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STEEL AND THE COMMUNITY OF POWER

STEEL AND THE COMMUNITY OF POWER:

A CASE STUDY

OF A DOMINANT CORPORATION

by

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ABSTRACT

"Steel and the Community of Power" is an in-depth case study of a dominant Canadian corporation, The Steel Company of Canada Limited (Stelco) using class-and-power analysis, focussing on power-holders and the context in which they exercise corporate power. Historical and steel-industry contexts form the backdrop for the study, which deals with data on the corporation's development, inter-corporate relations and boards of directors since the merger of 1910 creating Stelco. The corporation was found to be a product of historical forces arising out of mercantile and financial pursuits of the Canadian indigenous elite and developments such as railways which are related to their traditional areas of dominance. Stelco was found to be implicated in a network of connections involving dominant Canadian and foreign corporations and in the "continentalist" logic of Canadian-American interpenetration for the exploitation of natural resources. Stelco's board was found to be an important meeting place for important configurations of Canadian indigenous elite power.

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Responsibility for interpretation of data and for authorship of the work, however, must be borne by the author alone.

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Chapter 1 - INTRODUCTION

Three interrelated aspects will comprise the subject-matter for this intensive case study: Stelco, a dominant Canadian corporation and those who run it; power, that which is exercised in order to ensure execution of decisions crucial to the survival and goals of a particular organization or set of institutions; and "community." Usually thought of commonsensically as meaning a group of people living together, used here however, "community" will mean more precisely and significantly: an entity exhibiting the characteristics of commonality, cohesiveness and identity. The focus, therefore, is on the configurations of power and those who have it, analysed from the standpoint of one organization located within the corporate capitalist system of Canada.

Those who create and maintain the community of power through common interests, co-operation, and communication form the small, elite circle of those at the top of the economic hierarchy. Their world extends from the corporate board-rooms and the enclaves of "high finance" to the political organizations and the major bureaucracies of the civil service and the academic administrations and back again, in a circle which begins and ends with the corporate world both nationally and internationally, in a "tangled web" of connections.

Power is both "caused" and causing. The power of elite members arises, as C. Wright Mills (1956: 280) points out, from a set of institutional arrangements and in the origin and career of institutional

personnel, and leads to activities which act back on the institutional arrangements in such a way that power is maintained and, under the right conditions, extended. Economic power is related to the domination of institutions by those who control and command resources in their own interests; thus economic power exists in the context of class relationships to the system of private property. Power is also "causing" in that those who do not participate in the decision-making processes are in the position of reacting to the consequences of actions without possessing adequate means of acting back.

Mills' approach is basically structural--elite members are defined in terms of institutional positions (and the structures from which these arise). "The kind of psychological beings they become is in large part determined by the values they thus experience and the institutional roles they play." (:367). They are "role-determined and role-determining men." (see Gerth and Mills, 1964). But the corporate elite is not merely a social group but a class-conscious one, whose members relate to one another in terms of explicit identity of interests formed through proximity and commitment. This will be an important underlying assumption of Chapter 6 in which Stelco's directors are analysed in terms of their class characteristics. The theoretical ramifications of power and power-holders must be noted. Clement (1975: 23) identifies three dimensions of power which show a vital interplay: the structure of decision-making (that is, the way power is organized in terms of institutional configurations); the positions of power (that is, those who have the capacity to make effective decisions); and lastly, the process of decision-making (that is, information channels and people who can affect

those in power). It must be stressed that to study the corporate elite, be it of an individual corporation such as Stelco, or of a whole society or of the entire capitalist system, requires that all of these dimensions and their interrelationship must be taken into account: the what, who, and how of what is involved.

Although an "elite" type of framework forms an important element in the analysis presented in the following chapters, it is not, nor cannot be, the only organizing principle. (For a critique of "power elite" studies see Balbus, 1971; Sweezy, 1968; and Therborn, 1976.) Marxists rightly criticize power elite studies for focusing on the "subjectivistic" question of "who rules?", subjectivistic in terms of emphasizing the subjects who exercise power, their social characteristics, and ways in which they exercise power, rather than on the effects of their actions (Domhoff, 1972: 30 terms it a "sociology of leadership" approach rather than "decision-making" approach). Marxists argue for a dynamic approach which will not only look at the actions of powerholders but also at the actions of subordinate classes acting back on the conditions caused by powerholders' actions, and the ways in which powerholders' actions must be modified to take these into account in their strategies. Thus, they argue, is the dialectic restored.

Other aspects which must be taken into account comprise the elements of what might be termed "multidimensional" analysis, which seeks to answer the question of what the "objective necessities" of corporate conduct and the "imperatives of the political economy" are in order to assess corporate policies and objectives over which control is exercised. Zeitlin (1974: 1091-2) advocates raising the following kinds of questions: what relationships corporations in an "oligopolistic" economy establish with

each other, with the state, with foreign governments, with the workers, with sources of raw materials and markets, and what common problems caused by their interaction must be resolved by them. Then, Zeitlin suggests, the question may be raised and answered as to whether those who decide on long-range strategies and determine policies and objectives of corporations are "merely members of 'management'"--or if they are part of a cohesive class on whose behalf they function.

Zeitlin (:1091) also points out that a purely "macro" or structural approach allows the researcher to see the pattern of power relationships of which a corporation is one element but that only a "case-study" approach allows assessment of the details of an individual corporation's control patterns and inter-corporate relationships; he therefore argues that valid findings can be provided only if the one approach is supplemented by the other.

Such an approach is taken in this study, although it is recognized that due to the quantity and complexity of the data, there must be some narrowing of focus. Accordingly, such questions as posed by Therborn (1976: 6):

"...What kind of society, what fundamental relations of production, are being reproduced? By what mechanisms? What role do the structure and actions and nonactions of the state (or of local government) play in this process of reproduction, furthering it, merely allowing it, or opposing it?"

become restricted to the analysis of the dynamic interplay of forces among powerholding groups rather than between these and other classes, although their relationship to the state must remain in order to make the analysis more meaningful.

Just as important to any meaningful analysis of a dominant

corporation, however restricted the focus, is the historical dimension--in this case, the context of corporate capitalism in Canada, both in its present form and as it developed historically, and the place of this one dominant corporation, Stelco, within it. That task has been identified as the "problematic" of the thesis, the central organizing question to which the analysis will return throughout the various chapters. The problematic arises due to the peculiar historical development of the Canadian economy with its truncated structure which incorporates sectors of foreign and sectors of indigenous Canadian economic activity and control side by side.

As Clement (1975: 99) notes, Canada, long an outpost of British mercantilism and then early in its industrial development invaded by expanding American industry, has an economic structure characterized by a generally weak indigenous industrial elite but a strong indigenous financial elite. Foreign control tends to be greatest in manufacturing and resource industries, and weakest in transportation, utilities, trade, and finance--the areas in which the indigenous Canadian elite are strong and active and into which they moved during Canada's transition from a merchant-based to an industrial-based economy.

Naylor (1975a: XVIII) outlines the extent of this phenomenon:

"Aggregate statistics hide a great deal of important differences. Foreign ownership of assets varies considerably between industries. In food and beverages, textiles, and primary iron and steel it has run about 20-30% in the post-war period. In agricultural implements...its level is still less than the average for manufacturing as a whole. On the other hand, in virtually every other major industrial category...In chemicals, electrical products, and automobiles, the key modern industries, foreign ownership levels are from 60% to 90%. Similarly high and rising levels exist in

mining and smelting, pulp and paper, petroleum and natural gas."

Hence the question which arises in any study concerning the Canadian steel industry, and particularly Stelco: why is it that in the Canadian industrial sector, dominated as it is by foreign-owned corporations, the steel should be the exception? Stelco is 97% Canadian-owned; the situation is much the same for the others of the "Big Three" of the basic steel producers, Dofasco and Algoma (and Dosco, as Sidbec-Dosco and as Sysco, is now controlled by provincial governments). It is clear that no in-depth study of Stelco can avoid addressing itself to this important question. Although other issues will be examined, this issue will form the core.

A brief description of the steel industry in Canada will reveal why Stelco has been chosen as the subject for intensive analysis.

The Canadian primary-steel industry accounts for over \$3-billion in sales a year and directly employs over 56,000 Canadians plus many thousands more in iron ore and coal mines which supply it and in steel service centres and warehouses which market or further process the steel; in Sault Ste. Marie and Hamilton much of the residents' economic wellbeing depends directly on the giant steel-works that dominate those cities, supplying employment. The industry is extremely concentrated--while eight companies dominate the steel scene in the U.S. and four in Japan, only three dominate in Canada; these, the "Big Three", account for between 75% and 80% of total shipments, sales, and employment. (Toronto Star, April 24, 1976).

Eric Kierans in his foreword to Naylor's (1975) two-volume history of Canadian business, comments:

"...when it is noted that 291 firms (one eighth of one per cent of the total) controlled 58% of the assets (\$159 billion of \$275 billion), produced 30% of the goods and services...and collected 39% of total profits in the corporate sector...It is difficult to escape the conclusion that Canada is the example par excellence of corporate concentration and oligopoly dominance of price and output decisions." (1975a: X)

Stelco is one such member of that concentrated industrial community: the largest of the "Big Three", it is also one of Canada's 10 largest industrial corporations, with just over a billion dollars in assets and a production and sales network that blankets the country. During the course of its history, before World War II, it had grown in size and prosperity to outrank Dominion Iron and Steel, which had been dominant in the first few decades of this century. It is now and has been for some time the dominant company in its industry, a price leader, and also acknowledged internationally as a technological leader. A dominant Canadian corporation, it is involved in the network of intercorporate relations with other Canadian industrial corporations and Canadian financial institutions, and it is also a part of the Canadian-American "continental" context, with ties to important international interests. For all of these reasons, Stelco warrants in-depth analysis.

The thesis is broken down into chapters which deal with aspects of the corporation's development and connections in terms of "compartments" which, however, must be understood as interrelated, and this compartmentalization is artificial, intended only for the sake of convenient organization of data. Briefly, these may be described as "financial", "productive", "social" and "government" aspects.

Chapter 2 deals with some general theoretical background which

places Stelco within a broad social-structural context and then deals with issues related to substantive and methodological problems in the subject of corporate control which are directly relevant to the Stelco case. In Chapter 3, data analysis begins with the creation of Stelco and its relationship, past and present, to the Canadian financial oligarchy. In Chapters 4 and 5, various aspects of Stelco's relationship to the Canadian industrial apparatus are analysed, in particular how vertical and horizontal integration have contributed to Stelco's rise to dominance, the product "division of labour" which have created the conditions for monopoly by the "Big Three", and the network of Canadian and foreign industrial concerns which surrounds Stelco. Chapter 6 deals with Stelco's executives and directors in terms of class and career patterns, emphasizing the theme of the conditions created for class consciousness and cohesion. In Chapter 7, an examination is made of the ways in which steel corporations organized along industry-association lines and industry-government committees co-ordinate approaches to influence governments.

Throughout, the emphasis is on Stelco not in isolation but in relevant historical context and also is analysed over the course of its own historical time in order to understand the relationship between its present position and past developments.

Chapter 2 - THEORETICAL ISSUES IN THE ANALYSIS OF CORPORATE CONTROL

I THE SOCIAL-STRUCTURAL CONTEXT

To begin an inquiry into the theoretical issues of relevance to a case study such as this one by enumerating the characteristics of advanced capitalist society is an unnecessary exercise, since there is a large body of literature which deals with this topic both in conventional sociology and economics and in Marxist political sociology. However, there are certain features of social structure and corporate behaviour which make necessary a brief description as background important to the analysis of the behaviour and inter-corporate relations of one firm in this system.

There is always the temptation to regard organizations as things in themselves, whose broader context may be left out of consideration. But when the subject is control of the corporation or the power exercised in society by those affiliated with corporations at the top levels, the temptation must not be yielded to. No serious student of the corporation accepts uncritically the argument that the corporation lacks power over some of the major areas in society, or that its actions do not profoundly affect the lives of people far beyond its place of business. The power of the corporation is not an isolated phenomenon; the corporation is after all but a legal framework, a repository and concretization of the relationships and concerns found within the capitalist class as a whole.

Although there are many other sources, the material used here will be drawn mainly from Baran and Sweezy's Monopoly Capital (1966)

and Lenin's Imperialism (1970 edition), as well as other related sources of theory and data.

Essentially, societies in which the transition has been made to monopoly capitalism are characterized by large-scale productive units in close alliance with financial institutions, the increasing "socialization" of the capital-accumulation process for private ends, the elimination of competition through concentration and centralization of production accompanied by the attempt to eliminate uncertainty in markets and supply sources through planning and price-leadership, and the exaggeration of the contradictions already inherent in capitalism. These points will be developed to make more understandable the context within which corporate leaders operate.

These developments have their genesis in the logic of capitalism's growth out of preceding historical phases. The beginning of the modern conditions of monopoly capitalism and imperialism were already documented by Lenin in the early years of this century and presaged by Marx in the latter half of the nineteenth. Baran and Sweezy (1966: 225) date the growth of monopoly capitalism from about 1870, the beginning of the trend towards increasing concentration of productive units and the rapid rise in the amount of surplus generated.

The process involves both "concentration" (the increasing size and rapid growth of corporations) and "centralization" (the merger of many productive units into one). The two processes are complementary --the "logic" of capitalism propels these developments forward, and "it is economic control and power which is primarily propelling centralization" (Anderson, 1974: 211). A few large units facilitate the exercise

of control and ease communication and co-ordination problems (vertical and horizontal integration are part of this rationale). The goal is profit and growth, as in the creation of huge conglomerates in recent years, which throw a net over a diverse and wide area of production and distribution.

Corporations are run by professional managers and their operations involve extreme specializations of function and knowledge. Corporations are also much more conservative than the old-style entrepreneurially controlled firm. Their conservatism stems not only from the nature of management but also from the character of their operations--often capital-intensive, with huge amounts of capital tied up in relatively immovable fixed capital goods; relatively sophisticated production and products require long lead-times between stages of design, execution, and marketing; for both reasons, the elimination of uncertainty becomes of paramount importance. Competition and unpredictable consumer tastes minimize opportunities for profit maximization; hence markets must be controlled both at the supply end and at the demand end. Corporations have come to devise strategies which are intended to "supercede" the market. Critical sources of supply can be controlled through vertical integration. Suppliers of other items of production may also be controlled--either by an asymmetrical relationship between a giant buyer and a small, dependent supplier whose survival depends on receiving the giant's order; or by agreements among giants on the basis of long-term contracts for sale at agreed-to prices often far in advance. (Galbraith, 1972: 45).

Relations among giant corporations are "co-respective", as

Baran and Sweezy (1966: 50) note--because of the potential for retaliatory action being so much greater among equals; but more importantly, action is co-respective or co-operative because the stakes are great. No giant corporation can survive in a system of interdependence if the stability or the survival of the capitalist system in general is threatened either by internal dissension or by external conditions.

It is also of mutual benefit to capitalists to control prices within reasonable limits, so as not to disrupt predictability and therefore planning. Price-cutting is for this reason a frowned-upon tactic in an established market. Price wars are replaced by "price leadership"--the biggest, or most dominant, firm takes action and the others usually follow. Price leadership is evident not only by the wave of "me-too"-ism which follows hard upon a major's price increase announcement, but also by what happens when the major has made a tactical error and others do not follow suit: if the others "stand pat" the firm making the move will rescind the price change (:61).

Although the firm is run from day-to-day by the "insider", the "organization man" whose success and fortunes are intimately tied to the corporation's, yet it remains true that "success" in the capitalist system is measured precisely by those items which are and cannot help but be the driving motor of capitalism: profit, accumulation, growth; these motives ultimately lead to irrationality of a special type which will be briefly outlined.

The large, complex capital-intensive and technologically advanced corporations just described embody the most extreme forms of technological and administrative rationality available. This "ration-

ality", however, must not be confused with any kind of value-judgment --firms are "rational" in the sense that they attempt to bend means to ends in the most efficient way, to reduce uncertainty, to reduce costs and maximize profits. It does not mean that the effects of these efforts as their repercussions radiate outwards through society are necessarily rational--in fact, capitalism is probably the most irrational of systems.

The combination of high productivity and price control makes corporations enormously profitable. Whence comes a series of problems which can be controlled by capitalists only to a certain point, beyond which the process works itself out in one of the enduring and ever-more serious contradictions inherent in capitalism--the tendency for surplus to rise and for over-production to result in economic crises.

Baran and Sweezy (:218) note that the tendency of surplus (the difference between what is produced and the cost of producing it) to rise corresponds roughly with the beginning of the monopoly period and that the tendency of the system to generate too much surplus has been in existence eight or nine decades. Moreover monopoly, while generating surplus, does not provide adequate means for absorbing it, despite the "sales effort"--vast sums spent on advertising to stimulate demand, to manipulate consumers' tastes and to addict people to more "gadgets" and to higher and higher levels of consumption.

Thus, at root, the cause of the problem which is endemic to monopoly capitalism is over-investment, because the more the system produces the more the surplus and hence the part of surplus seeking new investment. Capital breeds more capital; money which is not put

back into circulation cannot generate or attract investment. In times of high demand, the economy booms, more surplus is created, and capitalists invest in still further productive facilities; this in turn produces still more surplus, and so on and on in a spiral until a crisis of over-production develops and the economy turns down.

Baran and Sweezy (: 226) argue that with this deepening kind of crisis, capitalism would have long ago "gone under" except for two variables which have acted as a "sop" for surplus--these are: major technological innovation, and war. Three innovations (the steam engine, the railway, and the automobile) have had revolutionary impact both on society and on the productive system, each development creating an enormous upswing in production as well as ancillary services (and each contributing to the capacity for surplus generation). War production and the aftermath of war when worn-out plant needs replacing and when pent-up demand is released, contribute to surplus-absorption. When the trend is played out, without the intervention of these variables, surplus-generation once again races ahead of surplus-absorption, and crises develop.

Investment in foreign plants, using cheaper labour, is one profitable calculated manoeuvre for placing investment-seeking surplus. However, the return flow of interest not only repays the original investment many times over but also pours more capital into the parent company, thus aggravating the generation-of-surplus problem (:108). Monopoly capital is, therefore, "self-contradictory"--it cannot absorb as much surplus as it generates, and its normal state is that of stagnation (: 108). The capitalists' remedial action is to stimulate demand (or

pressure governments to do it indirectly through fiscal policies), but since capitalists do not want to cut prices that would reduce profits, effective limits on consumption are soon reached because of the unequal distribution to the lower classes of the ability to pay. The two contradictions, that of "poverty in wealth" and of over-production, thus meet each other head-on.

As already noted, monopoly capitalism is characterized by concentration and centralization. As Lenin (1970: 84-86) noted, the transition to monopoly capital is accomplished through the fusion of financial capital and industrial concerns, the fusion of entities which command and deploy capital with those which produce surplus, thus increasing that available for further deployment. Whereas competition is characteristic of capitalism in its early stages, competition is negated by the creation of large-scale units which have developed not as much by advances made in the mode of production as by the swallowing-up of smaller, formerly competing units. A parallel process occurred in the financial sphere, where large banks accumulating huge capital resources swallowed up or subordinated to their sphere of influence smaller banking units.

Just as the joint-stock company draws from a large group of small shareholders, so financial institutions (through savings, insurance and pension plans) are mechanisms by which capital is "socialized". Thus financial institutions with vast resources at their disposal for investment in private enterprise are matched by the need of the giant monopoly firms for vast amounts of capital, and it is these firms which benefit the most from the socialization of the capital-accumulation process. This point will form an important background for

the discussion in Chapter 3 of the relationship between Stelco and its institutional shareholders and bankers.

The effects of these developments may be briefly summarized. Everywhere, as Miliband (1973: 13) notes, advanced capitalist societies have come to be increasingly dominated in their key industrial, financial and commercial sectors by a relatively small number of corporations of enormous size, commanding vast resources, and accounting for a disproportionate share of the total assets in their fields. Merger, which feeds the monopolization process, has steadily reduced the number of corporations still further (Anderson, 1974: 213).

The situation is no different for Canada than for the other advanced capitalist countries. Clement (1975: Ch.4) finds that the Canadian economy is presently dominated by 113 corporations (down from the 183 identified by John Porter for the 1948-1950 period, their numbers having been reduced through acquisitions and mergers) (: 126). At the end of 1971, these 113 dominant corporations accounted for between 15% and 97% of all assets in their sectors. Finance was the most highly concentrated, dominant firms there accounting for an average of 86% of assets, transportation and utilities an average of 85%, manufacturing 55%, mining 52%, and retail and wholesale dominant firms 27% (summarized from Clement: 129, Table 9). Banking in Canada is particularly concentrated (in fact, among the most concentrated in the world), with the five major chartered banks accounting for 90% of the assets of all banks (: 133). Thirteen insurance companies account for 86% of the total assets in their areas (with the eight Canadian dominant companies accounting for 82%) (: 134). Consumer loan and sales finance

companies, and trust and mortgage companies are also concentrated-- eight companies accounting for 90% and five companies for over 80%, respectively, of all assets (:136-137).

In broad outline, the trend in all advanced capitalist countries is similar: extreme concentration and centralization of control in important industrial and financial institutions, the widespread existence of multinational corporations, and a high degree of interdependence between sectors of the economy (and between countries). There is also disparity between high- and low-income groups which is extended to the international setting in terms of "have" and "have-not" nations as wealth becomes more concentrated in nations propelled by the logic of monopoly capitalism to extend their sphere of operations.

Monopoly capitalism ranges far in its search for and attempts to control raw material sources and for investment targets for its exports of capital which are as important as exports of commodities were to the mercantile period. The net result of these international activities is imperialism--the subjugation of less powerful territories, --uneven economic development, and "the formation of international monopolist capitalist associations which share the world among themselves." (Lenin, 1970: 86). Thus the contradictions within the capitalist nation-state between an ever-increasing capacity to generate wealth and the relative impoverishment of large numbers of people, is extended to relations between developed and underdeveloped nations, expressed as the contradiction between economic and technical development and their retardation, between dominance and dependence. To a lesser degree, the same phenomenon is exhibited between dominant imperialist

nations and less powerful developed nations who are themselves subject to imperialist strategies which must be tempered to take into account areas of indigenous capitalist strength. Such is the case of Canada.

In the following two sections, two important theoretical issues which will be directly addressed in the context of the case of Stelco are analysed.

II "MANAGERIALISM: THE SEPARATION OF OWNERSHIP FROM CONTROL

The implications of advanced capitalism as a complicated system of relations and contradictions extend to the question of control. With the advent of the joint-stock company, observers as early as Marx noted the increasing discrepancy between the public nature of capital accumulation (the joint-stock company allowed the pooling of capital resources) and the private ends of the property-system. The capitalist was able, through the mechanisms of the stock company and credit, to extend his control to capital and property of others; at the same time, new agents of control, the managers, arose (Miliband, 1973: 28-29; Zeitlin, 1974:1114).

The aspect of the thesis of the separation of ownership from control known as "the managerial revolution" originates with Burnham, writing some years after that is considered the seminal study and classic statement of the "managerialist" theory, that of Berle and Means, in The Modern Corporation and Private Property (1933). While it is true that Berle and Means, unable to unearth evidence to the contrary, identified 44% of the largest U.S. corporations as under "management control" (: 94), by "management" they meant:

"...that body of men who, in law, have formally

assumed the duties of exercising domination over the corporate business and assets... Universally, under the American system of law, managers consist of a board of directors and the senior officers of the corporation." (:220; emphasis added).

Berle and Means are mistakenly credited with asserting that inside managers now control corporations.

In fact, the important point of their work to Berle and Means was that shareholdings were so dispersed in the largest corporations (termed by them "quasi-public" due to the sheer numbers of investors) that no one person or group of shareholders held a majority interest --and further, that the mass of nominal owners had no voice in the operation of firms.

In its submission to the 1975 Royal Commission on Corporate Concentration, Stelco felt compelled to state:

"In our view, whatever may have been the situation in the U.S.A. when Berle and Means first made this criticism is not a valid criticism in Canada in 1975 and is not supported by empirical evidence."
(:98)

Such a corporation defends its position by declaring that, in fact, an effective "system of checks and balances" exists among directors, shareholders, officers and auditors. The issue is an important one and contrary to Stelco's disclaimer, there is evidence not only in the U.S.A. but also in Canada (and probably in most advanced industrial societies) that indicates not only the lack of a voice in corporate affairs experienced by the numerous small shareholders but also the potential of the few large ones. Such evidence will be presented in Chapter 3 as it applies to the relationship between Stelco and its

shareholders, big and small, and the relationship between Stelco's executives and outside directors on its board.

Despite the questionable interpretation of data which Berle and Means applied to their work, they did not fail to note the complementary nature of the "centripetal action" of concentration and the "centrifugal action" of ownership diffusion (:18), and that "frequently" ownership was so diffused that "working control can be maintained with but a minority interest." (:4). A large portion of their analysis was devoted to the implications of other methods through which a small group of people could control the corporation. One category of control methods was the "legal device", such as pyramiding (:73), or the issue of non-voting stock which rearranged stock rights in such a way as to disenfranchise some shareholders and transfer excessive voting power to others (:76). A variant possibly of more importance and legitimacy today is that of the "voting trust", which gives the trustees of others' stock rights to control votes without actual ownership (:77). Minority control, which shades into "management control" (their definition), depends on the potential control group's ability to attract proxies which can be voted in its own interests, and may also involve joint control when strong minority interests must take one another into account (:80-89). The other category of methods which they passed over rather quickly was that of "extra-legal" devices such as pressure from bondholders' committees (:90) and the advantages of "insider" information accruing to directors and bankers. Some of these points will be explored in the section on financial control.

Such situations as described above were made possible precisely

because of the dispersion of the majority of the shares, but Berle and Means unfortunately did not bring these implications to bear when they interpreted their data, and much that is ideologically appealing has arisen from misuses of their data and conclusions, particularly for those who do not wish to acknowledge the power of corporations and the capitalist class.

The "managerial revolution" thesis comes in two parts, which, it will be shown, have a connection in logic that is not made in empirical reality: first, that (stock) ownership has been separated from control of the corporation as capitalization and dispersal have increased the number of shareholders; and second, that this separation has resulted in the creation of what Berle and Means (:2) called new "princes of industry", the managers, who, effectively insulated from the influence of nominal owners, are free to pursue corporate goals which may be in conflict with those of the shareholders. This development, to appropriate the title of another work by Berle, may be termed the phenomenon of "power without property". It also, for Berle and Means, spelled the beginning of the end of the traditional property-system and the economic incentive potential of profits, since those who contributed capital had no opportunity to run the enterprise, and those who ran it had no substantial ownership interests (:344).

The theory provides a convenient way out of a critique of capitalism for theorists such as Galbraith (1972) (his focus is on "the industrial system"), since the decline of the old-style entrepreneur and of the tycoon leave an apparent vacuum in which it is plausible to posit the rise of a new class, consisting of profes-

sional managers and other experts whose claim to power is not capital (which, being plentiful, appears to be in eclipse) but the scarce and increasingly necessary "new" factor of production, knowledge.

No one person or group in Galbraith's scheme of things makes decisions--rather, the decision-making process is diffused throughout the corporation and is lodged within the "technostructure" (those with specialized knowledge such as engineers, scientists, designers, and sales executives) (:157), and involves a "large number of individuals of widely varying rank and position." (:160). In fact, many have access to, or "the illusion of access" to power (:160). Galbraith does not distinguish between the subjective feeling of power and the objective conditions for the exercise of real power. The stockholders are without power and directors are "the passive instrument of the management" (:154)--decisions emerge from below and those at the top only ratify them (:83). Group decision-making characterizes the modern corporation due to its size and operational complexity; the decision-making entity

"...replaces the entrepreneur, as the directing force of the enterprise, with management. This is a collective and imperfectly defined entity; in the large corporation it embraces chairman, president, those vice presidents with important staff or departmental responsibility... perhaps division or department heads. It includes, however, only a small proportion of those who, as participants, contribute information to group decisions...all who bring specialized knowledge, talent or experience... the guiding intelligence--the brain of the enterprise." (:84).

An ideology of such an amorphous "brain" as the "technostructure" can, undoubtedly, have enormous appeal for those who would like to avoid the

question of the locus of power--it is everywhere and nowhere¹.

It is less clear why the Marxist economists, Baran and Sweezy (1966), should fall into the trap of positing a "managerial revolution":

"Management is a self-perpetuating group. Responsibility to the body of stockholders is for all practical purposes a dead letter. Each generation of managers recruits its own successors and trains, grooms, and promotes them according to its own standards and values." (:16)

"Real power," they assert, "is held by the insiders" (:16). However, they do recognize, unlike Galbraith, that management is not a "neutral technocracy" or a "separate, independent or 'neutral' social class" (: 34). Although they believe management is not subject to stockholder control (generally speaking), they do not make the error of extrapolating from this to concluding that "managements in general are divorced from ownership in general" (:34). They note that "managers are among the biggest owners" (:34) and therefore "constitute...the leading echelon of the property-owning class." (:35). However, they do not place sufficient emphasis on the cohesive force of class in capitalism, or on the co-optation of managers of middle-class origin, but rather seem to rely on almost a "functionalist" explanation for their identity of interests with the owning class--the ends of the corporate organization are functional to the "organization man" who finds his raison d'être in it because he realizes his own goals (to ascend the managerial ladder) through his corporation (to advance the status of his company) (:38). While this has some validity, it does not go far enough, as evident in their misuse of the following quotation from C. Wright Mills (1956):

"Not great fortunes, but great corporations are the important units of wealth, to which individuals of property are variously attached. The corporation is the source of, and the basis of the continued power and privilege of wealth. All the men and the families of great wealth are now identified with large corporations in which their property is seated." (Mills: 116) (cited in Baran and Sweezy : 17).

As corporate capitalism has institutionalized wealth, it is quite true that wealth, family connections or family stockholdings are "unimportant" outside the context of capitalist class interests embodied in corporations except as "tickets of admission to the inside, where real corporate power is wielded" (:17). It does not follow that "the location of power inside rather than outside the typical giant corporation renders obsolete the conception of the interest group as a fundamental unit in the structure of capitalist society." (:17). It may be said that the interest group, like class interest, transcends particularistic corporate interests--not that it is rendered superfluous. This point is, in many respects, the crux of the debate over the so-called managerial revolution, because it misunderstands the nature of the phenomenon of the "separation" of ownership from control, and the new relationship established between those within the corporation with borrowed power and those outside it who are linked in mutual interest and possessing power.

Mills, in The Power Elite (1956), recognizing the qualitative break represented by the transition to corporate capitalism from the earlier entrepreneurial or family capitalism, is not led into the "managerial revolution" trap. He recognizes that the chief executives of the corporations and the "very rich" are not two distinct or segre-

gated groups, but are both "very much mixed up in the corporate world of property and privilege"; the reason being that the corporations are "the organized centers of the private property system: the chief executives are the organizers of that system." Advanced capitalism has created them, out of the logic of its development into a complicated system wherein property is transformed "into an elaborate instrument" (:119). An instrument of what? No less than the enhancement and perpetuation of the same capitalist system, with the same ultimate ends.

Mills points out that "managers" (that is, executives--and he does not confuse them with lesser functionaries) are owners--in 1952, a disproportionate amount of shareholding was attributed to executives and professionals (45% and 26% respectively), contrasted with 0.2% of unskilled workers or 4.4% of foremen and skilled workers, in a period when less than 7% of the population owned stock (1956: 121). (An up-to-date indication of what proportion of the population hold shares is provided by Anderson for the U.S.--1% of the population holds almost four-fifths of corporate stock (1974: 202), and in Canada in 1968, the top 1% of all income-earners held 42% of all shares (Clement, 1975:19). It is clear that executives are not major stockholders, but it is also clear that "managers" are not separated from ownership, or their interests different from that of the wealthy whose origins are in property of long standing. (As Miliband puts it, although increasingly, at the head of corporations are found managers and executives who were not born into the ranks of the most wealthy but are there by appointment and "co-option", part of an irreversible trend towards the "so-

cial" ownership of the means of production, so, conversely, it is untrue that "managers are moved by considerations other than those of owners" (1973: 30). "Managerialism" claims erroneously, that since corporations are generally run by "hired" executives², their motives and impulses are "necessarily better, less 'selfish,' more socially responsible, more closely concerned with the 'public interest' than old-style owner capitalism" (:30). (It is an image which most corporations fondly hope will become their accepted image--the "soulful corporation", or as Stelco puts it, the "good corporate citizen".) But as Zeitlin (:1097) concludes (from the few studies that have been conducted on managerial behaviour), "managers" are just as prone to profit-maximizing behaviour as entrepreneurs--and the reason is that the "profit motive" is not a psychological state but a social condition arising from the logic of capitalism itself. Those who accept it (who "play by the rules of the game") stay in the game; those who do not are soon unseated.

This rather lengthy preamble now makes the impact of Mills' positing of a "managerial re-organization" rather than a "managerial revolution" of crucial importance. Just as corporations are not "a set of splendidly isolated giants" (:122) but are knit together by trade associations, government advisory committees, and interlocking directorships, as well as by the centralizing effects of electronic communication and information-control (or access), so "managers are not separated from ownership, or their interests different from that of the propertied rich. It is a complex situation:

"Sixty glittering, clannish families do not run the American economy, nor has there occurred any silent revolution of managers who have expropriated the powers and privileges of such families." (:147)

The answer is, rather, somewhere between:

"the reorganization of the propertied class ...into a new corporate world of privilege and prerogative...[the means by which] the narrow industrial and profit interests of specific firms and industries and families have been translated into the broader economic and political interests of a genuinely class type." (:147; emphasis added).

That is, a "class-for-itself" in the Marxian sense, fully self-conscious of its interests and identity as a unified whole.

Although Baran and Sweezy do not go as far as Galbraith, they share a common assumption regarding the financial independence of the corporate "insiders" and of the corporation's ability to be self-financing. It is this assumption which shores up the managerial thesis. Both regard the over-abundant supply of capital as unproblematical; a company is self-financing, under normal conditions, via its high rate of internal savings (retained earnings after dividends have been distributed out of profits, commonly called "plough-back"). Thus, Galbraith believes:

"It will now be clear what accords power to a factor of production or to those who own or control it. Power goes to the factor which is hardest to obtain or hardest to replace..." (:70) "Given a competent business organization, capital is now ordinarily available. But the mere possession of capital is now no guarantee that the requisite talent can be obtained and organized...one should expect...to find

a new shift of power in the industrial enterprise, this one from capital to organized intelligence...the loss of power by stockholders...the dwindling social magnetism of the banker...the increasingly energetic search for industrial talent, the new prestige of education and educators--all attest the point." (:71)

Although Baran and Sweezy would be unlikely to confuse the power of knowledge with the power of control, they nevertheless conclude that the "relevant line-ups" of control are determined "not by ties to outside control centers but by the rational calculations of inside managements." (:20), and one of the chief characteristics of the typical modern corporation is that

"Each corporation aims at and normally achieves financial independence through the internal generation of funds which remain at the disposal of management. The corporation may still, as a matter of policy, borrow from or through financial institutions, but it is not normally forced to do so and hence is able to avoid the kind of subjection to financial control which was so common... fifty years ago." (:16)

The argument regarding how financially independent corporations are will be reserved for a section following, but it is necessary at this point to examine some of the flaws in the managerialist position, as well as the ways in which the phenomenon of the "separation" of ownership from control appears to have been misinterpreted.

As Anderson (1974: 201) points out, the separation of ownership from control is, in certain respects, an illusion. As the figures above indicate, shareholding has not seen the evolution of "people's

capitalism" because the distribution of shareholding in the population is, and probably will remain, quite skewed, with a small fraction of the people holding a relatively large fraction of shares; moreover, even among the shareholding public, there are vast differences in holdings. But the criticism of the entire argument does not end there. First, the wide dispersal of shares does not mean that no one controls through shareholding, but only that the greater the dispersion, the smaller the percentage required by a few large shareholders in order to exercise control (even Berle and Means recognized the importance of minority control). Thus, the dispersion of shareholdings does not mean that some owners do not control; neither does it necessarily follow that if shareholders in general have no power, it has passed automatically and unequivocally, as Galbraith claims, to the "techno-structure," or as Baran and Sweezy believe, to inside management as a separate entity.

This latter point needs emphasizing because it addressed what both of these works, as well as most work on managerialism, seem to have missed. The whole point of capitalism, its entire logic, is not based on the notion of management as a separate entity, any more than it is based on the notion of individual corporations as separate entities. Just as not all shareholders are small and powerless, so some directors may not be as powerful as others, or all "managers" (insiders, or executives) as propertyless as others. Anderson's review of the literature (:202-203) reveals that there is a great deal of overlapping between directors and managers on the one hand, and major stock-

holders and directors on the other in terms of their ownership "stake" in the corporate system, as well as in their controlling stake. There is a fusion of interests and potential power among these persons, not a separation. The board of directors is merely the formal organ which brings them together; it, like the corporate organization structure, is the bureaucratic form in which the content of advanced capitalism is housed. And Mills' point may be reiterated here: the development of corporate capitalism does not, as Baran and Sweezy assert, mean the "interest group", the "financial group" or the "family sphere of influence" is superfluous, but that these transcend the narrow interests of the corporation in the interests of the whole, of which they are all a part. The corporation is a convenient and necessary form for the operation of advanced capitalism, but it is not the only one.

1. Methodological Problems in the Question of Control

Although the recent work of Burch (1972) is an attempt to sort out previous managerialist research and to re-examine the question of corporate control using more realistic criteria, it too concludes that a smaller, though still substantial, proportion of large corporations are management controlled--of the 450 firms examined, 41% (versus 42% family-controlled) (:102). His criteria for classifying corporations as probably family-controlled (rather than management-controlled) were that at least 4-5% of the voting stock be held by a family, group of families, or affluent individual, according to common business sources, and that representation could be found on the board over an extended period of time by members of such a family or its close allies (:30). If these

criteria could not be met but other evidence was suggestive, he classified a corporation as "possibly" family-controlled, and was content to relegate the balance to the category of "management-controlled." Two problems which are common to all of the managerialist studies arise in the Burch analysis. One is a methodological issue, the other a substantive one.

First, as Zeitlin recognizes, enormous problems arise in attempting this sort of research due to lack of reliable sources of information. Business publications are the usual research resources, and much of their information comes from corporations themselves. Very little, even in the U.S., needs to be disclosed by law to the public or to government agencies. Even special government committee investigations do not reveal everything, and in Canada, they reveal even less than in the U.S. Thus, as Zeitlin sadly observes, we have no independent criteria for our measurement of control but must rely upon "a whole variety of hints, clues, and solid information" (:1089).

Related to this is the fact that the subject is complex and researchers usually start at the wrong end of the problem, that is, with a more or less arbitrary definition of what would constitute "control" and then proceed to rake through existing data to categorize corporations using this rule-of-thumb. The definition may or may not be valid-- it cannot be established in any simple way, and the interpretation of the data hinges on considerations not found in the data themselves, for as Zeitlin points out:

"a specific minority percentage of ownership in itself can tell us little about the potential for control that it represents. We can discover this only by a case

study of the pattern of ownership within the given corporation. However, it also means that confining our attention to a single corporation may, in fact, limit our ability to see the pattern of power relationships of which this corporation is merely one element; and it may restrict our understanding of the potential for control represented by a specific bloc of shares in a particular corporation... capacity for control (by an individual or group) increases correspondingly, depending upon how many other large corporations (including banks and other financial institutions) in which it has a dominant, if not controlling, position. The very same quantitative proportion of stock may have a qualitatively different significance, depending on the system of intercorporate relationships in which the corporation is implicated." (:1091)

This lengthy quotation is included to highlight two important points which the managerialist researchers have missed: that the conceptualization of control has significance for how the research proceeds, and that the corporation does not stand in "splendid isolation" but is "implicated" in a network. Accordingly, Zeitlin has recommended what may be termed a "multidimensional" or "multivariate" approach to research: using a variety of interrelated yet independent indicators (:1090) and studying the concrete situation of the corporation, and its intercorporate relations. He realizes that the concept of control, like power, is "relative and relational" (:1090). Control is a slippery concept--it finds its expression in probabilities of control being exercised:

"when the concrete structure of ownership and of inter-corporate relationships makes it probable that an identifiable group of proprietary interests will be able to realize their corporate objectives over time, despite resistance, then we may say that they have 'control' of the corporation." (:1091)

To estimate that probability, one must know who the rivals or potential rivals for control are, and what assets they could bring to a struggle.

(:1091)

Second, and of great theoretical importance, is the reminder that corporations work within the necessities of a particular type of political economy which has its basis in a particular type of institution--that of private property, out of which has crystallized a class system based on the institution of the family. But it is also a system which extends the family to groups of families and others who have been drawn into it through an identity of interests, and extends the corporation to other related institutions which have their origin in private property, namely the financial institutions. Burch makes the unfortunate mistake of dichotomizing--corporations are either family-controlled ("probably" or "possibly", depending on the strength of the evidence) or managerially-controlled. Except for one footnote giving TWA as an example of a corporation under financial control, he does not develop the possible ramifications of financial institutions for "management" controlled companies. For example, he does not raise the question of whether, due to a vacuum in the interweaving of related family interests, "management" controlled companies may be more prone to financial control since no one "inside" interest group has enough power to prevent it, or conversely, if the category "management" is really hiding the dominance of one or several interest-groups, financial or otherwise. He does not even examine the role of finance capital (regardless of whether it represents separate or

converging interests, a point of debate in itself). He merely uses the categories as Berle and Means and others used them without attempting further explication. The most serious criticism of Burch (and of the others as well) is that their categories seem to exist in a vacuum--families and management are not tied together, but appear to float freely in a pre-monopoly capitalist era. Indeed, "the system" as such appears not to exist, nor does anyone appear to work towards its less particularistic goals.

III FINANCIAL CONTROL OR CORPORATE INDEPENDENCE?

The issue of the relationship between financial institutions and industrial corporations is one of importance to the case of Stelco and is an "issue" due to a number of debates which have arisen and which will be discussed in detail here as the background to analysis of data in Chapter 3 which deals in particular with the increasingly importance of institutional shareholding, the extent of interlocking between financial institutions and the corporation, and the significance of Stelco's high level of indebtedness in recent years.

Much of the debate centres around the implications for corporate capitalism of the fusion between finance capital and industrial capital. Originally, merchants' capital derived from purely mercantile activities involving a go-between relationship in the distribution of trade and existed purely in the sphere of circulation rather than production. As Clement (1975: 34) points out,

"In Canada, the transition from merchant capital to financial capital will become apparent in the movement from mercantile-based fishing and fur trading to investment houses, banks and insurance companies."

Preferring stable long-term investment characteristic of their type of activities, the Canadian mercantile elites first moved into canal and railway building, and not directly into industrial activities.

"Industrialism", on the other hand, involved "direct and long-term investment in the means of production" (:34), transforming resources by harnessing others' labour-power. Thus, when financial capital becomes linked to the process of industrialization, it comes to operate in the sphere of production as well as of circulation, and becomes "finance capital"--the fusion of financial and industrial capital as corporate capitalism. The role of finance capital in creating monopoly capital appears to be an important one and has implications for the close relationship between the two.

That the "financial oligarchy," a tight, interlocked inner circle of bankers, investment houses, trust and insurance companies, is at the heart of monopoly capitalism and is its dominating and directing force is the argument presented by such ideologically divergent writers as Lenin (1970) and Brandeis (1914) in the early part of this century. It is an argument which has been brought up to date by Fitch and Oppenheimer (1970) for the U.S. and Park and Park (1973) for Canada³. It is also a view which is attacked by Sweezy (1971) and by O'Connor (1972) as doing violence both to the original Marxist conception of the process of accumulation, and also to the model of corporate behaviour consistent with advanced capitalism.

Bracketing the question of whether financial control represents a "resurgence"⁴ or an unbroken continuum (a question requiring more extensive historical analysis), the argument for financial control,

and its counterattack, arises from certain assumptions about the nature of the corporation and the role of financial institutions in monopoly capitalism, and its logic must be examined in detail. A number of questions may be raised which will aid in sorting out the complexity of the argument, and the answers may be weighed for their validity both on logical grounds and on empirical grounds. The detail of the latter, as presented by Fitch and Oppenheimer and re-examined for the case of Stelco, will be reserved for the chapter following. But first, the question of logical consistency must be explored. It will be concluded that, at least on one level, the model of a financial nexus is one which is generally consistent with the development of monopoly capitalism, although the fact of actual control of corporations (implying an asymmetry rather than convergence of power) must be validated for specific corporations in specific historical periods or at particular junctures in their history. This proviso sounds a cautionary note, for reasons which will become evident.

The discussion may be framed by the following questions:

1. What is the important issue in the financial control debate, and how have the various sources (past and present) contributed to our understanding of the relationship between industrial and financial corporations?
2. What is the role of financial institutions in the processes of accumulation and mobilization of capital?
3. How can financial institutions control corporations, and for what purposes?
4. If financial control is exerted, what effects does this have on corporations and what indicators may be used as evidence for these consequences? Related to this-

5. Under what conditions do financial institutions make actual their potential for control, and how does this relate to the development of corporate capitalism as an evolutionary (or maturing) process?
6. Is the argument a valid one, and what criticisms have been brought to bear on it which affect its validity?

If the second element in the managerialist argument of Baran and Sweezy (1966) is correct--that industrial corporations are the important unit of analysis in monopoly capitalism and that due to their great capacity to generate surplus their high degree of retained earnings makes them independent of financial institutions and other outsiders--the question arises as to what forces are at work unifying the capitalist class. Baran and Sweezy's position implies that corporations are isolated profit-maximizing units which however much they co-operate with other units in planning of markets and prices, are not really joined together into one structure of capitalism by any overarching element except incidentally. If capitalism is as homogenic in its actions and influence as it is purported to be, such a position accords to the individual corporations an omnipotence and omniscience truly marvellous. It also implies there is no one element of capitalist activity in a position to unify, either through a common purpose more specific than the general interests of capitalism, or through actions which create a network of interconnected relations. Such a role could be performed by financial capitalists, since their interests, while arising from their location within specific financial institutions, encompass the whole of capitalist activity in the generation of surplus, its accumulation and centralization, and its re-deployment into the

productive system.

Lenin (:Ch. 2-3) describes the process whereby the older form of capitalism, competitive entrepreneurial capitalism, becomes transformed into monopoly capitalism. At the heart of the process is the role played by the financial institutions, in particular the banks. While to a certain extent, the growth of banks and industry are parallel processes, the banks growing through the collection of revenues deposited by the capitalist class, it is concentration which throws them into a symbiotic relationship:

"As banking develops and becomes concentrated in a small number of establishments, the banks grow from modest middlemen into powerful monopolies having at their command almost the whole of the money capital of all the capitalists and small businessmen and also the larger part of the means of production and sources of raw materials...This transformation of numerous modest middlemen into a handful of monopolists is one of the fundamental processes in the growth of capitalism into capitalist imperialism..." (:30)

Hence the operations of capitalist monopolies "inevitably lead to the domination of a financial oligarchy" (:46), since the ownership of capital has become separated from its application to production and is in the hands of the financier or "rentier who lives entirely on income obtained from money capital" (:58). Productive units are dependent on the financial institutions for expansion and further concentration, and since the system has been made highly productive, this leads to a crisis of surplus capital which must be exported to find more profitable investment under the auspices of financial institutions (:60-61).

Brandeis, a liberal who decried the effects of the "money trust" on competition and industrial efficiency, pointed out in the early part of this century that "Industrial trusts feed the money trust." (:152) He too noted their symbiotic relationship--industrial concerns becoming so big that independent bankers cannot fill their capital needs and so they must rely on banking syndicates (:5), and the big investment bankers such as J. P. Morgan and Co. becoming more wealthy and more powerful through their role in creating larger industrial combinations such as the U.S. Steel trust (which incidentally netted them a share in its equity as a fee, thus giving a financial group an industrial foothold) (:141). Brandeis argued that investment bankers, at the heart of the financial oligarchy, helped create industrial concentration, and through it more financial concentration, because large corporate security issues were either for the purpose of effecting combinations or consequent on them, (:163) and such large issues needed the expertise and connections (and co-operation) of the most influential bankers and their allies.

Thus, he as well as Lenin noted that the investment banker has moved from being a mere middleman to a position wherein "bankers bestride as masters America's business world" (:4). Unfortunately, Brandeis did not trace this phenomenon to its roots in the development of capitalism, but he did note that the key to the power of the investment banker lies not in his personal fortune (which may be large) but in its combination in and with other financial institution, (:4) and in the role of these institutions as "midwife" and "undertaker,"--

at both ends of the process: orchestrating mergers, controlling capital supply, handling large securities issues and finally, in times of corporate crisis, acting as reorganization managers (:10).

How has the financial capitalist come to take the lead? There appear to be two reasons, not unrelated: first, the capital accumulation process itself, and second, the historical position of those connected with finance during the emergence of corporate capitalism.

In Canada, as was already mentioned, the economic elite based in mercantilism had already established banking and other financial institutions and had promoted transportation developments which provided necessary infrastructure for their operations. The merger movement in Canada, occurring somewhat later (and simultaneously with that occurring in the U.S.), was undertaken by financial capitalists who had already been dominant for some time, unlike the U.S. financial forces (Clement: 95). Clement (:74-75) in examining historical analyses from many sources, argues that industrial development advanced under the indigenous financial ruling class. This group formed a tight elite circle; they were extremely conservative, supporting only ventures beneficial to their own interests. In such a climate of financial domination, independent entrepreneurs lacked both capital-power and access to markets; they were engaged in high-risk activities in sharp competition with many other small entrepreneurial concerns. It was the entrenched financial elite and the encroaching U.S. branch-plant movement during the period of the National Policy which were the two social forces responsible for

the shift from entrepreneurial to corporate capitalism. Following the National Policy, especially during the 1909-1912 period the financial elite accelerated the process of consolidating these small entities into large industrial combinations. Canada Cement, Dominion Steel Corp., and Stelco were but three such creations of the merger movement during that period.

Basically, the role of the financial institutions in corporate capitalism relates to the acceleration in growth of firms--firms create a need for capital which outstrips their ability to generate it internally through retention of surplus. Financial institutions have for quite some time been powerful and efficient in the accumulation of "other people's money"--in the form of short-term corporate deposits of working capital, personal savings, insurance and pension-fund premiums, interest on loans and other securities, and trust funds--and these have been amalgamated with the fortunes accumulated over time which formed the basis for the founding of these institutions.

In fact, as Fitch and Oppenheimer point out, "as a rule the very great American fortunes---those that have lasted more than a generation--are those that wedded industrial capital to financial capital or vice versa." (I:95), for example, the Rockefeller and Mellon fortunes respectively; and further, the mechanism of the bank trust department has ensured that these fortunes have not become fragmented estates but have increased qualitatively as well as quantitatively by being merged with other trust assets under institutional control. In a rebuttal to Sweezy

(1971), Robert Fitch (1972a) notes the difference in treatment banks accord to pension fund assets of workers versus those of the very rich. According to a Securities and Exchange Commission survey, banks have sole investment authority over 88.8% of pension fund assets but only over 22% of personal trust assets (:117). This comment becomes significant when taken together with a question raised by Zeitlin (1974) as to who controls the banks. Although there is no definitive answer, it is important to note, as he does, that both the property-system and class are rooted in the kinship unit (:1102) and that

"these families' interests transcend the banks and corporations in which they have principal or controlling interests; and the banks may merely be units in, and instrumentalities of, the whole system of propertied interests controlled by these major capitalist families." (:1102 emphasis added)

The other great source for the accumulation of capital is that of pension funds, which have been growing rapidly since the 1950's, and largely represent the myriad small contributions of members of employee-plans.⁵ By 1967, Fitch and Oppenheimer note, U.S. commercial banks held approximately 60% of all assets held in U.S. financial institutions--40% of this was held in trust departments and generated about 40% of all trading carried out on the New York Stock Exchange. They argue that the links between the banks and the trust funds form an important basis of economic power. Evidence of the extent of this power is shown in the fact that the Patman Committee (set up in 1967 to investigate banking activities) found that the vast majority of banks studied had discretionary authority over the investment of most of their

trust accounts (I:95), a situation which represents, along with the extreme concentration of assets in the hands of a few banks, highly concentrated voting power if applied.

How is this vast amount of capital mobilized, once accumulated? Institutional shareholding and the supply of short- and long-term loans to corporations are the two main avenues, and also represent the possibility of financial control of corporations. Both, Fitch and Oppenheimer argue, have been increasing rapidly, and with them, the hold of the financial institutions has been tightening. Institutional stockholding rose dramatically during the 1960's (from 12% in 1949 to almost 28% in 1969) (II:62). Forty-nine banks held 5% of one or more classes of stock in 5,270 companies, or an average of 108 companies per bank (while no corporation controls 5% or more of the stock in 108 banks, which fact Fitch and Oppenheimer argue, is important evidence for the direction of control) (:I:99).

Especially since 1960, corporations have also come to rely more on the financial institutions for external funds in the form of loans (through bonds and other debt instruments). While the corporation has continued to generate surplus of which a portion is reinvested, internal generation of funds increased 10% between 1960 and 1964, but only 2.6% between 1965 and 1969, whereas external funds had jumped from 4.9% to 16.5% annual growth rate in the same period (:I:72). While in the earlier period less than a quarter of corporate funds was raised externally, external funds represented a third of the total in 1965-1969 (:II:73). The high ratio of long-term debt to total liabilities

is especially prevalent in very large firms. (:II:74) Further, the increasing importance of external sources of funds appears not to be a temporary phenomenon, since Berle and Means (1933: 42-43) reported that between 1922 and 1927, 25% of the growth of large corporations (the "top 200") came from retained earnings, 55% from public offerings of securities, and 20% from merger. The financial institutions (by 1965 amounting to nearly half of all national wealth and increasing faster than the whole) (Fitch and Oppenheimer:I :93) are clearly not only in a position to redirect the vast amounts of wealth in their control but must increasingly do so as the socialization of wealth gallops ahead in ever-larger increments.⁶

While these facts appear indisputable, what is at issue is their interpretation--the question of whether or not the dominance of financial institutions represents conflict between two different "types" of capitalists and what this implies for the unity and cohesion of the capitalist class as a whole, and for the viability of corporations as production and profit-making units.⁷

First, however, the question must be answered: to what extent is the dominance of financial institutions translated into actual control (that is, as input into corporate decisions).

Most writers, especially of a liberal pluralist inclination, have denied the possibility of financial control through institutional shareholding, since despite the large number of shares held by each institution, their holdings actually represent a very small percentage of the total outstanding in each corporation; moreover, institutional

shareholders are normally passive and non-meddling. Two factors relating to the power of institutional shareholding, however, are frequently not taken into account: the dispersion of the majority of shares among numerous small holders, and the alliances possible among institutional shareholders through mutual holdings in each other and through interlocking directorships. Fitch and Oppenheimer argue that both of these factors, coupled with the interest financial institutions take in corporations which are also indebted to them, are significant for the question of financial control.

When the dispersion of shares is very great, 5% held by a financial institution may not be enough to gain it control of a corporation, but it would be sufficient to gain it a position on the corporation's board and to have a "say" in matters which would affect its interest. Frequently, even without institutional shareholding to such an extent, bankers are invited to sit on corporate boards because of their expertise and connections with other financial institutions--and they in turn gain valuable inside information on corporate operations and plans. Finance or executive committees of boards are usually populated by financial people. Fitch and Oppenheimer point out that the National Industrial Conference Board found that 53% of boards seats of large corporations were filled by outside directors in 1953, increasing to 57% by 1958 and 63% by 1967 (:I:83). Zeitlin, in analysing data on financial versus non-financial outside directors, found that "commercial and investment bankers are disproportionately over represented among the occupants of multiple corporate directorships" (:1104).

Top executives of large corporations also frequently sit on the boards of financial institutions, but industrial corporations lack the stock or voting power in financial institutions. The advantage of such an interchange of directors is that banks may influence or (in the case of shareholdings and bondholdings) pressure corporations to allow them to service the corporation's financial needs, or to shift business to other corporations in which the bank also has an interest (:I:100).

Shareholding and interlocking directorships become significant for their ability to enable bankers to form alliances with other financial institutions and producing corporations. It is no less significant that banks and insurance companies, controlling short-medium and long-term lending respectively, are not only the institutional lenders of any real importance, but also together account for over three-quarters of the \$1.1 trillion of U.S. institutional investments, whereas mutual funds only account for one twentieth (:I:103). Banks and insurance companies are tightly interlocked--the 49 banks had 146 interlocks with 29 of the 50 largest life insurance companies in the U.S. (:I:103). Although interlocks are not permitted between commercial banks, they can and do increasingly own stock in each other. Moreover, they may be interlocked indirectly, by coming together on the board of a corporation. These aspects will be reviewed as they apply to Canada, and particularly to the case of Stelco, in the following chapter. The important point to note here, however, is that all of these aspects must be taken into account in assessing the potential for financial control. It must then be asked--why would financial

institutions want control?

The obvious answer is that institutional shareholders and lenders would want to protect their investments. Outlays in the form of loans are enormous, and large blocks of shares are not easily disposed of on the market without losses, so financial institutions have a vital interest in ensuring good corporate management. Another, perhaps less easily argued, reason is: power. More power accrues to those who have some. There is no doubt that financial institutions, particularly banks, have the resources which corporations need in order to expand capacity and further monopoly through mergers and acquisitions. The Morgan interests were in a position to gain control of U.S. Steel for precisely the latter reason. If the process of growth and concentration is an ongoing one and financial institutions were known for their power during the "age of Morgan", it appears logical by extension that such power has not diminished; in fact, with increasing financial resources at their disposal, has probably increased. But it is also less visible.

The question arises as to what extent the exercise of financial power creates antagonisms between financial institutions and corporations; this question will be addressed in the next section. But the fact remains that financial institutions can contribute to the regulation of price competition through stockholdings in companies that do business with one another, creating "forward (selling) linkages" as well as "backward (purchasing) linkages" (:I:102); (the Mellon banking interests, for example, created linkages between coal-carrying rail-

ways and collieries, between collieries and power companies, and between railways and railway-supply companies) (:I:102). The Patman Committee found interlocks between the 49 banks studied and 286 of the Fortune 500 corporations--768 interlocks, or, including smaller and non-industrial companies, 135 companies per bank (:I:102). The implications of such activities are stated by Fitch and Oppenheimer: the increasing socialization of wealth by financial institutions, and the decreasing role of retained earnings in corporate investment leads to the monopoly position of finance in control of society's long-term capital; "it surveys the entire corporate scene in order to maximize return on its capital." (:III:77). It can regulate the rate of capital accumulation in the whole of the economy, "retatding it in the mature industries..." including steel, and "over-accelerating it in the newer industries." (:76). While power accrues to finance, finance also plays a vital part in the regulation of the economy, co-ordinating the allocation of resources, and providing an over-arching framework for the operation of monopoly capitalism.

But what is the effect of this activity on the individual corporation? Fitch and Oppenheimer (:III) argue that the drive for profit-maximization by financial institutions and their command of the economy leads to corporate behaviour different that what would be found in a managerially controlled company. The rate of capital accumulation in the corporation, which determines its growth, comes through that portion of profits which is reinvested. While the rate of capital formation in the economy as a whole may be increasing, they argue that

in mature monopoly firms, accumulation has slowed down. Industry is the creator of surplus value; but as capital becomes more socialized under the direction of financial institutions, reallocation of surplus follows channels determined by financial capitalists. A bifurcation has been created between the accumulation and reinvestment process. Corporations which have become unprofitable will have their assets "cannibalized" and grafted onto newer, more dynamic enterprises through diversification⁸ programmes under the auspices of financial institutions, who will lend funds for diversification but not for replenishing fixed assets (such, they point out, was the fate of the Penn Central Railway). The impact of financial control would be indicated by: a high dividend payout ratio to profits (versus a low ratio of retained earnings to profits); dangerously low amounts of working capital; and a high rate of external debt, as shown by a high ratio of long-term debt to total liabilities. (These aspects will be examined for Stelco's case in Chapter 3). Since the corporation cannot grow or carry out modernization and replacement of plant on its existing retained earnings, it must go further into debt. It is also indicated by the pattern of inter-industry relations.

The financial institutions play a part in both policy regarding dividend payout and policy regarding debt. Corporations are pressured by the fluctuations in the price of their stock on the Exchange to maintain a high dividend rate which would attract investors; at the same time, institutional shareholders benefit if stock appreciates and also if dividends are high. But they also benefit from lending,

so investment bankers oppose an all-common stock structure because preferred stockholders and creditors such as debenture holders take precedence over common stock in corporate crises, reorganizations, or liquidations.

Reciprocity (or inter-industry arrangements whereby companies buy from their industrial customers and sell to their suppliers) are not only vital to monopoly capital, but, Fitch and Oppenheimer argue, appear to follow lines of financial control. Contradictory forces are set up, since both companies cannot benefit (at least price-wise); decisions to buy are based not on market considerations of price, quality, and delivery, but by reciprocity network pressures. Thus, they argue, reciprocal relations are coercive ones. (Fitch, 1972b:105).

Fitch and Oppenheimer's analysis of the need for external finance and of the increasing importance of institutional shareholding appears to be a valid one in factual terms, but it is an open debate whether they have shown financial control or merely the existence of an important financial nexus. The interpretation is important for their analysis of conflict between corporations and financial institutions. It is this latter point which is severely attacked both by Sweezy and by O'Connor; the debate over "conflict" versus "cohesion" of the capitalist class is the topic of the section following.

1. Conflict and Cohesion: Levels of Abstraction in the Analysis of Corporate Capitalism

The point which is raised in the preceding discussion is of methodological and substantive importance for the study of Stelco, since, as the study is focussed at the "micro" level as a case study

and does not examine the capitalist class as a whole, questions arise in the interpretation of data but are often not capable of being resolved. In analysing financial interest-groups in Chapter 3, and again in connection with the Canadian productive apparatus and its interlocks with Stelco, there are instances where particular configurations of interest may represent conflict rather than cohesion (as in the connections between various institutional shareholders and the Power Corporation group, since some also are interlocked with Argus, its current contender). If the data is interpreted as representing cohesion, then the potential for financial control over Stelco is enhanced by the interconnections between these groups; if the connections are incidental to other, more important connections and really represent conflict between two interest-groups, the potential for control is lessened in the vacuum between them and Stelco may exert counter-power through other groupings.

Domhoff (1972: 33) states he has often been accused of overstating the "three C's" of the capitalist class: "cohesion, consciousness, and conspiracy" to the exclusion of the consideration that there are also disagreements among its members. Fitch and Oppenheimer (1970) overstress financial control and conflict between the aims of finance capitalist and industrial corporation "insiders" (they go so far as to say unity of capitalist leadership is a myth). Sweezy (1971) and O'Connor (1972) both criticize Fitch and Oppenheimer for putting forth an argument which is not only anti-thetical to the Marxist position of class cohesion and common interests but which also shows finance capitalists as performing the

irrational action of killing the geese that lay their golden eggs (that is, deliberately wrecking corporations) in the name of their own sectional interests. How may this mess be sorted out?

There appear to be at least two levels of abstraction at which to analyse capitalist behaviour, and most of the problems of these authors "talking past" one another is related to the difference in levels. They are: the general versus the specific levels; in addition, there appears to be two other kinds of levels: that of the individuals versus the group or the whole. Moreover, analysis may be complicated by the operation of these various levels and kinds simultaneously. A few examples will illustrate.

Miliband (1973) operates at the level of the general--his emphasis is upon the hegemony of capitalism as it affects the state and other societal institutions, as an "-ism," that is a set of general principles to which all capitalists agree. When conflict occurs, as between managers and shareholders, it is not deep-seated, but arises due to "tactical differences within a strategic consensus" (:34). The same may be said for Domhoff, and for Mills--except that he goes further. In his reply to critics (1968), he states, in response to reviewers' assertions that lack of agreement or lack of an all-out strategy refutes the idea of a power elite:

"...these men don't always agree, but are divided in their counsel;..in their decisions, they sometimes take into account the state of public opinion... sometimes the decision made is 'taken against the better judgment of the power elite'. Each of these points I readily accept, indeed I've stated them myself...The power elite is not a homogeneous circle of a specified number of men whose solidified will continuously prevails against all obstacles."
(:241-242)

Mills, in fact, never stated the power elite was homogeneous in anything but the sense of common background and the effects of common position and experiences.

The notion of a fusion of finance capital and industrial capital as corporate capitalism is a notion which operates at the general or more abstract level. It seems to imply that because capital is fused, so capitalists are fused, unified. Baran and Sweezy imply it; and O'Connor operates at the level wherein it makes no difference which capitalists control corporations since

"Although financial and non-financial companies are formally separate, the American ruling class does not consist of 'bankers' on the one hand and 'industrialists' on the other. Rather, the dominant stratum of this class is made up of rich capitalists who own and/or control both kinds of institutions." (:1972:126)

But for Fitch and Oppenheimer, who see a bifurcation in the processes of accumulation and deployment of capital, the question of the status of financial institutions is important, because they note what happens in specific instances of corporations being "scuttled" after becoming seriously indebted. They also see that although the general aims of financial and industrial leaders are the same (to maximize profits) (the general level of abstraction), they also see that financial groups do not maximize profits in the same way and that this can and does conflict with the ways in which corporations make profits (the specific level of analysis).

At the "individual versus group" level, there are members of the upper stratum of the bourgeoisie (for example, "old money") whose position within kinship and interest groups give them a different

perspective on issues and strategies (they may tend to operate more at the "general" level of capitalist ideology and interests) from those of the managerial stratum, especially those either of middle-class origin or "new money", who have been co-opted into the upper class system but whose careers have been within one corporation and who see their success and aims as first and foremost tied to the success and power of "their" firm, and only through that, to the general interests of capitalism.

Thus it can be seen that while generally, capitalists agree on the general principles and aims of capitalism as a system, they may disagree and be divided on the specific issues, such as the best strategy to follow in co-ordinating their interests, or which groups may operate in what spheres of influence; similarly, individuals within interest groups may be divided. The methodological problem lies in specifying the level of analysis.

Another problem, which hits closer to the areas of greatest weakness in Fitch and Oppenheimer's analysis, is that of whether or not financial groups intend, by their actions, to "milk" corporations to the point where they become useless and must be scuttled. There is a vague implication in F and O's arguments that financial institutions cause financial crises due to their control. As O'Connor puts it, since modern productive units are now extremely large, technologically sophisticated, and expensive,

"no financial capitalist group in its right mind would engage in any activity that might have ruinous consequences for the productivity of its profitable enterprises." (1972: 132)

While there is a great deal at stake, the point which F and O appear to make, with the Penn Central case, although they do it badly, is that such actions are not irrational in the case of an industry which is no longer profitable, such as the stagnant railway industry. O'Connor ignores his own analysis of the relationship between the private sector and the state (a relationship which, he argues in his 1973 book, contributes to the state's "fiscal crisis"). That is: if an industry becomes an obsolete and unprofitable millstone around capitalists' necks, they would quite rationally try to get as much out of it as possible and then arrange for it to be taken over by the state, who will support it and still provide capitalists with necessary rail services, the state acting as the proverbial billy-goat of Fitch and Oppenheimer: "feeding on the economic detritus whose profit potential has been eroded...⁴is non-existent" (:III:93).

The related point which both O'Connor and F and O seem to have ignored is the possibility of unintended consequences of actions--financiers, like other capitalists, are not infallible; they may overestimate the viability of a corporation to bear debt even when it appears healthy and profitable. As outsiders, it would be difficult if not impossible for researchers to sort out whether particular actions were taken "after the fact", to correct previous miscalculations, any more than it is possible to determine to what extent actions are compromises arising out of the input of several groups with divergent interest groups--to speak at that level of "institutional" or "class" interests is to speak too generally to allow for intelligent assessment of what particular actions may mean to capitalists, and hence

for interpretation of the research.⁹

The fact that there are groups of capitalists and levels of analysis which both diverge and converge presents tremendous obstacles to sorting out the significance of data, and in particular framing answers at the specific level of analysis to questions of whether or not a particular grouping around a corporation represents cohesion or conflict on issues vital to the corporation involved, or whether there is a coincidence of interests at the level which take precedence.

Contradictions abound in capitalist behaviour and it is exceedingly difficult to know with anything like exactness who the players are and what specific interests they represent without, as it were, a programme. And capitalists are not handing any out.

Reference Notes - Chapter 2

1. Galbraith's appeal to the drafters of the Stelco submission to the Royal Commission on Corporate Concentration (1975) is clear, for in the page following their refutation of Berle and Means' thesis, they state:

"the business of a large corporation is so complex that no individual or small group is able to control the decision-making process...the decision-making process has become diffused throughout the organization." (:99)

Yet, at the same time, "the board of directors performs effectively its essential functions of representing the shareholders and controlling major management decisions, even though it does not 'manage the affairs of the company'..." (:99) (emphasis added). They implicitly recognize the difference between "manage" and "control".

2. Whose origins, as Mills (1956) pointed out for the U.S. in the 1950's (a case true today no less for Canada--see Clement 1975, Chapter 5), are "overwhelmingly of the same or similar social origins." They have, in addition, been well socialized into the capitalist milieu through long and intimate association.

3. In their introduction, Park and Park note the presence of a powerful financial group, and in Chapter 4, they state: "At the centre of this financial and industrial corporate structure lie the chartered banks, the members of whose boards of directors make up the 'who's who' of the dominant financial groups.

Linked to the banks are the trust companies, the life insurance companies, the loan and mortgage companies, the investment trusts... all in control of vast assets and contributing to the ability of the financial oligarchy to control the economy of the country." (:71). And again: "...our concern is with the banks as the centre of the system through which the oligarchy maintains control." (:72; emphasis added).

4. Fitch and Oppenheimer seem to suggest a "resurgence" (in fact, Sweezy entitles his critique "The Resurgence of Financial Control..."), although they do not explicitly say so. Commenting on the dramatic rise in institutional shareholding during the 1960's, they state:

"Once again ownership and control were united in the trust departments of the great Wall Street Banks...It was a unity recalling the age of Morgan, when financial institutions had been able to control corporations through their lending power. The price of a loan was 'a piece of the action' i.e., equity or common stock... (which) consolidated their lending position." (:68).

Speaking to this same question, Zeitlin (1974) quotes the findings of the Patman Committee, which investigated banking power, and found a "pattern of control by financial institutions through large blocks of shares in the largest non-financial U.S. corporations as representing a shift of economic power 'back to a small group, repeating in somewhat different manner the pattern of trusts of the late nineteenth and early twentieth centuries,' This appeared to them to involve increasing 'bank minority control.' (:1101). Other factors which appear to be part of this similar though mutated pattern will be drawn out in the discussions following.

