulating capital.[123] Both are under the control of the same class, although different fractions; both derive their profit ultimately from the exploitation of labour; and both are necessary moments in the reproduction of capital. Conflict between productive and circulating capital, as between competing industrial firms, no doubt, arises over the distribution of surplus value. But industrial capital cannot operate without circulating capital for instance, fall below the average profit of industrial capital then a portion of the former tends to transform itself into the latter and vice versa. "In practice the interdependency of circulating and productive capital is more important than their competition... .[124]

Notes to Chapter Two

1. Karl Marx, Capital, Vol. III, p. 336.

2. H. Innis, "An Introduction to the Economic History of the Maritimes, Including Newfoundland and New England", in Mary Innis (ed.) Essays in Canadian Economic History, 1969 (reprinted), p. 36.

3. Ibid, p. 42.

4. While fishing and forestry dominated Atlantic Canada, the two economic activities were not of equal importance in Nova Scotia and New Brunswick. In the former province, in 1871 for instance, about three times as many persons were engaged in fishing than in New Brunswick. Conversly, about two and a half as many persons worked in sawmills in New Brunswick as compared with Nova Scotia. Census of Canada, 1870-71, Vol. III, p. 268, p. 346.

5. H. Innis, op cit. p. 38.

6. A. Lower, "The Trade in Square Timber", in W. Easterbrooke and M. Watkins (eds.), Approaches to Canadian Economic History, 1967, pp. 30-31.

7. A notable example is Enos Collins who, after retiring from piracy, set up an import-export firm in Halifax, and in 1825 was instrumental in establishing the Halifax Banking Company.

8. In New Brunswick in 1830, for instance, the timber magnate and shipping king, Joseph Cunard, was freely granted reserved rights to all the timber above the falls of the Miramicki. Reported in W.S. MacNutt, "The Politics of the Timber Trade in Colonial New Brunswick, 1825-40", in The Canadian Historical Review, 1949, p. 58.

9. In Nova Scotia, unlike the other British North American colonies, timber rights were not separate from land ownership.

10. Reported in G. Myers, A History of Canadian Wealth, 1972 (reprinted), pp. 72-73.

11. Among the twenty incorporators of the Bank of New Brunswick were three members of Council, eight of the House of Commons, and five other public officials. Interestingly in 1825 a bill was introduced to incorporate another bank

11. at St. John. It was opposed, however, by the Bank of new Brunswick and consequently defeated in the Assembly. In 1832 a group of St. John merchants again petitioned for the incorporation of a new bank. Their petition charged that the Bank of New Brunswick had a monopoly and the power to absolutely control the commerce of large portion of the province. The Bank countered by virtually threatening to call in at least half of their loans if another bank were established. The bill this time passed the Assembly but was defeated by "bankers" in the Council. Similarly, petitions were thrown out in 1833 and 1834. Finally an appeal was made, in 1834, to the Lieutenant Governor for letters patent under the great seal of the Province, and a charter in this form was granted for the establishment of the Commercial Bank. With the monopoly of the Bank of New Brunswick cracked, the colonial government granted four other charters in 1836. Reported in James Hannay, History of New Brunswick, Vol. II, 1909, pp. 428-432.

12. The Halifax Banking Company was founded by Enos Collins, Joseph Cunard and a small number of associates. In all, five of the founders were members of the "body of twelve", as the Council for Nova Scotia was then known. The rest of that body were friends or relatives of the bankers. Reported in Thomas Raddall, Halifax: Warden of the North, 1948, p. 177.

13. B. Hammond, "Banking in Canada before Confederation", in W. Easterbrook and M. Watkins (eds.), Approaches to Canadian Economic History, 1967, p.155.

14. Bank of Nova Scotia, (One Hundredith Anniversary), 1932, p. 42.

15. Ibid, p. 47

16. Karl Marx, Capital, Vol. III, 1974, pp. 402-403.

17. A. Lower, op cit, p. 36.

18. W. Easterbrook and H. Aitkin, Canadian Economic History, 1956, p. 243.

19. Karl Marx, Capital, Vol. III, 1974, p. 441

20. Ibid, p. 441.

21. Ibid, p. 441.

22. A. Lower, op cit. p. ; Similarly, "(b)y 1850 farmers no longer to any extent went into the woods as entre-preneurs; in fact, the crown lands were no longer open to all comers ...". Ibid, p. 46.

23. Ibid, pp. 37-38.

24. Ibid, pp. 45-46 (It should be noted that Lower's discussion is not of forestry in Atlantic Canada in particular but of forestry in British North America in general).

25. Ibid, pp. 45-46.

26. With regards to the effect of the timber trade on the self-sufficiency of the farmer, MacNutt writes: "that the system of open account's maintained with the merchants, by which parties were outfitted and provisioned in the autumn on credit with interests of 35 or 40 per cent, rendered very familiar the spectacle of the lumberman returning to his farm in early summer, wearing brightly checkered store clothes but without cash". Ibid, p. 50.

27. Reported in S. Ryerson, Unequal Union, 1873 p. 215.

28. Royal Archives of Canada. Thanks to John Barkans for bringing this material to our attention.

29. Reported in Jas Hannay, op cit, pp. 69-70. All in all, about 40,000 emigrants went to Nova Scotia between 1815 and 1838. Emigration to New Brunswick came somewhat later, especially during the 1840's with the onset of the Irish famine. J. M. Careless, op cit, p. 148.

30. Reported in Karl Marx, Capital, Vol. 1, 1974, p. 723.

31. W. S. MacNutt, op cit. p. 54.

32. The statistics on land sales were reported in W. S. MacNutt, ibid, p. 55N.

33. Gary Teeple, "Land, labour and capital in pre-Confederation Canada", in G. Teeple (ed.), Capitalism and the national question in Canada, 1972, p. 55. The act, however, did provide for free land grants to male subjects on colonization roads. Teeple speculates that the reason for this exception may have been that it:

was an attempt to produce a cotter class, a group of labourers who would have sufficient land to substain themselves for part of the year and who would be hired seasonally to work for the timber merchants. Since it appears that the purpose of the colonization roads was to exploit the timber of the provinde, rather than to encourage settlement, and since there had been an earlier attempt to settle indigent immigrants on small parcels of land, forcing them to seek seasonal employment, the idea is not without some foundation.

34. Richard Caves and Richard Halton, The Canadian Economy: Prospect and Retrospect, 1961, p. 164-165.

35. Ibid, p. 173.

36. Ibid, p. 180.

37. Ibid, p. 173.

38. Calculated from table 1 and table 2 on the basis of the total population of the provinces as reported in the 1871 Census of Canada.

39. Mary Innis, An Economic History of Canada, 1948, p. 127.

40. Ibid, p. 128.

41. Reported in S. Ryerson, op cit. p. 215.

42. Subsequent to the American revolution there was an attempt to develop Nova Scotia (including New Brunswick) as a substitute for New England in the triangular trade with Britain and the West Indies. Some surplus foodstuff did find its way to the West Indies but for the most part agriculture was a "failure". In fact, during the great lumber boom of 1815-1825 the colonies became almost entirely dependent on foodstuffs from the United States for both home use and re-export. W.Easterbrook and H. Aitken, op cit, p. 242.

43. W. S. MacNutt, op cit, p. 50.

44. W. Easterbrook and H. Aitken, op cit. p. 239.

45. In fact, the merchants were anxious to import everything consumed in the region and export everything produced. Consequently, as might be expected, they consistently opposed duties on the import foodstuffs. W. S. MacNutt, op cit. p. 50.

46. W. Easterbrook and H. Aitken, op cit. p. 241.

47. The North West Company had been a Montreal based organization. But the Hudson Bay Company was British controlled. Moreover, their fur trade at this time was being carried out from forts on Hudson Bay and the Pacific coast; they did not work through Montreal connections.

48. T. Naylor, "The History of Domestic and Foreign Capital in Canada", in R. Laxer (ed.) Canada Ltd., 1973, p. 43.

49. Reported in Harold Innis, The Fur Trade in Canada, 1975. (reprinted), p. 393.

50. Ibid, p. 396.

51. Reported in ibid, p. 394.

52. Ibid, p. 394.

53. Reported in G. Myers, op cit, p. 87.

54. Reported in ibid, p. 91.

55. Donald Creighton, The Empire of the St. Lawrence, 1970 (first printed as The Commerical Empire of the St. Lawrence, 1760-1850, in 1937), pp. 361-362.

56. H. Innis, The Fur Trade in Canada, p. 395.

57. See A. Lower, op cit, p. 29.

58. See G. Tucker, The Canadian Commercial Revolution 1845-1851, 1964.

59. Reported in S. Ryerson, op cit, p. 101.

60. Reported in L. Johnson, "Land Policy, Population Growth and Social Structure in the Home District, 1793-1851", in J. Johnson (ed.), Historical Essays on Upper Canada, 1975, p. 44.

61. Reported in J. Spelt, The Urban Development in South-Central Ontario, 1955, p. 110.

62. Ibid, p. 63.

63. Karl Marx, Grundrisse: Introduction to the Critique of Political Economy, 1973, p. 257.

64. J. Spelt, op cit, p. 63.

65. Ibid, p. 65.

66. Ibid, p. 65.

67. On analysis of these statistics is provided by P. Wilson, "Consumer Buying in Upper Canada", in J. Johnson, 1975.

68. T. W. Acheson, "The Nature and Structure of York Commerce in the 1820's", in the Canadian Historical Review, 50, 1969, pp. 409-410.

69. J. Spelt, op cit, p. 79.

70. See B. Hammond, op cit pp. 143-147.

71. Reported in S. Ryerson, op cit, p. 272.

72. George Hague of the Bank of Montreal so described banking in Canada. Reported in T. Naylor, The History of Canadian Business 1867-1914, Vol. i, 1975, pp. 78-79.

73. Reported in ibid, p. 69.

74. For a discussion of the various forms of credit given by a banker see Karl Marx, Capital, Vol. III, 1973, pp. 403-404.

75. J. Spelt, op cit, pp. 79-80.

76. C. Curtis, Statistical Contribution to Canadian Economic History, 1931, p. 80.

77. T. W. Acheson, "The Nature and Structure of York Commerce in the 1820's", pp. 409-410.

78. Ibid, pp. 407-408.

79. B. Hammond, op cit, p. 139.

80. T. W. Acheson, "The Nature and Structure of York Commerce in the 1802's, p. 412.

81. See Donald Creighton, op cit, pp. 358-360.

82. J. Spelt, op cit, pp. 76-79.

83. H.C. Pentland, "The Development of a Capitalist Labour Market in Canada", in Canadian Journal of Economics and Political Science, 25 (1959), pp. 456-457.

84. Reported in J.M. Careless, op cit, pp. 147-148.

85. Reported in G. Myers, op cit, p. 83.

86. Reported in J. Spelt, op cit, p.

87. G. Myers, op cit, p. 91.

88. Ibid, pp. 91-92.

89. See S. Ryerson, op cit, pp. 260-262.

90. G. Bertram, "Economic Growth in Canadian Industry, 1870-1915", in W. Easterbrook and M. Watkins (eds.), Approaches to Canadian Economic History, 1967, pp. 86-87.

91. H. C. Pentland, "The Role of Capital in Canadian Economic Development Before 1875", in The Canadian Journal of Economics and Political Science, 25 (1959), pp. 464-466.

92. Ibid, p. 465.

93. R. Jones, "French-Canadian Agriculture in the St. Lawrence Valley", in W. Easterbrook and M. Watkins (eds.), Approaches to Canadian Economic History, 1967, p. 116.

94. S. Ryerson, op cit, p. 288.

95. Ibid, pp. 287-288.

96. Reported in O. Firestone, "Development of Canada's Economy 1850-1900", in Trends in the American Economy in the Nineteenth Century, V. 24, 1860, p. 218.

97. Reported in Steven Langdon, The Political Economy of Capitalist Transformation: Central Canada From 1840's to the 1870's, unpublished M.A. thesis, Carlton University 1972, p. 107.

98. Ibid, p. 108.

99. Census of Canada, 1851, p.

100. Calculated from ibid, p.

101. Mary Innis, "The Industrial Development of Ontario, 1783-1820", in J. Johnson (ed.), Historical Essays on Upper Canada, 1975, p. 140.

102. Reported in J. Spelt, op cit, p. 110.

103. Ibid, p. 63.

104. Calculated from table 2.

105. G. Bertram, op cit, p. 93.

106. Reported in S. Ryerson, op cit, p. 259.

107. Reported in J. Spelt, op cit, p. 115.

108. Spelt uses the nominal criterias of distribution and average size of establishment to distinguish 'service' and 'propelling' industries. He categorizes industries as propelling if (1) on the average they employ more more than ten workers per establishment; or (2) if they service a national markets. Industries which serve a regional market have become partly propelling. See ibid, p. 118.

109. Ibid, pp. 115-116.

110. Reported in S. Ryerson, op cit, p. 265.

111. In fact, as early as 1858 Redpath's Montreal refinery had the capacity to supply the needs of the entire country.

112. Reported in Steven Langdon, op cit, pp. 157-158.

113. W. J. Donald, The Canadian Iron and Steel Industry, 1915, p. 60.

114. William Kilbourn, The Elements Combined: A History of The Steel Company of Canada, 1960, p. 22.

115. W. J. Donald, op cit, pp. 60-61.

116. Calculated from Census of Canada, 1870-1871, Vol, III, pp. 458-463.

117. See Karl Marx, Capital, Vol. III, 1974, pp. 325-337.

118. Ibid, p. 327.

119. Ibid, p. 282.

120. Ibid, p. 285.

121. Ibid, p. 286.

122. T. Naylor "The rise and fall of the third commercial empire of the St. Lawrence", in G. Teeple (ed.), Capitalism and the national question in Canada, 1972, p. 3.

123. See Geoffrey Kay, op cit, pp. 89-93.

124. Ibid, p. 93.

CHAPTER THREE

The Economic Functioning of the Canadian State And its Contribution to the Reproduction of Capital

Introduction

In Atlantic and Central Canada merchants' capital conditioned the development of staple dominated economies. For instance, in Atlantic Canada in 1871 the leading manufacturing industries in terms of value of product were shipyards, sawmills and flour and grist mills. Similarly, in Central Canada the leading industries, excepting the manufacturing of boats and shoes, were flour and grist mills, sawmills and lumber products. (See Tables 2 and 3). These products, for the most part, were marked for export to world markets. The importance of the international lines of commerce for Atlantic Canada and Central Canada is perhaps best reflected in the facts that in 1866-1867, the trade of Central Canada with the other British North American colonies was only 3.99 per cent of its total; on the other end, only 2.34 per cent of New Brunswick total trade, and a slightly higher proportion of Nova Scotia trade, were with Central Canada.[1]

The chief trading partner of both regions before 1850 was Britain. It was under the Imperial umbrella of preferential tariffs that production in British North America was conditioned. But in 1846 the new industrial Britain adopted free trade, an event precepitated by a crisis of the Imperial food supply, followed by a commerical depression. Here the reader might recall that not only did merchant's capital condition an economy dependent onworld markets over which the indigenous bourgeoisie had little control, but the credit system, which tends to concentrate wealth in a few hands, by its nature forces the productive process to its extreme and thus accelerates the violence of crisis. In particular, we saw early that the export of Canadian timber expanded enormously during the 1843-1845 period. Similarly the export of wheat increased from 396,252 bushels in 1845 to 434,747 in 1846, and the export of flour rose from 442,225 barrels to 555,602 barrels. With the repeal of the Corn Laws, however, the timber trade collapsed; the export of wheat fell from 628,001 bushels in 1847 to 238,051 bushels in 1848; and the export of flour declined from 651,030 to 383,593 barrels.[2] In 1849 Governor Elgin claimed that three-fourths of the Canadian merchants had bankrupted,[3] and that same year, September, 1879, a powerful fraction of Montreal merchants and industrialists opted for annexation to the United States.[4] Such is the phenomenal form of the commercial crisis. But let us now examine its inner structure.

Capital, it was argued in chapter one, is distinguishable from money by virtue of the addition of surplus value. Capital without surplus value ceases to be capital and necessarily reverts to being mrely money. In turn, surplus value is that with which the capitatlists are left after they have paid the workers, purchased the materials of production and sold the commodity. It is obvious that capital must either "employed" in the production of the commodity or its circulation, that is, it must be "employed" in some aspect of creating/realizing surplus value if it is to act as capital. The crisis of commercial capital is its inability to find "profitable work" in the sphere of circulation. Hence the logic of the "Montreal Morning Courier's" argument:

> The decline in our trade has swelled the funds in the city banks which cannot find safe investment... It is worth consideration whether it would be advantages to open (Bank) agencies in New York now that our export and import trade has passed to that city.[5]

Alternatively, and this is crucial to understanding Canadian development, capital need not remain, to a greater or lesser extent, in the sphere of circulation within capitalist production. In precapitalist societies production is not subject to capital, that is, capital does not form the basis of production and hence circulating capital retains its dependence. It cannot flow from the sphere of circulation to production. In contrast, in capitalist production capital in circulation and in production exists merely as different moments. Thus should the rate of prof[illegible] sphere fall, capital may and will flow to another sphere. In particular during the period 1846-1851, "as capital was accumulated it showed itself increasingly in fixed investments."[6]

But with the upturn of trade in 1850 the Montreal capitalists foreswore Annexation and began agitation for reciprocity in trade with the United States. In 1854 James Elgin, on behalf of the British Government, negotiated the Reciprocity Treaty of 1854. Subsequently British North America reoriented itself to the American market. During the next six years trade between the colonies and their southern neighbour nearly doubled. These same years saw the peak of railway construction and the deepening and widening of industrialization. Reciprocity, however, was abrogated in 1866. The old commercial orbits of the colonies finally undermined by Britain's adoption of free trade and the United States' abrogation of reciprocity trade, in the anticipation of a profound commercial crisis and insufficient trade revenue for Central Canada to meet its foreign debt, a new state structure was constructed that could best serve the needs of the indigenous bourgeoisie. This chapter analyse the role of that state in reproducing and extending capital. In particular, the basis of opposition to Confederation and the ta and transportation policies of the state and their effects on the economies of Atlantic and Central Canada are examined.

The State in Capitalist Society

At the outset several remarks on the nature of the state in capitalist society are in order. Scholars in general recognize that the State, itself a product of the social division of labour, is a system of power which functions to protect and reproduce patterned social relations. In particular cases, i.e. the Asiatic mode of production, slavery and the feudal mode of production, it is acknowledged by Marxists and non-Marxists alike that relations maintained by the State include power relations. This consensus, though is not extended to the case of the liberal-democratic State. Thus it is not generally recognized that, as C.B. Macpherson succintly put it: "It is only power that needs power, only relations involving power that need superior power to keep them in order."[7] The problem arises that while it is clear that the liberal-democratic State, found only in societies (social formations) dominated by the capitalist mode of production, excercises power to maintain a system of relations these relations do not immediately reveal themselves as power relations. Free and equal people seem to interact in the market. However, the fundamental relation in a capitalist dominated social formation is between a mass of people without capital (whether natural capital i.e. land, or not) to work on and a relatively few people who have concentrated under their control the means of production.

This relation, we saw in chapter one, is a relation of exploitation of labour, a power relation. The economic system, and private property, in particular, is sanctioned by the State.

"The principal role of the state apparatuses", Poulantzas observes, "is to maintain the unity and cohesion of a social formation by concentrating and sanctioning class domination and in this way reproducing social relations, i.e. class relations."[8] In this regard, several remarks of John A. Macondald on the state are interesting. In 1861, for instance, he argued that "unless property were protected, and made one of the principles upon which representation was based, we might perhaps have a people altogether equal, but we should cease to be a people altogether free".[9] No doubt he meant altogether free to enter the wage labour market. Equally interesting, about five years later, during the Confederation debates, he remarked that at Quebec "not a single one of the representatives of the Government or of the Opposition of any one of the Lower Provinces was in favour of universal suffrage. Everyone felt that in this respect the principle of the British constitution should be carried out, and that classes and property should be represented as well as numbers."[10]

The state obviously does not create class domination, but it certainly contributes to it by reproducing the ideological, political, and to a lesser extent, the economic relations of capitalist society. Although perhaps not as important as its other roles, the intervention of the state in the economy, i.e. taxation, factory legislation, customs duties, railway building, are significant economic functions. In particular it is the economic functioning of the Canadian State with which we are concerned with in this chapter.