5. The Wall Street Journal of May 27, 1976, noting the phenomenal increase in pension-fund contributions, and also the increasing amount of institutional shareholders, notes (somewhat ludicrously considering existing realities): "U.S. employees now own more than one-third of the equity capital of America's publicly-owned companies--more than enough to give them voting control... The U.S. is...actually a non-governmental market socialism in which the employees through their pension funds have become the new owners of American business." (!).
6. Berle and Means, while noting the growth in wealth of corporations proceeding faster than increases in the national wealth (:39), thus indicating socialization of wealth being redirected into corporations through infusions of external funds (as well as the creation of surplus value through corporate production), failed to take into account the channels for this socialization of wealth, namely the financial institutions. Hence when they noted that since 1921 there appeared to be no further shift in the direction of the small individual shareholder (:62), they did not draw the necessary conclusions.
7. Fitch and Oppenheimer state that such divisions, along with the other contradictions in capitalism, are inherent and essentially divide the capitalist class, whereas O'Connor, like Domhoff, argues for a fundamental unity and cohesiveness. Park and Park, while taking a position similar to Fitch and Oppenheimer's in positing a financial nexus, pass over the question of conflict uncritically and appear not to be aware of the double-edged nature of their statements: "Our own point of departure was the existence of an identity of interest between the largest financial institutions and the largest industrial corporations..." (:XIII, emphasis added). And later, they state "the same group of finance capitalists dominate both (industry and banks)...the bank directors are the key figures in the financial superstructure through which control of the producing corporations is maintained..." (:74, emphasis added). Because their level of analysis is different than F and O's they do not raise the question of conflict, and thereby render it exceedingly difficult to assess data in comparison with theirs. This problem will become apparent in Chapter 3, wherein the

question of conflict versus alliances in assessing the potential for control remains unresolved.

8. Such appears to have been the case for the Standard Oil, as witnessed by the "oil crisis" of the early 1970's which enhanced profitably to scandalous levels, and the move to diversify taken by all the oil companies into other sources of energy. Both Standard Oil and Chrysler in the 1960's Fand O point out, suffered a profit decline. Standard Oil had begun to "mature"-- in 1969 profits and stock prices slumped and growth slowed; it became less financially independent, altering its basic financing pattern and restructuring its board (:II:71). But whereas Chrysler, teetering on the brink of corporate disaster, suffered a purge of inside management, then a liquidity crisis and a "rescue operation" by Manufacturers Hanover Bank (:I: 76), Standard Oil has remained viable.
9. A good example of problems in assessing which way the interest-groups line up behind the contenders, is that of the continuing saga (1975-1976) of the attempts of Paul Desmarais' Power Corp. to take over Argus Corp., E. P. Taylor's old empire. Both corporations are conglomerates, finance capitalist creatures.

CHAPTER 3

STELCO AND HIGH FINANCE

I. THE ROLE OF THE FINANCIAL ELITE IN THE 1910 MERGER

1. Historical Forces: The Canadian Eastern Establishment

In order to understand the significance of the financial presence in the present-day corporate life of Stelco, it is necessary to understand it not only in its present context (for that would be both short-sighted and misleading) but also in the context of the role of finance in Stelco's early history, particularly in its origins. In addition, that particular context must be related to the development of finance/financial capital in its peculiarly Canadian form, for this development was a vital force in determining subsequent industrial development--its form and the social characteristics of its main protagonists. Hence, the place to begin any discussion of the role of financial institutions in Stelco's operations is the merger of 1910 which brought together a number of important social forces, and to begin also with the background against which these forces came to dominance. This historical context forms the basis for the analysis presented here--the argument which will be advanced that the intrusion of financial institutions is neither new nor "unnatural" to Stelco (as it is not to the

other Canadian steel companies) but is a logical outgrowth of the nature of the elite element at the time of the merger movement and demonstrates, through the continuity of these forces, the sectoral dominance maintained through the strength of the indigenous Canadian elite.

Accordingly, a number of questions may be raised pertinent to the merger which put Stelco on the path to future dominance:

1. What forces were paramount in its creation?
2. What brought them together?
3. What were the effects of this activity then and over time, and what do they demonstrate about the nature of indigenous Canadian elite power?

These questions will be addressed as the ensuing discussion unfolds, but before the merger protagonists enter, the scene must be set in the previous century, as it was the historical conditions and actors of this period which determined who many of those players would be.

As indicated briefly in Chapter Two in the discussion on the financial control debate, industrial development in Canada made the transition to corporate capitalism not, as in the U.S., guided by entrepreneurial capitalists in a system of decentralized banking, but under the direct auspices of a group of indigenous elites who had taken up positions of dominance in finance capital as a logical extension of mercantile interests. Thus the retardation or acceleration of industrial development, as well as the response to changing

historical conditions, depended on the actions of the dominant social force whose origins and orientations arose from an early and continuing association with mercantilism. The transition from financial to corporate capitalism was made on the rising though struggling tide of small, local industry whose emergence had previously been stifled, and from tertiary industry which had been established to serve mercantile pursuits: canals, railways, steamships and the like. Some important facets of this transition must now be brought out and related to the conditions which obtained in the last decades of the nineteenth century prior to the merger of 1910.

A number of historical analyses such as Ryerson (1975) and Naylor (1972), as well as accounts of local social structures such as Tulchinsky (1972) for Montreal and Masters (1947) for Toronto emphasize the importance of the power-base built up first in the all-powerful Montreal metropole and later in its rival Toronto. This base was formed by very small, tightly knit circles closely allied with and dependent on British support and capital, and considering the instability of conditions under which mercantile activities were pursued, amazingly long-lived and adaptable, surviving and changing in the course of the rise and fall of, as Naylor puts it, three "commercial empires of the St. Lawrence." But these groups were also reactive more than innovative, and so by the courses of political action which

they caused to be initiated, leaped on the industrial bandwagon too late to prevent the serious inroads of aggressive American branch-plant operations into manufacturing, and lacking extensive power at a crucial historical juncture, were content to play middleman when Americans made Canada a province for their extraction of raw materials. They thus created within Canada its peculiar truncated power structure, with definite sectoral divisions in terms of indigenous versus foreign dominance, and set the lines along which alliances with foreign interests would be made. These latter points are developed in detail by Clement (1975: Ch. 2) for the whole of the Canadian political economy.

Between 1763 and 1837, the social structure of colonial Canada was dominated by three main forces, all involved in go-between mercantile relations with Britain: the "Chateau Clique" of Lower Canada (Quebec), centered in Montreal, the "Family Compact" of Upper Canada (Ontario), centered in the fledgling Toronto, and a Maritimes version of the "compact," composed of merchants centered around the legislative and executive councils of the same twelve men (see Ryerson 1975, Ch. 1, 6, 10). Naylor (1972) argues that the commitment of these groups to British rule and to the advantages of the mercantile system was responsible for the lack of independent capitalist development in Canada and for a perpetual state of underdevelopment. They were not interested in establishing an indigenous industrial system, which

would have involved venturing out of the low-risk type of capitalism in which they were engaged, characterized by rapidly circulating capital and little fixed capital investment. The activities in which they engaged in each subsequent period of the St. Lawrence "empire" tended to be a response to changed conditions, as first one then another staple ceased to be lucrative.

Fur trade was the principal reason for first French and then British ventures, with the Hudson's Bay Company, the last of the royal monopolies, being dominant first in furs, then land, then retail trade. The North West Company was also quick to acquire vast grants of land when fur trade declined. There was, Naylor notes, an intimate association between the land companies and the colonial government executive councils to the point of being virtually identical in personnel (:5). Indeed, the land companies held sway to the extent of retarding immigration and land settlement. The timber trade and the grain trade were important sources of mercantile activity and surplus extraction when the fur trade declined, and it was from all of these sources of surplus that the Canadian merchant class extended its operations into banking and canal construction--both intended to service commercial, not industrial, activities.

The close connections with the political bodies and the tightly held nature of banking during this period, its connection with commercial and not industrial activities,

marks off significantly the development of Canadian banking from U.S.--to this day it remains highly concentrated. The Bank of Montreal (the first established, in 1817) was founded by fur trading companies and a London merchant bank; connected with the Family Compact, the Bank of Upper Canada (1818) was founded by grain merchants and canal companies; the Halifax Banking Company (1825) was also a mercantile creation (Naylor :7). These banks did not engage in industrial loans or in servicing farmers with mortgage money -- that was a field entered into in the 1830's by building societies and later loan and mortgage companies, a development which was particularly active in Toronto as it began to build the financial infrastructure necessary to create a rival metropole, after 1850 (see Masters 1947).

Clement (1975: 50) observes that although the ruling classes (and "rule" they did) of Upper and Lower Canada formed a tight set of relations, united by interlocking interests that were both economic and political, they operated from different power bases. The period during which these power bases became fused most probably corresponds to the period after which their interests began to emerge as industrial-capitalist.

Tulchinsky (1972: 125) argues that the period between 1837 and 1853 was a highly important one for the economic development of the St. Lawrence metropolis--during this period great advances were made in industry and in trans-

portation improvements, as well as other capital expansion, particularly banking. The industrial activity of this early business group, however, occurred as a result of commercial interest in extending the reach of the Montreal metropolis, and in response to the rivalry of the Erie Canal and the abolition of protective tariffs on grain:

"The portion of the Montreal business community that first took up the challenge of the railways and of ocean-going steamships was above all attempting to solve the problems created by the inadequacies of lower St. Lawrence river transportation....There was hard economic reasoning behind their promotion of railways south to the north-eastern United States, which they viewed as a short land bridge to the Atlantic." (:137).

The Montreal business interests who were successful in mobilizing capital for such industry were a relatively small group of the total business community, operating from an already established base. But as Naylor observes, the Grand Trunk railway venture to capture midwest American trade "was a total failure. In 1860 the Erie Canal and the New York railways took fifty times as much wheat to New York as the Grant Trunk took to Montreal." (:11).

An indigenous Canadian elite had emerged but its power base was an exceedingly narrow and shaky one, not only because of its dependence on highly volatile staple-extraction trade but due to its lack of an independent capital base from Britain, and the growing strength and autonomy of the United States, whose industrialization was proceeding rapidly and aggressively.

In Upper Canada, according to Clement (1975: 51) business was not as dominant in the Family Compact as in the Chateau Clique. This is understandable, since during the same period, Upper Canada was probably more agricultural and barely emerging from being a later-opened frontier. Around 1812, industry was "petty" in the Niagara district, rural-based, small-scale, associated with pioneer needs for grist- and saw-mills, but in Niagara by 1824, there were in addition to these mills, small concerns manufacturing wool-lens, cabinets and wagons, a cast iron foundry, a tannery, and still-houses (Ryerson 1975: 96).

The period dating from roughly 1820 to 1828 was also a time of upsurging rebellious feelings in Upper and Lower Canada and the Maritimes--the chafing of incipient industrial development against a restrictive colonial mercantile environment. In Lower Canada they protested the "triple alliance of class forces, none of which was particularly interested in the growth of a native industry" (Ryerson 1975: 40). That alliance was between British officials, English-Canadian merchant-landowners who had penetrated the semi-feudal seigneurial structure and transformed it into "capitalist real-estate," and the French-Canadian clerical and seigneurial collaborators. Standing against these older forces was the first sign of challenge as a result of the beginnings of industrialism (:32). According to Ryerson (:39), capitalist industry in Lower Canada during this period followed three

paths: the timber trade (sawmills and shipyards); manufactories and machine-shops such as the Molsons' ship-engine enterprise in Montreal -- industries related to the Industrial Revolution; and, though only weakly developed, the small-scale consumer goods enterprises responding, under an incipient French-Canadian bourgeoisie, to the extension of the domestic market.

As well, in Upper Canada a coalition of interests opposed to colonial-Compact hegemony had developed by about 1828 and was seeking reforms in public health, education, and civil liberties, issues which joined a diverse group of local industrialists and small merchants, professionals, poor settlers, and urban workers (Ryerson: 110). There followed a conservative-based reaction by the Compact establishment such as the Jarvises and the Ridouts, against rebellious protesters led by such people as Mackenzie and Egerton Ryerson. But as Masters (1947: Ch.2) points out, by the 1860's the rising Toronto-based class which had started out in wholesale (such as William McMaster), implements (the Massey and Harris families), or brewing and distilling (the Worts and Gooderhams) had become absorbed into the existing class structure and as well, became active in new financial institutions founded in Toronto. Toronto was becoming the scene of an integrated local elite soon to become regionally dominant, as was the Montreal elite.

By the time of the first Charlottetown conference

on confederation in 1864, Maritime capital accumulation had been largely drained away to the foreign money institutions (Ryerson 1975: 197), and despite early and active localized development in construction and shipbuilding, industry remained less concentrated than in Upper or Lower Canada. The Maritimes appeared to have already been by-passed, and according to Ryerson (:373), a necessary precondition for union under English-Canadian hegemony was a compact between the Toronto and Montreal capitalists. Confederation, railways and steel contributed the conditions for the fusion of these two rival groups as a national class, as will be shown here and in Chapter Four.

Political union was being put forward as a necessity for achieving economic integration, to link the interior with the seaboards, opening up markets between the Atlantic and Lower Canada and make available Nova Scotia coal to the centre and western food products to the east. The chief spokesmen for union in Upper and Lower Canada were again the merchant-capitalist class, linked to British portfolio investment, based on the National Policy and reciprocity, which, Naylor (1972: 10-12) argues, continued the process of stultifying indigenous industrial development in favour of American branch plants. The centralization of fiscal policy in the federal government ensured that the finance-based establishment would have access to public capital for private ends, and, aligned with the state, could direct economic

development in their own interests. Thus,

"Confederation and the national policy were the work of the descendants of the mercantile class which had aligned itself with the Colonial Office in 1837 to crush the indigenous petite bourgeoisie and nascent industrialists...the direct line of descent runs from merchant capital, not to industrial capital but to banking and finance, railways, utilities, land speculation, and so on--activities dependent upon and closely connected with the state structure." (Naylor 1972: 16).

As Clement (1975: 54) argues, the period 1837-1854 had marked the rise to power of an indigenous Canadian elite, largely centered in Montreal (it was by the 1880's to be challenged seriously for joint dominance by Toronto). Its independent base was in part made possible by the struggle for the West Indies between Great Britain and the "upstart imperialist" U.S. which marked the start of British imperial decline and the emergence of the American economic empire. It was also the end of the British Imperial preference. The period of American and Canadian westward expansion began in this period. With British power declining, and U.S. power increasing, the indigenous elite chose to operate from its traditional base of power in finance. Thus, the emergence of this capitalist power in Canada must be seen against a backdrop of both dependence and independence and competition for control, and finally a coalition of capitalist interests absorbing new forces, within a truncated power structure. While American interests were involved to an ever-increasing degree in extending their hold on manufacturing and resources,

the Canadian elite extended from its base in finance to initiate a series of boldly executed mergers which began shortly before the end of the last century and peaked about 1912, just after the 1910 merger of Stelco.

2. Elite Forces and Steel: Prelude to Stelco's Creation

The history of the early iron and steel industry in Canada is littered with attempts which were either complete failures or viable only for a short period due to lack of capital or technical expertise and related problems. Although iron was being produced in Quebec as early as the 1600's under the French and Quebec-based iron manufacturing was by 1809 the most important industry in Canada, there was no large modern blast furnace producing basic steel² even by the 1880's and Quebec was known for its rolling mills only from about 1850 on.

Ontario prior to 1879 had no blast furnaces producing basic steel or pig-iron and no very important rolling mills, although a number of enterprises had been operated off and on since about 1800.

Iron had been produced quite early in the Maritimes (around 1825, although iron ore and coal had been known to exist there since the early 1600's). Neither of two operations, one in Annapolis County, Nova Scotia around 1825, and another in 1873 at Londonderry, N.S. (the latter an ambitious attempt using advanced technology), survived for long. Between 1856 and 1875, there were two rolling mills at St. John, one

of which, the Nova Scotia Forge Co., originally set up to supply railway iron for the Intercolonial, eventually expanded to become one of the most important iron and steel plants in Canada. In 1882 its management set up the Nova Scotia Steel Co. to sell itself steel ingots and billets for forgings and axles; they amalgamated as the Nova Scotia Steel and Forge Co. and in 1895, after including their New Glasgow Coal, Iron and Railway Co. to supply themselves pig iron, became the Nova Scotia Steel Co., the first "integrated" and successful steel plant, by the 1890's.¹

Thus, as Donald (1915) points out after extensive historical analysis, the greatest development even in the better developed but still small finishing industry occurred between 1868 and 1879, and this was owing mainly to the increased demands of the railway era. This point is a significant one because it links development of the steel industry with the activities of the indigenous Canadian elite in railway building, an activity which as indicated already, was important to their mercantile interests. The two proved to be interdependent during the era of the railway boom and evidence suggests that they have remained so to the present, steel providing an important industrial power base for an elite which has not been and still is not strong in manufacturing.

While iron and steel production remained small-scale industry until it was eventually put under the wing of the active financial class who began creating steel empires with

it, those industries which were successful were linked directly with the needs of the railway boom. The Nova Scotia company has already been mentioned. In addition, in Ontario Messrs. Gzowski and Macpherson of Toronto, railway promoters, set up a mill to reroll iron rails, and during the same period the Ontario Rolling Mills, American-formed and a Stelco predecessor company, was established and operated successfully. Van Norman, an entrepreneur who earlier had successfully but briefly operated a facility producing pig iron and castings, was given business in 1854 by Messrs. Fisher and McMaster of Hamilton to furnish car wheels for the Great Western, but the material turned out to be unsuitable. In Quebec as well, the old Radnor Forges near Three Rivers were active in 1862 under Messrs. Larue and Co. with a work-force of 200 to 400 men employed to prepare and transport charcoal for the production of its principal product, cast-iron railway car wheels. The entrepreneurs were given a grant of timber and ore lands amounting to 40,000 acres. The advanced plant at Londonderry which failed had been set up at a cost of over \$2 million to use the Siemens open-hearth process for the production of steel rails, cast and spring steel, and had as well been able to obtain agreement with the newly built Intercolonial to use its rail lines, evidence of its influential backing. With this exception, and the Nova Scotia Steel Co. which had begun small but was already developed, the early steel industry though useful to them,

was without backing from the dominant class, small-scale entrepreneurially run firms with low capitalization and high risk.

Prior to 1879, the tendency was to build separate plants for primary steel and finished products, probably due to the lack of capital involved to set up blast furnace facilities and the lack of technical knowledge to handle difficult ores. The rolling mills, important for the railway building period, were coming into their own from about 1850. Of these, in Quebec the most important were the Victoria Iron Works and the Montreal Rolling Mills, the latter destined to become one of the Stelco predecessor companies. In 1858 Mansfield Holland, an entrepreneur, established "with the financial help of an affluent retired person" (Kilbourn, 1960:13) one of the earliest rolling mills, but was later thrown out by his backer, as he was in the 1860's when he built a larger firm which was to become the Montreal Rolling Mills. Holland's nephew was Randolph Hersey, who took over running of the Bigelow operation in 1868 when heirs ran out and at the end of his career became the first president of Page-Hersey, a dominant pipe manufacturer also later taken over by Stelco.

Although the evidence is scanty, the usual pattern for the early industrialists in steel appears to have been to "marry" money, inherit it from a rich relative, or build up from small beginnings through relentless "ploughing back" of gains (:11). Such was the case for Begelow. These companies,

painstakingly built up over the years, were finally absorbed by the Montreal Rolling Mills, a company set up in 1868 by affluent upper-class members such as William Molson, Thomas Morland, and Peter Redpath, and whose board later also included Andrew Allan and Sir Edward Clouston of the Bank of Montreal (;20).

Such a pattern was duplicated in other industrial areas of interest to the established elite, as is evident in the data collected by Acheson (1973) for the 1910 elite as compared with the 1885 elite. By 1910 the number of manufacturers had decreased from 85% to 58% of the elite, while wholesalers, brokers, financiers and other non-manufacturing executives had increased, indicating that

"by 1910 manufacturers were still a significant part of the industrial elite although, increasingly, their traditional roles as promoters and directors of manufacturing enterprises were being usurped by leaders from a variety of other business activities."
(;54)

In particular, Acheson notes, the consolidation movement was responsible for transferring control of a large number of producers to a small number of industrialists centered in Montreal, although the St. Lawrence region was less heavily industrialized than the Lake Peninsula by that time(;55). But while centralization was occurring under the auspices of the Montreal elite, another trend was also occurring: in terms of birthplace and migration to industrial-opportunity regions, the Maritimes had by 1910 already declined and increasingly, those of the elite born in the Lake Peninsula

were finding opportunities in the Lake Peninsula (Acheson, table 4: 56). While social mobility had been reduced since the 1885 period, it is clear that Toronto, the challenger to Montreal's metropolitan dominance, was becoming a power in its own right. From the period of the railway boom onwards, Toronto and its hinterland began to develop rapidly to the point where it actively challenged Montreal banking supremacy and projected competition for the Ontario hinterland markets outwards to the northwest hinterland. Toronto was building up a power-base in finance and industry independent of Montreal, although it was more dependent upon the U.S. Development of an autonomous financial infrastructure was a necessary prerequisite for economic autonomy, was as well significant for later events when the entrenched financial interests moved to consolidate previously fragmented industrial concerns. Toronto elites by that time held important pieces vital to successful consolidation.

Much of the development in Toronto finance is traced by Masters (1947: Ch.4) to the 1860's and the railway boom. In 1866 the Royal Canadian Bank was established and Toronto elite William McMaster purchased the old Bank of Canada charter from Cayley to establish the Bank of Commerce in the same period. The growing strength of the Bank of Montreal and its increasing association with government led to the government transferring its account to it from the Bank of Upper Canada. This caused alarm in the Toronto circle that

a policy of monetary constriction would follow, injuring Toronto's trade and draining away deposits to service Montreal interests. This would have led to loss of Toronto's financial hegemony over its own growing sphere of influence. Indeed, Montreal was blamed when the Bank of Upper Canada failed in 1866 (1870).

But it was clear, despite weaknesses in the Upper Canadian banks, with their dependence on land and railways, that an independent capital base was being built in Toronto--private banks and building and loan societies including the Canada Permanent had arisen; a number of exchanges had been established, including the Toronto Exchange in 1855 and the Produce Merchants in 1866 (there were 35 Toronto-based brokers in 1860, ranging from stocks to produce).

Diversified and sizeable manufacturing concerns began to cluster around the northern shore of Lake Ontario and in south-west Ontario by the sixties, including two companies of future national importance, the implement producers Massey and Harris. Toronto concentrated attention on building a network of railways into the north under the auspices of both old and new Toronto elites. Indeed, Kerr (1967) argues that it was Toronto's attention to northern mining, beginning with the establishment of transportation and financial infrastructure, and Montreal's ignoring of it, which formed part of the basis for the shift towards Toronto as a metropolis at the expense of Montreal later. The initial advantages of

these transportation links, and eventually, other facilities and techniques, "evolved interrelationships between the Shield and Toronto which have had a profound influence on subsequent developments." (:542), including the prominence of the Toronto financial market. As well, the northern developments aided the steel industry, by stimulating demand and by providing access to more distant ores. Kilbourn (1960: 56) observes:

"It was also significant for all Ontario steel-finishing companies that Toronto wholesalers and financiers snatched the chance to develop the mining and forest wealth of Northern Ontario from right under Montreal's nose."

In short, by 1875, the basis of expansion and the unified elite initiative to lead it were present. Railways assured penetration of the northern hinterland, and connections to the east and west, although not initiated by Toronto, were taken advantage of. And manufacturing was now large enough to support steel supply from a Canadian industry.

In the 1870 decade, rivalry between Toronto and Montreal became more acute with the unsuccessful Toronto attempt to capture control of the C.P. railway project. But the attempt was formidable enough to create some government embarrassment and prompt reorganization of the company to include representatives from both rival groups. Toronto's push for more power was also evident in the struggle over the new banking legislation of 1870. That struggle saw Hincks replace Rose as finance minister before it was resolved to

Ontario satisfaction (Masters 1947: 119), and the new legislation allowed the development of more broadly based operations, with the potential of taking some power away from the Bank of Montreal. The increasing political power of the Toronto elites in the seventies was reflected in the presence of Toronto's William McMaster as chairman of the Senate committee on banking, from which was staged a struggle between McMaster and King, support of the Hincks legislation by McMaster, and as his reward, government support for his Bank of Commerce bill which permitted increased capitalization and absorption of the Gore Bank (:120). Thus the Ontario powers, while not always able to snatch all advantages away from Montreal, revealed themselves as a force demanding and receiving some concessions.

By the 1880's, Toronto had "come of age"--the Bank of Commerce was second in assets only to the Bank of Montreal in all of Canada, and Toronto, with control of its own marketing, manufacturing and banking facilities, stood on the verge of metropolitan status (:165). Toronto's institutions acted as a drawing force for power, and Hamilton fell behind, remaining to this day, as Kerr (1967: 552) notes, a relatively specialized industrial node in the metropolitan system. Thus only Montreal was more dominant, and the struggle between Toronto and Montreal eventually became modified to one of joint endeavours. The Toronto-Montreal rivalry had already been somewhat transcended by the increasing mingling of the

two elites as they came together, as a new national class, in projects of mutual benefit and interest. Such was the case for the Stelco merger, where the Toronto interests met Montreal on equal terms, as will be shown. Indeed the steel merger is important from this standpoint as well--it signalled the beginning of a high degree of urban interaction between the two centres, so that by the present, their financial and corporate communities had become intimately related. Kerr (1967: 548) views these two centres as in many respects functioning as one unit "a single dispersed city" or a joint metropolis.

3. The Creation of Stelco

Each of the five constituent companies of the merger, the Montreal Rolling Mills, and the Ontario companies Hamilton Steel and Iron, Dominion Wire and Manufacturing, Canada Screw Co., and Canada Bolt and Nut, were all products of previous amalgamations and/or takeovers by local Canadian elites.

In Ontario, much of the early beginnings which foreshadowed the merger were initiated by Americans but Canadians came to dominate them. Charles Wilcox (an American and graduate of Yale) joined as company secretary a group of his Ohio friends, now successful Cleveland businessmen, who migrated north in response to the National Policy's tariff protection to set up the Ontario Rolling Mills in Hamilton in 1879. Their business revolved at first around railway equipment demand

(Kilbourn* 1960: Ch.3). A group of New York capitalists responded to the city of Hamilton's generous offer of cash and land grants in 1893 and formed the Hamilton Blast Furnace Co., but after initial difficulties it was reorganized, and its subsequent major stockholders were prominent Hamiltonians including the publisher William Southam, Senator Alexander Wood, in wholesale hardware and the Liberal government, and John Milne, a foundryman who used the company's pig iron (:48-49). Senator Wood undoubtedly had a hand in persuading the Cabinet in 1898 to grant the company bounties on production made from foreign ore even though the provision had been intended to stimulate use of domestic ore (the company found domestic ore too "lean" in iron content). They dug out from under further financial difficulties through a large personal loan from George Gooderham, the Toronto banker and distiller, a member of the now-established newer Toronto elite and a friend of some of the company's organizers. The steel plant still not completed, their problems of capitalization and the Ontario Rolling Mills' problems with importing raw steel were mutually resolved in an amalgamation, in 1899, as the Hamilton Steel and Iron Co., under the presidency of Wilcox (:50).

Other developments were advanced mainly by Canadians.

*William Kilbourn, a McMaster University history professor, wrote the history of Stelco with the company's sponsorship and co-operation. He had access to the company's archives and personnel, whom he interviewed. His account is considered authoritative, although it is journalistic in tone.

Sir Hugh Allan (a nephew of Andrew Allan, who was later to become a director of the Montreal Rolling Mills), through his position inherited from his father, was able in 1868 to establish a bolt company in Perth, Ontario, which he later moved to Swansea (now part of Toronto). The company, although functioning in an unstable business environment and suffering a series of management and name changes, became Canada's largest railway track bolt producer (:41)³.

In Dundas in 1866, a screw company was set up, to be later taken over by Cyrus Birge of Hamilton and Charles Alexander, his American partner. Birge, according to Acheson (1973: 71), was the son of a farmer and had his beginnings in service with the Great Western Railway, a rare example of upward mobility for the "native-born of humble origins and limited training."

Francis Whitton, a U.S.-trained English entrepreneur, founded the Ontario Tack Co. in 1885 and became, according to Kilbourn (1960: 43) "an important outlet for the Ontario Rolling Mills, and Charles Wilcox and the other Ohio men were on its board of directors from the beginning." This company emerged from the ups and downs of the highly competitive tack business as dominant, after buying out three rivals, and was later united with Birge's Canada Screw Co. in 1907 under Birge's company's name.

The last of the Ontario interests to become a Stelco predecessor company was a hodge-podge of finishing companies

thrown together in 1910 as Canada Bolt and Nut by Lloyd Harris. Harris, unlike Birge, came from a family well established in local circles--his grandfather had founded a saw mill in Brantford, and his father the Harris Company, one of the two dominant agricultural implement manufacturers which were later joined as Massey Harris Co. Harris had also been involved in a firm of bankers and financial agents, H. Cook & Co., and in Hamilton Trust Co. Lloyd Harris was president of a Brantford company making implement and carriage fasteners and of the Brantford Board of Trade in 1903. He also became a director of a number of companies including Manufacturers Life, of which he was a vice-president.⁴ Shortly before the events which initiated the Stelco merger, he began acquiring companies to form a network of finishing plants--rolling mills in Belleville and Toronto, a forgings plant in Gananoque, the Swansea bolt company originally formed by Allan. They were amalgamated in 1910 with a 300% increase in capitalization, an assortment of unrelated plants, some nearly obsolete, which made Harris anxious to consolidate with stronger plants.

Thus it came about that early in 1910, Wilcox, Birge and Whitton, and Harris began working out a three-way merger. Kilbourn (1960: 59) points out that the merger was in part directed against their rival, Montreal Rolling Mills, with the possibility of outrivalling it for Western and Ontario markets, and with the primary steel mill as its heart, could

gain a foothold in Quebec and the Maritimes.

Meanwhile, a series of developments in Montreal was propelling the MRM towards the Ontario interests and the form Stelco was to take.

Kilbourn (1960) describes the beginnings of the Montreal Rolling Mills as follows:

"On May 8, 1868...a number of gentlemen arrived at the offices of Morland and Watson, the Montreal wholesale hardware merchants...for the purpose of reading the charter of a public corporation...to be called the Montreal Rolling Mills Company." (:19)

Morland was a Scottish-Canadian who took into his firm at a young age, according to biographical sources,⁵ William McMaster who was, according to Kilbourn (:23) a distant relative of the famous older Toronto Scot of the same name, the founder of the Bank of Commerce. McMaster rose through various positions of responsibility and was transferred to the Montreal Rolling Mills from Morland's firm, where he rose from salesman to managing director in 1888; his son Ross was to become a future Stelco president, and his grandson, David Ross McMaster, sits at present as a director on the Stelco board.

Others present at the formation of the Montreal Rolling Mills were William Molson, active in the Champlain and Grand Trunk railways, president of Molson's Bank, descendant of the famous brewing family; and Peter Redpath, who with his father founded Redpath Sugar and was a director of Montreal Telegraph, Intercolonial Coal, Canadian Sugar Refinery and the Bank of Montreal.⁶

Morland and Watson, who imported iron, found their hardware lines rising in price and becoming difficult to procure in large quantities during the period of the railway boom and the American Civil War. They were already involved in the rolling mills built in the 1860's by Mansfield Holland on the Lachine Canal. Their competitors were the Pillow-Hersey firm and Peck's Victoria Iron Works. The MRM was established to attract greater participation and capital from established elites, and to buy out and expand Holland's nail and spike factory. Credit for the purchase of British iron was extended by the Bank of Montreal (:22), undoubtedly using Redpath's influence. The company expanded into a variety of small product lines and in 1881, became Canada's first manufacturer of iron pipe. The post of managing director of the new firm was first filled by Morland's partner Watson, and then by William McMaster who by the turn of the century was a trusted member of the elite and sat on the boards of several industrial concerns including Dominion Steel Corp., the then-dominant steel company who supplied them steel, and was also a director of Dominion Coal, which was later to be merged with Dominion Steel.⁷ During this time the MRM bought out Pillow-Hersey (in 1903) and Hodgson Iron (in 1906) (Donald, 1915: Ch. 10), giving them pipe and wire-nail facilities of their competitors, and leaving only Peck's as a weak competitor, soon to be left behind as it had not converted to steam (Kilbourn 1960: 29). Thus, by the turn of the century the MRM

was the largest and most varied of the Montreal finishing industries with McMaster well established and with a new influential banker as president, Sir Edward Clouston (:29).

Clouston, who was also president of the Bank of Montreal and a vice-president of Royal Trust, was also director of a number of railway and other industrial companies as well as financial institutions. Son of James S. Clouston of the Hudson's Bay Company, he began his career in the same firm and then moved to the Bank of Montreal where he rose through its ranks from junior clerk. Well-connected, Clouston was to play a role in bringing the Montreal financial forces into the Stelco merger.⁸

The opening of the West and the Ontario North began to pose threats as the centre of industry slowly shifted to Ontario; competition in hardware and pipe was severe despite attempts by trade associations to fix prices and production; the U.S. Steel trust had come to dominate American industry and presented both threat and example. The MRM directors saw that the future lay in combination, a pattern which had already been set by the Canadian financial elite. So far, Montreal Rolling Mills had done well, increasing their sales twenty-fold between 1869 and 1909, but as Kilbourn observes,

"The business owed its success to the possession of sufficient capital from the beginning and to the continuing confidence and participation in its affairs of leaders of the Montreal banking and mercantile community." (:32).

The Montreal Rolling Mills, a creation of finance capitalists, was about to provide the means whereby these capitalists could create a truly integrated steel empire. By making the first move, McMaster ensured the establishment of the first stage in the creation of a dominant central Canadian empire. According to Kilbourn (:57), McMaster saw that the possibility for gain had to be realized immediately, before technological change would have to be considered, in order to solve the steel supply problem, and before concentration advanced to the point where holding out would be disastrous. As well, McMaster had been giving attention to a new company which he later headed, C.I.L. When he heard of the three-way merger in Ontario, he decided the time was ripe, and approached Dominion Steel. Plummer, Dominion's president, refused his offer, apparently because his company was convinced a steel and coal merger (rather than one of steel production and finishing) was more advantageous. Moreover, the steel company was preoccupied with its lawsuit with Dominion Coal (which was later to become merged with Dominion Steel). Plummer was also connected with the Bank of Commerce (as VP and former general manager), whereas the MRM "was by personal and business connection attached to the Bank of Montreal." (:61). It was the Bank of Montreal's Clouston who then suggested that McMaster approach the young financier, Max Aitken (later Lord Beaverbrook), who had just emerged triumphant from the gigantic Canada Cement merger. It is significant

to the development of Stelco that McMaster's decision brought the MRM in to the merging groups, since it was this company which attracted Aitken. In April, 1910, Aitken purchased the company and covered himself with a \$4 million loan from Parr's Bank in England. The stage was set, both for the financial success of Stelco's capitalization and for Aitken's involvement, by the climate in which Aitken developed his formidable talents.

Aitken was one of those few of a rare breed who arose from less than upper class beginnings (he was the son of a New Brunswick minister) to dazzle the established powers through a series of rapid and brilliant financial manoeuvres which earned quick recognition and entry into the inner circle. Aitken began his career as a law apprentice. Assistant at age 22 to John F. Stairs, a Halifax financier and president of Nova Scotia Steel Co., Aitken helped Stairs reorganize that company and was rewarded by being set up by Stairs and other leading Halifax businessmen as managing director of a new firm, Royal Securities Corp. Aitken moved its headquarters to Montreal and became a millionaire organizing street railways and utility companies in the British West Indies, where his Maritime friends were well connected, and in Alberta, where R. B. Bennett, future prime minister of Canada, a New Brunswicker and personal friend of Aitken's, had become an influential lawyer (:66-67). Another friend of Aitken's also dating from the time when he was a law clerk in the same office as Bennett, was James Dunn, also at that

time a clerk and destined to become the mercurial head of Algoma Steel (Newman 1965: 104). All three had been given early recognition and contacts.

Aitken was responsible for promoting three of the 41 industrial mergers created between 1901 and 1911: Canadian Car and Foundry, Canada Cement (after which he earned the enmity of Sir Sandford Fleming and an unsuccessful campaign waged by Fleming against him), and finally, Stelco. His two most important connections in the world of high finance were Clouston (who advised him to go to England for loan capital to purchase the MRM, suspecting trouble from Fleming and his connections), and Sir Ian Hamilton Benn, a partner "in one of the most powerful financial houses in the City of London" England, and a member of Parliament at the special request of Joseph Chamberlain. It was the contact with Benn which was to prove valuable in marketing the bonds of the newly created Stelco (Kilbourn 1960: 62-69).

Industrial bonds and shares sold to a wide public were relatively new at that time, and even in England investors had tended to favour Canadian government or transportation bonds (for obvious reasons -- both were backed by the Canadian government and the established elite, while up to this time, other types of industrials were high-risk low-capital ventures). Previous groundwork for successful marketing of industrial securities in Canada had already been laid by E. R. Wood, a Toronto bond dealer (Dominion Securities), who undertook

pioneering work in the sale of industrial bonds to the ordinary public, thereby making possible "hitherto untapped capital," as Kilbourn (:65) puts it -- that is, the wide dispersion of stock-holdings, the "socialization" of the capital-accumulation process. By 1911 "thousands" of people had become shareholders in Canadian mergers (:65). Wood's connections with the financial world included Senator Cox of Canada Life and Sir Edmund Walker of the Canadian Bank of Commerce (:65). Later, he, Henry Pellatt, and Aitken bought out Dominion Coal after settlement of its legal battle with Dominion Iron and Steel and sold it to their holding company, Dominion Steel, thereby enlarging the already dominant company and creating rumours of a possible three-way merger between the newly merged Stelco, Algoma, and Dominion Steel (:83). Thus it was the investment bankers and securities dealers and promoters such as Wood and Aitken who made possible the concentration of industry by acting as nodes in the chain of interconnections, bringing previous rivals together and aiding in the continuing process of ever-widening avenues for capital accumulation.⁹

Such was the case when Aitken acted as intermediary to bring the Ontario and Montreal rivals together. Those who "really counted" according to Kilbourn (:71) in the merger negotiations were the Montreal Rolling Mills, now owned by Aitken and headed up by Herbert Holt, president of the Royal Bank and participant in Aitken's Royal Securities

(:72); and Hamilton Steel and Iron, headed by Charles Wilcox and his VP and general manager, Robert Hobson. Behind them were the Toronto financiers, W. D. Matthews and Sir Edmund Osler, both large shareholders in the company and involved in the world of high finance. Matthews, a grain merchant, was vice-president of the Dominion Bank as well as a CPR director; Osler was president of the same bank and "at that time the leading figure in the Toronto financial world... powerful and much respected" (:72). These people were members of the financial elite; but the other protagonists in the merger negotiations also had financial contacts.

Cyrus Birge of the Canada Screw Co. was by then "extremely old and enormously wealthy" (:72), a former president of the Canadian Manufacturers Association and had been an "influential member of the pressure group for tariff reform" (:42); his directorships included Sovereign Fire Assurance Co. and the Hamilton Bank, and he was a promoter of Mercantile Trust.¹⁰

Lloyd Harris, in addition to his inherited elite connections and involvement in financial institutions, was a Liberal M.P. in the 1908 House of Commons.

Even Wilcox, an American and not born into the upper class, was through his presidency of Hamilton Steel and Iron connected by directorships to the Traders Bank, Crown Life, Royal Bank, and National Trust, a formidable array of financial directorships.¹¹

The three important shareholders of the original Hamilton Blast Furnace Co. which later became Hamilton Steel and Iron, Senator Alexander Wood, William Southam, and John Milne, were no less well connected with financial institutions, although all local Hamilton elites.¹²

The outcome of the merger negotiations gives an indication of relative power and importance to the new company and its interests. Wilcox and Hobson of Hamilton Steel and Iron, one of the two main groups, would be president and general manager respectively; voting control would rest with the Hamilton people, since it was this company which represented the nucleus of the new integrated steel company, supplying the primary steel product. Birge of Canada Screw was to be an inactive vice-president, but his partner, Charles Alexander, would go on the new board. Harris of Canada Bolt had no managerial role but a place on the board. Dominion Wire (represented by the Farrell interests, connected with U.S. Steel) were on the sidelines, having thrown in their lot when they saw that the creation of a fully integrated plant in central Canada precluded any further attempts by the U.S. giant to enter Canada, and the finishing facilities provided by Dominion Wire would be useless. Milne, Southam, and Matthews (later joined by Osler) were all placed on the new board, as was Senator William Gibson, president of the Bank of Hamilton. The Montreal group was represented on the board by Herbert Holt and Sir Ian Hamilton Benn, but Aitken did not

choose to join it, which was his usual policy. Instead, Aitken took the valuation price of the Montreal Rolling Mills (which had been under-priced and permitted him to withdraw a million dollars cash out of the new company), ordinary shares, and \$4 million in senior securities.¹³

Aitken also would earn commission on the sale of the bonds, whose price would depend on the "good reputation" of the new company (as established by the efforts of Aitken and Benn in England and Osler in Toronto in selling the bonds) (summarized from Kilbourn 1960: Ch. 5-6).

Aitken put Wilcox and Hobson in charge of the Hamilton operations and William McMaster's son Ross in charge of the Montreal operation, each responsible for the operation and integration of the plants. Kilbourn points out that of significance in the Stelco merger was the fact that those in charge of administration were industrialists experienced in steel.

"The founders of the company avoided the fairly common practice of choosing as the head of a new merger a banker or broker president....It ended the ancient custom, which had played its part in the growth of the Montreal Rolling Mills, of reserving the company presidency for a member of the old Montreal commercial aristocracy." (:85).

The question remains, however, as to what this development indicated--did it indeed foreshadow the decline of the financial element and the ascendancy of the inside manager? Evidence both from the history of Canadian, as well as American business, centering around the so-called "managerial revolution"

thesis appears to refute such a possibility. It is more likely that with the increasing concentration and size of industry that "insiders" fully conversant with the intricacies of their particular industry be left in charge of day-to-day affairs and that the "management" of the company extends beyond it to those of the financial oligarchy directly and indirectly involved. Evidence will be presented in the following sections of this chapter to show that, in fact, financial interests have had remarkable continuity of representation on the Stelco board and that the "insiders" have tended to come through the ranks of the company and to be fully steeped in its operations but being less influential in the financial sphere.

Kilbourn suggests that the "insiders" Wilcox and Hobson were influential within their sphere of competence. Wilcox, he points out, was neither wealthy nor a large shareholder, but, with Hobson's backing, was "clearly master in his own house" (:89). For example, when Holt and Benn resigned in 1910 over a financial policy dispute with Wilcox, Max Aitken by now a British politician) suggested from London that he was entitled due to the corporate interest of Royal Securities Corp. to name a representative to the board but the person was rejected by Wilcox as unsuitable. Wilcox suggested that he would "urge the board to consider" only someone of "sufficient distinction and usefulness"--Aitken concurred in his suggestion of Francis Whitton, the company's

assistant general manager, and Sir Edmund Osler (:90). Hobson as well was respected both locally and in North American steel circles, but it did not hurt his reputation to have as his father-in-law Senator Wood (:88), or as a close friend the Minister of Finance, Sir Thomas White, later a Stelco director (:114). The point is that each man was given a free rein to build up the company and to establish useful contacts, neither of which would have made them powerful in their own right but only in connection with the interests they served.

The preceding detailed discussion of the merger which created Stelco now makes it possible to address, by way of summarizing, the questions raised at the beginning of this chapter. It is clear that the forces paramount in the creation of Stelco were financial and mercantile ones, either directly descended from the mercantile interests or emerging from the conditions created by their dominance historically. They were brought together, in the case of Stelco, both by existing trends propelling them towards more concentration in order to remain in the mainstream of Canadian developments and by specific needs which were to be mutually satisfied through the new company: steel supply and steel finishing, or the need for power and the vehicle through which it could be fostered.

The effects of this activity may be analysed both in terms of what avenues were created for the fusion of Canadian elite power and also, through that, in terms of what it demon-

strates about the nature of such power.

The dominant Canadian forces of the day were brought together primarily out of their involvement in the railway era and "spin-offs" from that activity; once brought together, their activity merged not only former company rivals but also former metropolitan rivals, the Toronto and Montreal elites, thus contributing to the rise of a powerful joint metropolis. The Canadian elite was thereby strengthened geographically. Further, not only did their activity rationalize production and profit-making through horizontal and vertical integration creating the basis for future expansion and the possibility of attracting even larger aggregations of capital, but it created the basis for the continuing alliance between steel and finance. Steel, a dynamic new industrial force, had high growth potential which would mean a safe and expanding outlet for investment-seeking capital under the control of the indigenous elite, and in turn created for steel a strong basis for autonomy from foreign control.

Although it is true that at that time, Stelco was the only Canadian-formed company (Dofasco was established about 1912 by the American Sherman family, and both Dominion Steel and Algoma were originally American creations), yet, as Kilbourn (1960) points out, Stelco's was one of the largest Canadian industrial bond issues floated in Britain, but both Algoma and Dominion Steel were also floating issues of a similar size in London and Nova Scotia Steel a smaller one,

signalled in the period 1909-1911, "a significant shift away from American ownership and control in the Canadian steel industry towards British ownership and Canadian control." (:80). Moreover, since this represented portfolio and not direct investment, once the debt was discharged, the Canadian interests could reign supreme on their own turf. Indeed, the strength of these interests in Canadian steel even during this early period can be gauged from the fact that but for public opinion turning against mergers and Ross McMaster's desire, as president of Stelco during the 1920's, to avoid heavy debt or relinquish power to a larger entity, there were two moments in the 1910 and 1920 decades when a giant steel trust could have been created by Canadian financiers. The first instance was when Aitken, Wood and Pellatt bought out Dominion Coal, and the second when Holt, the notorious banker-promoter, and J. H. Gundy, the securities dealer, began to reorganize the Nova Scotia Steel and Dominion Steel merger called Besco as Dosco. In both instances, rumours in the main financial centres of Canada arose that a three-way merger between Algoma, Stelco and Dosco was in the offing.¹⁴ It is unimportant here that such a merger did not transpire--the important point is that the possibility had been created by the dominance of the indigenous Canadian elite operating from a strong financial base extended into an important industry.

It is also significant that much later, the British Hawker-Siddeley interests abandoned Dosco and Algoma to

Canadian interests, even though the fact that both companies' control was "handed back and forth between financial groups" as Park and Park (1973: 111) put it, indicates that the Canadian financial interests internationally were not the strongest. It is probably safe to say, however, that when the Dunn estate was liquidated, the Hawker Siddeley interests could not have operated without the co-operation of the McIntyre Porcupine and Canadian bank interests in Algoma. Although Mannesmann of West Germany was for a while the dominant interest in Algoma, control passed in the 1970's to the CP group.¹⁵ Dosco by then passed to the control of the Quebec government as Sidbec-Dosco and to the Nova Scotia government as Sysco, which appears to have been left with the most obsolete plant and an open invitation for the entry of an international consortium to develop new plant for export.¹⁶ But in the meanwhile, dominance in steel had passed to central Canada, and all three steel producers there are solidly within the Canadian financial orbit, as will be shown in the discussion on institutional shareholding later in this chapter.

The immediate impact of the merger movement in the steel industries during the early part of the century was to create a tightly interconnected body of companies. In 1912, of the 12 new steel-producing, steel-processing and related companies, all were interlocked with heads of at least one other dominant company in the same list, the most highly interlocked being Canada Car and Foundry (eight interlocks),

Canada Iron Corp. (four interlocks), Cockshutt Plow Co. (three interlocks), Dominion Steel Corp. and Stelco (five interlocks each). Of those who had been actively involved in the Stelco creation, Aitken sat on the board of his other steel-related creation, Canada Car, along with his patron Benn, and Holt; Stelco's VP, Hobson sat on Cockshutt Plow's board (a steel using company), and Matthews sat on the board of Dominion Steel. Plummer, the head of the then-dominant Dominion Steel had no other steel-related directorships on this list. Nearly all of the 14 industrial-financial elites connected with these mergers linked a steel producer to a newly combined steel-using company--for example, K. W. Blackwell, president of Investment Trust Co. (the syndicate involved in merging Montreal Steel Works with Ontario Iron to form Canadian Steel Foundries) linked Canada Car, Canadian Steel Foundries, and Nova Scotia Steel; T. J. Drummon¹⁷, whose family had been active in steel since about the 1850's linked Canada Car, Canada Iron, Cockshutt, and Lake Superior Corp. (Algoma); Sir H. Pellatt, the Toronto financier, linked Steel and Radiation to Dominion Steel (Donald 1915: Table II: 346). Thus the world of Canadian steel production and fabrication appeared to be even then a small one in terms of numbers of companies but large in size, and is even more concentrated today.

One of the immediate affects of this activity was the elimination of competition and the creation of a community of

complementary interests. As Donald (:282) noted, Stelco controlled nearly all of the large bolt, nut and screw plants and over half the nail production; Nova Scotia Steel produced articles unique to it in Canada; Canada Iron put its pig-iron production into car wheels and pipes and had a natural monopoly due to the nature of its pig iron; Canadian Steel Foundries linked under its wing two steel-casting firms whose output went to the Car and Foundry Company; Steel and Radiation Ltd. competed with none of the large iron and steel companies but merely used their raw materials for its specialized line, as did Canada Locomotive and Cockshutt Plow in their areas of specialization. Stelco and Dominion Steel did compete in the wire and nail market, but the other competitors were small. Dominion Steel was thought by Donald to possibly compete with Lake Superior (Algoma) for rail business, but according to Kilbourn (1960), Dosco (its predecessor) was narrowly specialized in railway supplies except rail whereas Algoma produced only rail. Hence it is safe to say that overall, the integration and interdependence between these companies at the highest level represented an almost seamless whole running from raw materials and basic steel to finished products and fabrication.

Moreover, and of particular significance here, each of these new steel-industrial combinations, created under the auspices of the dominant elite forces of the day, was linked not only with other ones, but with the financial institutions

through directorships held by the same people instrumental in their combination. Of the 14 elites listed by Donald (1915: 280), the following had at least one bank and frequently a loan company directorship: T. J. Drummond, president of Canada Iron and of Lake Superior Corp. (and was related to G. E. Drummond, a Canada Iron, Canadian Car and Cockshutt director also with a bank directorship); Stelco's Hobson, Birge, and Wilcox; Holt the banker; Stelco director the Hon. William Gibson and W. D. Matthews; Benn the British financier; James Redmond of Canada Car and Canada Locomotive; Nova Scotia Steel's director the Hon. R. Jaffray; N. Curry of Rhodes Curry Car and Foundry, president of its merger, Canadian Car; and lastly, Sir William Mackenzie, the railway promoter. Both Mackenzie and Sir Henry Pellatt, connected with steel or raw material companies, were connected also with railway companies. In addition, other prominent figures such as H. M. Molson, H. M. Allan, Sir W. E. VanHorne, E. R. Wood, and Col. James Mason were connected with both banking and transportation companies.

There can be no doubt that the net effect of the merger movement in steel was to create a chain of interconnections among the financial, transportation, and steel corporations; more importantly for the present time, this intimate linkage has made possible the strengthening not only of the financial nexus as it has been everywhere monopoly capitalism reigns, but specifically for Canada, has served

to strengthen the indigenous Canadian elite in its traditional area of dominance, finance, from whence it emerged.

II THE STELCO BOARD AND THE PERVASIVE PRESENCE OF FINANCE

1. The Continuity of Financial Interests, 1910-1975

From the foregoing discussion, it will not come as surprising that the Stelco board from its very beginning has brought together a number of financial institutions through its directors--directorships held both by "insider" (Stelco's officers) and "outsiders" (directors whose principal affiliation lies outside Stelco). It could be argued, however (as Stelco does in its submission to the Royal Commission on Corporate Concentration), that directorial interlocks are "inevitable" due to the small size of the Canadian corporate community and that just because a director has a particular directorship does not mean that the company behind it has influence on the board. Stelco, in its statement, did allow that directors were invited to join boards because of their valuable expertise and contacts. Herein lies the crux of the matter--it is through the directorial interlock that co-ordination among corporations with mutual interests is achieved. And it is also through directorships held on the boards of financial institutions that vital contact is maintained with those who control much of the capital accumulated.

Although it cannot be denied that not all directorships

held by outside directors are important to a corporation which names a particular director to its board (they simply "come with the package") yet two pieces of evidence may be utilized to suggest which directorships are significant--first, the continuity in directorships held by Stelco insiders, and those which are heavily interlocked and which recur repeatedly over time. The key to sorting out the confusing maze of connections is the aspect of time. A longitudinal study of the Stelco board (or any corporate board) is necessary because it highlights not only the regularity with which certain corporate names keep occurring regardless of changes in personnel, but also suggests any shifting allegiances and coalitions important at various historical periods. Such was the purpose behind an exhaustive analysis of every director and directorship ever represented on the Stelco board since its creation.¹⁸ Due to the enormous quantity of data gathered, however, only those of obvious significance will be presented here.

The data will be presented in three parts, the last of which will be reserved for the next section of this chapter. First, an analysis will be made of all directors since 1910 who have had financial directorships, including those who were in the financial elite, and second, the financial institutions represented on the board by these directors will be analysed in terms of continuity of their presence on the board and the extent of their interlocking with Stelco

directors. The purpose of these analyses is to establish how pervasive the presence of financial institutions has been on the Stelco board since its inception, and also to establish which financial interest groups appear to be prominent in the corporate life of Stelco. Then, in the next section on ownership, the financial institutions and directors will be analysed in terms of institutional shareholdings in Stelco.

Between 1910 and 1975, there were approximately 277 corporations represented on the Stelco board through other directorships held by Stelco directors. Of these, 70 (or 25% of the total) were on financial institutions. These financial directorships were tightly interlocked. Of a total of 60 men who have sat on the Stelco board since 1910, 48 of these held at least one financial directorship, and 25 (a little over half of those with financial directorships) have held three or more. Altogether, 21 of the 60 directors were financial executives--that is, were principally affiliated with one of the banking, trust, insurance, investment, or other type of financial institution. The following tables detail these directorships.

TABLE 3-1

*FINANCIAL EXECUTIVES ON THE STELCO BOARD 1910-75

(in order of tenure period on board)

No. of Fin. Dir- ships	Director	Stelco Board Tenure	Principal Affiliation	Other Financial Directorships
2	Lloyd Harris	1910- 1925	Hamilton Trust (and Co-founder, Massey-Harris)	Trust & Guarantee Manufacturers Life
4	Hon. Wm. Gibson	1910- 1913	Pres. Bank of Hamilton (and railway contractor)	Canada Life Ham. Provident & Loan Mercantile Trust
5	W. D. Matthews	1910- 1919	financier and VP, Dominion Bank	National Trust Confed. Life Canada Perm. Mort. Tor. Genl. Trusts
8	H. S. Holt	1910- 1912	(1934) Chm., Royal Bank (1902) Pres., Sovereign Bank Pres., Mtl. Trust	Sun Life Imperial Life National Trust Permanent Insce. Cdn. Land Invest.

*according to Newman (1975: 102) heads of banks usually safeguard their power from over-zealous aspirants inside the bank hierarchy by appointing as non-operating Vice Presidents outsiders who also act as directors. Such appears to be the case for Brown, Duggan, Mewburn and Foley, all of whom also have a second principal corporate affiliation.

No. of Fin. Dir- ships	Director	Stelco Board Tenure	Principal Affiliation	Other Financial Directorships
4	A. J. Brown, (K.C.)	1916- 1938	law partner and VP, Royal Bank VP, Mtl. Trust	Canada Trust Mtl. City & District Savings
2	G. H. Duggan	1919- 1947	Chm., Dom. Bridge and VP, Royal Bank	Montreal Trust
3	Sir Thos. White	1919- 1955	Chm., Cdn. Bank of Commerce	VP, Nat. Trust Canada Life
4	F. G. Osler (uncle to Glyn Osler)	1920- 1944	Pres., Cda. Perm. Mort. & Cda. Perm. Trust	VP, Mfrs. Life Dominion Bank
3	Maj.-Gen. Hon. S. C. Mewburn (K.C.)	1929- 1955	law partner, and VP, Bank of Mtl.	Mutual Life Royal Trust
3	Glyn Osler (K.C.)	1937- 1949	law partner, and Chm., Economic Invest. Trust	Mutual Life Imperial Realty
1	Geo. W. Spinney	1943- 1965	Pres., Bank of Montreal (till 1959)	no info.
2	Louis L. Lang	1944- 1965	Pres., Mutual Life (later Chm., 1960's) and Pres., Lang Tanning Co.	Waterloo Trust
2	E. G. Baker	1948 1961	Ch., Cda. Life	National Trust

No. of Fin. Dir- Ships	Director	Stelco Board Tenure	Principal Affiliation	Other Financial Directorships
4	R. A. Laidlaw	1952- 1968	Chm., Nat. Trust and Sec.-Tres., Laidlaw Lumber	VP, Cda. Life Bank of Mtl. Central Cda. Invest.
5	G. R. Ball	1954- 1959	Pres., Bank of Montreal	VP, Royal Trust, Sun Life, Roy. Trust Realty, Royal/Liverpool Insce. Grp.
3	H. S. Foley	1964- 1968	VP, Bank of Mt. (since 1965) V-Chm. MacMillan- Bloedel (1960)	B. of Mtl. Calif. Great-West Life
6	H. Greville Smith	1959- 1974 (deceased)	Pres., Cdn. Intl. Invest. Trust (since 1960's) Previous Chm., Brinco	Bank of Montreal, Royal Trust Royal Insce. Grp. Royal/Ldn. & Lancashire Grp. W./Brit. Amer. Grp.
6	G. Arnold Hart	1959- 1969*	Chm., Bank of Montreal (since 1959)	Chm., Bank of Ldn. & Mtl. Canadian Fund Cdn. Inv. Fund Sun Life, Royal/Ldn. & Lan. W/Brit. Amer.

*Hart resigned at the beginning of 1970 due to changes in the Bank Act. Stelco's J. P. Gordon was named to the board to replace him (and later became a Bank of Montreal director).

No. of Fin. Dir- Ships	Director	Stelco Board Tenure	Principal Affiliation	Other Financial Directorships
4	J. Doug. Gibson	1968- present	Independent fin. consultant, banker, economist (now Chm., Consumers Gas)	Imperial Life National Trust Cdn. Reinsce.
3	A. M. Campbell	1967- present	Chm., Sun Life	Royal Trust Royal Trust Mort.
4	K. A. White	1974- present	Pres., Royal Trust	BM-RT Realty Inv. Cdn. Leasebacks Commercial Union Assur.

Total 21

TABLE 3-2

NON-FINANCIAL STELCO DIRECTORS 1910-1975
WITH THREE OR MORE FINANCIAL DIRECTIONS

No. of Fin. Dir- Ships	Director	Stelco Board Tenure	Principal Affiliation	Financial Directorships
4	Chas.S. Wilcox	1910-1938	Chm., Stelco (head of a Stelco predecessor co.	Royal Bank National Trust Crown Life, Traders Bank
3	Cyrus A. Birge	1910-1929	Stelco dir., head of a predecessor co.	Hamilton Bank, Sovereign Fire Ins., Mercantile Trust
3	R. H. McMaster (son of Wm. McMaster of MRM)	1914-1961	mgr., Mt. Rolling Mills, pres. Stelco	Bank of Montreal Royal Trust Sun Life
4	Rt. Hon. A.B. Purvis	1939-1941	Pres., C.I.L.	Bank of Montreal Sun life, Liverpool & Idn. & Globe Insce Cdn. Invest. Fund
7	C. A. Dunning	1940-1958	Pres., Ogilvie Flour Mills	Bank of Mtl., Cdn. Invest. Fund, Globe Indemnity Liverpool-Manitoba Assur. Royal Trust Royal-Liverpool Ins. Sun Life

No. of Fin. Dir- Ships	Director	Stelco Board Tenure	Principal Affiliation	Financial Directorships
6	W.K. Whiteford	1950-1951	Chm., BA Oil*	Bank of N.S. National Trust Canada Life Mercantile Trust Chartered Trust Mellon Nat. Bank
6	L. G. Rolland	1963- present	Pres., Rolland Paper	Bank of Mtl. Royal Trust Standard Life Cdn. Invest. Fund Canadian Fund Munich Reinsce.
3	J. D. Campbell	1965-1968	Pres., Cdn. Westinghouse	Tor.-Dom. Bank Royal Trust Cdn. Bank of Comm. (1958-60)
3	D. R. McMaster (son of A.R.)	1972- present	law partner McMaster, Meighen, etc.	Bank of Montreal Royal Trust Standard Life
<hr/>				
Total: 9				

*predecessor company of Gulf Oil Canada. J. McAfee of Gulf Canada sat on Stelco board 1973-1975 until his appointment to Gulf U.S.A. McAfee had only one financial directorship, Bank of Nova Scotia. However, over time, other Stelco directors have sat on the board of Gulf Canada and earlier, B.A. Oil. To be discussed in another chapter.

Together, those of the economic elite who are financial executives and those of other corporations with financial directorships, establish important relationships between the financial institutions and industrial corporations. Financial executives representing financial institutions such as banks, through their seats on the Stelco board, create an avenue for input directly into the policy- and decision-making organs of the corporation; their directorships also allow the financial institution direct access to inside information on corporate operations, planning, and financial wellbeing, so vital to further decisions to invest in that corporation or advance more credit.

Similarly, directors from industrial corporations such as the Stelco officers who sit on the boards of financial institutions become better attuned to the financial climate in which they operate, although it is doubtful if they gain as much information about the bank's operations as the banks do about theirs, for as Newman (1975: 98) points out, bankers are a secretive lot. Nevertheless, as he also observes (:110), being named to the board of a bank marks the apex of corporate success for Canadian executives, and although boards have apparently never reversed important bank policy decisions, corporate directors bring important business as well as information, and an executive sitting on a bank board virtually guarantees that a loan will be forthcoming when his corporation needs it (:115).

The bank directorship (along with ownership connections) helps cement relations among interest-group members, and bank directors "are drawn from the corporate clusters interconnected with each of the banks." (:105). In addition to producing companies, such clusters include, in the inner circle surrounding the bank, special relationships with trust companies (:110), including minority ownership (the Bank Act forbids a bank having more than a 10% interest), and interlocks with insurance companies (:105).

Both Newman (1975) and Park and Park (1973) have gathered data for bank-trust-insurance interconnections which show a fairly stable pattern of interest-group relations, as evidenced by interlocks between the late 1950's and the spring of 1975. These may be used as the basis for assessing the continuity of financial institution interlocks on the Stelco board from 1910. Newman notes (:119) that although bank business is competitive, banks appear not to actively "poach" on one another's corporate territory, since transitions made from corporate accounts with one bank to another are, when they do occur, gradual and usually based on personal friendship. Corporations, on the other hand, "sometimes play banks off against each other to get the best deal possible," (:119), resulting in the largest, aggressive corporations often having directors on more than one bank board. Conversely, more than one bank may influence an insurance company as evidenced by the presence on the board of representatives of more than one

bank, indicating either that the insurance company is relatively small and weak, and is open to the interpenetration of several banks, neither of which may be totally dominant; or, as in the case of the largest Canadian insurance company, Sun Life, influence may be shared by two banks (the two top banks, the Royal and the Montreal in this case) due to the dominance of the insurance company. Whatever the reason, insurance companies do not fit as neatly into air-tight interest group compartments in terms of interlocks as do the trust companies. Park and Park for the late 1950's and Newman for the 1970's found the following relationships.

The Royal Trust was within the Bank of Montreal orbit, as was Standard Life and Sun Life (Montreal influence shared with Royal Bank). Newman also found two interlocks each between Confederation Life and the Bank of Montreal and the Imperial-Commerce; earlier, Park and Park found that the Toronto-Dominion, Imperial, Commerce, Royal and Montreal banks all interpenetrated Confederation, but the Imperial had more interlocking. Newman found two interlocks between Crown Life and the Montreal, but three between it and the Nova Scotia. Imperial Life now has two interlocks with the Montreal, and one each with the Imperial-Commerce and Nova Scotia; during the 1950's there were two interlocks each with the Commerce and Imperial Banks, and one with the T-D.

Within the Royal Bank orbit during both periods is Montreal Trust. The Royal shares influence in Sun Life, as

noted, with the Bank of Montreal, and in Canada Life, with the Imperial-Commerce. Earlier, Park and Park found five interlocks between Canada Life and the Bank of Nova Scotia, four between it and the Commerce, and two each with the T-D and Royal.

The Canadian Imperial Bank of Commerce is and has been connected with the National Trust, although earlier, there was some penetration by T-D and N.S. There is some interlocking between the Imperial-Commerce and Sun Life, and influence in Manufacturers Life is shared with the T-D Bank. During the earlier period, Manufacturers interlocked only with the Commerce. As noted before, influence in Canada Life and Confederation Life is shared with the Royal Bank and the Bank of Montreal respectively.

The Toronto-Dominion Bank and Canada Permanent Trust are related at present, and during the earlier period, the T-D had just begun to exert influence there. The only insurance company now in the T-D orbit is Manufacturers Life, although influence is, as noted, shared with the Imperial-Commerce.

The Bank of Nova Scotia has some influence in Canada Permanent and has three interlocks with Crown Life (compared to the Bank of Montreal's two), and also is interlocked with Mutual Life. Park and Park reported earlier that Eastern Trust was influenced by the Nova Scotia.¹⁹

Although it appears that coalitions have formed around life insurance companies and that spheres of interest have changed, relationships between banks and trust companies are stable enough to use as a basis for comparison with data gathered on the financial institutions represented on the Stelco board between 1910 and 1975. Bearing in mind that bank influence over insurance companies varies, insurance interlocks represented through the Stelco board may be added to the main interest groups and then compared when shifted to other groups, in order to determine where the dominant interest has been over time. Further weight may be added to this analysis by noting the institutional shareholdings of trust companies and insurance companies as of 1973²⁰, although this information will be covered in detail in the next section. Unfortunately, no information was available on bank holdings in Stelco, so the shareholding information presented here is incomplete.

TABLE 3-3

BANK INTEREST-GROUP CONTINUITY ON STELCO BOARD

1910-1975 - DIRECTORIAL INTERLOCKS

*shared influence

Bank of Montreal Interest-Group

<u>Institution</u>	<u>No. of Interlocks</u>	<u>Dates on Board</u>	<u>1973 Shareholdings</u>
Bank of Montreal	13	1910 to present	unknown
Royal Trust	10	1914 to present	126,800
Sun Life* (Royal Bank)	9	1910 to present	64,000
Standard Life	2	1962 to present	27,350
Imperial Life	2	1910; 1968-present	19,000
Total	36		
(if other shared interests included:)			
Crown Life	-	-	11,500
Confed. Life	1	1910-1919	26,250
Potential Total	37	Total Potential Shareholdings	274,900

Royal Bank Interest-Group

Royal Bank	7	1910-present	unknown
Montreal Trust	6	1910-1963/4 (2 gaps)	83,400
Sun Life* (B of Mt.)	2	as noted	64,000
Total	22		
(if other shared interests included:)			
Canada Life	5	1910-1973 (2 gaps)	39,500
Potential Total	27	Potential Shareholdings	186,900

Canadian Imperial Bank of Commerce Interest-Group

<u>Institution</u>	<u>No. of Interlocks</u>	<u>Dates on Board</u>	<u>1973 Shareholdings</u>
Imperial-Commerce	3	1919-present (1 gap)	unknown
National Trust	6	1910-present (1 gap)	38,000
Total	<u>9</u>		
(if other shared interests included:)			
Manufacturers Life	3	1910-present (1 gap)	80,000
Canada Life	5	as noted	39,500
Confederation Life	1	as noted	26,250
Potential Tot.	<u>18</u>	Potential Shareholdings	<u>183,750</u>

Toronto-Dominion Bank Interest-Group

T-D Bank	2	(1913-1944 (Dom.Bank) (1953-1968 (T-D Bank)	unknown
Cda. Permanent Trust	1	1920-1944	85,500
Total	<u>3</u>		
(if other shared interests included:)			
Manufacturers Life	3	as noted	80,000
Potential Total	<u>6</u>	Potential Shareholdings	<u>165,500</u>

Bank of Nova Scotia Interest-Group

Bank of N.S.	3	1950=1974	unknown
Mutual Life	2	1937-1963/4	30,000
Total	<u>5</u>		
(if other shared interests included:)			
Canada Permanent	1	as noted	85,500
Crown Life	1	as noted	11,500
Potential Total	<u>7</u>	Potential Shareholdings	<u>127,000</u>

Additional information on directors' interlocks for all financial institutions has already been summarized by director in Tables 1 and 2, and information on interlocks with directors who sit on the boards of other institutional shareholdings appears in Chapter 5.

There are several significant points which are highlighted by the preceding table. First, all five dominant chartered banks have been represented on the Stelco board over time, although not all have been to the same degree, either in terms of numbers of directors or time.

Newman (:96) ranks the five top Canadian chartered banks in order of asset size as follows: Royal Bank, Imperial-Commerce, Bank of Montreal, Bank of Nova Scotia, Toronto-Dominion Bank. This rank ordering corresponds with Clement's (1975: 400), as at year end 1971. Therefore, it is significant for the case of Stelco that when the interest-groups centering around these five banks are arranged in descending order of importance in terms of numbers of interlocks, they do not correspond to relative size. Rather, their ordering appears to conform with a pattern suggesting that certain configurations of interests (namely Royal Bank and Bank of Montreal groups) have remained a stable and more important source of influence in Stelco than others'. The second conclusion which may be drawn, thus, is that two bank interest groups have been dominant over time in terms of density of interlocks and continuity: these are, in order of their

dominance, the Bank of Montreal and the Royal Bank. It can be seen that even by rearranging insurance companies into other interest groups which may also influence them, the pattern still holds. The Imperial-Commerce, Toronto-Dominion and Nova Scotia banks are, in descending order, less pervasive a source of influence, especially when available institutional shareholding information is taken into account.

The 1973 board, which was the board analysed intensively as a base-point in other chapters, also gives an indication of the extent and nature of interlocking at one point in time. The nucleus of the Bank of Montreal interest-group is represented through interlocks on the 1973 board: Royal Trust (two directors); Sun Life (two directors, including Stelco's board chairman V. W. Scully), Standard Life (two directors, including D. R. McMaster, whose predecessors back to William McMaster of the Montreal Rolling Mills have been connected with the Bank of Montreal); and the Bank of Montreal (three directors, including D. R. McMaster and J. P. Gordon, Stelco's president.) (The Montreal's president, G. A. Hart, had already resigned due to Bank Act changes). Moreover, A. M. Campbell, the chairman of Sun Life, also sits on the board of Royal Trust, and of the three who sit on the board of the Bank of Montreal, D. R. McMaster and L. G. Rolland also sit on the board of Standard Life. Virtually every Stelco executive officer has sat on one or other of the Bank of Montreal interest group boards since 1910.

This extent of interlocking, and representation by the entire nucleus, is not present for other interest-groups: although two Stelco directors sit on the board of National Trust, and two others sit on the board of the Imperial-Commerce, no Stelco officer sits on either of these boards; two Stelco directors who sat on the board of the Bank of Nova Scotia, McAfee of Gulf Oil Canada, and Browne of Moore Corporation, are both affiliated with companies who, according to Newman (1975: 93-94), are corporate clients of the Bank of Nova Scotia, and no other element of that interest group is represented. McAfee was on the Stelco board only for a brief period of time.

The third point of significance is that both the Bank of Montreal and Royal Bank played a part in the early history of Stelco, and much of the concentration in the presence of the Royal occurs in the early period, when Sir Herbert Holt was involved with Aitken and the Montreal Rolling Mills, and was for a time a Stelco director. Both the Montreal and the Royal have had important connections with British capital, including the Royal's with the Beaverbrook (Aitken) interests (Park and Park 1973: 101). (According to Naylor (1975a: 98), it was Aitken's acting as agent which allowed Royal Bank's predecessor bank to take over the Commercial Bank of Windsor in 1902 in 1911, complementarity in the Royal's and Montreal's operations prompted rumours of their merger).

Thus, it can be concluded that the Bank of Montreal

(and to a lesser extent, the Royal Bank) has been a historically important influence on Stelco's financial wellbeing and an important contact for Stelco with other interests. In Chapter 5, other interlocks over time between the Stelco board and other industrial companies will also be analysed in terms of their linkages with these interest groups, and a pattern will be seen to emerge from the "tangled web" of relations.

2. Who Owns Stelco?

In chapters one and two, in discounting the "managerial revolution" thesis which suggested the separation of ownership from control, and in assessing the validity of the theory of financial control, it was suggested that the tendency towards more and more dispersion of shareholdings means that a substantial though still minority holding would be sufficient to maintain control or influence corporate policy. Moreover, when the trend noted by Fitch and Oppenheimer (1960) towards increasing institutional shareholdings since the 1950's is taken into account, the individual shareholder fades into the background even more decisively, and investment trusts, mutual funds, insurance companies, and trustees come more sharply into focus as forces which must have some influence on corporations. The two trends must be understood as complementary ones in the dynamics of establishing and maintaining control over corporations: not only the qualitative

differences which accompany quantitative differences in the mass of small, ordinary shareholders' holdings as opposed to the small number of individuals who hold large blocks of stock, but also the qualitative difference implied between large individual shareholders and the institutional investors. The first reflects the skewed nature of the distribution of wealth in the population; the second reflects the shift to the institutionalization of wealth, and with it, power, though not necessarily to the detriment of wealthy individuals--certainly not to those who remain in the shadows of anonymity behind the institutions.

The purpose of this section is to discuss changes over time in the character of shareholdings in Stelco, notably shifts which appear to point to the steadily increasing importance of large blocks of institutional shares, and ending with an analysis of the major (known) institutional shareholders since the 1960's. A discussion of interlocks among institutional shareholders and between these and the Stelco board, which enhance the potential power of financial institutions, and how they may affect the internal financial dynamics of Stelco will be reserved for the next and last sections of the chapter respectively.

Stelco was, at the time of its incorporation, capitalized at 100,000 preferred and 150,000 common shares--179,963 in total were issued. The number of shareholders was not recorded in annual reports published during this decade

and the 1920 decade. The capital structure, as will be discussed in detail in the last section, has tended to remain static for fairly long periods. The 1910 capital structure was changed in 1928 to 400,000 preferred (par value set at \$25) and 600,000 ordinary (no par value); shareholders were given four new for one old share, and 719,852 shares were issued. In their 1931 annual report, Stelco noted that the number of preferred and ordinary shareholders was 8,355, as compared with 4,682 five years earlier (1926); from this information it was possible to calculate that in 1926 the average holding was 38 shares; in 1931 it was calculated to be 86. In 1935, for the first time, the annual report listed the number of shareholders and, in 1937, began noting both the average holding and the percentage of shareholders with 100 shares or less.²¹ During the 1930's decade, the average number of shareholders was 8,361 and the average holding 80 shares; 88% of the shareholders between 1930 and 1940 held 100 shares or less, and 92% of the shares were held by Canadian residents. Although, as will be shown below, the average holding increased, according to Stelco up to and including 1949 (the last year the figure was published) those holding 100 shares or less still averaged about 80%.

TABLE 3-4

AVERAGE NUMBER OF SHAREHOLDERS AND AVERAGE
SHAREHOLDING FOR EACH DECADE, 1926-1975

1926 (information for complete decade, and for 1910-1919
 unavailable)

	<u>Total Number of Shareholders</u>	<u>Average Shareholding</u>
	4,682 (ord. & pref.)	38 shares
<u>1930's decade</u>	8,361 "	80
<u>1940's decade</u>	8,317 "	86
<u>1950's decade</u>	12,040 (common from 1953)	294
<u>1960's decade</u>	38,821 (common)	463
1970-1975	42,714 (changed to class A & B, 1974)	571

In 1910, as noted, there were 179,963 shares issued; by the post-war period this had increased to three million (by the early 1950's), and to 20 million by 1962 (the year stock was split, four for one); in 1974 there was another recapitalization, reinstating the existence of two classes of shares,²² and authorizing the issue of 35 million of each, but the number of shares issued remained around 24.5 million. Thus, the magnitude of the increase in capitalization has been enormous, enormous, and less so, the increase in the average shareholding, whereas the number of shareholders has not increased to the same degree. The number of shares issued in the 1970's was about 200 times greater than the 1910 issue,

and the average shareholding increased twenty times, whereas the number of shareholders increased only ten times. It would appear, therefore, that the trend towards dispersion of shareholding has been counterbalanced by a trend towards concentration, disguised by the mathematical artifact of simple averaging. The changes in average shareholdings by decade will become more significant when placed in the context of the trend toward increasing institutional shareholding which corresponds to the dramatic post-war leap upwards in the average.

Fitch and Oppenheimer (:62) note that institutional stock-holding in the U.S. increased from 12% in 1949 to 28% in 1969. During the same period in the case of Stelco, the above figures reveal that the average shareholding, relatively stable between the 1920's and the 1940's, suddenly tripled between the 1940's and 1950's decade, and then almost doubled between the 1950's and 1960's decade.

An important source of corporate influence has always been the large individual shareholder--the importance for the Stelco merger of Hamilton Iron and Steel shareholders Wood, Milne and Southam has already been noted, as was that of Max Aitken for the newly created company. The company, in its 1975 and 1976 information circulars sent to shareholders prior to each of those annual meetings, made clear that to their knowledge no person, directly or indirectly, held beneficial ownership of equity carrying more than 10% of the voting

rights, and then proceeded to list the shareholdings of all of its directors. As at February, 1975 and 1976, it was shown that the largest block of shares held by a director belonged to D. R. McMaster (Q.C.), senior partner in a well-known corporate law firm, son of a former Stelco president, and grandson of the head of a Stelco predecessor company. McMaster held 53,446 shares, which would be worth, at the current average of \$30 a share, \$1.6 million. The next largest directorial holding was that of H. M. Griffith, Chairman of Stelco's board, who in 1976 held 10,000 shares (up from 1975 by almost 3,000 shares) worth about \$300,000. Other Stelco directors ranged from 5,200 (held by Stelco's president J. P. Gordon) to a low of 100 shares held by five other directors (while one, Senator Ernest Manning, held only 10 shares). In total, these 15 directors held less than one per cent of the shares issued in 1975.

A September, 1974 debenture issue indicated that Blake, Cassels and Graydon, the law firm with whom Stelco does business (Graydon was a director in 1969 and his partner A. J. MacIntosh now sits on the Stelco board) held 7,925 shares of Stelco stock. MacIntosh personally owned only 250 shares, according to the 1975 information circular.

However, percentages can be a misleading method of gauging relative importance of some individual shareholdings. While it is true that D. R. McMaster's holdings represent only 0.22% of the total outstanding shares in 1975, how many

individuals hold over a million dollars' worth of shares in one company alone? The answer, after examining the Stelco shareholder records maintained by Montreal Trust,²³ is that the vast majority of Stelco's shareholders own only a few shares, some only one, the usual holding being between 25 and 100 shares, and more rare, except for private estate holdings, is the shareholder who has between 100 and 500 shares. Private estate holdings tend to have between 1,000 and 3,000 shares, and any holding higher than that amount tends to be in the hands of a corporation or a broker.

An interesting example of how individual holdings may be disguised was found in examining account cards beginning with the letter "A": Robert D. Armstrong and F. Douglas Gibson as of 1971 held in trust 1,000 shares under the name of Armstrong, President of Rio Algom Mines. An example at the institutional level is that of Allendale Mutual Insurance, 20,000 shares held by Royal Trust; or American Home Assurance Company, 11,100 shares held by trustee International Trust. Arva Investments Ltd. held 6,000 shares care of R. W. Stevens of Blake, Cassels and Graydon (Stelco's law firm). And so on. These examples highlight a methodological problem pointed out by Zeitlin (1974: 1086): the inaccessibility of data confounded by the inability to establish the actual or "beneficial" owners of shares. He notes the various devices which have been discussed in the literature for disguising beneficial ownership: voting trusts, foundations, holding companies,

"street names," and the use of "nominees"--brokers, dealers, and bank trust departments--who are listed as the owners in meeting formal reporting requirements. Not only does the practice of using nominees conceal beneficial ownership by individuals but may also conceal controlling interests which lie behind such controllers as banks, and which may ultimately lead to the "power behind the power."

The problem was again brought frustratingly to the forefront in a telephone conversation with W. C. Chick, the vice-president and treasurer of Stelco, who was responding to a query regarding the availability of a breakdown of shareholders by categories such as banks, trust companies, foreign holders, and so on. He stated that there is no legal requirement to report shareholdings to government by category, nor does the company have any such analysis due to the inaccuracies involved in establishing who beneficial owners are.

"Nominee" accounts held by trust companies or by brokers may or may not be voted by the nominee-trustees send back proxies which are mailed in their name and the proxies are tallied up without (apparently) knowing what interests are actually represented by the votes. Curiously, although this Stelco officer professed to have no knowledge of how many of these votes would represent the financial institutions themselves, he stated that Montreal Trust alerted them to any significant changes and that Stelco was more interested in "trends"--the accumulation by any one group. He did not venture to say how,

since Stelco was so apparently ill informed, they could establish who these groups represented in order to assess a potential threat. It can be seen that the "nominee" device also offers a convenient escape-hatch for corporations who do not wish to give answers to politically charged questions. However, as was pointed out by Fitch and Oppenheimer, trust departments have differing policies towards their large and small accounts and it seems absurd to suggest that they would vote shares contrary to the wishes of large holders--or that these interests would not be known to the corporation concerned.

Before proceeding to an analysis of the major known institutional shareholders of Stelco since the 1960's, one further item will illustrate the lack of significance of the masses of small shareholders to corporations. While it is true that shareholder good will and the reputation of the company as being "concerned" and "responsible" in its dealings with shareholders is vital if it is to draw on as large a population base as possible for share capital, at the same time that population has virtually no input into the organization beyond mailing in proxies. Those who "count" are usually represented on the board or through contacts and major decisions are made in consultation with and subject to the veto of the board.²⁴ The fact that the course of action and major policies have already been established becomes apparent when the ritual of the annual shareholders' meeting

is observed.

In the spring of 1976, such a meeting was observed, in attendance with less than two hundred others of the more than 38,000 shareholders. The meeting began at 10:30 a.m. with a long speech by J. P. Gordon, at the end of which he announced the retirement of H. M. Griffith, the chairman, and suggested himself as the new chairman, naming as his successor to the presidency J. D. Allan, the executive vice-president. Following a long round of applause which resounded through the Toronto-Dominion Centre's spacious cinema auditorium, motions were made, seconded, and voted upon to accept the consolidated financial statements, a few brief questions from the floor were just as briefly answered, and from this point the pace noticeably increased. The motions put forward to elect the new board (there were, predictably, no nominations other than the existing board) and the auditors were proposed mechanically by various persons known by name to J. P. Gordon (one of whom was a Mr. Vallance, probably related to the Vallance-Brown company founders and to a number of Vallances in Burlington, who own individually from 100 shares to a high of 18,750). Another person also addressed by name was called upon to move for adjournment, and the meeting was over by 11:20 a.m. scarcely more than 45 minutes after it had begun. The annual ritual was over for another year. Later that same day, a management circular reached all company departments, advising personnel of the executive changes, a

feat requiring at least two days prior preparation in a large organization.

The following table indicates the relative importance of insitutional shareholders in Stelco and the other two large steel producers, Algoma and Dofasco, since 1961:

TABLE 3-5
INSTITUTIONAL SHAREHOLDINGS IN CANADIAN STEEL COMPANIES
(SELECTED YEARS)²⁵

<u>Company</u>	<u>Year Ended</u>	<u>Total Shares Issued</u>	<u>Total Instit. Holdings</u>	<u>% of Total</u>
Stelco	1973	24,639,399	2,515,921	10.2
	1968	24,330,347	1,654,349	6.8
	1961	5,061,394	353,528	6.9
Dofasco	1973	15,737,000(common)	2,406,370	15.3
	1968	15,449,790 "	1,800,612	11.7
	1961	not available	408,678	n.a.
Algoma*	1973	11,635,128 (common)	917,185	7.9
	1968	11,608,434 "	710,890	6.1
	1961	not available	499,555	n.a.

*owned 25% by Mannesmann at that time

The general tendency between the 1960's and early 1970's is an increase in institutional shareholdings as a percentage of the total number of shares issued by the three major Canadian steel producers. What these figures suggest for the potential of exercising some form of control over corporations must be assessed, as it is clear not only that the increase foreshadows future trends but also that, as

there appear to be no other groups which collectively control as many shares, the possibility of coalition formation either for control of one company or for co-ordination of the steel industry as a whole must be taken into account.

The traditional counter-argument to the potential for institutional shareholder intervention is the "Wall Street rule"--like other shareholders, institutions who did not like management policy could sell. But, as Fitch and Oppenheimer (1970) point out, such a course of action may be expensive. David Rockefeller, in 1958, appeared to see it the same way:

"I suspect that such investors will become more demanding of management as time moves on--that as holdings expand, institutions...will feel obliged to take more active interest in seeing that corporations do indeed have good management. That will be true especially if their holdings become so large that they cannot readily or quickly liquidate their investments...." (cited in Fitch and Oppenheimer, 1970: Part II: 62).

Fitch and Oppenheimer note that during the 1960's, financial institutions also took an active role in the creation of mergers in terms of credit and connections. Institutional shareholders not only represent the power of collective money in an organized form vis-a-vis management, but act as important go-betweens, linking organizations in which they hold substantial blocks of shares, and their activities must be understood not only in terms of checks on management policies and decisions internally but also in terms which transcend individual corporations and are related to the over-

all aims of financial capitalism. Thus, two important facts about insitutional shareholders are suggested: first, that large holders (or coalitions of holders) can and do overturn managements (Fitch and Oppenheimer: 67, citing a study by the University of Michigan Bureau of Business Research, note that management even by the late 1950's could be defeated about 30 per cent of the time in proxy contests); and second, that financial institutions bind corporations into vast networks of interconnected interests, and that shareholding, along with dependencies created through long-term debt, merely adds the cement to the structure of class and private property, by determining the shape specific elements in that structure will take in the context of the whole. To argue that financial institutions hold corporate shares merely to make money through dividends or through appreciation in stock values is to miss the main point of financial activity--control, coordination, and expansion of empires.

For such a financial institution to follow the "Wall Street rule" would not only be costly (for example, Sun Life in 1959 held 49,975 Stelco shares worth a pre-stock-split price of \$4.3 million;²⁶ if the price per share dropped by only two dollars, they would lose almost \$100,000), but would probably violate a norm, since the "dumping" of such a large number of shares, especially in a period when purchases of equity are sluggish,²⁷ might have a snowballing effect on the price of other shares. Such a development might be temporarily

beneficial to speculators but detrimental to the overall stability of the corporate system. But, as Fitch and Oppenheimer (II:67) add, partial liquidation of a holding in order to exert pressure on a recalcitrant management is another story.

The important point is that institutional investors want and need to "remain in the game" because industrial corporations provide needed outlets for capital accumulation seeking high returns. Indications are that they may decrease or increase holdings in individual corporations depending on relative advantage in a particular period (for example, if one steel company appears to have greater growth potential than another, they may liquidate some holdings if market conditions are favourable in order to pick up increased holdings in the high-growth company, or may "hedge their bets" by investing more or less equally in all three), and institutional interest in particular corporations appears to be relatively stable over time. An exception appears to be when an institutional investor changes interest group following its take-over; or when the corporation in which it invests comes under the dominance of a different interest group. These possible interpretations may be borne in mind in examining the data assembled on large institutional shareholders in the three steel companies since 1961.

TABLE 3-6

TOP INSTITUTIONAL SHAREHOLDERS IN STEICO - SELECTED YEARS

(Based on Those Holding 100,000 or More Shares, 1973, and
Compared with Their Holdings in Dofasco and Algoma)

Institution	1973	<u>Stelco</u>			<u>Dofasco</u>			<u>Algoma</u>	
		1968	1961	1973	1968	1961	1973	1968	1961
Investors GGrowth	339,087	217,637	17,000	358,368	333,380	26,105	-	61,100	26,000
Investors Mutual	332,379	297,229	64,971	401,352	339,552	113,188	133,710	158,710	66,630
Investors Trust Pension	125,000	48,648	1,112	120,000	33,180	1,625	31,075	33,500	1,500
Investors Retirement	123,450	* not listed		118,000	not listed		-	not listed	
Royal Trust	126,800	183,750	8,900	136,300	153,800	-	-	-	10,700
Cdn. Genl. Invests.	125,000	55,300	24,745	100,000	194,700	26,805	220,000	220,000	34,975
United Accumul.	120,000	-	8,500	130,000	-	9,000	-	-	8,000
Cdn. Invest.	100,000	150,000	50,000+ (30,000	135,000	89,000	15,000	-	-	-

Page-Hersey**)

*established 1968 to takeover individual & group pension business from Investor's Group

**takeover by Stelco in 1964.

Four of these top eight institutional shareholders in Stelco in 1973 belong to the Investors Group, a syndicate which was originally U.S. controlled but passed to Canadian interests in 1957--Dominion Securities, Webb and Knapp, and the Bank of Commerce (Newman 1975: 78). By 1970, Paul Desmarais' Power Corporation controlled Investors Group, although Desmarais had had some interest in it since 1965 after he acquired Imperial Life. As can be seen from the preceding table, Investors Growth Fund, Investors Mutual, and Investors Trust Pooled Pension in 1961 all had relatively small holdings in the three steel companies, with the exception of a holding of over 100,000 shares in Dofasco by Investors Mutual. The examination of the shareholder records at Montreal Trust revealed an abrupt leap upwards in the Stelco holdings of Investors Mutual between 1962 and 1963, from 65,121 to 260,484 shares. In addition to the holdings noted in the Financial Post Survey of Funds, the examination of the records revealed that Investors International, another Investors Group company, and Investors Syndicate, also Investors Group, had acquired 13,700 and 27,350 additional shares respectively.

Steel has proved to be the source of substantial investments for the entire group of companies related to Power Corporation, and a clearer picture of their interests may be obtained by detailing them separately: As Desmarais' controlling interest in Power dates only from 1970, and

Desmarais' control of Imperial Life, Great-West Life, and Montreal Trust from 1964, 1969, and 1973 respectively, (Newman: Ch. 2) a tabulation of Power-related holdings can only legitimately be made for the year ended 1973. It was at this time that the hitherto separately controlled interests came together in a concrete form, through ownership, but as will be shown in the next section, many of them had already been linked through directorial interlocks.

TABLE 3-7

1973 HOLDINGS OF STELCO STOCK BY POWER CORP. COMPANIES

(with comparisons for other steel companies)

		(Dofasco)	(Algoma)
Investors Group co's (Tot.)	- 919,916	(997,720)	(164,785)
Montreal Trust	- 83,400	(64,800)	-
Provident Mutual*	- 34,205	(20,150)	-
Great-West Life	- 20,000	(25,700)	-
Imperial Life	- 19,000	(8,000)	-
Provident Stock*	- 7,000	(8,000)	-
	1,083,521	(1,124,370)	(164,785)
Percentage of Total Stelco Stock:	4.4%	(7.1%)	(1.4%)

*Provident Stock Fund, Provident Mutual Fund both sponsored by Investors Group and managed by Investors Securities Management; Power-related directors sit on their boards; they are therefore considered as part of the Power group.

As can be seen, the Power Corporation group of companies holds rather large proportions of the shares in Stelco and Dofasco, considering the dispersion of shareholding even among individual institutional shareholders (it will be recalled the total held by all institutional shareholders in Stelco

for 1973 was just over 10%; in Dofasco, it was just over 15%). Thus, Power collectively controls roughly half of the shares held institutionally in both steel companies. Their holdings in Algoma, however, amount to considerably less than this, and could be related to financial difficulties Algoma has had throughout its history and to the instability in its controlling interests, a subject which will be developed in another chapter. The lack of Power interest in Algoma appears even more interesting when taken in the context of the recent acquisition of control by Canadian Pacific Investments, since as Newman notes (:80), Desmarais' financing group has included CP Investments and it was through his friendship with Crump, CPR's chairman in 1970 that he was able to arrange for CPI to buy a block of Investors Group stock which, once traded for some of his Consolidated-Bathurst and Northern and Central Gas shares, allowed him to control Investors (:78). This suggests that Desmarais' companies could have acquired more of an interest in Algoma.

Although there is no direct representation of Power Corporation on the Stelco board, as will be shown, there is both indirect representation as well as interlocking. Thus, the 4.4% total of all Power-related companies is not without significance as the largest single block; as Fitch and Oppenheimer (1970:I:100) pointed out, although five per cent is not enough to gain control, it is enough to "earn a say in matters vital to the interests of the holder." As Power

Corporation has within its control companies which are steel-using, as well as being connected through interlocks with the Simard interests in shipbuilding and other pursuits, it is not improbable that areas of concern in Stelco go beyond mere profitability. Such a block of holdings also becomes of potential significance when taken in context with other holdings linked by convergent interests, a subject which will be explored in the next section.

Early in 1976, in addition to the institutional shareholding reported in the Survey of Funds, an examination of brokerage accounts at Montreal Trust revealed that there were several large holdings there as well, most of them in the hands of resident, not foreign brokers. The transfer officer at Montreal Trust confirmed that these shares are for client accounts and may or may not be held in trust--that is, Montreal Trust at the request of the brokers forward proxy material (which may or may not be voted by the client) which is returned to the trust company. Hence it cannot be ascertained what proportion of these holdings may represent single blocks held in trust for groups or individuals, and what proportion represents the brokers' own portfolio investments. The following brokers were found to hold 30,000 or more shares:

Capital AICI	23,394,555
Bankmont & Co.	132,919
Bansco & Co.	206,433
Bay & Co.	47,785
Bayne & Co.	86,141
Brant Investment Ltd.	1,132,945
Gee & Co.	93,391

Gilbert Sec.	1,291,925
Gore & Co.	50,884
Lake & Co.	119,256
Longvale & Co.	202,567
Monius & Co.	172,000
Monray & Co.	483,000
Richardson Securities	33,089
Roycan & Co. (various funds)	549,309
Roytor & Co.	295,978
Vale & Co.	146,741

Few of these brokers are well known except Capital, Richardson, and Roycan. Wood Gundy, a well established and well known firm, held only a little over 9,000 shares, Bache & Co. a little over 2,000, Bongard Leslie 10,000, Merrill Lynch 15,000, and Nesbitt and Thomson, the Montreal investment dealers who were responsible for the creation of Power Corporation, about 5,000 shares. A. E. Ames & Co., who have for many years acted as underwriters for issues of Stelco debentures, held about 15,000 shares. In addition, in a separate section listing mainly U.S. brokers, the following houses held 30,000 or more shares:

Banloga & Cie	34,934
Grator & Co.	103,100
Mtl. City & District Trustees	32,000
Royal Trust Co. in Trust	323,476
Sicovan	77,986

The entry for Royal Trust appears to be in addition to that reported by Financial Post, which in the 1962 edition of the Survey of Funds was listed as a specialized investment fund for pooled pension trusts.

In Canada, trust companies are important institutional investors and, as Newman (1975:110) points out, important

bridges to the banks, not only owning shares in them and vice versa, but also deploying large trust assets (pension and estate funds) into corporate equity. The relationship is reinforced by interlocks to coordinate investment activity and vice versa, but as Fitch and Oppenheimer (1970: 100) put it, stock ownership "gives substance to ...interlocks"--and since banks (or their allies) own stock in corporations whose directors have been invited to sit on their boards, and corporations do not own stock in the banks (except for the minimal 2,500 share required by the Bank Act for corporate directors to be given a bank directorship²⁸), stock ownership, being an asymmetrical relationship, reinforces the financial nexus.

In Table 3-3 of this chapter, the shareholdings of the trust and insurance companies for 1973 were noted in connection with bank interest groups. These may now be summarized in the context here.

TABLE 3-8

THE TOP 15 TRUST AND INSURANCE COMPANY SHAREHOLDERS IN
STELCO - 1973

<u>Trust Companies</u>	<u>Shares</u>	<u>Insurance Companies</u>	<u>Shares</u>
Royal Trust	126,800	Manufacturers Life	80,000
Canada Perm. Trust	85,500	Sun Life	64,000
Montreal Trust	83,400	Canada Life	39,500
National Trust	38,000	Excelsior Life	36,500
Guaranty Trust	32,000	Mutual Life	30,000
		Standard Life	27,350
		Confederation Life	26,250
		Prudential	21,000
		Great-West Life	20,000
		Imperial Life	19,000

Royal Trust is the only one of the 15 which appears in Table VI as holding 100,000 or more shares. As noted earlier, Great-West Life and Imperial Life both belong to the Power Corporation related group of holdings. Since 1972, eleven of the fifteen have increased their shareholdings in Stelco, and eight of these have steadily increased since 1968. As noted before, Sun Life in 1959 held 49,955 shares, and since their holdings have increased to 64,000, their omission from the 1969 Survey of Funds must be an error. Great-West and Imperial Life were not listed in 1968, but since the 1973 edition (year end 1972), have remained at about the same level, as has Excelsior Life. Only one has declined--Royal Trust in 1968 held 183,750. The most dramatic increases in holdings since 1968 were Manufacturers Life (up from 2,000 shares), National Trust (up from 18,000), Guaranty Trust (up

from 10,700), Confederation Life (up from 5,000), and Prudential (up from 2,000). No information was listed in the 1972 Survey of Funds²⁹ for insurance companies, and although it was noted that National Trust had Stelco shares, the amount was not listed. Royal Trust at year end 1961 held only 8,900 shares (plus 6,800 of Page-Hersey, which, if held until Stelco took over that company in 1964, would have increased their Stelco holding); Canada Permanent held only 725 Stelco shares. Montreal Trust (which at that time had P.N. Thomson on its board), held 4,650 shares. No information was available on the others. It would, therefore, tentatively appear that the dramatic increase in trust and insurance company holdings has been since about the mid-1960's.

Although Algoma Steel is now controlled by Canadian Pacific Investments and CPI's parent, Canadian Pacific Ltd., is a corporate customer, according to Newman (1975:91-94) of the Royal Bank and the Bank of Montreal, none of the above trust or insurance companies belonging to the Montreal-Royal banking orbit hold shares in Algoma except Standard Life (35,700), which does not hold shares in Dofasco. In fact, the only other institutional investor on the above list of Stelco shareholders which also holds stock in Algoma is Manufacturers Life (97,000 shares). The others, with the exception of Guaranty Trust, Canada Permanent Trust, and Standard Life, all hold Dofasco shares as well, and in most cases hold them in roughly the same amounts as in Stelco. Those which hold more

in Stelco than Dofasco are exceptions. Montreal Trust (Power Corp.), Sun Life (Montreal-Royal banking orbit), and Excelsior Life all hold 20,000 more shares in Stelco than in Dofasco, and both National Trust (the Commerce orbit) and Imperial Life (Power Corp.; Montreal-Commerce influence) have roughly twice as many Stelco as Dofasco shares. Other than the relationships of these institutional investors to banking groups or to parent companies (Power Corp., for example, is a corporate client of both the Royal Bank and Bank of Montreal, according to Newman (:91-94), the main reason for democratically dividing investment portfolio between these two steel companies at the expense of Algoma appears to be a financial one--both Dofasco and Stelco have had a long history of financial stability and growth, whereas Algoma has been both financially unstable at various points in its history and has, as well, been under the control of various alliances. No information is available, but it could be that corporate investors have shifted to holding debt instruments--mortgages and bonds--as is suggested by the Financial Post (July 17, 1976) for the current period, as equity holdings become less lucrative. The debt situation of the three companies will be discussed in the last section.

In the light of the above information, it is understandable that Stelco, in its submission to the Bryce Commission,³⁰ would convey an ambivalent attitude towards institutional shareholders. In discussing the role of various

groups in providing checks and balances against the abuse of corporate power, they attempt to deal with the concern people express over the passivity of institutional investors by suggesting that, with their ability to make sophisticated appraisals of corporate policy, although they may not wish to take an active part in shareholder meetings, "If a crisis arose in the affairs of a large corporation, institutional shareholders might well act" because they may not readily be able to sell their shares in the "relatively thin Canadian stock market." Furthermore, these shareholders may only appear to be passive because during the post-war period, few corporate crises have been severe enough to lead to their intervention. But, in another passage, they assert that the institutionalization of savings translated into large blocks invested by institutions has had no effect on corporate management--presumably because corporations have done their job so successfully. This does not seem to deny the potential for institutional intervention. In fact, Chairman Bryce picks them up on this point in his question:

Bryce: "...in the paragraphs...about the passivity of institutional shareholders...you go on to say later that you have not yet seen what might happen in a crisis situation. Do you see any evidence that institutional investors are becoming more interested in being less passive?"

Gordon: "I think the answer to that question is Yes."

Gordon goes on to suggest that the "problem" is that they only send in proxies. The Chairman then suggests to him

that institutions have told him that they are not staffed to take a direct concern. He asks if Gordon sees evidence that institutional investors are becoming organized. Gordon avoids the issue by stating he believes they would like to participate more. The Chairman then leads Gordon: "If there is unanimity of views among the institutions, that would be pretty difficult?" Gordon agrees, and the Chairman immediately asks that the session be adjourned in order that they may reconvene that afternoon to hear another group. Stelco is "off the hook," the question was a "politically" charged one; as the following discussion will show, such a "unanimity" is not at all unlikely.

3. The Interlocking Directorate and the Financial Nexus

In 1961, according to the Financial Post Survey of Funds, the top shareholders in Stelco (with the exception of life insurance company and some trust pension funds which were not listed) were:

Canadian Investment fund	- 50,000 Stelco shares
	(+30,000 Page-Hersey)
(Commonwealth International)) totl
same mgmt. (Commonwealth Leverage	
Investors Growth Fund/) - 25,900
Mutual) - 81,971
Canada General Fund	- 24,745
Investors Grp. Cdn. Fund	- 35,000
Scudder Fund of Canada	- 37,000

Two of these funds are still among the dominant Stelco institutional shareholders, and a third is related.

Hence, these 1961 shareholders will also be discussed in the context of the interlocks among the institutions holding stock in Stelco and their relationship to the Stelco board, which is the purpose of this section.

Of the approximately 50 institutions holding stock in Stelco in 1961, 13 of these were highly interconnected through directorial interlocks and/or common investment management companies, and at least five were linked to the Stelco board directly (not including Royal Trust and Imperial Life, since it is unknown if these companies held Stelco shares at that time; but it is a fairly safe guess to suggest they did). Most of the interlocks occurred within two main groupings: those connected with Nesbitt, Thomson (Power Corp.), and those described by Park and Park (1973: 89) as the "Massachusetts-Meighen" investment trust interests. As will be shown, both of these groups are still dominant today and the extent of their connections appears to have increased. But first, the interlocks which were found to exist in 1961 will be discussed.

The Meighen-Matthews people linked together in 1961 seven investment funds which held steel stock, including one United Corps., which at that time held only Dofasco stock but has since risen to around the 100,000 share mark in Stelco in 1972. M. C. G. Meighen, T. R. Meighen, and A. B. Matthews were the directors linking the seven funds which controlled, in total, 45,945 shares. The funds linked were: North American Fund of Canada (M.C.G. Meighen and A. B. Matthews,

Vice President and director, respectively); Canada Trust Investment Fund (Maxwell Meighen, director); Canada General Fund Ltd. (M.C.G. Meighen, VP, and A. B. Matthews, VP); Economic Investment Trust (A.B. Matthews, Chairman); and all three were directors or officers of Canadian General Investments Ltd. and Third Canadian General Investment Trust. In addition, M.C.G. Meighen was a director on United Corporations, with C. L. Gundy, whose securities firm Wood Gundy, along with Dominion Securities and Matthews & Co. (A. B. Matthews' father's securities company) offered shares of Dominion and Anglo Investment Corporation, whose board interlocked with Canadian and Foreign Securities through the Jackmans. These latter two funds controlled a total of 7,500 shares. In addition, A. B. Matthews was linked, through his directorship in Economic Investment Trust, which had as one of its other directors W. A. Arbuckle, a prominent Montreal financier, to the Nesbitt, Thomson interests (Power Corp.), as Arbuckle also sat on two boards with Nesbitt and Thomson. These will be dealt with in turn.

The Meighen interests in the late 1950's were, according to Park and Park (1973: 89) controlled from Massachusetts, based on the Massachusetts Investors Trust and its associates including the Boston Fund, Century Shares Trust, and Massachusetts Growth Stock Fund. The Canadian connections were through Canada General Fund, and the Massachusetts interests were also connected to Canadian General Investments

and Third Canadian General Investment Fund, the latter of which held a substantial interest in Argus. Maxwell Meighen became a director of Argus Corporation and later, the Royal Bank. In addition to the three funds mentioned by Park and Park as connected with the Boston group, according to the 1962 Survey of Funds, North American Fund of Canada has as its sponsor Vance, Sanders & Co. of Boston, the same firm which sponsored Canada General Fund, and H. T. Vance was chairman of the latter fund's management firm, thus linking a fourth company into the same interest group.

Both the Meighens and Matthews are members of the economic elite through inherited status--Maxwell Meighen is the son of Arthur, (the Right Honourable), a former Prime Minister and director of Canadian Cellulose, Huron and Erie Mortgage, vice-president and director of Canada Trust. Canadian General Investments was founded by Maxwell Meighen's father in 1926 (Clement 1975: 263,319). Col. M. C. G. Meighen is now chairman of that firm and has also inherited his father's directorships in Huron and Erie and Canada Trust. As noted, he is on the board of Argus and the Royal Bank, and has, in addition, a number of other corporate directorships, including Algoma Steel.³¹ Maxwell Meighen's brother is Theodore R., not only involved in the investment funds noted above, but a law partner in Holden, Hutchison, Cliff, McMaster, Meighen and Minnion (later McMaster, Meighen, Minnion, et al.)³² The "McMaster" is D. R., son of A.R.,

former Stelco president. D. R. McMaster joined the Stelco board in 1962. A. M. Minnion, McMaster's other partner, is on the board of another current institutional investor in Stelco, MPG.

A. Bruce Matthews' father was the Hon. Albert Matthews, a Lieutenant-Governor of Ontario (1937) and president of Excelsior Life, director of Toronto General Trust, and senior partner, Matthews & Co., securities dealers. A. B. Matthews is chairman of Excelsior Life and of Canada Permanent Mortgage, as well as being Executive Vice-President of Argus Corporation.³³ Thus, Matthews is not only connected with the Meighen family through interests in the above investment funds, but also through involvement in Argus Corporation. He, like the Meighens, is also linked indirectly to the Stelco board, since his brother-in-law G. P. Osler. The Oslers were prominent on the Stelco board (F. G., son of Sir Edward, on the board 1933-1949, and Glyn Osler, Sir Edmund's nephew, 1937-1949).³⁴

H. R. and H.N.R. Jackman (father and son respectively), were in 1961 involved in Canadian and Foreign Securities, the father as vice-president, the son as director; H.R. was also president of Dominion and Anglo Investment Corp., and his son was secretary. As was noted, Matthews and Co., A. B. Matthews' father's company, was one of the latter fund's distributors, along with Wood Gundy, thus linking the Jackmans to the Meighens (through United Corporations) as well.

H. R. Jackman is now chairman of Canadian and Foreign and still president of Dominion and Anglo. He is also a director of Empire Life, Bank of Nova Scotia, and Canadian International Investment Trust. The latter company is represented on the Stelco board by H. Greville Smith, who was in 1965, president of Canadian International. Sir Denys Lowson, a British financier and director of Pacific Atlantic Canadian, another institutional shareholder of Stelco, is also a director of Canadian International. Jackman's son, H.N.R., is chairman of Empire Life and vice-chairman of Dominion of Canada General Insurance Company (while his father is a director). Father and son come together on these boards as well, then. In addition, H.N.R. is currently a director of Economic Investment Trust,³⁵ of which A. B. Matthews was chairman and W. A. Arbuckle a director. The Jackman people (and the funds on which they are directors) are thus also linked with the Thomson and Nesbitt funds on which Arbuckle also sits: All Canadian Dividend Fund (Arbuckle as chairman in 1961; no Stelco shares at that time, but between 21,000 and 29,000 held in Algoma and Dofasco); and Great Britain and Canada Investment Corp.

Arbuckle, who was also chairman of another Stelco institutional investor, Dominion Scottish Investments, was an esteemed member of the old Montreal financial elite and, according to Newman (1975: 77) had rebuffed Desmarais when as an upstart thrusting his way into the inner circles of

power, (and then in control of Power Corp.) he had asked Arbuckle for a loan in 1970 to raise his holdings in Consolidated-Bathurst. Arbuckle is now (Clement 1975: 317) associated with the Bank of Montreal, CP, Price Co., and Petrofina. He is also chairman of another 1973 Stelco institutional shareholder, Standard Life, whose holdings have already been listed.

P. N. Thomson and A. D. Nesbitt, operating from their Montreal investment firm, had established Power Corp. in 1925; in 1961, Nesbitt was president, Thomson VP and Managing Director, and Arbuckle was a director.³⁶ Thomson was on the board of All-Canadian Dividend, and Thomson on the board of Montreal Trust Co. Consolidated Investment Plan and Montreal Trust Multiple Pension Trust in 1961. Atchison and Curry, two Power Corp. men, sat on the boards of Investors Growth Fund and its affiliate, Investors Mutual. Nesbitt and Thomson, as noted, also sat on the board of Great Britain and Canada Investment Corp. Together, these directors' linking of five separate funds, plus Arbuckle's linkages, bring the total number of shares to 100,021, by far the largest group interlocked in 1961. In addition, A. D. Nesbitt, whose father founded Power is the son-in-law of D. R. McMaster (Clement, 1975: 310) who, as noted, was on the Stelco board in 1962.

There were, as well, other links to the Stelco board from institutional investors. Frederick Johnson, (Stelco board 1947-1967), and an executive of Bell Telephone as well

as (from 1955) a director of Sun Life and Royal Trust, a vice-president of Commonwealth International, and director of Commonwealth International Leverage, two funds under the same management and holding in total 25,900 shares of Stelco in 1961. Johnson was also a director of Canadian International Growth Fund, holding 2,000 shares only, but significantly perhaps, a non-resident owned fund whose shares were not offered in Canada; the sales agent was King Merritt & Co. of New York, and the fund's other directors included men from New York and Rotterdam.

Another significant interlock between an institutional investor and the Stelco board in 1961 was that of G. Arnold Hart, then president of the Bank of Montreal and a member of the Stelco board from 1959 to 1969. He was a director of Canadian Investment Fund, which held 50,000 shares of Stelco (and 30,000 shares of Page-Hersey). All of Hart's involvements in investment companies date from 1959; he was also interlocked with other Stelco directors in Canadian Fund, Sun Life, and the Royal/London and Lancashire and Western/British America insurance groups.

As will be shown, many of the investment groups dominant in 1961 also figure importantly in 1973, both in terms of interlocks among themselves and in terms of connections with the Stelco board. These interlocks, concretized by ownership of shares, cannot be dismissed as insignificant, despite Stelco's disclaimer to the Bryce Commission:

"The only interlocks of any possible significance,... would be those involving officers of financial institutions and the companies they serve. Persons who are officers of neither company but directors of both do not represent a significant interlock."³⁷

Stelco devotes an entire chapter to the relationship between dominant firm and financial institution--an indicator of their concern. They take pains to point out that Stelco has, in the post-war period, had on its board at least one prominent corporation lawyer, heads of prominent Canadian corporations, and one head of a bank, but no more than one-quarter of the board composed of "insiders"³⁸. They fail to mention that all Stelco chief executive officers have also sat on a bank board, usually the same one as its director's, thus meeting their own minimal specification of "significance" in interlocking. They deny significance to interlocks with banks with which they do not do business (their reference must be to the Nova Scotia, the bank with which Gulf Canada does business, and Gulf was represented on the Stelco board, obviously a supplier relationship, since, as will be shown, B.A. Oil before it has had other Stelco directors on its board over time). Stelco states it has a director on its board who sits on the board of a bank with which it does not do business, and that it also does business with three trust companies, in the case of two, there being no interlocks of any kind; no Stelco officer is a director of any institutional shareholder, and "No officer, director or partner of any investment banker, underwriter or broker is a director of the company."

This constitutes the basis on which Stelco claims that the directorial interlock has been "overrated." As will be shown, interlocks, contrary to their disclaimer, are significant if taken in a more inclusive context.

Of 68 Stelco institutional shareholders in 1973, about half were interlocked with each other and nine of these were Power Corp. companies. Altogether, this represented interlocks by 103 directors, 41 of which sat on Power-related companies. Out of a board consisting of 15 directors including three Stelco officers, eight simultaneously held seats on the boards of institutional shareholders. The following Stelco directors sat on the boards of institutional shareholders, whose holdings represented a total of 1,375,066 shares or 5.6% of the total shares issued in 1973 (if the total holdings of the Power group in which Imperial Life and Investors Group are implicated are included, the percentage increases to 6.2% of the total shares issued):

A. M. Campbell	- Sun Life and Royal Trust
J. D. Gibson	- Imperial Life and National Trust
D. R. McMaster	- Standard Life
Sen. E. C. Manning	- Manufacturers Life
W. H. Young	- National Trust
L. G. Rolland	- Canadian Investment Fund and Standard Life
V. W. Scully	- Sun Life
F. P. Mannix	- Investors Group and Investors Growth Fund

*Pembina
Pipe Lines*

In addition to these Stelco directors, other directors who sat on these institutional shareholder boards and were interlocked with others totalled about 30. The following

table details the directors who sit on the board of those institutional shareholders represented directly on the Stelco board by directors and shows the linkages between these shareholders and others linked by the same director.³⁹

As well, there were many other interlocks but only those which, on the strength of other evidence, appear to be the most significant will be detailed in this section. There were also connections between institutional shareholders and other industrial corporations besides Stelco which form a complicated maze. An attempt at ordering these will be made in another chapter. Many of the financial connections with the Stelco board, noted here, have already been shown to go very far back in the history of Stelco.

TABLE 3-9

INTERLOCKS BETWEEN INSTITUTIONAL SHAREHOLDERS LINKED
BY THOSE REPRESENTED DIRECTLY ON STELCO BOARD -1973

*double interlock

<u>Director of Institutional Shareholder on Stelco Bd. represented</u>	<u>Other Institutional Shareholders Linked Through/Director Same</u>
--	--

MANUFACTURERS LIFE (STELCO DIRECTOR MANNING)-

A. D. Nesbitt	Power Corp. (indirect relationship)
C. F. H. Carson (Q.C.)	Canada Permanent Trust

IMPERIAL LIFE (Stelco director Gibson) -

W. S. Owen (Q.C.)	*Canada Permanent Trust
F. C. Case	(Chm.) Montreal Trust (indirect)
J. G. Porteous (Q.C.)	Executive Fund
Paul Desmarais	Investors Group
	*Montreal Trust
	Trans Canada

Director of Institutional Shareholder on Stelco Bd. <u>represented</u>	Other Institutional Shareholders Linked Through/Director <u>same</u>
--	--

SUN LIFE (Stelco directors Scully, Campbell) -

J. K. Finlayson	Roy Fund; United Corps.; Standard Life
I. D. Sinclair	Canadian Investment Fund

STANDARD LIFE* (Stelco directors Rolland, McMaster) -

G. D. Birks	Royal Trust; United Corps.*
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NATIONAL TRUST (Stelco directors Young, Gibson) -

R. M. Barford	Canadian General Investments
J. D. Barrington	Excelsior Life
J. C. Parlee (Power Corp.)	Great-West Life
J. G. Hungerford	Canada Life
A. H. Lemmon	Canada Life* (Chairman)
A. J. Little	Canada Life*
R. G. Smith	Maritime Life (Chairman)

ROYAL TRUST (Stelco director Campbell) -

G. D. Birks*	*Standard Life
	United Corporations
D. N. Byers	Excelsior Life*
F. M. Fell (Q.C.)	Excelsior Life*
G. B. Gordon	Mutual Life
	Canadian Investment Fund*
C. F. Harrington	MPG Investment Group
R. J. Wilson	Supervised Investment (VP)(Exec. Fund)
D. G. Waldon	National Life

CANADIAN INVESTMENT FUND (Stelco director Rolland) -

D. W. Barr	National Trust*
	Canada Life
G. B. Gordon*	Royal Trust
G. Arnold Hart (B.of Mtl)	Sun Life(Hart Chm.,Cdn.Inv.Fund)
I. D. Sinclair*	Sun Life

INVESTORS GROUP (Stelco director Mannix) -

30 directors on Investors Group and/or Gt.-W. Life or Mtl. Trust, including most Power people, plus the following:

J. K. Finlayson	Roy Fund*
A. C. McKim	National Trust*

There are, in addition to the above direct connections, a number of indirect ones. For example, A. C. McKim, a director of Investors Group and National Trust, is brother-in-law to A. D. Nesbitt, who, as noted earlier, is son-in-law to D. R. McMaster (Clement, 1975: 310), and the son of one of the original founders of Power Corp. The law firm relationship between A. M. Minnion and D. R. McMaster has already been noted. In addition, L. G. Rolland (president of Rolland Paper, was, before joining the Stelco board, a director of Gelco Enterprises.⁴⁰ Gelco is, according to Newman (1975: Ch. 2) Paul Desmarais' private holding company; in 1961 he had a 20% interest in it, which he increased shortly to 80%. Gelco is also the main holding company for Power Corp. Triarch Corp. is Gelco's investment manager, and through Triarch are found two other indirect interlocks to other institutional investors: A.G.S. Griffin, chairman, and J. A. McArthur, secretary, of Triarch, are president of Toronto and London and director of Victoria and Grey, respectively. Another indirect connection with the interlocked institutions listed above is that of C. A. Dagenais, director of Royal Trust, who is also a director of Marine Industries Ltd. (the Simard family, one of whose members sits on the board of Power Corp.); Gerard Fillion, then president of Marine, was a director of Canada Life, another institutional shareholder of Stelco. And lastly, a historical Stelco board connection is represented by A. Blaikie Purvis, V.P. and director of Cana-

dian Investment Fund, whose father, A. B. Purvis was before him also a director of this fund as well as on the Stelco board from 1939 to 1941.

The above connections may be regarded as the most significant, since they link the Stelco board directly with a number of important institutional shareholders. Those which are large shareholders have already been noted. In addition to these, however, there are connections among institutional investors which are significant in themselves because they imply potential co-ordination of investment portfolios through common and, in many cases, influential directors.

As in 1961, the Meighen-Matthews interests are represented in 1973 as important institutional shareholders--Canadian General Investments (125,000 shares) and Third Canadian General Investment Trust (12,000 shares) are joined by common directorships. Through other directors, they are also linked to National Trust, Excelsior Life, Canada Permanent Trust, and London Life; National (38,000 shares) is interlocked on the Stelco board, and the others hold, respectively: 36,500, 85,500, 8,800 shares. All-Canadian (36,000 shares) is also linked to Canadian General Investments through investment manager for All-Canadian, Capital Dynamics, on whose board sits D. N. Kendall, also a director of Canadian General.

United Corporations (32,900 shares) is the parent company of United Bond and Share, which is the manager for

Roy Fund (23,900 shares); these two funds are linked to each other by common directors, as well as being linked to Royal Trust, Standard Life, Dominion Life, Universal Savings and Equity, Canadian and Foreign, Fulcrum, and Victoria and Grey; the latter five are all relatively small shareholders (under 12,000 shares each), but these interlocks increase the potential effect of their holdings. Canadian and Foreign and Fulcrum (6,000 shares each) are linked through H.R. and H.N.R. Jackman through interlocks between these two funds and through Economic Investment Trust; A. B. Matthews (of the Meighen-Matthews interests) is chairman of Economic.

Pacific Atlantic Canadian (on whose board sits the same Sir Denys Lawson as was involved in Canadian International Investment Trust with H.R. Jackman and Stelco director H. G. Smith) is linked to Toronto and London, which is in turn linked to Power Corporation through a Triarch directorship. These two funds control only 3,000 and 8,000 shares respectively, but again, their potential impact is magnified through influential directors' interlocks. One director in Pacific Atlantic (the Hon. John B. Aird) is also linked to another Stelco institutional shareholder, National Life (17,100 shares).

Lastly, Prudential (21,000 shares) is linked to Crown Trust (5,000 shares) by H. F. Kerrigan, president of Crown and by a reverse directorship, W. J. D. Lewis, the president of Prudential Assurance and Prudential Growth Fund, who is also a director of Crown Trust.

Also on the boards of institutional shareholders who own Stelco stock are executives of Algoma Steel and Dofasco, as well as other interlocks which will not be detailed here. In addition to the obviously significant linkages mentioned above, the other important point to me made concerning shareholdings' ability to effect co-ordination among financial groups through shared directors is that the world of finance is indeed a small one. Traced far enough, undoubtedly all of the major groups in Canada could be shown to be linked, and at a more general level, this is precisely the point -- there is a community of interests which transcends the interests of specific groups of financiers and corporate executives, and that interest is, in a word, capitalism itself.

III THE INTERNAL DYNAMICS OF MONEY

In this, the final, part of the chapter an examination will be made of the changing role of the various elements in the capital accumulation process as they are manifested throughout Stelco's development from 1910 to the present. Of particular concern will be the effect of long-term debt on the financial structure of the corporation especially during major expansion periods. The discussion will be framed around the question of the applicability to Stelco of a number of points raised by Fitch and Oppenheimer (1970: Part III) concerning the effects of financial inter-

vention in corporations.

Briefly, their argument, it will be recalled, is that evidence of the effects of financial control may be seen through five indicators: rates of capital accumulation (retained earnings or undistributed profits); dividend payout ratios; debt policy; relations with other corporations; and purchasing and sales relations, all of which they claim differ from behaviour of a non-financially controlled corporation. Of concern here will be only the first three, financial, indicators. F & O argue that when a corporation falls under outside financial control, its rate of growth as shown by the amount of retained earnings (or "ploughback") drops, while its dividend payout increases, as does its long-term debt. The logic of the argument stems from their postulating an antagonism of interests between financial and industrial capitalists (industrial managers will try to avoid debt and finance growth through internal savings, while it is in the interests of institutional shareholders and bankers to have high dividend payout and heavy borrowing).

Under the conditions of monopoly capitalism, there is a bifurcation created in the reinvestment process--capital saved in one industry is reinvested in another, higher-profit industry, with the financial institutions acting as the reinvestor of capital rather than individual enterprises (:III:66-67). Thus the "reallocation of surplus value--the

selection of corporate investment targets--is increasingly socialized." (:76). It is the financial institutions and not the individual firms which are in a position to survey the entire corporate scene to maximize returns on capital (:77).

Fitch and Oppenheimer present their evidence in the form of a number of tables whose data is drawn from the usual business and government sources using aggregated figures representing all large U.S. corporations for the 1960-1970 decade (and in one case, to 1955). In one table (:III: 39) they show an increase in corporate dividend payouts as a percentage of profits, by asset size of corporations, for the 1960-1970 decade. In another table (:III:92) they show a decline in stockholders' equity as a proportion of total assets (representing an increase in debt as a source of funds); then in a graph and a related table (II: 73,74) they show the effects of increasing reliance on external sources of financing (long-term debt and equity) and a decline in the relative importance of internal sources (depreciation and retained earnings).

Fitch and Oppenheimer (:III: 73), although they use the figures, argue against the Federal Reserve Board's inclusion of depreciation in the calculation of internal funds as it overstates the role of internal financing relative to net-new investment. The rationale behind their argument against the inclusion of depreciation in sources of internal financing is that only profits finance new

investment; depreciation only offsets wear and tear on fixed capital (:73). The argument, however, is further related to their previous definition of the rate of accumulation within corporations:

"Profits less dividends--retained earnings--represent the maximum portion of profits that can be devoted to capital accumulation....Thus if the dividend payout ratio increases, the rate of capital accumulation must decline, for relatively less of the corporation's profit is available for reinvestment." (:38-39)

In his critique of Fitch and Oppenheimer, O'Connor (1972: 149) suggests that their argument that only profits finance new investment is incorrect:

"In the traditional bourgeois and Marxist economics literature, capital accumulation means the expansion of productive capacity, financed either by retained earnings or by borrowing. In Fitch and Oppenheimer's curious economics terminology, capital accumulation means the expansion of productive capacity financed solely by reinvested profits...if they mean that 'capital accumulation' (their definition) invariably declines when the dividend payout ratio rises, they are wrong. The reason is that total profits may be growing fast enough to finance both a rise in the payout ratio and an increase in the productive capacity...." (:149)

The problem appears to be, although O'Connor did not state it, to pinpoint under what conditions external financing will have the effects Fitch and Oppenheimer claim it does-- O'Connor's point seems to imply that the corporation's viability depends on its continued "ability to pay"--that is, can bear both a heavy load of external debt and a high payout ratio if it continues to show a high profit.

Fitch, in his reply to Sweezy (1972b: 127) admits that

his and Oppenheimer's generalizations, particularly on "accumulation and the broader tendencies of the system" need to be and are being modified.

The approach which will be taken in this chapter is that depreciation can finance new investment because it is set aside only on the books but actually represents a part of retained surplus which is active to only a slight degree in maintenance of existing plant (except under extraordinary conditions) but is more active in use for capital expenditures on expansion. Indeed, Stelco in its annual reports shows its annual depreciation charge as a deduction from manufacturing profit before net profit is calculated--the amount on which dividends to shareholders is calculated. However, the depreciation reserve (a cumulative figure representing all annual depreciation charges) was added into the liability side of the balance sheet up until 1947 as was the operating reserve for such items as furnace relines and rebuilds--in the annual reports from 1947 onwards, the depreciation reserve became a deduction from fixed assets (whereas the operating reserve remained a liability). A comparison of figures found in Stelco's 1947 and 1948 annual report will illustrate how depreciation charges are potentially available for new capital expenditures. (As a matter of interest, it was also in 1947 for the first time that Stelco's annual depreciation charge included an allowance for assets partly completed, a change which foreshadows their advantageous switch to the

"straight-line" method of calculating depreciation in 1960-- a subject which will be dealt with in chapter on industry-government relations).

In 1947 (Stelco's profit and loss statement) 3.6 million was charged as depreciation and deducted from the operating profit (a gross profit figure, although they do not call it this). Their fixed assets were \$92.8, from which was deducted the depreciation reserve (cumulative figure) of \$51.8 million. Added to their liabilities side was a charge of \$3.3 million for operating reserves (including furnace relines, rebuilds, and other maintenance costs). In 1948, their annual depreciation charge was \$4.6 million, their fixed assets \$107.3 million less the cumulative depreciation reserve of \$55.8; their operating reserve was \$3.4 million.

It will be noticed that the operating reserve and the annual depreciation charge are very similar; if there is no major furnace rebuild that year and no other maintenance charges exceed the operating reserve, the depreciation charge that year does not represent any current "wear and tear" on capital equipment but in effect, contributes to the book values of assets (the \$51.8 million cumulative of 1947 plus the 1947 annual depreciation of \$3.6 million almost equals the cumulative depreciation reserve of \$55.8 million in 1948). The depreciation charge will also continue to mount, since it theoretically represents replacement of existing plant and equipment and is a percentage of existing assets each year.

It is a bourgeois economic orthodoxy to assert that the build-up of the depreciation reserve is to replace existing assets--only if they were totally destroyed or totally obsolete would this be the case. In fact, since the reserve is not used up in this way, it must be available to finance new machinery and plant as well as maintenance of old.

O'Connor's argument appears to be a reasonable one, and the above exercise would seem to lend support to the inclusion of depreciation as well as retained earnings (called by Stelco "surplus" in its early years) in the calculation of internal sources of funds.

The three tables and graph used by Fitch and Oppenheimer will serve as the basis of comparison between U.S. aggregate data and data obtained for one Canadian corporation, bearing in mind that F & O base their argument only on figures for a recent decade but that the Stelco data will cover its entire history, beginning with its incorporation and tracing its development to the status of a mature corporation (Stelco reached the billion-dollar mark in assets in 1972). Accordingly, annual reports from 1910 to 1975 were used as the source of data and various calculations were made which yielded the graphs and tables presented here.

Fitch and Oppenheimer (:III: 44-45) argue that it is large corporations, those dominated by outside directors (especially representing financial interests), that have a

high dividend payout ratio and a high level of external debt; the bigger the corporation "the more likely that a significant section of its capital structure is composed of bonds and other long-term debt provided by financial institutions." :45). In their Table 2 (:II:74) they show that the corporate giants, those firms with \$250-million or more in assets not only receive most of the long-term credit but also use the most in relation to their size (that is, long-term debt increases as a percentage of total liabilities). It follows that equity-financing ("selling pieces of themselves") will decline in proportionate importance in such corporations.

The following graph (3-1) was constructed using Stelco data, and shows the relationship between long-term debt as a percentage of total liabilities, and the debt-to-equity ratio. (In corporate usage, the debt-to-equity ratio is long-term debt divided by "shareholders' equity"; that is, the total capital stock plus accumulated retained earnings.) Not surprisingly, the graph shows an almost perfect correlation between long-term debt and debt-to-equity ratio (with "leaps" or "lags" depending on changes in capitalization--for example, in 1961, stock was split four-to-one and in 1964 there was a recapitalization after Page-Hersey was acquired, which altered the relationship slightly).

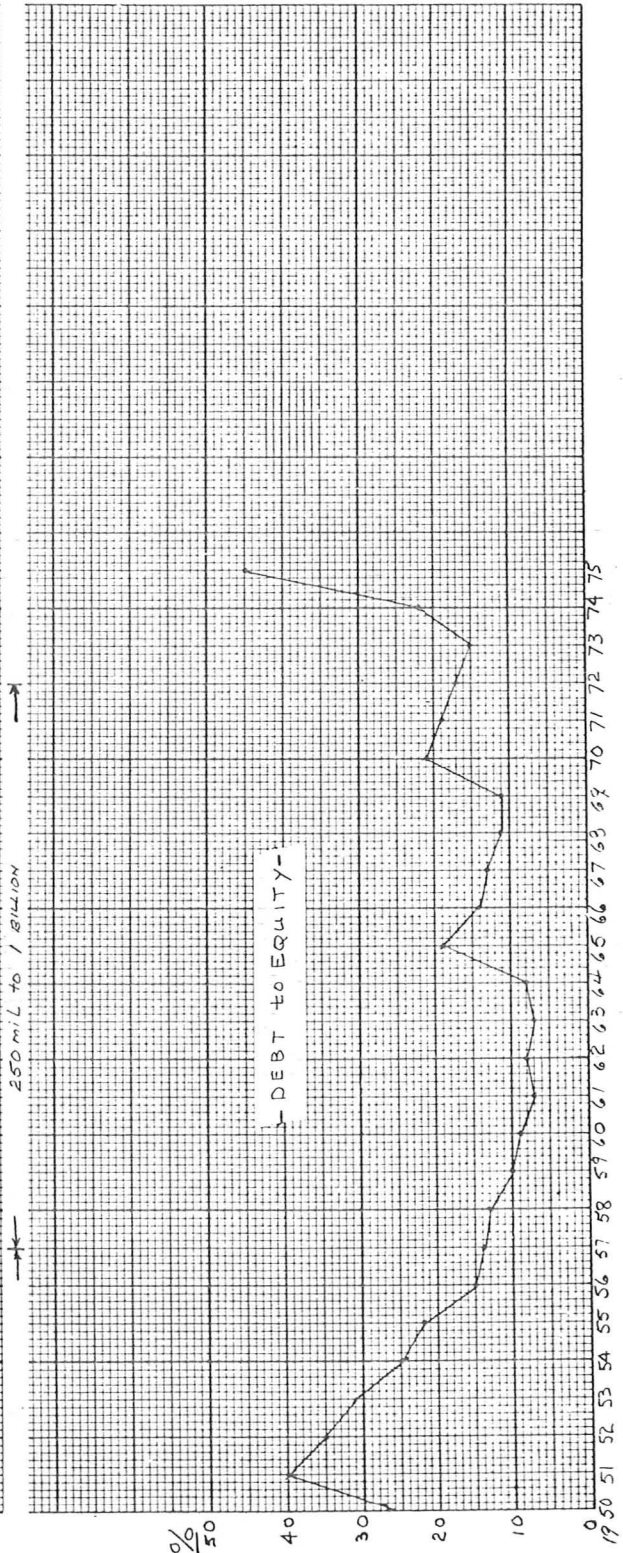
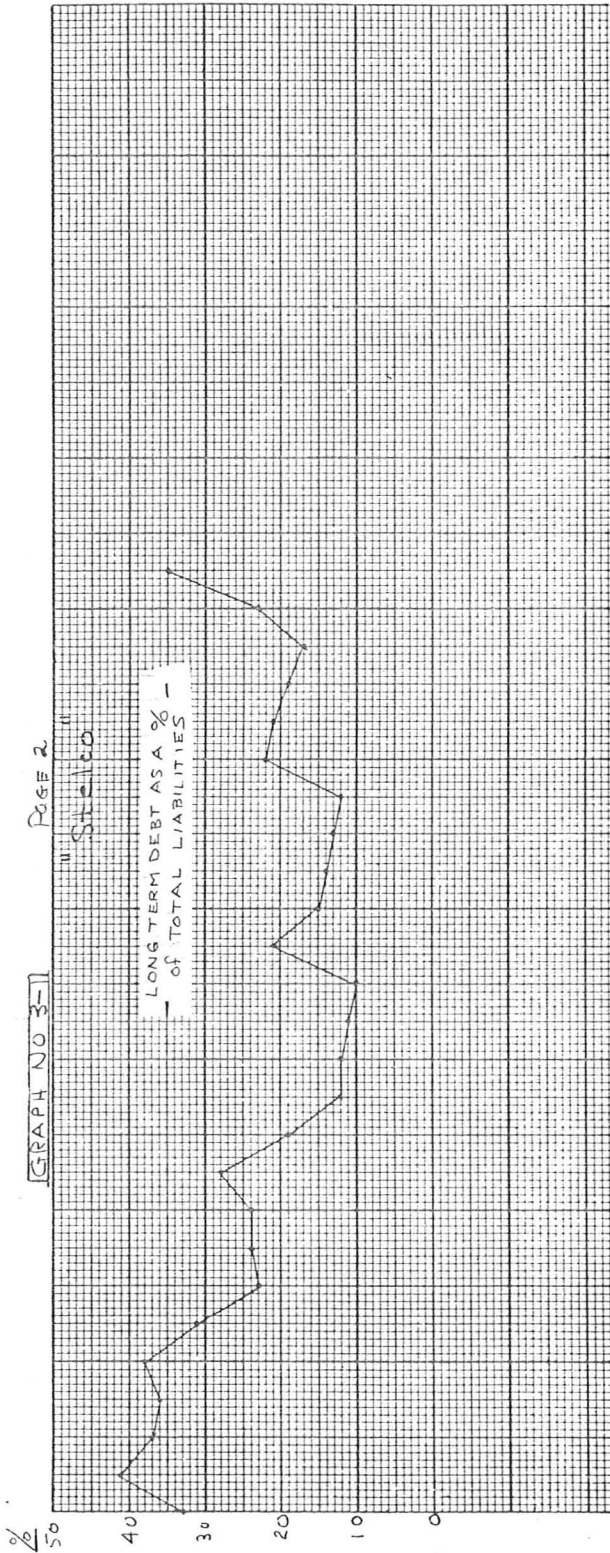
The graph reveals that high long-term debt and high debt-to-equity ratio peaked three times, the first being

(b) Debt-to-equity Ratio

PAGE 1



Graph 3-1 cont'd.



after Stelco was created, and the other two occurring in the post-war period when plant was being replaced and then an ambitious expansion project undertaken in the 1950's was followed by acquisitions in the 1960's and expansions through to the 1970's, culminating in the Lake Erie development. It will be recalled that Stelco was a creation of finance capital; for about the first five years of its operation, as Kilbourn (1960: 75) points out, it suffered from having a heavy load of obligations which were fixed despite any fluctuations in the health of the company: preferred shareholders and bond-holder interest had to be paid regardless. In fact, an examination of the early annual reports reveals that Stelco paid dividends only on preferred shares between 1910 and 1915 due to its financial straits.

According to Fitch and Oppenheimer's Table 2(:II: 74), corporations of asset size \$25--\$1,000 million in 1960 had long-term debt ratios of 16.0: Stelco's was 19.0; in 1970, their ratio was 18.6: Stelco's was 22.0. Stelco was within this asset range in both periods. However, Stelco's ratio was as high as or higher than 22.0 between 1910 and 1922, when its asset size was \$25-50 million, and the ratio was between 31.0 and 41.0 in the period 1947 to 1955, when its asset size was \$100-250 million. Thus, Fitch and Oppenheimer's argument about the relationship between the long-term debt ratio and asset size, at least over an extended period of time, does not appear to be on firm ground.

The following table gives the average figures for the contribution which capital stock made to the company's total funding between 1910 and 1975. As can be seen, capital stock (equity) originally contributed 62% of these funds, but by the post-war period its contribution had declined quite dramatically, and dropped steadily until by the 1970's, it contributed only between 8% and 14% of the total funds generated. It can be seen that even as reliance on external funds has increased (the comparison of internal and external sources of funds appears in graph 3-3), that part of external funds made up by issuing shares has declined and the major component in external sources of capital must, therefore, be debt.

TABLE 3-10

CAPITAL STOCK AS PERCENTAGE OF TOTAL ASSETS 1910-1975

	<u>Average</u>		<u>Average</u>
(1910 - 62%)			
1910-1919	48.0%	1940-1949	17.9%
1920-1929	35.4%	1950-1959	13.6%
1930-1939	33.0%	1960-1969	18.9%*
		1970-1975	11.7%
		(1970: 14%; 1975: 8%)	

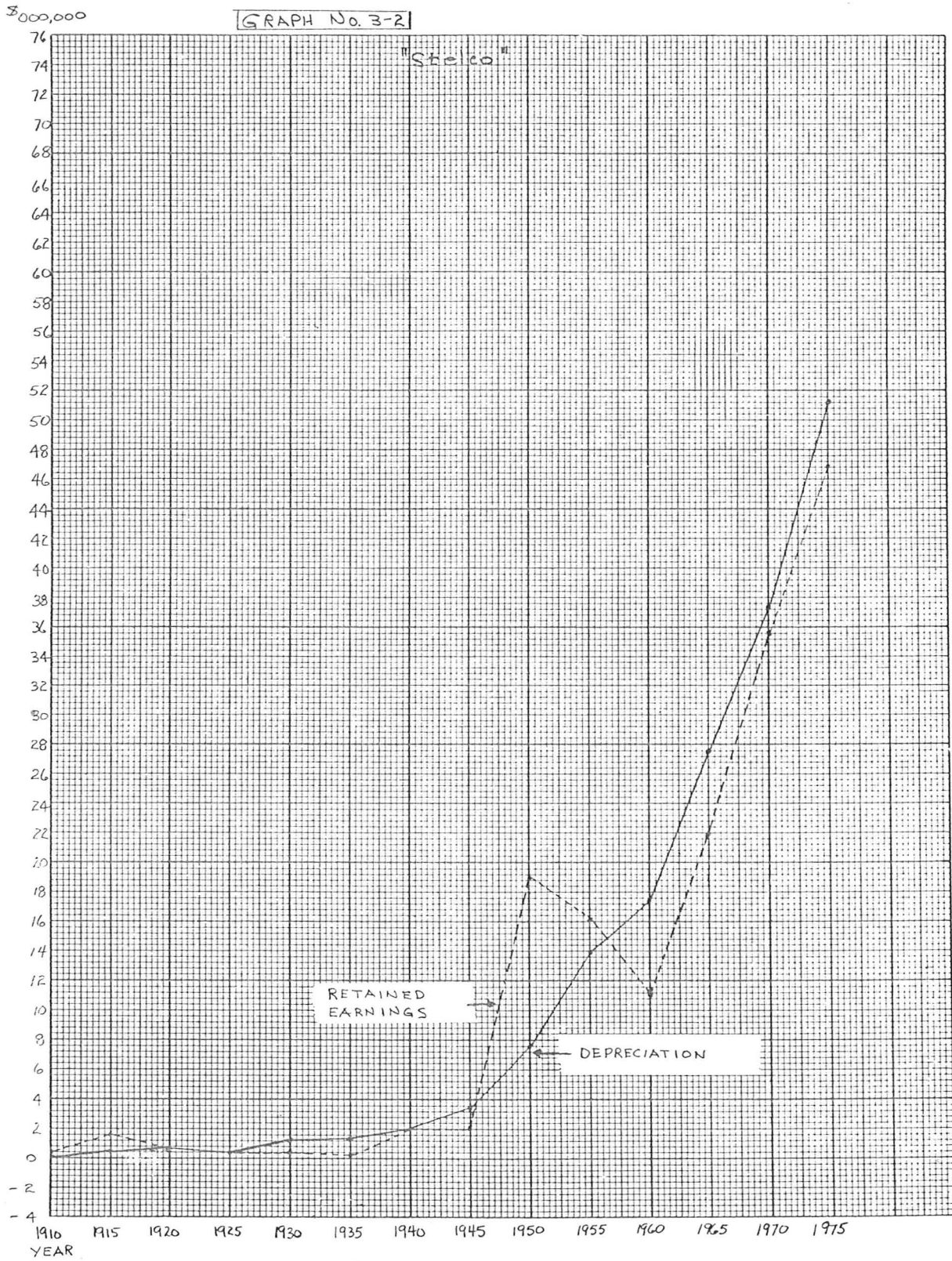
*stock split 4-1, 1961; recapitalization 1964--from \$48- to \$85-million and from \$88- to \$128-million worth of shares respectively. Effect was to temporarily increase stock contribution, which is reflected in the higher average.

The next graph (3-2)*, a comparison of retained earnings and depreciation, does not create such a clear-cut picture. Since both are affected by the level of operations (a high-demand period with full production and high sales volume, or the reverse), they may be expected to vary with the business cycle; moreover, they should be expected to rise in absolute terms as plant is expanded, since greater assets will result in greater depreciation charges, and a higher level of operations which results from expanded plant will allow a higher amount to be set aside from profits. The two lines appear to trace this development in the post-war period, while up to that time, although depreciation and retained earnings fluctuated, their absolute value remained relatively stable. In 1946, there was a slight downswing in the generally upward trend; this was the year of Stelco's first major strike and profits fell (from \$4.2 million in 1945 to \$2.2 million in 1946). (The entire war period, according to the company's analysis was marked by high levels of production but low net profits due to wartime controls.)

Although depreciation and retained earnings fluctuate quite dramatically in the postwar period, they often vary inversely: a function of the relationship between them (depreciation is a deduction from gross operating profit;

*Note: Both Graph 3-2 and 3-3, plotted at 5-year points, represent "smoothed" versions of graphs which would, if plotted on a year-by-year basis would show more fluctuations.