At this point it should be stressed that the proposition that the state maintains the cohesion of the social formation or class structure is not meant to suggest that fractions of the bouregoisie, for instance, live in harmony or that they all benefit equally from the economic functioning of the state. In so far as the principle contradiction in capitalist society is the exploitation of labour by the owning class the state intervenes equally on behalf of all the politically dominant classes or fractions in the sense that it "ensures the social formation's cohesion by keeping the struggles that develop it within the limits of the mode of production ...".[11] This coincidence of interests, of the dominant classes or fractions, is the basis of the phenomena of the 'power bloc'.[12] The power bloc, simply, is a contradictory unity of the politically dominant classes or fractions of classes, behaving on the political level. But at the same time one class or fraction is usually dominant within the power bloc. What is important here is that while class conflict conditions a tendency of dominant classes and fractions of classes towards a political unity, because these elements play different roles in the productive process they at times oppose each other. With regards to the functioning of the state and the maintainance of the class structure:

> The hegemonic class or fraction polarizes the specific contradictory interests of the various classes or fractions in the power bloc by making its own economic interests into political interests and by representing the general common interests of the classes or fractions in the power bloc: this general interests consists of economic exploitation and political domination.[13]

Confederation Or Political Conquest

There is little doubt that Confederation, on one hand, was a strategy adopted by the commercial-financial fraction of the Central Canadian capitalist class to maintain and increase the flow of British capital into Canada[14] to finance the development of its infra structure and utlimately, via railway construction and stimulated trade, to increase their own personal fortunes. The Honourable Mr. Brown was quite explicit in why he supported Confederation:

> I am persuaded that this union will inspire confidence in our stability, and exercise the most beneficial

> influence in all our affairs. I believe it will raise the value of our public securities, that it will draw capital to our shores, and secure the prosecution of all legitimate enterprises... .[15]

Confederation was also, however, a strategy adopted by the commercial-financial and industrial fraction of the capitalist class of Central Canada and a "part" of the ruling class of Atlantic Canada to consolidate a trans-continental market. This decision was, in part, conditioned by the loss of British preferences and the anticipated abrogation of reciprocity. Whatever the setting of debate, "the national economy of British North America was a recognized objective of Confederation."[16] Specifically, the establishment of a new political nation would level trade barriers between the colonies; inter-colonial banking restrictions would be dropped effectively making bank capital, or rather the movement of capital, trans-continental; the building of an inter-colonial railway, a part and parcel of the confederation scheme, would facilitate the movement of 'goods' east and west; and finally, a federal government with powers in "those questions that are of common importance to all the provinces", including the authority to regulate trade and commerce, would be able to portect the products of the new nation from the manufactures of the United States, etc.[17]

Initially Confederation was a proposal of the commercial-financial and industrial capitalists of Central Canada. The inducements offered by them to the Atlantic colonies in return for orienting themselves to a national market were attractive. First, the commercial capitalists of Atlantic Canada were "promised" that they would handle the exports of the interior. For instance, the Honourable George Cartier[18] informed the Atlantic delegates to the Charlottetown conference:

> Have you any objection to being absorbed by commerce? Halifax through the Intercolonial Railroad will be the recipient of trade which now benefits Portland, Boston and New York. If you are unwilling to do all in your power to bring to a satisfactory consummation the great question, you will force us to send all this trade, which you ought to have, through American channels. Will the people of Nova Scotia or New Brunswick be better off because they are not absorbed by commerce or prosperity? It is as evident as the sun shines at noon that when the Intercolonial Railway is built-and it must necessarily be built if Confederation takes place -- the consequence will be that between Halifax and Liverpool there will be steamers almost daily leaving and arriving at the former-in fact it will be a ferry between Halifax and Liverpool.[19]

An important part of this "promise of commerce" was an obligation upon the federal government "to make such improvements as were required in the development of the trade between the Great West and the Seaboard and to prosecute such improvements at the earliest period when the finances of the Dominion would permit".[20] This was understood to mean not only the building of railway but also a development of the Maritime ports. Second, Atlantic Canada was promised that Confederation would open up the markets of the West to them. Here, again, Cartier's words are notable:

> Canada had been accused of insincerity in her dealings with the Maritime Provinces ... (but) Canada was unjustly accused; ... her ministers did not come there to urge them by undue means into the adoption of any scheme of union; but fairly to point out to them the enormous advantages which, in a commercial point of view, their merchants, traders, and manufacturers would derive from having a market of four million of people for the exchange of their several commodities ... .[21]

But Atlantic Canada was not won by words, or rather, by promises. The capitalist classes of Nova Scotia and New Brunswick divided over the question. The argument of the opposition was two-fold. First, they feared Canadian penetration in their political sphere. On any issue of disagreement they were sure to be voted down by the sheer force of numbers. They would loose control of both their trade and revenue. The anit-confederate newspapers of Nova Scotia echoed these sentiments:

> Are the people of Nova Scotia so discontented with their present system of Government that they are willing to change it at such a cost ... ?[22]

> We have the trade of the world now open to us on nearby equal terms, and why should we allow Canada to hamper us?[23]

> Are the peopl of Nova Scotia prepared to yield up thierflourishing customs revenue to a federal treasury in Canada, there to be squandered in jobbery and corruption?[24]

Second, Atlantic Canada feared the penetration by Canadian business. The Evening Reporter, for one, noted that:

> Many of our merchants are strenuous opponents of union because union in their estimated means more businessmen, greater competition, less profit, more trouble.[25]

Determining the basis of opposition to Confederation in Atlantic Canada is complicated by the fact that the commercial, financial and industrial fractions of the bouregoisie were not clearly delineated. Rather, one capitalist often acted in each of the three economic spheres. At first glance it appears that the division over the union question was merely a squabble among capitalists over the best strategy to maximize profit. This, indeed, may be a part of the story. But upon closer examination of the social origins of the basis of opposition in Nova Scotia, the available evidence seems to favour the hypothesis that the most powerful capitalist, who were usually bankers, opposed Confederation. At least the bankers seem united in their opposition. Understandably some merchants and industrialists might reason that the markets of the upper provinces and the flow of "Montreal" trade through

Atlantic ports would improve their situation. But for the bankers, the opening of the region to the larger banks of Central Canada and the ensuing competition would seem to outway all benefits. Governor MacDonnell's letter to Cardwell, in part reproduced below, is informative on this question:

> (The opponents of Confederation included men) of the highest social sphere, and in fact comprise most of the leading bankers and merchants, the wealthiest farmers, and the most independent gentlement in the Province ... .[26]

Similarly, in New Brunswick the industrial and commercial fractions appeared divided on the question but the banking community was united in its opposition. While a number of manufactures felt the inter-colonial railway would indeed open to them the markets of Central Canada others more clearly saw the dangers.

> I ask you tanners, I ask you foundrymen, is it possible, is it likely that you will flood that country with your wares. If so, why is our Province flooded, our shops crammed with American goods! Look at it -- where we have one foundry one tannery, one distillery, they have thousands, After the Union you will be in a worse position than you are now; for you will ... have the Canadians flooding you with goods also.[27]

This division appears to be a disagreement over strategy; likewise in the commercial sphere. But the whole financial fraction of the capitalist class joined with parts of the industrial and commercial fractions to form a powerful anti-confederation coalition. Generally the capitalist class was well represented in the New Brunswick government. Without in any way meaning to imply that the State is reducible to the members which constitute its apparatuses a cursory inspection of anti-confederation and confederation candidates in the 1865 and 1866 elections is instructive. Of the twenty-nine men, <u>fourteen anti-confederates</u> and <u>fifteen confederates</u>, on whom information is available, three were bankers and among the most powerful members of the colony. All three, George Brown, John Pickard and John Robertson, opposed Confederation. Brown[28] in addition to his interests in thirty-eight vessles, was an extensive gentleman farmer, a promoter of the Yarmouth Gas Company and the Western Counties Railway Company, a director of the latter corporation and of the Acadian Marine Insurance Company and a principle stockholder in the Bank of Yarmouth and the Exchange Bank of Yarmouth. Pickard[29] was one of the most extensive mill owners -- sawmills, gristmills, carding mills and fulling mills -- and a director of the New Brunswick Railway Company and of the People's Bank at Fredericton. In good years his sawmills turned out 30,000,000 feet of lumber. Robertson[30] was a merchant, lumberman and ship-builder, president of the Victoria Coal Mining Company, a local director of the Bank of British North American and a director of the Maritime Bank. The other anti-confederate candidates consisted of a journalist, six men who appear to be primarily lawyers and politicians, and four shipowners, merchants and lumbermen (often one in the same). Among the confederation candidates was a land speculator, a publisher, three men who were primarily lawyers and politicans, and ten others who principally derived their wealth from lumber or mercantile persuits. The division in the commercial sphere is clear; the opposition of the bankers to Confederation, indicated above, is confirmed in Grey's letter to Macdonald on the eve of the 1865 election:

> (T)he banking interests united against us. They at present have a monopoly and their directors used their influence unsparingly. They dreaded the competition of Canadian banks coming here and the consequent destruction of their monopoly.[31]

The anti-confederation coalition did indeed carry the day in New Brunswick. Nine confederates, twenty-eight anti-confederates and four non-partisans were returned. Cardwell, however, made it clear to Monck that "the full weight and influence of the imperial government ... would be used to advance confederation."[32] Gordon, Lieutenant Governor of the colony, left for England at the end of the summer of 1865 and while there was instructed by Cardwell to "further the cause of Union by every means within his power."[33] On the 8th of March, 1866, Gordon delivered the speech from the throne which contained the following:

> ...I am ... directed to express to you the strong and deliberate opinion of Her Majesty's Government, that it is an object much to be desired, that all British North American colonies should agree to unite in one Government.[34]

The legislative council ultimately passed a resolution accepting the imperial government's message in favour of union and Smith, angered at the imperial pressure, resigned. Prorogation followed on April 16.

It is generally agreed that the preferences of the British government swung a portion of the high Whig element, which meant the purses and influence of timber magnates and ship-owners, over to Confederation. In addition Gordon, himself, drummed up support for Confederation by exploiting the scare of Fenian attacks, which he had not taken seriously till the end of 1865, to the extent that he called out part of the militia in April.[35] If the Fenians did intend any attack they postponed it. Not surprisingly the confederates easily won the election and New Brunswick was ready to enter Confederation.

"Popular" opposition in Nova Scotia also threatened the union scheme. Howe (1866) among others, argued that no general election had been held on the Confederation proposal and, as such, the Nova Scotia government had no mandate to agree to the scheme. Rather, [illegible] the by-elections where

Confederation was an issue anti-confederate representatives had been returned. A number of opponents of Confederation formed the League of the Maritime Provinces. Their first step was to send Howe to Britain to prevent the passage of the British North America Act or at least to amend it so not to include Nova Scotia. But the colony became a part of the Dominion of Canada.

The election called for by Howe (to consult the voters on the union scheme) was not held till after the Confederation act; all but two supporters of Confederation were defeated. The first business of the new provincial Government was to ask Britain to repeal the British North America Act in so far as Nova Scotia was concerned. Howe was sent to England for the second time. The imperial government, however, adopted the position that the request:

> (W)as equivalent to the declaration of a wish to separate from England, and that perseverance in opposing the union would be so considered and treated.[36]

Some of the anti-confederates followed the lead of Howe who reacted to the British government by converting to a Confederation stand. Others openly advocated annexation to the United States. In the three by-elections in the province to the Dominion Parliament in 1869 annexation was a major issue. In both Hants and Yarmouth annexationists were returned.

J. A. McClellan wrote to Macdonald that in Yarmouth both the banks and every man of means supported the annexation candidate, Frank Killam.[37] The same year the League of Maritime Provinces formally changed its name to the Annexation League and issued the manifesto reproduced, in part, below:

> Our only hope of commercial prosperity, material development, and permanent peace lies in closer relations with the United States. Therefore be it resolved that every legitimate means should be used by members of this convention to sever our connections with Canada and to bring bout a union on fair and equitable terms with the American Republic.

The organized annexation movement, however, began to dissociate during the relatively three prosperous years after 1874 and in the face of the realization "that the British government would not stand idly by and see that province secede from the Dominion and join the United States."[39]

Reorienting the Atlantic Economy to a National Market

With Confederation the political and economic structures of the Atlantic colonies were radically transformed and subsumed under a 'federal' state. The state was widely recognized by Atlantic Canada to act on behalf of Central Canadian capital, hence the seccession and annexation movement. On the other hand, the absence of an organized movement after 1872 is not necessarily evidence that suspicion of the State had been dispelled. In this respect a resolution introduced in the Nova Scotia Assembly in 1884 is instructive:

> 'Whereas, the financial and commercial condition of the Province of Nova Scotia is in a very unsatisfactory state,
> 'And whereas, it is evident that the terms of the British and fiscal laws, are the principle causes contributing to this unsatisfactory condition of the finances and the trade of the Province,
> 'Therefore, resolved that this branch of the Legislature of Nova Scotia is of opinion and hereby declares its belief, that the interests of the people of Nova Scotia, New Brunswick and Prince Edward Island would be advanced by withsrawing from the Federation and uniting under one government.'[40]

In fact, after more than fifty years of union this same attitude toward the state was formally expressed by the Legislature of Nova Scotia. Specifically, the preamble to the "submission of claims with respect to Maritime disabilities within Confederation, 1926" reads, in part:

> You will appreciate that Confederation was not sought by the Maritime Provinces, but that an appeal had been made to them to join the movement, primarily for the benefit of Quebec and Ontario ... the ultimate object to build up a great Canadian nation ... . Following the trend of conditions since that time, you will note the gradual growth of disabilities which have so depressed these Provinces as to render them economically unhealthy ... . You will observe that the Maritime Provinces have borne their share of the cost of the great transportation systems ... yet have benefited little or nothing from that contribution ... (I)nto the general revenues of the Dominion ... have gone from this Province moneys which have been used to finance various undertakings ... (of) the Dominion in general, while no corresponding effort has been made for the benefit of Nova Scotia. You will notice that ... the entire freight rate structure of the Dominion has oppressed this Province almost to the point of strangulation ... (T)he general fiscal policies adopted by the Dominion ... force the Maritime Provinces to buy many commodities in a highly protected market in Canada, while ... the market in Canada, which was supposed to be available for the Maritimes, has been gradually thrown more and more open to world competition,

with the general tendency to make us buy in the highest market and sell in the lowest.[41]

A chief economic aim of the Canadian federal state was to extend the markets for Central Canadian products in to Atlantic Canada; the imperialist chain forged between the regions was characterized by the export of commodities to Atlantic Canada and, as we shall later see, the draining off of capital from that same region. The strategy to extend the market was two fold: (1) a prohibited tariff policy; and (2) the development of communications, i.e. the inter-colonial railway. The remainder of this chapter considers these developments and their effect on reorienting the Atlantic economy.

During the twelve years of Reciprocity, 1854-1866, the natural products of the British North American colonies and the United States were exchanged duty free. The duties on all other goods were decided on by each separate political unit. The following table gives the total value of imports and exports between New Brunswick and the United States, Nova Scotia and the United States, and the value of Central Canada's imports, via the St. Lawrence, from New Brunswick and Nova Scotia and the total value of her exports to the Atlantic colonies (New Brunswick, Nova Scotia and Prince Edward

Island) during the years 1856 to 1866. These trade statistics indicate that the "natural" trading partner of Atlantic Canada was not Central CAnada but her southern neighbour.

TABLE 4 ABOUT HERE

In 1866-67 the trade of Central Canada with the other British North America colonies was only 3.99 per cent of its total. On the other end only 2.34 per cent of New Brunswick's total trade, and slightly higher in Nova Scotia, was with Central Canada. In sharp contrast the New Brunswick's total trade with the United States grew from 33.7 per cent of her total imports and 10.8 per cent of her total exports in 1851 to 43.0 per cent of her total imports and 31.4 per cent of her total exports in 1865 (see table 2). Similarly Nova Scotia's total trade with the United States grew from 25.2 per cent of her total imports and 20.8 per cent of her total exports in 1851 to 30.1 per cent of her total imports and 41.0 per cent of her total exports in 1865. (See table 2). New Brunswick's chief exports to the United States were timber and lumber, staves, laths, shingles, spars and fish; her chief imports from the same were books, stationery, Indian corn, flour and wheat, salted provision, rice, timber and lumber, coal, tobacco and various kinds of manufactured goods. It is apparent that New Brunswick exported a larger proportion of "natural" products than she imported. The chief exports of Nova Scotia to the United States also consisted of 'natural' products -- fish, agricultural products and coal. On the other hand duty was paid on about half the imports from the United States. Between Central and Atlantic Canada, Central Canada's chief exports were agricultural products, fish, forest and animal products and, increasingly during the latter part of the period, manufactured products.[42]

The abrogation of Reciprocity immediately effected the trade between Atlantic Canada and the United States. The imports of New Brunswick from the United States dropped from $3,743,896 in 1866 to $1,219,130 in 1867-68; and exports fell from $1,855,944 to $1,226,072.[43] On the whole, though, the trade statistics of New Brunswick show a strong export economy till 1878. From table 5 we see that the total foreign trade of the province had recovered to its 1866 level by 1872 and continued to grow, with a slight drop in 1869-70, till the depression years 1873-74 and, in particular, the general economic crisis of 1875. But the province's foreign trade bounced back from $11,835,978 in 1875 to $15,009,320 in 1877-78. Then, under the impact of the National Policy and the lowest lumber prices in twenty-five years, foreign trade plummeted to a post Confederation low of $10,667,925 in 1878-79. Moreover, the situation was now chronic. That the main cause of this state of affairs was the introduction of the prohibitive tariff in 1878 is revealed in the facts that while the total exports of New Brunswick had recovered to their 1877-78 level by 1880-81, the total imports had not recovered by 1886-87. Examining these same figures G.J. Marr concluded: "This makes it apparent that much that was formerly imported, chiefly from the United States, was now obtained from the upper Provinces and the National Policy tended to increase internal trade at the expense of external."[44]

The abrogation of Reciprocity had a similar effect on the trade between Nova Scotia and the United States. Specifically ~~the total trade with the United States fell from $7,330,394~~ in 1866 to $4,111,372 in 1867-68.[45] But the effect of the abrogation on Nova Scotia was more lasting than in New Brunswick. Table 5 shows that between 1867-68 and 1886-87 the greatest value of her foreign trade was $19,972,148, three million lower than the value of her trade in 1865. As in New Brunswick there is a significant drop of foreign trade in 1875-76 and 1878-79 and a general tendency for exports to grow but not imports, reflecting the penetration of the Nova Scotia market by producers in Central Canada. For instance, the total value of imports in 1886-87 was $7,437,856, $775,826 less than the value in 1867-68; exports during the same years increased $3,125,675 to a value of $8,566,959.

TABLE 5 ABOUT HERE

During Reciprocity the average tariff in Nova Scotia was 10 per cent, ranging from duty free on raw materials to a high of about 20 per cent on luxury commodities and some manufactured goods. In New Brunswick the highest general rate during this period was 15 per cent. The Canadian tariff was generally considerably higher. These tariff structures did not discriminate between Canadian and American imports. The undifferentiating trade barriers, the proximity of the British North American colonies to the large American markets and the lack of inter-colonial communications were believed the major obstacles to the growth of trade between Atlantic and Central Canada. Confederation coincided with the end of Reciprocity; inter-provincial tariff barriers were dismantled and the federal state raised a tariff wall to American (and other nations) 'natural' goods and set a prevailing rate of 15 per cent on manufactured good. Under incessant pressure from Ontario manufactured this rate was raised 2½ per cent in 1873.[47] The objective of the tariff structure, aside from its function of 'producing' revenue, was to protect local industry from American competition and to give indigenous industry a relative advantage, with respect to foreign industry, in inter-regional trade.

We have already seen evidence that the tariff structure helped to extend and reproduce a market for Central Canadian products in Atlantic Canada. Unfortunately the very fact that these were no trade barriers between provinces, and hence no custom houses, makes it impossible to conclusively determine the growth of inter-provincial trade. However, there is evidence that the trade between Atlantic and Central Canada grew from an almost insignificant portion of the total trade of the colonies in 1866 to major importance merely ten years later, that the balance of trade was heavily in favour of Central Canada and that Atlantic Canada, within the confines of the national tariff structure, was increasingly becoming an important market for the secondary manufactured commodities of Central Canada. Testimony was given to the 1877 Select Committee of the House of Commons that between $10,000,000 and $11,000,000 worth of goods were imported by the Atlantic provinces from Central Canada in 1876 and about $1,500,000 to $2,000,000 worth of goods, principally natural products -- coal, fish, gypsum, etc., were sent to Ontario and Quebec.

By comparison the total foreign imports (inter-provincial trade, or course, not included) of New Brunswick and Nova Scotia that same year was $16,296,302.[49] By 1885 the extent of the inter-regional commerce was estimated by the secretaries of Montreal and St. John boards of trade to be $15,711,000, again heavily in favour of Central Canada.[50] With respect to secondary manufacturing, leading Ontario and Quebec industrial capitalists gave evidence to the 1874 and 1876 Select Committees of the House of Commons that Confederation had either opened to them or extended their markets in Atlantic Canada. For instance both Robert Mitchell,[51] a brass founder in Montreal, and Bell, a manufacturer of organs in Guelph, testified that since Confederation they had produced for the Atlantic market, but before that had had no sales there.[52] Similarly D. McCrae, a Guelph clothier, commenced business in New Brunswick and Nova Scotia after 1867. He said that at first "the people of Halifax were so sore about Confederation that they would not look at our goods" but "that Confederation had practically given them the market of the Maritime Provinces".[53] And W. E. Sanford and William Muir, wholesale clothiers located in Hamilton and Montreal respectively, gave evidence that their markets in Atlantic Canada had been considerably extended since Confederation. Muir's testimony is illustrative: "Our business increases with the trade of the Dominion which has increased largely. But one of the principle elements in the increase has been our getting the Maritime Provinces as a market. Not less than one-third of my own trade is with Nova Scotia and New Brunswick." Finally, William Chaplin a manufacturer of farm implements located in St. Catharines, testified that while he had little sales in Atlantic Canada prior to Confederation his sales had since grown to about $20,000.[55] More will be said of the penetration of Central Canadian manufacturers into the Atlantic market in the next chapter.

Building a Transportation Infra Structure: Railways and Harbours

The Atlantic colonies had been promised the role of intermediaries in the movement of products between Central Canada and world markets. This promise, in part, was an obligation ~~upon the federal government~~ to construct the Intercolonial Railway and develop the ports of Atlantic Canada. In turn Nova Scotia and New Brunswick had "given up" self-government.[56] By 1880, however, it was becoming increasingly clear that the Montreal and Toronto merchants were not sending "all their trade" through Atlantic ports. In fact total exports through Atlantic ports, as a percentage of total Canadian exports, merely held their ground between 1870 and 1900; and total imports, as a percentage of the Canadian total, fell from 22.5 per cent in 1870 to 9.7 per cent 1900.[57] To a significant extend this situation was a consequence of the transportation policies adopted by the federal government.

In 1867 the exports of Central Canada were sent to the Atlantic seaboard by three routes: the New York line of commerce, the St. Lawrence River transportation system and the Grand Trunk Railway route to Portland, Maine. Under the terms of Confederation, Section 145 of the British North American Act, it was required that a fourth line be constructed. Specifically the Act reads that the federal government "provide for the Commencement within Six Months after the Union, of a railway connecting the River St. Lawrence with the City of Halifax... ." This route, the railroad that Macdonald promised Halifax would bring "all the vast resources of the West ... to the bosom of that harbour",[58] however, would directly compete with the Grand Trunk.

The Grand Trunk Railway was chartered in 1852 and was almost completely financed by the English banking houses of Baring Brothers, Glyn Mills and Rothschilds.[59] What is important, here, is that the directorate was almost indistinguishable from the Canadian Government. For instance, of the nineteen directors nine were nominated by the Government. Of these four were Cabinet Ministers.[60] Two of these persons, John

Rose and Francis Hincks served as Ministers during the construction of the Intercolonial Railway. Also of note is that George E. Cartier served as the chief lawyer for the Grand Trunk.[61]

For twenty years prior to Confederation the Central Canadians "had ignored and disdained" the idea of an intercolonial railway.[62] But the Atlantic capitalists had been adament on it being part of the union scheme. "I can assure you", Tilley wrote to Macdonald, "that no delegates from this province will consent to union unless we have this guarantee."[63] Ultimately the railraod was built but it took another ten years. The Governments attitude towards its construction is perhaps best revealed in the facts that John Rose, Canadian Minister of Finance, used the first installment on the railway loan made by the Imperial Government-- Ƀ2,000,000 -- to liquidate some Government liabilities. The British Treasury, shocked, warned that the remaining Ƀ1,000,000 of the loan would not be given unless the Canadian Government gave assurance that the money would be used for railway construction. Meantime Francis Hincks replaced Rose as Finance Minister. Not to be outdone by Rose, in response to the British warning Hincks spent Ƀ300,000, out of a Government purse which had been marked to help finance the construction of the Intercolonial, to purchase Hudson Bay Company Land in western Canada.[64]

The fixing of rates for the Intercolonial was under the direct control of the Minister of Railways and Canals until 1923. Somewhat in accordance with the "spirit of Confederation" a schedula of differential rates,[65] across the board lower for goods shipped west as opposed to goods shipped East, was established. On the whole, however, there was "disappointingly" little traffic over the Intercolonial. The fact that the route was not competitive, in particular with respect to the Grand Trunk line, was mainly a consequence of Government policy. The Government, in fact, blatantedly biased in favour of the Grand Trunk that Portland was even used as the terminus of the Canadian Mail boats up to 1897.[66]

The route of the Intercolonial was "dictated", in opposition to arguments from Atlantic Canada, by military considerations rather than the commercial requirement of provinding a direct and short line to the sea. The line was chosen by the Government, moreover, without any reference to Parliament and without being subjected to the approval of Parliament. Almost immediately after its completion the merchants of St. John recognized "that they were not likely to derive any benefit from the Intercolonial Railway" and began agitation for the construction of a shorter line to Quebec City.[67] With respect to Halifax, for instance, the distance to Montreal was so much greater than that between

Portland and Montreal that a grain elevator built in the former city, in anticipation of the flow of wheat over the Intercolonial, was never used.[68]

Interestingly, in 1885 nine years after the completion of the Intercolonial Railway, when the Canadian Pacific Railway wanted to construct a line from Montreal to the Atlantic coast, the Government argued that the Intercolonial line was too long and that their object in choosing the Canadian Pacific line was to create a trade between Central Canada and Atlantic Canada, and to bring down to the ports of Atlantic Canada the products of the West, prior to their shipment to Europe. What the Government failed to mention, however, was that the proposed route would also meet the Maine road. In this connection a speech of George Stephen, president of the Canadian Pacific Railway, to a group of Portland capitalists in 1882 concerning the route of a project proposed that year, is instructive. In part, it is reproduced below. It clearly reveals his concern "to bring down" to the ports of the Atlantic Provinces the products of the West. The intimate relationship between Macdonald's Government and the Canadian Pacific Railway, chartered in 1880, is too well known to warrant telling here.

> Three years ago we made a contract to build a line of railway from Montreal to the Pacific Ocean ..., and it is not unnatural that our eyes should be case upon the most direct way,

> and whether we shall be able to accomplish our object will depend a little upon yourselves. We think, as I said before, that Portland has great capacity in that respect, and I may say, for my colleagues and myself, we are anxious to do all we can to endeavour to get a foothold here.[69]

There was, of course, no justification for the enormous expense of a second railway to Halifax, albeit a shorter route, to stimulate the flow of goods through the Atlantic ports. The Intercolonial could have been made competitive with the alternative American routes through rate reductions. The Government, however, "on principle", held the line that the Railway should pay for itself. In particular, the rates on wheat shipped east, and on refined sugar, cotton products and products of other Atlantic industries shipped west were "at least fairly renumerative."[70] Several observations of the Honourable Mr. Capbell, made during a House Debate on railway rates in 1887, are instructive with regard to the effect of the relatively high rates on flour shipped over the Intercolonial. The difference in rates between the Intercolonial and American routes, he argued, was "just enough to send the traffic by (the latter route) ... instead of over the Intercolonial Railway. The large shipper will get his flour at 55 cents freight delivered in Halifax over the Intercolonial Railway, but he can get it delivered in Halifax via Boston for 50 cents.[71]... ." He found that five flour shippers he interviewed during recess had, in the last year, shipped 160,456 car loads by the American route and only 1,294 car loads over the Intercolonial.[72]

Finally, with regards to railway policy, not only did the Government not attempt to discourage traffic to American ports by lowering rail rates, but the Nova Scotia submission to the "Royal Commission on Dominion Provincial Relations" charges that up to 1938 the Dominion had "made investments amounting to $156,000,000 in railway transportation and harbour facilities in the United States and assumed an indirect liability of many millions more."[73]

The promises of Cartier and Macdonald were, at best, completely unwarranted. The exports of the Upper Provinces continued to flow through the ports of New York, Boston and Portland. It seems that the capitalist class in Central Canada regarded the Intercolonial as a political necessity, but a commercial white elephant. It was "easier" for them to ship goods from the West to Portland and from there to the world market or to Halifax, than to use the Intercolonial. This is not to say that the government was opposed to exporting through a Canadian port. Many millions of dollars, infact, were spent on dredging and harbour construction. But the bulk of this money was used to develop Montreal as an ocean port. Before concluding some observations in this regard are in order. What is essential to understanding the functioning of the state here is that it (the state) develops or extends lines of commerce necessary for the reproduction of capital, or if you will, there production of the classes and class fractions which occupy the terrain of political domination.

Earlier we saw that the total trade through the Atlantic ports, as a percentage of the national total, declined during the period 1870-1900. The foremost beneficiary of their loss was Montreal. We see from table 6 that while the total value of imports and exports handled at Halifax and St. John rose from $9,382,000 in 1870 to $12,809,000 in 1900, and from $8,605,00 to $14,357,000, respectively, the value of goods handled at Montreal increased from $44,175,000 in 1870 to $126,771,000 in 1900. On the one hand, the tremendous growth of Montreal as a port was a function of the relatively high rail rates between that city and the coast which incouraged the movement of commodities via the St. Lawrence River. On the other hand, the introduction of steam-ships (navigating the St. Lawrence under sail had been trecherous and insurance rates prohibitive) and state expenditures on harbour facilities and river dredging helped to develop Montreal as an ocean port.

TABLE 6 ABOUT HERE

The following table gives a summary of capital spent on improving six major ports in Canada for the period 1867 to 1936. Almost three times as much money has been spent on Montreal as on either Halifax or Saint John. In its submission to the "Royal Commission on Dominion Provincial Relations", Nova Scotia bitterly complained that this money has been used to develop Montreal as an ocean port at the expense of the Maritime Provinces: where the State made no reasonable attempt to develop ports.[74] Finally, large amounts of capital was expended for dredging the channel between Montreal and the lower St. Lawrence.[75] The state's disregard of the interests of Atlantic Canada, with respect to the development of ports, Nova Scotia argued, is abvious in an act passed in 1888 that indicated "it was not the intention (of the state) to pay regard to the substantial development of the Maritime ports. (Yet) by chapters 5 and 6 of the Acts of the Dominion in that year provision was made for the assumption by the Dominion of the debts of the harbour commissioners of Montreal and Quebec and for the widening and deepending of the channel in Lake St. Peter and in the St. Lawrence from Montreal to Quebec."[76]

TABLE 7 ABOUT HERE

Rosa Luxemburg: Markets and the Tendency to Underconsumption

At the outset of this chapter the nature of the commercial crisis was analysed. In 1848-1849 the main strategy adopted by the indigenous capitalist class, in the face of depression, was Reciprocity. But 1866 saw the final break-up of the old commercial world of British North America. At this point capital turned to Confederation. The two principle economic aims of union were to secure favourable conditions for borrowing abroad and to expand the home market. The latter developed within a tariff and transportation framework raised by the capitalist state. The facts that over the next twenty years trade between Central and Atlantic Canada grew to about $16,000,000 is testimony to the success of Government policies.

The chief benefit promised Atlantic Canada, from union, was that indigenous merchants would act as "middle men" in the transportation of goods between the West and world markets. We have seen, however, that the total trade through Maritime ports actually decreased during the next twenty years. For their part, Central Canada saw the captured Atlantic market as a natural market for foodstuffs. It is evident, however, that Atlantic Canada could not fill the vaccum left by free trade and the abrogation of Reciprocity. Clearly the transportation of foodstuffs to Nova Scotia and New Brunswick, in and of itself, could not have been the main strategy adopted by the Canadian bourgeoisie to mediate the crisis of commercial capital.

In this regard, Ryerson writes that one of two main pressures for Confederation "came from the growth of a native capitalist industry, with railway transport as its backbone, and expansion of the home market as the prime motive ... ."[77] In particular, we saw in the preceeding chapter that during the 1850's and 1860's manufacturing firms in Central Canada, i.e. the agricultural implements industry, cotton mills, tobacco firms and the boot and shoe industry, were already producing for regional exports and thus exerting pressure towards the expansion of home markets. It would be a mistake, however, to suppose that pressure for a national market came from productive capital in particular. Rather, it came from capital in general. The reader will recall that it was argued earlier that capital, in a society dominated by the capitalist mode of production, is "free" to flow from the sphere of circulation to the sphere of production. And in fact, we shall shortly see that merchants' and financial capital was transformed into productive capital. This phenomena is reflected in the facts that during the period 1870-1890 the value added by secondary industry grew more than 125 per cent while primary production increased less than 50 per cent.[78] In a nutshell, capital in 1867 opted for industrial development.

Merchant's capital, it was argued, intervened between two extremes -- production and consumption -- and promoted the exchange of commodities. But while it accelerated the material development of the productive forces it did not posit production. It was confined to the sphere of circulation. What is important, here, is that while merchants' capital separated producers and consumers and thereby created the conditions of crisis, and while the credit system, at a particular moment in the development of merchant's capital, forces production to its extremes and thus accelerates the eruption of crisis, overproduction is not yet inherent in the productive process. In contrast, at the point when commerce becomes a moment of capitalist production, when capital posits production, the continual expansion of the market becomes a vital necessity and, as such, the crisis of over production becomes imminent. This law of capital is at the heart of capitalist development in Canada after 1867. Let us then, before concluding this chapter, turn to Rosa Luxemburg and the tendency of capital to under-consumption.[79]

In chapter one it was noted that capital divides itself into living labour (the wagers of the workers -- variable capital) and into the materials of production (constant capital). The process posited is capitalist production. Production of course, presupposes consumption. Specifically, in the case of capitalist production, commodities must be sold for the capitalist to realize the value of those goods -- the transformation of commodity capital into money capital. This requires that the consumptive power of society in general be equal to the value of production. What is the demand in capitalist society? First, a portion of the money capital realized by the capitalists is spent (as money) to keep themselves. Other portions of money capital are used to replace the labour power and objects of production consumed in the productive process and thus reproduce the process. Finally, a portion of the money capital is used to extend the productive process. That money capital is realized which is large enough not merely to reproduce the production process but also to keep the capitalist class and to extend the product process, arises, we saw in chapter one, from the fact that while variable capital is the cost of reproducing labour, labour itself creates more value than its cost. The difference is the capitalists' profits -- surplus value.

Here is the problem. The consumptive demand, in general, is equal to the value of variable capital plus the value of constant capital plus the amount needed to reproduce the capitalist class. On the other hand, the value of production is equal to the cost of variable and constant capital plus surplus value. But surplus value is divided into both the cost of reproducing the capitalist class and the cost of extending production. Where, then, does the demand come from to realize that portion of surplus value used to extend capitalist production if the workers have already exhausted their wages and the capitalista have provided for themselves and replaced the constant capital consumed? If they sell it to themselves then there is no extended reproduction for they have consumed that very portion of surplus value that was to be used to extend reproduction. Thus Rosa Luxemburg argued that the extended reproduction of capital was impossible in a closed capitalist system. Rather, part of the surplus value could only be realized by extending markets, that is, bringing in more consumers. Imperialism, then, is inherent in capitalist production; ultimately the process of expansion means the penetration of the markets in one social formation by the capital of another formation. In the end, she reasoned, the world population would be absorbed into the world market-effectively meaning a closed capitalist system -- and the system would necessarily break down.[78]

The major criticism of Luxemburg's theory of the 'breakdown' was that she saw demand in a closed system as relatively static, necessarily lower than the value of production. This criticism was based on esentially four forces, it was argued, that existed and which counteracted the 'tendency to underconsumption'. Briefly, these are reviewed below.[79]

First, it was argued that during the formative period of a new industry the value of outputs is lower than the value of inputs. For example, a factory must be built before it produces. The consumption of labour and materials during this period help to realize surplus value in general. Each industry, however, is only established because, over the life of the firm, when all costs and the value of production is aggregated, the capitalists calculate that a profit is probable. Thus, while the establishment of new industry counteracts the tendency to underconsumption these same industries ultimately "create", themselves surplus value.

Second, it is evident that a portion of capital is lost by faulty investments. Thus, a part of capital is consumed without adding to the output of consumption goods. Although this would tend to reduce (not overcome) underconsumption, it only does so by decreasing the general rate of profit. The absurdity of seeing this as a force counteracting the tendency to underconsumption is that in order to overcome underconsumption, generally, the losses incurred by capitalists would have to equal their profits. If this were indeed the case, however, there would be no profit motivation (the general rate of profit beinb zero) and hence no capitalists.

Third, it is possible to conceive of a closed capitalist system in which the labour force expands with a growth in population. If, it was argued, the population growth was rapid an increase in employment -- and hence an increase in general variable capital -- is possible without any upward pressure on the wage level, or if you will, employment can be increased while the reserve army of the unemployed is maintained. Under such conditions there would be little pressure to substitute constant capital (i.e. improved technology) for variable capital. That is, we can conceive of variable capital growing faster than constant capital. This growth of variable capital means, of course, a growth of consumption. The result, Paul Sweezy reasons, is that "The danger of underconsumption is removed since there is no tendency for the rate of growth of constant capital (means of production) to outstrip the rate of growth of consumption."[80] But, again, if we follow the logic we are led to absurd conclusions. If industry increasingly becomes labour intensive -- if there is a relative decrease of constant capital-- the end is the deindustrialization of the capitalist system.

Finally, it was argued that in a closed system surplus is realized through consumption by unproductive persons, whether unproductive wage earners, i.e. servants, a "class" of persons such as landlords and the church or unproductive state expenditures. But in the case of unproductive workers, i.e. servants, their cost of reproduction has already been counted in the cost of maintaining the capitalists. As for service workers, the store clerk for example, we saw in chapter one that Marx argued that in a society dominated by the capitalist mode of production the cost of circulating goods enters the formation of the general rate of profit. To this extent the general rate of profit falls. Thus, in the last instance, unproductive labour is no alternative. Finally, in the case of landlords, the church, the State, etc., if all surplus value was realized by their consumption then it would no longer be capitalist production but 'simple reproduction' as in feudalism.

But if the capitalist system, when the last person in the world has been drawn into it, must breakdown, then why does it continue today in the face of a world market? What is wrong with the logic? Simply, the expansion of capital is not limited to the penetration by capital of dominant social formations into "backward nations, but may also take the form of the penetration of relatively developed capitalist dominated social formations by externally controlled capital and the subsequent" destruction of indigenous productive capital. This process is merely a global extension of overproduction within a social formation, leading to cut-throat competition and the subsequent destruction of weaker firms and the expansion of victorious capital into the markets of the vanquished, and hence the tendency towards monopolies.

Let us now turn to the development of capitalist industry in Canada after 1867, and, in particular, the emergence of corporate capitalism.

Notes to Chapter Three

1. Reported in G.J. Marr, The effect of Confederation on the trade of the Maritime Provinces, unpublished M.A. thesis, University of Toronto, 1918, p. 27.
2. Reported in Donald Creighton, op cit pp. 361-362.
3. Ibid, p. 362.
4. See S. Ryerson, op cit, pp. 234-236.
5. Reported in H. Innis and A. Lower, Selected Documents in Canadian Economic History 1783-1885, 1933, p. 259.
6. G. C. Pentland, "The Role of Capital in Canadian Economic Development Before 1875", pp. 467-468.
7. C. B. Macpherson, The Real World of Democracy, 1971, p. 40.
8. Nicos Poulantzas, Classes in Contemporary Capitalism ,1975, pp. 24-25.
9. Reported in S. Ryerson, op cit. p. 355.
10. Ibid, p. 356.
11. Nicos Poulantzas, Classes in Contemporary Capitalism, 1975, p. 98
12. For a discussion of the concept of power bloc see Nicos Poulantzas, Political Power and Social Classes, 1975 (reprinted), pp. 234-245.
13. Ibid, p. 239.
14. Canada East and West had borrowed heavily from the British banking houses, especially Baring Brothers, to finance railway construction. With the end of British preferences and the anticipated end of reciprocity there was fear of the Canadian government defaulting. The merchant class of the Canadas, by enlarging the population of the political unit through Confederation and hence the taxation base, hoped to win back the confidence of the banking houses. On the other hand, the London banks, concerned over the financial position of Canada, urged the British government to support Confederation. The 'left Canadian nationalists' - Naylor in particular argue that the true fathers of Confederation is Baring Brothers. See T. Naylor, "The Rise and

Fall of the Third Commercial Empire of the St. Lawrence, p. 15.

15. P. Waite, editor, The Confederation Debates of the Provinces of Canada/1865, 1963, p. 67.

16. Appendix 2 to the Royal Commission on Dominion Provincial Relations, 1938, "British North America at Confederation", p. 41.

17. Naylor argues that "(t)he Act (British North America Act) was essentially a document in public finance, reserving for the federal government every power critical to controlling the pattern of economic development. All taxes other than direct (which then implied land taxes), regulation of trade and commerce, banking, credit, currency, bankruptcy, canals, telegraphs, navigation, and all residual powers went to the federal government." T. Naylor, "The Rise and Fall of the Third Commercial Empire of the St. Lawrence, p. 14.

18. Cartier's grandfather had been a merchant dealing in salt, fish and wheat; his father was a founder of the Bank of Montreal and the railway company St. Laurent-Lac Champlain; George Cartier, himself, was closely associated with the Grand Trunk. Reported in ibid, p. 18.

19. Nova Scotia, "Submission of the claims with respect to maritime disabilities within Confederation, 1926, p. 8.

20. New Brunswick submission to the Royal Commission on Dominion Provincial Relations, 1938, p. 114.

21. Nova Scotia Submission of the claims with respect to maritime disabilities within Confederation, 1926, p. 201.

22. Herald, December 8, 1864. Reported in P. B. Waite, The Life and Times of Confederation, 1967, p. 201.

23. Herald, December 15, 1864. In ibid, p. 202.

24. Tribune, November 9, 1864. In ibid, p. 202.

25. Evening Reporter, December 10, 1864. In ibid, p. 208.

26. Reported in ibid, p. 208.

27. Reported in A. Bailey, "The Basis and Persistence of Opposition to Confederation in New Brunswick", in R. Cook et al, Confederation, 1967, p. 76.

28. The Canadian Biographical Dictionary, Vol. 2, 1881. (Hereafter refered to as CBD).

29. CBD, 1881.

30. Dictionary of Canadian Biography, Vol. X, 1871-188, 1972. (Hereafter refered to as DCB).

31. Reported in A. Bailey, op cit, p. 78.

32. Cardwell Papers, Cardwell to Monck, December 3, 1864. Reported in W. L. Morton, The Critical Years: The Union of British North America 1857-1873, 1968, p. 175.

33. Reported in P. B. Waite, op cit. p. 251.

34. Reported in J. Hannay, op cit. pp. 245-246.

35. W. L. Morton, op cit. pp. 182-192.

36. Nova Scotia's Submission of the claims with respect to maritime disabilities within Confederation, 1926, p. 15.

37. Donald Warner, "The Post-Confederation Annexation Movement in Nova Scotia" in The Canadian Historical Review, 1947, pp. 162-163.

38. Ibid, pp. 163-164.

39. Ibid, p. 165.

40. Reported in G. J. Marr, op cit, p. 77.

41. Nova Scotia's Submission of claims with respect to Maritime disabilities within Confederation, 1926, per-amble "Maritime Rights".

42. G. J. Marr, op cit,pp. 12, 19, 22, 26.

43. The relative strength in the export sector (as opposed to the import sector) is in part, accounted for by the fact that the leading export commodity-lumber- was in such heavy demand in the U.S. market that the American tariff was not prohibitive. In fact, 1872 the American duty on lumber was removed.

44. G. J. Marr, op cit. p. 90.

45. Unlike New Brunswick, it was Nova Scotia's export sector that was most effected by the abrogation of reciprocity. Specifically, the impact of the $1.25 duty per ton on coal was to reduce the amount of coal exported to the U.S. from 461,194 tons, or 75 per cent of total sales in 1865, to 228,132 tons in 1868 -- a 50 per cent decrease in total sales. Reported in ibid, p. 69.