Graph 3-2
Retained Earnings vs. Depreciation



out of the resulting net profit, dividends are distributed and the rest becomes the retained earnings)--thus, if there is a high depreciation charge for the year, there will tend to be lower retained earnings unless dividends are lower. Depreciation and retained earnings may be thought of as two kinds of savings strategy, both of which are related not only to profitability but also to rates of capital expenditure and how they are financed and written off on the books.

In the postwar period, the retained earnings line peaks quite decisively four times: in 1950, in 1959, in 1968 and in 1974; the line also plunges sharply in 1969, another strike year (profits for that year were the lowest since 1946). That depreciation did not take the same drastic plunge appears to be due to the high level of capital spending during the period--using the "straight-line" accounting method for depreciation begun in 1969, depreciation in 1969 dropped due to the drop in the level of operations (this subject will be returned to in Chapter 6). Each of the years referred to was one of high profit relative to the years immediately before and after it (with the exception of 1974, which was exceeded slightly by 1973). Although demand fell off suddenly in mid-1970, the entire period beginning with the 1950's was one of high demand, and Stelco was involved in a series of expansion and acquisition programmes which followed one another with little interruption (see Chapter 4 for an analysis of these developments). The first period identified as

"major" by Stelco was 1951-1953, and in 1955 the company announced another extensive expansion programme which was completed in 1958. In 1959 they announced yet another which ran through the period during which they acquired a number of companies. Land was acquired in 1968 for their Lake Erie development and construction began in the early 1970's.

Thus it would appear that the generally buoyant economic conditions made it possible for the company to retain more of its earnings to help offset the effects of its high levels of external financing necessary for the huge amounts of capital its expansions consumed. The relationship between the profit level and the retained earnings and depreciation variables is illustrated as follows:

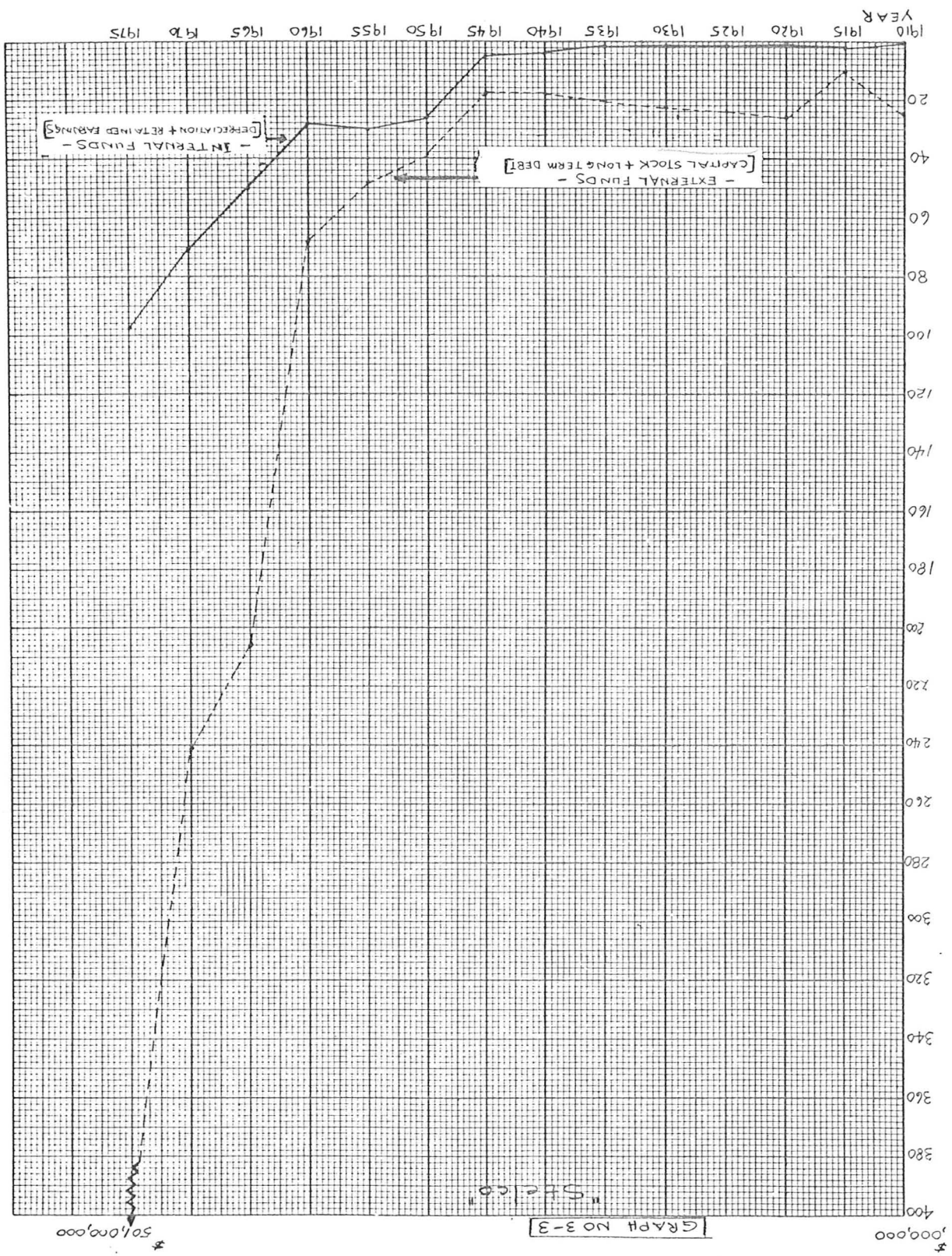
TABLE 3-11

NET PROFIT, DEPRECIATION AND RETAINED EARNINGS
AS A PERCENTAGE OF TOTAL ASSETS

*strike year				(selected years			
Year	Net Profit	Depre- ciation	Retained Earnings	Year	Net Profit	Depre- ciation	Retained Earnings
1945	3.68	3.04	1.98	1967	6.15	4.35	3.45
1946*	2.14	1.62	.45	1968	8.37	4.57	5.37
1947	5.80	3.72	3.28	1969*	3.78	4.07	.23
1948	7.15	4.42	7.75	1970	6.53	4.07	3.90
1949	9.00	5.36	6.40	1971	6.90	3.84	3.75
1950	11.00	5.94	15.06	1972	6.50	3.85	3.52
1951	8.54	8.01	5.89	1973	7.67	4.08	4.87
				1974	7.13	3.35	4.67
1958	6.31	6.70	3.18	1975	5.29	3.06	2.79
1959	10.70	6.12	9.01				
1960	7.13	5.82	3.75				

The two lines which appear in graph 3-2, along with the figures from Table IX and figures on long-term debt have been combined to form two composite lines which appear in the third graph (3-3), as external versus internal sources of funds.

Examination of graph 3-3 shows that until the second world war, the two sources of funds remained in fairly constant relationship to one another, though with internal funds contributing slightly more than external in the period 1936 to 1940. In the post-war period, however, the same phenomenon as noted before occurs: the two lines begin to fluctuate quite dramatically, and although they both increase in relatively the same proportions, by 1960 they begin to separate, with external funds climbing. The radically steeper climb from 1964 reflects growth beginning with the Page-Hersey acquisition and continuing into the 1970's with the Lake Erie development as well as a number of other expansion or improvement projects both in basic plant and finishing mills and at the various raw material sources in which Stelco has whole or partial interest. By 1970, Stelco's long-term debt (bonds and debentures) had increased to \$110.2 million, and rose steadily to reach a record high of \$361 million in 1975, with an additional \$46.5 million in U.S. debt instruments issued the early part of 1976. Stelco would now appear to be at the stage which exhibits to Fitch and Oppenheimer the earmarks of a mature corporation under financial control.



Graph 3-3
Internal vs. External Sources of Funds

Due to the fluctuations which have occurred over time, however, the evidence is not conclusive--the trend may again reverse itself. Nor is the situation one unique to Stelco among the steel producers.

In a May 19, 1976 article, the Globe and Mail reported that it was anticipated that a "liquidity crisis" due to inflation was to be anticipated according to a study by investment analysts Touche Ross and Co. of Toronto--debt-to-equity ratios have generally deteriorated as more businesses have turned to greater borrowing. The study indicated that in 1974, Canadian non-financial corporations used debt as a source of 50.8% of their capital funds (compared with 27.7% for the previous decade). A Financial Post (August 14, 1976) article announced that with a slight slowing trend in the rate of inflation, bonds have become an attractive form of investment; the 10-1/2% to 11-1/4% yield (versus a potential 6% average of inflation during the life of the bond) appears more attractive than equity investment. This preference would, of course, have an effect on the ability of corporations to raise capital through sale of shares. In a special report on steel, the Financial Post (June 5, 1976) points out that the "big three" steelmakers were all forced to go to the debt market to finance their capital projects, all of which may be classified as not only "major" but the largest in their respective histories. The effect has been a rapid rise in the debt-to-(common) equity ratio for all three steel

producers. The combination of ambitious expansion projects financed heavily out of debt and a sudden downturn in world steel demand have caused all three producers to slow the pace of construction. Algoma in particular, in a weak financial position and having raced the fastest in the last 10 years in its game of "catch-up" to modernize and expand, is "bumping its head against its borrowing limits". At a special March shareholders' meeting, Algoma increased its capitalization of preferred shares (preferred shareholders, it will be recalled, have rights on liquidation assets second in line after bondholders), and the issue was "snapped up"--presumably, FP believed, on investors' confidence in Algoma or its new owner, Canadian Pacific Investments.

The following table lists dividend payout ratios by decades for Stelco since 1910. Fitch and Oppenheimer argued that those in financial control of a corporation would be interested in a higher rate as a way of gaining funds for redistribution along lines of financial control and lucrative return outside the corporation from which they were obtained. Since F & O's Table 1 (:III: 39) breaks down the data in terms of asset size, their range of percentages has been averaged for each category and appears in brackets beside the related Stelco figure.

TABLE 3-12

STELCO AVERAGE DIVIDEND PAYOUT BY ASSET RANGE

(as a percentage of profits)

<u>Asset range and years</u>	<u>Divident Payout Range</u>	<u>Average</u>	<u>(F & O Average)</u>
\$25-49 million, 1910-19	14-42%	26.6%	(35%)
\$50-100 " , 1920-42	30-580%* -or excl. deficit-	*(86.0%) (49.7%)	(46.5%)
\$100-250 " , 1943-56	26-88%	39.6%	(49.5%)
\$250-1,000" , 1957-75	28-94%	45.8%	(52.5%)
\$1,000+ " , 1972-75	34-47	40.0%	(61.5%)

*includes deficit during depression

As can be seen, although the payout ratio has fluctuated, it cannot be argued that the mature Stelco has seen a dramatic rise in the amount it has paid out as dividends. The ratio of dividends to profits was 29% in 1910 and rose to 210% and 580% in 1931 and 1932, deficit years during the Depression (the figures are a crude but dramatic way of illustrating that Stelco did not generate enough profit those years to pay dividends let alone set aside funds as retained earnings; the dividends were paid out of the cumulative retained earnings which had built up from retained earnings in previous years). If these abnormal figures are excluded, the average for the \$50-100 million asset range stage in Stelco's development is 49.7% of profits paid out as dividends--this figure is in excess of the average of 46.5% calculated on Fitch and Oppenheimer's figures for this

range; however, it is questionable to what degree the 1930's decade is comparable with the 1960-1970 period used by Fitch and Oppenheimer. Their data are based on corporations of varying size within the same period--the calculations for Stelco extend over its entire history, under varying economic conditions.

If plotted on a graph, the dividend payout ratio line for Stelco would show roughly the same double-U curve as the debt-to-equity and debt-to-liabilities lines, although since the 1960's, the rate has remained fairly high--between 34% and 53%, with a high of 94% in 1969 (it will be recalled that Stelco's depreciation and retained earnings were also high during the 1960's period, an extremely profitable one although 1969 was a strike year). The most conclusive point which can be stated about Stelco is that despite economic conditions, it continued to pay dividends--averaging overall 40.3% versus F & O's 49.0% "average of averages." This is still on the low side.

In conclusion, Fitch and Oppenheimer's argument about increasing financial control and about its effects must be taken as two separate arguments. Their indicators may or may not reflect increasing financial control. While, as shown in the previous parts of this chapter, institutional shareholding has become increasingly important, it cannot be said that external financing in the form of debt has been consistently important over time; it is more accurate to say that debt has

been vital to Stelco at certain key junctures in its maturation, and one can only make the minimal statement that it is at these periods that Stelco is most vulnerable to outside financial influence.

Financial control potential becomes actual according to their analysis, especially under conditions of declining profits, in highly capital-intensive industry locked in to existing fixed assets, and at "critical junctures" in the corporation's life, as during times of expansion and during economic downturn; this is particularly true for sectors such as mining and manufacturing, they point out, as these sectors rely heavily on external funds at both boom and bust periods in the business cycle (:II: 94). Thus Fitch and Oppenheimer do recognize that the role of external finance will vary by period as well as by industry.

While the business cycle may have some effect, the main factor, as shown by the Penn Central example, is that as corporations mature and all avenues for expanding production profitably (as through increasing productivity through technological sophistication) and continuing to add to assets rather than depleting them, are exhausted, the corporation stagnates. Stagnation, as Baran and Sweezy (1966) pointed out, appears to be endemic to monopoly capitalism; then it is certainly a point to which individual corporations move as they mature, barring other external variables such as the possibility of innovating without straining resources more.¹⁷

Finally, Fitch and Oppenheimer's analysis implies an antagonistic relationship. While it may be true that financial interests have control of Stelco (they certainly appear, on the basis of the evidence already presented in this chapter, to heavily influence it), there is no firm evidence to suggest any antagonism. Stelco, despite its difficulties with the expansion programme, appears to be viable and was in healthy financial condition before it began its programmes-- it is Algoma in fact which has "bumped its head" against debt ceilings while Stelco has not. The current liquidity crisis appears due to a concatenation of circumstances: numerous capital spending programmes caught in mid-stream by a sudden slump in world steel demand which cut short a buoyant period that tempted expansion with the lure of increased profits. Had the trend continued, the expansion would, in the short run, have benefitted both financial and industrial interests, as high demand, high sales and efficient productive units would have increased profits. The trend, however, cannot continue indefinitely. But for the present, even if Stelco's financial sources are "calling the shots," the corporation appears to be holding its own. This could in part be due to the fact that Stelco is very much a part, as it has been from its inception, of the inner circles of the Canadian indigeneous economic elite. This will be the subject of the chapter following.

NOTES TO CHAPTER THREE

1. All historical information summarized from Donald (1915), Chapters Three and Six.
2. For an explanation of the difference between "basic steel" (or "primary production") and finished products, see the Appendix.
3. Biographical research courtesy of Mary Ann Daley. Allan, one of the founders of the Mount Royal Club, was rated as a millionaire. He had a number of important directorships in industrial and financial corporations.
4. Sources of biography on the Harris family: Canadian Who's Who and 1912 Canadian Men and Women of the Time. Research courtesy of Mary Ann Daley.
5. Source: Canadian Men and Women of the Time, 1912.
6. Source for Molson: Kilbourn (1960); for Redpath: The Canadian Album, Men of Canada, Vol. 3, P. 301. Research courtesy of Mary Ann Daley.
7. Source: Canadian Men and Women of the Time, 1912. His other directorships at the time of the publishing of this biography numbered 15, including National Trust and the Bank of Commerce. He was also president, in 1903, of the Montreal branch of the Canadian Manufacturers Association and, in 1890, of the Metal and Hardware Association, and was a member of the two elite clubs, the St. James and the Mount Royal.
8. Biographical research courtesy of Mary Ann Daley.
9. Kilbourn (1960: 66) notes that just after the 1907 recession, the merger wave of 1909-1911 saw 41 industrial amalgamations in Canada, created out of 196 companies, in flour milling, textiles, paint, coal, lumber, electric power, and machinery, totalling a third of a billion dollars.
10. Biographical research courtesy of Mary Ann Daley.
11. Biographical research, from Canadian Who's Who and Canadian Men and Women of the Time, 1912, courtesy of Mary Ann Daley.
12. Senator Wood was a merchant with political connections; Southam a director of Mercantile Trust of Hamilton; Milne involved during his career in private banking and as managing director of Northern Life Insurance Co. in addition to his numerous industrial ventures. Source: Canadian Men and Women of the Time, 1912, and Canadian Album Men of Canada, Vol. II P. 257; research courtesy of Mary Ann Daley.

13. According to Kilbourn (1960: 81), Aitken slowly disposed of most of his holdings, retaining only the ordinary shares. It is unknown whether this holding still exists as an estate trust or in some other single block.
14. In a number of passages, Kilbourn (1960) brings out these points. Following the Stelco merger, the Monetary Times was predicting a steel trust would be created--not unreasonable, considering both the potential for it made possible by the financiers involved and perfectly in keeping with Canadian history from the Hudson's Bay Co. onwards--monopoly power with strong state support, there being no effective combines act as there was in the U.S. (:82-83). But equally important was the key held by McMaster and his supporters in the 1920's--not only did he feel uneasy about economic conditions, but Kilbourn emphasizes, he had a "deep-seated" desire to keep control in his own hands (:138). He, like Wilcox before him, distrusted the effects of promoters on the board (:136-139).
15. According to the Financial Post Survey of Industrials 1975, as of February 26, 1975, CP Investments controlled 50.6% of Algoma, whereas the 1972 Statistics Canada Intercompany Ownership showed Mannesmann as controlling 25% at that time.
16. Since 1968 when Hawker Siddeley sold the Dosco plant, Sidbec, according to newspaper reports, has been engaged in modernizing and expanding plant and acquiring ore property, though at the moment suffers from a huge deficit (Hamilton Spectator, December 10, 1975). Sysco, already deeply in debt to modernize plant, interested Dofasco and an international consortium of American, German and Dutch steel and financial interests in doing a feasibility study (Hamilton Spectator, December 16, 1975). The latest development according to the Financial Times of Canada, June 28, 1976) is that it appears more likely that new plant will be built by West Germans with the intention of exporting semi-finished products overseas. At the moment, such a development does not appear to affect the other Canadian producers, since the bulk of their product is sold within Canada, a captive market due to tariffs.
17. The Drummond family and the McCall interests were important during this time. Donald (1915: 269, 276) notes that Drummond, McCall & Co., montreal iron and steel merchants, practically controlled the marketing of all products since a group of companies had been established in car-wheel foundry, iron production, and pipe foundry business, as well since about 1875. In addition, the McDougall, Drummond, and McCall interests were involved in Londonderry Iron and Mining Co. in the early 1900's, and Drummonds formed a mining company to develop New Brunswick ore. He also reports that it had been said that Drummond, McCall, as a "selling bureau" controlled marketing of such products as steel rail. Acheson (1973: 69) found that G. E. Drummond had married with the Cockshutt family. The Drummond line appears to have almost died out, as today there is only one Drummond left in Drummond, McCall and not in any exalted position. However, the company survives as an important steel service centre, serving as a marketing intermediary for steel producers.

18. Although the author had gathered biographical and interlock data for the 1969 and 1973 Stelco boards in detail as well as tracing directors back to 1930, thanks is due to Mary Ann Daley for use of biographical data on Stelco directors 1910-1929, and for use of her compilation of interlocks 1910-1973. Usual sources for biographical information include Canadian Who's Who (various years), Canadian Men and Women of the Time, 1912; for directorship and principal corporation affiliation, Financial Post Directory of Directors (various years), supplemented where necessary by Canadian Who's Who, and reconfirmed by cross-checking.
19. Data taken from Park and Park (1973), Chapter Four and Tables III and V, P. 240 and 245, respectively. Data from Newman (1975) is from Pp. 91-94, 110, and table, P. 105.
20. Institutional shareholder information from Financial Post Survey of Funds 1974 (year ended 1973).
21. All information on shareholdings taken from Stelco annual reports 1910 to 1975. Publishing the average shareholding and the small-holder percentage, which would indicate the pre-eminence of the "little man" is obviously a "political" strategy, since by the 1960's, Stelco had discontinued the practice of quoting average holdings and these had to be calculated from available information; but after 1949 they no longer quoted the percentages of those holding less than 100 shares, and what the aggregate figures hide can only be guessed at. Examination of the 1976 shareholder records are suggestive.
22. According to the annual report, both classes were voting shares; the significance of the change, other than to increase capitalization, is unknown.
23. Access to these records is carefully guarded. Only after acquiring a share in Stelco and after suspicious questioning and checking of identity and confirmation of stockholder status was the author permitted to enter the room where the records were kept--row upon row of boxes crammed with ledger cards occupying almost a quarter of the space and except for the separation into brokerage and non-resident holders, a jumble of shareholders' names, individual and institutional, arranged only alphabetically. According to both the Montreal Trust people and the V-P and Treasurer of Stelco, W. C. Chick, there is no master list of shareholders. The impression conveyed by both organizations was one of remarkable neutrality--a shareholder was a shareholder, and they professed to have no idea as to the relative size of the various categories of shareholders. As it was impossible to go through all of the ledger cards (in four hours, only the brokerage accounts, non-resident accounts, and the first two letters of the alphabet were examined), the author conducted a random check at various places in the alphabet to obtain an impression of how shareholdings were dispersed; then selected institutions and individuals were looked up to confirm information obtained from

other sources, or to establish if heads of institutional shareholders (for example, A. D. Newbitt of Nesbitt, Thomson, in whose brokerage account are 5,000 shares of Stelco) had personal holdings as well. The result was no additional information to that already obtained, although holdings can be disguised in a variety of ways, as noted in the text.

24. Stelco, in its submission to the Royal Commission on Corporate Concentration, confirmed the potential veto power of the board but argued that it had never been made actual since Stelco (so far at least) has made apparently infallible judgments! See the submission, Pp. 101-102, and the transcript of questioning by Bryce et al, Pp. 2521-2523.
25. Source for institutional shareholdings: Financial Post Survey of Funds, 1964, 1969, 1962 editions. Information on shares issued for Stelco taken from annual reports; for Dofasco and Algoma, from the Financial Post Survey of Industrials and Moody's Industrials, for corresponding years. Totals for 1961 are low--insurance company pension fund holdings were not published.
26. According to Park and Park (1973: 82); their source is unknown, and institutions were not required to report holdings to CALURA before 1962.
27. The present appears to be such a period, as a Financial Post article dated July 17, 1976, indicates that, apparently instigated by the Anti-Inflation Board restrictions on profit levels, large pension fund investors are shifting investments away from equity to fixed-income or debt securities, a development which does not bode well for capital-strapped steel companies involved in major expansions.
28. According to Newman (1975: 113). He puts a value of \$40,000 average on such a holding.
29. The Survey was first published by Financial Post in 1962 and has since been arranged in its present format. In 1962, it was a listing by type of fund but as there was no summary by company, each fund's published portfolio had to be searched separately for any steel shareholdings. No insurance and few trust companies listed their portfolios. All institutional shareholders and their directors discussed in this section are found in the 1962 Survey of Funds.
30. See the Royal Commission on Corporate Concentration, Pp. 82-86 and P. 108 of Stelco's submission, as well as Pp. 25, 35-36 of the Commission's transcript of proceedings.
31. Sources: Canadian Who's Who and F.P. Directory of Directors, 1965, 1973. Park and Park (1973) play down the importance of the Canadian elites in favour of the U.S. interests.

32. Sources: Canadian Who's Who, (various years), and 1912 Canadian Men and Women of the Time.
33. Source: Canadian Who's Who, 1973; confirmed in Clement (1975: 319).
34. Sources: Canadian Who's Who (various years) and 1912 Canadian Men and Women of the Time.
35. Sources: Canadian Who's Who, F.P. Directory of Directors, 1973, and FP Survey of Funds, 1972.
36. Source: F.P. Survey of Funds, 1962. Information on the original formation of Power Corp., as well as on the manoeuvres of Mesmarais in the late 1960's to secure control, may be found in Newman (1975), Chapter Two.
37. Stelco's submission to the Royal Commission on Corporate Concentration, P. 32.
38. Ibid., P. 103.
39. All information on directorships taken from F. P. Survey of Funds 1974 or (in the case of trust and insurance companies which did not list their directors there), from the F. P. Directory of Directors, 1974.
40. According to the F. P. Survey of Funds, 1962; although no information could be obtained in the Directory of Directors due to gaps in the set consulted.

Chapter 4 STEEL AND THE CANADIAN PRODUCTIVE APPARATUS

I CANADIAN INDUSTRIAL DEVELOPMENT: PRELUDE TO STELCO'S DOMINANCE

In this chapter, a number of aspects relating to the role Stelco plays in the Canadian productive apparatus and to the relationship between the Canadian and American industrial machine will be discussed. Stelco will be placed in the context first of early Canadian economic development and its relationship to the dominant world metropolis, the United States, and then in the context of the steel industry as a whole and its impact on and dynamic interaction with the dominant Canadian metropolitan area and its hinterlands. Thus Stelco will be seen bestride two currents (which are not mutually exclusive) running through Canadian development, that of the indigenous forces and that of the American, both as these forces established their bases of dominance and as they now interact and co-operate. The focus will be not only on Stelco in terms of its development relative to others in its industry but also in terms of its ever-increasing exploitation of North American resources arising out of the process of corporate growth. In the second chapter dealing with productive relationships (Chapter Five), a detailed examination will be made of ownership and directorial interlocks which intimately link Stelco to the most important areas of North American and international productive activity.

1. Canada as Metropolis and Hinterland: Theoretical Perspectives

Stelco will be placed against a historical background of industrial development in Canada, a historical context which will show

Canada as part of the "metropolis-hinterland" scheme of world-capitalist development and also as an integral part of the set of relations established between Canada and the United States and between these two and Britain in the course of the development of the "North Atlantic triangle." These notions require some explanation, which will be the purpose of this section.

The "metropolis-hinterland" (or "core-periphery") model as developed by Andre Gunder Frank (1967) and others finds its basis in the Marxist insight regarding the fundamental tendency towards centralization inherent in capitalism. Just as there is an inbuilt contradiction between the increasing wealth of one class and increasing impoverishment of the other dominated class, so there comes to be a polarization in the degree of development between the centres of metropolitan dominance and the satellite areas. The contradiction expresses itself in the form of increasing development in the metropolis and increasing under-development in the hinterlands. The two polarities are related in a complementary relationship--under-development occurs because of metropolitan need and ability to extract economic surplus from hinterlands to further its own development; the hinterlands remain or become underdeveloped due to lack of access to their own surplus. As Frank (:8-9) explains it, the contradictory relationship of satellite to metropolis

"runs through the entire world capitalist system in chain-like fashion from its uppermost metropolitan world center, through each of the various national, regional, local, and enterprise centers." (:10).

A number of consequences flow from this relationship, according to Frank: the satellite comes to be ever more dependent as metropolitan dominance continues, and with increasing penetration of the satellite's

economic system, the exploitive relationship comes to dominate other aspects of the exploited area, spreading into non-economic institutions such as the political and the cultural.

The model has a great deal of explanatory power, especially when applied to relations between the forces of capitalist imperialism and third-world areas such as Latin America, but must be modified to become applicable to the Canadian case, which, although like Latin America bears the imprint of American and other foreign imperialism, differs in the extent of its development, the nature of the power-base of its indigenous elites, and because of this, in the nature of its relationship to the United States and the rest of the developed capitalist world. Canada, although not an imperialist power, operates with particular efficacy out of a strong financial base especially in banking, and its activities extend not only into the Caribbean and Latin America but also into the developed countries of Europe and into the United States, where Canadian banks have been active for about a hundred years (see Naylor, 1975b; Marshall et al., 1976)¹. This reverse flow of foreign investment and involvement, although having much less of an impact on the United States than American involvement in Canada, nevertheless points to the relevance for Canada of Frank's "subsidiary thesis":

"If it is satellite status which generates underdevelopment, then a weaker or lesser degree of metropolis-satellite relations may generate less deep structural underdevelopment and/or allow for more possibility of local development." (1967: 11).

If only implicitly, the metropolis-hinterland model over-stresses the dependency of hinterlands and the ability of metropolitan forces to insulate themselves from hinterland reaction. It is especially important to emphasize the interdependent nature of the relationship--while hinter-

lands do become dependent upon metropolises for the impetus for and nature of development which will occur there, the hinterland is vital to the survival and growth of the metropolis, both in terms of supplying raw materials and in terms of providing outlets for metropolitan goods and services. This is especially relevant with increasing productive capability as the logic of monopoly capitalist over-production and surplus accumulation works itself out. There is, then, interdependence as well as dependence, although in terms of power, the relationship is asymmetrical.

A number of other points concerning the relationship between metropolis and hinterland must be highlighted for the Canadian case, and will incidentally point to aspects of the model which may be misunderstood.

Kerr (1967: 53) sees the metropolis as a "centre of wealth and power" wherein are located the large economic establishments such as corporations and financial institutions, and from which emanate decisions and policies which shape the dependent areas, and to which flow funds, materials and people in a reciprocal relationship. The relationship is also dynamic, its outlines shifting with changes in competitive status of various elements. Kerr examines a number of indicators, all of which give evidence of the status of Montreal and Toronto as the main metropolitan centres of Canada, followed by the regional metropolises, Winnipeg, Vancouver, and Halifax, with Quebec City and Ottawa having more "specialized" roles. The indicators Kerr uses include such items as population, value added in total manufacturing activity, total income tax paid, and assets of leading corporations and leading financial institutions (:532-537). They all show Montreal and Toronto as being the vital centres,

together accounting for about 37% of all value added, or, when the industrial "nodes" within 50 miles of each are included, over two-thirds of all manufacturing activity in Canada (:533). Secondary industry is highly concentrated in these two regions which together Kerr terms the "Heartland" of Canada (:538). In addition, the head offices of all major corporations in Canada (those with assets over \$50-million) are highly concentrated here--out of a total of just over \$27-billion in corporate assets, Montreal was headquarters for 38.1% and Toronto 36.7% of them. Similarly, leading financial institutions (those with over \$250-million in assets) are highly concentrated--out of a total of over \$41-billion, Montreal and Toronto headquarters represented 41.6% and 45.3% respectively. The value of stock market transactions passing through Montreal and Toronto (26.3% and 67.1% respectively) is also extremely high (:537).

Kerr (:536) attaches greater significance to the workings of the capital market than to head office location as an indication of urban primacy. It is obvious that if 93% of all trade goes through the Toronto and Montreal exchanges, and if new security issues are underwritten predominantly from both markets, then the most important aspects of capitalist financing, large-scale borrowing and lending, are under the control of financiers operating out of this "joint metropolis" and they command a large part of the Canadian economy through their activities.

The class and regional composition of the Canadian corporate elite, as would be expected, also correspond with "Heartland" primacy. Clement (1975) found that those born in West or East were under-represented in the elite in terms of their population base, and further, that there

was a higher percentage of the elite of upper-class origin in Ontario and Quebec due to "their longer established and more crystallized class structures" (:225). There was also a high degree of similarity between the Centre (or Ontario-Quebec Heartland) and the East in terms of class structure, while the West, which Clement terms an "immigrant society" did not have as closed a class structure at the time when the present elite was growing up and consequently, has a larger representation of middle-class members than either Centre or East. The West also differs in terms of economic sectors where Canadian elites hold directorships and in the extent of "compradorization."² Western elites are over-represented in oil and gas pipeline utilities and resources, and under-represented in finance and manufacturing (:227). This is significant in that Ontario and Quebec, where 62.7% of the elite come from upper-class origins, represent the locus of indigenous Canadian elite sectoral strength and dominance: manufacturing, finance, transportation, and utilities. The West, with only 50.0% of its elites coming from upper-class origins, is also the area of foreign dominance in the resource sectors, which have provided some mobility for middle-class Canadians into the "comprador elite" in the service of the foreign-owned corporations.

There is a smaller difference in the proportion of the elite of upper-class origins between Centre and East (eleven percentage points) as compared to Centre and West (thirteen percentage points), which indicates that

"it is not so much the level of development within the region as the maturity of the class structure which determines mobility. Measured in terms of development, the East would be more similar to the West than to Ontario and Quebec." (:227).

Regardless of region of birth, the Centre, with 68% of all Canadian-born members of the current corporate elite, has the "drawing power" one would expect of a dominant metropolis.

These data lead to an important point regarding the metropolis-hinterland model: economic underdevelopment is a consequence of the class structure and the way it has operated at various points in its history. That is to say, the model refers not just to geographic phenomena but more fundamentally, to socio-economic ones.

For example, while Davis (1971) views hinterlands as the relatively underdeveloped or colonial areas which export extractive or semi-finished material and act as pools of labour-power for the metropolis, he also adds the dimension of regional or national power-structures, with their urban upper-class elites and hinterland peasants and urban proletarians who live within metropolises but are not part of its power. "Metropolis continuously dominates and exploits hinterland--whether in regional, national, class, or ethnic terms." (:12, emphasis added). Thus within Canada, Quebec, for example, has acted in the role of hinterland for English Canada both in regional terms and in class and ethnic terms, while at the same time, a national elite has concentrated itself in the Montreal-Toronto joint metropolis.

Geography must be understood as contributing to the determination of metropolitan and hinterland status both incidentally and directly--that is, by contributing in part the conditions for or hindrance to the opportunities which led to the formation of local class structures, and directly, through the presence of raw materials and other resources needed for development. Thus, regionally, central Canada became im-

portant because it was there that local power structures developed and expanded, and eastern and western Canada became important at various stages of capitalist development in terms first of staple extraction and then in terms of industrial resources, attracting both Canadian and American exploiters. Resources are an accident of geography and the exploitation of them dependent on the stage of industrial development; dominant classes, on the other hand, strive to transcend geography and gain control of development. In Canada, historical circumstances have led to a "truncated" class structure of indigenous and comprador elites operating within the same geographic boundaries but from different power bases, created by the intrusion of (mainly) American foreign investment particularly in the manufacturing and resource sectors which the indigenous elite had been reluctant or slow to develop. As will be shown, the iron and steel industry in its early stages exhibited such an American imprint. How it came to be "Canadianized" is in part result of an interplay of shifting forces and conditions as new frontiers and entrenched groups seeking their advantage interacted.

Such considerations, however, must not be understood in terms of a "frontierist" interpretation of Canadian history. The "frontier" approach, as Careless (1954) points out, asserts that the formative influence on North American history has been the open frontier, the key principle being that continuous adaptation to the conditions of that environment created an "American content...within external forms...inherited from Britain or France" (:6), thus obliterating the distinction between Canadian and American development. The direction of influence was thought to be from frontier to old established centres, bringing enriching and stimulating ideas such as "rugged individualism" and "egalitarianism".

Such an approach ignores the "dominating power of the organizing, controlling metropolis" (:11), the influence of the seas beyond, extending back to Europe and the influences which have made the nations of North America modified extensions of that east-west projection (:13).

In North America, as Brebner (1966), Marshall et al. (1976), Wilkins (1970) and others emphasize, mercantile pursuits were as much the modus operandi of the rising new classes as they were of the mother country. For the American seaboard colonies, it meant ignoring British trade restrictions and carrying on trade not only in the American colonies but in the West Indies and involvement in the African slave trade (Wilkins: Ch. 1; Brebner: Ch. 3), and quickly led to the development of small, local manufacturing concerns, and to a rapid expansion in commercial activities on their own account after the American Revolution. For the Canadas, it meant the development of a class whose wellbeing depended on their links with British mercantilism, the building up of commercial infrastructure suited to trading pursuits, and an economy which became over-developed in its staple export orientation to the detriment of manufacturing (Naylor, 1975a).

The response to the imperialistic presence of Great Britain was different in the Canadas than in America, and after the American Revolution, Great Britain's response to the two was also different. Although both areas were important sources of timber to Great Britain during the Napoleonic wars, Britain found herself involved in intense competition with the Americans for the West Indies trade and especially in the period following the Civil War when America emerged stronger than ever, obliged to make concessions in order to retain needed American amity. After the West

Indian contests, the Maritimes saw their hopes for the routing of Caribbean trade through their ports dashed. The centre of Canadian gravity remained firmly around Montreal as entrenched groups there strengthened their ties with and dependence on Britain, and concentrated their efforts on establishing and retaining a "commercial empire of the St. Lawrence." Upper Canada also saw the Great Lakes and the St. Lawrence system as being a key to their own trade prosperity, and leading classes there were determined to realize their aspirations which had been ignored by Britain due to British commitment to maritime trade (Brebner, 1966: Ch. 5-6).

It was the "Laurentian School" of historiography, Careless notes (1954: 14), which recognized the importance of this waterway, which formed an extensive network first centered around Montreal, as an important basis of Canadian development. The St. Lawrence area, the first Canadian metropolis, however, was also the scene of a series of competitive struggles set in motion by British mercantilism, which figured importantly in the rivalry between Toronto and Montreal for the adjacent hinterlands, and as the western frontier began to be pushed back, evolved into rivalry between Canadian forces (for command of the western hinterlands through the St. Lawrence and its canal systems) and the Americans operating from extensions of the Hudson River system, notably the Erie Canal (Spelt, 1972: 84).

The ingredients of the North American-British triangle are found in the colonial period and are projected forward to the present, with various themes and issues interwoven throughout the separate but intimately related development of Canada and America. At the same time that growing industrialism in Britain caused it to disregard the needs of the dependent Canadas by such acts as repeal of the Corn Laws and caused dominant groups within Canada to fall back upon their own resources as best they could,

Britain was becoming increasingly dependent on Canada as an outlet for investment, the foundations of "financial imperialism" having been gradually built up, as Brebner notes (1966: 179), thus making Britain anxious about the security of loans it had made for canals, railways, and other ventures. The dependence of Canada on Britain was exacerbated by the threat of American expansionism which caused the Canadians, Brebner argues (:143), to "persuade themselves that they were more British than they actually were" as a defensive response. Such a response accounts not only for the slowness with which Canada adopted "continental" patterns, but also the strengthening of the hand of local oligarchies who drew their power from their British connections. These groups became all the more entrenched and all the more reluctant, as Naylor argues (1975), to abandon their traditional modus operandi. Such responses to their situation as the National Policy of Protection of the 1870's was designed not only to shore up British confidence in their Canadian investments, present and future, but to create the conditions whereby belated industrial development could be begun for them by Americans interested enough to move behind the tariff barriers raised up, assume risks and provide the finance-based Canadian elite with ready investment outlets (Naylor, 1975a: Ch. 2). The die had been cast for the role Canada was to play in the triangle; it was a peculiar one, swinging between dependence and assertiveness, for, as Brebner (1966) puts it, Canada's experiences had taught it that despite the fact it was destined to be a minor power caught between two great ones, Canadians

"had also rediscovered the working principle which had emerged during the reciprocity negotiations of 1854, that is, that both Great Britain and the United States had certain specific interests in Canada which could on

occasion be stimulated to activity, and actually intensified, by playing one off against the other, to Canadian advantage." (:203).

The ingredients of the triangle were varied, but they amounted to an interdependence of needs and a complementarity of interests reinforced by the "psychological propinquity" arising from cultural origins shared in common. Some of the more important aspects may be briefly summarized. Both Canada and the United States absorbed the surplus population of Britain and Europe; in turn, immigrants provided necessary labour inputs for the agricultural areas being opened up in the West and for urban factories. All three countries provided markets for one another. Americans and Canadians interpenetrated one another's territory in the search for raw materials. Their rail systems crossed each other's territory or each had traffic rights on the other's, providing strategic links between the two countries. The Great Lakes and the St. Lawrence became an important shared waterway for cheap bulk transport of goods and raw materials. Both countries needed foreign outlets for agricultural cash crops. Since the existence of the British Preferential Tariff in 1897, American branch plants in Canada were assured access to British markets. Both America and Canada were recipients of British investment capital in varying quantities. Both nations contributed to the survival of Britain during the two World Wars. (Brebner, 1966: Ch. 13-15). The net effect of geography and history was continuing interdependence, although Canada was less powerful than the United States.

Thus must the metropolis-hinterland model be modified to take into account the often confusing mix of conflict and co-operation, dependence and interdependence, assertiveness and passivity, action and reaction. As

Davis (1971) argues, the Marxian dialectic based on the premise of long-run changes resulting from oppositions must be modified over the short run, for although contradictions abound in the relations between dominating and dominated forces, a dynamic interplay is involved; hinterlands do fight back against metropolitan exploitation in order to gain a larger share in the existing system, and conflicts often remain latent for long periods, often temporarily "outweighed by conditions of prosperity or by temporary alliances in the face of larger confrontations." (:12). In the case of Canadian-American relations, those "temporary" alliances have been extended for a number of generations, and those "dominated" do a considerable amount of dominating on their own account. The "larger confrontation" which has remained mainly latent is that of the challenge to the capitalist system itself. On that issue, Canadian elites are not only staunchly united but staunchly "continentalist" in orientation. Therefore, while it is true that, as Davis asserts, foreign imperialism has always had a hand in the development of Canada, it is also true that the Canadian elite has had an ability to contribute shaping forces to Canadian development, regardless of the grotesque form which has resulted, or the fact that they must share the field with foreigners who have snatched away many of their advantages.

One further point will lead directly into a discussion of the development of the Canadian steel industry to maturity. Friedman (1972: 84) adds to the "purely economic" formulation of the metropolis-hinterland model the "spatial dimension," that of a "field of forces" or patterns of "relations and tensions" which include such factors as power, communication fields or interaction, and decision-making. He stresses the conflict

aspect of social change in the pattern of "authority-dependency" relations, rather than static aspects. And he distinguishes development from growth--development being characterized by innovations which lead to transformations of social systems. Such conditions of innovation are generally present in large and rapidly growing urban systems, or at the points of highest interaction in a communication field, from which core innovations diffuse downwards and outwards to areas of lower or peripheral interaction. Applying these concepts to Canadian development, Naylor's conclusions (1975b: 282-283) are especially cogent: Canada had "no lack of capitalists of undisputed ability"--in railways, utilities, commercial banking, and finance, all activities which a small, tightly interconnected group monopolized as a response to colonial dependency, and continued in these patterns, thereby stifling industrial entrepreneurship of any importance. As a result, much of early Canadian industrial development owed its existence to American innovation, first through migrations of individuals with skills and techniques learned in the U.S. (and often, accompanied by their own machinery), and later through the spread of branch plants set up to market or manufacture products whose innovation American talents could claim as their own (Wilkins, 1970; Marshall et al., 1976). This vacuum, Naylor argues, led to the dependence on American industrialism for Canadian development and hence to the distorted nature of the Canadian economic structure.

The two "great Canadian success stories," agricultural implements and the primary iron and steel industry, are seen by Naylor as "exceptions that prove the rule"--the rule of the Canadian industrial vacuum--since these industries were created in Canada by emigre American entrepreneurs with no American ownership ties but with access to American

capital and patents. The iron and steel industry was created by American "bonus-hunters" who were also without formal ties to American ownership. Although this latter point is overstated by Naylor (his statement does not apply to Stelco), these considerations are important ones from which to begin a discussion of how it came to pass that the iron and steel industry was "Canadianized" and the American influence which initiated it diluted to harmless proportions which allowed a Canadian elite to move in and establish a fairly firm power base.

2. Railways, Steel and Canadian Industrial Development from 1850

Historical evidence suggests that there was marked growth in manufacturing in colonial Canada only after 1850. Industrial development occurred in the Maritimes as well as in Upper and Lower Canada, but its character was not the same there. In Upper Canada, due to the early introduction of steam-driven machine production, there was more concentration of production and capital (Ryerson, 1975: 259), whereas in the Maritimes, small individual capitalist enterprises such as sawmills employing only two or three persons, on the average, persisted even in 1871. Only in mining and related areas was there any sign of significant growth (:218), and much of this was under American guidance, as will be discussed later in connection with coal and steel. Capital imports tended to by-pass the Maritimes. After the brief surge of prosperity which the timber trade brought to them in the period of the Napoleonic wars and the era of the wooden sailing ship had passed, so too did the Maritimes continue their slide into economic oblivion save for the importance of coal and steel during the latter part of the nineteenth century. Moreover, there were significant differences among the Maritime provinces in terms of develop-

ment--most industry centered around Nova Scotia, especially in shipbuilding and construction; New Brunswick's economic base was derived from the forest industries; Prince Edward Island depended on agriculture; and Newfoundland only on the fisheries.

The great landed proprietors, absentee or otherwise, "held sway" in Halifax, St. John's and Charlottetown, and in 1837, Nova Scotia was still ruled by "an amalgam of colonial-military officialdom with a closely-knit group of merchant-bankers possessing strong ties with London commercial houses." (:194). Maritimes capital accumulation drained away to Britain (:197). There was no rising class large enough or strong enough to challenge commercial hegemony as there was in Upper Canada, where an incipient industrial bourgeoisie in alliance with small merchants, professionals and urban workers demanded reforms and protested the chain of dependence which led from the Compact to the Montreal financial houses and thence to Britain (:Ch. 5-6). They demanded "freedom of the market" in trade, and denounced the land monopoly as a deterrent to industrial development (:107).

In Upper Canada, small industrial beginnings would blossom when the railways opened up new areas of contact and opportunity. By 1817, steamers were traversing Lake Ontario and as early as the 1830's, a foundry at York produced marine engines (:98). But for the most part, before 1850, manufacturing in Upper Canada could best be described as localized in small villages ("service" rather than market-oriented, serving local inhabitants' needs, and often based on barter with largely self-sufficient farmers rather than integrated into a money economy), and production was of the handicraft or workshop type. Due to inadequate transportation, settlements were isolated from each other (Spelt, 1972: Ch. 3).

With improved road transportation, these localized "service" industries did not increase proportionately with the increased population but remained small and handicraft types, while new industries were established or grew out of old ones in response to wider markets within Ontario, leading Spelt (:79) to term them "propelling industries" because they would later contribute to the evolution of urban centres and to the creation of a national economy. In these early years, isolation from the dominant St. Lawrence metropolis and from British imports encouraged indigenous industry, temporarily protecting it from severe competition by virtue of distance and transportation inadequacies. By 1851, such industries as sawmills and gristmills predominated numerically, constituting close to 88% of all industrial establishments in South-Central Ontario (timber and grain were important export staples at that time). Lumber-planing mills, lath, cabinet, boot and shoe, and carriage factories also existed, as well as woollen factories, distilleries, tanneries, and foundries, although in much lesser quantity. Woollen mills and foundries employed a slightly higher average number of workers than other establishments (:74-75). In this period, Toronto, while possessing a greater variety of industrial establishments than other Ontario communities, resembled them in every other respect, attesting to its lack of sufficient resources which would propel it to metropolitan status. Railways would prove vital to that emergence.

The importance of the railways to the "take-off" phase of Canadian industrial development is emphasized by Spelt (1972), Naylor (1975), Marshall et al. (1976), and, as a drawing force for American influence in the steel industry, by Eldon (1952). Railways were important not only from

the standpoint of the impact they had on changes in the nature of manufacturing and commerce, but also for the opportunities opened and strategies pursued by powerful Canadian groups. For this reason, railways will be emphasized in this section as an important key to understanding the early development of the iron and steel industry and its links with the established classes.

American manufacturing was by the 1830's already more advanced than Canadian, and as a result, Americans were involved early in Canadian lumbering and (by the 1840's) in mining, extracting everything from precious metals to industrial minerals such as coal and nickel (Marshall et al., 1976: 5-7). By the 1880's, Marshall et al. (:10) estimate that more than half the capital employed in Ontario and Quebec mining came from the United States.

Although financing for Canadian railways came mainly from British investors, with a large amount also raised in Canada, prior to 1885 not only was some American capital invested (nearly \$50-million) but Americans controlled some railways (:113). Most of these relatively short lines were built to supplement the American systems by providing access to Canada, and others were developed in conjunction with industrial and mining ventures (:114). American-owned railways by the 1930's, however, provided only 7.4% (in terms of value) of the service in Canada and operated only 1,850 miles (including trackage rights) in Canada, whereas the two Canadian-controlled transcontinental systems which controlled the lion's share in Canada operated as well on 6,600 miles in the U.S. (:113). The most important American input into Canadian development in railways, other than capital, was in providing many of the great Canadian railway builders such

as Van Horne with their early training and experience in the American north-west (:114). Americans also had connections with the Canadian Pacific in terms of financing its first bond and public stock issues through the New York-Montreal financial syndicates and the New York and Amsterdam underwriters respectively, when problems of London financing arose due to Grand Trunk's opposition (:114).

Generally speaking, however, in railways powerful Canadian groups prevailed, as is evidenced in the outcome of deliberations centering around the Manitoba portion of the CPR. When a syndicate of Canadians and emigre Canadians fresh from their profitable St. Paul, Minneapolis and Manitoba railway venture accepted Macdonald's invitation to build the C.P., their intention of building a portion of it through the American iron and copper mining regions was strongly vetoed in favour of an all-Canadian route (Brebner, 1966: 211-212).

In manufacturing, the extent of American involvement was an entirely different story. Even before the National Policy of the 1870's and 1880's was introduced, Americans had come to Canada to establish small manufacturing concerns. The first American branch plant (that is, with direct ties to American investment and control), according to Marshall et al. (1976: 11) was probably a St. Catharines file factory established in 1870. Between 1870 and 1887, the process of American branch plants or companies with American directors accelerated, and by 1887, Ontario was already the most important scene of activity for American controlled and affiliated manufacturing concerns, having a total of 50 such concerns compared with Quebec's 25, the Maritimes' six, or Western Canada's one (:14). It is, therefore, important to bear in mind the American presence and influence in Ontario during the early and important formative period

when Toronto began its rise to metropolitan status. When Toronto was building up important financial infrastructure under the leadership of local Canadian elites, many Americans were actively involved in the industrial activity which was its complement.

In 1851, Toronto was still engaged in the first of four identifiable stages in the rise of a metropolis: creating a well-organized marketing system for its whole area. There were already road and steamboat linkages to its hinterland, to Montreal, and water linkage to the New York railway orbit, but its hinterland was small, restricted to southern and southwest Ontario. Toronto was

"still purely a commercial centre...Progress in the development of manufactures was still meagre...In the area of financial facilities, Toronto was still largely dependent on London, New York, and Montreal."

(Masters, 1947: 13).

By the 1880's, Toronto had acquired metropolitan status on more or less equal footing with Montreal, whose dominance had been steadily eroded by competition not only with Toronto but with the American canal and then railway networks. But, as indicated in Chapter Three, Montreal was still a formidable power and although Toronto managed a banking legislation triumph, it lost in its struggle with Montreal over control of the CPR charter (see Masters, 1947: Ch. 4; Spelt, 1972: Ch. 5). More importantly, by 1890, Toronto had completed the developments of the other three stages in its emergence: manufacturing development continued in the entire area, transportation had improved rapidly, with Toronto emerging as a hub, and a financial system for both inter- and extra-metropolitan commerce had matured³. These developments were not accidental, for, ever since its beginnings,

"Toronto was started on the road towards metropolitan predominance not by its economic strength, but by the deliberate actions of a self-interested governmental clique." (Spelt, 1972: 54).

The railways must be seen as a part of such a strategy, not only for the Upper Canadian governmental clique, but for the Montreal one as well. As Naylor (1975a: 23) sees it, the "dawn of the railway age" in Canada was by the 1840's an economic necessity whose priority arose from the abolition of the old colonial preference system and the threat of American railways diverting trade away from the St. Lawrence system to the Hudson-Mohawk system. The railway priority and Confederation were, as Naylor interprets it, related to strategies for survival and expansion of the dominant classes in Canada (those, as discussed in Chapter Three, who operated out of a mercantile-financial base). Confederation would not only ensure unified territory for the expansion of trade but probably equally as important, make secure British investment in Canada. The early alignment of forces in the three areas of the Canadas were inclined almost overwhelmingly towards free trade (:30-31) (with the exception of a few Montreal mercantile and industrial capitalists), probably due to their aspirations to share in American trade rather than develop Canadian industry, or in the case of Upper Canada, to "hopes of using the Maritime provinces as a free trade bloc to assist the agrarian community of Upper Canada in its struggle for lower tariffs" (:31), part of the Upper Canadian striving for development independent of Montreal big business interests (:31). Thus, from the very beginning, railways were part of the expansionist and survival strategy of entrenched forces in Canada, allied with British investment houses and in control of government fiscal policy which would ensure success.

Nova Scotia provides a revealing example of the intimate relationship between political union and unification through rail linkages: in that province, those who were pro-Confederation

"followed a line along the railway route, including as well the coal pits of Cape Breton, while the anti-Confederate vote was centred in the old seafaring centre." (Naylor, 1975a: 34).

The railways, it must be emphasized, were essentially a mercantilist and not an industrialist response to conditions and challenges in North America; it was subsequent changes in conditions and opportunities which led to a reorientation of that initial strategy, particularly as presented by the steel industry.

Canals, Spelt (1972: 117) argues, ceased to be a factor in south-central Ontario urban development after 1850, and by 1880 with changes in laker vessel sizes, the Welland and the St. Lawrence canal systems were too narrow and too shallow. The water systems had failed to draw farmers into the money economy and only areas accessible to waterways were affected. But it was the growth of rail systems, extending into the interior, which drew them in and also contributed to an expansion of marketing opportunities throughout the region, as well as eventually opening up the more northern resource areas.

The earliest railway development in Ontario was the Great Western (incorporated in 1834 but revived in 1845), linking Niagara via Hamilton to Windsor in 1854 and with Toronto in 1855. Although financed with British capital, it was probably strongly influenced by Americans, as it converged with the Buffalo system (:109-110). The Champlain and St. Lawrence had been built in 1836, and the railway boom really began with the Grand Trunk in the early 1850's, representing Montreal's effort to gain control of the

Ontario hinterland and draw away from New York the western American trade. Begun in 1853, it reached Toronto a year after the Great Western, and Toronto, located between New York and Montreal rivalry, found itself connected to both (:110). The American Drawback Act of 1845 had already given Toronto an advantage at the expense of the Montreal canal system, since by being able to ship goods in and out of New York in bond, Toronto contributed to breaking Montreal's dominance of the Upper Canadian hinterland (Kerr, 1967: 540). When Montreal between 1840 and 1870 lost out in the north-west contest to New York, Toronto was in an ideal position to develop its independence.

Although Montreal had the Grand Trunk linking it with Ontario and from 1876, the Intercolonial linking it to Atlantic ports, Toronto began to build up a network to join the Ontario hinterland to itself, and in 1855 the Northern, initiated and promoted by Torontonians, gave access to the Collingwood area (Spelt, 1972: 110). By the 1880's, there was a second Toronto-Montreal line, and many feeder lines to open up the Ontario interior had been constructed in the 1860's (:112, 158). Toronto, in the municipal railway subsidy contest with other towns, had outbid the others and had promoted, for example, the Toronto, Grey and Bruce, linking it with such near-northern towns as Owen Sound (:113), so that it was gradually becoming the centre of a network of railways radiating in all directions by 1880. Hamilton had also become a railway centre in its own right, competing with Toronto's Northern in the northward projection (:114). These regional developments thus more than compensated for Toronto's loss of the CPR charter, because an area important to future industrial development in southwestern Ontario was being opened.

The stakes in the C.P. struggle were high--control of the north-western hinterlands. In 1881, Montreal interests, backed by the powerful Bank of Montreal and by the Hudson's Bay Company (:160) had a clear opening to the west and a transcontinental system. It was completed in 1885 and it was not for another 20 years that Toronto could boast of its own transcontinental connections. The Canadian Northern, supported by the Canadian Bank of Commerce and other Toronto financial interests, was Toronto's successful challenge to Montreal (:160-161). Its western portion, however, had been under CPR influence, begun in 1884 by two CPR contractors, Mackenzie and Mann, who had worked under the chief engineer, Herbert Holt; after 1898 due to a falling-out with their mentors, a shift occurred and by 1902, the Bank of Commerce and its allies became instrumental in C.N. financing (Naylor, 1975a: 288-290). This strange shift not only benefitted Toronto interests but was a portent of developments to come--Holt went on to become a leading (and notorious) banker-promoter, and Mackenzie and Mann became allies in American-influenced steel ventures.

From 1867 to 1879, railway mileage increased from 2,278 to 6,858 miles, and by 1897, to 16,550. Donald (1915: 15) notes that railways and tariff protection influenced progress in manufacturing. The importance of railways for steel is clear: the railway business brought a ready market, and in return, allowed raw materials to be brought in from remote areas so that using industries could be located close to main markets. The problem experienced by the pre-railway steel industry was that it had to be located near raw materials, a decided handicap, since most of its customers were not nearby. Eldon (1952) emphasizes the importance of these two factors, raw materials and markets, for the developments in the industry.

In many cases, the location of a plant proved to be a disadvantage when steel markets developed later in southwestern Ontario because the plant's location had been an artifact of other factors which first attracted American entry into Canada--in two cases (Dominion Steel and Algoma) the main reason for establishing the plants had not been for making steel but for exploiting mineral or water-power resources of the area. This point will be returned to in the discussion on raw materials.

Eldon (1952: 31) notes that three firms in particular derived a great deal of benefit from the railway building period: Canada Iron Furnace, a maker of castings (this firm took over the old Quebec-based Radnor Forges in 1889), the Nova Scotia Forge Co. at New Glasgo, and the Londonderry Works in Nova Scotia. However, in the beginning, the primary steelmaking end of the industry benefitted only indirectly, as it was the finishing plants (those which rolled steel rail and used raw or semi-finished steel as their raw materials) which received the most stimulation; then as they were able to absorb more primary steel, the primary industry received stimulation as well (:29). The early railways such as the Grand Trunk, bringing stimulation to southern Ontario, and the Inter-colonial, created conditions for future expansion by first creating the demand for large quantities of steel products and then opening markets into which iron and steel producers had not previously entered due to lack of transportation facilities. By the turn of the century, the two processes, that of railway demand and of industrial development, had stimulated one another. The growth of rail transportation also made it possible for steel producers to expand beyond the limits created by reliance on local sources of raw materials and, as will be shown in the next section, Canadian

iron ore began to play a role in North American-wide resource exploitation. Opening of the West and development of new raw material sources further promoted industrial activity, which led to increased steel demand.

The Canada Screw Co. (originally established by Hamiltonians and after unsuccessful operation, taken over in 1876 by the American Screw Co. of Providence, Rhode Island and operated by Charles Alexander of Providence and Cyrus Birge of Hamilton) was not established due to railway demand, but the plant was later moved from Dundas to Hamilton due to new railway development in Hamilton (:77).

The beginnings of what was later to become the Algoma Steel Corporation can be attributed to the lure of the railroads only indirectly--in 1894 Clergue, originally a Maine lawyer and involved in a number of ventures in the U.S., persuaded Philadelphia and New York capitalists to finance power and pulp development in the Sault Ste. Marie area, and they went on to finance a machine shop and foundry for the construction of a dry pulp mill. Clergue's entry into steel transpired through a happy accident--when he acquired a nickel mine in order to produce sulphites for increasing the marketability of ground wood pulp, it came about that the residues formed a nickel-iron alloy of such superior quality that it interested the Krupps, the German gunmakers. This demand did not exhaust the nickel supply produced, so he acquired the Helen Mine in 1898 for mining iron, and primary steel facilities were planned in association with the building of the Algoma Central Railway north to pulp forest areas. New York capitalist became interested and by 1901 a small steel plant was ready. Algoma Steel Co. was formed to control this aspect of the Lake Superior venture (:82-83).

Eldon (:85) comments that each part of Clergue's empire arose out of the needs of a previous one and each element became a market or supplier or prop for the other pieces of the industrial network which in 1899 was united as Consolidated Lake Superior Co. Thus, steel became later an important offspring of the main reason Americans were in the area: hydro-electric power, and the fikling of rail orders for the Canadian systems arose out of the need to supply rail for an American-controlled industrial hinterland railway.

The creation of Dominion Steel Corporation in Nova Scotia and its involvement in rail production also cannot be directly attributable to the railways. Whitney, a Boston financier, organized Dominion Coal in 1893 to supply his New England Gas and Coke Co. for the production of gas for the city of Boston and of coke to American railways and manufacturers. Nova Scotia coal being not particularly clean, Whitney found his business threatened in 1896 by the Boston Smoke Nuisance Law, and since provincial and municipal offers in Canada were good, he decided to build a steel plant to use the output. This plant consumed 23% of the coal company's production, providing a nearby outlet. Dominion Iron and Steel Co. (formed 1899), ostensibly was a separate company, although its management was identical with that of the coal company, and in fact they merged in 1909. Dominion Iron was to produce blooms and billets (semi-finished products), but as demand for finished products was greater, a rolling mill was planned; when capital supply problems developed, management settled for a less ambitious project involving a rail mill and mills for plate, angle bar and wire rod production (:107-110).

In the period prior to 1879 and the National Policy, as Donald (1915: 63) points out, there was no greatly important iron industry, there being no pig-iron plants in Ontario and no very important rolling mills. Quebec had only three small blast furnaces and a few fairly large rolling mills, but the St. Maurice and Yamaska forges were close to abandonment. Only the Londonderry, Nova Scotia plant was important, and it was to fail by the 1880's. The greatest period of early development was between 1868 and 1879, owing mainly to the increased demands of the railway era (:67), and by the turn of the century, the finishing end of the industry was quite over-developed owing to the tariff protection afforded finished products--by 1891, they alone numbered 520--and there was "a redundant supply of certain kinds of plants" (:120). Between 1875 and 1890, Quebec and the Maritimes were dominant in steel--in 1896, Canadian railroads almost all used car wheels made from the product of the Canada Iron Furnace Co. at Three Rivers, and Nova Scotia supplied forged products. At that time there had been no blast furnace in operation in Ontario for 40 years, until 1893, when Americans accepted the generous offer of the city of Hamilton to build a primary iron and steel mill there (:Ch. 6). Donald (:120) concludes that "during the period 1874 to 1897, forces were working to develop an iron and steel industry." These forces may be summarized as, first, railway building and the stimulation offered to the finishing industries and through their demand, to the primary industry; and second, the tariff and bounty system which offered substantial rewards to establish primary plants, an offer usually taken up by Americans.

3. The "Canadianization" of the Primary Steel Industry

In the "doldrums" of 1921 to 1935, extensive analysis suggests to Eldon (1952: 165) that there were only remnants of American investment in

the Canadian steel industry, mainly in finished products, in Ontario and Quebec--for example, producing brake shoes, forged products, and locomotives (:169). There were also poor investment prospects in primary steel after the railway building era petered out (:172). In the 1830's when Marshall, Southard and Taylor (1976) wrote, Algoma had a "nebulous Anglo-American-Canadian ownership" (:56), and by the end of that decade, had passed out of U.S. direct control. Marshall et al. (:56) report that, for example, while paper mills accounted for more than a quarter of American manufacturing investment, and iron and steel goods factories were second in volume of capital employed (Americans controlled 82% of the automobile and auto parts industries), yet only 12% of the basic steel industry was accounted for by American branch plants, and in furnaces, rolling mills, castings and forgings (the basis of the steel industry), there was little American ownership. Many of the American firms were small, some producing forgings and other specialized products, according to Eldon, as some of the examples given above indicate. Similarly, Naylor's data (1975b: 295) indicate that Canadian ownership of securities in 1921 amounted to 71% of the total in the category "steel furnaces and rolling mills" compared with 28% U.S. Between 52% and 94% of the following industries' securities were also owned by Canadians, compared with U.S. ownership of between 1% and 28%: agricultural implements, textiles, food and beverages, and construction. And although many security issues had been taken up by British and to a lesser extent American investors, transportation and many utilities were also by that time Canadian-controlled. By contrast, Americans owned between 55% and 100% of the securities in the auto, auto accessory, paint, drug, chemical and artificial abrasives industries.

Thus, by the second decade of this century, "The distribution of foreign ownership of securities (including bonds)...already showed certain very critical patterns." (:294). These patterns were to continue and to become accentuated. The examination of how American influence became diluted in the Canadian steel industry and control shifted to Canadian elites is, therefore, vital to an understanding of the current position of the industry.

Before 1850, there was little American involvement in the Canadian iron industry and production was small-scale, hampered by transportation difficulties, and due to problems ranging from poor or unmanageable ores to lack of markets and low prices, usually quite short-lived. The number of concerns can practically be counted on the fingers of one hand: one in Nova Scotia, connected with the Annapolis Mining Co., none in New Brunswick or Quebec, and at various locations around Ontario, the efforts of Joseph Van Norman and four New York associates who were later bought out by Benjamin Van Norman; and the Furnace Falls Iron Co., begun by Parry and Mills of Chicago (Eldon, 1952: Ch. 2). Eldon (:25) concludes that there was little chance of long-run success for any enterprises even before 1890. Before then, the Radnor Forges and the Canada Iron Furnace Co., established by P. H. Griffin and others from Buffalo, associated with the Drummonds and McCalls of Montreal, were active between 1889 to about 1914 at which time, being small-scale operations, they became obsolete.

The protectionist policies introduced in 1879, coupled with the system of granting bounties for pig-iron produced and the various subsidies offered by provinces and municipalities, coinciding with the railway boom and enlarging markets, attracted many Americans, and most of their influence may be dated from the time it took for these policies to promote other industrial developments--about a decade later.

The Hamilton Blast Furnace Company was set up by New York interests in response to generous subsidies offered by Hamilton and by the federal and provincial bounties. The Ontario Rolling Mills was established by men from Ohio, although Eldon (:76) notes that American investment did not appear to be large. Before the turn of the century, control of both had passed to Canadian interests, as was that of Canada Screw Co., when Birge took over the interests of the American Screw Co. in 1898 (:76-77). Dominion Wire, originally established by two Englishmen, was purchased in 1907 by William H. Farrell, brother of James H., president of U.S. Steel, and representing U.S. Steel interests (:78). These companies all became part of the Stelco merger in 1910, under the auspices of leading Canadian financiers, as has already been outlined in Chapter Three. Stelco, Eldon (:74) notes, was the least influenced by American initiative and capital, and early became a powerful, well-integrated unit which absorbed both former American and Canadian companies. Similarly, the Montreal Rolling Mills was a Canadian creation, as has already been noted.

The history of Algoma is one of a rapid series of reorganizations beginning almost from the time of the incorporation of the Consolidated Lake Superior Co. The original company was controlled by Philadelphians, a syndicate of "prominent and influential American financiers" and its original management included executives of Pittsburgh Plate Glass Co., Pennsylvania and Northwestern Railroad, and Berwind-White Coal Mining Co. In 1910, Canadian capitalists associated with electrical concerns and Hayden Stone & Co. of Boston also became shareholders (:87). When Algoma's first shipment of rails on an order that had been obtained through favourable government legislation turned out to be unacceptable and in the meanwhile Mackenzie

and Mann of the Canadian Northern bought dumped German rails cheaply, the company was started on the road to financial insecurity (:87-89). Clergue was replaced by Cornelius Shields, who was lured away from Dominion Iron and Steel to attract new capital, but he failed and in 1903 Speyer and Co. announced loan default and the company was dissolved, to be re-incorporated in 1904 under a New Jersey charter but with many of the original American shareholders remaining (:89-90).

Before 1914, shifts again occurred, beginning with the important intrusion of Canadian and British capital in the railway subsidiaries. Around 1907 James Dunn, who was later to lead Algoma to success, obtained Clergue's assistance in interesting the British financier, Robert Fleming. Fleming and Dunn formed an investment company and bought Algoma stocks at a New York auction for a fraction of their original value. After further difficulties, the company began to shift its orientations to steel as its central concern and divested itself of many of its other interests, becoming reincorporated in 1912 as Algoma Steel (:91-94). American capital and entrepreneurship were, according to Eldon, still decisive during this period. Clergue, although no longer part of Algoma's management, remained as a director until 1907 and was also a director of two other American-dominated companies, Cramp Steel Co. and Canadian Iron Furnace. The former went into liquidation by the first world war, but Canadian Furnace (with the M.A. Hanna Co. as its selling agent) was eventually acquired by Algoma (:104)⁴. By that time, American influence in Algoma was considerably reduced, as the following progression will reveal.

Dunn had been impressed with Algoma ever since he was taken on a tour of it by Clergue in 1907 and had been quietly buying up bonds. He later also acquired Fleming's securities. When in 1932 Algoma suffered a bankruptcy and was reorganized, first-mortgage bondholders were issued common shares in the new company, and Dunn, with 80% of the bonds, acquired three-quarters of the controlling common shares. He then went on, aided by a large federal government rail order, to build the company up and to cancel its entire funded debt by 1947 (Newman, 1965).

After Dunn's death in 1956, the company was again "up for grabs"--the Dunn estate, requiring funds to pay succession duties, raised money through the sale of Algoma shares. At the same time, a number of other developments were about to converge.

Dominion Steel and Coal, "a somewhat uneasy alliance of U.S., U.K., Canadian and Belgian capital" (Park and Park, 1973: 108) lost its Canadian president in 1957 and was open to a shift in control. In mid-1956 British and Canadian interests attempted control of McIntyre Porcupine to prevent the incursions of Cyrus Eaton, and by mid-1957, the British-Canadian interests had gained control of McIntyre and used its funds to gain a share in Algoma's control. The Mannesmann (West German) interests, the McIntyre Porcupine interests, the executors of the Dunn estate (led by C. D. Howe) and the British Hawker Siddeley's subsidiary, A. V. Roe Canada Ltd., all converged in the control of Algoma. The Hawker Siddeley group also controlled Dosco by that time, but suddenly retreated from Algoma in 1958, and later, control passed to the Mannesmann interests (:108-109). Control remained with Mannesmann until 1975, when Canadian Pacific Investments became the leading force, as indicated earlier. Thus was the original American content diluted, although

Canadian interests have not always been able to maintain control without forming alliances.

The progression of events leading to the dilution of American influence in Dominion Steel (Dosco) exhibits many of the same characteristics. Dominion Steel by the turn of the century suffered the effects of a serious strike and financial problems arising from internal weaknesses (a board of directors run by financiers not competent in steel management) and by 1901, Whitney had sold his control of James Ross of Montreal. Strong American interest remained, however, including Hayden Stone and Co. of Boston (Eldon, 1952: 111-114). Left in a vulnerable position after its long but successful lawsuit with Dominion Coal, which ended in their amalgamation, the company took advantage of its favourable position with respect to raw materials and European export markets. When the rail business fell off and financial difficulties arose British interests through their London advisory board to become involved in 1919, they, allied with North American interests, planned to merge Dominion Steel with a number of companies. Nova Scotia Steel (with whom Dosco had co-existed over the years, having no overlapping products or markets) was to be included, plus its subsidiary Canada Steamship Lines, Canada Foundries and Forgings, Collingwood Shipbuilding, Port Arthur and Davie Shipbuilding, and Wolvins' and Norcross' Halifax Shipyards, to be incorporated in 1920 as British Empire Steel Corp. Ltd. (BESCO) (:141-142). However, general financial conditions in Britain did not favour raising such a large amount of capital, and some companies had to be omitted from the scheme. Halifax Shipyards and Nova Scotia Steel were left in. Financial help came from U.S. interests through the Austrian banker, Szarvassy (:144).

BESCO was heavily overcapitalized and, possessed of a finance-oriented board with little experience in steel, foundered by 1924 due to a competitive disadvantage in the Montreal and Pittsburgh markets and resulting financial difficulties. In 1926 the company went into receivership, and while the British interests were planning a reorganization, Canadian interests led by Herbert Holt, Max Aitken, and Gundy & Co. along with Stelco's director Duggan, gained control. Although British interests remained dominant (half of the stock and bonds were held in Britain at the end of the 1930's), American influence had been reduced, as evidenced by its representation by only one New Yorker and one Bostonian on the board (the latter supplying technical, not financial, skill) (:145-149). The situation of Dosco in the 1950's has already been noted; its subsequent fate will be reserved for the discussion of the rise of Stelco to dominance.

Other major developments in the steel industry to the 1930's included the formation of Dominion Foundries and Steel (Dofasco) in 1912 by the American Sherman brothers, and two "non-events"--the withdrawal of United States Steel from active contention for a share of Canadian industry, and the failure of western steel to develop except later under the auspices of eastern Canadian interests.

According to Eldon (1952: 102), even the early Dofasco, despite its emergence under American entrepreneurship, had very little American capital input. Although on the verge of expansion, Dofasco did not yet produce its own pig iron at the time of the first world war, and Algoma and Stelco were the dominant companies in 1914 (:122). The geographic centralization as well as economic concentration formed a firmly established pattern quite early in the century.

United States Steel, though eyeing Canadian potential for quite some time, initially lost its advantage when its Dominion Wire became part of the Stelco merger. As an important outlet for the output of any primary mill that could be built was eliminated from its control, and as Canadian economic conditions for profitable operations became uninviting, U.S. Steel did very little beyond acquiring land at Sandwich (Windsor) and beginning construction on a limited scale. Its Ojibway plant was in operation in 1927; Ojibway's tinplate product accounted for over half of the Canadian consumption and it had a number of subsidiaries as well (Canadian Bridge, Canadian Steel and Wire, Canadian Steel, Essex Terminal Railway Company). According to Eldon (1952: 165) inadequate tariff protection from European finished products and a depressed Canadian market prompted U.S. Steel's withdrawal in 1937. Kilbourn (1960: 132) notes that U.S.S. offered its Ojibway plant to Stelco, but Ross McMaster, its new president turned it down on the basis of poor location and a preference to spend money on Hamilton-centered development. The plant was, according to Eldon (1952: 165) sold to Dominion Steel but low earnings on its own heavy fixed investment prevented the Nova Scotia company from doing anything with it to allow advantage to be taken of its relatively better location. Thereafter, U.S. Steel restricted itself to maintaining a Canadian sales office.

Developments on the Canadian west coast did not culminate in a steel industry, although the demand was present in B.C. and ores and other raw materials were available. A blast furnace operated south of the border in Washington State, and companies incorporated to acquire coal properties in B.C. to service Seattle mills. A company was set up by a

British ironmaster, and in 1911 the British Columbia Steel Co. was formed to build a plant near Vancouver. But the net result of all these efforts was a solitary foundry converter of the Vancouver Engineering Works in 1909 as the only Canadian steel furnace west of the Great Lakes. Donald (1915: 235) surmises that the inability to get a western steel industry going was due to the high price of coke on the coast. Eldon (1952: 55) suggests that the early failure of an industry to develop on the west coast was due to two factors: first, ores, though available, were costly to process due to excess sulphur content, and second, Indian and Chinese pig iron could be put down at the west coast cheaper than local ores could be converted. Thus, before the late 1940's oil boom on the prairies, the only western operation of any importance was the Manitoba Rolling Mills, which Eldon (:100-103) says started off around the same time as the others as American-controlled and eventually became Canadian controlled and remained viable down to the present. (Manitoba Rolling Mills will be discussed in a subsequent section in connection with western hinterland competition rising up against Stelco.) Subsequently, first the Page-Hersey Stelco joint venture entered the west, and later Dofasco through its acquisition of Prudential Steel. Both were in connection with oil and gas industry requirements.

It is now appropriate to draw together the strands which will in part address the "problematic" raised at the beginning of this thesis: that is, how it came to be that the Canadian steel industry, an exception to the rule of lack of indigenous Canadian dominance in manufacturing, came to be Canadian.

Basically, the answer to the question of why Americans lost control or had their influence diluted by the 1920's (and in some cases, a decade or two before that) can be divided into three types of explanation: first, the period in which Americans operated in Canada relative to the stage of development reached by American business abroad; second, the extent of Canadian involvement in American enterprises and/or the power of established Canadian forces in their own early ventures; and lastly, the continuation or not of profit-making and tariff incentives. These three explanations must be understood as forming a concatenation of circumstances.

Data and analysis by Wilkins (1970), Marshall et al. (1976) and Kilbourn (1960) all lend support to the plausibility of an explanation drawing together the above three aspects.

The first two parts of this complex of factors is suggested by Wilkins for the pre-1914 period:

"As American business 'spilled over' the border into Canada, there was no certainty that the newly established enterprises would be wholly owned by American capital or even managed by American citizens...Whether or not Canadian capital and top management would contribute seems to have depended on the answers to three questions: (1) Did Canadian entrepreneurs participate in the formation of the enterprise?... (2) Was an existing Canadian business to be purchased?... (3) Was the project of a type that needed considerable capital for expansion?" (:147).

It will be recalled that the successful American-initiated ventures, those which continued into the twentieth century, were begun in the late 1880's or 1890's. Unlike earlier periods, steelmaking had by then become much more technologically sophisticated and capital intensive. That Canadians were involved in shareholdings in Algoma by 1910 has already

been noted; in addition, Clergue had been replaced by Shields, formerly of Dominion Steel, by 1903. Eldon (1952: 91; 156) also notes the changes in representation on the board of Algoma which indicates increasing Canadian participation: in 1904, four directors represented Philadelphia bankers and stockholders, four represented New York bankers and stockholders, and four represented Canadian; when the company was reorganized in 1930 as Algoma Consolidated, although Philadelphia interests were still involved, the board chairman was Sir William Stavert, a Canadian, and after the British bondholders' protective committee took over in 1934, the former owners were shut out completely, after which Dunn gained control.

In Chapter Three it was already mentioned that almost before the American-established Hamilton Blast Furnace Co. got started, it ran into financial difficulties and was bailed out by Canadian interests, who then became the dominant shareholders. It will also be recalled from the earlier discussion in this section that when Dominion Steel ran into financial difficulties in 1901, Whitney sold a controlling interest to Ross of Montreal, who undoubtedly had connections with the Montreal financial community and this probably prevented the remaining American interests from gaining a greater share. No information is available on the early development of Dofasco, but if Eldon is correct that American investment was small, during the company's evolution to maturity it probably quite early attracted the interest of Canadian institutional investors; certainly, current data shows this to be the case.

During the early period of American business involvement abroad, between 1865 and 1892, Wilkins (1970: Ch. 1, 2) observes that manufacturers

who did venture abroad began selling through agents or licensing agreements and did not usually set up branch plants until they were assured the market was viable; little capital was risked even then, and earnings accumulated from foreign operations were reinvested abroad. If additional capital was needed, it was often raised abroad. The net effect, for these early enterprises, was that they tended to remain separate from parent concerns (:68). Although the case of the primary steel industry was somewhat different⁵ it nevertheless is important to consider that Canadianization of American industry was probably made easier in a period of generally and relatively weak ties to the home country. Indeed, Marshall et al. (1976: 26) note that even in the 1930's, there was substantial (if minority) Canadian interest in American-owned companies. In the category "Iron and Its Products", in 1932, there was 10.64% non-American interest in American-controlled business in Canada, and this increased to 19.38% in the category "Furnaces and Rolling Mills" (:361-364).

Lastly, it is important to note changes in business and market conditions in Canada after the turn of the century. Kilbourn (1960: 78) notes that just after Stelco was created, in 1910, the bounty system on Canadian iron and steel was about to be discontinued, and the issue of free trade began again to be raised; in 1911 he notes that there was very little effective tariff protection against iron and steel exports to Canada (:92). Those companies which tended to specialize in the rail business (Dominion Steel and Algoma) suffered when the railway building period ended about 1914, and Dominion Steel suffered when the export business fell off. In 1906 U.S. Steel had planned a large integrated mill near Windsor but construction did not take place immediately, and when in 1917

America entered the war, plans were suspended (Eldon, 1952: 106); while U.S. Steel, as already noted, enjoyed a brisk tinplate business in the 1920's, the unfavourable economic conditions of the 1930's, coupled with tariff changes affecting its product, caused it to withdraw. Markets, Eldon (:124) believes, were a decisive factor in the success of the Canadian industry, and both Algoma and Dominion Steel were not in a position, during this early period, to supply a wide range of products which would have put them in an active competitive position with Stelco's highly diversified production and ideal location in the new industrial heartland. Further involvement by Americans was discouraged in the early years because neither Algoma nor the Nova Scotia steel plants were financially attractive, and to 1935, there was no record of profitable operations (:161).

The pattern of independent American entrepreneurs establishing themselves in Canada, and the importation of valuable American skills and technology made possible the phenomenal growth of the Canadian steel industry from about 1901 (Eldon :120 notes that its growth was actually much faster than in the U.S. at that time). The convergence of a number of conditions in Canada and in America contributed to the possibility for Canadians to gain a share. The "Canadianization" of the rest of the industry was also a factor which allowed Stelco the necessary scope to rapidly become the industry leader. Other factors in its rise will now be examined.

II STELCO'S RISE TO DOMINANCE

1. Vertical Integration: Marshalling the Resources

Two aspects of Stelco's development will be examined in this part; in the first section, Stelco's growing control over sources of raw materials which assured the conditions for growth and stability, and in the second, how its acquisition of other companies facilitated the horizontal product-line expansion which created conditions for market dominance. In the third section, this market dominance will also be examined in the context of the "big three" in Canadian steel and the division of labour in the marketplace which has reduced competition and eliminated much uncertainty in an industry highly subject to cyclical fluctuations. The unifying theme running through the first two sections is that vertical and horizontal integration are complementary processes essential to the growth of monopoly power⁶. The third section will illustrate how complementarity in product lines between steel corporations further increases that monopoly power.

The original merger of the constituent companies into Stelco provided the company with important horizontal and vertical linkages: the plant in Hamilton supplied the semi-finished steel product which would be made into such items as plates, bars or sheets by the rolling mills, and plants such as Canada Screw Co., Canada Bolt and Nut., and Dominion Wire became finishing mills responsible for advancing some products still further. Stelco was noted even in the early years for its wide product range. As no further plants of any consequence were added horizontally until the post-war period, it will be appropriate first to focus on the vertical side of the growth process, on Stelco's attempts to assure itself supplies of the three necessary steelmaking ingredients: iron ore, coal, and limestone.

Ontario possessed no deposits of metallurgical coal and the steel industry had to rely on Maritime supplies or, later, on the eastern United States fields, for their requirements. Iron ore had been known to exist in various parts of central and eastern Canada since the 1600's (in Quebec and the Maritimes) and in the early 1800's iron ores at Marmora, Hastings County in Ontario were also known. Local ores in Ontario, Quebec and the Maritimes were being used during the early history of the Canadian iron and steel industry, but, as Eldon (1952: Ch. 2) points out, the combination of poor transportation facilities necessitating the location of small-scale plants close to local raw materials and manpower to cut wood, and the small deposits of poor-quality or difficult-to-smelt ores meant the failure of ventures soon after they were begun, since they were unable to obtain better ores farther away. Ore was an important factor in many of these early failures. Transportation, which would later contribute to the creation of a national economy with national markets, would also make possible the access to distant resource areas.

Between about 1885 and 1924, Canadian iron ore mining ventures failed quickly and American involvement, even in the 1920's, was low. Unlike other American mining ventures, iron ore was not profitable or attractive due to the small size of reserves and their generally poor quality--Quebec ores generally had a high titanium content which made them unsuitable, and although the now-famous Ungava Bay deposits were discovered in 1895, they were thought to be too far and too inaccessible until after the Second World War; B. C. ores were too sulphurous and required costly roasting to make them usable; Ontario ore was low-grade

and required concentrating before they could be charged into furnaces, also a costly process, although some American capital was put into eastern Ontario ores. In the Maritimes, the major source of Canadian iron ore was in Nova Scotia, and New Brunswick iron mining was briefly revived to use the low-grade Woodstock ores, but by 1915, Maritime ore production had ceased altogether. In 1893, higher-grade ores had been discovered at Wabana (Bell Island), Newfoundland, and these ores provided the necessary inputs for the two Maritime steel producers. About the same time, ore was discovered in the Lake Superior region of Michigan, Minnesota and Wisconsin and these, along with ores from the Michipicoten area of Superior provided inputs for the Ontario industries (:Ch. 2-3).

At the turn of the century, only three major primary steel producers were self-sufficient in raw materials: Nova Scotia Steel and Coal, Dominion Iron and Steel, and Consolidated Lake Superior's Algoma. Stelco's predecessor, Hamilton Steel and Iron (Hamilton Blast Furnace Co.) was completely reliant on purchased materials.

Nova Scotia Steel owned mines at Wabana (which it later sold to Dominion Iron and Steel), and in 1907 acquired iron ore areas in Brazil; it also owned coal mines at Sydney and a limestone quarry in Cape Breton (Donald, 1915: 196-198). Dominion Iron at first used Dominion Coal's production under contract until the two were merged in 1910; the Wabana product, which mixed readily with its own local ores at a cost cheaper than the Pittsburgh product, and nearby limestone quarries were also readily accessible and abundant for the company (:201).

Algoma was almost as well off: there were nearby iron deposits in the "Soo" and although the Helen Mine ore was non-Bessemer grade and

Algoma's process was Bessemer, it sold the output in the U.S. and purchased American Lake Superior ores and used the product of its Michipicoten Magpie Mine which it purchased in 1911. The company also owned a limestone quarry in Michigan, purchased about 1910, at the same time that it purchased the West Virginia Cannelton Collieries. Coal was brought up from Lake Erie ports (:213-218).

The Hamilton Blast Furnace Company purchased 27% of its ore from Ontario mines in Renfrew County and purchased the remainder from the American Lake Superior ore districts (:219). Coal and limestone were also purchased. Ontario ores were found to be so lean in iron content that the company forfeited the Dominion and provincial bounties for use of Canadian ore, which had first attracted it, in order to use the higher-grade Lake Superior product (Eldon, 1952: 61).

Other than the Wabana ores, which were not as accessible to the Ontario industry or as cheap as water-borne bulk shipments from the Superior region, no area in Canada at that time could approach the American deposits in terms of quality or quantity. Canadian output of ore was miniscule beside that of the U.S. and although the Wabana ores were used by the Maritimes producers due to its accessibility and cheapness to mine, it was not popular in the eastern American markets due to its high phosphorous content making it less desirable for American blast furnace practice. Thus, in the pre-World War I period, even the Canadian industry came to rely increasingly on imported ores, supplies being about equally divided between the American and Newfoundland ores (:66-67). In addition, by 1918, Algoma's Magpie Mine was closed due to the cost of concentrating the ores, and Moose Mountain Mine (owned by Oglebay-Norton

of Cleveland, Illinois Steel Co., and Mackenzie and Mann of Canadian Northern Railway fame) was closed in 1923 for the same reason (:61-65). The American Lake Superior ores and the waterway system which made its cheap transport possible drew Canadian and American steel and mining interests together (:44). It was a union which was to persist down to the present time, as will be shown.

A decade-by-decade analysis of Stelco's drive towards raw material self-sufficiency reveals the priority that must have been placed on this aspect of the company's operations. Despite the financial strain of retiring the huge debt it had acquired in its 1910 incorporation and the cost of building new mills, the company built its own coke ovens in 1917 and in 1918 acquired 1,617 acres of coal property which it consolidated in 1919 with the holdings of "two very strong United States companies" (unnamed) and took its one-third interest in the 4,438 acres as its wholly owned Stelco Coal Company; in 1920 it completed its sources of coal supply by acquiring the Mather Collieries in Pennsylvania with two "very responsible corporations" (also unnamed). In the same period, it acquired iron ore properties: in 1917, two properties in the Mesabi and Gogebic Ranges (with two other companies), in 1925 the James Mine, and in 1926 the Volunteer Mine (location of these latter two unknown). It had acquired no limestone properties as yet, but in 1929 was building a new ore dock to coincide with the opening of the new Welland Canal. In addition, in 1919, and again in 1929, it increased profitability through its raw material facilities by setting up a coke by-products plant for the sale of Benzol, and (a Stelco innovation) by using blast furnace gas in its plant circulation system, making use of another by-product.

By the end of the 1920's decade, Stelco had interests in six raw material properties with an investment which had increased from about half a million dollars in 1917 to about four million by 1929.

In the 1930's decade, there was no change in the number of coal and ore properties although there were investments in and advances to coal and ore mining companies averaging about \$2.5 million⁷; the financial squeeze of the Depression years and the falling off in steel demand must have curtailed further activity.

By the end of the 1940's decade, however, Stelco had ownership interests in no less than 14 mining companies and had, in 1943, increased its ownership in Mather to 50%. The interests were all located in the United States--in Minnesota, Michigan, and West Virginia. The value of Stelco's investment had increased from \$2-million to \$6-million by the end of the decade.

By 1950, there was activity begun in exploration and development of new areas--by 1956 Stelco had a half-interest in the Hilton Mines in Quebec, in 1957 an interest in Wabush Iron, Newfoundland, and in 1958 in the Newfoundland and Labrador Corporation. Stelco's joint-venture partners were American steel companies. In 1952 the company purchased a 10% interest in the Erie Mining Co., Minnesota, from Youngstown Sheet and Tube, an American steel company. By 1959, the year of Stelco's fiftieth anniversary (and, they stated, their best year since the company's founding) Stelco was involved in 21 raw material properties and had acquired Chemical Lime Ltd. in Ontario, a wholly owned company supplying limestone. Stelco's investment had risen from \$9.2-million in 1950 to \$23.7-million in 1959. Its interests ranged geographically from Minnesota, Michigan and West Virginia in the U.S.A. to Quebec and Newfoundland-

Labrador in Canada. But more notable, perhaps, was the fact that Stelco had become involved in the forefront of the concerted effort by foreign steel and mining interests to open up the mineral-rich Labrador trough, a hitherto undeveloped area. This involvement requires an important digression.

The Newfoundland-Labrador developments began in 1938 with negotiations with the Newfoundland government, and in 1944 with the Quebec government, for long-term concessions in mineral, timber, and power rights. Park and Park (1973: Ch. 8) have done an extensive analysis of the forces involved, which will be relied on here for background to Stelco's entry onto the scene.

The situation is essentially one of the co-operation of a set of foreign (mainly American) mining, steel and financial interests with Canadian elite connections for the rapid exploitation of a vast area extending from Ungava Bay south almost to the Gulf of St. Lawrence straddling two provinces and across northern Quebec from the Great Whale River to the Belcher Islands in Hudson's Bay. The additional attraction is the Twin Falls power potential in Newfoundland developed by British Newfoundland Corporation (Brinco), a consortium established in 1953 involving Rothschild interests, Bowater pulp and paper, and Rothermere interests through Anglo-Newfoundland Development, and having connections with important Canadian interests: the Bank of Montreal, the Imperial-Commerce bank, Brazilian Traction, and others (:199-201). The groups to be discussed here are all involved in developing the iron ore deposits throughout this region.

Credit for opening the area goes to two Canadian mining millionaires, J. R. Timmins and J. Y. Murdoch, who established Labrador Mining

and Exploration in 1936 and Hollinger North Shore Exploration Co. in 1942 (controlled 20% and 40% respectively by the M.A. Hanna Co. of Cleveland and financed by Hanna and by Hollinger Consolidated Gold Mines) for the purpose of obtaining concessions from the Quebec and Newfoundland governments⁸. Timmins, a member of the famous mining promotion family, operated his own Montreal financial firm, was a former vice-president of the Imperial Bank, and a director of Royal Trust and was involved with the Sogemines group and Canadian Petrofina (both Belgian capital). Murdock, a lawyer-mining tycoon, was a vice-president of the Bank of Nova Scotia, associated with U.S. capital and the Patino mining interests, and a director, among others, of Royal Bank, Canada Cement, B.A. Oil and Rolland Paper (all companies involved directly or indirectly with the Stelco board, past or present) (:201-203).

When their job was done, the Iron Ore Company of Canada was formed (incorporated in 1949 in Delaware and completely American-controlled) in order to develop the ore deposits. Hollinger Consolidated and M.A. Hanna Co. each received 500,000 shares of Iron Ore Co. stock, the two exploration companies 500,000 between them, and the remaining 66.6% was shared by the six other companies involved with Hanna in developing the Knob Lake, Northern Quebec-Labrador area. These six companies included Hanna Coal and Ore and National Steel, both Hanna controlled, amounting to another 31.5% of Iron Ore's ownership, with the remainder being owned by Republic Steel 16.6%, Youngstown Sheet and Tube, 6.6%, Armco Steel 6.6%, and Wheeling Steel 5%. All but Armco (which is controlled by Rockefeller allied interests) are part of the Cleveland group control. Each company was to receive a share of the ore produced, 23% each going to Hanna,

Republic, and National, and 10% each going to Youngstown, Armco and Wheeling (:206-207).

The other important consortium developing the area has interests at Wabush Lake (with costs shared for the construction of a spur line from Carol Lake with the Iron Ore people). Stelco and four U.S. companies, (all according to Park and Park (:196) part of the Cleveland control group), Pickands Mather, Mather Iron, Youngstown Sheet and Tube, and Interlake Iron joined together in Wabush Iron Co. Canadian Javelin, an American-controlled firm which obtained large concessions from the Newfoundland government, transferred a large part of these to the Mather-Stelco group and retained large interests itself (:196).

Iron Ore and Wabush joined Brinco in ownership of the Twin Falls Power Corp. to ensure hydroelectric power for their ore projects (:200).

Throughout other locations in the vast area under development a number of other American and foreign interests are involved and are worth noting here to illustrate not only the importance of the area for supplying steelmakers' requirements but also for their interconnections. In the Mount Wright (Quebec) area, through the Normanville Mining Co., Jones and Laughlin Steel and Cleveland Cliffs Iron Co. joined together (Cleveland Cliffs under the control of Cyrus Eaton of Cleveland). Eaton was involved with five West German steel producers headed by Alfred Krupp in ore projects in the Ungava Bay area (northern Quebec), as was a separate group headed by Rio Tinto Mining Co. of Canada (controlled by the British Tinto mining interests, linked to U.S. steel interests and interlocked, according to Sykes (1973: 132) with Anglo-American Corp. of South Africa). Eaton had already been controlling Steep Rock Iron Mines in northwest

Ontario near Lake Superior and was leasing ground there to Inland Steel (Park and Park, 1973 :196; 198). U.S. Steel was involved in projects also in the Mount Wright area and had obtained special concessions from the Quebec legislature in 1957 for construction of a 190-mile railway from there to the Gulf of St. Lawrence on which it would have exclusive use rights (thus shutting out Canadian Javelin) (:199). (U.S. Steel had been active in mining exploration early in the century as well, according to Eldon, 1952: 105).

Data from Burch (1972: Tables A-1, A-2, 3-1) gives an indication of how interconnected American steel and mining interests have been in the 1930's and still were in the 1960's. It will be recalled that Park and Park (1973) identified all of the companies involved in Iron Ore Co. of Canada with M.A. Hanna Co. (except Armco) as being under the control of the "Cleveland group." More explicitly, Burch finds these companies to be linked to the famous Ohio Hanna family or to Cyrus Eaton and the Cleveland Cliffs concern. M.A. Hanna Co. is probably over 50% owned by different members of the Hanna family, and he also (:58) confirms National Steel to be under Hanna control, including having three Hanna board members. For the 1930's, Burch points out the discrepancy between the data of Berle and Means and the government study: the latter judged Inland Steel to be under the control of the Block family (7.4%) and the Mather-dominated Cliffs Corp. (predecessor of Cleveland Cliffs), 6.4%; while Berle and Means believed it to be Eaton and associates. In the 1930's Cliffs Corp. was, according to Burch's research, probably controlled by the Eaton and Mather families; in the 1960's, it was Cyrus Eaton. As Youngstown, according to Burch, was in the 1960's 5.1% minority

controlled by Eaton, and Wheeling 5.2%, and Park and Park believe Republic today to be Cleveland controlled (in the 1930's, Burch found, it was Eaton's and Hanna's Cliffs Corp.), it is likely that the Mather and Eaton families formed an alliance which continued into the 1960's. This is plausible, since these companies are also linked in ownership of Iron Ore Co.

The other group of companies (with whom Stelco is involved in the Wabush project), Pickands Mather, Mather Iron, Youngstown Sheet and Tube, and Interlake Steel, are linked according to Burch through the Mather family. Since the 1960's, his research indicates, Interlake Steel has been controlled by the Mather family indirectly through Pickands, Mather & Co., 9%, and has had on its board for a number of years outside directors representing the Mather family⁹. Thus, the Wabush development, on its American side, like the Iron Ore Co. development, is under the control of closely allied American interests.

The other American steel companies involved in the area are not connected to these interests, but are connected to dominant American financial groups: Jones and Laughlin Steel with the Jones, Laughlin, and Mellon families, intermarried (the Mellon family is involved in Gulf Oil, Mellon National Bank, and others); Bethlehem Steel with the Mellon interests (Burch, 1972: Table 3-1); and United States Steel, according to Park and Park (1973: 196) is under the control of the Morgan interests.

Stelco's direct ownership links with the Newfoundland-Labrador interests may be summarized as follows:¹⁰

<u>Nfld.-Lab. Firms</u>	<u>Stelco's Interest</u>	<u>Others' Interest</u>	<u>Ownership Linkages</u>
Knoll Lake Minerals	14.8%	Wabush Iron Co. 33.6%	Owners of Wabush: (Youngstown - 26.9% (Interlake Inc. - 17.6% (Inland Steel - 17.6% (Wheeling-Pittsburgh - 17.6% (Societa Finanziaria - 11.4%
		Canadian Javelin 39.5%	
Northern Airport	12.8%	(Wabush Iron Co. (28.6% (Iron Ore Co. 49.6%	as above Owners of Iron Ore: (Hanna Mining Co. - 26.4% (Bethlehem Steel - 18.8% (Hollinger Mines - 10.2%

Iron Ore Co. of Canada also owned 76.9% of the Carol Lake Co. (producing iron ore pellets), 24.8% of the Twin Falls Power Corp. (Churchill Falls Labrador Corp. owned Twin Falls 66.7%), and 50% of the Northern Land Co. (another 28.8% being owned by Wabush Securities Corp.). According to its 1973 annual report, Stelco now owns 12.8% of Northern Land Co. and 4.4% of Twin Falls Power Corp. Although decidedly a junior partner, Stelco is nevertheless the only Canadian steel producer involved in the Newfoundland-Labrador projects.

In addition, Stelco had, in 1975, a 25.6% ownership interest in the Arnaud Railway Company, Quebec, 50% in The Hilton Mines, Quebec, and 25.6% in the Wabush Mines in Newfoundland and Quebec. The wabush interests for the 1960's have already been noted. No ownership information was available from Statistics Canada on the other two mining ventures which Stelco classifies as "unincorporated joint ventures."

Stelco also wholly owns the Griffith Mine in Red Lake, Ontario, and counts among its American wholly owned subsidiary companies the following: Stelco Coal Company, Pittsburgh; the Pikeville Coal Co., Louisville, Kentucky; the Kanawha Coal Company, Ashford, West Virginia; the Ontario Eveleth Company and the Ontario Hibbing Company, both Minneapolis, Minnesota. The company owns a portion of other mining companies in the U.S. with joint venture partners (unnamed by them): Tilden Iron Ore, Michigan (15.6% Stelco); Erie Mining, Minnesota (10.0%), Eveleth Expansion Company, Minnesota (23.5%), Ontario Iron Company, Minnesota (10.0%)--all iron ore companies. It also has a share in the following coal companies: Mathies Coal Company, Pennsylvania (13.3%), Beckley Coal Mining Company, West Virginia (12.5%), and the Olga Coal Company, West Virginia (10.0%).

Altogether, including Stelco's Chemical Lime Works, the company owns wholly or in part 22 companies connected with the extraction, processing, or shipping of raw materials for its steelmaking operation.

According to the Globe and Mail, May 27, 1976, Stelco will also be, for the first time, a customer of the Cape Breton Development Corp. (Devco), for 150,000 tons of washed and desulphurized coal in 1976, rising to about 500,000 tons by 1977. The Devco coal appears to be the first Canadian source of coal for Stelco, perhaps in response to the threat posed by a shortage of U.S. metallurgical coal leading to an American federal government monitoring or even rationing of coal exports¹¹. At the same time, Stelco has begun to express an interest in the huge Alberta coal deposits, which it hopes the new trans-shipment terminal planned by the Federal government at the Lakehead will facilitate its moving east (until then, western coal is uneconomical due to the high

cost of transporting it and to lack of suitable trans-shipment facilities year-round). Stelco began recently to use coal from the B.C. Kaiser Resources Mine for the making of coke, and metallurgical coal from the Smokey River McIntyre Mine (since 1974). The company was aggressively seeking other western coal sources, with the expressed objective of ensuring substantial amounts of their coal requirements would come to them from domestic sources, including, with technological advances, the increased use of western Canadian sub-bituminous coal whose usage has heretofore been limited¹². It is clear that Stelco, now self-sufficient in raw material supply, intends to insulate itself further from shortages caused by market conditions or foreign government intervention, and to ensure itself quantities proportionate with its growth, especially once its Lake Erie steelmaking facility is complete.

Before summarizing Stelco's progress in the 1960's and mid-1970's, some brief comments on the importance of the American Lake Superior ore deposits to all of the major Canadian steelmakers should be made.

Although the evidence is scanty, it would appear that while Stelco was in a position financially to forge ahead with its plans to ensure raw material self-sufficiency, the other steel producers were not in such a position, and lagged behind. Dosco was by far the worst off, for after suffering the vicissitudes, early in its history, of finance and ownership, it was finally given up by its controlling interest, the British Hawker Siddeley group, as obsolete and in 1967 negotiations were entered into with the Quebec government-formed Sidbec to sell to them certain of Dosco's assets and equipment. In 1968, Sidbec acquired full control of Dosco and sold the installations it did not wish to retain (the quite obsolete plant

at Sydney became the possession of the Nova Scotia government, who struggled along with it as Sysco)¹³.

Iron ore for Sysco's modernized and new mills would have to come from the Quebec-Labrador area, "part of Quebec Premier Robert Bourassa's fiefdom" (!), and Quebec, also a rival for a proposed new \$1,500-million world-scale steel complex, could hardly be expected to be co-operative (Financial Post, June 14, 1975). In 1975, although Sidbec-Dosco suffered a deficit of between \$10- and \$20-million and a \$7.9-million deficit in 1972, it planned a major expansion programme including development of an iron ore mine in northeastern Quebec (Hamilton Spectator, December 10, 1975). The ore will come from Fire Lake, developed by Quebec Cartier, a U.S. Steel subsidiary expected to be a participant, along with British Steel Corp. and possibly German and Japanese interests, who would probably take up the balance of the ore not used by Sidbec. The developments, if they go ahead, will not be ready until 1977 (Financial Post, June 5, 1976). Neither one of these companies is in a good position with respect to raw material supply, and neither one is involved in the U.S. ore developments. Only Canada's "Big Three" are.

In a series of articles dated September 27, 1975, Financial Post reported extensively on Canadian involvement in American ore projects, noting why U.S. ore "still makes sense for Canadian steel." Essentially, their answer is that especially in the Mesabi range in northeastern Minnesota lies one of the world's biggest and longest-lasting iron regions, which by the 1950's had been stripped of all its known, rich deposits but which had made a comeback when technology was developed to economically mine and process the taconite (or iron-lean, hard ores) into highly con-

centrated form. As a result, the American giants, which had gone abroad as far as Africa, Australia and Brazil to exploit foreign reserves, were now shifting back to domestic ores which were close and not subject to the threat of foreign government nationalization schemes. Algoma, Dofasco, and Stelco were involved in Mesabi and Marquette (Michigan) range developments to the tune of between \$275- and \$285-million, netting them 5.3 million tons of the iron pellet output a year, satisfying much of their ore requirements. The infrastructure, the necessary American participation making Canadian involvement economic, and the know-how, were all there.

These components are notably absent in the Canadian Lake Superior and other northwest Ontario regions where new, rich ore bodies had been discovered. Needed would be lake ports, railways, roads, and townsites as well as a centrally located pelletizing plant. Americans are unlikely to be lured away from the U.S. areas now developed, especially since the 1970 Mining Act does not give them sufficient "incentives". The Ontario Mines Division has already warned that (federal) government aid would be necessary to stimulate development, particularly by supplying infrastructure. Algoma is, in fact, already pushing the idea of a centrally located pelletizing plant.

However, the Canadian government may be persuaded in the future to supply that infrastructure and Canadian Lake Superior ore may begin to "make sense" for the Canadian steelmakers if the Financial Times of Canada (June 28, 1976) is correct in its interpretation that U.S. stockpiling could distort the market and prices on commodities from Canada which are being increasingly stockpiled in the U.S.A. Canadian iron ore imports amount to 50% of American supplies, and cover 28% of their needs. This, combined with the possibility of coal stockpiling and quotas, could

affect dependent Canadian mills by cutting down or overpricing their share of supplies.

The three major Canadian producers are involved with many of the same American companies in the midwest ore projects as are involved in the Newfoundland-Labrador developments. The Tilden project (Marquette range) involves Algoma (with 30%, the largest share), Stelco 10%, plus the following U.S. interests: Jones and Laughlin Steel, Wheeling-Pittsburgh Steel, Sharon Steel, and Cleveland-Cliffs, the original owner and the project operator. Eveleth in the Mesabi range includes 16% Dofasco and 14% Stelco participation (the others were not listed). Hibbing Taconite (Minnesota), the newest U.S. mining and pelletizing project, has Pickands Mather as a participant and as developer-operator, with the major owner being Bethlehem Steel (75% interest), and Stelco's 10% the largest Canadian interest (no other Canadians were listed). Stelco is involved (10%) in Erie Mining (Mesabi, Hoyt Lakes area), but no other Canadians are mentioned. U.S. Steel is involved in the Minntac project in northern Minnesota and no others appear to be involved there.

To summarize, while Canadian steel producers are heavily involved with their American counterparts (ostensibly their competitors), it is Stelco, being involved both in the U.S. and with U.S. companies in the Newfoundland-Labrador area, which appears to be dominant of the Canadian steel companies in command of raw material sources. At the end of the 1960's decade, its investment in raw material properties amounted to \$147.4 million (up from \$28.5 in 1960); by 1975 its investment had increased to \$239.4 million. As befitting a billion-dollar corporation, the company had control of its own raw material sources and sophisticated technology which permitted it to mine, concentrate, and ship to its ever-

hungry coke batteries and furnaces millions of tons of coal, limestone, and iron ore and had its interests in raw material sources (in terms of investment and ore received) almost equally divided between American and Canadian areas. The company is still, as it has always been, linked firmly to American steel and mining interests interpenetrating the two countries. It is very much a part of the continental pattern of resources and manufacturing.

2. Horizontal Expansion and Market Dominance

Examination of Stelco's expansion through horizontal integration, especially as it concerns expansion through acquisitions of other already established companies, may be made much more briefly, not because the dollar value is slight but because the company's activities which contributed to its rise to dominance can be divided into well-defined stages, which after the Second World War rapidly become an uninterrupted stream. Horizontal integration in the case of steel also tends to be much more simple (more an extension of vertical integration) than is the case in corporations which can easily move out of their original product lines to entirely different ones. "Horizontal" in the case of steel tends to mean movement into more finished products which are not advanced by intermediaries. One example of this in Stelco's case is fencing products.

The following analysis is based on Stelco annual reports, with some reliance on Kilbourn (1960) for the first two decades of Stelco's operations, as little information was reported by Stelco in these early years on their activities, and they quote no figures for capital expenditures until the 1930's.

According to Kilbourn (:210), the most notable developments of the early period (to the 1940's) were the tripling of steelmaking capacity, the

use of electric power for operating the mills (in 1913 theirs was only the world's second electrically powered bloom mill), the establishment of a cost-accounting system, and of course, the continued effort at self-sufficiency in raw materials.

Between 1910 and 1914, the first stage was begun to integrate the disparate mills brought together by the merger and to modernize and rationalize production. A major building plan, necessary not only for these reasons but also to meet heavy American competition and gain a larger market share, prompted reorganization of finishing plants, an increase in open-hearth capacity, and most important, introduction of a new bloom mill and combination rod and bar mill, both electrically powered. Further bond issues over and above those set out at their incorporation were necessary, raising their debt to \$8-million.

When the expansion and modernization was completed in 1913, a North American recession that lasted until 1915 saw them close to bankruptcy, from which they were saved in part by a short-term loan in 1913 arranged through the Dominion Bank by Osler and Matthews (who were associated with the bank) and in part by extremely careful management (:93-95). Wartime stimulation of the economy (and of the steel business--Stelco supplied shell casings) by 1915 permitted the company in 1916 to add new open-hearth furnaces, doubling capacity, and to add new finishing areas and begin raw material and cokemaking self-sufficiency efforts (:102-103).

Stelco's entire pre-Second World War period followed much the same pattern: their attempts to integrate, expand, and modernize the facilities with which they had begun their corporate life were curtailed

by three extremely poor business periods when Stelco's survival was threatened: 1914-15, 1921-22, and 1932-33 (:211). Although they had access to Armco's continuous sheet-rolling technology as early as the 1920's (due to the "freemasonry among North American steel men in all matters technical" (:116)), the process required a large capital expenditure and high demand to justify it; when they had their next major pre-war renovation programme (1936-1939) in which they spent \$8-million on basic steel facilities alone plus improvements to their finishing end, the sheet mill project again had to be postponed, this time due to a recession in 1938 and then the war years. The mill was finally installed in 1945 at a cost of \$10-million (:155; 178).

Stelco's annual reports stated capital expenditures for the period 1925-1935 for all new plant were \$15-million, and for the four years 1938-1941, were \$16-million, indicating that although financially good years of the "infant" company alternated frequently with bad, the company progressed quickly, and its rate of expansion was accelerating. The greatest acceleration, however, was to come as a direct result of World War II and of the pent-up demand and new steel uses arising in the war's aftermath. It was also during this period (aided, Kilbourn :167 states, by substantial government help¹⁴) that Algoma and Dosco, having made few improvements to their plant in the previous 30 years, were able to play catch-up. Algoma, it will be recalled, had suffered from financial problems leading to a rapid series of management changes, and Dosco had also suffered from these problems; Dofasco was still in its infancy, extremely small, and until then with no pig-iron facilities of its own. Dosco's facilities in particular were extremely old, its successive manage-

ments having ridden along on the tide of Dosco's dominance without making many moves to diversify out of its existing product line or to alter the focus on export sales, and the 1920-1930's decades were not financially successful ones. This wartime period, it would seem, is the one from which the rise of the "Big Three" to dominance can be dated, and in particular, Stelco's rise to the position of number one.

The Second World War, unlike the First, was almost wholly mechanized, and its reliance on steel phenomenal--Canada produced in those seven years \$10-billion worth of munitions and war equipment (:164), with Stelco supplying the lion's share of certain kinds of steel products. The demand for plate for ship hulls, the largest-tonnage item, prompted Stelco to build a 110" wide-plate mill in 1941; it was then producer of the widest plate in Canada. Dosco's mill, on the other hand, had not been used since 1918 and had to be brought out of "mothballs" for the War. Dofasco's was an older, narrower-width mill. Wire rope and steel pipe were also needed in vast quantities--Stelco was one of three Canadian pipe producers who supplied it, and was the chief manufacturer of steel wire and spring steel (:162-163). At the outbreak of war, Stelco had added an additional open-hearth furnace, which again nearly doubled its capacity, and because most of its basic steelmaking facilities were quite modern, was able to concentrate funds on improvements to its steel rolling, ore-handling, and coke and iron-making facilities (:167), thus putting it in an excellent position to meet the demands of the post-war period.

Stelco's facilities had been taxed to their fullest during the war, but it emerged in the strongest position. In the period 1938-1948, according to its annual report, it spent \$58-million on new plant and

equipment and was ready to launch into a series of major expansions in the 1950's leading directly into its period of acquisitions and joint ventures which saw it not only expand its capacity but also its product lines and geographic marketing scope.

It is difficult to identify Stelco's post-war expenditures in terms of definite periods, since they tended to come hard on the heels of one another, and accelerated rapidly. The table below gives some indication of the escalation in capital spending, based on an average yearly capital expenditure for selected periods as a percentage of the average yearly assets in the same period¹⁵:

TABLE 4-1
CAPITAL EXPENDITURES (NEW PLANT AND EQUIPMENT)
AS A PERCENTAGE OF TOTAL ASSETS (SELECTED PERIODS)

Period	Average Yearly Assets	Average Yearly Capital Expenditures	% of Assets
1925-1935	\$ 57.4 million	\$ 1.5 million	2.6
1938-1941	\$ 80.5	\$ 4.0	4.9
1943-1953	\$ 125.9	\$ 10.0	7.9
1954-1960	\$ 250.5	\$ 28.0	11.2
*1960	\$ 299.4	\$ 53.2	17.8
1962-1969	\$ 645.9	\$ 87.3	13.5
1970-1974	\$1,080.6	\$ 106.0	9.8
*1975	\$1,678.2	\$ 232.8	13.9

*record year

The pre-Second World War pattern was, except for the rapid entry into raw material property ownership, one of concentration on new plant and equipment, first modernizing and then expanding capacity and product-lines. The pattern in the post-war period was for more of the same, although with increasing rapidity, but in addition, the company began to acquire already established plants which facilitated its entry into new areas or in which it had previously competed or had acted as

supplier for the acquired companies. The nature of these acquisitions and their implications will be dealt with shortly.

The period 1951-1953, identified by Stelco as a major expansion period, was marked largely by the addition to basic steelmaking facilities which led, after a 1959-1960 additional basic steel and finishing line expansion, to a tripling of capacity to three million ingot tons (Kilbourn 1960: 211). The 1950's programmes, costing a quarter of a billion dollars, twice what Stelco had spent in its first 40 years (:221), left Stelco with several new and notable facilities. Kilbourn (:218) identifies the years 1955 and 1959 as being important ones (as had been the year 1945 for the addition of the first continuous strip mill), because the company added a galvanized sheet line and electrolytic tinning lines which meant that for the first time, Stelco's flat-rolling practice could be at a par with U.S. in advanced facilities. The company also made a number of technological contributions of its own, including one which boosted blast furnace production of pig iron and so obviated the necessity of building a great number of blast furnace. Although Kilbourn does not note it, just as important was the addition of Parkdale Works in 1955, a newly constructed, modern mill built by Stelco to add to its production of finished products to supplement the very old Canada Works wire mill. The company also constructed two new pipe mills to take advantage of special demand, in co-operation with a company it later came to acquire. The subject of such acquisitions will be dealt with separately.

The years 1962 to 1963 marked yet another extensive expansion programme, including an acquisition, and an addition to the steelmaking capacity of a company previously acquired. Much capital was also spent

acquisition of mining properties and providing of facilities for them, a subject which has already been discussed. Many of the improvements were made at Hilton (Hamilton) Works, the main steelmaking site from which all of the others had grown, including the installation there of a 148" wide-plate mill which would produce the widest plate in Canada, supplanting Stelco's own claim to that distinction in the war years. In 1968, 6,600 acres were acquired on the shores of Lake Erie (near Nanticoke), and a great deal of time, expertise, and money was spent on planning facilities which, when construction began in 1974, saw Stelco on the road to doubling its existing steelmaking capabilities by the 1980's. Hilton Works could be expanded no more. Now the expansion would be elsewhere--at Lake Erie, at Welland, and in the West, and at Contrecoeur in the East. It was part of the inevitable logic of this headlong rate of expansion, especially in basic steelmaking capacity (raw steel and "semi's" which provide the inputs for so many different kinds of further production) would lead to an aggressive search for new markets and new products. A substantial case can be made for viewing the relatively few but important acquisitions by Stelco in such a light, as the ensuing discussion will show.

Stelco pointed out to the Bryce Commission that its four acquisitions (all since the Second World War) with the exception of one, were all vertical mergers and that the company did not engage in non-steel related business¹⁶. The company argued that these mergers were all involved in related lines and that the association with a larger company possessing greater financial, technical and personnel resources benefitted the acquired companies. Their statement was a clear justification for the "bigness is better" doctrine, and was also not completely accurate.

Their statement will be analysed in the course of the examination of their acquisitions. The following list summarizes their involvements between the 1950's and 1974:

TABLE 4-2
STELCO ACQUISITIONS 1950-1974¹⁷
 (PLUS JOINT VENTURES)

<u>Date Acquired</u>	<u>Acquisition</u>	<u>Main Activity</u>
1950's	Frost Steel & Wire Co. (Hamilton, Mtl.) 100%	Fencing and fencing products; jobber contracts and retail
1955	Welland Tubes, 50%	*a joint venture with Page-Hersey 50%, constructed by them; mill for large-diameter pipe
1959	Camrose Tubes, 50%	*a joint venture with Page-Hersey 50%, constructed by them; mill for large-diameter pipe, western location

*these two were not "acquisitions" in the true sense until Stelco absorbed Page-Hersey and consolidated its ownership in the two units

1959	Hamilton By-Product Coke Ovens Ltd., 100%	Land and water lots for expansion
1961	Canadian Drawn Steel 100%	Cold-drawn bar products
1962	Premier Steel Mills 100%	Basic steel (electric furnace) and finished products - western location
1964	Page-Hersey Tubes Ltd. 100%	Pipe-making facilities, know-how, market contacts; dominant in field

JOINT VENTURES

1968	Baycoat Limited, 50%	With Dofasco 50% - for continuous colour-coating of sheet products; custom orders and sales to steel service centres and fabricators
1970	Canada Systems Group (Est.) Ltd., 33.3%	With Eaton's 33.3%, Gulf Canada 33.5% - (originally TRW Inc. 33.3%); computer systems and service, systems analysis for environmental, safety, traffic control

Table 4-2

Date Acquired	Acquisition	Main Activity
1972(?)	Shaw Pipe Protection Ltd. Ltd., 33.3% (1975 share)	With Shaw family; special coatings for pipe products
1974	Fers et Métaux Recyclés Ltee. (Que.), 50%	Other participants unknown; Collects and prepares ferrous scrap primarily for electric-furnace practice ¹⁸
1974	Torcad Ltd., 50%	With Court Industries 50%; gal- vanized and cadmium plating for metal products

The new mills built by the company, Parkdale Works, in 1956 (for wire and wire products), and McMaster Works, in 1959 (a continuous weld pipe mill), and Saskatchewan Steel Fabricators (1962), must also be understood as contributing to the company's ability to expand existing markets by offering new grades or larger quantities, or particularly in the case of the pipe mill as with the others built with Page-Hersey and the Page-Hersey acquisition itself, as contributing to Stelco's ability to move into new territory.

Such an explanation accounts for the establishment in 1968 and 1974 of six export arms of the company, legally separate entities but producing no steel: Stelco S.A. (Geneva), Stelco Nederland, and The Steel Company of Canada (U.K.) Ltd., all in Europe; and Ubbelohde-Stelco S.A.C. I y deR, Buenos Aires, Stelco do Brasil Ltda, Sao Paulo, and Stelco de Venezuela, Caracas, all in Latin America. These export companies are particularly important in times of high demand or, in the case of Latin America where two large American can-making multinationals operate, for the sale of tinplate previously handled through outside agents. As Kilbourn (1960: 330) states:

"Stelco has made good use of Canadian trade commissioners in some countries, especially in South America, a thing most Canadian firms seem loath to do, when even the commissioners' offices are pathetically eager to help and when the services they provide are the equivalent of a branch sales office for the firm that uses them."

Stelco, for example, began selling to the U.S. markets during the fifties, when its patented Ardox spiral nail gained it entry (:330) and despite the high tariff, Stelco according to industry sources has been successful in selling its high-quality pipe products there. Thus, a natural outgrowth of its mature technology and its capacity has been to formalize its

export business without actually engaging in production in the highly competitive and over-supplied world markets.

Another example of its maturity is the Stelco Technical Services Ltd., now a separate legal entity but before now in existence as a department of the company. Technical Services makes no product but sells expertise, advice, and patented processes. Like Stelco's Research and Development Centre, it is an indication of the company's self-sufficiency and industry leadership in Canada. As early as the 1950's, when Stelco developed its Ardox nail, Stelco has been involved in licensing agreements (the Ardox was manufactured under licence in Europe and Asia (:221)). The "freemasonry" observed by Kilbourn for the early part of this century is not a North American phenomenon: Nippon Steel recently contracted with Dofasco for use of a device developed by Nippon for the blowing of basic-oxygen furnaces¹⁹, and Stelco arranged a technical exchange agreement with Australia's Broken Hill Proprietary Co. related to flat-rolled product manufacture²⁰. It would appear the competing world-scale steel producers are attuned to their social obligation to advance scientific knowledge for the benefit of mankind!

The acquisition of Frost Steel and Wire, the fencing producer, in the 1950's would appear to be an example of horizontal integration in order not only to expand into new product lines using existing facilities and sales force but also to create a "captive" customer for output. Kilbourn (:229) notes that in the same period, Stelco produced over half the country's wire capacity, and wire forms the basis of the patented "Frost" fence. This example (a blend of vertical and horizontal integration which serves two motives at once) would appear to be the basis for

the Stelco statement to the Bryce Commission²¹ to the effect that of the four "substantial" companies it has acquired (Frost, Canadian Drawn, Premier, and Page-Hersey), three were vertical mergers. In fact, Premier produced its own basic steel (as did Stelco) but used a different process and also made finished products and sold them in a western market from a western location. Which motive dominated Stelco's move?

Page-Hersey was a customer of Stelco's for "skelp" (the plate or sheet product which is formed into pipes and tubes); Page-Hersey was also the largest manufacturer of pipe and tube²² and had, as well, valuable pipe-making knowledge and market contacts (Stelco had only its old pipe-making facility at St. Henry Works, Quebec, although it did possess metallurgical knowledge needed for skelp production). Each company needed the other; it is true that Page, Stelco pointed out²², had steel supply problems and in the high-demand period of the 1960's and early 1970's would have probably suffered during the shortage--but it is also true (and not mentioned by Stelco) that without Page and the joint ventures they entered into Stelco would not have become dominant in the supply of steel for and production of large-diameter pipe for the oil and gas industry.

Like the other two, Canadian Drawn (already a Stelco customer²²) provided not only a captive outlet for steel but allowed the company to enter into the cold-drawn bar product field in competition with the American-owned Union Drawn. Again, which motive predominated? The question is rhetorical--the answer is that Stelco must have weighed both advantages, as well as the stimulus such expansions would give to its future activities.

The penetration of the west, both as a hinterland supplying oil and gas resources to North American metropolises, and as a new industrializing area²³, warrants attention for its implications for eastern Canadian steel interests as well as the role it played in the Page-Hersey take-over, which created the pre-conditions for Stelco's dominance in the west.

As Kilbourn (1960: 216) observes:

"New steel-using industries sprang up in Canada during the nineteen-fifties. The most spectacular single advance in the postwar period was the exploitation of huge deposits of oil in Alberta following the big strike at Leduc in 1947. Besides heavy steel demands for drilling equipment, the subsequent construction of gas pipe-lines moved Stelco, in partnership with Page-Hersey, to construct Canada's first large-diameter pipe mill at Welland, Ontario, and later to establish another at Camrose, Alberta. The newest Stelco plant, the pipe mill at Contrecoeur on the St. Lawrence [McMaster Works] was also related to these and other developments in construction."

In the same year that Page-Hersey was acquired, Stelco was constructing a 148" wide-plate mill, to be completed mid-1965; the wide plate would allow it to manufacture even larger sizes of pipe. Such a construction programme is not planned or completed quickly--the demand was foreseen and the groundwork laid well before 1964. The original joint venture mills were constructed in response to the needs of the TransCanada Pipe Line and the Alberta Gas Trunk Line; the lines are now ancient history in the oil and gas industry.

Dofasco, having acquired Prudential Steel Ltd. of Calgary in the 1970's, had just opened a hollow tube mill in 1975 (Globe and Mail, June 18, 1975) and also now owns 27.4% of International Portable Pipe Mills with Alberta Gas Trunk Line (26%)²⁴. U.S. Steel, having lagged behind in

large-diameter pipe manufacture, had just announced plans to build a mill capable of producing 48" pipe (Wall Street Journal, May 25, 1976). New developments in the Canadian west and northwest were again spurring steel producers on.

The Globe and Mail, July 30, 1976 announced that Canadian Arctic Gas Pipeline Ltd. of Toronto had given Stelco a letter of intent for the purchase of over a million tons of 48"-diameter pipe. The company was also discussing with U.S. steel producers the possibility of obtaining supply from them of pipe for the U.S. pipeline portion. Mannesmann Export AG, West Germany (the dominant force in Algoma before CP's 1975 move) was given a contract for half a million tons of 48" and for special heavy-wall pipe, the purchase to be financed by a consortium of West German banks. Canadian mills would be given orders for a further 220,000 tons of smaller-diameter pipe. The Mackenzie Valley pipeline development had been the battle-ground between interested parties in the oil and gas, pipeline, and steel industries on one side, and environmentalists and government on the other for several years. Sykes (1973: 130) notes that the Canadian Arctic Gas Study Ltd. consortium had included, among others, TransCanada Pipeline, Atlantic Richfield, Standard Oil Ohio, Imperial Oil, Shell Oil, Bechtel Construction (the managers of the Churchill Falls Hydro-Quebec development), and Canadian Pacific Investments. Earlier in the auspicious year that Stelco received its impressive contract Stelco had presented a brief to the Mackenzie Valley Pipeline Inquiry²⁵. Canadian Arctic Gas, "hopeful," said the Globe, of receiving government approval in 1977, had already started the ball rolling.

Stelco's major competitor for large-diameter pipe in Canada is Interprovincial Steel and Pipe²⁶ (IPSCO), a recent but strong contender, as it is able, through its spiral-weld mill, to produce sizes which now surpass Stelco's range. It is doubtful, however, that IPSCO has the resources to engage in technical battle with Stelco, and now that Stelco has the substantial Arctic Gas order, IPSCO will not prove troublesome for the time being.

Between the northern hinterland and western resource and industrial developments, there were adequate and compelling reasons for Stelco to be vitally interested in extending its hegemony. It has the pipe-producing facilities, both in the east and in the west; and it has the basic steelmaking and finishing mills located in the west to supply western markets with freight advantages over the eastern mills.

Before Stelco acquired Premier Steel and Page-Hersey, it was hardly a household name in the west. It gained its reputation in the oil and gas industry not by supplying oil country goods (such as sucker rod) but by the supply of miles of pipe for lines. Through the experience acquired in early co-operation with Page, Stelco also was able to develop a line of hollow structural sections which, in addition to its production of structural shapes, allowed it to fill the market gap left by its lack of heavy structural steel production (which is Algoma's product monopoly).

Page-Hersey was a well-established company, begun in 1902, and by the 1930's, owned five plants including two in the U.S. (Marshall et al., 1976: 182). The company was in an awkward position, having just lost its chief executive officer through death²⁷, and, in close association with a

much larger company on whom it also depended for steel supply, was quite vulnerable to take-over. In 1963 an offer was made for a share exchange with Page shareholders and in 1964, 3,253,152 Page common shares were exchanged for Stelco's 3,761,457; Page disappeared as a separate entity soon after²⁸. Three former Page employees (two of whom had been Page vice-presidents) became senior marketing managers in Stelco²⁹, all of them experts in some aspect of the pipe business. A. Macfadyen, Page's chairman, was named to Stelco's board but retired the following year³⁰. Yet according to the 1965 Financial Post Directory of Directors, Macfadyen, although not holding the other directorships he had held in 1963, was still on the board of the Toronto-Dominion Bank and Canada Southern Railway. The composition of Page's board just prior to the take-over is an interesting one.

According to the 1963 Directory of Directors, J. Roy Gordon, the president of Inco and a Stelco director between 1961 and 1972, was also a director of Page-Hersey. Gordon was also a director of Canada Life, Toronto-Dominion Bank and B. A. Oil (Gulf Canada). H. R. Milner (a lawyer from Edmonton) held 28 directorships, including Royal Bank. G. F. Perry (Chairman, Canadian board of Phoenix-London Group of Insurance Companies, and president, Associated Securities), was also an honorary director of Royal Trust. Frank M. McMahon (President, West-coast Transmission) was a director of Royal Bank, Montreal Trust, and Ocean Cement (H.S. Foley, a Stelco director 1964 to 1968, was also a director of Ocean). Pierre Daigle (V-P, Daigle and Paul, Montreal) was a director of Canadian Imperial Bank of Commerce, Confederation Life, and United Accumulative (the latter two are Stelco institutional shareholders). W. Dent Smith (President, Terminal Warehouses) was a director of United Accumulative, Imperial Life, and Toronto-Dominion Bank.

It will be noted that not only did the Page-Hersey board contain a direct interlock as well as indirect ones with the Stelco board, but that on its board many of the main financial groups as were detailed in Chapter Three were represented. Not only was it possible for Stelco to obtain "inside" information as to Page's financial wellbeing and main shareholding groups of the company, but "with a little help from its friends" and quite possibly even at their suggestion, the acquisition could be smoothly made. Whatever the strategies involved, Stelco gained a piece of valuable strategic property that contributed to its dominance.

It remains the task of the last section of this chapter to examine the ways in which the Canadian steel market is divided among Stelco and its competitors, and how the notion of dominance must be modified to take into account the entire North American industrial apparatus. Chapter Five will develop the latter idea in more detail.

3. The Market Division of Labour

Stelco, due to its relatively strong financial position, was able from the very beginning of its career (as the detail in Section Two indicates) to keep up an almost continuous progression of modernization in facilities, expansion of capacity, and, most importantly for its ability to insulate itself from cyclical swings in demand created by some kinds of products, to diversify its line³¹. It offers by far the largest variety of any Canadian steel producer³². But at the same time, Stelco, by virtue of lack of facilities to produce the quantity, quality or special features of certain products, has established product dominance in some lines and not others, while its counterparts of the "Big Three" (Algoma and Dofasco) and the now truncated Dosco produce other lines in

which they have product dominance. In some cases, new entrants into a particular line have appeared only recently, giving the company as much as three decades of dominance, occurring, happily for Stelco, during periods of extremely high demand. The product areas have tended to become fairly fixed over time, and for this reason, their historical context must again be briefly developed.

Nova Scotia Steel (which became part of Dosco in the 1920's BESCO merger and then later part of Dosco) had been in 1907 a fully integrated mill with its own raw material sources, blast furnaces, and rolling mills--it had, according to Donald (1915: 196-199) a varied output including finished products and forgings, but specialization in railway supplies (excluding rail) was weakening this advantage, as it did not fully benefit from the railway construction period. Nova Scotia Steel and Dominion Steel, according to Eldon (1952: 118) did not compete, as their products and markets were different, Nova Scotia's pig iron being of a different grade. In fact, they were complementary, a situation which foreshadowed the BESCO merger. (Now that the company has again become split, Sidbec-Dosco and Sysco may encounter some of the original shortcomings of lack of diversification, particularly so for Sysco).

Dominion Iron and Steel early came to have an overcapacity at the primary end (analysis of Donald's 1915: Ch. 9 suggests) and relied excessively on the export market for sale of its "semi's" (blooms, billets and ingots). Management had contemplated production of rail, plate, wire rods, and angle-bar (a structural shape) but postponed plans due to financial problems (Eldon, 1952: 110; Donald, 1915: 204). In 1904 they finally opened a wire-rod mill, which supplied 85% of the iron rod used in

Canada (Donald, 1915: 207). A nail mill followed in 1905 (:207), and by 1909, their business in rail, rod and semi's sustained them well (:207). They added more basic capacity (some of which was sold as foundry pig) and added a finishing product line (:209). With the loss of bounties on wire rod, they again expanded basic capacity (which, incidentally, was the Bessemer process, then almost obsolete) in order to have output for new mills, and added a cold rolling mill, converted an older cold roll mill to rod and bar production, and later added a new bar mill. In 1912, they could produce, in addition to semi's, cold-rolled sheet, wire, wire nail, bar, rivets, and bolts (:210). By the time the coal company merged with it, Dominion Steel had a good product range and operated at a good profit margin (:211), but after two major reorganizations and the Depression period, little was done. The plant grew old, its equipment obsolete and unable to produce the same large quantities as the newer mills.

When Hawker Siddeley threw in the towel and gave up Dosco in the late 1960's, the split-up of the operation into the Quebec-owned and Nova Scotia-owned portions also split the ability to produce the diversified product they had achieved, and as well, Sysco's portion was the most badly in need of modernization. Sysco was in 1975 involved in interesting American, West German and Dutch companies in a feasibility study to plan a world-scale operation involving new facilities at a cost of \$1,500-million; Dofasco had already assisted Sysco's government owners in a study for upgrading the existing facilities and was considering joining the consortium (Hamilton Spectator, December 16, 1975).

Sysco was unable to find private backers to invest in the continuing modernization which had already amassed an onerous amount of debt (Globe and Mail, November 27, 1975), but backers were interested in the proposed new plant because it would efficiently turn out five million tons of steel a year, much of which would be sold in a semi-processed state on the international market (Financial Post, June 14, 1975). Sysco was clearly dependent upon outside forces which would move in to develop an industry to their own advantage, and Sysco, in true hinterland fashion, would export semi-finished products under the control of an international consortium of steel and finance, with the role of government seemingly one of keeping hinterland factors, including labour, under control, and mustering local resources. Meanwhile, Sysco continued with the modernization and expansion of its rail mill, steel rails having been "Sysco's bread and butter for years" (Financial Post, June 5, 1976). Talks in West Germany appear to be proceeding well (Financial Post, July 3, 1976). The old Dosco, as Sysco, has come full circle: it is again dependent on specialization in rails and exports of semi's.

The portion of the company that became Sidbec-Dosco is in a slightly better position but must bear the heavy costs of modernization, and has low capacity, as well as being over-loaded in certain lines which are produced by many others, including the small electric-furnace operations which are recent entrants into the industry. For example, seven companies produce structural sections (although only Algoma produces heavy sections) and Sidbec, although probably the largest of those producing lighter sections, must compete with newer companies. There are 10 companies in Canada producing bar (excluding cold-drawn), including

Stelco, which is probably dominant. Five companies produce hot-rolled sheet (and all but one, IPSCO which probably uses all of its production, as skelp for pipe, also produce cold-rolled), including Sidbec on a small scale. But in those areas where there is a great deal of product dominance due to only a few producers, such as in rail, tinplate, cold-drawn bar, railway tie-plate, and plate, Sidbec is not among the producers. Only in the production of wire rod (there are only three companies in the field) and in track spikes (three producers) does Sidbec appear in the field³³.

Dominion Steel was still very dominant in the Canadian primary steel industry, producing almost two-fifths of the iron and steel in Canada, when Stelco was created. Stelco was at that time over-loaded with finishing capacity (over half of the country's business in most hardware lines) but possessing only a tenth of Canada's steel ingot production (Kilbourn, 1960: 83). Stelco early on corrected that situation. Dosco slipped to third place in ingot capacity by 1961 (:304) and then to a poor fourth as Dofasco galloped ahead. In the 1970's the "Big Three" in Ontario were all engaging in major expansion programmes, with the "pre-eminent industrial might" of Ontario, the industrial metropolis of Canada, representing almost 60% of the anticipated 21-million-ton steel market by 1980. Stelco, Algoma and Dofasco at the present time together account for about 80% of the total Canadian steel output (Financial Post, November 29, 1975).

Another group of interests which had fallen by the wayside early in the century was that of Drummond, McCall and McDougall, interests which had united in many acquisitions and mergers during the ambitious merger

period. Their main consolidation in 1908 was Canada Iron, which absorbed their Ontario mines, John McDougall & Co. (Maritimes), Drummond Iron Mining companies, Canada Iron Furnace, and Canada Iron and Foundry. Although they built a blast furnace at Midland, Ontario and acquired the old Londonderry, N.S. furnaces, their specialty was foundry-work, car wheels, and cast-iron water pipe. Donald (:1915: 226) believed at the time their company was assured a "permanent supremacy" in its field of operations. In fact, in 1913, Canada Iron's bonded debt forced insolvency and the company was never re-organized. Today, cast-iron water pipe has been replaced by steel produced in the major steel producers' pipe mills, foundry products have been replaced by forgings (the largest producer of which is Stelco's Gananoque Works), and demand for the other products fell off. The Drummond McCall people, members of the industrial elite of Montreal of that period, have left as their legacy only a steel service centre by the same name. Steel service centres, however, perform important "middle-man" functions between steel users and steel producers, stocking and often processing and fabricating steel for special-use or small-tonnage customers. The dominant companies in the field are Hugh Russel Ltd., Drummond McCall & Co., and Dominion Bridge Co.³⁴, the latter now owned by Algoma³⁵. These service centres represent, like the steel fabricators such as Westeel-Rosco, an important division of labour within the steel industry.

Kilbourn (1960: 55) notes that the reliance on primary products and rails was to present serious problems for both Dominion Steel and Algoma. Algoma appears to have pulled out of its financial difficulties and has become very large, but much of its product is still fairly specialized. In 1912, the again-reorganized Algoma, in possession of raw material

sources and an excellent port (though relatively far from the growing southern Ontario markets) had become the first Canadian company to produce steel rails and to specialize in heavy and light structurals, including heavy fastenings for rail (Donald, 1915: 219). It had begun to diversify but due to strong demand in its existing lines and shaky finances, it did not complete this move, and instead actually withdrew from merchant bar manufacture, track bolts, and spikes (:94). It attempted diversification again before the 1920's but the wartime conversion of its basic steel-making from Bessemer to open-hearth due to war demand left it financially hamstrung (Kilbourn, 1960: 125-126).

Algoma has belatedly begun modernization (Financial Post, June 5, 1976) but there is no evidence in the recent literature to suggest that either Algoma or Dofasco is diversifying very far out of what has become a particular market forte--heavy structurals and rail for Algoma, and a wide range of sheet products for Dofasco.

The following table, 4-3, gives an indication of the degree of product dominance by the major steel producers.

TABLE 4-3
 "BIG THREE" AREAS OF MARKET DOMINANCE OR PRODUCT MONOPOLY

Product	Dominant Producer or Monopoly	Probable Share of Market	Others in Field
<u>Structurals:</u>			
Heavy	Algoma	100%	none
Light	Stelco or Sidbec	unknown (Algoma may also have large share)	Burlington Steel, Lasco, Manitoba Rolling Mills, W. Cda. Steel
Wire Rod	Stelco	probably over half due to large capacity	Sidbec, Ivaco
Tinplate	Stelco or Dofasco	probably 50-50 due to similar capacity	none ³⁶
Galvanized & Colour-Coated Sheet	Stelco or Dofasco	Partners in Baycoat; about equal capacity	none
Plate	Stelco(?)	Capacity large, but competition may be in wide sizes: see discussion	Algoma (large), Dofasco (small), Ipsco (v. small)
Cold-Drawn Bar	Stelco(?)	may be 50-50 with Union Drawn	Atlas Steels, Ivaco (small)
<u>Railway Prods.</u>			
Rails	Sysco, Algoma ³⁷	50-50(?)	none
Joint-bar	Algoma	100%	none
Tie-Plate	Algoma, Stelco, Sysco	unknown (perhaps Stelco due to finishing cap'y.	none
Track Spike	Stelco	due to finishing cap'y.	Sidbec-Dosco, West. Cda. Steel
Tubular	Stelco	about 80% of total; 65% Cdn. cap'y large-dia. ³⁸	Ipsco, Dofasco, Algoma(?)
Specialty Steels	Atlas Steels	unknown	stainless, tool, & alloy steels - not made by "Big Three"

The following two product profiles of producers, market shares and customers, drawn from the two examples Stelco itself uses in its submission to the Bryce Commission,³⁹ are worth detailing for the purposes of illustrating in a more concrete way the implications of the preceding table and of Stelco's new "competitors."

The first product, plate, is usually produced on specially designed, heavy mills (but limited quantities of thinner sizes can be made on other mills). Its principal end uses, in order of their proportion of total consumption are: pipes the tubes (the bulk of which, if not all, is produced within the same firm); heavy equipment (railway cars, locomotives); steel service centres (various applications); construction; shipbuilding. Together, Algoma and Stelco account for over 80% of domestic plate production, although one or the other may be more dominant, depending on location of customer (Algoma, in order to sell to the Toronto area, must give price allowances to equalize freight costs from the Sault, and Stelco must do the same on shipments west of the Sault). A large portion of the tonnage goes into (mainly "interworks") large-diameter pipe. In all of Canada, only 12 customers represent 50% of the total plate consumption (and in Stelco's case, fewer than 15). Much of the competition between the two tends to be in terms of sizes, grades, and surface finishes, and the two have engaged in a game of leap-frog beginning in 1952 when Algoma installed a mill capable of producing a wider width than Stelco's (until then, Stelco enjoyed about 10 years of monopoly due to its 110" mill); in 1964, Stelco bested Algoma with a 148" mill, and in 1972, Algoma completed a 166" mill which also produces plate over 6" thick and is the largest mill currently in Canada.

Although Dofasco and Ipsco produce some plate, Dofasco is limited in size and quantity, and Ipsco's mill produces plate which it uses itself in pipe manufacture. Sidbec's expansion programme includes a slab caster which will make slabs that could be used for plate production, but Stelco fails to note Sidbec's precarious financial position, including its huge deficit, and makes no comments about how the quality or grades produced by the slab casting method affects the competitive position of the product.

There are five producers in Canada of hot-rolled sheet and strip. Hot rolled is a product which can also be further advanced by cold rolling and coating and which, as "skelp" can be used for tubular product manufacture, all of which facilities not all of the other competitors possess. Fifteen customers account for 60% of the domestic consumption (excluding "interworks," some of which goes into tubular production and much into cold-rolling); ten customers account for 55% of Stelco's sales. The important consuming industries, in order of proportion consumed, are: pipe and tube; automobiles and auto parts; construction; steel service centres; agricultural and other types of machinery and equipment (combined); and containers (items such as drums and kegs as well as the giant shipping containers which take large quantities of steel each).

Although there are five producers of hot-rolled, only Stelco and Dofasco produce the tin-coated sheet product or specialize in galvanized, prepainted or special coatings. In 1950 Stelco was the largest Canadian producer of hot-rolled (over 70% of Canadian production), with Dofasco the only other and steadily increasing (according to recent newspaper accounts Dofasco is adding still more sheet-making capacity); Algoma

produced hot-rolled on its combination bar and strip mill in a limited range and quantity until 1963, when its new 106" hot mill provided the widest in Canada. Stelco, Algoma and Dofasco account for 80% of domestic open market (non-interworks) sales; Ipsco and Sidbec together accounted for only 20% of this market, Ipsco's begun in 1961 in the west and only involving excess capacity not used in tubular production, and Sidbec's in 1966 in the east and with no cold-rolling capacity. These important products are highly concentrated and capital-intensive ones.

In the period 1960 to 1974, about which Stelco complained the most that it was affected by import and domestic competition (especially from new entrants into the Canadian industry), its market share of all existing steel capacity was, in 1960, 33.6% and in 1974 (a period of acute shortage when imports were sought by many customers), its share was 30.4%. But in between, its market rose and fluctuated between 33.6% and 36.8% in 1964 and 1968 respectively; in the 14-year period, the change up or down was only 6.3 percentage points, and in 1974 Stelco ended up almost where it had started in 1960 (down only three percentage points)⁴⁰. Stelco is and has been number one in steel capacity for some years.