46. Reported in Jane Campbell, "Manufacturers, Mercantilists and the Tariff", unpublished paper, McMaster University, 1976, pp. 22-23.

47. Ibid, pp. 24-25.

48. Reported in G. J. Marr, op cit, p. 103.

49. Calculated from table 5.

50. Reported in T. W. Acheson, "The National Policy and the Industrialization of the Maritimes 1880-1910" p.

51. Robert Mitchell's plant in 1876 employed 175 men. Reported in Steven Langdon, op cit. p. 169.

52. Ibid, p. 119.

53. Reported in G. J. Marr, op cit, p. 102.

54. Ibid, p. 98.

55. Ibid, p. 98.

56. Since Confederation it has been repeatedly argued in Atlantic Canada that had they control of tariff policy they would have been able to stimulate trade with the United States. For instance, the Halifax Chronicle, May 12, 1886, printed:

> Once out of Confederation we should be able to purchase from those to whom we sell ... . Repeal would mean closer trade relations with all our natural markets. It is absurd to suppose that if we were freer to regulate our own tariff we could not establish freer trade relations with our natural markets than we now have when the making of our tariffs is under the control of those whose whole aim is to shut us off from our natural markets in order to benefit themselves.

57. Reported in The Maritime Provinces in Their Relation to the National Economy of Canada, op cit, p. 158.

58. G. R. Stevens, Canadian National Railways, Vol. 1, 1960, p. 179.

59. G. Myers, op cit, p. 175.

60. Ibid, pp. 176-177.

61. Ibid, p. 177.

62. G. R. Stevens, op cit., p. 179.

63. Ibid, p. 185.

64. Ibid, p. 195.

65. The differential rates were based on the principle that lowpriced bulky commodities, such as grain, lumber and coal, be carried long distances below cost while the rate on commodities of higher value carried short distances by proportionately higher. This rate structure was conduceve to the development of an inter-regional trade in raw materials or primary manufactured commodities and, combined with the low cost of shipping West, made especially attractive the shipment of such commodities West from Atlantic Canada. To this extent it conditioned staple production as opposed to secondary manufacturing.

66. Reported in J. Hannay, op cit. p. 324.

67. See ibid, p. 325.

68. Ibid, p. 324.

69. Canadian House of Commons Debates, February 23, 1885, pp. 192-193.

70. Canadian House of Commons Debates, June 3, 1887, p. 770.

71. Ibid, p. 769.

72. Ibid, p. 768.

73. Nova Scotia submission to the Royal Commission on Dominion Provindial Relations, 1938, p. 112.

74. Ibid, p. 112.

75. The greatest capital outlay in dredging operations performed by the state has been improving the St. Lawrence channel between Montreal and Quebec. Prior to 1888 the capital expenditure on this particular work does not appear in the public accounts. The total capital for dredging recorded in the public accounts from 1867 to 1936 is $160,000,000 of which over $70,000,000 was expended in improving the channel between Montreal (and the lower St. Lawrence).

76. Nova Scotia submission to the Royal Commission on Dominion Prov ncial Relations, 1938, p. 113

77. S. Ryerson, op cit., p. 309.

78. Luxemburg never argued that the system would finally just collapse but that this was towards what it was heading. But before the 'end' was reached "a continuous chain of political and social catastrophies and convulsions which, together with periodic economic catastrophies in the form of crises, will make impossible the continuation of accumulation and will make necessary the rebellion of the international working class against the domination of capital even before the latter smashes itself against its own self-created economic barriers". Ibid, p. 445.

79. For an elaboration of these 'forces', though little criticism, see Paul Sweezy, The Theory of Capitalist Development, 1870, pp. 218-234.

80. Ibid, p. 222.

CHAPTER FOUR

The Emergence of Corporate Capitalism

Introduction

Confederation reoriented the Atlantic economy to a national market. Total imports through Atlantic ports fell, thus improving the region's balance of foreign trade (Central Canada not included as a trading partner). Concomitant an important trade grew up between Atlantic Canada and Central Canada, heavily balanced in favour of the latter. The importance of this trade, an indicator of the consolidation of a national market, is reflected in the facts that by 1876 it had grown to about $11,000,000, only about $5,000,000 less than the total foreign trade of New Brunswick and Nova Scotia. T.W. Acheson describes Atlantic Canada's new set of trade relations as a two-cycle trading pattern. First, Central Canada's flour and manufactured commodities replaced British and American products in Atlantic Canada. In turn, primary and primary manufactured commodities of both local and imported origin were shipped west. Second, concurrent with this trade cycle, Atlantic Canada was still involved, though to a lesser extent, in the staple dominated, commercial relationship with Britain, an external cycle which now favoured the former and helped finance its balance of trade deficit with Central Canada.

This new trade cycle was one aspect of capital's solution to free trade and the abrogation of Reciprocity.

It reflects an economy turned in upon itself rather than a structure dominated by the interests of commerce -- a mere moment in the vast imperial network. Although the bulk of Canadian exports continued to be staples, especially the export of wheat to Britain, in the last instance the commercial crisis was not mediated by "a new variation on the old theme of the St. Lawrence River", but by factories and 'finance capitalism'.

The "life and death" fact of capital is that if it is not employed in some aspect of the productive process it ceases to be capital and reverts to merely money. The final collapse of commerce in Canada, or if you will, the inner necessity for the transformation of merchant's and financial capital into productive capital is reflected in the facts that while the total assets of chartered banks in Canada increased about 150 per cent, from $106,067,000 in 1870 to $254,649,000 in 1890,[1] the total value added by primary industry -- agriculture, fishing, trapping, mining and forestry products -- grew only 50 per cent, from $206,000,000 in 1870 to $294,000,000 in 1890.[2] The rapid growth of bank capital in conjunction with the slow growth of staple production, or if you will, a relatively falling demand for commercial capital, "freed" capital from the sphere of circulation. "Of necessity", Acheson writes, "the wholesaler succeeded to the mantle of industrial entrepreneur." This chapter examines the transformation of merchant's and financial capital into productive capital in conjunction with the emergence of corporate capitalism, and the subsequent growth of productive potential.

Corporate Capitalism in Atlantic Canada

The process of industrialization in Atlantic Canada is reflected in the facts that total capitalization of manufactures increased from $20,695,000 in 1880 to $38,460,000 in 1890.[3] Concurrent the number of manufacturing establishments increased from 10,115 to 18,603[4] and the number of persons employed in manufacturing rose from 46,076 to 69,529.[5] In fact the rate of industrial development between 1880 and 1890 was greater than in Central Canada. For instance, during this period the number of Atlantic establishments, as a percentage of the total number of Canadian manufactures, increased from 20.3 per cent to 24.5 per cent.[6] Similarly, the number of persons employed in manufacturing rose from 18.1 per cent to 18.8 per cent of the Canadian total.[7]

Four sets of relations, mutually affecting one another, characterized industrialization in Atlantic Canada : (1) the transformation of merchants and financial capital into productive capital in conjunction with the emergence of the joint-stock corporation; (2) the active role of banks in promoting industrial production; (3) the scattered distribution of units of productive capital -- the absence of a financial and industrial metropolis; and (4) production for a national market as opposed to local markets. Each of these are discussed below.

For the most part the leading Atlantic entrepreneurs were recruited from the traditional (commercial and financial) business class.[8] Under their guidance old commercial-financial capital was transformed into constant and variable capital. This merchant class -- transformed into industrial capitalists -- was the only group possessing the resources necessary for large scale manufacturing. But even then, individual merchants often lacked sufficient capital, and the establishment of some industry was only possible as the result of joint financing by local merchants.[9] An examination of Acheson's detailed work on the social origins of Canadian industrialists is especially informative in this respect.

For instance in 1879 a committee of West Indies shippers, headed by Thomas Kenny, raised $500,000 and organized a sugar refinery at Halifax -- the Acadia Sugar Company.[10] Kenny, in addition to being president of this corporation, was president of both the Merchants Bank of Halifax and then the Royal Bank of Canada (1870-1908), the owner of T. and E. Kenny (one of the largest mercantile houses in Atlantic Canada), and a director of the Nova Scotia Cotton Manufacturing Company (the Halifax Cotton Company).[11] The latter company, like the Acadia Sugar Company, was co-operatively financed by the Halifax merchant's community. In fact it was reported that more than $300,000 was subscribed in less than two weeks, most of it by thirty-two persons.[12] The Acadia Sugar Company, aside from sharing directorships with Atlantic bank, was also heavily dependent on bank capital. The Merchants Bank of Halifax -- with Kenny as president -- provided, between 1881 and 1882, $460,000 in operating capital. These loans were not commercial in the sense that the lien on materials being processed was realized when the commodity was marketed, but rather the liens were continually renewed. The reality of the loans fixed nature was ultimately and formally revealed in 1885 when the company issued $350,000 of debenture stock of which the bank received $200,000 in the form of that same stock.[13]

Some capitalists, though, did attempt to undertake the financing of major industries themselves. The most significant, Alexander Gibson -- "the New Brunswick lumber king" -- in 1883 began construction of a major cotton enterprise whichopened in 1885. Three years later his sales of cotton cloth totalled almost $500,000. It is noteworthy, though, that that same year the Gibson empire, including the cotton mill, was organized into a joint-stock corporation.[14]

Other major joint endeavours included the New Brunswick Foundry, Rolling Mills and Car Works, the Nova Scotia Steel Company and a cluster of industrial firms in Moncton. The New Brunswick Foundry, Rolling Mills and Car Works began in 1883 when $300,000 was raised by St. John capitalists to expand James Harris' machine shop and foundry. The Harris firm was re-organized as a joint-stock company and emerged as the largest employer in the Maritimes.[15] Similarly, behind the protective tariff, the Nova Scotia Steel Company was organized in 1882 as a joint-stock corporation, capitalized at $160,000. The company expanded with the increased tariff on iron and steel products and in 1889 was re-organized as the Nova Scotia Steel and Coal Company. More than two thirds of the capital stock of this corporation was held in New Glasgow.[15] Finally, in the small town of Moncton, nearly $1,000,000 was raised to finance the construction of a sugar refinery, a cotton mill, a gas light and power plant, and several other iron and textile corporations. The principle engineers of these enterprises were John and Christopher Harris, owners of a shipbuilding and shipping firm, John Humphry, proprietor of the Moncton flour and woollen mills, and Josiah Wood, a shipper and private banker. [17]

In the case of the Acadia Sugar Company much of its capital was secured from the Merchants Bank of Halifax. Thomas Kenny, interestingly, was both the organizer and a director of the industrial unit and president of the financial unit. More generally, a close relationship between banking and industry characterized the emergence of the joint stock Company in Atlantic Canada. In fact, Naylor's examination of chartered bank failures in Canada led him to conclude that Atlantic banks not only financed industry, were often "dominated by local directors who ... used the bank's resources for promoting their own business ventures."[18] Several cases, in this regard, are noteworthy.

For instance, when the Maritime suspended for the first time in 1880 it was found to have made a large number of bad loans (and locked-up a large portion of its capital) to firms associated with James Domville, a leading St. John industrialist who controlled that same bank. Included was a lien on the entire rolling stock of the Springhill and Parsboro Coal and Railroad Company, shares and first mortgage bonds of the Cold Brook Rolling Mills, and one-sixth of the shares of the Pictou Iron and Coal Mine.[19] Similarly, when the Pictou

Bank failed in 1887 it was found that its principle account was loans to a tannery which (the loans) were transformed into a plant and equipment.[20] Finally, the case of the Bank of Yarmouth is instructive. It was organized in 1865 to facilitate local shipbuilding and commerce. With the decline of 'wood, wind and water' the bank actively took a hand in promoting industrialization. In particular it financed W. H. Redding and Son, a large tannery and boat and shoe firm. When the bank suspended in 1905 outstanding loans to Reddings were at $490,000.[21]

Here we might "pause" to consider several relations, part of the nature of the joint stock company.

First, this form of organization introduced a relative dissociation between economic ownership/control and legal ownership. Every legal share of a corporation held by an individual does not correspond with a proprotionate share in economic ownership (or real control). Rather, effective (real) control is usually held by a few large shareholders (not necessarily legally owning a majority of shares).

Second, the joint-stock company (as opposed to the productive unit in competitive capitalism -- the individual enterprise -- characterized by a coincidence of boundaries of legal and economic ownership) is part of the process of the concentration of productive capital: the merger and take-over of industrial firms. In this process merchants' or financial capital is transformed into productive capital, either physically creating new productive potential or re-organizing existing units of production. These specific relations of growing interdependence between the spheres of circulation, finance and production characterized the cases of Atlantic Canada and (as we shall see) Central Canada. Industrial units, however, may also create complexes of dependent banks.

Banking groups may hold or participate in economic control by holding "portfolios of shares through the system of participation characteristic of joint-stock companies."[22] However, it is not necessary for a banking group to hold any shares of an industrial firm to take over economic control (in whole or part) but "simply to be selective in its financing and to differentiate in credit conditions ... for it to impose its real control on the assignment of the means of production and the allocation of resources by this enterprise."[23] On the other side, industrial groups affect financial groups through deposits. The dissociation of legal ownership and economic control, and the increasing correspondence between industrial and financial capital (corresponding with the development of corporate capitalism) raises the important question of the boundaries of a productive unit crucial to an understanding of the role of Canadian banks in the de-industrialization of Atlantic Canada.

With respect to this question Poulantzas argues[24]: (1) What is of principal importance is not formal ownership but real control. (2) What distinguishes capitalist production from other modes of production -- the fundamental relation in capitalist production -- is the separation of workers from control and economic ownership of the means of production by 'capital'. In other words, "a capitalist production unit ... presupposes an economic ownership of the means of production (by capital) that are used in this unit."[25] (3) Thus it is clear that the real boundaries of a firm or producing unit has nothing to do with the physical proximity of various establishments but is defined by real control. With the emergence of the joint-stock company the boundaries of the production unit has shifted to include aspects of both industrial capital and financial capital: i.e. banking groups. We shall return to this later.

The Atlantic banks were generally small local banks with few if any branches. Prior to 1879 and especially before 1867 they were commercially oriented. But increasingly as the demand for commercial capital dropped off and merchant's capital was transformed into productive capital, these small banks became promoters of industrial enterprises. Not surprising given the local nature of the banking, industrial production was not concentrated geographically but scattered among the relatively large number of centres traditionally associated with staple production. For example, although in 1890 at least eight centres had $1,000,000 or more of industrial capital, the principle centre of industrial production boasted merely $6,346,000 in industrial capital.[26] Specifically, in a system of independent community banks there is no "mechanism" for readily transfering capital from one centre to another. Necessarily deposits in a community bank are made available as loans in that same community. In each of these communities a commercial fraction of the capitalist class, usually organized around a local bank, had, grown up. Independent of any regional metropolitan centre they intiated industrial development in their respective towns.

Finally, it is obvious that heavily capitalized firms such as the Acadia Sugar Company, the Halifax Cotton Company, the New Brunswick Foundry, Rolling Mills and Car Works, and the Nova Scotia Steel Company, for instance, were constructed to operate in a regional or national market. By 1885 nails, confectionery, sugar, woollens, leather, glass, steel, and machinery manufactured in Atlantic Canada normally had large markets in Ontario and Quebec.[27] These industries, we saw, did not gradually grow up from small firms as local demand increased, that is, their rate of growth was not determined by the success of staple exploitation, but rather, they were the result of large amounts of merchant's capital transformed into productive capital.

That industrial production presupposed the relatively large market of Central Canada, though, is in no way meant to imply that the domestic markets of Atlantic Canada were not large enough to support 'economy of scale'. Economy of scale does not necessarily presuppose a large market; it contends that "for each size of unit there will be an optimum disposition of its resources that maximizes its 'rate of return'".[28] (However, the larger-sized unit operating at its optimum will always be more efficient than a smaller-sized unit operating at its optimum.) Crucial to understanding why development in Atlantic Canada presupposed the larger Canadian market is that industrial plants are usually built at an optimum size to begin with. Thus, if the market is large more than one optimum plant will be built.[29] Development in Atlantic Canada presupposed the market of Central Canada not because its domestic market was small, but because the number of optimum plants built were not built to serve the domestic market but the whole Canadian market. This was, on one hand, a conscious decision on the part of the industrial promoters given the reality of the transcontinental railway and the protective tariff. On the other hand, it was the unintended consequence of the distribution of capital resources. That is, the development of industry in a relatively large number of communities by local entrepreneurs resulted in the development of productive potential far in excess of the consumptive power of local markets.

In summary, after 1879, protected by the national tariff and in reaction to the commercial crisis, merchant's and financial capital was transformed into productive capital, often in the form of the joint-stock corporation. This form of organization made possible the separation of economic control and legal ownership, and was characterized by the coincidence of the economic boundaries of productive and financial capital. The peculiarities of this development, on the one hand, were conditioned by a set of relations which developed in conjunction with staple production, i.e. a relatively powerful merchant fraction of the bourgeoisie, the absence of a regional metropolitan centre, and a system of independent community banking. On the other hand, industrial production developed within a national framework of railways, tariffs and the free flow of capital and commodities between regions. This latter set of relations, we shall see, was decisive in the course of Atlantic Canada's development.

Corporate Capitalism in Central Canada

Small-scale craftspeople, during the 1840's, 1850's and 1860's had gradually developed large enterprises. For instance, in the 1876 Commons hearing on manufacturing, four of six "fair-sized firms" (the capitalization of one of them was $150,000) in the metal-working industry "reported that all the capital for their growth came from internal surpluses".[30] In conjunction, as manufacturing industries were becoming propelling industries so were merchants beginning to extend direct control backwards over the productive process. But especially after 1879, coinciding with the general introduction of the joint-stock liability firm, Acheson shows, this process was accelerated.[31] The result was the concentration and centralization of production in Montreal and Toronto. The Montreal merchants, in particular, led the parade.

For instance, Jean Rolland, a fancy goods wholesaler and a director of the Citizen's Insurance Company organized a joint-stock company in 1882. $300,000 was raised to build a mill at St. Jerome which secured for his wholesale house a source of paper.[32] Similarly, Hallis Shorey and William Macdonald, both Montreal merchants, bought bank into their respective sectors.[33] In 1866 Shorey established a wholesale clothing business. By 1885 he controlled the largest clothing business in the country and employed about 1,500 workers in the manufacturing process. Macdonald, in 1854, established a tobacco import firm in Montreal. Later he expanded into the processing of tobacco and by 1887 had developed the largest industry of its kind in Canada, employing about 1,000 workers.

It was the cotton industry, however which saw the most significant transformation of merchant's and financial capital productive capital. Victor Hudon, for example, established a Montreal wholesale house in 1842. In 1872 he constructed his own cotton mill at Hochelago, and following the 1879 tariff promoted a second mill there and in 1883 still a third mill. In 1890 the Hudon enterprises were capitalized at $3,500,000, produced almost 25 per cent of all Canadian cotton, and employed about 2,000 workers.[34]

Other major wholesalers turned industrialists included Matthew and Andrew Gault, and David Morrice. The Gault brothers began their wholesale house in 1853. Like Hudon, after the introduction of the protective tariff in 1879 they became promoters of major cotton mills -- especially the Montreal Cotton Company of which Andrew became president and Matthew a director.[35] In 1890 it was Andrew Gault, along with David Morrice and backed by the Bank of Montreal, who led the first consolidation movement in the cotton industry. Andrew's financial corporate associations included directorships with the Bank of Montreal, the Liverpool and London and Globe Insurance Company, the Royal Victoria Life Assurance Company, and the Manufactures Life Insurance Company.[36] Matthew Gault was president of the Montreal Loan and Mortgage Company, vice-president of Sun Life Insurance Company, manager of the British American Assurance Company (for Quebec), and agent for the Royal Insurance Company of England, and Mutual Life Insurance Company of New York.[37]

David Morrice, Andrew Gault's partner in the 1890 merger movement and director of the Bank of Montreal, the Royal Victoria Life Insurance Company, and the Royal Trust Company,[38] came to Canada in 1855. In 1863 he established a wholesale house, D. Morrice and Company. By 1882 it was the largest wholesale enterprise in the country. Like most other leading Montreal merchants he acquired an interest in a number of woollens and cotton manufactures.[39] In fact, by 1883 D. Morrice and Company was associated with thirty-six mills whose products it marketed.

Montreal was the most important commercial, financial, and industrial centre in Canada throughout the nineteenth century. In Toronto, Montreal's only serious rival, the fusion of merchant's and industrial interests proceeded much slower.[40] In part the difference between Montreal and Toronto can be explained in terms of size. Specifically, though Toronto by 1881 was the most important manufacturing centre its manufacturing establishments still employed only 10.7 per cent of the total workforce in manufacturing in Ontario.[41] Similarly, in the financial sphere, although by 1881 banking facilities were widespread, Toronto had not created a banking monoply in the province. In 1863 the Bank of Montreal had succeeded in having almost all government funds transfered to itself from the Bank of Upper Canada. In 1866 and 1867 the Bank of Upper Canada and the Commercial Bank, respectively, failed. In both cases the Bank of Montreal was blamed. In 1871, however, the Toronto business communities succeeded in forcing the Bank of Montreal to compromise on the General Banking Act, making possible the expansion of Toronto's financial power.[42] That same year the Dominion Bank was organized and two years later the Imperial Bank. Gradually the larger Toronto banks destroyed the smaller regional banks i.e. the Canadian Bank of Commerce in 1870 absorbed the Gore Bank (with its headquarters in Hamilton), and the Niagara District Bank amalgamated in 1875 with the Imperial Bank.[43] But the Bank of Montreal remained a strong rival in Ontario. Finally, in the commercial sphere, the Toronto merchants, were fewer and commanded scarcer resources than their Montreal counterpart. In fact, many of the Toronto wholesale firms, such as Cantlie, Ewan and Company, were merely branches of Montreal based firms.[44]

The transformation of commercial and financial capital into productive capital, by no means, though, was entirely lacking. William Brock, for instance, a large wholesaler (founder of W. R. Brock and Company), became a substantial shareholder in a number of woollen manufactures including Paton Manufacturing, Cobourg Woollens and the Waterloo Woollens Manufacturing Company.[45] His corporate links with financial companies included president of the British American and Western Assurance Companies and directorships with the Cominion Bank, the Toronto General Trsuts Company, British Accident Insurance Company. [46] But for the most part the

Toronto merchants did not combine finance and commerce with production till about the turn of the century.