Although since the end of the Second World War seven new firms entered the Canadian steel industry (Ipsco, Ivaco Industries, Lake Ontario Steel, Quebec Steel Products, Western Canada Steel, Western Rolling Mills, and the Stelco-acquired Premier Steel)⁴¹, plus those already existing (Manitoba Rolling Mills, Atlas Steels, and Burlington Steel), most of these firms are small, and due to their small-capacity electric furnaces, limited in output and product lines. Many of them do not even represent a potential threat to Stelco but are merely an irritant, especially in a period of slackness in the market and when Stelco, "caught

with its pants down," is in the middle of an expensive exercise in creating over-capacity at Lake Erie.

The product profiles above illustrate how the process of market dominance through product monopolies has the potential of reducing competition without explicit collusion. It is only one way in which monopoly capitalists co-ordinate efforts in order not to destabilize their milieu. The other is price leadership, the logic of which was explained in Chapter Two. Examples of price leadership are scarce, but the following quotation serves to make the point:

"Dofasco made something of a false start by trying to hoist flat-rolled prices in February and was forced to roll them back when its two counterparts failed to follow suit. Since then Stelco's announcement that it would raise hot-rolled prices...has enabled Dofasco to have another go and Algoma to tag along. This time the new prices should stick." (Financial Post, June 5, 1976).

The quotation brings out two aspects of monopoly capitalism: first, that only the industry leader can successfully create the climate for others to up their prices; second, although Stelco is dominant overall, Dofasco tends to have a slight edge in the production of sheet steel, the product referred to, and was attempting to assert a form of dominance--that Algoma "tagged along" when the two had raised theirs, Dofasco following the leader, illustrates Algoma's lack of strength in that particular product area.

In this section, an examination was made of the ways in which product monopolies divide up the market among Stelco and the others of the "Big Three," thus reducing competition among them to something resembling complementarity both in product lines and in geographic dispersion of markets. When they are set against the ailing Dosco now

split as Sidbec and Sysco and against the small, usually locally-bound producers, the industry must be seen as even more concentrated and the conditions for monopoly power increased.

Throughout this chapter, Stelco has been analysed and compared with the other Canadian steel producers in terms of its rise to the position of market and industry leader; the thrust of this last section has been to emphasize the interdependence which exists among the Canadian producers in maintaining dominance over the Canadian market as essentially one productive unit.

NOTES TO CHAPTER FOUR

1. Another enlightening if overstated analysis of the extent of Canadian involvement on foreign turf is that of Steve Moore and Debi Wells, Imperialism and the National Question in Canada, Toronto, 1975. See especially Pp. 65-90.
2. Clement (1975) uses the term "comprador" in the same sense as used by Barrington Moore Jr. for the case of China (see Social Origins of Dictatorship and Democracy, Boston: Beacon, 1967, Chapter 4). By "comprador" he means a group of indigenous elites subservient to and in the service of a foreign or "parasite" elite, acting in an intermediary capacity by operating industrial or commercial concerns in their own country under the control of and for the benefit of the foreigners. For a thorough analysis of the social origins of various elites and the characteristics of Canadian social structure resulting from these sectoral splits, see Clement Chapter 2 and 3.
3. Masters (1947: VIII) uses a four-stage schema developed by Gras as the basis for the organization of his book.
4. Eldon (1952) takes as his sources, in addition to the usual financial and business publications, interviews and correspondence with those involved in the steel industry, including Sir James Dunn, then chairman of Algoma shortly before his death in 1956. It is assumed that Dunn's account of the early history, as he understood it from his relationship to Clergue, is accurate.
5. Canada Screw Co., eventually controlled by Birge, provides an example, in the finishing industry, of the typical case. Naylor (1975b: 53) notes that when Canadians took over, the only American ties remaining were in licensing arrangements for the wire-cutting and pointing patent.
6. All information on Stelco's raw material and other acquisitions is taken from an analysis of Stelco annual reports, 1910-1975, unless otherwise indicated.
7. The amounts for investments in the properties listed are only approximate since it was not until the 1940's that Stelco began listing its total investment separately for the figure which included the value of purchases the company had made of its own bonds. The bulk of the amounts quoted, however, must surely have been the raw material investments.

8. The Smallwood and Duplessis governments may take credit for the negotiations, concluded during their regimes, which ended with exclusive exploration rights, in Newfoundland, over 20,000 square miles at \$320/square mile rent (less any royalty on ore taken out each year), and in Quebec, exclusive rights lasting from 1946 to 1952 in exchange for the ridiculously low sum of \$100,000 then plus \$6,000/year for the duration of the arrangement. (Park and Park, 1973: 205).
9. Burch (1972, Table 3-1) indicates that Youngstown in the 1960's was "probably management-controlled" but in the 1930's it was controlled by the Pickands Mather group. It is consistent with the other findings here to suggest that there is probably at least some of this influence, if not control, remaining. The inadequacies of Burch's conclusions regarding the category "management controlled" have been discussed in Chapter Two.
10. Park and Park's (1973) data was for the late 1950's, early 1960's. The information in this table is taken from Statistics Canada Intercompany Ownership 1972, which represents about a two-year lag between data collection and publication.
11. Source: Weekly Energy Report, May 3, 1976.
12. Source: speech by R. E. Heneault to The Canadian Club, Calgary, Alberta, May 5, 1976. Heneault at that time was Vice-President, Personnel at Stelco; shortly thereafter there was a change in divisional structure, with Heneault becoming V-P, Administration, assuming in addition to his assorted personnel functions the responsibility for Eastern and Western areas, with these districts' heads reporting to him. The speech was obviously given by Heneault in connection with his new functions and its tone is one of ingratiating solicitude for his western audience. Stelco, representing the dominant Eastern metropolitan forces, has according to industry contacts, never been popular with Westerners.
13. Sources: Sidbec-Dosco report, 1973, and information obtained from steel industry sources and Financial Post, June 14, 1975.
14. Although he doesn't note it, Stelco (according to its annual report), received a \$4.1 million government loan. There is no note in the financial statements of any interest paid. Government also set up a forgings company which Stelco operated at a profit; after the War it was closed down and Stelco, not quite altruistically, handed over its profits, more out of a desire, Kilbourn (1960: 179) states, to avoid charges of wartime profiteering. In addition, the company received, the annual report notes, a special three-year depreciation allowance for extraordinary wear and tear on its equipment. The "advance" of the \$4-million allowed Stelco to increase its basic steelmaking facilities.

15. As far as can be ascertained, these figures accurately reflect capital spending on new plant and not acquisitions, as Stelco notes for its capital spending figure for 1964, the year Page-Hersey was acquired, that it is excluding the value of the acquisition. It can only be assumed that they were consistent in their reporting. Also, they changed their reporting format at least twice, calling the figure "new investments in plants and mining properties" in the earlier decades, and finally setting it out as "capital expenditures" in the 1970's. For that reason, the periods chosen were the ones for which Stelco itself explicitly stated the figure was total capital expenditures for the period identified. The averaging was done in order to highlight progression by stages. The years set out singly were especially noteworthy to the company, and so have been included separately.
16. Royal Commission on Corporate Concentration, Stelco submission P. 121-126; the company does not, however, state the names of all four acquired companies but only gives Page-Hersey as an example; during the questioning at the hearing (see Transcript, P. 2516-2518) the company does name them but the Stelco officials present apparently lost count and stated there were three. They gave no definition of "vertical" integration or in what way they considered these acquisitions to be examples of vertical integration. Further questioning and other passages in their submission would seem to contradict their assertion. Bryce et al. did not pursue this point in depth, nor did they question Stelco's assumptions.
17. Source: Stelco annual reports, unless otherwise indicated. As some reports were missing or incomplete, some dates may be inaccurate by a year.
18. Financial Post, June 5, 1976, observed that, overall, Canadian steelmakers use 50 tons of scrap metal to produce 100 tons of steel. Stelco's 1973 annual report stated that both Edmonton and Contrecoeur plants produce raw steel directly from scrap or (to reduce dependence on scrap) from kiln-converted iron pellets. Scrap has become extremely costly since more small (and some large producers) have begun using electric furnaces and basic oxygen furnaces.
19. Source: Nippon Steel News, March, 1976. Dofasco, according to Kilbourn (1960: 218) pioneered in the installation and use in North America of the B.O.F. first developed in Austria. At that time, B.O.F. technology had some problems, including a narrow range of grades, and required a large amount of highly refined materials. Later, Stelco also installed a B.O.F., but relies mainly on open-hearths at its Hilton Works (Hamilton) location. Earlier, in the 1940's, Stelco had developed an oxygen lancing system which cut down on the time needed to produce a heat of open-hearth steel (:217). In 1959, Stelco read a paper to the American Iron and Steel Institute on its success with developing self-fluxing sinter which made blast furnaces more productive (Kilbourn, 1960: 219).

20. Stelco Management Bulletin, April 1976. Stelco is not dominant in sheet-steel production or supply of the more "exotic" grades, while according to a business student who has studied the two companies, Dofasco is.
21. Stelco's submission to the Royal Commission on Corporate Concentration, Pp. 121-126.
22. Transcript of proceedings, Royal Commission on Corporate Concentration, Pp. 2516-2518.
23. Under the leadership of its determined and powerful Tory government, Alberta is beginning to propel itself into a position of industrial might in the West, and established Eastern (as well as Western) industrial companies and the eastern banks have not been slow to realize the potential. For background, see Larry Pratt and John Richards, Last Post (Vol. 5 No. 3) February 1976, "Alberta Inc.: The Politics of the New West" Pp. 16-23. See also the series of articles on Alberta in the Financial Post, June 19, 1976.
24. Source: Statistics Canada Intercompany Ownership 1972; Alberta Gas Trunk Line is a company specially incorporated in Alberta, with strong ties to the Conservative government there (Executive, May, 1974). The other participant is Spring Mobile Pipe Corp. Ltd., 12.5%.
25. Source: Stelco Management Bulletin, July 13, 1976. The Vice-President of Corporate Planning and Research and the Special Projects Manager (the latter a former Page-Hersey man) made the submission.
26. IPSCO was owned 14.3% by the Saskatchewan government (Statistics Canada Intercompany Ownership 1972); Stelco stated to the Bryce Commission (submission, P. 73) that IPSCO was founded with the assistance of that government which in 1975 owned 20.1% and the Alberta government 20.1% (which Stelco says has, according to newspaper accounts, been since sold; they did not know--or did not say--to whom).
27. According to Stelco's submission to the Bryce hearing (Royal Commission on Corporate Concentration, P. 122-123). Stelco gives no evidence, nor does it suggest, that Page-Hersey was financially unsound, only that it was beginning to have steel supply problems. They noted that in small sizes of pipe, the two companies competed, but were linked jointly in developing large sizes. Judging by the calibre of Page personnel, including their technical man who became a top pipe metallurgist at Stelco, it does not appear justified to assert, as Stelco does, that all of the expertise, technical or management, was on Stelco's side.
28. Source: Stelco annual report, 1964.

29. Stelco's submission to the Royal Commission on Corporate Concentration, P. 124. They do not mention that, in effect, by being absorbed into the larger company, the Page-Hersey vice-presidents were actually demoted.
30. Examination of the list of directors, Stelco annual reports, 1964 and onwards.
31. Stelco admits that due to their broad product range they are less susceptible to market fluctuations. For an interesting series of exchanges regarding shares, between the Commission and Stelco, see the transcript of proceedings (Royal Commission on Corporate Concentration), Pp. 2488-2491; referring to the table appearing on P. 21 of Stelco's submission, whose data will be analysed here.
32. A brochure published by Stelco in the 1970's lists its products. The list, which appears in the Appendix of this thesis, reads like a virtual encyclopedia of conventional steelmaking products--except for the absence of heavy structural sections and rails.
33. All material on product lines and markets, unless otherwise indicated, is drawn from a variety of sources too numerous to note separately. They include comparison of product brochures from some of the producers, Statistics Canada information on the steel industry, and corroboration of the author's "informed hunches" by people with industry knowledge. Some hints from newspaper articles also tended to verify the probable accuracy of the data. Stelco confirmed much of it in its submission to the Royal Commission, and this source has been noted where used.
34. Source: Financial Post (special section reporting on steel), June 5, 1976.
35. Source: Statistics Canada Intercompany Ownership 1972; Algoma owned 43.2% of Dominion Bridge, which in turn owned 100% of Eastern Canada Steel and Iron Works, National Products Ltd., and Robb Engineering Works.
36. Source: Stelco submission to the Royal Commission on Corporate Concentration, P. 49. Stelco states that there are only two producers; there are also only three major customers. It is, they admit, a highly concentrated field! The two dominant customers would be American Can and Continental Can, both American-owned.
37. Transcript of proceedings, Royal Commission on Corporate Concentration, P. 2510. "Sysco depends mostly on its sales for rail and exports and Algoma is the second producer of rail." (statement by J. P. Gordon).
38. According to Stelco itself, on large-diameter. Statement by Peter Gordon, P. 2510 transcript of proceedings, Royal Commission. Overall 80% is an educated guess based on capacity and includes all tubular-type products, both pipe and tube, by all processes, and in all grades and sizes for all end uses including structural.

39. Stelco submission to the Royal Commission on Corporate Concentration, P. 21 table; Bryce picks the Stelco representatives up on this point. See transcript of proceedings, P. 2490. Analysis of the table confirms Bryce's interpretation that Stelco ends up very close to the position it was in at the beginning of the period.
40. According to Stelco submission to Royal Commission, P. 22. Stelco fails to note the size of these companies, the steelmaking process employed by each (with its limitations), or the fact that Atlas Steels, specializing in exotic steels not made by the others, represents no competition. Moreover, most of these firms have regional limitations--Quebec Steel Products in the east, IPSCO in the west along with Manitoba and Western. For example, on Q.S.P., see Financial Post June 5, 1976, in which it is noted that this firm is small, family-owned, Quebec-located, having problems with its long-term debt, and potentially oriented to export due to its connections with Swiss and Japanese holders of its equity and debt respectively. Moreover, while it has the facilities, the article points out, it lacks the customer demand!
41. Stelco submission to the Royal Commission, Pp. 52-60 for the plate product, and Pp. 60-67 for hot-rolled sheet and strip.

Chapter Five - STELCO AND THE INTERLOCKING
INDUSTRIAL COMMUNITY

I STRENGTHENING THE LINKS: INDIGENOUS SECTORS OF DOMINANCE

The historical discussion opening Chapter Four placed the Canadian steel industry within several contexts: that of a generally weak Canadian industrial elite operating within both the framework of a North Atlantic Triangle and a continental situation of the strong overshadowing influence of American industry on both sides of the border, but having under its own influence a steel industry which grew to maturity through the industrialization process which "took off" with the railway boom. This close and interdependent relationship was reinforced by economic conditions which made Canadian steel production temporarily unattractive to American interests and created the opportunity for the "Canadianization" of steel producers established by Americans.

Stelco rose to dominate the industry at a time when the other steel producers experienced financial difficulties generally created by this transition as well as intervening economic conditions which Stelco was in a position to weather. Stelco began to expand rapidly and aggressively, moving into geographic and product areas which were new to it and which extended its sphere of influence. Along with the fact of Stelco's industry dominance, however, it was argued that Stelco is part of a larger steel-producing unit which, due to the complementary nature of many of the individual member's products and markets reinforced "Big Three" monopoly.

The present chapter is concerned with the question of how the notion of a dominant Canadian steel company linked to sectors of in-

indigenous dominance must be modified in the continental and international capitalist context.

Both parts of the chapter will take as their central assumption the importance of directorial interlocks as pointing to significant configurations of interest within the sectors of indigenous elite strength and as providing links to internationally important corporations in the broader capitalist context. As C. Wright Mills (1956: 123) stresses, the consolidation of the corporate world is underlined by the fact that

"...within it there is an elaborate network of interlocking directorships...it points to a solid feature of the facts of business life, and to a sociological anchor of the community of interest, the unification of outlook and policy..."

Although Mills cautions that interlocking directorships are subject to the "minimum inference" that they are vehicles permitting convenient interchange of views (:123), it will be shown in the two parts of this chapter that historical continuity as represented by the recurrence of certain corporations over time despite changes in directors, coupled with the density of interlocks between certain corporations and not others over time, permits not only that minimal inference to be made but also the argument to be made that such interlocks represent the co-ordination and mutual strengthening of interests. In the case of the indigenous sectors of dominance, which will be the subject of this part, taken in the context of the historical material presented in Chapter Three and Chapter Four, it will be argued that Canadian-controlled dominant corporations such as Stelco represent important nodes in the system, which reinforce the indigenous elite and allow it to establish relationships with foreign interests from positions of strength.

The Canadian economic structure is a truncated one, as was pointed out. Certain sectors are more dominated by the Canadian indigenous elite than others (these "others" being dominated either by American or other foreign interests). The areas of traditional Canadian elite dominance have tended to remain to the present, although, as will be shown, there has been some tendency towards more Canadian ownership in pulp and paper industries; and of course, there has been an important change from American to Canadian control in the primary iron and steel industry (as well as the related metal fabricating, forging, and casting industries). Examination of the literature and data on the subject (Marshall et al., 1976; Naylor, 1972 and 1975; Wilkins, 1970; Clement, 1975) has indicated that the sectors which have tended to be penetrated by foreign (particularly American) corporations are, very broadly speaking, manufacturing and the mining and other resources sectors, while Canadians have tended to be strong especially in finance, and in the areas from which their activities began (trade in goods and land and staple movement) or which their traditional activities led them to support: transportation, utilities, textiles, agricultural machinery, and railway equipment (rolling stock, locomotives) from which in turn sprang their interest in the primary iron and steel industry and allied industries.

One would suspect, therefore, given the evidence presented in Chapter Three of the close connections between Stelco and the Canadian financial institutions (an areas of Canadian elite dominance par excellence) that other companies represented through directors on the Stelco board might be heavily weighted in favour of directorships in the areas of indigenous elite dominance. An examination of the board members' dir-

ectorships between 1910 and 1973 was made and this question raised. Excluding the financial institutions already dealt with and directorships on such institutions as research bodies, hospital and university boards, there were 177 industrial and industrially-related companies represented on the board during this period. This figure does not include every board on which a Stelco director ever sat, but only those which were directorships during the director's period of tenure on the Stelco board¹. These were divided into foreign-dominated and Canadian-dominated groups and the aggregated results appear in the table, 5-1, below.

The results of the examination reveal four interesting phenomena: first, more Stelco directors sat on boards in the Canadian-dominated sectors than the foreign-dominated (97 compared with 80); second, although there were Canadian-controlled companies in the foreign-dominated sector and vice-versa, the proportion of companies having Canadian control was greater in the Canadian-dominated sector than in the foreign (68% compared with 38.7%); third, there was more interlocking among companies in the Canadian-controlled sectors; and fourth, those companies which had a high concentration of directors and a great deal of continuity in representation on the Stelco board over time tended to be those which are dominant in Canada (whether Canadian-controlled or not). These findings require some discussion in order to bring out their significance.

Clement (1975: 163) argues from the evidence of his data for the current economic elite that the sector of activity has an important role in relations between corporations and their controllers, but that just as important (and related) is the variable of the origin of control:

TABLE 5-1
ANALYSIS OF STELCO DIRECTORS' NON-FINANCIAL
DIRECTORSHIPS 1910-1973

1. U.S. AND FOREIGN-DOMINATED SECTORS (Manufacturing and Resources)

Category	No. of Co.'s	No. of Dir's.	Interlocks Within Category	Concentration and Con- tinuity on Board
Mining (incl. petrol. mineral fuels, non-met. minerals)	19	28	-Gulf and Inco - J.Roy Gordon -Gulf and Cominco - G. A. Hart -Gaz Metro. and Eli- can - H.G. Smith -Home Oil and Consum- ers Gas - J.D. Gibson	Inco - 5 directors, 1948 to present Cominco - 7, 1910 to present Gulf (BA) - 8, 1940 to present
Pipelines	4	4	-	-
Manuf'g. a. Machin- ery (incl. Transp. & Agric.)	15	15	-Cda. Car & Cda. Loco- motive - Holt -Cdn. Pratt & Whitney & Fairchild Aircraft - G.H. Duggan -Russel Motor Car, Massey Harris, & Underfeed Stoker of Amer. - L. Harris	Genl. Motors - 2 directors, 1940-1951 Cdn. Pratt & Whitney - 3, 1910-1964
b. Electr. Products	4	8	-Phillips Electron. & ASEA Inds. - L.G. Rolland	Cdn. Genl. Elec. - 6 directors, 1910 to present
c. Tobacco Products	2	2	-	-
d. Rubber Goods	3	3	-	-
e. Chemi- cals	4	5	-	ICI-CIL - 3 directors, 1926 to present (+ Wm. McMaster)
f. Other Mfg.	9	7	-Steetley Inds., Rockwell, Ont. Steel Prods. - H. M. Griffith	OSP-Rockwell - 2 directors, 1926 to present

Table 5-1

Category	No. of Co's	No. of Dir's	Interlocks Within Category	Concentration and Con- tinuity on Board
Pulp & Paper, Wood Products	20	16	-Abitibi & Spanish R. P & P - Watson -Abitibi & Trans- cont. Timber - A. Graydon -Int'l. Paper & Anglo Cdn. - R.S. White -Colonial Bleach. & Print. & Cda. Paper - H.S. Holt -Bathurst, Cons.-Bath., Donohue, Rolland, Cda. Glazed - L.G. Rolland	<u>Abitibi</u> - 2 directors, 1910...1955-1971 (+ Price, 1, 1959-1974) <u>Consol. Paper</u> - 3, 1910, 1958 <u>Cons.-Bathurst</u> - 2, 1959 to present
Total:	<u>80</u>			No. of companies with 3 or more Stelco directors over time: <u>7</u>
2. CANADIAN-DOMINATED SECTORS				
Transpt'n.	15	20	-CPR, Detroit Rwy., Toledo Rwys., Mtl. Park & Is. Rwy., Mon- terey Rwy., London St. Rwy. - H. S. Holt -Kingston & Pembroke Rwy., Tor. St. Rwy., Northern Navig. Co. - W.D. Matthews	<u>CPR</u> - 11 directors, 1910 to present (+ CP Air - 2, 1937 to present) <u>Cda. Steamship Lines</u> - 2, 1916-1938
Utilities	26	28	-Nat. Teleph., Dom. Power, Shawinigan, Calg. Power, Mtl. L. H. & Pow. - Holt -Barcelona Traction, Ebro Irrig. & Pow. - A. Graydon (+Brascan, MacIntosh, Graydon's partner) -Ldn. Elec., Tor. Elec. W.D. Matthews -Ham. Gas Light, Kee- watin Pow. - Wm. Gibson -Caledonia Pow., Dom. Pow., Cdn. Transmiss. - Wm. Southam -Bell, N. Elec., N. Amer. Telegr., Nat. Teleph. - F. Johnson; J.D. Gibson -Gatineau Pow., Bell Cda. - L.G. Rolland	<u>Bell Canada</u> - 3 directors, 1916 to present <u>N. Electric</u> - 8, 1929 to present <u>Shawinigan</u> - 3, 1910-1964 <u>Dom. Power</u> - 3, 1910-1925 <u>Bowater</u> - 2, 1953-1969 <u>Atomic Energy (Crown Corp.)</u> - 2, 1951 to present

Table 5-1

Category	No. of Co's	No. of Dir's	Interlocks within Category	Concentration and Con- tinuity on Board
Textiles	10	11	-Dom. Textiles, Mtl. Cotton - H.S. Holt -Dom. Textiles, Mtl. Cottons - D.R. McMaster -Wabasso, Woods Mfg. - W. Taylor-Bailey -Harding Carpets, Cosmos- Imp., Ham. Group - W. H. Young -Woods Mfg., Brantford Cordage - G. Osler	<u>Dom. Textiles</u> - 3 dir- ectors, 1910...1962 to present <u>Mtl. Cotton</u> - 2, 1910; 1972 to present <u>Harding</u> - 3, 1965 to present <u>Woods Mfg.</u> - 2, 1937-1960
Primary Metal, Fab. & Constr.	16	12	-*Dom. Bridge,*Dom. Eng., *Robb Eng.,*E. Cdn. Steel - Taylor-Bailey; A.J. Brown, G. H. Duggan -Manitoba Bridge, Man. Roll. Mills and * - Taylor-Bailey *related companies	<u>Dom. Bridge</u> - 5 directors, 1910-1964 <u>Dom. Eng. Wks.</u> - 4, 1915-1960
Food & Beverage	10	12	-Ind. Grain Prods., Consol. Bakeries, Ogilvie - Dunning	<u>Ogilvie Flour</u> - 4 dir- ectors, 1910-1953 (now subs. Labatt - 1, 1969 to present) <u>Borden</u> - 2, 1929-1955, 1963- 1973
Wholesale/ Retail	2 (foreign)	2	- (indirect link with Eaton's -	- Cda. Systems Group)
Print. & Publish.	6	9	-Moore, Lamson Inds. - -Dom. Paper Box, F.N. Burt - W.H. Browne	<u>Moore Corp.</u> - 5, 1944 to present
Real Es- tate	7	7	-N.Y. Land, Cdn. N-W Land - F. G. Osler	<u>N.Y. Land</u> - 2, 1913-1944 (both Oslers)
Holding Co.'s	5	8	-Moore (as above) - others as noted in text + indirect: Power, Argus	<u>Moore</u> - as above, by main activity

Total: 97No. of companies with 3 or
more Stelco directors over
time: 11

"It is clear...that Canadian controlled companies are the greatest interlockers with other dominant companies. Core corporations with the highest interlocks are at the center of the economic elite, providing historical continuity to the entire elite..." (:163).

Clement has found that, in order of density of interlocking, the following corporations form that core: Imperial-Commerce and Montreal banks, Royal Bank, Sun Life, and CPR; the T-D Bank, Bell Canada, and Domtar; then Canada Life, Brascan, Argus, Huron & Erie, Trans-Canada Pipe Line, Consolidated Bathurst, Stelco, and Massey-Ferguson, as well as the U.S.-controlled Inco; and lastly, Gulf Oil, Hudson's Bay, Canada Cement, Power Corp., National Trust, Simpsons, Abitibi, and Molson's (:163-174).

The financial institutions mentioned above have already been discussed in Chapter Three, and their pervasiveness noted. Although many of the industrial corporations named above appear at some point in time on the Stelco board, the following stand out as having the greatest continuity and concentration of interlocks: Inco, five directors to the present; Canadian General Electric (also U.S. controlled), six directors to the present; Dominion Bridge (Canadian control, now Algoma), 5 directors, plus affiliated companies, to 1964; and the CPR-Cominco grouping (Canadian control), eleven and seven directors respectively, to the present. With less concentration or continuity but still enough to be significant, are Dominion Textiles (Canadian), Ogilvie Flour (Canadian), CIL (and its U.K. parent, ICI). Abitibi (if the acquired Price paper company is added) could be included here, as could the companies now related to Power Corp.--Bathurst and Consolidated Bathurst--which along with Consolidated Paper, were once U.S.-controlled (Marshall et al., 1976: 40-41; 327). Not all of Clement's "core" corporations are heavily con-

centrated on the Stelco board, at least over time, and some of the companies not listed as "core" are nevertheless dominant in their sector and are heavily concentrated on Stelco's board.

Generally speaking, it may be interpreted that those companies which are highly concentrated and show continuity on the board are there because they are Canadian (especially in utilities, textiles, and transportation for the early period, when many companies were being promoted by Canadian financiers such as Holt and Matthews)--these companies, as well as those related to the railways (such as the rail-car and locomotive builders), along with dominant Canadian companies such as Cominco and Abitibi, which operate in their sector alongside American-controlled companies, represent the reinforcing of the indigenous elite's power through contact; they are a small, tightly meshed community. Moreover, once certain early relationships are established through important elites of the period associated with particular institutions (especially those financially well-connected), the relationships have tended to be stable over time unless there was a change in alignments--for example, once-independent companies now absorbed by Argus or Power Corp. and subject to changes in interest group.

Other companies (such as Dominion Bridge, G.M., Massey-Ferguson, the pipelines, Ontario Steel Products-Rockwell, and Canadian Cannery) are all steel-using industries, and although they may or may not be Canadian-controlled, they all operate in Canada and require steel purchases from the Canadian producers--the Canadian producers also need them as customers. The relationship with Gulf Oil (connected with the pipelines) is understandable not only from this standpoint, but also from that

of supply--the steel industry uses large quantities of petroleum products. Inco as well uses steel in its mines and supplies nickel (although not in relatively large quantities) for alloying. C.I.L. supplies chemicals used in steelmaking, as does Canadian Liquid Air. But there is another reason why dominant American companies which have operated in Canada for a number of years are represented on the Stelco board: they represent important points of contact with American industries and American elites, and through them, links to the world-capitalist networks. Strong linkages are established and maintained between dominant corporations, the lynch-pins of the system, which cut across national boundaries.

II THE 1973 BOARD: STELCO AND INTERNATIONAL CAPITALISM

Having established what patterns of relations were involved since the time of Stelco's creation, it will be appropriate to take the 1973 board as the subject for intensive analysis, as the board is representative of past patterns as well as current trends. The following table, 5-2, will provide a quick overview of the general characteristics of the 1973 Stelco board. (An analysis of the social characteristics of the board members will be reserved for the next chapter).

TABLE 5-2
THE 1973 STELCO BOARD OF DIRECTORS²

Total number of directorships held by the 15 Stelco directors (excluding Stelco directorship)	- 101
Total number of directorships on industrial or financial corporations known to be foreign-controlled	- 28
<u>Types of Directorships:</u>	
1. Industrial or other non-financial corporations (including holding companies) ³	Tot. - 60
2. Financial Institutions (5 banks, 2 trust companies, 3 investment funds or syndicates, 9 insurance, 4 real estate or mortgage companies)	Tot. - 23

Table 5-2

3.	Associations - trade, industry, or gov't.	Tot. -	12
4.	University governorships or board trustee	Tot. -	5
5.	Hospital or charitable organization trustee	Tot. -	$\frac{1}{101}$

- Average number of directorships held by each director - 6.7
- Minimum and maximum number held - 2 and 18 respectively

Although the main focus is intended to be the 1973 board, there are, in addition, other important relationships between Stelco directors who were then on the board and companies on which they sat; some of these other directorships also were found to have historical continuity on the Stelco board, and so will be included in the discussion. The purpose of the section is twofold: to analyse the directorships and the ownership linkages which flow from the companies on which these directors sit especially as they show patterns of relationships with both Canadian and foreign firms, and second, to point out any lengthy historical relationships and their significance which were stable despite changes in directors.

To briefly summarize the most important interlocks which will be discussed in detail: of the 15 positions on the 1973 Stelco board, seven directors held directorships on the same corporate boards outside Stelco: three on Moore Corp. (Canadian control); two on Bell Canada (Canadian control); two on Harding Carpets (Canadian control); and three on Gulf Canada (U.S. control). The interlocking of the financial institutions and their importance has already been discussed in Chapter Three. In this section, the banks will again be brought into the

analysis in order to aid in sorting out the significance of the data in terms of interest groups (the interest groups as found to exist for the late 1950's by Park and Park (1973) and for the 1970's according to those found to be "corporate clients" of each bank, by Newman (1975)).

An interlock network diagram for the industrial corporations alone and another which includes the financial institutions may be found in the Appendix for an overall impression of the extent of interlocking. For purposes of analysis, however, the following table, detailing not only the main ownership complexes and the Stelco directors who interlock with them but also bank interest groups, country of control, and indirect interlocks between institutional shareholder directors and companies represented on the Stelco board will serve as a clearer summary of the configurations. Although there are many other connections, both direct and indirect (some of which will only be footnoted), the ownership complexes represented on the chart will be considered as the "core" set of relationships, for reasons which will become apparent.

It will be recalled from the discussion of financial institutions and institutional shareholders in Chapter Three that they are not only heavily interlocked but also interlocked along the lines of bank interest groups. It is worth emphasizing here that those directors who interlock on industrial and other non-financial corporate boards also interlock on financial institution boards; hence it can be seen that a "financial nexus" indeed operates in such a way that, at least among Canadian corporations linked to them (and for others with Canadian and American banking connections, such as Gulf Canada), relations among corporations flow along financial channels.

TABLE 5-3
1973 STELCO DIRECTORIAL INTERLOCKS, OWNERSHIP COMPLEXES
AND OTHER CONNECTIONS

- Stelco directors noted in ()
- Bank interest group changes between 1950's and 1970's only if indicated
- Control of main owning company in each complex (bold-face letters) is Canadian unless otherwise noted.
- Additional interlocks by instit. shareholder directors underscored.

Ownership Complex	Bank Interest Group	Connections between Complex and Stelco Institutional Shareholder Directors (1973)
<u>MOORE CORP.</u> (Browne, Scully, Gibson) Lamson Inds. (Browne) F.N. Burt Inc. (Browne) Moore Bus. Forms (Browne) Dom. Paper Box (Browne)	Nova Scotia	-D. W. Barr (Pres., Moore): Cda. Life, Cdn. Inv. Fund, Nat. Trust, Cdn. Fund (+ <u>Inco</u>)
<u>CANADIAN PACIFIC LTD.</u> (Rolland, Smith) Cdn. Pacific Air (Manning) Cdn. Pacific Invests. (Campbell) Cominco Ltd. (McMaster)	Montreal, Royal Montreal(50's) N.S., T-D (70's)	-F. H. Sherman (Pres., Dofasco): Crown Life -H. J. Lang (Pres., Canron): Sun Life; <u>+Imp-Comm. Bank</u> -I. D. Sinclair (Chm., CP): Sun Life, Cdn. Inv. Fund, (+ <u>Bank of Montreal</u>)
<u>POWER CORP.</u> (indirect conn.) Consol. Bathurst (Rolland) Bathurst Paper Ltd. (Rolland) Imperial Life Assur. (Gibson)	Royal	-and see comments, Ch. 3 -J. B. Aird (Dep'y Chm. Algoma Central Rwy): Pacific Atlantic, Nat. Life (+ <u>Rolland Paper</u>)
<u>BELL CANADA</u> (Gibson, Rolland) Northern Electric (Gibson)	(70's): Montreal & Royal; T-D; Imp.-Comm. (50's):Montreal & Royal(+ Morgan)	
<u>IMPERIAL CHEM. INDS. OF CDA.</u> (U.K.) (McMaster) Canadian Industries Ltd. (Campbell)	Montreal	-(on C.I.L.)- A.G.S. Griffin (Triarch-Power Corp.): Tor. & Ldn., Victoria & Grey, (+ <u>Consumers Gas</u>) -Jas. Sinclair (Chm., Lafarge): Sun Life

Table 5-3

Ownership Complex	Bank Interest Group	Connections between Complex and Stelco Institutional Shareholder Directors (1973)
<u>CONSUMERS GAS CO.</u> (Gibson) (Cygnus Corp.) Home Oil Co. (Gibson)	Tor.-Dom.	-J.K. Macdonald (Chm., Confed. Life): Cda. Perm. Trust -A.G.S. Griffin (Triarch-Power): Tor. & Ldn., Victoria & Grey (-C.I.L.)
<u>HARDING CARPETS</u> (Young, Gibson)	Tor.-Dom.	-J.D. Mingay (Chm., Rous & Mann Press): Excel. Life -his brother A.H. Mingay (Pres., Cda. Trust): Huron & Erie
<u>LORAM LTD.</u> (holding co. for Mannix family) Mannix Co. (Mannix) Peubina Pipeline Empire Dev. Co. (13.4%)	Royal	-Nat. Trust (Young, Gibson) owns 33.3% of Empire
<u>THE STEETLEY CO. LTD.</u> (U.K.) Steetley of Cda. (Holdings) Ltd. (Griffith) Steetley Industries (Griffith)	? ? ?	-(on Steetley Inds.) - T.E. Ladner (Q.C.): Cda. Perm., Confed. Life (+Finning Tractor '69 bd.: Graydon)
<u>ROLLAND PAPER CO.</u> (Rolland) Cda. Glazed Papers (Rolland)	Montreal	-J.B. Aird - see Cons. Bathurst - G.D. Birks (Pres., Birks): Roy. Trust, Std. Life, United Corps.
<u>SUN LIFE</u> (Scully, Campbell) Cdn. Enterprise Dev. Corp.* (Campbell)	Montreal	

*also owned by CDFC Holdings, 15.6% (Commonwealth Development Finance Co.)

Table 5-3

Ownership Complex	Bank Interest Group	Connections between Complex and Stelco Institutional Shareholder Directors (1973)
<u>GULF OIL CDA. LTD.</u> (McAfee, (U.S.) Gordon, Young)	('50's): Montreal & Mellon ('70's): N.S., T-D	-J.D. Barrington (V-Chm., <u>O.R.F.</u> - see Thode): Nat. Trust, Excel. Life, Cdn. Genl. Invests. -Beverley Matthews (Partner, McCarthy & McCarthy): Cda. Life (-Bank of N.S.; <u>Brascan</u>)
<u>INCO</u> (Cdn.-U.S. control) ↓ (Rolland) Cda. Mickel (20%) Ceranex Ltd. (20%) ↑ <u>MCINTYRE-PORCUPINE</u> (Manning) (Cdn.)	('50's): Tor.-Dom. ('70's): Montreal Royal	-D.W. Barr - see Moore
<u>BRASCAN</u> (MacIntosh) ↓ John Labatt (MacIntosh) ↓ Mikas Oil	Imp.-Comm.	-Beverley Matthews - see Gulf -J.A. Taylor (Chm., Cda. Trust): Cdn. Genl. Invests., Ldn. Life
<u>NORTHERN & CENTRAL GAS</u> ↓ Gaz Metropolitain (Smith) ↓ Elf Oil (Mikas owns 15%)	? ?	
<u>ELICAN DEV. CO. LTD.</u> (Smith) (European) *La Cie Fonciere du Manitoba Ltée (Smith) ↓ Elwill (46%) Cdn. Hydrocarbons (55.4%) → Cdn. Homestead Oils → Petcal Co. → Bradie Bldg. Consol. Hydrocarbons (100%) (15%) (100%) (14%) Alta. Underground Storage (40%), with <u>Gulf Cda.</u> 40%	? ?	Mtl. Trust 21% (Young, Gibson) Nat. Trust 28.6%

*ownership of La Cie Fonciere by Elican listed in Intercompany Ownership 1969 but not listed in 1972 edition.

Especially as firms take on multinational dimensions and as firms begin to form consortia for the undertaking of very large and expensive projects, connections between Canadian dominant and foreign dominant corporations are reinforced. These latter two developments are relatively new in the history of North American business, the international operations, in the case of the U.S. companies, dating from the early part of the century (Wilkins, 1970), and probably later for many Canadian corporations; and the formation of consortia is probably as recent as the post-Second World War period. These consortia, unlike the investment syndicates formed by Canadian financiers or the infamous Morgan interests in the late 1800's and early 1900's, involve both financiers and industrial corporations and also unite ostensibly competing corporations in projects which marshal the corporate resources of several rather than one developed capitalist country, grafted onto the resources of a host country which may or may not also be involved. Such an example is Brinco and the network of relations formed among the companies involved in the Newfoundland-Labrador mining and power ventures; another, the oil and gas projects of the Canadian northwest. The international connections which some Stelco directors bring to such developments will be discussed in this section.

Analysis of the 1973 board reveals that there are four directors who interlock on financial institutions but not on industrial corporations: Manning, Campbell, McMaster, and MacIntosh. These people may be relatively important either because of the number of directorships they hold and/or because of the other boards on which they sit. The

first three directors are all found on one board each of CP-owned companies, and two others, Rolland and Smith, both directors with a large number of foreign-connected directorships, come together on CP Ltd., the parent company.

By far the greatest concentration of interconnections among corporations and financial institutions is found in the CP holding complex. There are over one hundred companies owned wholly or partially by C.P., through a vast network of control similar to the "pyramid" type of holding used by Power Corporation and Argus, whereby great amounts of wealth may be harnessed using relatively little investment risk. (For example, C.P. through C.P. Investments, which owns Cominco, can control Pacific Coast Terminals, which in turn can control Pacific Coast Bulk Terminals, four times removed from the main holding company.) By sharing ownership with other corporations or financial institutions, C.P. may still have considerable control while reducing its risk even further and have the added advantage of making itself nearly invisible, while at the same time availing itself of the connections of another dominant corporation or of a financial institution.

An interesting piece of information supplied by Newman (1975: 73-79) illuminates one such example. When investigating the 1969 Stelco board ownership connections (as the latest Intercompany Ownership issue was not yet published and an investigation could not be made of the 1973 board in detail), it was found that C.P. Investments owned 20.4% of Investors Group⁴, with Power Corporation having 17.7% and Power's subsidiary Imperial Life having 13.8% ownership. (The network spun out to draw in a bank and trust company: CPI also owned 29% of Glen Elgin

Investments, which owned 51% of Senac Investments, in which the Canadian Imperial Bank of Commerce had a 39% interest, along with its 49% interest in Glen Elgin; National Trust had 20% in Glen Elgin.) When the ownership complexes of C.P. and Power Corp. were rechecked in a later edition, it was found that the shared ownership in Investors Group had disappeared --Power alone now owned Investors. It will be recalled that in 1970, as Newman states, Desmarais obtained full control of Investors through friendship with Crump, the chairman of CPR; Crump had arranged for CP Investments to buy Investors stock, exchanging it for a piece of Power's Consolidated-Bathurst and Northern and Central Gas. This manoeuvre brought with it 24% interest in Montreal Trust and finally, control of Great-West Life through Desmarais' connection with McKinnon of the Imperial-Commerce. Newman (:99) also noted that McLaughlin of the Royal Bank could have stopped Desmarais cold in 1970; but Desmarais, by his own statement (:67) had been connected with the Royal before his entry into Power and the Royal, along with the Imperial-Commerce, had in 1957 obtained large blocks of Investors Group; Desmarais purchased his original piece of Investors from the Commerce (:78). The financing group for Power, it was noted in Chapter Three, is now the Royal, the Commerce, and Canadian Pacific Investments.

The preceding table, 5-3, shows that director Rolland, on the board of C.P., also sits on the board of two Power-controlled companies, the two Bathursts. Director Gibson, interlocked with Rolland on the board of Bell Canada, sits on the board of Imperial Life. Director Smith, who sits on the board of Elican (which through a long string of connected companies shares ownership in Bradie Building with National

Trust--thus interlocked with directors Young and Gibson--and with Power's Montreal Trust) sits with director Rolland on the board of C.P. Limited. Thus does the ubiquitous Power Corporation repeatedly reappear in indirect connections, as it did through the institutional shareholders discussed in Chapter Three. The C.P. ownership complex, however, is just as "ubiquitous" in its own right⁵--and the reason is not a sinister one, but an expression of the dominance of these companies and of their ability to serve as linkages for the varied interests of the Canadian corporate elite. In fact, the examples are so numerous that, looking only at these connections made by directors who sit or have sat on the Stelco board, one is tempted to say Stelco itself is as much in the business of fostering connections as making steel!

No indirect connections were found between Moore Corp. and the others in the table; this was also the case for Bell Canada, ICI-CIL, Harding Carpets, and Steetley, except for the indirect connections represented through directors on these boards who also sit on the boards of institutional shareholders with ownership interests in Stelco. The other direct connections are noted on the chart--it is apparent that of the 15 Stelco directors, only a few are heavy interlockers: Gibson, Rolland, Smith. They are also, along with directors MacIntosh and Campbell, the ones with the highest number of directorships, many of them dominant corporations, both Canadian and foreign. In addition, D. R. McMaster, while having fewer directorships, sits on the boards of four dominant corporations out of a total of five. Campbell (the chairman of Sun Life) holds 11 directorships (of which six are dominant); Gibson, chairman of Consumers Gas and a financial consultant, holds 12, of which seven are dominant; MacIntosh (former director Graydon's law

partner) holds 11, of which five are dominant; Rolland (President, Rolland Paper) holds 12, of which four are dominant; and Smith (of Brinco) holds 12, of which four are dominant. Some of these important directorships are already noted on the chart--most of them are dominant Canadian corporations with numerous and important interconnections with others of the Canadian corporate system; a few are foreign corporations. Some of these details need to be pointed out.

By way of contrast, two directors, Thode and Griffith, do not interlock on boards which have been identified as forming the core--Griffith, a Stelco executive and until 1976 Chairman of the Board, holds a total of six directorships, but Griffith in addition to his Toronto-Dominion Bank directorship, sits on boards with no other Stelco directors: Canadian General Electric, Steetley, and Rockwell International, all subsidiaries of U.S. or U.K. parent companies. Thode is an "elite-switcher" from the academic world, and aside from Fidelity Mortgage, all of his other five directorships are on research bodies. Scully, since retired, was in 1973 Chairman of the Executive Committee and, with only two directorships, had already passed on important ones to others--notably Gulf Oil, to J. P. Gordon, then President and in 1976, Stelco's board chairman. It will be recalled that Gulf(B.A.) (as well as C.G.E. and OSP-Rockwell) has a long history on the Stelco board.

Besides C.G.E., Gulf, and OSP-Rockwell, others which are identified as core companies on the 1973 Stelco board, Inco, ICI-CIL, Cominco, C.P. and Bell, are the most heavily interlocked and show a great deal of continuity over time (see Table 5-1 in the first section of this chapter). Several of these companies, it was found, belong to the same

bank interest group, the Montreal, which has played an important role in Stelco's development. C.G.E., Cominco, C.P., and Bell were all reported to be connected with the Bank of Montreal in the 1950's by Park and Park (1973) and most still were in the 1970's. In addition, Ogilvie, Dominion Textile and Wabasso, which were represented on the Stelco board in earlier periods, were or are all part of the Bank of Montreal group. Dominion Bridge was as well (a joint Montreal-Royal alliance), but has since been taken over by Algoma (the Royal-Imperial alliance) and its continuity on the board (beginning in 1910), ended in 1964. Algoma directors, however, have indirect linkages to Stelco through Stelco institutional shareholders, as does Dofasco, a phenomenon reflecting not conflict of interest as much as community of interest.

This community of interest is also shown through a number of other indirect linkages between customers of Stelco (and probably of the other steel producers) whose directors sit on the boards of groups holding Stelco stock. These may be briefly listed: Westeel-Rosco, an important steel service centre/fabricator; Canron Ltd., a steel fabricator; Railway and Power Engineering Corp., which connects the president of Canron (H.J. Lang) with Drummond McCall, another important steel service centre; Massey-Ferguson, now part of the Argus control group; and three petroleum industry companies: Dome Petroleum, Trans-Canada Pipelines, and Interprovincial Pipe Line. The chart above also indicates an ownership connection between the Mannix family (through Loran) and Pembina Pipeline (Mannix is a Stelco director and, like Manning, a western regional elite). Institutional shareholders also

have linkages to Canada Steamship Lines (a Power Corp. company), Donatar (Argus control), and deHavilland which is now owned by the Canadian government but was until 1974 owned by Hawker Siddeley (director MacIntosh was on deHavilland's board in 1969).

Another indirect linkage created through directorships on the Stelco board is of interest for the same reason, demonstrating the tight community of interest among Canadian corporations. Sun Life (two Stelco directors) and Canadian Enterprise Development Corporation (director Campbell) were shown on the chart to be linked through Sun Life's ownership of CEDC. Sun Life is also linked with Standard Life (two Stelco directors) through shared ownership in First Phase Civic Square, in which Yale Properties also has an interest--Yale Properties was responsible for the Stelco Tower, the Hamilton general offices of Stelco; Stelco is a major tenant and also had some say in the type of material to be used for the cladding of the building (its own Stelcoloy, a self-weathering type of steel more commonly used in other types of structural applications). In this same connection, it is also interesting to note that Toronto-Dominion Bank (director Griffith) owns an equal interest with Cemp Investments in the Toronto-Dominion Centre, to which Stelco moved its executive office headquarters in the late 1960's. Cemp, through Cemp Holdings, also has an interest in the Pacific Centre with Eaton's and the Toronto-Dominion Bank. Stelco, as was noted elsewhere, has an equal interest with Eaton's (and Gulf Canada) in Canada Systems Group.

It remains the final task of this section to detail and point out the importance of connections between Stelco directors and foreign corporate systems. It has been emphasized by others (Park and Park, 1973;

Clement, 1975) and bears repeating here, that the Canadian economic elite cannot be studied outside the context of the international capitalist system. This is no less true for Stelco's directors, since, as shown on the summary sheet at the beginning of this section (Table 5-2), Stelco directors sit on at least 23 foreign-controlled corporations. A few are worth noting here to highlight the range of contacts these directors have with important multinationals, and through these, their potential as channels through which resources and power can be mustered and directed, either for or against particular interest groups.

Gulf Oil and Inco, American multinational corporations, have already been discussed. Stelco directors also sit on the boards of European corporations which are multinational in scope of operations. It must also be added in connection with Inco that director J. Roy Gordon, who sat on the Stelco board from 1961 to 1972, was the chairman of Inco U.S.A. and had a directorship on B.A. Oil as well as both Canadian and American banks. The potential contacts represented by such a director cannot be underestimated. Canadian elites have not been excluded from such two-way connections; a notable past example is C. Arnold Hart, of the Bank of Montreal, who sat on the boards of life insurance companies associated with the British Royal Insurance group as well as on important Canadian corporations notably the C.P. group (and incidentally, interlocked with J. Roy Gordon on the Inco board).

In 1973, no less than in 1969, Stelco directors sat on foreign boards creating two-way contacts between dominant Canadian and foreign interests. United North American Holdings (director Smith) is owned by Schneider S.A., France and the Banque de l'Union Europeenne Industrielle et Financiere. Through their Canadian holdings, these European interests are linked with Morgan Trust in Combined Mortgage Co. (the latter through

Combined Estates Corp); they also own Canhold and Cparmont Corp., involved in real estate development.

Director Campbell sits on the board of Textron Inc., U.S.A. (it owns Textron Canada); Textron is a multinational company with subsidiaries in South America, Europe, Australia, Canada, the Caribbean, Mexico, and the Far East. Textron Canada owns Bostitch, Lightning, and Parmenter and Bulloch, all customers for certain Stelco products, mainly wire for use in fasteners and other consumer items. Campbell also sits on the board of Digital Equipment of Canada, owned by Digital Equipment U.S.A.

Rockwell International, which has already been discussed in relation to Ontario Steel Products and continuity on the Stelco board, is an American multinational operating through 40 foreign subsidiaries in Canada, Europe, Australia, South America, South Africa and Japan, having interests in 17 foreign affiliates in the aerospace, aircraft, automobive, electrical, industrial, utility and consumer product areas.

The Brinco interests, in connection with Stelco's raw material ventures and director Smith, have already been discussed. It is an excellent example of the coming together of numerous large foreign and domestic interests, in this case to exploit Canadian resources.

Lucien G. Rolland (President of a relatively small paper company which specializes in fine papers) holds 13 directorships ranging from the Power Corporation interests to foreign ones. Rolland sits on the board of ASEA Ltd. and ASEA Industries, both wholly owned by Allmanna Svensha Elektriska Aktiebolag et Vasteras, a Swedish company. Phillips Electronics (Cda.) Ltd., on which board Rolland also sits, is a multinational European corporation with Dutch control.

Globelite Batteries Canada Ltd. (director MacIntosh) is an associate of Varta A.G., West Germany. Varta also owns in Canada 48.5% of Interafa Holdings, the other 51.5% held by Allgemeine Gesellschaft. MacIntosh also sits on the board of Canada's own multinational holding company, Brascan, and is interlocked through Brascan's participation in Elf Oil, with director Smith, who sits on another European-owned company, Elican Development.

Other British companies on which Stelco directors sit besides the giant multinational I.C.I. which owns C.I.L., include the Eddy Match Co. (director Gibson) owned by the British Match Corp.; Eddy wholly owns Kootenay Forest Products and The Steel Equipment Co., the latter a user of steel and supplier of office furniture to Stelco. Pilkington Bros. (Cda.) Ltd. (director MacIntosh) is owned by Pilkington Bros., U.K. and the Canadian company owns the House of Color. Director MacIntosh also sits on the board of Geo. Wimpey Canada Ltd., owned by Geo. Wimpey, U.K.--the Canadian company owns Wimpey Homes.

A number of conclusions can be drawn from the data presented in the last two sections of this chapter. First, there are some relationships which appear to be fairly stable over time, with few changes except in details. Most of the corporations involved in such relationships are dominant and seem to be "crossing each other's path" in ways that cannot be described as accidental. Second, the number of individual corporations represented on the Stelco board is quite radically reduced through interlocks and ownership connections--Stelco is involved through its board and through its own interests in a very concentrated group of powerful companies and powerful directors. Third, the configuration of companies represented by directors on the Stelco board represents aspects

of the interplay of the structural relations of parts in the Canadian economic world as well as being tied to the class characteristics of the men who represent the institutions (the subject of the next chapter). Thus what has been examined is one side of the coin, that of the institutions and the relations between the parts in a system, a structure; the other side is the men in whom these structural relations are embodied by virtue of their position and contacts. Thus, between this chapter and the next are examined, as Mills (1956) suggests, not merely the institutions but those who run them.

Lastly, the data suggest that although there are stable patterns, the relationships are not static. Despite the degree of co-ordination and the agreement on basic values ascribed to elites by elite theorists, the corporate world is a dynamic environment in which dominant firms, despite such overall agreement on ground rules, jockey for more power. Individuals are valued for the contacts they have or can establish. Both are in a state of flux, with corporate situations changing and affecting elite contacts, and elite contacts acting back on the structure within which they achieve, maintain and obtain more power relative to others. Such is the case for the rise of elite members such as Desmarais, and the changing relationships involved in the Arguses and Powers of the corporate world. But it is in a state of flux which has definite boundaries drawn around it--these boundaries tend to crystallize and become harder to penetrate over the decades. Stelco is one element in that well-bounded system.

NOTES TO CHAPTER FIVE

1. The director's other directorships were checked at one point in time (usually at the beginning of his Stelco board tenure) in the F. P. Directory of Directors (or, if unavailable for that year, in the Canadian Who's Who); much of this work and the cross-tabulation of interlocks is used courtesy of Mary Ann Daley. In addition, the author checked at least two other points in time in the case of directors having long periods of tenure; although this yielded some additions, especially as a director's career progressed, the additions to the original data were relatively few.
2. Unless otherwise noted, the ownership and interlock information is from Statistics Canada Intercompany Ownership 1972. Due to lags in publication by Statistics Canada (two years) for this most comprehensive (although conservative) reference for ownership, more recent information than 1972, if available, is noted separately. Most such information was found in newspaper clippings and annual reports.
3. The holding companies (Power, Argus, Moore, Canada Development Corporation, Brascan) are classified by Clement (1975) as "investment" firms on the basis that they do not produce anything but neither are they involved in supplying the capital market in the same sense as do financial institutions; they are, rather, in an intermediate position between industrial corporations and financial institutions. However, not to include these companies in this discussion would mean the elimination of some important relationships which obtain through their ownership connections. Moreover, it is argued here that the case of Moore Corp., unlike the other holding companies, is a little different--it is more involved in the business forms and systems business than anything else--an examination of its latest annual report reveals no new additions which would change this assessment; F. N. Burt and Dominion Paper Box, two subsidiaries of Moore, produce packaging, which is not totally unrelated to Moore's main activity.
4. According to the Statistics Canada Intercompany Ownership 1969.
5. Three examples, arising from the 1969 Stelco board, illustrate this. Director Young sat on the board of Pine Point Mines; Cominco, a C.P. company, owned 69.1% of Pine Point--two Stelco directors in 1969 sat on the board of Cominco. The second involves a government-owned company and C.P., a not unsurprising combination considering the historic connections (to say the least!) between the Canadian government and railway tycoons' ventures (for which see Naylor, 1975, and others). Canadian Investment Fund (Stelco director Rolland) was owned by the C.N.R. 15%; C.P. owned 25.5% of Computer Sciences Canada

Ltd., and C.N.R. owned 25.5% of it; similarly, C.P. owned 50% of Public Markets Ltd., and C.N.R. another 50%. Rolland also sat on the board of C.P. Ltd. The third example links a life insurance company to a real estate venture and C.P.--Marathon Realty, a dominant subsidiary of C.P., owned 55% of Pitt St. Developments; the other 45% came from Sun Life. Both C.P. and Sun Life are represented on the Stelco board; Canada Life (director J. Roy Gordon in 1969) owned 17% of Canborough Ltd.; C.P. Investments held 10% of it, and National Trust 17%.

CHAPTER 6. STELCO'S POWER ELITE:
CLASS AND CAREER BASES OF COHESION

I. SOCIAL ORIGINS AND ACCESS TO THE ELITE:
1910-1973 BOARDS

The purpose of this chapter is to demonstrate how, in the particular case of the Stelco board of directors, a number of dimensions converge to create the conditions for what Domhoff (1972a: 33) calls the "three C's" of the reality of the power elite: "cohesion, consciousness, and conspiracy" (or, preferably, "co-ordination"). In Mills' view, (1956: Ch. 1, 12), the cohesiveness arising from shared class interests, the careful taking of other elite members into account in actions (which indicates a high degree of class consciousness), and the implicit or explicit co-ordination of activities which arises from the structures of organizational power and personal association are social in nature. They are the results of the convergence of the social determinants of common origins, socialization through educational and career

experiences, and similar outlooks fostered through involvement in and commitment to roles in particular institutions for particular ends--that is, the institutions which create resources for the exercise of power, and the ends to which resources are directed: the attainment of power, prestige, wealth. As Mills puts it:

"Just as we cannot rest the notion of the power elite solely upon the institutional mechanics that lead to its formation, so we cannot rest the notion solely upon the facts of the origin and career of its personnel. We need both..." (:280).

Mills argues for an approach to the power elite which takes into account both the social structure and organizations within which the elite operates and also the way in which origins, career patterns, and "psychological and social affinities" operate to produce a high degree of similarity leading to the easy intermingling of members of the elite both in organizational roles (the demands of the structure) and in social circumstances (the demands of the role-taker's self-image created by close and highly conscious association with others of one's "kind").

What makes the economic elite similar in kind is not just a commitment to capitalism or due to their social origins

(not all are, after all, originally from the upper class), but the fact that "the criteria of admission, of praise, of honor, of promotion" (:281), if similar, produce personalities that are similar, which explains the co-optation of those of other (particularly middle) classes in the service of the property-owning class.

Entry to the economic elite depends on recruitment, and those who are recruited display certain social and career-related characteristics desired by others already in the elite and vested with powers of judgment and selection. Their selections tend to be reflections of their own image of themselves and their roles. Nor is this selection restricted to personnel of economic institutions--equally important is the point which Mills makes with respect to the interchangeability among top positions in the institutional hierarchies, particularly between the economic and the political--interchange occurring at "points of their coinciding interest" (:288) which creates a broader basis for co-ordination.

In the previous chapter, the interlocking directorship and ownership connections were examined to establish the nature of coinciding interests among various units in the capitalist economic structure in which Stelco is enmeshed. The importance of spheres of interest such as

financial groups was discussed in Chapters 3 and 4 as being important keys to understanding the situation and importance of one corporation as a unit in a larger whole. In this connection, a concern of the present chapter will be that of the ability of kinship to forge strong and enduring links within the capitalist system and to contribute to the continuity of its members' power. These "entangling interests" created by kinship are, as Zeitlin (1974: 1099) points out, important to understanding how structures of control are created, enhanced, or given continuity.

The focus in this chapter will, therefore, be on the top members of these corporate units in terms of what personal characteristics they bring to the Stelco board. Their origins and particular resources will be analysed in terms of what they offer to Stelco as further means of fostering contacts and common outlooks. In the next chapter, the question will be raised as to how the more diffuse attitudes and particular orientations and interests come together in ways which contribute to the explicit attempts of Stelco and others in whose circles it is implicated to agree on policy positions and strategies which co-ordinate approaches to other institutional bodies whose actions affect them. Domhoff (1972b: 174) argues for the inclusion in elite studies of two aspects of cohesion: "social" and "policy" ones, on the basis that constant interaction in

small-group settings (such as corporate boardrooms and elite clubs) leads to more of an openness to the opinion of fellow members and thence contributes to the ability to come together in organizations more concerned with overall strategies that transcend particularistic interests. These policy-making bodies, it may be added, in turn reinforce the feeling of "we-ness" already fostered at more particularistic levels, leading to a broader consensus and to a minimization of conflict at higher levels of generality--for example, at the level of the overall goals of the economy and the society, as elites see them. The point which Domhoff makes is that both social and policy aspects are mechanisms by which a class is able to exercise its power by mobilizing resources brought together by common interests and heightened awareness. It is the social which will be the concern of this chapter.

The "social," however, is not an airtight compartment but is one aspect of the structure of power and of power-holders who create or function within such structures. The director, with his social characteristics, has a role which links classes with structures--the directorship, as Smith and Tepperman (1974: 107) point out,

"is a corporate role, and as such is chiefly defined by the corporation and its environment, and less so by its temporary role incumbent."

While it is true that incumbents are constituent members

of classes, it is also true that changing social conditions affect classes and classes affect structures--in this case, corporations which are constituent parts of the social structure. Thus, with changing structural conditions one would expect to find some changes in the nature of incumbents over time. Such a question will be raised in the examination of the Stelco directors from 1910.

The backgrounds of 58 directors on the Stelco board between 1910 and 1973 were analysed for information which would allow categorization by class of origin and by career avenue into the elite. Country of origin was also noted. The purpose was, first, to establish how representative the Stelco board was of the corporate elite generally, and, second, to look for evidence which would demonstrate the mechanisms by which elite cohesion and co-ordination of activities are effected. An analysis of elite club membership for each cohort was added to determine how extensively that particular kind of organization provided such opportunities. (Other kinds of organizations fostering communication and consensus will be reserved, as indicated, for the succeeding chapter.)

Of the 58 directors, information sufficient to establish class origins with a reasonable degree of certainty was obtained for 44--many of the remaining 14 were directors whose tenure dated from the early years of the

company when higher education was not as widespread among the elite or paid much attention to in biographical sources, and lacking other clues, existing information was too scanty to make more than guesses.¹ Therefore, the following percentages are based on the known 44. Clues to class origins were provided by three indicators: father's occupation, the director's educational level and specialty attained and/or type of institution attended (especially private school, an upper-class preserve), and marriage into an upper-class family at an early stage in the director's career. Where father's occupation was not available but the director had attended both private school and university (and, for the earlier cohorts, university), his background was assumed to be upper class. Unless other information (such as membership in an elite family) indicated otherwise, the occupations of law, commerce and engineering were assumed to be middle- or upper-middle class occupations, although it is quite probable that law, especially in the earlier period or when the director was associated with an important corporate law firm, was more properly classified as an upper-class occupation; however, without further evidence it was more conservatively classified as upper-middle and not included in the percentages for upper-class origin. Hence the figures are somewhat lower than that obtained by Clement (1975) updating Porter's

study. Engineering, on the other hand, has not traditionally been an upper-class specialty and was classified as middle-class unless other evidence indicated differently. Those whose fathers owned business were automatically classified as upper class in the earlier period, but only as middle class in the post-war period if the businesses were small.

It was found that 36 directors were Canadian-born, 12 were born in the British Isles, and eight were born in the U.S.; there were no other groups represented. The high Canadian-born proportion is consistent with findings of Smith and Tepperman (1974) and of Acheson (1973), a change from the elite of the nineteenth century despite the increasing penetration by multinational corporations. The reason for this appears to be the gradual entrenchment of an indigenous elite in institutions within its own country.

Of the 44 directors since 1910, it was ascertained that at least 17 were of upper-class origins (including three who were of middle-class origin but "married up" earlier in their careers). Included within this category were 11 who were upper-class by virtue of inherited position in a family firm or in the same law firm or corporation, including many of the same directorships as their father's. The balance were classified as upper-class on the basis of

having private school and university education. If those having university education in the pre-second world war elite are added, the total is brought to 21, or 47.7% of the Stelco board over a period of 63 years. Directors of middle-class origin numbered 22, or 50% of the total over the 1910-1973 time period. The one exception to the typical lack of working-class representation among the elite was C. A. Birge, whose father, it was noted earlier, was a farmer. Birge and his partner Alexander bought out the American-owned Canada Screw which was eventually merged with the others as Stelco in 1910. The remaining directors could not be classified, but many had technical or business specialties which will be detailed shortly when career avenues into the elite are discussed.

The class distribution of the Stelco board was divided into three periods which were roughly comparable with that of Acheson's (1973) 1910 elite and the 1951 and 1972 elite compared by Clement (1975). Unfortunately, only the latter two periods are directly comparable, as Acheson's study does not deal specifically with class origins but rather with changes in the elite structure. His findings and those of Smith and Tepperman are worth summarizing as an indication of what changes foreshadowed later periods.

The upper-class elites of the 1800's tended, according to Smith and Tepperman (1974: 104) not to be lawyers,

but to be employed in a family business or to be a landholder, although in the past, it was lawyers and not businessmen who usually received advanced education (:100).

In this century, those who are self-employed tend to be lawyers (:107), and there has been a decline in the number of elites who own or control the firm managed by them--three times as many do not own or control the firm, compared with elites of the 1800's (:102). Both Smith and Tepperman (:100) and Acheson (1973: 62-63; 70) note more functional specialization which accompanied technological change and organizational sophistication, as well as the increased numbers with advanced education.

In some respects the 1910 elite showed signs of future trends; in other respects, it still contained vestiges of the characteristics of the 1880 elite. These characteristics need to be noted as the basis for comparing with the directors of the 1910 Stelco board as a unit. Acheson (:65) notes that whereas in the 1880's there was a fair degree of social mobility, by 1910 about half of the industrialists entered businesses owned or controlled by close relatives, even if the concern had already become a joint stock company--such was the case for Lloyd Harris of the 1910 board, who used his father's business as a springboard to other industrial endeavours and to become a financier. W. D. Matthews also became involved in finance through

the advantages gained in running his father's business, W. D. Matthews & Co., grain dealers.

Nearly three-quarters of the leading industrialists of 1910 were "scions of business and professional families," while those in the elite from farm and worker backgrounds declined (:66)--C. A. Birge, whose lower-class origins have already been noted, was one such exception, a vestige of a previous trend. In short, by 1910, social mobility had been quite markedly narrowed, with industrialists tending more to be of upper-middle class than lower-class origins and usually becoming mobile through already established business (:78). A few also advanced with the advantage of having a father who established in the previous two decades a modest merchant or manufacturing business (:69).

The case of H. H. Champ is an example of the above mobility avenue. A Stelco executive, (board tenure beginning 1925), Champ's father-in-law was Hillman, of Foster and Hillman, in wholesale drygoods in Hamilton. The Stelco board provides no such further examples.

Examples of probable middle-class origins represented on the 1910 board are H. S. Holt, who began his career as an engineer but who soon became a promoter-financier; William Southam, the founder of the Hamilton Spectator and the publishing empire which grew out of his activities, and John Milne, the foundryman who was a major shareholder in

a Stelco predecessor, Hamilton Blast Furnace but also became active in other industrial-financial undertakings. It is probable also that Charles Wilcox, who, as noted attended Yale University and had connections with Ohio businessmen when he came to Canada, was of upper-class origins, but without further information, was classified as upper-middle.

While the social structure showed signs of becoming more hardened along class lines by 1910, there were new avenues to mobility through technical, administrative and financial skills--career executives, stockbrokers, and lawyers, Acheson (:70) notes, tended to come from humble origins; the examples he gives are Aitken (instrumental, of course, in Stelco's creation), Ames (the brokerage to this day handles Stelco issues), and Edmund Osler. Sir Edmund Osler was a member of the Stelco board in 1916, and as was noted in Chapter 3, figured behind the scenes in the Stelco merger and subsequent early developments.

Others with technical or financial training or expertise on the 1910 Stelco board should probably include Wilcox (accountancy was his particular skill).

Although Robert Hobson was an engineer by training (and probably middle-class in origins) he married the daughter of Senator A. T. Wood, a major Hamilton Blast Furnace

shareholder, in 1891 and was classified as upper-class by marriage. There were no lawyers on the 1910 board (there was one in 1916).

Overall, the most important characteristics of the 1910 Stelco board were its extensive financial and political connections: Holt, Sir Ian Hamilton Benn, Wm. Gibson, Matthews, Harris and Milne were all connected with leading financial circles of the day, as outlined in Chapter 3. Like the 1880 elite, the 1910 elite was still directly involved in politics (a third held political office at some point in their careers), Acheson (:72) observes; whereas Smith and Tepperman (1974: 103) note that this was later to diminish and a stricter separation between law and business functions and between business and "extra-professional" functions was to be the norm.

In 1910, the Stelco board contained members who were simultaneously involved in politics and business, notably Lloyd Harris and Senator William Gibson (and, of course, Hobson's father-in-law, a senator, who also had a role to play in the early Stelco, as was noted in Chapter 3). The next businessman-politician to appear on the Stelco board is R. Smeaton White, a publisher and a senator, on the 1920 board.

By the time of the 1919 and 1929 boards, however, those who engaged in both business and politics did so at

separate stages in their careers, going usually from politics to business, and are more properly "elite-switchers," a phenomenon Clement (1975: 260) notes for the elites of the 1950's through 1970's. These people, unlike the early elites, had their main career outside business and brought important political contacts with them to the board. Such is the case for Sir William Thomas White (1919 board), Major-General S. C. Mewburn (1929 board), C. A. Dunning (1940 board), and E. C. Manning (1969 board). V. W. Scully was an elite-switcher who went from business to government and, as an elite member, back to business to become a Stelco executive and his exceptional career pattern seems to be an artifact of the Second World War. The last elite-switcher, Dr. H. G. Thode (1969 board), began his career in academe and although he did have contact with government research agencies, his main contribution to the Stelco board appears to be metallurgical expertise.

Three other characteristics of the 1910 elite must be examined in the context of the Stelco board (but again, some examples will have to be drawn from later time periods). The first is the trend towards higher education and the second, the increasing prevalence of private-school graduates among the offspring of leading industrialists (Acheson, 1973: 63). Although biographical sources did not list education for many of the 1910 board members, clearly

engineers must have received advanced education. These have already been mentioned, as was Wilcox's university education. No evidence of private schooling was found. However, in examining 1912-1920's board members' backgrounds, it was found that of 12 directors, half had received college or university training (three were lawyers, two were engineers, one was a stockbroker); and one, G. H. Duggan, had attended both the University of Toronto and Upper Canada College, a private upper-class institution.

Acheson (:69) also reported the increasing incidence of intermarriage, in the 1910 elite, between offspring of leading industrialists. As many of the elites on the 1910 Stelco board represented "new money" it was several years before this phenomenon was exhibited among Stelco directors. W. D. Matthews' son married the daughter of Sir Edmund Osler (thus uniting "old" and "new" money); R. H. McMaster, whose father had become an elite through the Montreal Rolling Mills, was a second-generation elite whose daughter married A. J. Nesbitt, one of the Power Corp. founders and an investment dealer, but this was long after McMaster first joined the Stelco board (1914). Maj.-Gen. the Honourable S. C. Mewburn married a daughter of a Labatt, thus "marrying up", as did V. W. Scully (1956 board), who married the daughter of Sir Wyly Grier, a noted portraitist of the Canadian elite, who had painted G. H. Duggan's

portrait. R. A. Laidlaw, second generation in a family firm (1952 board), married the daughter of a Cayley, an old Toronto family.

The class origins of the 1910-1920 elite and the 1950's elite (including all those who began tenure in the periods 1910-1920 and 1950-1960, respectively), as well as of the 1973 board are given in the following table. In brackets are the percentages compared by Clement (1975: 192) for the 1951 and 1972 elite.

TABLE 6-1

CLASS ORIGINS - STELCO DIRECTORS 1910-1973
(Compared with the 1951 and 1973 Corporate Elite)

	Stelco <u>1910- 1920</u> (N=18)	Stelco <u>1950's</u> (N=9)	(1951 <u>Elite</u>)	Stelco <u>1973</u> (N=15)	(1972 <u>Elite</u>)
Upper	33%	33%	(50%)	53%	(59.4%)
Middle	44%	44%	(32%)	40%	(34.8%)
Lower	5% (1 case)	0%*	(18%)	0%*	(5.8%)

*2 cases not classified on 1950's boards; 1 case not classified on 1973 board.

Due to the small number of people in the Stelco board samples, it is not possible to capture fully the changes which had occurred between the 1910 and 1950's periods except to note the absence of any working-class origins among the directors (unless those cases unclassified fall into this category, which is not likely).

Moreover, there was a great deal of continuity on all of the boards, with many directors having tenure for two decades, and this high degree of overlapping is undoubtedly affecting the figures. If the 1910 board had been taken by itself, those with upper-class origins would have represented 27% of the total.

However, between the early period and the 1970's it can be seen that, even as in the overall corporate elite between 1951 and 1973, there was a noticeable increase in those of upper-class origin, the 1973 board gives a similar indication of hardening class lines and more restrictive recruitment, and since the 1920's, those of second or third generation elite background are found on the Stelco board at various points in time. The directors for which this elite continuity could be established were R. H. McMaster (1914 board) and D. R. McMaster (1972 board), son and grandson, respectively, of William McMaster of the Montreal Rolling Mills; F. G. Osler (1920 board), son of Sir Edmund Osler, and Glyn Osler (1937 board), nephew of Sir Edmund Osler; and L. G. Rolland (1963 board), related to three generations of French-Canadian elites who ran Rolland Paper. In addition, F. C. Mannix (1967 board) is a western elite member whose family has been involved in the contracting business, and W. H. Young (1967 board), represents the third generation of Youngs involved in the family textile

business which has now become The Hamilton Group, a holding company. Four of these past members of the Stelco board still were present on the 1973 board and will be included in an intensive analysis of the latest board for which full information could be obtained.

The following table summarizes the career patterns of the Stelco directors between 1910 and 1973 by avenues of entry to the corporate elite. The classification by Clement (1975: Ch. 5) forms the basis used here, in order to render the data comparable. Some of the more important examples will be discussed.

TABLE 6-2
CAREER AVENUES INTO THE ELITE
STELCO DIRECTORS 1910-1973
(N=58)

Career Avenue	No. of Direct- ors	Name of Director	Earliest Date on Bd. for This Avenue	No. of Direct- ors After 1940
1. Career in Family Firm	7	Matthews Harris Lang Rolland Laidlaw Young Mannix	1910	5
2. Other Inherited Pos. (same law or corp. firm and/or directorships; relative in elite)	4	A.R. and D.R. McMaster F.G. and G. Osler	1920	1
3. Own Account (started own business) (See also Financiers)	2	Southam Milne	1910	0
4. Financiers (excl. those with career through one firm)	4	Holt E. Osler Benn Gibson	1910	0
5. Marriage into Elite	4	Foley* Hobson* Craig* Mewburn*	1910	2
*included by specialty but not double-counted				
6. Technical, Scientific or Business Specialties	19			
- Engineering	9 (+ 3 in category 1 & 5)		1910	3
- Accounting	3	above)	1910	2
- Law	4 (+ 2 ea., category 2, 7)		1916	3
- Commerce	1 (+ 1 in category 5)		1964	2
- Maths	1		1967	1
- Chem.	1		1959	1
7. "Elite-Switcher"	6	Thode Dunning Mewburn* T. White Scully Manning	1919	4

Table 6-2

Career Avenue	No. of Direct- ors	Name of Director	Earliest Date on Bd. for This Avenue	No. of Direct- ors After 1940
8. Internal Corporate Career (incl. 4 fin- ancial executives) - <u>no</u> specialty	6		1943	all

Unable to classify - 5

None of above - 2 (Birge and Alexander)

Some difficulties were encountered with categories 5, 6, and 7, of which the easiest to dispose of was category 6, "Technical, Scientific or Business Specialities" by looking at the background of those who were so specialized--two engineers had careers in family firms and so were included in category 1. Of four directors with training in law, two (G. Osler and D. R. McMaster) had elite backgrounds and were placed in category 2; two others had political careers and law backgrounds--Mewburn (who married a Labatt) and Thomas White. White did not practice law, and although Mewburn had a law career as a partner in Mewburn, Jeffers and Marshall before entering politics, as their main reason for being on the Stelco board appeared to be their immediately prior political career, they were classified as elite-switchers. None of the above was double-counted, although the interpretation of which career avenue was the more important in the case of the latter two is open to debate.

Of those in category 5 ("Marriage into Elite"), two exhibit confusing aspects in their backgrounds which make their classification debatable, while Hobson, associated with one of the Stelco predecessor companies and named to the board in 1910 at a very young age and married in 1891 to Senator Wood's daughter, presents no such problem--his chances for upward mobility were undoubtedly

enhanced. However, such a conclusion is less clear for Foley (1964 board), a B.Comm. who began his career as a salesman in Scanlon Inc., married the daughter of a Scanlon, and two years later became a vice-president; the size or importance of Scanlon and hence of the marital tie is unknown. Similarly, Craig, with no apparent speciality or university education, entered Stelco's employ in 1920, married the daughter of Senator George Gordon of North Bay in 1927, and became a sales Vice-President in 1950.

(Craig died of a heart attack in 1965). Although a member of the St. James's Club, a national elite club to which it is unusual for a vice-president to belong, it is unknown what effect marrying into an upper-class family had on Craig's mobility.

Nevertheless, despite these problems, a number of trends emerge. First, the Stelco board is generally representative of the patterns of social origins and career avenues exhibited by the economic elite at various stages. Second, there is a great deal of continuity on the board in terms of kinship despite the increasing trend (as exhibited by the specialities and their predominance after 1940) towards the recruiting of middle- and upper-middle class men who have become elite members via the "long crawl" through corporations. Third, when taken together with the data analysed in Chapter 4 concerning the continuity of

certain corporate interest-groups represented on the Stelco board, the longevity of Stelco directors on the board (most began on the board when they first assumed an elite position and remained until their death) indicates that Stelco provides a stable environment within which the capitalist class can function. The Stelco board not only brings together those considered important for other corporate and for political connections but also provides them with a formal and extremely durable meeting-place. At the end of this chapter, the elite clubs will be analysed for the way in which they enhance stability and provide contacts.

II. THE 1973 BOARD: THE RELATIVE POWER OF "INSIDERS" AND "OUTSIDERS"

In the previous section, the Stelco directors were analysed in the aggregate over time. The purpose of this section is two-fold: first, to analyse the 1973 board in detail as a unit for the trends outlined generally; and second, to compare Stelco executives (the "insiders") with directors whose principal affiliation lies outside Stelco (the "outsiders") along various dimensions in order to determine if there is a difference in the degree of power exercised by the two. Two questions may be raised: what resources do the two groups bring to the board, and what division of labour is involved?

By way of addressing these problems, an intensive analysis of the career patterns of the 15 members of the Stelco board was undertaken. Of the 15, three were officers of Stelco: V. W. Scully, Chairman of the Executive Committee (since retired--H. M. Griffith was moved to this position in 1976); H. M. Griffith, Chairman of the Board (a position held in 1976 by J. P. Gordon); and J. P. Gordon, President and Chief Executive Officer.² The directors were compared along several dimensions, beginning with education and specialized training and relating this to career pattern and probable social class origins. The information is summarized in the following chart, which also indicates each director's total number of directorships and their dominance, as well as total financial directorships, for reasons which will become apparent.³

TABLE 6-3

SUMMARY OF INFORMATION ON 1973 STELCO DIRECTORS

*excluding Stelco

I "OUTSIDE" DIRECTORS		Total No. Dir'ships* (No. dominant in ())	Finan- cial Dir'ships	Education and Degrees	Fellowships & Profess. Honours	Probable Class of Origin
Name of Director	Chief Occupation 1973					
Browne, W. H.	Chm., Moore Corp. (Dominant)	6 (2 dom.)	1	B.Comm. Queen's U.	-	Middle
Campbell, A. M.	Chm., Sun Life (Dominant)	11 (5 dom.)	4	Inverness Roy.Acad. U.Aberdeen M.A. Maths	F.I.A. (actuaries) F.S.A.	Upper Middle
Gibson, J. D.	Chm. Consumers Gas (Dominant) & self-employed: fin./econ. consultant	12 (7 dom.)	4	Upper Cda. Coll. U. Tor. B.A.	-	Upper
McMaster, D. R.	Partner, McMaster, Meighen, Minnion et al.	5 (4 dom.)	2	McGill U. Law	Q.C.	Upper
MacIntosh, A. J.	Partner, Blake, Cassels & Graydon	11 (5 dom.)	2	Dalhousie U. B.A., LL.B.	Q.C.	Middle
Manning, E.C. (Senator)	Pres., M & M Systems	9 (3 dom.)	2	no univ.	D.U.C.- Calg.U. Comp.Order Cda. LL.D. - Alta., Leth.,McGill U.	Middle
Mannix, F. C.	Chm., Mannix Co.	2 (1 dom.)	1	U. Alta. U. B.C.	-	Upper

Table 6-3

Name of Director	Chief Occupation 1973	Total No. Dir'ships	Financial dir.	Education & Degrees	Fellowships & Profess. Honours	Probable Class Origin
J. McAfee	Pres., Gulf Oil Cda. (Dominant)	4 (2 dom.)	1	M.I.T.; U. Texas; BSc.; D.Sc. (Eng.) (Bus.)	-	Upper
Rolland, L. G.	Pres., Rolland Paper (Small)	18 (7 dom.)	3	Loyolla, Coll. Brebeuf U. Mtl.; B.A., B.A.Sc. (Eng.)	Civil Eng. D.Comm. Sc.- U.Mtl.	Upper
Smith, H. G.	Dir., Brinco (Middle Range)	12 (4 dom.)	6	Oxford (Chemistry?)	C.B.E. F.C.I.C.	Upper Middle
Thode, H. G.	Chemistry Prof. McMaster U. (69: Pres. & V.- Chancell.)	4 (0 dom.)	1	U. Sask.; U. Chicago BSc., MSc., PhD.	C.C.; F.R.S. FRSC, FCIC DSc. (Hon.) 7 univ's. LLD. Sask. U.	Middle
Young, W. H.	Pres., The Hamilton Group (assets < 50m.)	6 (2 dom.)	2	Roy. Mil. Coll. U. Tor.	-	Upper
<u>II "INSIDE" DIRECTORS</u>						
Scully, V. W.	Chm., Exec. Comm.	2 (2 dom.)	1	Trinity Coll. Dublin Ch. Account't.	F.C.A. (acct.) C.M.G.	Upper Middle
Griffith, H. M.	Chm. of Board	7 (2 dom.)	1	Chic. Tech. Inst. Missouri Sch. Mines; Harvard Bus. Sch. (Eng.)	research awards: metals	Middle
Gordon, J. P.	Pres. & C.E.O.	4 (2 dom.)	1	U. Tor., BSc. Harvard - Bus. (Eng.)	-	Middle

The two insiders, Griffith, and Gordon, share a number of aspects in common with some of the outside directors--Campbell, Browne, McAfee, and Smith. They all have had their mobility within the same company, beginning at an early age in lower positions and taking at least 20 years to reach the presidency--they were all over 40 years of age when they reached it. All were highly trained, specialists and/or with university degrees. And all, with the exception of Campbell, were of middle class origins. These directors differ significantly, however, in the number of directorships they hold, and also in the number of financial directorships. It will be recalled from Chapter 3 that financial institutions and financial directors would appear to be at the centre of the capitalist system and that, therefore, those who represent financial institutions are potentially more powerful. Campbell is one such representative, holding eleven directorships, including five dominant corporations; four are financial directorships. Although not an executive of a financial institution, Smith holds six financial directorships. Although McAfee, the American on the board, has only one financial directorship, he represents an important contact with a dominant American corporation. Thus, only Browne, Griffith and Gordon would appear to be similar in terms of the nature of their directorships: each has directorships on two dominant

corporations and one financial institution. The backgrounds of these directors will be examined in detail.

Unlike Scully (who will be discussed along with two other "elite-switchers" on the 1973 board), the other two Stelco executives come to the corporate world with technical specialities (engineering). Clement (1975: 173) points out that those elite members with technical specialities have declined in proportion to other elite members over the years, holding fewer dominant directorships, and suggests that this declining proportion is a reflection of the fact that technical training actually "blocks" elite advancement, that "lawyers now tend to have taken over the more generalist role once held by the technically trained people." (:176). Although, as can be seen in the career avenues table in the previous section, those on the Stelco board with engineering specialities have been rather prevalent since 1940, so have those with law as a speciality. Law, like accountancy, commerce and the M.B.A. degree, are closely related to the needs of modern corporations; indeed, both Griffith and Gordon later supplemented their technical training with business administration courses appropriate to senior management. Both had to get over their technical "block" before advancing further (this was also true of McAfee, who also had his engineering specialization "laundered" by business courses).

Griffith began his Stelco career after a brief period of employment in Bethlehem Steel and Jones & Laughlin Steel in the U.S. (approximately five years in each), and entered Stelco in 1936 as a metallurgical engineer, rising through the ranks to become Works Manager and Assistant to the President, Operations, in 1953. He became president in 1966 at age 62.

After graduating as a mechanical engineer in 1943, Gordon joined Stelco in 1946 as a "grad trainee"⁴, rose in 1963 to the level of Mill Superintendent and in 1964 to Vice-President Manufacturing. He was appointed President in 1970 at age 50. His business courses at Harvard were undertaken in 1966, an indication that he was thought to be well on his way upwards, since these kinds of courses are usually sponsored by the company.

McAfee of Gulf Oil graduated with a number of engineering degrees in 1940 and took an executive business course at the University of Pittsburgh in 1952, about the time he was occupying the position of Associate Director of Research and a Vice-President. The son of an oil executive, McAfee had worked briefly as a research chemical engineer for an oil products company in 1940 and on a war-time pilot plant development before joining Gulf in Port Arthur, Texas, in 1945, as a technical specialist. He was moved twice, each time rising, until during his tenure at

Gulf, Pittsburgh, he was appointed Vice-President, Technical Advisor, in 1960; in 1962, he was a senior VP of their eastern division. Following his tenure with Gulf, U.K. he was appointed to Gulf Canada (then B.A. Oil) as Executive VP and Director in 1967, and Chief Operating Officer in 1968. In 1969, at age 53, he became President (and has since been promoted to the U.S. chairmanship).

H. Greville Smith, educated at Oxford University, began his career in a company which is now part of the U.K. multinational, Imperial Chemical Industries (the parent of Canada's C.I.L.). He was posted first to New York, and then in 1932, to C.I.L. in Canada, in charge of the Chemical Development Dept.. He rose to become a Vice-President in 1939 and became C.I.L.'s president in 1951 at age 49. After an unaccountable time gap, he is encountered again as a director of Brinco in 1969. With his directorships and foreign contacts, it is unlikely that he was elected to that position by virtue of his expertise in chemistry.

Campbell, with a maths speciality has, however, had actuarial training, which is directly related to the insurance business, and so properly begins a discussion of those directors with business-related skills. The others are Browne, with a Commerce degree, and the lawyers McMaster and MacIntosh. McMaster, although a lawyer, is of course a third generation elite member, as is Rolland a fourth

generation elite who also happens to have engineering training. These cases, along with that of Mannix, will be discussed separately. Scully has business-related training but will be discussed in the context of "elite-switchers," along with the science specialist Thode.

Clement (1975: 177) points out that in 1951, only 45% of financiers and financial executives attended university--bank executives in particular tended to become elites after a "long crawl" from teller's cage to board-room; such was the case for G. A. Hart of the Bank of Montreal, who had left the Stelco board just prior to 1973. It was not the case for Campbell, with an M.A. in maths and an actuarial fellowship. Campbell's career has, however, been entirely within Sun Life, starting in 1928 as an actuarial clerk and reaching the position of VP and Chief Actuary in 1954. He became president in 1962 at age 50, taking 34 years for his "long crawl."

Clement (:178) notes the high proportion of current elite members in the financial category with private-school attendance. Campbell attended the Inverness Royal Academy which, in the 1920's, was probably an equivalent British upper-class enclave. Director Gibson also attended a private school--Upper Canada College. Gibson began his career as a statistician in the Bank of Nova Scotia, and after the war years, went on to become Executive VP and Deputy Chairman

thirty years later, before resigning to become a self-employed economic and financial consultant in 1965. He has since taken on a professorship at York University (business administration) and also chairmanship of Consumers' Gas.

In the group of 15 directors, only one has a commerce degree, Browne, the Chairman of Moore Corp.. In the past, few of the elite had been trained in either this field or in business administration. Clement (1975: 181) observes that it is the "'new breed'" which tends to be more oriented toward commerce than 20 years ago. Thus, Browne's educational background was more rare when he acquired it (born in 1901, he is in the age group as the older members of the board). Clement (:182) finds that most of those in commerce now tend to be younger than the rest of the elites and most of high-class backgrounds. Browne attended Queen's University for his degree, at that time clearly an upper-class establishment. He began his career as a cashier at Gulf Oil Canada (then B.A. Oil) in 1923 and two years later, worked at Goodyear. He joined Moore in 1925, position unknown, but by 1955, he had risen to VP and Secretary. He became President in 1962, at age 61--the oldest of those discussed so far to reach an executive position.

Those with law degrees in their educational background are D. Ross McMaster and A. J. MacIntosh. Clement (:180) found that all the lawyers studied received

their training in Canada, with half attending Osgoode Hall, one-fifth at the University of Toronto or McGill, and that Dalhousie, Manitoba, Laval and Montreal universities were also important. Many (24%) of the lawyers in the economic elite, according to Clement (:179), now come through corporate legal departments, compared with only 9% in 1951, suggesting that law is being used as a generalist education related to corporate careers rather than private practice. Practicing lawyers, unlike those employed within corporations, tend more frequently to be upper-class in origin (:180). Such is the case for D. R. McMaster, who received his degree from McGill and is, as was already noted, descended from a line of Stelco-related McMasters.

MacIntosh, who received his law degree from Dalhousie, appears not to be of upper-class origin, but, a Gold Medallist in his class of 1942, he began his career reading law with the Deputy Attorney-General of Nova Scotia in 1947 and in 1948, joined the Toronto law firm of Blake, Anglin, Osler and Cassels (the partnership has since changed to Blake, Cassels and Graydon, and director Graydon, MacIntosh's senior, was on the Stelco board until 1972 when MacIntosh took his place). The "Osler" of the law firm's name is the same Osler of the elite background already described; Glyn Osler was on the Stelco board from 1937 to 1949, and Graydon from 1955--thus is MacIntosh in the direct

line of "descent by association." Although Graydon appears to be of upper-class origin (he attended Royal Military College, the University of Toronto schools and Osgoode Hall Law School), he, unlike MacIntosh, had few dominant directorships. MacIntosh had five in 1973, and two financial directorships; Graydon in 1969 had only one dominant directorship and no financial directorships. As directorships held by Graydon in 1969 appear not to have been transferred to MacIntosh, it may be concluded that Stelco has gained a valuable asset on its board. MacIntosh's importance derives from his association with a law firm which has for a number of years been Stelco's solicitor, and through that, valuable contacts.

D. R. McMaster, on the other hand, inherited his father's most important directorships--Bank of Montreal, Sun Life, Cominco and C.I.L. (D. R. sits on the board of I.C.I. of Canada), and of course, the Stelco directorship in 1962 after his father's death. His legacy also included over 50,000 shares of Stelco stock. Although D. R. McMaster was 53 years of age when he became a Stelco director, his career could hardly be characterized as a "long crawl," due to his inherited position and his law partnership. As was noted in Chapter 3, McMaster's partner Meighen sits on the board of an institutional shareholder of Stelco.

The next group of Stelco directors to be examined is a seemingly heterogeneous group, consisting of F. C. Man-nix, who attended two western universities but does not appear to be a specialist; W. H. Young, who attended Royal Military College and the University of Toronto; and the only French-Canadian on the board, Lucien Rolland, who besides obtaining an engineering degree from the University of Montreal, attended Loyola and the College Jean de Brebeuf. All three have in common, however, their status derived from kinship and family capitalism.

Clement (:315) points out the importance of the classical colleges for French-Canadian elites, as they are the equivalent of the Anglo private school;

"providing the aspiring elite with a total environment for usually eight of the most formative years, the sons of the upper class are taught the values appropriate to their position" (:246).

The College Jean de Brebeuf is one of particular importance. Like the members of the elite Simard family, Rolland had the advantage of classical college, as did his predecessors, Jean and Stanislas Rolland, the two sons of the founder of Rolland Paper.

Lucien Gilbert Rolland, who began his career in 1947 as an engineer with Rolland Paper, Mt. Rolland, Quebec, represents the fourth generation of Rollands in Quebec. Although not a great-grandson of the founder but probably a nephew of one of the founder's grandsons, he inherited the presidency of Rolland in 1952, probably

because there were no suitable closer-related successors. Rolland Paper is listed by Clement (1975) as being "small", but Rolland Paper owned three other paper companies and in 1974 or early 1975 acquired yet another, all in the fine paper speciality.⁵ Rolland Paper is not so unimportant as to be beneath the attention of other elites--in 1975 the president of Canadian Liquid Air was appointed to its board.⁶

The predecessors of Lucien Rolland had been quite well known locally, being quite active in politics both municipally and in the Quebec legislature, and one of the founder's daughters had married J. L. Archambault, a noted Montreal figure, and another married R. Prefontaine, a Montreal advocate and member of the Quebec assembly for Chambly and Hochelaga mayor. The founder's sons were involved in the Canadian Manufacturers Association and sat on the boards of financial institutions as well as being politically active, as was one of their sons who became head of Rolland Paper in the generation preceding Rolland.⁷ Rolland was noted as holding 18 directorships, many in dominant corporations; he is also interlocked with other Stelco directors including Stelco's president, on four of these boards. He interlocks with the Simard interests on the Power Corporation Bathurst board, and as also noted, sits on the boards of corporations with

international connections. Thus Rolland's importance as a "go-between" in Canadian-foreign connections and between the Anglophone and Francophone communities must be attributed to the collective and cumulative results of his relatives. His company may not be important now--his connections are.

Frederick C. Mannix, a westerner, started his career as a partner in F. Mannix & Co., Calgary, in 1935 after his university education, and became president in 1944 at age 31. This makes him the youngest of the Stelco board when he assumed the presidency of a company; the next youngest is Lucien Rolland, who was 36. Mannix credits himself with having "pioneered coal stripping in Canada" and as a "builder of numerous hydroelectric power projects, railways, pipelines and highways." The firm appears to be an arm of an already established regional elite family, although nothing is known of Mannix's father's background.

A newspaper account of the efforts of Loram Co. to capture 90% control of Pembina Pipe Line Ltd. (Loram already owns 51%) notes that the Mannix family controls Pembina through their holding company, Loram.⁸ The article also goes on to state that the family controls a number of other companies in construction and coal (an examination of Loram's annual report reveals that it counts among its associated companies Empire Development, Exploram Minerals,

Gregg River Resources, J. L. E. Price & Co., Manalta Holdings, Manalta Coal, Manark Industrial Sales, Loram Maintenance of Way, and Techman Ltd., besides Pembina, all involved in a number of heavy construction, pipeline, railway and mining projects). It would seem that Mannix built on the resources accumulated by a previous generation. His importance to the Stelco board would seem to be as a "western connection", particularly with the oil and gas industry, as his only important directorship is the Royal Bank.

William H. Young, whose education, it was noted, included Royal Military College, is a member of the local Hamilton elite. The Hamilton Group (previously the Hamilton Cotton Co.) is listed by Clement (1975: Appendix) as being relatively small. However, it is also a holding company for a number of businesses unrelated to textiles⁹--through a set of companies, William H. Young Holdings Ltd., Allan B. Young Holdings, and David M. Young Holdings own Vernon Holdings, along with Georgina B. Woods Holdings. Vernon owns Niagara International Centre and Yorkvale Ltd.; Yorkvale in turn owns the Hamilton Group, whose holdings include a business equipment company, finance companies, a leasing company, a dental supply company, and Cosmos Imperial Mills. The other owners of Niagara International are Niagara Wire Weaving Co., and

Prince Investments. Prince is an ownership vehicle for another local Hamilton elite family, the Pigotts.

(William Prince Pigott was one of the contractors who built the Toronto-Dominion Centre, and his brother Jean Jacques Pigott, is a director of the Southam companies; the Pigotts recently constructed the Spectator Building, and in the past constructed Stelco's and Atlas Steel's strip mills).¹⁰

William H., Allan B., and David M. Young are brothers, sons of James Vernon Young and Wilmott Maud Holton, daughter of another local textile mill owner of Young's day.

James Vernon Young and Allan Vernon Young, executives of the Hamilton Cotton Company and Cosmos Imperial Mills, were sons of the founder of the Hamilton Cotton Co. (1880).¹⁰

Both of the third-generation members of the Young family received similar upper-class educations. Young's presence on the Stelco board brings to mind the local elite group which took charge of Stelco's predecessor, Hamilton Blast Furnace, but Young's directorship is not merely a nod to tradition--he holds two dominant directorships: Gulf Oil and National Trust.

The last set of directors to be discussed provides a lead-in to the question, addressed in the next chapter, as to how much elite contact there is between the corporate world and the political and out of that, how much influence can be exerted by corporations such as Stelco. Senator Ernest

Manning is the more prominent "elite-switcher" of the Stelco board. Although he apparently has had no university education and his class origins are unknown, he began his career as Provincial Secretary and Minister of Trade and Industry and moved through a number of top-ranking provincial positions to become Premier of Alberta in 1943 to 1968. He has been, since then, President and principal consultant for M & M Systems Research and has to his credit publications such as "A Strategy for Organizing Resources to Achieve Social Goals". He is also a member of the Canadian Senate (since 1970); in 1967 he was a member of the Canadian Privy Council. His Stelco directorship dates from 1969, one year after he entered the corporate world.

Manning may be said to exemplify a new trend since 1951, which, according to Clement (:260), is towards more movement from the state elite to the corporate world (instead of the reverse, economic elite members entering the political world at levels below elite, which was more or less the case for Scully). Clement goes on to suggest that although it is unclear how much power such elite-switchers have once they enter the corporate boardrooms, it is clear that they carry with them important contacts, and help to legitimize the activities of corporations (:210).

Clement (:263) also points out the importance of Crown Corporations, Royal Commissions, and government boards

and commissions such as the National Research Council and advisory boards in establishing contact and information-flow between the two sets of elites. The Second World War also did much to establish that relationship through such organizations as the Wartime Industries Control Board and the Prices and Trade Board, and many ex-Howe men followed their leader into corporate boardrooms when the War was over (:261). Some of these points are illustrated in the person of two current Stelco directors, Scully and Thode.

Scully, educated in Dublin, is a chartered accountant in Clarkson, Gordon et al., Toronto; he was also a director and secretary of J. D. Woods & Co. and York Knitting Mills, and secretary-treasurer of Plateau Co., all of Toronto, between 1925 and 1941. Woods was a firm of management consultants. During the war years, beginning in 1941, he was President of War Supplies Ltd. for the Canadian government in Washington and President of Victory Aircraft. Between 1945 and 1951 when he joined Stelco as Comptroller, he was a vice-president of the National Research Council, and Deputy Minister of the Department of Reconstruction and Supply, and of the Department of National Revenue (Taxation), Ottawa. Six years after joining Stelco, he became its president.

Director Thode, while not apparently important for any of his corporate directorships, was a member of the

Defense Research Board between 1955 and 1961 and on the board of governors of the Ontario Research Foundation and the National Research Council. He was also involved with Atomic Energy of Canada since 1966 (during the War he was a research officer for the N.R.C. and Atomic Energy divisions at Montreal, Chalk River and Hamilton). Undoubtedly his government contacts are useful if only from a technical standpoint, but Thode may also be classified as an "expert," having to his credit a number of important science fellowships and publications. However, the publications do not appear to be related to ferrous metallurgy. Stelco established a Chair of Metallurgy at McMaster in 1959, ten years before Thode joined the Stelco board, but Thode comes to Stelco after a series of administrative positions at that university and not directly from a government position (although he has been a director of Atomic Energy since 1966), so it is difficult to assess which is the more important of Thode's contributions to the Stelco board.

It is apparent from the preceding detailed discussion that each director brings with him certain resources, either in terms of expertise, corporate or government contacts, or both. It is also apparent that their backgrounds and class origins are not all the same. Before proposing how various indicators may be assessed in order to attempt

a very general ranking of directors by degrees of elite power, it is necessary to suggest some answers to the question of what "division of labour" is involved between "insiders" and "outsiders" on a corporate board (realizing, of course, that the majority of these "outsiders" are also "insiders" within other corporations). The question concerns that of the role or function of the two classes of director.

The thesis suggested by Stelco,¹¹ is that the board performs the function of "representing the shareholders and controlling major management decisions, even though it does not 'manage the affairs of the company'...". The "board" scrutinizes the approved management recommendations in the general areas of major structural, goal, or developmental changes; financial affairs; and selection, appraisal and (if necessary) removal of management including officers. The "board," Stelco quite candidly states, has the power of veto.¹² The company appears to distinguish between "management" and "board" but does not explore the differences in function between company "managers" (senior officers) on the board and other directors.

In fact, the functional differences between "insiders" and "outsiders" on a corporate board are really an extension of the functional differences created by changing size and increasing administrative sophistication as firms

grow, engage in a wider sphere of activity, and seek more control of and knowledge about their operations. Even sheer size alone, as firms evolved, became problematical for small family groups and quite early on in business history, companies came to be administered by professional managers; hence the origin of the "managerial revolution" thesis discussed in Chapter 1. Arising from this, as Chandler (1962: 37) points out, was the creation of formal organizational structures with lines of authority and communication, beginning with the line-staff distinction. Chandler observes that the Pennsylvania railroad was

"one of the very first American business enterprises to make clear the important distinction between the duties of a vice-president and a general manager in charge of each major activity." (:39).

Many corporations evolved to the "centralized, functionally departmentalized" structure and others went beyond this to the "multidivisional decentralized" structure. But the important point which Chandler (:11) makes is that regardless of which organizational structure is used, there is a distinction made between policy formulation and implementation, that is, between strategic or long-term decisions and tactical or day-to-day decisions--in short, between "entrepreneurial" and "operating" decisions. Chandler does not extend these distinctions to boards of directors, but at a higher level of generality it can be said that they exist there as well. This observation needs to be expanded.

Fitch and Oppenheimer (1970: III:81-86), drawing on studies by Juran and Loudon (The Corporate Director, 1966) and the 1953 National Industrial Conference Board, argue that "outsider" domination of company policy becomes evident as corporations grow to the \$50-500 million asset range, with the increasing need for public financing and to check the potential power of "non-proprietary, hired managers." Interviews conducted by Juran and Loudon indicated that in giant corporations "board" and "management" matters are strictly separated, boards retaining some powers and delegating others to the Chief Executive Officer, who becomes an important figure in execution of board policies. The Chief Executive Officer "translates objectives into strategies"; the board, although generally more concerned with long-run objectives also has a "say" in some short-range matters such as capital expenditure plans--and above all, the board has the power of the purse. (This is, of course, of particular importance not only if the corporation is to pursue policies which maximize its profits but also due to the need for control by external sources of financing especially during periods of high indebtedness).

An indicator of the importance of outsiders on the board appears to be "the continuity of institutional interests on the board that outlasts any specific CEO." (:85). In the case of Stelco, this continuity has already been

demonstrated in Chapter 3 (the financial institutions) and in Chapter 4 (certain configurations of corporations, especially those which appear to be related to financial interest-groups).

An important indicator of the close co-ordination of the "insiders'" activities with the objectives of the board may also be the executive committee of the board (this division of labour within the board is sometimes performed in large multinationals by the finance committee). J. P. Gordon stated that Stelco's executive committee, although meeting "irregularly" (not "infrequently", it should be emphasized), is the body

"that can pass, because of the very rapidly changing economic conditions, we use our executive committee as a group which we can get together quickly to sound out particular proposals."¹³

The executive committee's powers, like most such bodies, are subject to ratification by the whole board, but as Younger, Stelco's legal counsel (an "inside" man), pointed out, the actions of the executive committee legally do not have to have such ratification--they are given full power to act in between board meetings.¹³

The relative power of "outsiders" may be gauged, therefore, by membership on Stelco's executive committee. In 1973, besides the three "insiders," the members were W. H. Browne (Moore Corp.), A. M. Campbell (Sun Life), J. Douglas Gibson ("independent" and chairman, Consumers Gas), and D. R. McMaster (who counts among his dominant

directorships the Bank of Montreal). Referring back to the summary chart of information on Stelco directors in 1973, it can be seen that not all of those directors with a large number of directorships or even a large number of dominant directorships are on this important organ of the board. The significance of this grouping is not readily apparent--although Sun Life and the Bank of Montreal are in the same interest group, Browne is on neither board, nor is Gibson, although Browne, Scully and Gibson come together on the board of Moore Corp. (but Browne's bank directorship is with the Nova Scotia). Gibson's financial directorships are Imperial Life (probably Bank of Montreal interest group) and National Trust (Imperial-Commerce interest group). Griffith is on the board of the Toronto-Dominion Bank, and Gordon on the board of the Bank of Montreal. Thus, four of the five dominant banks are represented on the executive committee (and, taking into account the relationship between Imperial Life's owner, Power Corporation, and the Royal Bank, the Royal is also indirectly represented, although this seems less clear-cut). If the interpretation in Table III of Chapter 3 is correct, four of the six members of the executive committee bring together Bank of Montreal linkages: McMaster, Gordon, Scully, and Campbell (the Montreal plus Sun Life and Royal Trust), while the other three directors bring in the interests of the other bank

groups through interlocks with the first group.

If this interpretation is correct, however, it does not minimize the importance of other directors, but merely underlines the specificity of certain interests over others. The relative power of the Stelco executives as a group still remains a separate question, and it is at this point that the specificity of interests appears to be replaced by the broader interests of the capitalist class as a whole, since it is the wide sphere of contact of the "multiple directorship holder," to use Clement's phrase (1975:212),¹⁴ which appears to give unity and direction to such a broad coordination of capitalist interests. This method of stratifying elites may be assessed for its usefulness in arranging the Stelco directors in a hierarchy of power and importance.

To classify directors by activity (functional or task differentiation) as Clement (:210-212) suggests appears to be another better way of ranking Stelco board members, since McMaster may be called a "wealth elite," and there are "honourific" and "expertise" elites on the board, but the last category, that of an elite of managers who themselves do not have major holdings in corporations for which they work, is problematical. Although the "insider" Stelco shareholdings are known for all Stelco directors, this will not suffice to classify those who are employed by other corporations, since insider shareholdings in all the other

corporations would also have to be compiled. The category, at any rate, would seem to apply more to those whose principal affiliation is with a smaller or more closely held company; in the case of Stelco, therefore, McMaster as a member of a wealth elite put beside the giant institutional shareholders is but a dwarf. This method of classification, however, taken in combination with that of the "multiple directorship holder" would appear to yield a plausible result.

Clement (:212-213) states that those of the "Top 100" (holding top executive positions in the largest dominant corporations) and those who hold multiple directorships including more than one dominant corporation, may be said to form the core of the economic elite--282 men "who, between them, wield tremendous corporate power, even relative to the other members of the economic elite." (:213). Their movements between dominant corporations give them knowledge more extensive than that of single directorship holders, and a wide sphere of contact--they are recognized as powerful and invited to sit on other dominant boards (:213). The following categorizations may be one way of ranking the Stelco directors:

RANKING OF STELCO DIRECTORS BY
MULTIPLE DIRECTORSHIPS AND DOMINANCE

Category I - all those who have as their principal affiliation a dominant corporation, have multiple directorships, and also have more than two of these on dominant corporations other than their own (Stelco excluded):

Campbell
 Gibson*

Category II - all those who have as their principal affiliation a dominant corporation, have multiple directorships, but only two of these are on dominant corporations:

Browne
 McAfee*
 Scully
 Griffith
 Gordon*

Category III - all those whose principal affiliation is not a dominant corporation, but have multiple directorships of which at least two are dominant:

McMaster	Rolland
MacIntosh	Smith
Manning	Young

Category IV - all those whose principal affiliation is not a dominant corporation, and have no dominant directorships:

Mannix
 Thode

*See reference note 15.

Referring back to the summary chart on the directors, it can be seen that those in the first category also have 4 financial directorships, whereas those in Category II have only one. The first 3 in Category III all have two financial directorships, as does Young, but Rolland has three

and Smith has six. In Category IV, both classified there have only one financial directorship each. Thus it would appear that financial institutions must again be taken into account. If financial connections are indeed vital to the functioning of the corporate world, then the director who is well-connected financially would have powerful connections and hence derive power as liaison--examples are Smith and Rolland.

The categorization suggested above has one further flaw--those who were discussed as members of the executive committee, with their fairly cohesive group of connections, do not appear in the same categories, although if the first two categories are combined they are again united, but McAfee is also included. This demonstration highlights one important point about the "specific" versus the "general" levels discussed in Chapter 1: those who may be important to the interests of Stelco at its own particular level may not be as important in the overall scheme of the Canadian corporate world as others. It also points out the methodological problems in going from aggregate data to case-specific data. The analysis must end inconclusively, for only the players themselves know how the pieces of the puzzle fit together.

Throughout this section, a number of themes have been interwoven in the details of directors' backgrounds,

career patterns and special talents--the importance of those with political contacts and experience, the connections with other national and international capitalist groupings, the desire to have contact with regional groups especially in rapidly growing areas and/or where there are special industrial needs, the continuity in terms of corporate representation on the board despite changes in personnel, and the importance of the financial nexus in the division of functional labour and power on the board. At a more general level, there is the theme of recruitment to the corporate ranks of those who through socialization and propensity think and perform in ways that further capitalist interests. Thus do the institutional and personal dimensions of power converge: men, both creators and creatures of their milieu, derive status and power from corporate organizations in which their careers are embedded or linked, and organizations in turn are enhanced by the presence of prestigious and powerful individuals and, embedded in the broader economic institutional system, they both strengthen its bases. Corporations, thus, in terms of power both provide resources and are resources, just as, in the financial sphere, they both create commodities with exchange values and are commodities with exchange values. All of these aspects are interwoven and complementary--and necessary for the continued stability of a potentially unstable system.

III. CONTACT AND COHESION: THE ELITE CLUBS

Acheson (1973: 76) notes the rise of the exclusive club, replacing the church fraternity, in almost every community of at least 10,000 population, by 1910. An indication of the rising status of the business group (and, one might add, an indicator of its more rigidly defined class barriers), the elite club "represented institutionalization into exclusive social organizations of a wide array of recreational activities" (:75). Moreover, such institutionalization, although "recreational" in nature, was for other ends:

"The overwhelming majority of the leading industrialists of every region...held memberships in one or more such clubs...the true test of status was...whether an industrialist...belonged to elite clubs in several metropolitan centers." (:76)

In particular, Acheson (:77) notes, the interlocked corporate elite of Montreal and Toronto usually were members of the Mount Royal and St. James's in Montreal, Ottawa's Rideau, and the Toronto and York.

The elite club, as exclusive preserve of those who had "made it", is a marker of status. But the club performs other functions as well. One important function is that of the opportunity membership gives to businessmen (and to politicians) to make contact outside the corporate boardrooms

with other businessmen and with those vital to his activities. As Clement (1975: 247) observes:

"the club" is a meeting place, a social circle, where businessmen can entertain and make deals. It serves as a badge of "social certification" but is more, in that "the club" is a place where friendships are established and old relationships nourished. A person's "contacts" are important in the corporate world because they affect the ability to have access to capital, to establish joint ventures and to enter into buyer and seller relationships with the men who control the nation's largest corporations. To participate in the club life is to be known "by those who count" and, moreover, to have their sons known."

The elite clubs which count among their members many of the most important of the national economic elite "enable elites to transcend local and regional class systems" (:243), establishing a broader base of contact and opportunity.

Nor are these the only functions of the elite club. They are part and parcel of the complex social process by which elites are socialized into the shared value-system, expectations, and standards, thus furthering the process begun by similar social origins and career experiences. It is no accident that, as C. Wright Mills (1956: 283) puts it:

"The higher members of the military, economic, and political orders are able readily to take over one another's point of view, always in a sympathetic way, and often in a knowledgeable way as well. They define one another as among those who count, and who, accordingly, must be taken into account...If there are no common ideals and standards among them that are based upon an explicitly aristocratic culture, that does not mean that they do not feel responsibility to one another."

But it goes much farther than this: elites feel "responsibility" for other members of their social circles, but also

for their class and for "their" system--theirs is the almost reflex action to defend the system to which they are committed and in which they find their being and well-being, and at no other time is the meaning of "class consciousness" brought home quite so forcefully as when there is a threat to the very foundations of capitalism. Politicians and military men are no less committed to maintaining that system than are businessmen but it is the latter who are at the centre in articulating it--in both senses of the word--explicitly and in their day-to-day activities. In the boardrooms of dominant corporations and on the various committees, policy groups and advisory bodies, overall co-ordination is achieved. But behind co-ordination lie class consciousness and cohesion, and these are fostered in the private and intimate surroundings of elite clubs.

Earlier in the process, those who are selected by the upper class to join their elite ranks become co-opted through association and commitment to upper-class life-styles and values; those who have "made it" into the inner circles have their self-images further reinforced through a variety of activities--social, philanthropic, cultural, as well as the those more obviously related to business, the trade associations and government committees. Class continuity (and hence the monopoly on the resources which create and reinforce power) is ensured, and those formerly of other

than upper-class origins may be trusted to recognize "like" and to close the ranks against those who are not yet or never will be like themselves.

Clement (:247-249) identifies six "national elite" clubs as being the most important establishments--51.1% of the current economic elite belong to one or more of them, with an average of two memberships each. Since many of these clubs were established between the mid-1800's and the latter part of that century, those already named by Acheson will be familiar: the national elite clubs are still the St. James's and Mount Royal in Montreal, the Rideau, the York and the Toronto, as well as the National now. In addition, the most important meeting-place for the French-Canadian regional elite is the St. Denis, and there are a number of clubs frequented by local elites: the Hamilton, the Halifax, the Calgary Petroleum, the Ranchmen's, and the Vancouver. And, of importance as an international meeting-place for the Canadian elite is the Canadian Club of New York (Clement, 1975: 249).

An examination was made of Stelco directors' elite club memberships between 1910 and 1973 and it was found that nearly all belonged to at least one national club (41 out of a total of 58 directors, or 70%). Biographical information was not available on Sir Ian Hamilton Benn, or on Dalton. Of the other 15 who had no national club

memberships, only Southam in the early period of the board's history was a member of even a local elite club (the Hamilton),¹⁶ and after 1940, of the seven remaining, Thode, Manning and Campbell did not belong even to local elite clubs. Foley belonged to the Vancouver, and Mannix to the Calgary and Petroleum. D. R. McMaster inherited his father's important corporate directorships, and also his national elite club membership in the Mount Royal.

A comparison was made between the club memberships of the original 1910 board and the 1973 board and it was found that whereas in 1910 directors held on the average .91 national club memberships, in 1973 they held an average of 1.3. The overall average for the entire 1910-1973 period was 1.7, and after 1940, it was 1.8, both slightly below the average for the economic elite as a whole in 1972.

Only three directors in this entire period belonged to the St. Denis, the French-Canadian regional club: G. R. Ball (1954-1959 Stelco board), G. A. Hart (1959-1969 board); and Lucien Rolland (1963 to present). Ball and Hart were both Bank of Montreal executives.

Of 58 directors, only five in the entire period were members of the Canadian Club in New York: Ball (Hart was a member of New York's Metropolitan), H. H. Champ and H. T. Diplock, both Stelco vice-presidents and originally

with predecessor companies of Stelco, and, on the 1973 board, Frederick Mannix and J. P. Gordon.

Only eight directors in the entire 1910-1973 period belonged to the Hamilton club, even though Stelco has been a most noticeable and notable Hamilton fixture for six decades. The majority of these eight were Stelco executives with the exception of Jaquays of Ontario Steel Products (and formerly associated with Montreal Rolling Mills), and Maj.-Gen. Mewburn, the former politician.

Only three directors were members of local western elite clubs: Hart, who belonged to the Ranchmen's, Foley of MacMillan Bloedel (the Vancouver), and Mannix, both of these clubs plus the Calgary Petroleum. Hilton, Griffith and Gordon of Stelco all belonged to the Union in Cleveland, a club of interest to steel executives.

Of the 58 directors over the entire period, it was found that only 19, or 33%, held memberships in both the Toronto and Montreal national elite clubs together. The board was examined at two points in time as a unit--1910 and 1973--and over time, was broken down into two thirty-year periods corresponding with the pre- and post-second world war period, in order to determine if the numbers holding memberships simultaneously in these national clubs differed in any significant way. In 1910, the first Stelco board, only three directors (27% of the total) had such

memberships: Holt, Matthews, and Harris, all financiers. In 1973, 33%, or five of the 15, had simultaneous Toronto-Montreal memberships: Griffith, and Gordon, two of the three Stelco executives; Rolland and McAfee (and it was assumed that D. R. McMaster should be included).

There was a marked difference between the 1910-1939 and 1940-1970 period. In the earlier period, only seven directors out of 26 (or 27%) held simultaneous Toronto-Montreal memberships, whereas in the later period, 11 out of a total of 30 (or 37%) did--a full 10 percentage point difference. As only G. R. Ball in the later period was an executive of a financial institution, the reason for the dramatic increase in this period cannot be attributed to increasing numbers of financial executives on the board. It must be remembered, however, that in the early years of Stelco's history, it was Dominion Steel and not Stelco which was the dominant steel corporation in Canada. By the time of the Second World War, Dosco's position had slipped and the other two steel producers lagged behind Stelco. It can be interpreted, therefore, that the increase in directors simultaneously belonging to both national clubs is an indication of Stelco's increasing stature within the Canadian corporate community. As a dominant corporation, it was able to attract more high-prestige directors with wider contacts. At the same time, Stelco executives were also gaining in

status through the status of their company: Hilton was the first to become a member of the Union Club in Cleveland, and Gordon became a member of the Canadian Club since assuming the presidency, indicating not only the growing status of Stelco in American steel circles, but also its desire to expand the base of its contacts.

An analysis of national elite club memberships held by Stelco executives shows that beginning with A. R. McMaster in the early years of the company, almost all of company's heads have held not only national elite club memberships but have also held them simultaneously in the Toronto and Montreal clubs: McMaster, Hilton, Griffith, and Gordon. Only Wilcox, in the early years, and Scully, in the late period, have not held the simultaneous memberships but have belonged only to Toronto national clubs (one each) and to the Hamilton Club.

Returning again to the 1973 board as a unit, the memberships held by that group run the gamut from the club important internationally to the Canadian elite, to the national elite clubs both of Toronto and Montreal, as well as the Rideau, to the regional French-Canadian elite club, and the Calgary ones. Seven directors are members of the Mount Royal, four of the St. James', two each of the National and the Canadian Club, and two of the Hamilton Club. All but two directors of the 15 belong to national or local

clubs, and only one of the 13 belongs to no national club. Thus it would seem that Stelco has the advantage of a broad range of contacts through the unofficial activities of its board members.

In this chapter, the class origins and career patterns of all Stelco directors since 1910 have been discussed and analysed, and the intimacy of their social intermingling noted, as an indication of the ways in which their similarity of type and their mutual interests may be enhanced. Ten of the 15 directors were Canadian-born (three were born in the British Isles and two in the U.S.); in religious affiliation as well, they are fairly homogeneous and representative of the Canadian elite. All but two of the directors are affiliated with Canadian corporations, most of which are dominant, and they as well sit on the boards of other dominant Canadian corporations. Although they also have important foreign directorships and mingle with other national elites in club and committee circles, they (with the exception of McAfee), represent part of the Canadian "indigenous elite."

Despite the handicaps given the indigenous elite by its late-blooming industrial interests, the Canadian elite as a whole deal in their areas of dominance from strength born of cohesiveness. They are also interested in preserving that strength by carefully guarding entry to its

inner circles, but at the same time must seek to extend their influence through contact with international capitalist circles in order to remain close and responsive to the dynamic centre of the larger system.

The Canadian elite looks to both sides of its "North Atlantic triangle" for clues to the state of its health while pointedly drawing the boundaries around its own sectors of strength. Someone once remarked that "capital has no nationality." The gesture, then, is not one of nationalistic concern but one of power. The Canadian steel industry, particularly Stelco, has proved a fertile ground for nurturing the class consciousness and commitment necessary for the accumulation and retention of power.

NOTES TO CHAPTER SIX

1. Sources for biographical information include Who's Who in Canada, Canadian Who's Who, and Canadian Men and Women of the Time, as well as newspaper articles. Thanks goes to Mary Ann Daley for use of her biographical research on directors from the 1910 to 1929 boards and for the rest of her research to 1973 which served as a cross-check for the author's own research. Thanks also goes to Wallace Clement for use of his data on the 1973 board members' kinship connections, researched for The Canadian Corporate Elite (1975).
2. Since that time, other changes in the board have occurred--J. McAfee, President of Gulf Canada, was made Chairman of the U.S. parent firm and resigned his Stelco seat, to be replaced by W. F. McLean, President of Canada Packers. W. H. Browne resigned and was replaced by A. Jean deGrandpre of Bell Canada. These changes were made in 1976. In February, 1974, H. Greville Smith died and was replaced by Kenneth A. White, President of Royal Trust. Royal Trust is linked to the Bank of Montreal interest group; both Royal Trust and Bell have a long history of connections with the Stelco board, as outlined in Chapters Three and Four.
3. Directorship information was taken from the Financial Post Directory of Directors 1973 and 1974, with dominance of corporations established with the aid of Clement's (1975) Appendix VII or X. Biographical information was taken from various issues of Canadian Who's Who or Who's Who in Canada. Data on kinship connections, which aided in establishing probable class origins, was used courtesy of Wallace Clement; however, the number of directorships and number of dominant directorships found by the author for each director was slightly higher in most cases than Clement's data, and it can only be assumed that this is an artifact of a different source or different edition of the Directory of Directors.
4. According to the person at Stelco in charge of the graduate recruitment programme for management trainees, Gordon was one such recruit (even though, according to newspaper accounts, he began as a scrap burner in the plant). Other grad recruits the Stelco person named included a current senior manager in the semi-finished products area, A. R. McMurrich, presently a Marketing Vice-President, and many general superintendents, accounting managers, and some general foremen. The programme to actively search out potential management talent has been in effect at Stelco some 30 years.
5. Source: Financial Post, August 2, 1975.
6. Source: Financial Post, June 21, 1975.

7. The kinship relationships were traced through the Canadian Who's Who (various issues) and The Canadian Biographical Dictionary and Portrait Gallery of Eminent and Self-Made Men, Quebec and Maritimes volume, 1881. J. B. Rolland & Fils was founded by Jean Baptiste Rolland, son of wealthy Quebec parishioners; of his two sons, Jean Damien and Stanislas Jean, the latter became head of Northern Mills, the former president of J.B. Rolland & Sons and Rolland Paper (established 1882); Jean, son of Stanislas, assumed the presidency of Rolland Paper but no record was found of when he died. Lucien Rolland's father was Oliver Rolland, not listed in any biographical sources consulted; since one of Lucien's children was named Stanislas, it is assumed that Oliver and Jean may have been brothers.
8. Source: Financial Post, June 14, 1975.
9. Source: Statistics Canada Intercompany Ownership 1972.
10. Detailed research on the Young family and on the Pigott family was done by Ted Rishaur and thanks is due to him for use of his data.
11. Stelco submission to the Royal Commission on Corporate Concentration, P. 99.
12. Ibid., Pp. 101-102.
13. Gordon's and Younger's statements from P. 2524, transcript of proceedings, Royal Commission on Corporate Concentration.
14. Actually, John Porter's phrase, as Clement builds his data analysis on Porter's using the same methodology and many of the same categories.
16. It seems strange that Gibson, Hobson, and Milne, well-known locally, were not members of any clubs. However, it could be that many early biographical sketches did not include this information even when they did have club memberships. At any rate, since this information is not known, they were included in the count as having none.
15. Newman (1975: 218-219) ranks the Canadian business establishment in terms of relative importance. Although he does not state his criteria, it is interesting that among "corporate men" he ranks as important Stelco's Peter Gordon, Gulf Canada's Jerry McAfee, Inco's man, McDougald of Argus, McLean of Canada Packers, Moore of Brascan. Among "professional directors" the most influential, he says, include J. Douglas Gibson, Alex MacIntosh (the lawyer), Beverley Matthews (lawyer), and A.G.S. Griffin of Triarch (Power-allied).

Chapter 7 STEEL'S POINT OF VIEW: INDUSTRY-GOVERNMENT RELATIONS

I THEORETICAL AND HISTORICAL CONTEXT

The final area of concern of this investigation is that of the nature of the relationship between various types of business "forums"¹ in which capitalists discuss issues of common concern and formulate policy approaches, and the government which is responsive to the needs and views of business. It should be emphasized, however that the focus of this chapter is narrow and is not intended to address any of the more general dimensions of the relationship between capitalism and the capitalist state, for that would take discussion into a range of issues far beyond the scope and data of the present study, into a definitive analysis which is a topic of research in itself. Some general theoretical background, however, will be introduced in order to place into a broader context the data presented here. As well, some historical material must be introduced as the backdrop against which the Canadian steel industry developed and the framework which best explains its present position vis-a-vis government policies.

The focus is, therefore, upon the concrete organizations in which one particular industry's members come together to air problems, reinforce one another's attitudes, and ultimately to co-ordinate approaches for getting their views across to government in areas directly affecting them as well as in areas which affect them as part of a larger system. The chapter is short relative to its importance--in fact if only impressionistically, it points to a most important basis for the continued development of the steel industry in part through the traditionally close

association between the state and business interests in Canada. The reason for the brevity of data analysis is not lack of "data" per se--for that abounds--but due to the lack of the factual evidence which would link the concrete fact of the existence of industrial forums, lobbies and involvement of businessmen on government committees to actions of governments in a cause-effect relationship, especially for recent years. The question which cannot be answered in such a straightforward way is: what is the impact of industry forums and other bodies on government decisions and policies.

Industry forums can be shown to exist and to be linked in various concrete ways to government bodies, such as through interlocks with state elites on government committees, elite-switching, kinship and inter-marriage, and through informal kinds of contact such as in the elite club, particularly the Rideau. (Newman (1975: 372) observes that, founded in 1865 by Sir John A. Macdonald, the purpose of the Rideau was and is "to provide a discreet meeting place where men representing business power and political authority can exchange favours.") But formally, the corporate elite and the state elite exist alongside one another as separate elites, representing separate institutions based on different kinds of power-resources. As Clement (1975: 345) points out, there are different sets of rules governing the separation of elite members between the corporate, political and bureaucratic elites--although these rules do not cover, as he notes, some of the opportunities for contact mentioned above, and the corporate and state elites are "not so neatly separated as the rules prohibiting simultaneous holding of elite positions...would make it appear at first glance." (:347). As Miliband (1973: 55) puts it:

"It is much easier for businessmen, where required, to divest themselves of stocks and shares as a kind of rite de passage into government service than to divest themselves of a particular view of the world, and of the place of business in it."

The impact of business on governments (and the assessment of its converse, the effect of governments on business) can often be addressed only indirectly due to the complexity of the relationship between dominant groups and the state in modern industrial societies; that relationship cannot, as Miliband cautions (1973: 51) be simply assumed as one of "principal to agent." It is the hotly debated question of: in what sense does "the ruling class" rule?, since the capitalist class "has generally confronted the state as a separate entity" (:51) and despite the penetration into the state elite by members of the corporate elite, they have remained a minority of the state elite and do not constitute a "governing class" as was the case for the pre-industrial, aristocratic, landowning classes (:55). Their impact on the state system must, at least due to the formal, institutional separation between corporate and state elites, be through indirect means. But this cautionary note should not be construed as implying that the data and the clues to their significance carry little weight--on the contrary, as will be shown, they are enormously weighty in their implications. Some of these implications will be drawn out at the end of the data analysis. Others have theoretical significance which must be explored first.

A necessary clarification must also be made between three terms which appear to be used interchangeably but which actually (and quite vital for any discussion business-government relations) represent three levels of analysis. These distinctions are between "government", "state"

and "political" levels, in ascending order of abstraction. Miliband (1973: 46-51) clarifies these in terms of various elements of what is commonsensically known as "the political system," which encompasses the broadest level of activity. On the other hand, the "government" (in the sense of "the government of the day") is but one element of the state, the state being composed of government, administration, military and police, the judicial branch, "subcentral" government, and parliamentary assemblies.

Power is, Miliband emphasizes, vested in the state institutions and wielded by people holding the top positions within the institutions; the "state," being an abstraction, cannot exercise legitimate force but the "government of the day", and its agents, as spokesmen and as power-holders for the state, can. However, although the government has state power, it may not necessarily control that power, and this brings in the level of the political system, which includes political parties and pressure groups as well as other institutions not commonly regarded as "political"--corporations, churches, the mass media, the family. It also raises the question as to what degree of political power is exercised by those who control important economic institutions, whether economic control creates the conditions for a crucial degree of political power. Miliband argues that the economic elite has not only involved itself directly in parts of the state system in various capacities but in areas of state "intervention," is "there also, in an exceptionally strong position as compared with other economic groups...to influence and even to determine the nature of that intervention." (:54).

In addition, reinforcement is given to the relationship between business and state elites as it is from the upper and middle classes that both elites are drawn--as Miliband says (and Clement has shown to be the case for Canada): "The pattern is monotonously similar for all capitalist countries." (:55). Thus, by extension, the interests of the capitalist class and the state elite of a capitalist society are class-related interests. Moreover, those who are recruited from outside these social ranks (a very few indeed) must "pass the test" placed on them by the "particular image of how a high-ranking civil servant or military officer ought to think, speak, behave and react, and that image will be drawn in terms of the class to which they [his judges] belong." (:59). The tempering of their class bias by "meritocratic" principles will be more readily applied to candidates "who give every sign of readiness and capacity to adapt and conform to class-sanctioned patterns of behaviour and thought." (:59).

The pattern, of domination of the economic elite by an upper social class and the co-optation of the few bright ones of lower-class origins who show promise of injecting "new blood" and fresh ideas without threatening the old ones, is a pattern in both the economic and the state elite: the "bourgeoisification" of the most promising of subordinate-class recruits (:60). There is a sympathetic inclination towards big business as the almost unconscious result of socialization into a milieu where thinking is dominated by a bias towards the existing system.

State and business are bound in ways which may be summed up as "the national interest:"

"...if the national interest is in fact inextricably bound up with the fortunes of capitalist enterprise, apparent

partiality towards it is not really partiality at all. On the contrary, in serving the interests of business and in helping capitalist enterprise to thrive, governments are really fulfilling their exalted role as guardians of the good of all...they accept the notion that the economic rationality of the capitalist system is synonymous with rationality itself..." (Miliband, 1973: 69).

This commitment by governments, Miliband (:71) argues, limits their freedom of action on a number of issues and problems, for if many social and economic problems are to be solved, they require governments to act in opposition to capitalist interests, a move they make only reluctantly and on a limited scale. At any rate, the role of the state, at bottom, is not to undermine the capitalist system but to shore it up, to reaffirm its basis in the "rights of private property," even by assuming a Keynesian approach which would cause governments "to act against some property rights, to erode some managerial prerogatives, to help redress somewhat the balance between capital and labour" (:71). This approach (whether some capitalists realize it or not and certainly do not acknowledge if they do) prevents, at least in the short run, the grosser effects of capitalism from causing the system to topple.

But the state assumes more than this negative function--it actively gives support to business through tax policies, various kinds of business "incentives," through the "routinization" of conflict in industrial relations management (and if necessary with coercion against labour). The state also supplies the necessary infrastructure and assumes the "social overhead costs" of the capitalist system's operation--as O'Connor (1973: 70) terms it, the "accumulation" function of the state. In actual fact, the "accumulation" and "loyalty" or "legitization" functions of the state are contradictory, and it is the task of '

various agencies of the state to reconcile them as well as the disparate interests of particular capitalist groups.

By itself, O'Connor (:67) points out, interest-group politics is not consistent with the long-term survival and expansion needs of capitalism; being too narrow and sectional, it leads to contradictory policies making overall planning of the economy difficult:

"Thus, a class-conscious political directorate is needed to co-ordinate the activities of nominally independent government agencies." (:67)

It is the task of the various state agencies to reconcile the diverse interest-group pressures, and the various policies which result are key inputs used by the executive branch in formulating legislation. Thus it is that at the executive level are corporate interests as class interests translated into class action.

O'Connor (:64) also points out that the section of the capitalist class with the most powerful influence on national governments is the monopoly sector, organized not only along interest-group but also class lines which transcend the narrower concerns of such bodies as manufacturers' associations. A class-conscious corporate sector is matched by a class-conscious political directorate. With the increased interpenetration between private economy and state and with the growth of the federal bureaucracy political economic issues and conflicts are translated into "problems of administration" (:67), and one of the chief "administrative" problems which concerns many of the government departments, agencies and committees is "managing relations within the business classes" (:70), in particular, reconciling the interests of the monopoly sector and the competitive sector. At the top of the state structure all of the elements

within the population must be integrated coherently and "mass loyalty" won (:69), the inherent bias in the system disguised through various ideological justifications.

One such bias connected with the accumulation role of the capitalist state is tax exploitation of the working population which arises from the state policy regarding corporate taxation as part of its attempts "to maintain or create the conditions in which profitable capital accumulation is possible." (:6), for those involved in running the state must assist in capital accumulation for the private sector or risk "drying up the source of its own power, the economy's surplus production capacity and the taxes drawn from this surplus..." (:6).

Deaton (1972) has applied O'Connor's framework to the Canadian state in order to detail the effects of capitalist state policies as they are felt in Canada, and found that, just as in the U.S., corporate shares of federal income revenue fell while the individual share rose between 1962 and 1970 and the same was true of provincial tax shares. In fact, the corporate share of the federal tax fell by about 38%, and the provincial tax share by over 60%; the corresponding figures by which individual shares rose were 23% and 83% respectively, in the same period (:32). The tax system as it applies to individuals is regressive; on top of this, corporations have been able to shift an increasing tax burden onto individuals, a phenomenon prevalent in the U.S., Britain and Canada, leading Deaton to assert that there is a "general tendency in mature capitalist economies for the corporate share of tax revenue to decline." (:33). The exploitive nature of the tax system arises in part from a high incidence of indirect and hidden taxes applied to individuals (:34) and also from

the ability of corporations to escape taxation by various means, the most predominant in the post-war years being through inflated depreciation allowances and other costs and through high levels of retained earnings, which are also not taxed. Deaton's research reveals that:

"...corporate saving (retained earnings and depreciation) as a percentage of total value added by corporations in the post World War II period is consistently higher than in the most prosperous pre-war year of 1929. Furthermore, corporate depreciation as a percentage of gross corporate profits has increased tremendously in the past 40 years... even when taking into account expansion and justified replacement costs, net profits have been kept low resulting in lower corporate tax rates." (:35)

An additional way in which corporate income taxes are lowered is through the ability of corporations to set aside reserves for future income taxes, representing in effect, Deaton argues, "government loans to business...to invest in plant and equipment. The loans carry no interest charge, whatsoever." (:35). This latter point might not appear to give support to the argument until the logic of the accounting reveals itself in a concrete example, provided in this case by a recent Stelco annual report. In 1975, according to Stelco's Consolidated Statement of Income and Retained Earnings,² the company paid current income taxes of \$9.2 million and \$20.9 million was deferred; both of these amounts along with depreciation, interest paid, and costs of sales, are deductions from revenue which yield a "Net Income for the Year" of \$88.8 million. The notes to the statement tell the reader that:

"Income taxes are provided on the tax allocation basis and the resultant deferred income taxes are due principally to claiming depreciation for tax purposes in excess of straight-line depreciation. The tax provision in 1975 has been reduced by a federal investment tax credit of \$6.2 million."

The company has benefitted not only from accounting procedures which allow it to claim certain items as expenses, thus reducing the amount of net profit on which current taxes are paid, but in addition, benefits from a number of other allowances which are introduced from time to time. Some examples from other annual reports of Stelco will illustrate the effects of government tax policy and allowances; however, a detailed study of Stelco's income tax could not be made (see Note 2).

In its 1975 annual report, Stelco reported that taxes (federal, provincial and municipal) amounted to 5% of its total revenue (in 1974, it was 7%), depreciation amounted to 4%, and reinvested earnings 4% (the corresponding figures in 1974 were 5% and 7% respectively). In 1975, the figures for these items were: \$51.4 million for depreciation, \$30.2 million for income taxes, and \$46.8 million for reinvested earnings. The depreciation charged exceeded income tax in 1975 (a year of record capital expenditures), but an examination of the company's reports over time reveals that in the 65 years of its operation, many of them years when capital expenditures were low, depreciation also exceeded income tax charged as expenses. Beginning in 1910, when the company paid no income tax, depreciation exceeded income tax in 34 years--from 1910 to 1913, in 1915, and from 1917 to 1936; and again in the post-war period, between 1950 and 1975, a total of 10 times.

The company has been noted for its high level of retained earnings, one of the reasons it has traditionally given for not heavily financing new investment from external sources--up to and including 1975, its retained earnings have averaged 3.04% of total assets³, and in the post-war period, averaged 4.7%, reaching highs of 7%, 9% and 15% during the

1950's boom. Depreciation followed a similar pattern, although tended to increase at a much more steady rate as a proportion of total assets--before 1946, it averaged 1.94%, but in the post-war period, the average increased to 5.4%. Although depreciation appears to have a greater effect, it can be seen that both depreciation and retained earnings will affect the amount of income tax the corporation pays in a direct way. These, however, do not exhaust all the avenues open to the company for reducing taxes.

In its 1960 annual report, Stelco announced a change in its method of calculating depreciation--prior to 1960, it followed the practice of recording the same amounts for depreciation and depletion as was deductible under the tax regulations, but as capital expenditures came to fluctuate widely and projects to take longer to complete (often years, as is the case for its current Lake Erie project), the company felt depreciation provisions ought to be related to the rate of spending rather than to use of facilities (which, it claimed, distorted profits); accordingly a change was made to the so-called "straight-line" method. In 1960, this change resulted in \$6 million being charged, reducing the amount of taxes then currently payable to \$3 million. This was in addition to the company's share of accelerated depreciation and financing costs to which shareholders of Erie Mining Company were entitled--that provision further reduced the company's taxes payable for 1960 by \$2.3 million. Both of these amounts were credited to Provision for Deferred Income Taxes (which, of course, as explained already would have the effect of increasing the amount of "expenses", thus lessening net profit).

As an incentive for increasing productivity, the wartime government in the 1940's allowed a special depreciation charge for war plant

and equipment. The steel producers were subject to an "excess profits" tax as well as the normal income taxes. Together, Stelco's depreciation charge (\$1.9 million) and income tax charge (\$3.0 million) amounted to 98.5% of the deductions from the profit from operations of \$9.4 million (less interest on funded debt), which resulted in their declaring a net profit for 1940 of \$4.3 million.

Another concession given to Stelco relates to its ore properties in the recent period--in its 1968 annual report, Stelco noted that income from its Scully Mine (then under development) was exempt from income tax for a period of 36 months commencing 1966. The effect of this exemption in 1968 was to reduce the provision for income taxes by about \$14 million. A similar tax exemption for its Griffith Mine was in effect beginning 1969.

In the November, 1972 issue of Executive magazine,⁴ a case was made for a review of capital cost allowances by governments. The author made his argument with typical corporate logic, which bears quoting at length:

"In recent years, with pre-tax profits tending to decline, corporate reliance upon capital cost allowances as a source of income has intensified to the point where subtle distortions of the system have become apparent...corporations are setting their course in terms of taxes saved rather than profits earned.

The consequences of this approach...are difficult to discern where they may matter more, in the maintenance of the free market economy...

The subversion is most evident when the political thinking behind the capital cost allowance flows into the extreme applications of regional economic expansion. It becomes apparent, too, when it is realized that the value of capital cost allowances, as an incentive to expansion,

derives directly from the maintenance of a high rate of tax on corporate income."

The author concludes that "the workings of a free market economy would be strengthened" if the capital cost advantages were done away with--in favour of a lower rate of corporate income tax. He suggests a lowering to the average 25% now paid, which presumably would ignore differences in corporate size. The write-offs have the further disadvantage, he argues, of enhancing cash flows over the short run but not the post-tax earnings available for shareholder distribution. He suggests that the private sector should take the initiative for changes before government does, thus saving it from becoming "an extension of government."

At any rate, the beneficiaries of either approach are those large corporations in the monopoly sector who possess the resources to compel governments to make concessions which, granted or not, would probably have made no material difference to the corporation's plans. An example from the past is provided by Dominion Iron and Dominion Coal, before their amalgamation. The two companies agreed that they would together press for renewal of the bounties on pig iron being given by the Dominion government--but they were prepared to proceed with their expansion plans whether or not the bounties were renewed (Donald, 1915: 203). Corporations typically present their case in terms of the dire consequences which would flow from governments not taking action on their behalf: loss of production, loss of jobs, economic downturn, erosion of the very foundations of the system.

II SUPER-SUBSIDY AND SUPER-PROTECTION

The Canadian primary steel industry, like the early railways, has a long history of government subsidization and concessions given it. This

will be reviewed before proceeding to Part III, in which a detailed discussion of elite forums and government connections found through the 1910-1973 Stelco boards will be presented, as well as additional current information. An attempt will be made to relate these to government attitudes toward business. In the final part of the chapter, an analysis will be made of the tariff as it affects the steel industry.

About 1850, with little industrialization in Canada and that which existed tending not to be supported by the dominant classes (except for their involvement in canals and later, railways), the dominant classes' dependence on mercantile pursuits and their relatively disadvantageous St. Lawrence trading location created an extremely vulnerable position for them when Great Britain switched to a free-trade policy. The American economy had grown and was attracting population from the British provinces. An alternative to annexation with the United States appeared to be preferential trade with America and higher duties against Britain; the result was the Reciprocity Treaty of 1854 which allowed for North American free trade in natural products (Brebner, 1966: 153-154). At the same time, however, a Canadian protectionist sentiment was being aroused in some circles beginning about 1845, Canadian duties on manufactures then being slightly more than half of the American duties. In 1858 a protectionist association was formed by those involved in industry and the Canadian government responded by raising duties (although they were still below American rates) (:162).

By the period of the 1870's and the initiation of the National Policy of Protection, a number of changes had come about in the Canadian

economy. Industrialization, according to Naylor (1975a), had developed along two routes:

"Small-scale local industries had taken root, especially in Ontario. And especially in Montreal and Halifax key figures of the old economic system, the leading whole-sale and import merchants, had begun or were about to begin to move into industrial promotions." (:58).