The widespread emergence of the joint-stock company after 1879 facilitated the transformation of merchant's and financial capital into productive capital. It marked the transition from small scale individual enterprises to corporate capitalism and large scale production. One final set of relations, a consequence of this transformation, remains to be discussed.

Briefly, in Atlantic Canada, characterized by decentralization, the development of joint-stock companies and the correspon-ding dissociation of legal and economic ownership did not affect the location of the enterprise, that is, control of production did not tend to concentrate in one centre. In Central Canada, though, an integrated region by virtue of an extensive transportation and financial infra structure, the joint-stock company intensified the concentration of control of production (but not necessarily the physical location of the producing plants) in Montreal, in particular.

The case of the Magog Textile and Print firm is illustrative. The $1,000,000 capitalization of the company was mostly raised by Montreal merchants. The result was that the directorate of this corporation was dominated by Montreal interests.[47] Similarly, Montreal merchants dominated the boards of directors of the Chambly and Longeuil Cotton companies, and the Almonte Knitting Company,[48]. In fact, this pattern was so prevelant that Acheson claims by 1885 almost all the major corporations, aside from those located in Kingston, Ottawa, and Quebec, were controlled from Montreal.[49]

Competition and the Crisis of Productive Capital

Merchants' capital conditioned the development of the elements presupposed by capitalist production, i.e. accumulations of capital, a money economy and markets, and wage labour. Gradually, throughout the first half of the nineteenth century merchants extended control backwards over staple production. Concomitantly the independent producer was being replaced by the wage labourer. However, production in general and the indigenous production of consumer goods in particular, though dominated by commercial capital, was predominately under the direct control of petty producers. Not until 1879 was there a wholesale transfer of merchants' and financial capital into productive capital. In both Atlantic and Central Canada the transformation and the concurrent emergence of the joint-stock firm presupposed a national market protected by a prohibitive tariff wall. But the growth of industrial production during this period was not without its own contradiction. Ultimately the socially defined limit of the consumptive potential of any market is reached and productive capital enters its crisis. In Canada the massive expansion of production transformed itself into overproduction during the 1880's. The renewal of extended reproduction presupposed the "conquest" of new markets.

The reader might here recall that the extension of markets may take the form of the destruction of competing productive capital and the victor's expansion into the former markets of its competitor. To be more specific, a capitalist enterprise is viable when its unit costs is at such a level that the market price of a commodity insures the capitalists a satisfactory return on their capital. At the same time, in a competitive industry each firm strives to enlarge its output in order to secure more of the economies of scale. That is, competition presupposes unrealized productive potential. (If all firms operated at an optimum -- if the market could support all firms operating at an optimum -- competition between firms would not effectively exist at that moment. Competition would need to await the expansion of productive potential, or if you will, unrealized productive potential.) Each firm knows that it can lower its unit costs if it secures additional sales to allow optimum production. This is an inducement to, momentarily, cut prices. Here then we see that if a firm does not expand to optimum when other firms do, or if technologically, it drops behind, that its costs will no longer be competitive and it will be priced out of the market.

An instructive case with respect to overproduction and the extended reproduction of capital is the boot and shoe industry. Here we see not only that Central Canadian industry presupposed the Atlantic markets, but that the reproduction of Central Canadian productive capital required the destruction of its Atlantic counterpart.

In both Atlantic Canada and Central Canada the boot and shoe industry developed in conjunction with the growth of staple production. This industry, in part, was characterized by indigenous production for local markets. Table , for instance, shows that in 1871 domestic firms controlled 99 per cent of the total Canadian market. Apart from this, the importance of the industry in the economies of both regions is reflected in the facts that by 1871, in Nova Scotia and New Brunswick, it employed 2,500 workers, more than any other industry with the exception of shipyards, sawmills and lumber products; and its output was valued at

$2,034,000, exceeded in total value added to the economy only by shipyards, sawmills, and flour and grist mills. (See Table 1). Similarly, in Central Canada, by 1871, the boot and shoe industry employed 16,219 workers, second only to sawmills; and it produced commodities valued at $14,099,000, surpassed only by the value added by flour and grist mills, and sawmills. (See Table 2)

The market by mid century (particularly the relatively depressed years 1876,1877 and 1879), however, was saturated. Already, by 1874, some producers were forced to expand into the market of Buenas Aires, and others were "urging the Canadian government to annex British Guiana to give a further market to Canadian manufacturers."[49] Generally, in Canada the extended reproduction of any particular boot and shoe firm could only take place at the 'expense' of a competitor. The Honourable Mr. Anglin, in 1878, described the situation with respect to Atlantic Canada.

> (Montreal manufacturers sent their 'runners' throughout the Atlantic Region,) into every village and town; and in the city of St. John, itself, (the most important boot and shoe manufacturing centre in Atlantic Canada) close beside their (St. John) factories, shopes were opened in which goods manufactured in Montreal were largely sold; and it was in that way that the prosperity of their boot and shoe manufacturers was materially diminished.[50]

The consequence of Central Canadian competition was an absolute decline of about 25 per cent in the number of persons employed in the boot and shoe industry in Nova Scotia and New Brunswick, from 2,500 in 1871 to 1,935 in 1881; and there was a corresponding drop of about 15 to 16 per cent in the total value added by the industry, from $2,034,000 in 1871 to$1,726,000 in 1881. In contrast, the total number of persons employed in Central Canada increased, though marginally (about 3 per cent), from 16,216 in 1871 to 16,659 in 1881; but the total value added increased more than 12 per cent, from $14,099,000 in 1871 to $15,799,896 in 1881.[51] Nor can the decline of the Atlantic boot and shoe industry be explained by the evils of American competition. Anglin noted that if advocates of that theory compared the importations of 1876, 1877 and 1878 with earlier years they would "find that the importations during the prosperous period exceeded those of the last three years... ."[52] In fact, the total value of the importation of boots and shoes in 1876 was only $60,000. He concludes that:

> There was no slaughter of American boots and shoes in that market. There was no interference, to any serious extent, with the trade on the part of the boot and shoe manufacturers in the United States. The real competition came not from the United States, but from Montreal. It was the competition of Montreal manufacturers that led to the decline of the manufactures in New Brunswick.[54]

More generally the state of overproduction in Canada is reflected in the fall of prices throughout the last quarter of the nineteenth century, a fall which coincided with the growth of productive potential. Table 8 shows that between 1872 and 1878 the general price index, based on 1900, fell steadily from 132.5 to 103.2. The high protection policy, adopted in 1879, intially prohibited the dumping of American commodities. The effect was a rise in the price index from 103.2 in 1878 to 120.3 in 1882. But relief was momentary. Commercial journals now repeatedly warned of the problem of overproduction. Between 1882 and 1896 the price index again fell, although irregularly, about 35 per cent, from 120.3 in 1882 to 83.1 in 1896.

TABLE 8 ABOUT HERE

In particular, the boot and shoe industry not included, in three leading manufacturing industries in Atlantic Canada (not involved in processing staples) -- the sugar industry, cotton and woollen mills, and iron and steel products -- the first two, by 1885, were plagued by nation wide over-production.

The sugar industry in Atlantic Canada between 1871 and 1881, underwent a significant growth. By 1881, in Nova Scotia and New Brunswick, it produced more value ($2,827,000) than any other industry with the exceptions of sawmills and shipyards.[55] Aside from its rapid growth this industry was characterized by large scale production, capital intensiveness, and production for the Central Canadian market.

Under the protective tariff four refineries were organized in Atlantic Canada. One of these, the Acadia Sugar Company, was capitalized at $500,000. More generally, the capital intensiveness of the industry is reflected in the high annual value of output per worker: $12,279.[56] Not surprising, this production presupposed the relatively large markets of Central Canada. For instance, in 1885 the St. John Board of Trade estimated that $1,695,000 worth of sugar was exported to that region.[57] But the extensive development of productive potential, combined with reduced demand, resulted in 1885, in general overproduction and falling prices.. Coupled with the relatively high rates of the Intercolonial Railway the effect was to threaten the very existence of the sugar industry in Atlantic Canada. In that year three mills, on at Moncton and two at Halifax were forced to close.[58]

Like the sugar industry, the cotton industry underwent massive expansion after 1879. By 1885 Atlantic Canada contained eight of twenth-three cotton mills in the country, seven constructed after 1879.[59] These included the Halifax Cotton Company, formed in 1881, and the giant Gibson mill erected in 1883. The former was initially capitalized at $300,000 and later, in 1885, issued another $350,000 in debenture stock. The Gibson sundry enterprises, in 1885, employed about 2,000 workers. In 1888 it produced nearly $500,000 worth of cotton cloth.

The fate of the cotton industry paralled the sugar industry. As early as 1882 productive capital entered its crisis. The overproduction resulted in a fall in the value of cotton mill stocks and cotton prices. For instance, in 1882 the value of Canada Cottons stock decline from 129 to 66, Dundas Cottons from 115 to 70, and Montreal Cottons from 132 to 50. And in May and June of 1883 cotton prices fell 12.5 per cent and 7.5 per cent respectively. The Canadian Manufacturer concluded that this was "probably a result of the competition provided by the new plants."[60] In addition, the saturation of the market was clearly shown in the fact that in this same year D. Morrice and Company held stock of cotton and woollen valued at about $1,500,000. This unrealized commodity-capital threatened the very solvency of this corporation, a revelation which shook the industry to its roots. Acheson describes why:

> The great fear was that Morrice's failure could throw both his cottons and woollens supplies and his corporate stocks onto an already depressed market. The first possiblity could take the bottom out of the textile market and, in domino fashion, both bankrupt

> a large part of the wholesale trade and close most of the Canadian mills. The second could destroy entirely the credibility of the cottons industry.[61]

His solvency was saved by a loan of $1,120,000 from the Bank of Montreal and $200,000 from the Merchants Bank. But overproduction in the cotton industry remained chronic throughout the decade.

In both the case of the sugar industry and the cotton industry, as in the earlier case of the manufacturing of boots and shoes, the productive units existed within and produced for a national market. As such, Montreal firms, for example, competed with those of St. John for scarce markets. Competition, of course, is directly related to overproduction. Both are a function of scarce markets. In the cases of the sugar and cotton industries overproduction become especially critical with the emergence of the joint-stock company. What is important, here, is that the irrationality of the system, manifested in crisis, is ultimately mediated only by the destruction of productive potential -- the ruin of some firms by others. At this phase of capitalist development the importance of access to large accumulations of external capital, i.e. bank capital, is evident. Chapter five examines the state of banking in Atlantic Canada after 1867.

Notes to Chapter Four

1. Calculated from statistics in C. A. Curtis, Statistical Contribution to Canadian Economic History, Volume 1, 19 p. 60.

2. Calculated from statistics in O. J. Firestone, op cit, p. 224.

3. Department of Trade and Commerce. The Maritime Provinces In Their Relation to the National Economy of Canada. 1948, p. 98.

4. Ibid, p. 98.

5. Ibid, p. 99.

6. Ibid, p. 98.

7. Ibid, p. 99

8. T. W. Acheson, "The National Policy and the Industrialization of the Maritimes, 1880-1910", in Acadiensis (Spring), 1972, p. 11.

9. T. W. Acheson, The Social Origins of Canadian Industrialism, Unpublished Ph.D. Thesis, Toronto, 1971, p. 69.

10. Ibid, p. 69.

11. Canadian Men and Women of the Times, 1898 (Hereafter refered to as CMWT). A Cyclopaedia of Canadian Biography Vol. 1 and 2, 1886 (Hereafter refered to as CCB).

12. T. W. Acheson, The Social Origins of Canadian Industrialism, 1971, p. 69.

13. Ibid, p. 79.

14. Ibid, p. 77.

15. Ibid, pp. 71-72.

16. Ibid, p. 75.

17. Ibid, pp. 72-73.

18. T. Naylor, The History of Canadian Business 1867-1914, Volume 1, 1975, p. 120.

19. Ibid, pp. 123-124.

20. Ibid, p. 124.

21. Ibid, pp. 124-125.

22. Nicos Poulantzas, Classes in Contemporary Capitalism, 1975, p. 119.

23. Ibid, p. 120.

24. Ibid, pp. 121-125.

25. Ibid, p. 123.

26. T. W. Acheson, "The National Policy and the Industrialization of the Maritimes", 1971, p.

27. Ibid, p. 13.

28. J. Dales, The Protective Tariff in Canada's Development, 1966, p. 160.

29. Ibid, pp. 160-161.

30. Reported in Steven Langdon, op cit. p. 160.

31. T. W. Acheson, The Social Origins of Canadian Industrialism, 1971, p. 125.

32. Ibid, p. 122.

33. Reported in Steven Langdon, op cit., p.

34. T. W. Acheson, The Social Origins of Canadian Industrialism, 1971, pp. 128-129.

35. CMWT, 1898, CCB, 1886.

36. CMWT, 1898.

37. CCB, 1886.

38. CMWT, 1912.

39. T. W. Acheson, The Social Origins of Canadian Industrialism, 1971, pp. 130-131.

40. Ibid, pp. 213-214.

41. J. Spelt, op cit. p. 155.

42. For a discussion of the financial struggle between Montreal and Toronto see D. C. Masters, "Toronto vs Montreal: The Struggle for Financial Hegemony, 1866-1875" in Canadian Historical Review, XXII (1941).

43. Reported in J. Spelt, op cit. p. 127.

44. T. W. Acheson, The Social Origins of Canadian Industrialism, 1971, p. 211.

45. Ibid, 211-212.

46. CMWT, 1898, Standard Dictionary of Canadian Biography, Vol. 1, 1934 (Hereafter refered to as SDCB.)

47. T. W. Acheson, The Social Origins of Canadian Industrialism, 1971, p. 137-138.

48. Ibid, p. 138.

49. 1874 Commons Hearings on Manufacturing. Reported in Steven Langdon, op. cit. p. 118.

50. House of Commons Debates, April 17, 1879, p. 1318.

51. Calculated from Census of Canada, Vol, 111, 1871, pp. 458-463; and Census of Canada, Vol. iii, 1881, pp. 508-510.

52. House of Commons Debates, April 17, 1879, p. 1318.

53. In 1885 the St. John Board of Trade estimated that Atlantic Canada imported from Central Canada shoes and boots valued at $2,000,000.

54. House of Commons Debates, April 17, 1879, p. 1318.

55. Census of Canada, Vol. iii, 1881, pp. 508-519.

56. Ibid, p. 518.

57. Reported in T. W. Acheson, The Social Origins of Canadian Industrialism, 1971, p. 81.

58. Ibid, p. 84.

59. Ibid, p. 147.

60. Ibid, pp. 145-146.

61. Ibid, p. 147.

CHAPTER FIVE

Banking in Atlantic Canada

Between 1880 and 1890, we saw, there was a transformation of merchants' and financial capital into productive capital, marked by the emergence of the joint-stock company. During this decade the rate of industrialization in Atlantic Canada surpassed that in Central Canada. In sharp contrast, however, between 1890 and 1920, in Atlantic Canada, the number of manufacturing establishments declined from 18,603 to 2,616, and as a percentage of the Canadian total, the proportion of manufacturing firms in Atlantic Canada fell from 24.5 per cent to 11.6 per cent.[1] Similarly, though the population of the region grew, there was a decline in the number of persons employed in manufacturing, from 69,529 in 1890 to 43,719 in 1920 (reaching a low of 24,538 in 1933). As a percentage of the Canadian total, the number of workers employed in manufacturing fell from 18.8 per cent in 1890 to 7.3 per cent in 1920 (to 5.2 per cent in 1933).[2]

The cause of the decline of manufacturing in Atlantic Canada was told-fold. First, the deindustrialization of the region was a function of the extension of the Central Canadian market into the region and the consequent cut throat competition, and destruction of indigenous Atlantic industry. In this case, the importance of the access of Atlantic industry to external accumulations of capital, given a national market and chronic overproduction, is evident. Second, the relatively high cost of, and limited access to accumulations of capital by Atlantic entrepreneurs inhibited the emergence of new units of productive capital. Both these factors -- the destruction of indigenous industry and forces counter-acting the development of new productive units of capital -- have their roots, in part, in the institutionalization of the branch banking system in Atlantic Canada and the subsequent draining off of capital from the region and the transfer of control of banking in Atlantic Canada to Montreal and Toronto.

This chapter examines banking in Atlantic Canada after 1867, and, in particular, the destruction of local, independent banking and the limited access of indigenous Atlantic capitalists to external sources of capital.

The Availability of Capital

In chapter three it was argued that the reproduction of capitalist production is necessarily an extended reproduction. But underconsumption, the barrier to extended reproduction, in inherent in capitalist production. This irrationality, manifested in crisis, is mediated by price cutting and ultimately the destruction of productive potential and the emergence of monopolies. During this phase of capitalist development the importance of access to external accumulations of capital, to help substain price wars or develop new technology, is evident. The surviving capital survives exactly because it reproduces and extends itself at the expense of the vanguished capital; it extends into the former markets of the latter.

On another level, the discongruence of production and consumption is also mediated by the penetration of the markets of one social formation by the productive capital -- in this case commodity capital -- of another social formation. Should capitalist production already predominate in the dominated formation this penetration then presupposes the process noted above, the destruction of indigenous productive capital. The importance of the access of indigenous Atlantic industry to accumulations of capital, given a national market and chronic overproduction, is thus self evident. Its access, however, was limited by (1) the particular distribution of industrial and financial organizations; (2) the relatively small accumulations of indigenous bank capital; (3) Government legislation; and (4) the interpenetration of Central Canadian banks and the draining off of indigenous capital accumulations. Each of these, in turn, are examined below.

The Atlantic region was not a region in the sense that it was integrated by lines of communication though it did share a common history. Rather, conditioned by staple production, the Maritime communities were scattered along the coast, each with its separate lines of communication. In reaction to the commercial crisis, merchant capitalists, organized around local banks, undertook industrialization in their particular communities. Characteristic of this development was the transformation of local commercial-financial capital into productive capital. Effectively, the local entrepreneurs were limited to the capital accumulations of their community. There was no regional metropolis such as Montreal where bank capital was concentrated and from which industrialization could be directed. The effect of this distribution of productive firms and financial capital was to spread thin the already small capital resources of the region.

The reader will recall that in 1860 the total paid up capital of chartered banks in Nova Scotia and New Brunswick was only $2,500,000 as opposed to $25,000,000 in Central Canada.. Two determinants of this state of banking -- the repatriation of British capital, with substantial interest, and the low ratio of deposits to paid up capital -- have earlier been discussed in some detail and need only be noted. But also, the relatively small growth of bank capital was a function of the chronic trade deficit of the region both prior to and after 1867. For instance, the total value of imports of Nova Scotia and New Brunswick (the British North American colonies are here included as trading partners) in 1856 and 1865 amounted to £3,391,010 and £4,352,706 respectively. The total value of exports for the corresponding years were £2,446,309 and £2,919,207 thus resulting in trade deficits of £944,701 and £1,433,499 in 1856 and 1865 respectively. Comparatively, in 1876 and 1885 the total imports of Nova Scotia and New Brunswick (British North America not included as trading partners) were $16,286,302 and $13,689,764 respectively. Total exports, on the other hand, amounted to $13,804,836 in 1876 and $14,638,609 in 1885. The trade surplus of $948,835 enjoyed in 1885 as opposed to a deficit of $2,481,466 in 1876 is indicative of the general trend in foreign trade during the post Confederation period. The apparent improvement in the region's balance of trade, however, is illusionary. Concomitant with the improvement in foreign trade the region suffered a heavy trade imbalance with Central Canada. For instance, in 1876 and 1885 Atlantic Canada's trade deficits with Central Canada were estimated at about $10,000,000 and $6,000,000 respectively. The point of all this, is that chronic trade deficits adversly effect indigenous capital accumulations in general and hence accumulations of bank capital in particular.

Government legislation adversly affect access to capital in Atlantic Canada. At Confederation the Canadian State was endowed with powers in "those questions that are of common importance to all the provinces". This was defined to include the banking institution. Consequently, State legislation curtailed indigenous banking in Atlantic Canada while leaving the region open for penetration by the banks of the upper provinces.

Prior to Confederation different 'systems' of banking existed in Atlantic Canada and Central Canada. In particular, money, was freer in the former. That is, in Nova Scotia the ordinary charter was that, in part, bank liabilities should not exceed three times the amount of bank capital. In addition, there were no provisions compelling that banks should be required to keep a certain amount of specie on hand to meet their circulation. Consequently a Nova Scotia bank could circulate three times the amount of its capital plus the amount of its deposits. In a similar spirit, chartered banks in New Brunswick were permitted to circulate twice the amount of their capital stock, plus the amount of specie and Government securities they held. In contrast, Ontario and Quebec banks could only issue -- their circulation was limited to -- the amount of their capital stock plus the amount of specie and Government securities on hand.[3] The Honourable Sir Francis Hincks,[4] in the first extended legislation with reference to banking, in 1870, however, deemed it "exceedingly desirable to have a uniform system for the whole Dominion."[5] This system was modeled after the great banks of Central Canada. Accordingly, throughout the new nation circulation was limited to the amount of paid up capital, bank notes below the value of $4 were prohibited, and each bank was required to keep at least 33 per cent of its cash reserves (but no more than 50 per cent) in the form of Dominion notes.[6]

The issuing of bank notes, it was argued in chapter two, is a particular form of extending credit, credit to the banker. Essentially a bank-note is nothing but a draft upon the bank, payable at any time to the bearer. In this sense, the bank act of 1870 severly limited the credit of the bankers, themselves -- a main force behind industrialization in Atlantic Canada.

Perhaps even more important, that same bank act effectively prohibited the formation of new indigenous banks in Atlantic Canada thus opening the door for branches of the larger (mostly Central Canada), established banks. It was now obligatory for newly started banks to have a bona fide paid up capital of $200,000. And just a year later legislation, in the same spirit, was enacted requiring that the subscribed capital of new banks be $500,000 with $100,000 paid up when the bank established and $100,000 more to be paid up within two years.[7] Characteristic of the Atlantic banks, it will be recalled, was their small size and absence of branches. These two relations underscore the fact that the Atlantic banks were, in effect, the concentrated capital accumulations of single communities. The result was the effective prohibition of independent community banking and the establishment of a branch banking system, controlled from Montreal and Toronto.

Notably it was the Federal Government who initiated the interpenation by branches of the banks of Central Canada. In 1867 the Bank of Montreal was asked by the Government to open branches in Halifax and St. John "to act in conjunction with customs offices to be opened in these cities."[8] At this time Sir John Rose, a director of the Bank of Montreal and confident of Barings, was the Minister of Finance.[9] Similarly, in 1873 the same bank was asked to open a branch in Moncton, New Bruswick, the nearest mainland town to Prince Edward Island -- a hold out from Confederation.[10]

Characteristic of this system of branch banking was (1) the alienation of control of the local capital accumulations of a community; and (2) the flow of capital from one community to another and from one region to another Both elements operated, in conjuncture, to limit access of Atlantic entrepreneurs to local capital accumulations. This took the form of loan refusals and interests rates.

In the branch system control of bank capital, and hence the availability of capital, rests in the hands of 'local branch managers, often parachuted in from outside the community, and ultimately in the bank board rooms at Montreal and Toronto. To this extent access to bank capital was restricted by the limited knowledge of the branch manager and the bank board members of local entrepreneurs and conditions of production. Testimony given to the 1912-1913 Banking and Commerce Committee that development in "small" communities is injured by the tendency of bank branches to gather in deposits and carry them "to a central place of administration... (where) men of ability (must) follow... able and efficient men who might otherwise have remained in the community[11] is instructive of the nature of the system. As a case in point, a witness before the committee testified to his personal knowledge of a man, a manufacturer of clothing, in good financial standing, who was refused credit at both the local branches in his town and was now presently on his way to Montreal, to the bank's head offices.[12]

The Honourable Mr. Logan, with fifty years hindsight, in the context of the 1923 commons debate over the required capitalization of new banks, lamented the effect of branch banking on the Atlantic region. He is worth quoting at some length:

> I presume the reason for the change of head office (of banks in general) to Montreal and Toronto lies in the tendency in Canada towards centralization along all lines. I am not asking that legislation be passed here to compel the formation of banks in the Maritime provinces; but what I do say is that we should not shut the door against the formation of new banks ... . I know of individual cases of clients of mine who have suffered very serious injury through a lack of knowledge on the part of the local bank manager, on one hand, and on the other, a lack of knowledge on the part of the directors sitting a thousand miles away considering the case... . I would vote (against the motion to reduce the amount of capital required to $50,000) because I think the amount is too small. On the other hand, however, I

> certainly think that $500,000 is too large ... we might ... reduce it to $150,000 ... (to make it) easier for men in the outlying parts of the Dominion to form banks to deal with local affairs. People ask, what is the matter with the Maritime provinces... . Well, there are several reasons ... . But among the several reasons that may be offered for this condition, one of the most outstanding is the fact that we have lost our money control in the Maritime provinces, so that it is exceedingly difficult to secure for local enterprises sufficient capital to carry on when we have to appeal to a board a thousand miles away who very often do not know us.[13]

But the Government, in 1923, as so often in the past, was unmoved in its opposition to independent local banks, or if you will, the Government, as always, championed the cause of the great banks of Central Canada.

One must here be careful, however, not to reduce the difficulty of Atlantic enterprise securing capital to merely who controls bank resources, though we have seen, this was certainly important. The fact of refusing credit, in general, in a community or region, presupposes a set of relations such that local accumulations are made available in other communities or regions. In branch banking, the draining off of local capital is a function of the system operating independent of, though mediated by, control of bank resources.

It is evident that community deposits in a branchless local bank would necessarily be transformed into loans made in that same community. Relations in such a system that is, relations constituting the system, do not exist for the export of capital. State restrictions aside, the system of local independent banking functions such that should the economy be depressed resulting in a plethora of capital, that is, a high ratio of deposits to loans, the rate of interest would tend to fall to maximize access to capital. (Even bank capital reverts to being merely money if not employed in realizing surplus value). On the other hand, during boom periods, though interest rates tend to rise, rates never rise such as to prohibit borrowing. Access to local accumulations, in both cases, is high. The branch banking system, however, operates to transfer the funds from a sluggish to an 'active' community; the tendency of the rate of interest is toward uniformity throughout the system. In other words, the ratio of deposits to loans in that town, but rather, a consequence of demand throughout the Dominion. Thus the apparent absurdity of 'borrowers' in an Atlantic town complaining of 'prohibitive' interest rates when the ratio of deposits to loans in the local branch bank was 30 to 1.[14]

J. French Johnson, a representative of the National Monetary Commission, summed up the consequence of the branch system for Atlantic development in his conclusions on the Canadian Banking System. In part they are reproduced below:

> No matter where a manager's headquarters may be, he is most deeply concerned in three questions: (1) Where is idle money accumulating? (2) How can he best draw it into his bank? (3) In what parts of the Dominion is money most needed? In localities of both kinds he established branches: in the one the branches accumulate deposits often much in excess of their loans, in the others the loans exceed the deposits ... Justifiable as the bank's policy is from a national point of view, one cannot help believing that the branch banking system has really checked the development of business and industry in the maritime provinces. If Canada during the last thirty years had depended, like the United States, upon independent local banks, there would have been a plethora of capital in the East ... . The relative cheapness of capital undoubtedly helped to build up the prosperous industries of Massachusetts. The same cause operating in the Maritime provinces of Canada would doubtless have led to the establishment there of industries of which the people under existing conditions have not ventured to dream.[15]

The bank system, then, is not some neutral entity which drains off capital only because Montreal and Toronto interests appropiated control. Rather, it is built into the system. Before leaving this discussion let us briefly -- lest the impression be left that the question of control is relatively unimportant -- return to the impact of control on the functioning of the system.

Earlier we saw that the alienation of control of indigenous accumulations of Atlantic capital and its (control) removal to Montreal and Toronto adversly effected the availability of capital in Atlantic Canada. Managers, parachuted in, and bank directors, thousands of miles away, were 'hesitant' to loan to unknown local entrepreneurs. This manifested itself in both the refusal of particular applicants, and what is more important, a bias in the form of relatively high interest rates which was instituted against Atlantic borrowers. The testimony of Mr. McCurdy, himself a member of the 1912-1913 Banking and Commerce Committee, is instructive on this point:

> There is supposed to have been a surplus of deposits over the applications for loans in that province (Nova Scotia) and the experience of borrowers there, when Halifax was an important banking centre, was that money could be obtained at lower rates, or at least as low as could be obtained in other parts of the country. Since the removal of head offices from that province, we find from practical experience, that a loan commands a higher rate of interest in Halifax, for instance, than does a similar loan in larger financial centres... With the same class of collateral, the same borrowers have been asked to pay higher rates of interest at the city of Halifax, for instance, than they have at the head office of the same bank.[16]

The effect of the higher interest rates, of course, is to make money more available in other regions. Control in this sense, overdetermined the system. That is, the tendency of the system to drain off the indigenous savings of Atlantic communities was intensified by the alienation of control.

The "Halifax" Branch Banks

The relatively small size of independent community banks, the restrictive legislation regarding their organization, and the interpenetration of the Atlantic region by the branch banking system and the subsequent draining off of capital, effectively destroyed indigenous banking in Atlantic Canada. The last of the independent banks, the Bank of Yarmouth and the St. Stephen Bank failed in 1905 and 1910 respectively. W. H. Redding and Son, a large tannery and boot and shoe firm, the reader will recall, owed the Bank of Yarmouth $490,000. When Reddings failed so did the bank. Similarly, the St. Stephen Bank, was closely interlocked with local industries and when several of those firms failed it was forced to close its doors.[17] The only banks to survive were two branch banks -- the Royal Bank of Canada and the Bank of Nova Scotia. Control of both these banks, however, by 1920, appears to rest in Central Canada.

The Royal Bank of Canada began its westward move in 1887 when, while still the Merchants Bank of Halifax, it opened an office in Montreal. Thomas Kenny, then president, appointed Edson Pease, of Montreal, the branch manager.[18] in 1901 the name of the bank was changed to the Royal Bank of Canada. Four years later Sir Herbert Holt, of Montreal, joined the bank as a director. February 14, 1906, the sharefholders approved the proposal of the Board to move the head office from Halifax to Montreal. That same year Thomas Ritchie, of Halifax, retired as vice-president in favour of Holt. Two years later Kenny died and Holt was elected president and Edson Pease, now a director, was elected vice-president.[20] The Bank, over the next ten years, established itself as a citadel of Central Canadian finance, a rival of the Bank of Montreal itself. In 1919, for instance, only 100 of its 549 Canadian branches were in the Maritimes whereas 212 branches were in Quebec and Ontario. Similarly, of the 21 directors in 1919, only 2 were from the Maritimes. In contrast, ten directors were from Montreal.[21]

The Bank of Nova Scotia, in turn, took on the character of a Toronto branch bank. Specifically, in 1900 the bank's executive head office was transfered from Halifax to Toronto. In its "one Hundred Year History" the banks describes this change as:

> a natural outcome of the westward turn of events which followed closely on the linking of far-flung provinces by the Canadian Pacific and other railway systems and was a necessary step if the Bank were to play a leading role in the new prosperity and economy of the twentieth century. Many of its Maritime customers had already become dominion-wide concerns, and important connections which it had established in Ontario, Quebec and Winnipeg, necessitated banking facilities free from the delay attendant upon correspondence between these points and Halifax.[22]

Apparently the bank did not realize that the delay in correspondence between Ontario and Halifax would be about equal to the delay between Nova Scotia and Toronto. The

Atlantic capitalists, however, appear to have retained control till about 1920.

In 1913 the bank absorbed the Bank of New Brunswick.[23] The New Brunswick directors realized that if they were to survive the competition of Montreal and Toronto they needed a greatly increased capital. Merger was the only alternative. A year later the Nova Scotia joined with the Toronto based Metropolitan Bank. The Metropolitan shareholders received $100 in cash and a one half share of the Bank of Nova Scotia stock for each share of the Metropolitan. S.J. Moore, president of the Metropolitan, and W. D. Ross, general manager and later Lieutenant-Governor of Ontario, joined the board of the Nova Scotia Bank. Moore was later to become the first "Toronto" president, in 1927, of the bank.[24] But it wasn't till the merger with the Bank of Ottawa, in 1919, that the Atlantic control of the Bank of Nova Scotia is questionable. The Bank of Ottawa had reached a point where new capital and vigorous expansion was necessary to maintain earnings on a profitable level."[25] The Nova Scotia "offered" itself. Under terms of the merger, shareholders of the Ottawa bank received four shares of the new bank for each five shares they held.[26] But "more important" was the make-up of the new board of directors. On the board sat

J. Moore and W. D. Ross, of the old Metropolitan Bank, N. Curry, of Montreal, eight Atlantic Canadians, and nine former members of the Bank of Ottawa.[27]

This chapter has examined centralization of the control of bank capital in Montreal and Toronto. It has been argued that the destruction of independent community banking in Atlantic Canada and the subsequent draining off of bank capital undermined the ability of Atlantic industry to substain competition. In this regard the following chapter examines the role of bank capital in several cases of the reciprocal determination of the development of industry in Central Canada and its destruction in Atlantic Canada.

In conjunction, the alienation of control of bank resources and the draining off of bank capital intensified the subsequent underdevelopment of indigenous industry by prohibiting the emergence of new units of productive capital. The words of J. French Johnson lament an era: "If Canada, since Confederation, had depended upon independent local banks, "the relative cheapness of capital ... would doubtless have led to the establishment (in Atlantic Canada)... of industries of which the people under existing conditions have not ventured to dream."

Notes to Chapter Five

1. The Maritime Provinces in Their Relations to the National Economy of Canada, 1948, p. 98.

2. Ibid, p. 99.

3. House of Commons Debates, May 14, 1869, pp. 309-310.

4. Hincks "had been associated with banking and the wholesale warehouse business in Toronto, (and) had been a constant champion of the interests of Toronto ... ." D. C. Masters, "Toronto vs Montreal: The S-ruggle for Financial Hegemony, 1860-1875" in Canadian Historical Review, XXII (1941), p. 141.

5. House of Commons Debates, March 1, 1870, p. 215.

6. The history of banking legislation was reviewed in the House of Commons Debates, March 20, 1890, p. 2237.

7. Ibid, p. 2237.

8. Merrill Denison, Canada's First Bank, Volume 2, 1967, p. 180.

9. D. C. Masters, "Toronto vs Montreal: The Struggle for Financial Hegemony, 1860-1875," 1941, p. 141.

10. Merrill Denison, Canada's First Bank, Volume 2, 1967, p. 180.

11. Minutes of Proceedings, Evidence, etc. Committee on Banking and Commerce during Parliamentary Session of 1912-1931. Ottawa (hereafter refered to as Committee on Banking and Commerce), 1913, p.

12. Ibid, pp. 180-181.

13. Debates of the House of Commons, June 19,1932, pp. 4078-4080.

14. Testimony of this incident was given to the Committee on Banking and Commerce, 1913, p. 532.

15. Submitted as evidence to the Committee on Banking and Commerce, 1913, pp. 530-532.

16. Ibid, p. 115.

17. Tom Naylor, The History of Canadian Business, 1867-1914, 1975, pp. 124-125.

18. Ibid, pp. 33-34..

19. Ibid, p. 24.

20. Ibid, p. 50.

21. Ibid, p. 43.

22. The Bank of Nova Scotia: One Hundred Year History, 1932, p. 8.

23. Ibid, p. 91.

24. Ibid, pp. 93-96.

25. Ibid, p. 104.

26. Ibid, p. 104.

27. For a list of directors see ibid, p. 115.

CHAPTER SIX

Corporate Monopoly Capitalism in Canada

Introduction

The rising organic composition of capital, we have seen, followed two paths: (1) internal reinvestment of the profit of an individual firm; and (2) the formation of joint-stock companies, characterized by the transformation of merchants' and financial capital into productive capital, either creating new productive potential or consolidating existing productive units. Either way the joint-stock company combined capitals already in existence. Both these processes -- internal reinvestment and the joint-stock company -- led to increased production (and over-production). But the former involves merely the concentration of capital (an increase in the quantity of capital under the control of each capitalists which is only transformed into the centralization of capital by destroying competing capital and tending towards monopoly. But in the intense competition this presupposes the productive unit, itself, tends to transform from the 'individual unit' to the corporation) while the latter necessarily involves the centralization of capital.

In Canada the chartered banks played a major part in the centralization of capital. The centralization of capital differs from its concentration in that capital grows in one place to a huge mass in a single hand because it has in another place been lost by many. This process has three forms. First, the centralization results from competition and the passing of smaller capitals into the hands of more efficient or more heavily financed productive units. In this struggle the credit system is a formidable weapon. The importance of the chartered banks in this regard is evident. Second, the credit system is itself an immense social mechanism for the centralization of capitals to the extent that it acts to amalgamate a number of capital already in extence. In this regard banking is the highest form in the development of credit. In fact, banks are the concentration and concretization of credit relations. Third, similar to banking, the joint-stock company tends to amalgamate a number of capitals already in existence. When the issuing of stock by the firm is used to raise capital, but the buying of stock is regarded by the investors not as a mechanism of control, but as an investment whose purpose is "rent" in the form of dividends, etc., then in this sense the joint-stock corporation is synomymous with the credit system. For the stock system to function in this sense, however, it requires that earnings be showed by the enterprises listed otherwise no investor will take up stock. In this regard, Sir Edmund Osler, president of the Dominion Bank, 1901-1923, told the 1913 Banking and Commerce Committee that corporate capitalism would not exist in Canada were it not for the chartered banks. In part his examination by the Committee is reproduced below:

Q. ...As I understand it, before any large enterprise can be established you must get a group of capitalists who will underwrite the securities in the first instance. Is that right or not? - A. Yes, it is.

Q. Could bonds be sold to the public at the inception of an enterprise before there were any earnings shown at all? - A. Not to the general public.

Q. So that it must be done by a group of capitalists? -A. Yes.

Q. Is it, or is it not, proper banking for the banks to provide credit and to advance temporarily upon that credit and the security of the underwriting until such period as the securities may be marketed? -A. That is quite a proper banking transaction, you could not establish industries in Canada at all without it.

Q. Did I gather that in your view you could not establish large industries unless banking facilities and accomodations were provided during that period at which capitalists must pledge their credit in aid of the securities they have underwritten for the establishment of the enterprise. - A. Yes.[1]

Banks, we saw in chapter four, provided finance for corporations and (as we shall see), if Osler is to be believed, played a dominant role in promoting the corporate form. The latter was the role Helferding especially stressed in the development of finance capitalism: the fusion of industrial capital and financial capital. Banks, in turn, through the strategic financing of corporations and sale of new securities are able to appropriate to themselves a portion of control of the corporation. They appoint their own representatives to sit on boards of corporations and exercize great influence in the policies adopted.

The development of the corporate structure (we saw) Paul Sweezy argues, "makes competition (in corporate capitalism's early phase) increasingly severe and perilous for the survivors. Competition tends to turn into cut throat competition."[2] At the same time, with the increasing coincidence of boundaries of economic control of productive capital and financial capital, to the extent that the boundaries of capital correspond, we are in effect dealing with one productive unit. What is definitive of the unit, it was argued, is not physical proximity, vertical correspondence, or legal ownership, but real (economic) control. During the early phase of corporate capitalism (discussed in this chapter), not yet in its monopoly stage, two legally defined corporations -- both associated with the same banking group -- may still fight it out as competitors. But with the increasing coincidence of boundaries of capital there is a tendency towards combinations and mergers: the formal conjuncture of what is already real. Hence the intelligibility of Sweezy's observation that during corporate capitalism's early, competitive phase the bank's influence will be exercised:

> Always towards the abolition of competition. An individual company may, if it feels strong enough, welcome a knock-down-and-drag-out fight with its competitors, expecting to undergo a temporary period of reduced earnings in the hope of more than making up its losses later on. But for a bank which has relations with many companies such a course must inevitably seem futile and self-defeating ... . The more extensive the connections of a bank and the

> more powerful its voice, the more effectively is it able to pursue its aim of eliminating competition and erecting monopolies. Hence the centralization of capital in the industrial sphere finds a counterpart in the growth of larger and larger banking units. On this basis there arises that inner personal union of interlocking directorates and communities of interest which binds together the most important banking and industrial magnates in all the advanced capitalist countries.[3]

The tendency in corporate capitalism toward combinations, mergers and monopolies, essentially, is nothing more than the reflection of the increasing coincidence of the boundaries of units of capital. Between capitals in Atlantic and Central Canada, however, no coincidence of boundaries existed; the two capitals were fundamentally "opposed". In this chapter we shall see that in conjunction with the centralization of bank capital and productive capital, especially during the 1890-1895 merger period, indigenous units of Atlantic capital were either destroyed by units of Central Canadian capital, or of the units did merge, the Atlantic bourgeoisie, for the most part, were separated from control which tended to concentrate in the hands of Montreal and Toronto based capitalists.

The Concentration and Centralization of Banking

Secondary industry underwent significant growth during the last half of the nineteenth century. In part this reflected the growing up of indigenous small firms. But especially after 1879, prodded by commercial capital's crisis, and cultivated by the protective tariff and a consolidated British North American market, there was a transfer of merchants' and financial capital into productive capital. This transformation, in turn, led to the establishment of large units of productive capital and overproduction.

In conjunction with the concentration of productive capital, in the form of joint-stock companies, bank capital, itself, was increasingly becoming concentrated and centralized. In particular, between 1867 and 1928, forty-two banks failed and another thirty-five were absorbed.[4] This period of relative instability was characterized by the increasing predominance of Montreal and Toronto as financial centres. For instance, of the thirty-five absorptions, seven banks merged with each the Bank of Montreal (based in Montreal) and the Canadian Bank of Commerce (based in Toronto); five banks were absorbed by the Royal Bank of Canada (based in Montreal), and four by the Bank of Nova Scotia (based in Toronto) for a total of twenty-three. In addition, these twenty-three corporations had themselves absorbed eight banks. When these are included with the above mergers we see that thirty-one of the thirty-five mergers are ultimately with the four banks.[5]

The failures and mergers over this period resulted in an intense concentration and centralization of banking funds. Between 1875 and 1928, for instance, the number of chartered banks declined from thirty-six to ten.[6] In conjunction we see in table 9 that the Bank of Montreal, the Canadian Bank of Commerce, the Dominion Bank, and the Bank of Nova Scotia, in 1895, controlled 35 per cent of bank resources. By 1927 these same four banks had increased their portion of total resources to 55 per cent. And if we add the Royal Bank of Canada we see that the five dominant banks, in 1927, held more than 81 per cent of total chartered bank resources.

TABLE 9 ABOUT HERE

Thus, the concentration of productive capital and subsequent overproduction and cut throat competition correspon-ded with the concentration and centralization of bank capital. The effect of the centralization of bank capital on productive capital was two-fold. First, it reduced the number of financial groups to which units of productive capital could turn, thus tending to increase the influence of financial groups over productive capital. Second, to the extent the number of banks declined, the ratio of surviving banks to units of productive capital (legally defined) decreased thus tending to increase the links between a particular unit of bank capital and units of productive capital. The result, of course, was the increased concentration and centralization of units of capital, defined by control.

It was argued that with this increasing coincidence of boundaries of capital there was, and is, a corresponding tendency towards the curtailment of competition, and towards the formal (legal) merger of capital. Banks, Sweezy argued, excercise their authority over associated units of productive capital towards the abolition of competition between those units. In Canada the chartered banks successfully promoted the formal units of productive capital after 1890.

In 1890 there were 69,716 manufacturing firms. By 1917 the number of firms had dropped to 22,043, increasing to only 22,586 in 1930. Meanwhile, the number of persons engaged in manufacturing increased from 351,000 in 1890 to 586,000 in 1917, to 614,000 in 1930. In particular there was a flurry of mergers between 1890-1895, but especially during the 1909-1913 and 1925-1930 periods. Accompanying this transformation was an increasing transformation of bankers into industrialists and vice versa.

These mergers juxtaposed the centralization of control of production in Montreal and Toronto to the destruction of indigenous Atlantic industry. Specifically, the cases of the cotton, cordage, glass, sugar, and iron and steel industries will shortly be examined. The localization of control in Central Canada, in part, was the consequence of the destruction of independent community banking and the universalization of the Montreal and Toronto controlled branch banking system. Implicit here (and I have similarly argued earlier) is that the branch banks, as well as the community banks, promoted industrialization.

Tom Naylor: Productive Capital Versus Merchant's Capital

It has been argued that in capitalist production, circulating capital and productive capital exist as mere moments of capital in general. Capital in both spheres are mutually dependent and compatible. Naylor, however, the reader will recall, argued that there is antagonism 'between the need' of productive capital for long term investment capital and the need of merchant capitalists for short term capital. Historically, he claims, in Canada the most powerful fraction of the capitalist class has been merchant's capital. This fraction has dominated both the State and the financial sphere. Accordingly, the bulk of bank capital was loaned to commercial interests rather than industrial interests, that is, little financial capital was transformed into productive capital.

He has recently completed a major work, including a review of bank failures, which, he argues, supports the 'commercial versus productive capital thesis'. With respect to the failures he concludes that:

> The cause of the problem did not lie in individual moral depravity. ... 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 Farmer's Bank, none of the central Canadian or Halifax Commercial banks transgressed the precepts of orthodoxy in terms of type of business. ... 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.[7]

The contradiction between his conclusion and the presentation of material in this thesis is, to say the least, paradoxical. It would seen, at this point, that several observations with regard to Naylor's data are in order. Interestingly, a closer examination of Naylor's own work, reveals not the 'orthodoxy of Central Canadian banks, but rather, their close ties with productive capital'.

Of the twenty-six bank failures reviewed by Naylor, fifteen belong to his categories "French Banks", "little non-Halifax Maritime banks", and "those in the West". He conceeds that these organizations had important industrial ties. Of the remaining eleven banks, supposedly cast in the traditional mold, there are three and not two exceptions which prove the rule. That is, in addition to the industrial links of the Sovereign and The Farmer's Bank, Naylor, himself, writes about the Ontario Bank: "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".[8] What of the eight remaining 'orthodox' banks?

The reason given for the demise of the Stadacona was "the failure of some of its debtors". Unfortunately we are not told if these debtors had commercial or industrial interests; what was the nature of the loans to these persons? The cases of the Exchange and Central Banks are also ambiguous. The root of the failure of the Exchange Bank was, to quote Naylor, that it "ran up a series of weak accounts". But, as with the Stadacona, we do not know the nature of the "weak accounts". Similarly we are told that the Central Bank first ran into difficulty when it was realized that two accounts, the Niagara Central Railway and the Ontario Lumber Company, were too large for the bank's resources. The trouble deepened when it was found that there were also unsound loans to directors. We are not told, though, whether the corporate loans were of a long term or short term nature. Nor are we told how the directors employed their loan capital. Naylor is more precise in the cases of the Consolidated and Federal banks. The Consolidated Bank of Montreal, it appears, made loans amounting to $1,000,000 to six foundering mercantile houses. Similarly, the failure of the Federal resulted from large losses in Michigan lumber transactions, in addition to lock-ups in real estate and an overdraft on the Commercial Loan and Stock Company. The remaining three banks did not fail because of unsound loans. The cause of the failure of the Metropolitan Bank was the loss of about $100,000 through land and bank stock speculation. Finally, the Mechanics Bank and the Bank of London failed because of mis-management and misappropreation of funds.[9]

We see that is is only in the cases of the Consolidated Bank of Montreal and the Federal Bank that Naylor substantiates the claim that "the bulk of the banks that collasped overextended themselves in mercantile loans and discounts and manipulations with their call loans". Even if we assume that the debtors of the Stadocana were commercial people, and that the loans to the Niagara Central Railway and the Ontario Lumber Company were of a short term nature, only five of the twenty-six cases reviewed would seem to conform to "the principles of the banking school on which the Canadian system was predicated". This, though, does not mean that these banks did not have industrial links.

Of the seven largest banks which failed during the period 1867-1914, four were clearly involved in industrial concerns: the Sovereign, Ontario, Jacque Cartier, and the Ville Marie.[10] But also, the three remaining largest banks -- the Federal, the Consolidated, and the Exchange Bank -- were all associated with industrial concerns via board members. For instance, Samuel Nordheimer's principle occupation was the manufacturing of pianos. In 1884 he also possessed $270,000 in Federal Bank stocks. Similarly, among the members of the board of directors of the Consolidated are found John Molson of Molson Breweries, William Ogilvie, proprietor of the Glenora Flour Mills and the Royal Mills.[11] Finally, Naylor tells us that the General Manager of the Exchange Bank and two of its directors -- A. W. Ogilvie and M.H. Gault, of Gault Brothers and Company, manufacturers of cotton and woollen goods-- were forced to sell their stockholdings in Corriveau Silk Manufacturing Company when the Consolidated collapsed. Interestingly, control of Corriveau initially passed to Gault's brother, Andrew, who was later to consolidate cotton mills in Canada into the monopolies -- The Dominion Cotton Mills Company and the Canadian Coloured Cotton Mills Company.[12]

This is not to say that these capitalists were industrialists, but that their interests were both in the productive and the financial (and commercial) spheres. No doubt the early Canadian banking institution was of a mercantile nature. But the growth of industry and competition, the growth and centralization of bank capital, and the slow-down in demand for commercial lonas laid the grounds for the birth of a new fraction of the capitalist class. Increasingly bank capital was flowing into the sphere of production and financial and industrial corporations were interlocking their boards of directors. A new group of capitalists emerged whose interests were both financial and industrial. Several of the following cases, including two of the most important industries in Atlantic Canada, in particular the cotton and the iron and steel industries, highlight this relationship.

The Destruction of Indigenous Atlantic Industry

The cotton industry, protected by the tariff underwent massive expansion after 1879. In Atlantic Canada the traditional commercial fraction of the bourgeoisie promoted the development of considerable productive potential. Between 1880 and 1890 the value produced by the Nova Scotia and New Brunswick mills increased more than 800 per cent, from $276,178 in 1880 to $2,176,850 in 1890; and the number of workers employed grew from 344 to 2,225.[13] In Central Canada the value of production increased from $3,483,324 in 1880 to $6,274,874 and in conjunction the number of workers employed rose from 3,183 to 6,287.[14]

But all was not well in the cotton industry. Earlier we saw that in 1883 the industry was bearly saved by bank loans, totaling $1,320,000, from the Bank of Montreal and the Merchant's Bank. Overproduction was chronic, though, and although cotton 'weathered' the 1883 crisis, the decade was marked by falling prices and stock values, price wars, and consolidation attempts.

It was argued that banking groups, in part, exercise economic control over productive capital by merely being selective in its financing. Further, it was argued that banks tend to exercise their influence towards the abolition of competition. In the cotton industry the first serious attempt towards the curtailment of competition followed the 1883 crisis. Several banks, among them the Bank of Montreal, the Bank of Nova Scotia, and the Federal Bank, "insisted on cartelization, and cutbacks as a precondition of further advances."[15] Ultimately it was agreed to cut the output of mills one-third, each mill being required to shut down each Monday and each Thursday night. The cartel, however, soon dissolved into cutthroat competition.[16]

The general business depression of 1886, which threatened the actual existence of several mills, forced a second

[illegible] of competition. Sixteen

mills, including four Atlantic corporations, agreed to regulate production and set a minimum price for commodities. The Gibson mill, however, refused to enter the agreement. For two years it undersold its competition, severly damaging the St. Croix mill, and ultimately causing the cotton cartel, in 1888, to break up.[17]

Three years later, however, in 1891, a group of wealthy Montreal men, led by A.F. Gault and David Morrice, and financed by the Bank of Montreal did succeed in regulating production. Seven grey mills were merged into the Dominion Cotton Company, capitalized at $5,000,000, and seven coloured mills were merged into the Canada Coloured Cotton Company Ltd. These mills were so battered by competition that the Montreal group was able to buy the seven grey mills, built at a cost of $4,800,000 for $3,800,000.[18] What is important, though, is that in these mergers ownership and control of the Nova Scotia Cotton Mill, the Windsor mill, the Moncton mill, and the St. Croix mill all passed into the hands of Montreal. Moreover, of the three remaining Atlantic mills, the huge Gibson Mill, though Gibson retained formal ownership, agreed to market its entire output through the Dominion Cotton Company. Only the New Brunswick Cotton Mill and the St. John Cotton mill, both controlled by John Parks, survived.[19]

Besides the interlocking directorships through the persons of Gault and Morrice, and the financing it provided, another action taken by the Bank of Montreal is noteworthy. Parks was dependent on the Bank of Montreal for his operating capital, with an outstanding debt of $122,000 in mid-1890. Almost simultaneous with Parks refusal to sell his mills to the Montreal group the bank demanded immediate payment in full of his outstanding debt. This action would have ruined Parks but he appealed to the capitalists of St. John to save him. When the Bank of Montreal foreclosed the mortgage it held as security, Mr. Justice A. L. Palmer of the New Brunswick Supreme Court placed the firm in receivership under his control. For two years, on one legal pretext after another, Palmer kept the mills in receivership. Meantime he forced the Bank to continue providing operating funds. Finally in December 1892, when the decision on ownership finally came down, it was found that during the period of receivership Parks made a profit of $150,000. This was used to repay the bank debts.[20]

With the merger of units of productive capital into the Dominion Cotton Company and the Canada Coloured Cotton Company -- the real boundaries of these legally defined productive units coincided with each other and the Bank of Montreal -- control of the cotton industry in Atlantic Canada shifted to Montreal. The centralization process, however, did not stop here. The second phase of consolidation came in 1904 when the

Dominion Cotton Company, the Merchants' Cotton Company, Montmorency Cotton, and Colonial Bleaching and Printing Company merged into Dominion Textiles Company. Instrumental in its organization were Herbert Holt and Charles Gordon. Both Holt,[21] a member of the Royal Bank of Canada and its president in 1908, and Gordon,[22] who joined the board of the Bank of Montreal in 1912, became vice-presidents of the corporation. Other board members of Dominion Textiles were to include David Morrice,[23] Robert Mackay,[24] Charles Hosmer,[25] William Black[26] and Frederick Williams[27], all members of the Bank of Montreal prior to 1930.

Similarly, in both the cordage and glass industries, the mergers of units of productive capital resulted in monopolies, the destruction of indigenous Atlantic industry, and the centralization of control in Central Canada.

The production of rope and twine had, by 1890, grown to considerable importance in Atlantic Canada. The two St. John plants and the one at Halifax employed 392 workers and produced goods valued at $1,007,000, almost 70 per cent of the total value of the twelve Ontario and twenty Quebec establishments.[28] That same year A. W. Morris,[29] a director of the Molsons Bank, John F. Stairs, president of the Union Bank of Halifax, and "some New York and New Jersey people" organized the Consumers' Cordage Company and the Dominion Cordage Company, with a capital of $1,000,000 each. These two corporations were successful in securing control of all the twine and cordage factories in Canada, including the St. John and Halifax plants, with the exception of a firm at Brantford, Ontario.[30]

Though the board was dominated by Montreal and New York interests, Stairs did play a prominent role on the directorate of the Consumers Cordage Company. But along with Atlantic industry he was becoming increasingly indistinguishable from Central Canadian capitalists. In the productive sphere, for instance, he participated in the centralization of the cotton industry and the cordage industry. And in the financial sphere, the Bank of Montreal, in 1904, absorbed the People's Bank of Halifax, in which he had heavily invested.[31] That same year Max Aitken, Stairs' protege, left Halifax to meet Sir Edward Clouston, then general manager of the Bank of Montreal, the beginning of a long association. Stairs' other bank, the Union Bank of Halifax was purchased by the Royal Bank of Canada in 1910.[32]

The consolidation movement of 1890 also swept up the Atlantic glass industry. Both Nova Scotia firms were bought out by the newly incorporated Diamond Glass Company. This firm was composed principally of Montreal capitalists, the location of the head office.[33]

Interestingly, the successor of this corporation, the Dominion Glass Company, in 1930, had plants at Montreal, Toronto, Hamilton, Wallaceburg (Ontario), and Redcliff (Alberta). Atlantic Canada was conspicuous only by its absence. Board members of the corporation included Sir Charles Gordon, president, William McMaster, vice-president, and Ross McMaster, all of the Bank of Montreal, and Abner Kingman of the Canadian Bank of Commerce.[34]

Corresponding with the consolidation of productive capital in the early 1890's, control of the cotton, cordage, and glass industries in Atlantic Canada was transfered directly to Central Canada. In the sugar industry, however, the alienation of control was more "round-a-bout", via the Royal Bank of Canada.

Like cotton mills, the rapid expansion of sugar refineries after 1879 resulted in overproduction and, subsequently, falling prices, especially in 1884-1885. In 1884, for instance, sugar prices fell 40 per cent. That same year the Nova Scotia Sugar Refinery lost over $200,000,[35] and a year later, in 1885, three mills, one at Moncton and two at Halifax closed. However, 1886 saw an upturn in the industry, a situation created largely by State intervention. In particular, Federal legislation prohibited the importation of yellow sugar, [illegible] on sugar was raised to 35 per cent ad valorem plus one cent a pound; and Stairs succeeded in forcing the Government to reduce the rail rate between Halifax and Montreal.[36]

By 1890 the industry had recovered. In Atlantic Canada three firms had weathered the 1880's. These firms, one in New Brunswick and two in Nova Scotia, in 1890, employed 312 workers and produced $3,244,000 worth of sugar, up $417,000 from ten years earlier.[37] That same year, 1890, however, a syndicate of Scottish capitalists resolved to merge all Canadian refineries.

Their first move was to incorporate themselves as the Halifax Sugar Refinery, capitalized at £150,000 (about $750,000). This corporation purchased, for £60,000, the closed down Woodside Sugar Refining Company from the Nova Scotia Sugar Regining Company.[38] The latter corporation was controlled by Thomas Kenny, president of the Merchants Bank of Halifax, and John Stairs, president of the Union Bank. At this point, however, the Federal Government "rallied" and prohibited the merger of Canadian refineries. The Glasgow group was forced to associate with Kenny and Stairs, and to be content with partial control of the Atlantic sugar industry.[39] In 1894 the three Atlantic mills were incorporated as the Acadia Sugar Refineries, with Kenny as president. This was the beginning of a long association between the Royal Bank of Canada and the Acadia Sugar Refineries, and a corresponding shift of control of the industry along with the Royal Bank, westward.

By 1895 the only major Atlantic industry, with the exceptions of confectionary and staple export industries, controlled by indigenous capital was iron and steel.[40] It remained the stronghold of Atlantic capital, though its walls were battered by the organization of the Canada Car and Foundry Company in 1909, and the subsequent transfer of control to Central Canada, till 1920 when the Nova Scotia Iron and Coal Company was lost in the organization of the British Empire Steel Corporation.

Nathaniel Curry and his brother-in-law, John Rodes, had gradually expanded a small woodworking firm established in 1877 by adding a door factory, rolling mills, railway car plant, an axle factory, and the Harris Car Works and Foundry. In 1902 it was incorporated as Rhodes Curry and Company, with Curry at its head. Then, in 1909, it was changed into a joint stock company and was combined with the Dominion Car and Foundry Company and the Canada Car Company as the Canada Car and Foundry Company, capitalized at $16,000,000.[41] This merger arranged by Max Aitken (now based in Montreal), "placed the largest car manufactory in the country, an Amherst plant employing 1,300 men and annually producing $5,000,ooo in iron and steel products, firmly in the Montreal orbit of the Drummonds and the Dominion Steel and Coal Corporation (and the Steel Company of Canada)".[42]

In 1912, for instance, board members of the Canadian Car and Foundry Company included T. J. Drummond,[43] H. S. Holt,[44] and Janus Redmond,[45] all of the Royal Bank of Canada, and J. Hamilton Denn and Max Aitken.[46] Four of these men, Drummond, Holt, Denn and Aitken, all sat on the board of the Steel Company of Canada. In turn, two other members of the Steel Company, W. D. Matthews[47] and Edmond Osler[48], sat on the board of the Dominion Bank, and three members, William McMaster,[49] C.A.Berge[50] and C. S. Wilcox,[51] sat on the boards of the Bank of Montreal, the Canadian Bank of Commerce, and the Royal Bank of Canada, respectively. Finally, McMaster and Matthews, along with Robert Mackey,[52] R. B. Angus[53] and James Ross[54], all of the Bank of Montreal, and Edward Wood[55] and George Cox,[56] both of the Canadian Bank of Commerce, sat on the board of Dominion Steel.

A year after the formation of the Canada Car and Foundry Company, 1910, the contest between Montreal and Halifax for control of the Atlantic iron and steel industry reached its climax. The Atlantic capitalists, organized around the Bank of Nova Scotia, won a victory, but a short one. Specifically, in 1889 the Nova Scotia Steel Company merged with the Nova Scotia Forge Company. That same year the New Glasgow Iron, Coal and Railroad Company was organized. The capitalists behind both corporations were virtually the same and in 1895 the two joined as the Nova Scotia Steel Company, capitalized at $2,000,000.[57] Five years later, in 1900, Nova Scotia Steel, looking for capital, added Robert Harris,[58] James Allison,[59] and George Campbelle,[60] all members of the Bank of Nova Scotia, to its board of directors. A year later the company re-organized itself as the Nova Scotia Iron and Coal company, absorbing the Sydney Coal Mines. The new corporations was capitalized at $7,000,000. Almost all the bonds of this company were sold in Atlantic Canada, with the help of the Bank of Nova Scotia. But more important, control remained in the hands of Atlantic capital.[61] In fact, with Harris as president, the directors of the Nova Scotia Steel Company simply became the directors of the new company.

But concomitant with the development of the Nova Scotia Steel and Coal Corporation, Montreal and Toronto interests were building the Dominion Steel Corporation. In 1893 a syndicate headed by H. M. Whitney, of Boston, and including Donald A. Smith[62] (Lord Strathcona), president of the Bank of Montreal, 1887-1905, Hugh McLennan,[63] a director of the Bank of Montreal, and W. C. Van Horne, organized the Dominion Coal Company. Six years later the same interests organized the Dominion Iron and Steel Company, capitalized at $15,000,000.[64] In 1901, Whitney sold his controlling interests in both companies to James Ross, of the Bank of Montreal, and his associates.[65] That year the twelve member board included James Ross, Donald A. Smith, McLennan, and B. Angus, all members of the Bank of Montreal, and Senator McKeen, of the Royal Bank of Canada, and Senator Cox, of the Canadian Bank of Commerce.[66] Similarly, the board of the Dominion Iron and Steel Company included Ross, Angus, McKeen and Cox. Other members also included Van Horne, L. J. Forget, a Montreal financier, and Elias Rogers, of Toronto.[67] The inevitable finally happened in 1910 when Forget and Aitken arranged the merger of the two companies, as the Dominion Steel Corporation.

That same year, 1910, Forget and Aitken proposed the union of the Nova Scotia Iron and Coal Company and Dominion Steel. Harris, however, refused and Forget began to buy large quanitites of the Nova Scotia stock, a move countered by Harris and his associates. At the stockholders meeting that year Harris offered Forget a minority of director seats, and Forget refused. But the Montreal group, which actually had voting control, made a slip at the last moment, and the Halifax group regained control.

Ten years later, however, the Nova Scotia Steel and Coal Company, Dominion Steel, and Canada Steamships merged as the British Empire Steel Corporation, capitalized at about $400,000,000.[49] The stock of Dominion Steel was exchanged for 51 per cent of the new company,[70] and the last domain of Atlantic Capital vanished. As a note of interest the first announcement of the proposed merger was made by Grant Morden, organizer of the Canada Steamship Company, at a banquet honouring him. The banquet was attended by Sir Henry Drayton, Messrs. Ballantyne, Doherty, Meighen, Reid and Rowell, all members of the Federal Government, twenty-five members of the Senate, Mackenzie King, and forty-seven other members of the House of Commons.

This chapter has examined both the concentration and centralization of financial and productive capital. Banks, Naylor's work not withstanding, provided finance for corporations, played a dominant role in promoting the corporate form, and appointed representatives to the boards of productive capital.

The banks at the center of industrial monopolies, however, were exclusively the great branch banks of Montreal and Toronto.

In the 1890-1895 merger period, and later in the consolidation of the iron and steel industry, the formation of monopoly corporations separated Atlantic capital from control of Atlantic industry. Atlantic capital was drained off, and indigenous industrial production and the potential for development was destroyed. Consequently, we saw, the number of manufacturing establishments in Atlantic Canada decline between 1890 and 1920, from 24.5 per cent to 11.6 per cent of the Canadian total. Concomitant, the number of persons employed in manufacturing declined from 69,529 in 1890 to 43,719 in 1920. The mirror image, of course, was the concentration and centralization of bank and productive capital in Montreal and Toronto. The development of capitalist production in Canada, the concentration and localization of capital in a relatively small number of complexes, "conditioned" Atlantic Canada as a source "for the supply of raw materials and foodstuffs, as markets for industrial consumer goods and as reserves of cheap labour power".

Notes to Chapter Six

1. Committee on Banking and Commerce, 1912-1913, p. 562.
2. Paul Sweezy, The Theory of Capitalist Development, 1942, p. 262.
3. Ibid, pp. 265-266.
4. It is interesting that of the thirty-five mergers, twenty-nine took place after 1901 when the regulations pertaining to mergers were relaxed. On the other hand, only nine of the forty-two failures (including voluntary liquidations) are a-counted for during this period.
5. B. Beckhard, op cit. pp. 338-339.
6. Ibid, p. 327.
7. Arthur Smith "Manufactures", in Mc C. Urguhart (ed.), Historical Statistics of Canada, 1965, p. 463.
8. R. T. Naylor, The History of Canadian Business, 1867-1914, Vol. 1, 1975, pp. 149-150.
9. For a discussion of these failures see ibid, pp. 120-149.
10. For a listing of the capital of banks which failed during this period see ibid, p. 121.
11. Reported in T. W. Acheson, "The Social Origins of the Canadian Industrial Elite, 1880-1885", 1972, p. 166.
12. CMWT, 1898, CMWT, 1912.
13. Calculated from Census of Canada, Vol. III, 1880, p. 109; Census of Canada, Vol. III, 1890, pp. 119-120.
14. Calculated from Census of Canada, Vol. III, 1880, pp. 509-510, Census of Canada, Vol, III. 1890, p. 120.
15. R. T. Naylor, The History of Canadian Business, 1867-1914, Vol. 11, 1975, p. 168.
16. Ibid , p. 168.
17. T. W. Acheson, "The National Policy and the Industrialization of the Maritimes, 1880-1910", 1972, p. 16.
18. The Canadian Manufacturer and Industrialist, Dec. 19, 1890, p. 412.

19. T. W. Acheson, "The National Policy and the Industrialization of the Maritimes, 1880-1910", pp. 17-18.

20. Ibid, pp. 17-18.

21. CMWT, 1912.

22. Prominent Men, 1931-1932 (Hereafter refered to as PM); Who's Who and Why (WWW), 1925-1926. (Hereafter refered to as WWW).

23. David Morrice, in addition to sitting on the boards of Dominion Textiles, helped organize the Dominion Cotton Mills and was president of both the Canada Coloured Cotton Company and Penman's Limited.

24. CMWT, 1912.

25. WWW, 1961.

26. WWW, 1925-1926; Canadian Who's Who, 1936-1937. (Hereafter refered to as CWW).

27. WWW, 1925-1926; CWW, 1936-1937.

28. Calculated from Census of Canada, Vol. III, 1890, pp. 279-280.

29. Monetary Times, 1890, p. 470.

30. Ibid, 1890, p. 17.

31. Reported in A.F.P. Taylor, Beaverbrook, p. 1972, p. 22.

32. The Royal Bank of Canada: A record of its progress during the past half century, 1919, p. 24.

33. The Canadian Manufacturer and Industrialist, Nov. 7, 1890, p. 302.

34. Reported in The Annual Financial Review, Canadian, July, 1930, p.

35. R. T. Naylor, The History of Canadian Business 1867-1914, Vol. II, 1975, pp. 178-179.

36. Ibid, p. 179.

37. Calculated from Census of Canada, Vol. III, 1880, pp. 417-518; Census of Canada, Vol. III, 1890, p. 323.

38. The Canadian Manufacturer and Industrialist, Nov. 7, 1890, p. 302.

39. T. W. Acheson, The Social Origins of Canadian Industrialism, Unpublished Ph.D. Thesis, Toronto, 1971, p. 93.

40. Reported in T. W. Acheson, The Social Origins of Canadian Industrialism, 1971, p. 94.

41. J. Hopkins, The Canadian Annual Review of Public Affairs 1909, 1910, p. 256.

42. T. W. Acheson, The Social Origins of Canadian Industrialism, 1971, p. 94.

43. CMWT, 1912.

44. CMWT, 1912.

45. CMWT, 1912.

46. Reported in W. J. Donald, The Canadian Iron and Steel Industry, 1915, p. 280.

47. A Standard Dictionary of Canadian Biography (SDCB), 1934; CMWT, 1912.

48. SDCB, 1934; CMWT, 1912.

49. WWW, 1925-1926.

50. WWW, 1925-1926.

51. WWW, 1919-1920.

52. CMWT, 1912.

53. CMWT, 1898; WWW, 1919-1920.

54. CMWT, 1912.

55. CMWT, 1912; WWW, 1910; CWW, 1936-1937.

56. CMWT, 1898; CWW, 1910.

57. T. W. Acheson, op cit, p. 98.

58. CMWT, 1912; WWW, 1919-1920.

59. WWW, 1919-1920.

60. CMWT, 1912.

61. Reported in R. T. Naylor, op cit, p. 183.

62. CMWT, 1912.

63. CMWT, 1898.

64. T. W. Acheson, op cit. p. 102.

65. W. J. Donald, op cit, p. 257.

66. Board of directors reported in J. Hopkins, The Canadian Annual Review of Public Affairs, 1900, p. 303.

67. Ibid, p. 302.

68. T. W. Acheson, op cit, pp. 109-110.

69. J. Hopkins, The Canadian Annual Review of Public Affairs, 1920, p. 197.

70. Ibid, p. 196.

71. Ibid, p. 192.

CONCLUSION

The scientific study of development demands more than a linear analysis of phenomena, each phenomena an abstract relation, i.e. a market variable. It involves the discovery of the structure of the developing society, or if you will, the reuniting of the abstract thus leading to a reproduction of the concrete through thought. This reconstruction is more than merely a map of a sequence of social, political, ideological and economic relations conceived quantitatively. It is a map of the logical connection of elements conceived structurally -- by their essence. Marxism provides us with such a model of capitalist society.

Scholars, within the neo-classical tradition, have emphasized cost and market variables, i.e. the distance to markets, in their analysis of the underdevelopment of industry in Atlantic Canada. Blinded by their individualist bias, no system of determinant regularities is discoverable. The world must certainly seem a bewildering infinity of events to them.

The Atlantic economy, however, exhibits characteristics similar to those found in other underdeveloped regions. In this regard staple theory, in its Innis version, recognizes the existence of conflict, the interconnection of social and political relations, etc., and in particular, the interconnection of development and underdevelopment. However, it essentially conceives relations quantitatively, and while it constructs a historical model of the overdevelopment of staple and the concomitant underdevelopment of industry it is unable to explain the logical connection, that is, the inner necessity of these events. "Science", of course, has always recognized that any delineation of a causal relation between two events, as opposed to an event and proposition or between two propositions, is inferential -- educated guesswork on the strength of a temporal and spatial sequence. Further more, the predictive power of staple theory is relatively low and, in particular in the case of Tom Naylor, as a description and explanation it is problematic to say the least. The lack of a model of capitalism, for instance, has led Naylor to grossly mistake the nature of the relationship between capital in the productive, circulating and financial spheres.

The present study has attempted both a linear and a structural analysis of the development/underdevelopment of Atlantic Canada. The necessity of the "evolution" of capitalist industrial production and its subsequent transition to competitive corporate capitalism and finally monopoly corporate capitalism was deduced from a structural model of "capital".

In conjunction with this "movement of capital", propelled ahead by inherent contradictions within the production of capital, we have traced its phenomenal correspondence -- the creation of a capitalist state and a national economy, the rise of new classes and fractions of classes and the decline and fall of old classes and fractions thereof, and the concentration and centralization of units of financial and productive capital. Concurrent with these developments we saw the development of industrial production in Central Canada and the rise and demise of industry in Atlantic Canada. These two events -- the development of industry in Central Canada and the deindustrialization of Atlantic Canada -- it was shown were not distinct, but rather, mutually conditioned.

What this study indicates, with regard to development studies in general, is the methodological bankruptcy of the neo-classical perspective, the analytical shortcomings of staple theory, and the possibilities of Marxism as an alternative mode of approach. In particular it shows the importance of a wholistic, historical and structural approach. Policy wise, it brings into relief the essentially haphazard formation of development policies in the absence of an analysis of capitalist development. Not surprising, the Italian Government spent about $3,000,000,000 over a fifteen year period to influence "capital" to locate in Southern Italy, yet over that period the per capital income of the South fell from about 63 per cent of the national average to about 56 per cent.[1] Nor is this case unique. With regard to Canada , which has similarly followed an "easy money policy" of cash grants, easy loans and tax relief incentives, there has been no significant diminution of regional disparities.[2]

As a final word, this study has, for the most part, limited itself to a study of capitalism in Canada, albeit within the context of the industrialization of Britain and the world-wide commercial revolution. Specifically, it has paid little attention to the "American connection". This, to an extent, is justifiable on the grounds that as late as 1900 there were only about one hundred companies in Canada controlled or definitely affiliated with American firms. Since the turn of the century, however, with the consolidation of American production, that country has turned from a net importer of capital to a net exporter, and American investment in Canada, MORESO as elsewhere, has dramatically increased. For instance, by 1934 the number of companies in Canada controlled or affiliated with American firms had grown to one thousand and fifty.[3] In this regard, what is called for is an analysis of the development of capital in North America and its relation to regional development within Canada.

Notes to Conclusion

1. H.B. Chanery, "Development Policies for Southern Italy", in L. Needleman (ed.), Regional analysis, 1968, p. 199.

2. See Philip Mathias, Forced Growth, 1971, in particular pp. 1-14; T. N. Brewis op cit, pp. 187-189; David Lewis,

3. Herbert Marshal, Canadian-American Industry, 1936, p.

APPENDIX

TABLE 1A

Ten Leading Manufacturing Industries
in Nova Scotia and New Brunswick 1871

Industry	Value (thousands)	Number of employees
Nova Scotia		
Shipyards	$1,635	2,058
Sawmills	1,398	2,858
Flour and Grist Mills	1,073	416
Boots and shoe	1,058	1,313
Lumber products	1,022	2,019
Tanneries	700	547
Blacksmithing	593	1,226
Foundries and Machine working	484	455
Tailors and clothiers	428	579
Bakeries	396	
New Brunswick		
Sawmills	6,576	7,134
Shipyards	1,087	1,364
Flour and Grist Mills	1,049	311
Boots and shoes	976	1,187
Tailors and Cothiers	827	1,072
Lumber products	773	1,587
Foundries and Machine working	602	650
Tanneries	597	341
Ship material making	541	866
Blacksmithing	513	

Source: Census of Canada, Vol. III, 1870-71, pp. 398-399.

TABLE 1B

Ten Leading Manufacturing Industries
in Quebec and Ontario, 1871

Ontario

Industries	Value (thousands)	Number employed
Flour and Grist mills	27,116	2,759
Sawmills	12,734	13,851
Lumber products	6,374	8,057
Tailors and c othiers	5,425	6,248
Boots and shoes	5,025	6,354
Foundries and Machine working	4,632	4,686
Wool Cloth making	4,589	3,696
Distilleries	3,876	
Iron and Steel products	3,778	3,778
Tanneries	3,420	

Quebec

Industries	Value (thousands)	Number employed
Flour and Grist mills	9,898	1,862
Sawmills	9,549	11,848
Boots and Shoes	9,074	9,865
Lumber products	5,463	7,154
Tanneries	4,398	1,733
Sugar refineries	4,069	
Bakeries	3,284	
Iron and Steel products	2,819	2,435
Tailors and clothiers	2,666	3,193
Furriers and hatters	2,303	

Source: Census of Canada, Vol. III, 1870-71, pp. 458-463.

TABLE 2

Trading Partners of the Atlantic Colonies (1831-1871)

	Nova Scotia		New Brunswick	
	imports	exports	imports	exports
1831 Total - £	1,529,910	901,070	603,870	427,318
United Kingdom	37.9%	14.4	50.0	62.3
Britisn Possession:				
in North America	41.7%	76.5	26.4	14.1
West Indies	-	-	10.5	17.0
Elsewhere	-	-	0.3	1.5
United States	-	-	12.8	4.2
Other	20.4%	9.1	-	0.9
1847 Total-£	1,031,955	831,071	1,129,755	708,977
United Kingdom	32.0%	8.6	52.1	79.1
British Possession:				
In North America	18.2%	28.5	15.2	12.1
West Indies	2.8%	24.4	0.5	1.9
Elsewhere	0.4%	0.8	-	-
United States	30.0%	33.1	29.7	6.4
Other	16.6%	4.6	2.5	0.5
1851 Total - £	1,105,529	708,463	980,300	772,024
United Kingdom	38.9%	4.3	46.8	75.4
British Possessions:				
in North America	18.5%	38.1	16.4	9.4
West Indies	0.7%	25.7	0.1	1.6
Elsewhere	-	-	0.2	0.5
United States	25.2%	20.8	33.7	10.8
Other	16.7%	11.1	2.8	2.3
1856 Total - £	1,869,832	1,372,958	1,521,178	1,073,351
United Kingdom	29.2%	6.5	35.4	69.7
British Possessions:				
in North America	19.2%	34.0	14.1	9.9
West Indies	3.4%	17.0	0.5	0.7
Elsewhere	-	-	0.1	1.0
United States	36.3%	30.0	47.0	16.2
Other	11.9%	11.6	2.9	2.5

TABLE 2

(Con't)

	Nova Scotia		New Brunswick	
	imports	exports	imports	exports
1865 Total - £	2,876,332	1,766,139	1,476,374	1,153,068
United Kingdom	43.9%	8.7	32.2	46.9
British Possession:				
in North America	11.1%	19.8	20.3	13.9
West Indies	4.6%	22.3	1.7	0.7
Elsewhere	-	0.7	0.2	-
United States	30.1%	41.0	43.1	31.4
Other	10.3%	7.5	2.5	7.1
1871 Total - £	1,896,602	1,135,811	1,675,962	946,117
United Kingdom	56.4%	6.9	60.0	47.8
British Possession:				
in North America	9.8%	9.0	4.5	3.1
West Indies	3.2%	34.7	2.6	1.4
Elsewhere	-	0.4	0.3	-
United States	24.5%	28.8	28.9	28.9
Other	6.1%	20.2	3.7	18.8

Source: S. A. Saunders. The Economic History of the Maritime Provinces. A Study prepared for the Royal Commission on Dominion Provincial Relations, 1939, pp. 107-109.

TABLE 3

Canadian Manufacturing in 1871

Industry Sector	Domestic Firms' % of Market
agricultural impelements	95.2
boots and shoes	99.0
breweries produce	94.9
cabinet ware/furniture	97.1
carriages	98.9
cotton goods	23.8
distilleries produce	97.2
machinery	93.4
furs and hats	75.8
glass	64.8
hosiery	41.1
India rubber products	80.5
music instruments	61.8
nails, tacks, etc.	91.5
oil-coal and kerosene	98.6
paints and varnish	44.2
paper	82.2
ropes and twine	94.9
saddles and harness	98.8
soap and candles	95.4
stoves and other foundry products	65.7
clothing	95.4
leather	91.8
tobacco	98.2
woollens	84.5
earthenware	39.0

Source: Reported in Steven Langdon, The Political Economy of Capitalist Transformation: Central Canada Form 1840's to the 1870's.

TABLE 4

Total Value of Imports and Exports Between Nova Scotia and the United States, New Brunswick and the United States, Nova Scotia, New Brunswick and Canada, 1856-1866.

	Nova Scotia		New Brunswick		Canada	
	exports to U.S.	Imports to U.S.	exports to U.S.	imports to U.S.	exports to U.S.	imports to U.S.
1856	$2,068,580	$3,392,950	£173,48	£714,515	£271,510	£167,134
1857	1,575,440	2,179,135	158,697	628,510	218,809	112,000
1858	2,043,225	2,918,375	163,702	564,245	960,428	192,133
1859	2,283,825	2,884,990	236,014	675,095	840,475	273,079
1860	2,231,629	3,258,952	248,378	688,217	723,534	278,651
1861	1,523,555	3,059,070	175,654	628,070	1,030,939	352,434
1862	1,811,137	3,027,015	185,295	616,814	826,871	433,118
1863	1,869,772	3,857,765	259,357	739,663	935,196	449,210
1864	2,446,770	4,303,016	263,781	691,005	348,090[1]	85,966[1]
1865			361,919	636,742	1,065,057[2]	411,871[2]
1866			389,989	779,979	1,571,116[3]	485,951[3]
					3,418,589[4]	729,733[4]

1. Calculated for half year 1864
2. Calculated for 1864-1865
3. Calculated for 1865-1866
4. Calculated for 1866-1867

Source: G. J. Marr, The Effect of Confederation on the trade of the Maritime Provinces, Constructed from tables on pp. 12, 21, 22, 26, 27.

TABLE 5

Total Exports and Imports of Nova Scotia and New Brunswick, 1865-to 1886-1887

	Nova Scotia		New Brunswick	
	exports	imports	exports	imports
1865	$8,830,693	$14,381,662		
1866	8,043,095	14,381,008		$16,374,499[1]
1867-68	5,441,285	8,213,682	$4,626,727	$6,523,394
1868-69	5,743,511	8,607,244	5,554,519	6,622,254
1869-70	5,803,417	8,940,800	5,303,206	6,854,447
1870-71	6,516,927	10,678,543	5,517,930	8,292,275
1871-72	7,538,401	12,433,747	5,719,734	9,364,652
1872-73	7,273,086	11,578,252	6,487,315	10,567,398
1873-74	7,656,547	11,216,130	6,503,934	10,205,288
1874-75	6,979,130	11,531,956	6,543,056	10,230,633
1875-76	7,164,558	8,596,503	5,950,824	5,585,154
1876-77	7,812,041	9,379,152	5,992,775	6,917,150
1877-78	7,500,783	8,508,189	6,268,027	8,741,293
1878-79	7,364,324	7,062,614	5,371,471	5,296,454
1879-80	7,543,684		5,863,955	
1880-81	8,245,738	8,168,648	6,406,374	5,913,797
1881-82	9,217,298	8,701,589	7,474,467	6,707,244
1882-83	9,820,332	10,033,929	7,520,107	6,972,121
1883-84	9,599,356	9,653,104	7,753,072	6,467,888
1884-85	8,894,085	8,418,826	6,489,293	5,972,836
1885-86	8,071,513	7,840,244	6,547,096	5,849,520
1886-87	8,566,959	7,437,856	6,149,889	5,513,812

1. Total exports and imports for 1866.

Source: G. J. Marr, The Effects of Confederation on the trade of the Maritime Provinces, constructed from tables on pp. 63,64,81,82.

TABLE 6

Total Value of Imports and Exports via Principal
Canadian Sea and River Ports

	Via Halifax N.S.	Via Montreal Quebec	Via Quebec Quebec	Via St. John New Brunswick
Imports Fiscal Year	$	$	$	$
1870	6,209	25,075	5,593	5,064
1880	4,403	25,637	3,681	3,104
1890	6,163	38,572	3,199	4,357
1900	6,051	61,427	5,355	4,623
1905	7,728	76,333	8,860	5,561
Exports Fiscale Year				
1870	3,173	19,100	10,131	3,541
1880	4,461	30,225	6,489	3,250
1890	5,292	31,660	7,503	3,596
1900	6,758	65,344	5,174	9,734
1905	8,444	59,411	3,717	13,548

Source: Department of Trade and Commerce. The Maritime Provinces In their Relation to the National Economy of Canada. 1948.

TABLE 7

Capital Expenditures at Selected Ports, 1867 to 1936.

Harbour	Capital Expenditure
Halifax	$26,978,000
Saint John	21,958,000
Quebec	27,746,000
Montreal	64,995,000
Fort William - Port Arthur	17,477,000
Vancouver	24,358,000

Source:

Table 8

Price Index Numbers of 70 Commodities
with Base 1900, 1870-1900

Year	Index Numbers	Year	Index Numbers
1870	122.5	1886	97.3
1871	123.1	1887	102.5
1872	132.5	1888	105.8
1873	129.7	1889	104.7
1874	130.3	1890	103.4
1875	124.9	1891	104.7
1876	117.2	1892	96.5
1877	114.2	1893	99.2
1878	103.2	1894	92.1
1879	105.1	1895	88.3
1880	114.1	1896	83.1
1881	115.1	1897	85.6
1882	120.3	1898	91.1
1883	114.4	1899	91.9
1884	110.5	1900	100.0
1885	101.5		

Source: H. Mitchell, "Statistics of Prices", in Statistical Contributions to Canadian Economic History, volume II, Toronto: The Hunter-Rose Co., 1931, p. 56.

TABLE 9

The Concentration of Bank Assets 1895-1927
(total resources of selected banks and selected banks' percentage of all resources)

(in $10,000's as of July 1)

Year	Bank of Montreal		Can.Bank of Commerce		Dominion bank		Bank of Nova Scotia		Royal Bank of Canada	
	total resources	% of all resources	Total	%	Total	%	Total	%	Total	%
1895	5536	17.56	2851	9.04	1450	4.60	1197	3.80	-	-
1900	9315	19.46	4754	9.93	2128	4.45	2056	4.30	-	-
1905	14782	19.29	9257	12.08	3964	5.17	3238	4.23	2394	-
1910	23399	19.32	15162	12.52	6058	5.00	4981	4.11	7542	6.23
1915	27018	17.33	23024	14.77	7660	4.91	9820	6.30	18766	12.04
1920	56294	18.21	45593	14.75	14016	4.53	23949	7.75	58715	18.88
1925	70337	25.88	46926	17.26	11443	4.23	22886	8.42	61873	22.76
1927	76918	25.98	48984	16.54	12850	4.34	24838	8.39	77247	26.09

Source: B. H. Beckhart, The Banking System of Canada (new York), pp. 330-332.

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