The old mercantile elite became active in textiles, sugar refining, and primary iron and steel. Following the 1873 recession which left the new industrial capacity which had grown during the protective period of the American Civil War in a state vulnerable to deflation and profit squeezes, the National Policy became enacted through the prompting of the combined efforts of "a small but vocal segment of Ontario industry," the mercantile elites involved in industry, and "a group of pressing British investors in certain primary industries" (:58). As a result, Naylor (:58) argues, Canadian industrialization under these conditions was set on "the path to dependence..on state assistance, foreign capital, and on foreign technology." The protectionist policies provided a safe climate for ever-conservative Tory investment, made Canada attractive for foreign investors (the Canadian government was not particularly nationalist when it came to the creation of industry within its borders), and as well, provided the necessary revenue through the taxation of industrial inputs which, although creating hardships for Canadian consumers, became a source of financing necessary "to pay for the infrastructure and rebuild the St. Lawrence empire" (:58-59). Ultimately, the main beneficiaries were to be the same dominant groups which hitherto had manipulated government policies in their favour.

Those who pressed for protection tended to be connected with thriving businesses principally in primary production: petroleum, coal, primary iron and steel, and those wholesale merchants involved in the cotton and sugar trades with foreign capital invested; those who were content with existing tariff levels were the boot and shoe manufacturers, many of the Quebecois, and those who favoured reciprocity because they sold in the U.S. as well as Canada were the large Canadian agricultural implement manufacturers (:39-42). Naylor (:42) argues that the tariff aided the first-mentioned groups, and then later primary iron and steel, to make the transition from commercial to industrial capitalism--these industries were not built up from a handicraft base and many had foreign capital invested in them.

Before the 1887 tariff revision, Naylor (:55) suggests that there is evidence pointing to the "substantial prosperity" enjoyed by the already established iron and steel industry, with Nova Scotia Steel planning to double its capitalization, and an American joint venture created in Kingston in response to the higher tariffs; when a group headed by Canadian elite George Stephen reorganized the bankrupted Londonderry, Nova Scotia company known as The Steel Company of Canada, they refused to open the plant unless a protectionist Tory majority was returned to office. Secondary iron and steel, however, objected to the duties as the primary products were their production inputs and much of this was imported (although, Naylor (:55) points out that the exception to this was the secondary steel manufacturing which had grown out of wholesale hardware--they instead called for primary steel subsidies in place of high tariffs). On balance, the most protectionist industries were primary iron and steel

and locomotive producers--and probably the most important single industry pressing for protection was the sole major primary iron and steel producer (:52).

Iron and steel bounties were introduced in 1879 and were, in effect, royalties granted for every ton of Canadian-produced pig iron. Donald (1915: 84) notes that duty drawbacks on imported iron were, however given as a favour to New Brunswick shipbuilders, and duties increased on coal and coke as a favour to the Nova Scotia coal interests. Then, in 1887, a crisis developed as a result of protests--from those who wished more protection for pig iron (the primary producers), those who wished increases on puddled bars used by the rolling mill industries to force them to put in puddling furnaces, and the rolling-mill interests, who wanted duties on scrap and puddled bars kept low as these formed their raw materials, and the general public, who protested the high cost of such items as agricultural implements. Much pressure came from Nova Scotia, threatening secession unless duties were made higher. The duty on Nova Scotia bituminous coal had to be maintained, while anthracite was left free in order to stimulate the Ontario iron industry. Steel rails were also left free due to railway demand (:86-87). Pressure came from both Ontario (Hamilton Blast Furnace) and Nova Scotia Steel for bounties on pig iron produced from non-Canadian ores, since both used either Newfoundland or Lake Superior ores. In 1894, the Liberal opposition objected to the duty increases, arguing that "local feeling" had pressured the bounty legislation in favour of Nova Scotia interests (:103).

Much of the rejuggling that resulted in the 1897 revisions was necessitated by the desire to make concessions to everyone; in general, duties were reduced to make raw materials cheaper to users (:133); at the

same time, the bounty system was continued in 1897 and 1899, Donald (:135) argues due to "territorial elements in politics, especially the interests of the Maritime Provinces." At that time, the Nova Scotia industry, he points out as does Naylor, was prosperous and fairly mature. Yet between 1883 and 1897, the Dominion Government paid out over \$700,000 on an output of not quite 500,000 tons, while at the same time the total pig iron production supplied only half the need and the rest had to be imported (:103).

The history of the early iron and steel producers has already been outlined in Chapter 4; it should be emphasized here that many of these industries were American-dominated in the beginning and formed in response to the bounty system and to the "hand-outs" offered by municipalities to encourage business to establish themselves in their cities. Both Hamilton and Sydney attracted industry. With so many municipalities competing for their attention, promoters tended to play one off against the other for the best offer. The usual offers consisted of land grants, outright cash gifts, tax exemption, and water rights. Many leading Canadians also "got in on the act," often in co-operation with American interests: A. F. Gault, the Montreal Drummonds, Sir Charles Tupper, Sir Sandford Fleming (Naylor 1975b: 119). When the Londonderry operation bankrupted, it was given over to Herbert Holt for next to nothing; Londonderry, like so many other ventures, had represented facilities built up by considerable infusions of public funds (:120).

In addition to local concessions and Dominion bounties, the iron and steel producers received provincial assistance in the form of bounties on pig iron made from Ontario ores. In 1900, in addition to the pig iron

bounty, a railway subsidy was added if Canadian iron and steel was used in the production of rail--the leading light behind the pressure for this concession was Algoma's Francis Clergue (:115). The greatest beneficiaries of the bounty-system were the three American-created companies: Dominion Steel, Hamilton Iron, and Algoma, receiving in total \$5 million of the \$9 million given out between 1883 and 1906 (:115).

When it was linked to the second transcontinental railway building boom, Naylor (1975b: 115) point out, the iron and steel industry flourished. Indeed, after railways, that industry received the "greatest amount of government largesse" (:114). The importance of the iron and steel industry to railways and the dominant Canadian forces behind them has already been explored in Chapters 3 and 4.

The effect of the high level of concession-granting and tariff barriers created by the Canadian governments, aside from safeguarding the dominance of already established interests, was to create over-production which led to attempts by producers to regulate competition--every device from "gentlemen's agreements" to formal trade associations and exchange of directors was used; employers' associations were important to the process of cartelization; and tariff-lobbying and quality-standards associations often evolved into organizations for the regulation of quantity, price, customer credit, or profit-pooling (Naylor, 1975b: 162). The price-fixing activities of the Iron and Steel Association of Canada, a "super-association" as Naylor (:182) calls it, embracing a number of more particularistic product associations, were quite open despite the 1889 anti-combines legislation (:183). Its members included the Montreal Rolling Mills, Ontario Tack, Pillow-Hersey, Canada Screw, Ives' Dominion

Wire, and some barbed wire manufacturers (:183)--many of these names will now be familiar in connection with the 1910 Stelco merger.

In fact, when many of the cartels proved unable to cope with falling prices, mergers were often the outcome--many of these early mergers, Naylor (:186) points out, were in response to overcrowded industries. Mergers in the later period were on the other hand promoted by financiers on borrowed capital, were usually badly over-capitalized, and needed the tariff so that prices could be raised to cover the costs of their creation (:187). Once created, as will be shown, the powers behind these creations continued to press for advantageous conditions.

The Canadian Steel industry, it was noted, came out of its infancy by thriving on subsidies and tariff protection. With but a few lapses, it has continued to do so since. As Brebner (1966: 247) observes, "Canada has never been a free-trade country". After the Reciprocity Treaty was terminated in 1866, Canada received "an almost uninterruptedly harsh schooling in protectionism" from the United States, and beginning with MacDonald's protectionism as part of the strategy for industrialization, Canada was "committed to tariff retaliation." (:247) Brebner also observes that despite the almost continuous Canadian-American tariff wars between 1865 and 1935, trade between the two countries grew until it represented the largest exchange between any two nations in the world (:247). The explanation appears to lie in the fact of Canadian-American complementary, including geographic proximity to one another's markets and raw materials (:248):

"That is why the free lists, the free quotas, and the low-duty categories of American and Canadian tariffs have in the long run proved to be more important than the general

height of the tariff walls which they have set up against the world and against each other." (:248).

But despite these items which are allowed to pass duty-free or at a reduced rate (for example, agricultural implement manufacturers received a 99% rebate of duties on iron and steel imported, which applied to half of imported pig iron and half of rolled steel from the U.S. in 1911 (Kilbourn, 1960: 92), the fact remains that overall, Canadian tariff policy on iron and steel products was and is still, highly protective and in some cases represents a higher barrier than the corresponding American one.⁵

After the Taft-Fielding Reciprocity Treaty of 1911 was defeated, the Canadian steel industry continued to enjoy high tariff advantages (including the new tariff introduced on rod at Stelco's behest); in Stelco's 1913 annual report is announced that the Dominion Government had increased duties on several items manufactured by Stelco. In the 1920's, according to Kilbourn (:130), Canadian tariffs showed a slight downwards trend under Mackenzie King's Liberal government (despite King's pro-business bias). But by the 1930's the steel tariffs had been raised substantially and Canadian producers gained a bigger Canadian market share as a result (:144). At the 1932 Ottawa Conference, Canada agreed to remove the duty on British tinplate but increase the duty on American semi-finished products (:132). The British were at a disadvantage due to the higher exchange value of sterling relative to the Canadian dollar, and presented no real threat even with the duty removed (:145). As a result of the changes, U.S. Steel's Ojibway plant (which imported semi's to further advance in its Canadian plant) was forced to close, and eventually Stelco and Dofasco acquired the lion's share of the tinplate

market (:132), a situation which continues to the present, as mentioned in Chapter 4.

In 1958 "the archaic clutter" of Canadian steel tariffs was simplified and this structure remains much the same today: a basic rate of five, 10 and 20% for three categories respectively, British Preferential, Most Favoured Nation, and General (:226); and more recently, a fourth category, "General Preferential", was introduced for certain underdeveloped nations, with a rate usually midway between the MFN and the General. The tariff levels were not altered in 1958 except for lowered duty on many American steel products to 10% and an increase from zero to 5% on some British items (as the British, in a new efficiency position in the 1950's, were competing in some lines) (:227).

An important point which Kilbourn (:227) makes for this period must be borne in mind when the present tariff system is considered: he points out that the Canadian industry had come to rely less on tariff protection and more on freight rates (as 70% of Stelco's products were sold within 200 miles of the place of production and steel is sold f.o.b. mill); rapid-delivery promises and a more intimate knowledge of Canadian market and customer conditions than "offshore" suppliers could have were advantages to Canadian producers. In addition, they had built up good customer relations through the years; Stelco especially was known for its reputation of loyalty and dependability by its domestic customers and concentrated its strengths there rather than on production for export. One of the reasons for Stelco not making use of those price increases which were sanctioned during the strictly controlled wartime period was "chiefly out of a reluctance to alienate customers in the buyer's

market which would presumably follow in the post-war period."

(:167).

In its 1973 annual report, Stelco stated that it, along with other principal Canadian producers had been "actively exchanging views" on tariff matters with Federal government officials, and Stelco hoped "that this dialogue will help to establish a Canadian position consistent with the country's commercial needs." The round of G.A.T.T. trade negotiations had begun, and in 1975 Stelco told its shareholders that it and "several other large Canadian steel producers submitted briefs to the Canadian Trade and Tariffs Committee presenting information and opinion." Of importance to the steel producers was in particular the "increasingly protectionist attitude of many of Canada's trading partners, particularly in periods of economic recession." The time of steel shortage was temporarily over, and with conditions of world over-supply, the export-oriented steel producers in particular were becoming troublesome to the Canadian producers: the Japanese, German, Belgian and Italian.

III STELCO 1910-1975: INDUSTRY CO-ORDINATION AND IMPACT ON GOVERNMENT

In this part of the chapter, it will be argued that industry associations and business policy bodies on the one hand and business-government forums on the other are but two sides of the same coin. At the industry level (in such organizations as the American Iron and Steel Institute or the Ferrous Industry Energy Research Association) industry-specific problems are discussed and consensus reached among members who represent dominant elements within the industry; these problems are not restricted to "technical" matters but include such "political" issues as environmental problems and energy. At another level, in such organiza-

tions as Boards of Trade and Chambers of Commerce, elites from many industries come together and reach consensus on matters which affect business as a whole: tax policy, industrial relations and labour unrest, the "image" that the public and governments have of business, and the "image" which business has of governments. And finally, business and the state elite come together on joint industry-government committees and for submissions which industry makes to government on matters which concern it. All along the line, the process is one of consensus-seeking, marshalling of collective resources, and co-ordination. The effect is to minimize conflict and misunderstanding for the sake of the whole--the whole of capitalist and allied interests, that is, and not necessarily that of the general public.

Discussion will be divided into two sections, the first dealing with industry associations and government-industry relations during Stelco's early history; a convenient (and significant) point at which to begin discussion of the second period is from the second world war.

1. Stelco 1910-1939: Pressure Groups and Political Allies

In the early period of Stelco's development, any analysis of industry associations and pressure brought to bear on government (or of government favours to business) must include the bounty system and the tariff. Not only was much of Stelco's and its allies' political activities centred around the tariff, but industry-government relations were less complicated then by bureaucratic procedures and committees for joint consultation. This situation existed from before the time of Macdonald (who was reputed to have asked manufacturers to tell government what they wanted and they would get it (Kilbourn, 1960: 41)) until Borden's Civil

Service Reform Act of 1918 which created the foundations of a fully professional civil service. With these experts supplying the advice and information once derived from discussions with business acquaintances, Kilbourn (:115) suggests, much of the intimacy between government and business was lost. At any rate, relations became more formalized, the civil service acting as something of a barrier between the formally separate business and state elites.

The modus operandi of Stelco's vice-president Robert Hobson serves as a typical example of the kind of informality and intimacy which existed between businessmen and politicians in these early years. The Canadian-American "freemasonry" in technical matters was already mentioned in Chapter 4--much of this as far as Stelco was concerned occurred through Hobson, who was "one of the best known steel men in North America, and a friend of Charles Schwab, first president of United States Steel and a founder of Bethlehem Steel Corporation." (:88). Hobson and his plant superintendents made frequent trips to the American steel centres of the northwest and to the American Iron and Steel Institute meetings (:116); Hobson also included in his round of travels visits to London, which was still a great financial capital and business barometer, and to Ottawa. As Kilbourn (:113) puts it:

"Hobson ran his company with the help of a kind of North Atlantic Triangle of business connections and personal friendships. He took advantage of Canada's particular relation to the United States and Britain. And he paid his informal calls on Cabinet ministers in Ottawa, the third corner of the triangle...The important exchange... was...in ideas...which affected policy and action."

Undoubtedly the "policy and action" which was affected was not only the steel industry's but the government's as well--a major tariff concession

to steel during the time of Broden was the duty placed on rod products after Stelco's first rod mill went into production, a concession created by order-in-council (:115).

Hobson was not the only steel man in close contact with politicians--frequent "pilgrimages" were made to the federal government for tariff favours, according to Kilbourn (:55); about 1900, Dominion Iron and Steel requested and received a new bounty on steel for wire manufacture and tariff protection of seven dollars a ton on rails, in addition to the bounties they received on pig iron and steel ingot production.

Soon after Stelco's creation, the bounty system ceased to exist, but not before it benefitted many of the new merger creations, Stelco included, at a time when they, heavily capitalized and with huge debt structures, needed it most. Total bounties paid on all iron and steel products reached the million-dollar mark in 1903,⁶ and between 1903 and 1912, a little over \$13 million was paid out including about half a million dollars on pig iron production, about \$6 million on steel production, and \$2.9 million on steel manufactures (angles and plates, \$127,755 to 1906, and the rest on rods). Thus it can be seen that the acceleration in the payment of bounties corresponded with the merger activity which began to accelerate shortly after the turn of the century and peaked before the first world war. It would also appear that many integrated producers would receive bounties not only on basic production but also on that which was more advanced in processing.

When the Conservative government which had created the National Policy and carried it forward lost office to the Liberals, rather than dumping the programme the Liberal government "tacitly accepted the National

Policy and carried it on." (Kilbourn, 1960: 43). The rejuggling between primary and finishing industries tariffs has already been mentioned. Apparently the Minister of Finance responded "sympathetically" to the problem of helping one sector of industry without doing injury to the other; Fielding's policy was to reduce tariffs on some raw or semi-finished items and supplement the loss of tariff with bounties for the Canadian producers of these, thus attempting to redress the balance between the primary and finishing ends (:28)--a redressing, it should be added, which appeared to be superfluous once the industry became integrated.

Associations set up by manufacturers to pressure governments and to co-ordinate their own policies and approaches have a history in central Canada which dates to the period during which Toronto began its rise to metropolitan status. Isaac Buchanan's Association for the Promotion of Canadian Industry (1858) was set up for Toronto-Hamilton manufacturers to pressure for additions to the Canadian tariff from Ministers of Finance Cayley and Galt successively. Then, in 1866, this association was replaced by the Canadian Manufacturing Association, which rallied together delegates from every important Ontario manufacturing centre, its purpose to advance the interests of Ontario manufacturers (although co-operation from all Canadian manufacturers was invited) (Masters, 1947: 63). The Toronto Board of Trade, organized in 1845, also provided an arena for common concerns.

About 1880, Cyrus Birge (then of the Canada Screw Co.) was influential as a member of a pressure group for tariff reform, and later became president of the Canadian Manufacturers Association. (Hobson was also a president of the CMA before the Stelco merger). In 1887 most hard-

ware items received a tariff increase to about 35%. In addition, Birge's business was moved from Dundas to a larger site in Hamilton and there was heavy investment made in new equipment, partly, Kilbourn (:42) notes, on the strength of tax concessions received from the city. Even before the creation of Stelco, the Hamilton interests were quite active in urging concessions on their behalf. The Manufacturers Association concerned itself with matters of a directly political nature, a situation which still exists today.

In 1910 the Liberal government attempted to introduce a Canadian-American Reciprocity Treaty in the House of Commons. The terms of the treaty, apparently favourable to Canada, were so attractive as to cause the Conservative opposition to be "stunned into silence." But despite their momentary silence, according to Kilbourn (:91):

"The most decisive factor in turning the tide of public opinion against Reciprocity...was the rebellion of a number of prominent Liberals in touch with manufacturing interests in the country. Among these Liberals, officials of the Steel Company of Canada played a significant part. Lloyd Harris was one of the three M.P.s who crossed the floor of the House after the proposed treaty was announced. W. D. Matthews was one of the eighteen Toronto Liberals who signed a powerfully effective public protest. The leading member of this same group was a friend of Robert Hobson's, the future minister of finance, Sir Thomas White, who at a later date also became a Stelco director. The most important Hamilton Liberal...was Hobson himself. Hobson spoke at a huge rally of local manufacturers and Niagara fruit growers...to attack the proposed Reciprocity Treaty."

Fears which were aroused concerning the future of Canadian independence also contributed to turning public opinion against Reciprocity, Kilbourn (:91) states. Undoubtedly men like Hobson (who normally would have little in common with Niagara fruit growers!) were instrumental in arousing such fears.

The upshot was that Reciprocity did not become a political reality. The Conservatives won the general election but due to public opinion being aroused against mergers during this period and the tariff seen by many as the cause of rising prices, the Conservatives "did not attempt to pay debts" owed for the manufacturers' support by granting their request for restoration of the bounty system or for increased tariffs (with the exception of the tariff placed on wire rod, previously not protected, a year after Stelco's first rod mill was built) (:91). It can be seen that powerful forces were at work preventing the introduction of legislation which the dominant interests saw as detrimental to themselves. It was not simply that Stelco had "friends in high places"--those friends were members of the Stelco board and in fact had a vested interest in Stelco's wellbeing.

Between 1910 and 1911 when the Reciprocity Treaty was defeated, Stelco counted among its directors and close friends Lloyd Harris, a Liberal M.P. as noted (House of Commons, 1908), who was also a former vice-president (1905) of the Ontario branch of the C.M.A.; W. D. Matthews, another Liberal mentioned (and in 1887, president of the Toronto Board of Trade); H. S. Holt, a Liberal; the Honourable William Gibson, a senator from 1902, and a former Liberal (1891-1901 House of Commons), as well as past chairman (1902) of the Standing Committee on Banking. In addition, Sir Edmund Osler (who joined the Stelco board in 1916) was sympathetic with Stelco in opposition to the Taft-Fielding Treaty, and had been a M.P. for Toronto in 1896; his brother, the Honourable Featherston Osler (Glyn Osler's father) was a judge of the Supreme Court. And Senator Wood, a major shareholder of Hamilton Blast Furnace, was Hobson's

father-in-law and a prominent Liberal whose sympathies were undoubtedly not with the treaty-makers. As was noted by Kilbourn above, Sir Thomas White was a personal friend of Hobson's--White joined the Stelco board in 1919 after he resigned from the Borden Cabinet where he had been Minister of Finance from 1911. Hobson was also friendly with Borden and had frequently visited Ottawa to discuss his business impressions with senior cabinet members during Borden's premiership (:114).

Altogether, from 1910 to 1939, of the 25 directors who began their Stelco board tenure during this period, 14 of them (or 56%) were involved in business associations such as the C.M.A. or were directly connected with politics. Elite-switchers, lawyers, and financiers were especially active.

2. The Howe Years and Beyond: Creating Conditions for Formal Liaison

The principle of "collegiality", as used by Max Weber,⁷ Clement (1975: 22) suggests, "captures very well the type of decision making processes and forums developed by the corporate elite." Established groups, forming "collegial bodies", work out conflicts of interest through compromise and other processes of adjustment. With the transition to corporate capitalism, individual decision-making has been replaced by collegial decision-making--a practice which, he argues, "reinforces existing power arrangements...to create an equality within the group through a system of mutual reinforcements which makes the overall group more powerful than its individual members." (:22).

Collegiality also best describes the changes in the approach of businessmen to industry-government relations beginning somewhat before the Second World War (when Hobson's type of personalized approach was al-

ready beginning to be supplanted by more formalized liaison) but culminating in the approach taken by C. D. Howe to call together for consultative and co-operative purposes leaders of dominant industries for co-ordinating wartime production, pricing and allocation. That process has continued to the present, but with the "collegiality" on the side of business being matched by the "collegial" approach taken by government departments in contrast with Howe's more "personalized" one.

Indeed, this latter development appears to be one which business regrets, according to an analyst in Executive magazine in two 1972 articles:⁸ he argues that there has been within the big business community since the eclipse of C. D. Howe, a "cumulating grudge" against Ottawa, despite the "rapport developing between the business community and the Trudeau government" and the apparent government determination to establish confidence about itself among businessmen. Howe tended to have disdain for or to bypass parliamentary procedures and the Cabinet (a tendency confirmed by Newman's analysis (1975: 343-344)). Accustomed to the personal contact they had with a man who commanded extraordinary power in the modern period, businessmen found that Ottawa had become "much more collective," with the "great man" theory in ministry and in bureaucracy having declined. Although there were now, in the "collegium" of the cabinet "client ministers" who acted as voices of specific economic and societal interests for their departments, nevertheless:

"While such client ministers and departments open up the prospect for a readier interface between business and government any advantages gained here have not had a complementary improvement in the political sector. Task forces have multiplied. There is much more consultation through outside contracts. There has been a proliferation of advisory boards and consultative committees."

(Not, as will be shown, disadvantageous to business), but

"the political process--the House, the caucuses, even the committees of the House--have changed remarkably little to complete the triad with business and bureaucracy."

The author, along with the businessmen, concluded that businessmen ought to turn "with seriousness and determination toward keener exchanges with the politicians in parliamentary committees." Undoubtedly this "determination" has already manifested itself in various forms, as some of the examples used here in connection with the steel industry will illustrate. Although the war created opportunities for direct contact and co-ordination persisting into the 1950's, the process became more subtle--liaison groups forming the node between business and government.

Newman (:324) credits Howe with putting into place the infrastructure of the Canadian economy that still exists today, in the form of the allocation of resources, fostering of postwar prosperity through various measures, and the granting of tax write-offs.⁹ The war and Howe's method of close consultation with already dominant central Canadian firms did much to establish the basis of increased postwar prosperity for central Canada, which "emerged from the war with an augmented industrial base" when wartime industrial plant was converted to civilian production while the West returned to its prewar staple economy (:324n).

Howe's was a capitalist ethic--a believer in the "magic of free enterprise," responsive to "the right approach," he was described as "an operating executive" who did not contribute to general policy matters but merely set in motion what was formulated by others--and fostered the necessary contacts to permit such action (:326-327). Howe, then, was a curious kind of power-broker. The scheme to establish special tax credits and allowances was suggested to him by a friend, R. E. Powell of Alcan,

whose firm was a chief beneficiary of the scheme (:323)--Howe's reward after retiring from politics was a directorship in Alcan's parent company (as well as a number of other plums, including the Bank of Montreal, National Trust, Hollinger Consolidated, and Domtar) (:323; 346). His relationship with the head of Alcan was not exceptional--Newman (:340) reports that Howe had wide business interests, including close relationships with Algoma's Dunn, G.M.'s McLaughlin, and the U.S. Hanna mining people. He moved in the circles of the North American business "tycoons" (and also set up a few of his favourites as heads of large private firms through his contacts, one of which was his chief executive assistant, later, president of Eldorado Mines and Atomic Energy, and still later, president of Iron Ore Co. of Canada) (:340).

Many of the "dollar-a-year" men who worked under Howe later moved into high positions within the corporate world (many began their careers in the corporate world initially--such was the case of Stelco's Scully, already discussed). Within the Munitions and Supply group alone were a number of men who later figured prominently within Stelco or its board or other steel-producing and steel-using corporations: Ross McMaster, Stelco's chairman, was a director of Allied War Supplies; L. L. Lang, a director of the government Fairmont Co. later became president of Mutual Life and a Stelco director; A. C. Anderson became a Dofasco vice-president. This same group brought together a number of future executives of steel-using companies: Joseph Simard of Marine Industries (during the war a director of Quebec shipyards); Harry Carmichael a Massey-Ferguson director, (and in the Wartime Prices and Trade group, Herbert Bloom, a Massey-Harris vice-president, in charge of wartime Metals Administration); Cockshutt of Cockshutt Farm Equipment; Cowie a Dominion Bridge vice-president

was a general manager of Wartime Merchant Shipping; Hahn, President of Inglis Co., was Secretary, Wartime Industries Control Board; and Weldon, a vice-president of Rolland Paper and Pitfield & Co., was a controller of Allied War Supplies (Newman, 1975: 415-424).

Of those who were on the Stelco board in 1973, director Browne was a member of the Wartime Labour Relations Board; Campbell was on loan to the Foreign Exchange Control Board. Gibson was Chief, Economic Research and Statistics, Wartime Prices and Trade Board. Smith was vice-president and general manager of Defence Industries Ltd. During the war Thode was involved with the National Research Council.¹⁰

Thus it can be seen that the war presented an unprecedented (and quite legitimate) opportunity for the current members of the corporate elite to come together for purposes of consensus and co-ordination, whether as members of government agencies or as businessmen at the time, in ways which abolished at least temporarily the rather artificial separation of elites. Moreover, the friendships and contacts established during that period carried over into postwar developments when these elites went on to head up corporations which had been strengthened through their wartime involvements.

Most Stelco directors of the war and post-war period have been actively involved as members of industry or business groups that represent great potential lobbying power in collective presentations to government--in particular, the Canadian Manufacturers Association, the Boards of Trade, and the Chamber of Commerce at all levels, particularly the national one. These directors have also been involved in industry-government bodies which serve as forums for joint concerns, and on research

bodies whose programmes may be directed towards industry-specific interests. Among members of the 1973 Stelco board alone, the following directors were members of one or more of these organizations: Canadian Executive Service Overseas: McAfee; Canadian Manufacturers Association: McAfee; (and in 1969, G. A. Hart was a member of the Canadian Trade Association, the Canadian Association for Latin America, the Canadian Export Association, and the National Industrial Conference Board); Gordon was a member of the Great Lakes Waterways Development Association. Directors Thode and Griffith were involved in Atomic Energy of Canada, the Ontario Research Foundation, and the Centre for Applied Research and Engineering Design. Campbell was a director of the American Research and Development Corporation of Boston. Prior to 1973, McAfee belonged to the Toronto Board of Trade, and Rolland to the C.M.A. and the Montreal Board of Trade.

Most directors also belong either to industry-specific associations such as the A.I.S.I. (Stelco executives beginning with Hobson have belonged to it, often heading up special committees) or the Canadian Pulp and Paper Association (Rolland does), or to technical associations such as the Engineering Institute of Canada or institutes connected with the metals field: the A.S.M., A.I.M.M., C.I.M.M., A.I.M.E. or the Iron and Steel Institute in England. Many of these industry-specific associations are international in orientation and most of those executives and directors with technical specialties belong to them. As mentioned earlier, the concerns of these organizations do not stop at technical matters.

An examination of the organizational affiliations, including political involvements, of Stelco directors who began their tenure on the board from 1940 onwards revealed that of 33 directors, 20 (or 66.6%) were

members of at least one such organization. This was a slight increase over the memberships held by pre-1940 directors, but more significantly perhaps, the tendency had diffused beyond those directors who were affiliated with financial institutions or were elite-switchers or lawyers. The increasing generality of such involvements would point to the increasing importance of such organizations as consensus-seeking and co-ordination bodies. Further, most of these involvements did not originate directly in wartime activities and their increased incidence cannot be termed an artifact of that particular period.

Those directors who were directly involved in state capacities numbered four: Honourable C. A. Dunning, (Stelco board 1940-58) an elite-switcher from farming to politics to business (who, in the war period ran one of Stelco's biggest customers, Allied Merchant Shipping ¹¹ and before that was Minister of Railways and Canals and Finance Minister in the various King governments and returned to government for the war from his directorship in several large corporations ¹²); Scully (already detailed); Senator E. C. Manning; and H. G. Thode. The other 16 directors belonged to business associations (usually the Boards of Trade or Chambers of Commerce) or to the Ontario Research Foundation (5 directors), or the National Industrial Conference Board (two directors, both associated with the Bank of Montreal). Three directors belonged to both business associations and business-government forums: L. L. Lang (1944-1965 board): the O.R.F. and the C.M.A.; G. A. Hart (1959-1969 board): International Chamber of Commerce, National Industrial Conference Board, Canadian Export Association and Canadian Trade Association; and H. M. Griffith (1960 to present board), the O.R.F. and the Hamilton Chamber of Commerce. Most of these directors

overlapped in time, so that collectively, a great deal of opportunity for liaison between industry-specific, business association and business-government forums was created.

The final portion of this section will be devoted to examining a number of specific examples of both co-ordinated industry approaches and Stelco involvements which provided the contact necessary to influence government policies.

That the Canadian Manufacturers Association and the Toronto Board of Trade do not restrict their concerns to narrow business topics is evidenced by two recent meetings: in April, 1976 the Toronto Board of Trade's president, E. G. Burton, and Stelco's chairman J. P. Gordon and other business leaders met with the Treasury Board president, Chretien, to discuss government spending; at its June, 1976 annual meeting, the theme of the C.M.A. was business-government relations and the Federal Cabinet was to participate by responding to questions posed by manufacturers¹³. During the same period, Stelco's economics manager attended a seminar sponsored by the Institute for Research on Public Policy: its topic was Federal government operations. Nor was the government less concerned about understanding being fostered between business and government: Industry, Trade and Commerce appointed as its senior advisor on business-government relations the former chairman of Ogilvy and Mather, a Toronto advertising agency, whose job it was to solicit viewpoints from business (including Stelco).

An area of mutual concern is and has always been labour--labour unrest, labour demands, labour productivity, and labour's complaints about health hazards. The Ontario government, weighing the advantages of establishing a Provincial Productivity Council, consulted with business and labour

leaders, and sought Stelco's views. Also during 1976, Stelco's Gordon met with the Minister of Industry, Trade and Commerce and attended the Minister's Advisory Council meeting--the topic was the need to improve productivity. The office of the Prime Minister, clearly concerned about labour problems with public employees, appointed a former Federal Minister of Labour to act as a consultant on labour matters--he sought Stelco's views on the subject of reducing strikes. The person from whom he sought advice was R. E. Heneault, the vice-president of personnel and one of eight Canadian business leaders on the Canada Labour Relations Council which had included representatives of the Canadian Labour Congress before their withdrawal.

One of the causes of public concern and labour anger recently has been the problem of coke oven emissions and their probable carcinogenic effects--the United Steelworkers of America was preparing to press the United States in 1975 for mandatory engineering controls, and the Canadian steelworkers were anxiously watching developments there¹⁴. In May of 1976, the U.S. Council of Wage and Price Stability recommended that the Labour Department abandon plans for stiffer standards due to costs¹⁵.

Stelco, in the meantime, had launched a "multi-million-dollar" undertaking, and was building a series of hoods over its coke ovens to control emissions. An entire issue (April, 1975) of its company newspaper devoted its attack on environmental problems; Stelco complained that environmentalists were starting to go beyond gross pollution problems to those of "fugitive emissions", the smaller sources of dust whose control would "incur substantially higher costs...with significantly smaller results." A year later, the Ontario Minister of Labour visited Stelco to tour the Coke Oven operation and learned first-hand about Stelco's occupational health programme. A few months later, Ontario's Minister of the Environment

presided over an official opening of Stelco's new water filtration plant and afterwards he, local MPP's, Regional Council and media representatives were given a presentation on Stelco's environmental quality control programme. It could be said that Stelco is building up its credit for the future.

If governments are sympathetic to Stelco's concerns it will not be a unique occurrence. During the first (and most bitter) strike in Stelco's history (1946). Government, concerned that the union's demands would spark post-war inflation, by order-in-Council placed the three steel companies under the authority of a government controller; those who refused to work for him "without lawful excuse" would be fined and those who obstructed the exercise of his authority subject to a five-year prison sentence (Kilbourn, 1960: 188). Government hearings were also set up to hear both sides of the dispute, but came to no conclusion, although government and company supported Donald Gordon's opinion that a ten-cent an hour increase was the maximum at which wage and price control could be maintained (:193). After a mass rally and march by the strikers and their supporters, the Hamilton police chief called in an R.C.M.P. detachment but no action was taken (:197). Finally, the government urged Stelco to make a concession--the company offered three-and-a-half cents more than Gordon's "absolute maximum," and the strikers voted to accept it (:198).

In 1974, Justice Willard Z. Estey of the Ontario Court of Appeal was charged by the federal government with the task of investigating steel industry pricing policies, profit margins and inventory practices. In its January 1975 company newspaper, Stelco triumphantly announced to its employees that the steel industry and Stelco in particular was not only ex-

onerated of any suspicion of abuse, but commended as "efficient" and "responsive to the country's needs." Estey went on in 1975 to head the Air Canada inquiry and was appointed Chief Justice of the High Court of Ontario. Estey was a prominent corporate lawyer before his 1973 appointment to the Court of Appeal¹⁶ Undoubtedly Estey's background was such that his method of investigation did not challenge traditional accounting procedures.

That business elites and state elites are of like mind in the case of many issues is not surprising, considering both the influence of similar social origins and educational patterns, as well as a shared belief in the "free enterprise" system. Such commitment is reinforced when elites come together formally in councils and committees which are established for the express purpose of soliciting business views and utilizing businessmen's knowledge of their own economic milieu. During the Howe years, twice a year, Newman (1975: 342) reports, "a select group of Canadian executives was shown draft forecasts on the state of the Canadian economy before they were sent on to government agencies for appropriate policy formulation." The briefings were secret, all-day affairs involving about 60 senior economic advisors from the private and public sectors.

The modern equivalent is the Advisory Council to Industry, Trade and Commerce, a high-level council comprised of 36 senior businessmen and one academic (appropriately, from the University of Western Ontario's School of Business Administration). The business elites include Stelco's Gordon, heads of Ford Motor, Canadian Pacific, Falconbridge Nickel, Alcan, Shell Canada, Bell, Crown Life, Hawker Siddeley Canada, Burns Foods, Mas-

sey-Ferguson, and the Bank of Montreal's G. A. Hart. In a Financial Post (June 19, 1976) article entitled, appropriately, "The People Who Have Jamieson's Ear," some of the purposes of this council were set out: to set a priority system for corporate investment over the 1980's decade; specific elements of that overall aim include the development by business and organized labour of "a mutually-acceptable way of measuring corporate financial results" (so that there is a "formula to which each side agrees"); to determine if federal research and development funds are adequate and properly directed; to determine if too much federal assistance is going to the "sick" section of industry and society and not enough to the "potential winners" (and separate sector committees were to be set up to distinguish winners from losers, entailing their agreeing among themselves which sections should be boosted and which allowed to die out); and lastly, the need to create "Canadian sales teams" for world markets. The article went on to suggest that the council was a "test" for Jamieson, that business would not be "too pleased" if he could or would not use the Council's advice "to effect changes in cabinet policy." Jamieson stated he had already begun to receive information-flow through the Council and that some of it aided in drafting portions of the federal budget. Once again it appears big business has been given a legitimate opportunity to contribute fairly direct input into policies which will help shape the economy in outlines acceptable to those who lead the dominant sectors of it.

Another opportunity more strictly related to the Canadian steel industry is provided by FERA (Ferrous Industry Energy Research Association), a creature of the 1970's established in 1974 "to co-ordinate and direct research into more efficient energy usage..." and "to provide a common in-

terface with government energy agencies"; already the association has "emerged as a forum for government-industry talks on energy topics"¹⁷. The association members, the dominant steel producers, account for 85% of Canadian steel output. Although open to all members of the Canadian ferrous industry, so far only Stelco, Algoma, Dofasco, Sysco and Sidbec-Dosco belong to it.

Although ostensibly an industry association, FERA will undoubtedly become an important lobbying force for the collective interests of the Canadian steel producers. Steel being an energy-intensive industry, the Canadian producers must ensure that the sources of Canadian energy (including hydroelectric power, especially in Quebec where its abundance is of importance to the many electric-furnace operations) are developed and channelled in such a way that Canadian interests are not shortchanged by foreign ones. And the Canadian government will surely have a role to play in pressing the American government for concessions should limitations be placed on coal exports by that country. Control of the oil and gas situation in Alberta would also seem to be of importance to the steel producers, and any pressure applied to the Alberta government would have to be legitimated through Ottawa.

Finally, in the matter of ensuring that the necessary infrastructure is supplied by state agencies to service new steel plants, it would appear that Stelco has been successful--in its 1975 annual report it announced that the Ontario Ministry of the Environment had installed a pumphouse to provide process water and a mile of 48" diameter water pipe at Stelco's new Lake Erie site. Undoubtedly, the concept of regional government to replace the numerous small municipalities with which a geo-

graphically widespread industry would have to contend is also of benefit to Stelco. In a brochure published by the Hamilton-Wentworth Regional Government shortly after the scheme was created, the government pledged its determination to play a role in ensuring that its plans included assessment of the "proper" location of industry and business, was setting aside a million dollars a year for the purchase of industrial park lands, and announced its recognition of the fact that "with all the pressures for development and growth along the shores of Lake Ontario, it was no longer feasible for every municipality to make decisions independently." A co-ordinated approach would make for better planning decisions. Undoubtedly, the existence of one co-ordinated body would also make it easier for industry to make known its needs--and obtain the desired response.

Despite all of the complaining that business does that governments are undermining the "free-market economy" with their excessive intervention and, along with the general public, seriously misunderstanding business, there appears to be no end to the ways in which avenues between business and governments are opened up for joint consultation and for action favourable to business. C. Wright Mills, in his White Collar (New York: Oxford, 1951), sums up the situation neatly:

"Across the bargaining tables of power, the bureaucracies of business and government face one another, and under the tables their myriad feet are interlocked in wonderfully complex ways." (:79).

NOTES TO CHAPTER SEVEN

1. The term is used by Clement (1975: 255) to mean the "collage" of organizations which serve as meeting places for corporate, state and other institutional spheres, wherein "policies are formulated and opinions made known to other men of power, differences resolved and compromises made." These forums, he points out, are not public but are created by and open to men of power. They are dominated by the corporate elite, but act as "avenues of contact and channels of communication between diverse sections of the elite." Examples of such forums are the Canadian Executive Service Overseas, the Canadian-American Committee, the Ontario Research Foundation, the Advisory Council to Industry, Trade and Commerce.
2. A euphemism for a Profit and Loss Statement. However, the company does not detail its gross profit from operations. Nor is its "Consolidated Statement of Financial Position" a traditional balance sheet as it no longer "balances" and the "Total Investment" figure is misleading--it is not a euphemism for "Total Assets" but is a lower figure. Checking the calculations used in past years when the balance sheet format was presented allows the total assets figure to be calculated in the same manner (and the figure corresponds with that quoted in Moody's Industrials). Comparability between earlier and later periods is rendered difficult, and in the case of comparing income taxes paid over the years, virtually impossible as there is no figure it can be taken as a percentage of which does not already include it. Although as noted the asset figure can be reconstituted, the gross profit figure cannot be. If the figure used by them to represent "Total Revenue" is made the comparison-point for depreciation and income tax percentages, one finds the percentages meaningless when compared with previous calculations based on the gross operating profit. Percentages arrived at tended to be merely mathematical artifacts of the figures already having been included elsewhere.
3. Averages were arrived at independently using company annual reports to compile a series of calculations on depreciation, retained earnings ("surplus," as Stelco used to term it), debt-to-equity ratios, etc., some of which formed the basis of the tables and graphs presented in Part III of Chapter Three.
4. Executive, November, 1972, "Money and the Economy, Pp. 15-18 (by-line John Meyer).
5. Information assembled from government sources: Statistics Canada Catalogue 41-001, Primary Iron and Steel; 66-004, Exports By Commodities; Canada: The Customs Tariff and Amendments (with index to commodities), 1975, Schedule A; and U.S.A.: Tariff Schedules of the United States, Annotated, 1970. A number of products were selected

on the basis of the favourable product division of labour as outlined in Chapter Four; these products were checked in the government sources for information on quantities produced in Canada, imported, and exported, and the tariff schedules were consulted in order to determine the amount of duty that could be paid by products imported to Canada and the applicable American duty if they were sold to the U.S. In a number of cases, it was found that the quantities shipped to the U.S. from Canadian mills was either equal to or somewhat greater than comparable products shipped from the U.S. to Canada, indicating that there was a great deal of reciprocity between the two countries for certain products. In many cases, American shipments constituted by far the greatest proportion of Canadian-made steel products exported to foreign countries; in some cases, Britain also provided a large outlet source. In such cases, the EEC and Japanese tariff rates become part of the argument only if the trade pattern changes and Canada wishes to export steel to these countries, or import.

Comparison of the Canadian and American duties indicated that the following steel products were subject to a higher rate of duty than comparable U.S. ones: heavy structural sections (if further advanced; if not advanced, the two rates are not directly comparable as the U.S. tariff is based on a dollar-rate per pound rather than on a percentage of value); concrete reinforcing bar; hot-rolled bar excluding re-bar; plate including "skelp" (although if "skelp" imported for use in manufacture of pipes and tubes, the rate is less; this is important in times of "skelp" shortage when steel mills in Canada need it to manufacture the tubular products); cold-drawn bars. In other cases, the Canadian (Most Favoured Nation rate) and the U.S. (applicable to Canada) rates were similar: cold-rolled sheet and strip, hot-rolled sheet and strip. Where U.S. rates were not based on a percentage of value but Canadian rates were, the two were not directly comparable: on rails, wire rod (except if partly manufactured or otherwise advanced: the U.S. rate is 4% ad valorem, the Canadian rate 10% or if already manufactured, 12-1/2%), bar-shapes, and track materials. It would appear advantageous to Canadian steel producers that such semi-finished items as ingots, blooms, or billets, as well as "skelp" or wire rod to be used in manufacture of wire, all enter Canada free or at low rates; scrap enters free--as these items in times of shortage may be imported in order to allow Canadian producers to continue manufacturing finished products. The importance of scrap, especially for electric furnaces, has been noted in Chapter Four. On balance, at least vis-a-vis the U.S., the Canadian steel producers appear to operate from behind a fairly high tariff wall--and the tariff for the "General" category is in fact extremely high.

6. Source: Donald (1915: 335) Appendix E, "Bounties Paid on Iron and Steel Products, 1884-1912."
7. In Weber's The Theory of Social and Economic Organization, Pp. 392-406 (Henderson and Parsons edited, New York: The Free Press, 1947).

8. A Personal View, by-line Douglas Fisher, "Ottawa and Business: Not Quite the Howe Days," and "Time to Rethink the C. D. Howe Tradition," in September 1972 and May 1974 editions respectively, P. 64 and 60, of Executive Magazine.
9. Newman's excessive journalistic prose, however, leads him to the entirely misleading statement at the beginning of his Chapter 10 that Howe and his confreres were responsible for creating ("ex nihilo" it would seem, out of a pre-industrial wasteland) the basis of the Canadian business establishment. Such a statement, as the arguments and historical evidence marshalled throughout this thesis shows, is utterly without foundation.
10. From biographies on directors, Canadian Who's Who, various years.
11. According to Kilbourn (1960: 174).
12. Canadian Who's Who biographical detail on Dunning.
13. Unless otherwise noted, source is Stelco Management Bulletins.
14. Hamilton Spectator, August 16, 1975 (and series of related articles, December 9, 11, 1975)
15. Wall Street Journal, May 12, 1976.
16. Globe and Mail, May 28, 1975.
17. Financial Post, June 5, 1976.

Chapter 8 SUMMARY AND CONCLUSIONS

I SUMMARY

The main protagonists in Stelco's creation and in the creation of some of the predecessor companies to the merger were set in a historical context which saw the rise of Canadian financial forces out of mercantilism and their movement into industrial areas which enhanced their commercial pursuits. These forces included a rising new class in Toronto which, by the time Toronto began to reach metropolitan status before the turn of the century, had been absorbed into the established class and operated out of a financial base in Toronto. Thus Toronto and Montreal forces were strong enough to tackle jointly the creation of a company which not only benefitted their existing interests but created new ones. They moved early into industries such as railways, which provided infrastructure for commercial pursuits and linked hinterlands to the mainstream Canadian market economy. By the time Americans were making serious inroads into Canadian manufacturing and resource industries, Canadian financial forces were in a position to create companies such as Stelco and to participate in control of steel companies originally created by Americans (that is, Dosco and Algoma).

The greatest development in the steel industry, it was shown, coincided with the railway building enterprises undertaken by the indigenous elite; this fact points to the importance of steel for railways and vice versa--steel added an important power-base for an elite otherwise weak in the manufacturing sector. Earlier, entrepreneurially established

and operated firms were small, risky operations which became useful in the first railway periods but appeared not to be financially backed by established classes. Those which were financially backed, such as the rolling mills in Quebec, were not taken over and run directly by the dominant class. In 1863, prominent Montreal merchants and financiers established the Montreal Rolling Mills and absorbed some of the already existing entrepreneurially established firms. This was the beginning of direct involvement in steel by groups operating out of an established base in finance, and the Bank of Montreal was also involved. It was the general pattern by 1910, when Stelco was created, for non-manufacturing elites to move into manufacturing and take over existing firms rather than establishing firms themselves.

The rise of Toronto, with control over its own hinterland and the rise there of important financial institutions at first challenged the powerful Montreal interests, but between 1850 and 1870, railways and manufacturing developed an industrial base large enough to support a Canadian steel industry, and Toronto elites as well as Montreal elites began drawing the various small elements together under more central control. The creation of Stelco by an alliance of Toronto and Montreal elites represented the beginnings of a national elite class which the Stelco merger helped solidify and contributed, along with other mergers promoted by Canadian elites, to the widening of this elite's power-base.

Although some of the companies which joined in the Stelco merger were originally American-established, the most important in Hamilton--the Ontario Rolling Mills and the Hamilton Blast Furnace Company, as well as Canada Screw Co.--had earlier come under the influence of local financial elites. The Hamilton companies and Montreal Rolling Mills

(now under the control of promoter Max Aitken, supported by the head of the Bank of Montreal), were the most important elements of the merger, joining influential Toronto and Montreal elites and linking them with local Hamilton elites. The two main groups represented the elements which created the vertical integration of primary steelmaking and finishing (the other Ontario companies had been dependent on Hamilton Steel and Iron for their primary steel and the MRM had been dependent on Nova Scotia primary steel).

The significance of the 1910 Stelco merger and this period of development is that the conditions were created for a strong and autonomous Canadian steel industry--the early and continuing alliance between Stelco and the Canadian elite meant that where there remained significant foreign input in Canadian steelmaking, Canadian elite interests had to be included as participants, and once included, when economic conditions no longer favoured continued American interest, the "Canadianization" of other elements in the industry could occur, further strengthening Stelco as a Canadian steel company. The immediate effect of the merger movement which ended about 1912 was to closely connect Canadian financiers and promoters with a number of complementary companies in steel producing, steel fabricating and steel using industries, thus making the industry a highly concentrated one quite early in its development and also establishing a high degree of interdependence between the industry and the Canadian financial elite.

It was argued in Chapter Three that the interlocking directorships which are significant are those which show historical continuity and high density relative to others--the same interests are represented

over time on the Stelco board regardless of changes in personnel. The purpose of the intensive analysis of financial directorships was to establish the pervasiveness of Canadian financial interests over time. It was found that 25% of the directorships held by Stelco directors (both "insiders" and "outsiders") between 1910 and 1975 consisted of seats on financial institutions, and that as well, financial directorship holders were tightly interlocked. Eighty per cent of Stelco directors over this entire period held at least one financial directorship and over half held three or more; significantly, 35% of all directors had as their principal affiliation a financial institution.

The significance of the financial directorship is that it allows industrial corporations access to the good will of banks and institutional shareholders and is one side of the reciprocal relationship in which financial executives sitting on corporate boards gain insider information valuable to credit and investment decisions concerning that corporation; no less important, when these directorships occur in networks of financial institution-industrial corporation interlocks, they cement alliances and reinforce the financial nexus. Institutional shareholdings were shown to comprise a large portion of total shareholdings in all of the "Big Three" steel producers and to be increasing over time; this fact lends support to the argument that finance continues to be a pervasive presence in Canadian steel. Given that at the same time that individual shareholdings have become more dispersed, it was concluded that institutional shareholders and other financial institutions are able to form coalitions to influence Stelco, and that these ownership interests reinforce the direction of influence from financial institution to corporation.

The significant financial interlocks were found to centre around bank interest groups. Of these, the Bank of Montreal and Royal Bank groups, including certain key trust and insurance companies, were found to be the most pervasive; the interlocks were made more significant by the degree of institutional shareholding which made coalition-formation possible. There is also historical evidence to suggest that these two banks still represent an alliance of interests rather than a division, since both exerted important influence on Stelco during its merger and early period and are interconnected through institutional shareholdings and directorships centering around Stelco.

In the second of two chapters devoted to aspects of Stelco's productive development and relationships, evidence was presented from an analysis of industrial corporation directorial interlocks since 1910 which suggested that some of the continuity of corporate interests and density of interlocking could be related to financial interest groups; much of the pattern exhibited over time also was related to areas of sectoral dominance by the indigenous Canadian elite operating out of areas of economic strength and control. When these are taken together, it may be concluded that Stelco is enmeshed not only in a financial network but is an integral part of the Canadian-controlled segment of the economic structure from which it draws its strength and to which it lends strength.

In the last part of Chapter Three, an analysis was made of the dynamic interplay in the financial structure of Stelco between various sources of capital. It was concluded that especially in times of

expansion, with the need for greater amounts of capital than can be contributed from internal savings, high indebtedness makes corporations vulnerable to direct financial control. Although evidence of such control in Stelco's case was not conclusive, it was noted that in the last two decades there has been an increasing separation between the contribution to the company's capital structure made by internal and external sources of funds, indicating that Stelco is of necessity if not by inclination more than ever tied in to the financial nexus. This evidence and the importance of institutional shareholdings to the corporation has another side to the coin--financial institutions also need financially viable, profitable, high-growth corporations such as Stelco as outlets for increasing amounts of investment-seeking capital accumulations. Thus the financial institutions and industrial corporations such as Stelco are thrown into a symbiotic relationship. In the case of Stelco, that relationship is almost exclusively with the dominant Canadian-controlled financial institutions, further reinforcing their interdependence and their strength.

In Chapter Four, the Canadian steel industry was set against the backdrop of the indigenous elite and foreign elites establishing bases of dominance, with Stelco set in the continental context which developed out of the North Atlantic Triangle of relationships centering around British colonialism. Canada was seen as a hinterland of British exploitation, and as a hinterland in terms of U.S. industrial penetration, and also as having its own hinterlands which its metropolitan forces dominated in their own interests. Many developments in the steel industry may be viewed as evolving out of the conditions set by these early relationships. Especially in terms of the control of sources of raw

materials, the Canadian steel industry (and to the greatest degree, Stelco) is involved in the exploitation of areas both in the U.S. and in Canada in partnership with important American steel and mining interests. Stelco is very much implicated in the "continentalist" logic of interdependence and interpenetration at the marketing end of its operations as well, particularly in the west and north-west hinterlands, where it dominates in supplying steel to both domestic Canadian and domestic foreign user industries as well as to the giant foreign-controlled oil and gas industry.

It was shown that an aggressive campaign of vertical and horizontal expansion along with the good financial condition of the company in favourable economic periods contributed to Stelco's rise to dominance over the other Canadian producers. Such expansion included acquiring companies with existing productive facilities and markets into which Stelco moved to establish regional and product dominance without having to create these conditions itself.

An examination was made of ways in which the Canadian steel producers, through their individual areas of product expertise and/or established dominance, divide up the market and reduce competition to such items as rapid delivery, freight allowances, or differences in quality, grades, or finishes in areas where they do produce the same lines. Where only one or two of the major producers have a product monopoly, buyers must either buy "off-shore" or deal with these producers. Price leadership also serves to eliminate competition. It was therefore concluded that although Stelco is the industry leader, it must be understood in connection with the other major producers as forming a unified whole.

In the chapter on government-industry relations, it was shown that industry associations and other business groupings serve as extensions of the steel corporations, allowing co-ordination of policy on important matters of concern to all of them, and at a more general level, organizations such as the Chambers of Commerce reconcile the more particularistic concerns in terms of class-related interests. Finally, by coming together with state elites on various government committees and advisory bodies, the steel producers, like other members of corporate capitalism in Canada, create opportunities to present a unified front to pressure, influence and advise state bodies on the courses of action or policies beneficial to particular industry interests and to capitalist interests as a whole.

The structural analysis was supplemented, in Chapter Six, by an analysis of the social characteristics of Stelco executives and directors, and it was concluded that common class origins, educational and career experiences reinforce the cohesiveness and class consciousness created by a common interest in the capitalist productive system. Stelco executives were found to play a vital role in cementing relationships among economic powerholders and between them and the state through directorships, elite club memberships, and government involvement.

II CONCLUSIONS

The question which is the "problematic" of the thesis is the question of Canadian control in a sector of predominantly foreign control; Stelco and the other primary producers are seen as an anomaly. The historical and other data which have been brought to bear on the question

have already been summarized. It remains to pinpoint what elements of this explanation must be considered as the most important determinants. The answer cannot be a simple one as there is a complex of factors, but briefly, the centrality of the financial nexus and its origins in mercantile pursuits cannot be ignored. Railways, it is argued, were an important extension of mercantile and financial activities of the early indigenous elite; railways were also important to the steel industry, providing stable early conditions for development and an opening for support previously lacking from established classes. Hence, considering the character of the early indigenous elite's power-base, railways and steel must be taken together in any explanation.

The fact that other industries came under Canadian financial control and then reverted to foreign once again (for example, Canadian General Electric) appears at first blush to weaken the argument for the central importance of Canadian finance. However, it must be borne in mind that investment in corporations for purposes of stock speculation or other forms of gain, in which the corporation is merely a money-making commodity, would not be sufficient to motivate the indigenous elite to maintain or strengthen their hold on a particular industry or company. But the motive to strengthen or extend a base of power is an added inducement if sufficient opportunity for doing so is present; the corporation then becomes a power resource. Evidence presented throughout the thesis would support the contention that the Canadian financial elite was not indifferent to the question of control of the Canadian steel industry, as they were not indifferent to its potentialities both as a profitable industry and as one that could be integrated into other traditional activities such as railways. Steel must, therefore, be

viewed as important to indigenous elite power, much needed to extend the base of an otherwise narrowly based elite.

An important methodological issue raised by the study is the extent to which a case-study approach poses problems and limits of analysis peculiar to it which would affect the value of the findings. In Chapter One it was suggested that the "specific" versus "general" levels of analysis pose important problems for case studies not arising in or relevant at the aggregate-study level. Since a corporation such as Stelco is implicated in a network of interconnections which must be made sense of, data must be analysed in such a way that patterns emerge which point to a set of relations of significance to the operation of one specific entity among many in the corporate world. The "interest-group" centering around important financial institutions is one way in which connections among corporations makes consistent sense in the case of one particular corporation.

The question of the applicability of aggregate statistics to a specific case also arises, as was seen in the analysis of class origins and career patterns in Chapter Six, as well as in the attempts to stratify directors in terms of relative importance. An occasional lack of close "fit" between the case study characteristics and those of the aggregated kind is revealed in such instances. It was found that although there was a relationship between the aggregate statistics and the characteristics of Stelco directors, there were also patterns unique to the particular case, as would be expected. Further, the case study has the added disadvantage of not allowing comparability between the particular corporation or sector of activity under investi-

gation and others, although there were comparisons made between Stelco and other corporations within its own sphere of action. Steel, it was repeatedly pointed out, is an anomaly; only by introducing data from other industries could the full significance of Stelco's (and the steel industry's) place in the overall scheme of Canadian and continental capitalism be understood.

However, the shortcomings of the case study approach are precisely its virtues. Case studies allow intensive analysis of those features which are unique to the case; they also reveal how general tendencies, as, for example, in interlocking and concentration, pattern themselves along lines affecting the individual unit in the corporate whole and make more understandable the behaviour of the particular unit under investigation. (Unfortunately, such an analysis is limited, in the case of a major corporation, to data which is publicly available, and although patterns of relationships which would, for example, determine possible lines of reciprocity, can be shown to exist, concrete examples of how these mechanisms operate is usually lacking due to the closed nature of the corporate world and the politically sensitive nature of such questions.) Intensive analysis of one corporation over time, if set within its industrial and historical context, proves extremely valuable in understanding the development of monopoly capitalism as the process is worked out under specific conditions which provide both limitations and opportunities for the individual corporation. This analysis proved to be especially revealing in exploring aspects of Stelco's growth and in examination of aspects of its productive and marketing contexts.

Lastly, there are aspects of the focus and theoretical organizing assumptions used in the study which are open to attack on at least two fronts. Although the dynamic interplay between corporations, corporate elites, and economic context was emphasized throughout the study, the focus was narrow due to the quantity and complexity of the data, and did not encompass the relationship between elites and non-elites. In the opening remarks, it was commended that power is both "causing" and "caused" but attention was paid only to the "caused" aspect--that is, to those who through their power resources cause conditions to be created to which others who do not participate in such decision-making processes must respond in less efficacious ways.

Power-elite studies, it was noted, are particularly open to the charge of being narrow and static through a neglect of inter-class relations in favour of intra-class ones. Although the present study attempted to avoid some of the grosser failings of power elite studies by introducing Marxian categories of analysis, the resulting mixture of power and stratification concepts--elites, Marxian classes, and the graduated rather than polemical class categories of conventional stratification analysis--tend to co-exist rather uneasily. Although there are points of convergence, these categories of analysis tend to be somewhat contradictory unless some synthesis is made. No such synthesis was attempted. Such a synthesis may be more fruitfully attempted in connection with studies which take the corporation as a starting-point but extend the analysis through an intensive analysis of inter-class relations.

The present study must be understood as being only exploratory and partial, despite length and complexity. Future studies of dominant

corporations should include not only an analysis of their effects on communities, on workers and the general public, but should also examine the ways in which these groups act back upon the conditions created by power-holders, thus creating conditions for further strategic readjustments between classes.

In a study planned for the future, the transition from elite to class analysis will be made through an examination of the implications of the concentration of corporate power for those who live out their working lives within corporate hierarchies wherein opportunities for advancement are determined by conditions of structured inequality. Although the premise from which the study will proceed is that corporate hierarchies, with their relatively closed elite circles at the top of organizations, affect career experiences and mobility opportunities for those employed in them, quite different theoretical and methodological frameworks are called for. As in the elite case-study, intensive analysis will be employed, but it must be of "qualitative" kind--although quantitative data that will allow comparability in inter-corporate and inter-sectoral terms is required for contextual purposes, the main focus must of necessity be on individuals rather than merely on surface indicators. The extension and modification of elite analysis by class analysis brings home in a palpable and significant way the reality of power and the consequences of powerholders' actions as it is experienced by those who lack it, but who must function in a world dominated by its logic.

In a sense, power-elite studies such as this one become the means for the end of understanding the determinants of existing conditions.

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APPENDIX - LIST OF STELCO
DIRECTORS 1910-1975

<u>Name of Director</u>	<u>Stelco Board Tenure</u>	<u>Principal Affiliation or Occupation</u>
H. S. Holt	1910-1912	President, Royal Bank (and in 1900, of utility and power companies)
Sir Ian Hamilton Benn	1910-1912	Financier
William Gibson	1910-1913	President, Bank of Hamilton
W. D. Matthews	1910-1919	President, Dominion Bank (and grain business: W. D. Matthews & Co.; millionaire)
Hon. Lloyd Harris	1910-1925	H. Cook & Co.; and head, Hamilton Trust
C. A. Birge	1910-1929	President, Canada Screw Co.; V-P and director, Stelco
Chas. Alexander		Partner, Canada Screw Co.
Wm. Southam	1910-1915	Founder, Southam Press
Robt. Hobson	1910-1925	General Manager, Stelco (formerly with Hamilton Steel and Iron)
Chas. S. Wilcox	1910-1938	Pres., Stelco (formerly, Ont. Rolling Mills)
John Milne	1910-1920	Banker-industrialist; foundryman
Hon. A. J. Brown (QC)	1916-1938	Sr. Partner, Brown, Montgomery, and McMichael, Montreal
H. H. Champ	1925-1947	Sec'y-Treas., Stelco; V-P Stelco and dir. (formerly Ont. Rolling)
H. G. Dalton	1922-1940	unknown
Sir Edmund Osler	1916-1920	Osler & Hammond, Financiers and Stockbrokers; Pres., Dominion Bank
F. H. Whitton	1912-1919	Founder, Ontario Tack; Ass't. Gen'l. Mgr., Stelco (1910); Dir.
R. H. McMaster	1914-1961	Manager, Montreal Rolling Mills; Pres. Stelco (1926-44) Chm. ('45-57)

Appendix - List of Stelco Directors

<u>Name of Director</u>	<u>Stelco Board Tenure</u>	<u>Principal Affiliation or Occupation</u>
G. H. Duggan	1919-1946	Consulting Eng., Dominion Steel and Dominion Bridge; Ass't. to Pres., Dominion Steel, and Pres., Dominion Bridge
H. M. Jaquays	1926-1953	Pres., Ont. Steel Products (previously chief eng., Montreal Rolling Mills, 1906)
Sen. Hon. R. Smeaton White	1920-1936	Publisher - Pres. Montreal Gazette Printing Co.
Maj.-Gen. S. C. Mewburn (Hon.) (K.C.)	1929-1956	Partner, Mewburn, Jeffers and Marshall; politician
Rt. Hon. Sir Wm. Thos. White	1919-1955	VP, National Trust, 1911; Chm., Bank of Commerce, 1938; Politician
F. G. Osler	1920-1944	Stock broker - Sr. Mbr., Osler & Hammond, Toronto; VP Canada Permanent
Glyn Osler (K.C.)	1937-1949	Partner, Blake, Anglin, Osler and Cassels; Chm., Economic Investment Trust
H. T. Diplock	1938-1943	VP, Stelco (since 1926); formerly with Mtl. Rolling Mills
A. B. Purvis	1939-1941	Pres., C.I.L. (since 1924); Pres., Dunlop Tire
Hon. C. A. Dunning	1940-1958	Politician; corporate director; Pres. (1948), Chm. (1955) Ogilvie Flour Mills
H. G. Hilton	1941-1965	President, Stelco
G. W. Spinney	1943-1965	Pres., Bank of Montreal (1940's)
L. L. Lang	1944-1965	Pres., Lang Tanning; Chm., Mutual Life
Frederick Johnson	1947-1967	Pres., Bell Telephone (since 1944)
E. G. Baker	1948-1961	Chm., Canada Life (1948); Chm., Moore Corp. (1948)
W. Taylor-Bailey	1948-1961	Pres., Dominion Bridge (1955)

Appendix - List of Stelco Directors

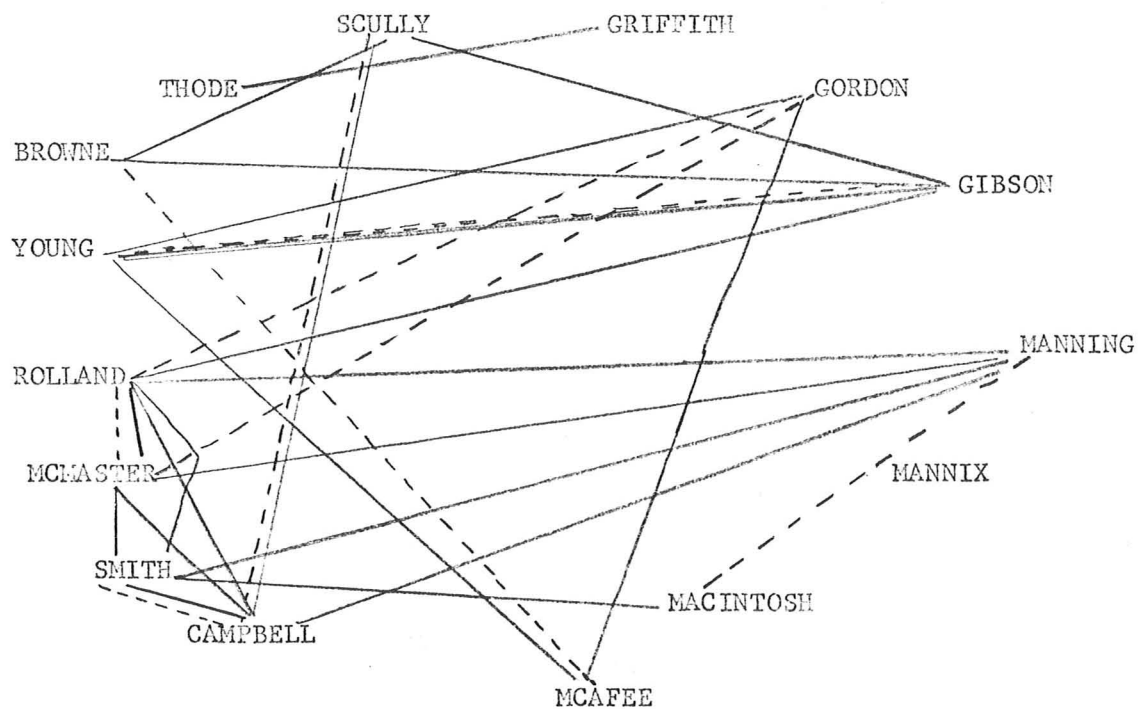
W. K. Whiteford	1950-1951	Chm., B. A. Oil Co. (1951)
R. A. Laidlaw	1952-1968	Sec.-Treas. R. Laidlaw Lumber Co. (Chm., 1965); Chm., National Trust; VP, Canada Life
G. R. Ball	1954-1959	Pres., Bank of Montreal (1952)
H. S. Foley	1964-1968	V-Chm., Macmillan Bloedel (1960); VP, Bank of Montreal
H. M. Griffith	1960-1976	Chm., Stelco (1965)
H. G. Welsford	1961-1964	Chm., Dominion Bridge
J. D. Campbell	1965-1968	Pres., Cdn. Westinghouse
A. Graydon (Q.C.)	1955-1971	Mbr., Blake, Cassels & Graydon (Chm. 1965, Barcelona Traction)
V. W. Scully	1956-1974	Pres., - Chm. - Stelco
A. J. MacIntosh	1972-present	Partner, Blake, Cassels & Graydon
W. H. Browne	1965-1975	Pres., - Chm., Moore Corp.
D. R. McMaster (Q.C.)	1962-present	Partner, Holden, Hutchison, Cliff, McMaster, Meighen & Million (now McMaster, Meighen, Minnion...)
L. G. Rolland	1963-present	Pres., Rolland Paper (since '52)
L. T. Craig	1960-1965	Exec. VP, Mktg., Stelco
H. G. Smith	1959-1974	Pres., Elican Development Co. and B. Coghlin Co. ('65) Chm. ('50), Brinco
J. Roy Gordon	1961-1972	Pres., - Chm. - Inco, Canada, U.S. respectively
G. A. Hart	1959-1969	Chm., Bank of Montreal
J. P. Gordon	1970-present	Pres., Stelco (Chm., 1976)
J. McAfee	1973-1975	Pres., Culf Oil Canada
A. M. Campbell	1967-present	Chm., Sun Life

Appendix - List of Stelco Directors

F. C. Mannix	1967-present	Chm., Loram Ltd., Dir. Mannix Co.
J. D. Gibson	1968-present	Chm., Consumers Gas; financial and economic consultant
Hon. Sen. E. C. Manning	1969-present	Politician; Pres., M & M Systems
H. G. Thode (Dr.)	1969-present	Pres. and V-Chancellor, McMaster University
W. H. Young	1967-present	Pres., The Hamilton Group
K. A. White	1974-present	Pres., Royal Trust
W. F. McLean	1976-present	Pres., Canada Packers
A. Jean deGrandpre	1976-present	Chm., Bell Canada
J. D. Allan	1975-present	Exec. VP, 1975; Pres. 1976, Stelco

APPENDIX - 1973 STELCO BOARD INTERLOCK NETWORK

Non-Financial Corporations _____
Financial Institutions -----



APPENDIX - STEELMAKING PROCESSES* (and see flow-chart on P. 444)

"Basic steel" or "primary production" refers to the initial stages of the steelmaking process, wherein the raw materials (coal, ore, and limestone) are transformed into iron in a blast furnace and the iron is transformed into steel in an open-hearth or basic-oxygen furnace (alternatively, steel may be made in electric furnaces). Basic steel forms the raw material for finished products, which are manufactured by a variety of processes from basic semi-finished forms: blooms, billets, and slabs. Material which becomes finished as such products as bars or wire rods is produced from billets (the ingot of steel which has been poured and taken out of its mould is first formed into a "bloom" or semi-finished shape roughly square in cross-section); material which becomes finished as a plate, sheet or other flat-rolled product is produced from a rectangular shape called a "slab." (Alternatively, continuous-casting machines allow the production of billets directly from the open hearth, bypassing the ingot-pouring, stripping and rolling stages.)

Each succeeding stage in the movement from basic steel to finished product requires the further reduction in size of the steel by passing it through a series of rolls which form the steel in specified ways. The flat-rolled product may be coated with zinc or tin in continuous fashion, to be cut later into sheets, or shipped in coil-form to customers who form the galvanized and tinplate into other products. Special plate or sheet products known as "skelp" are shipped to pipe mills to be formed and welded into pipe and tube. Rod products may be formed into wire and fasteners. A fully "integrated" steel producer is one which produces everything from basic to finished steel.

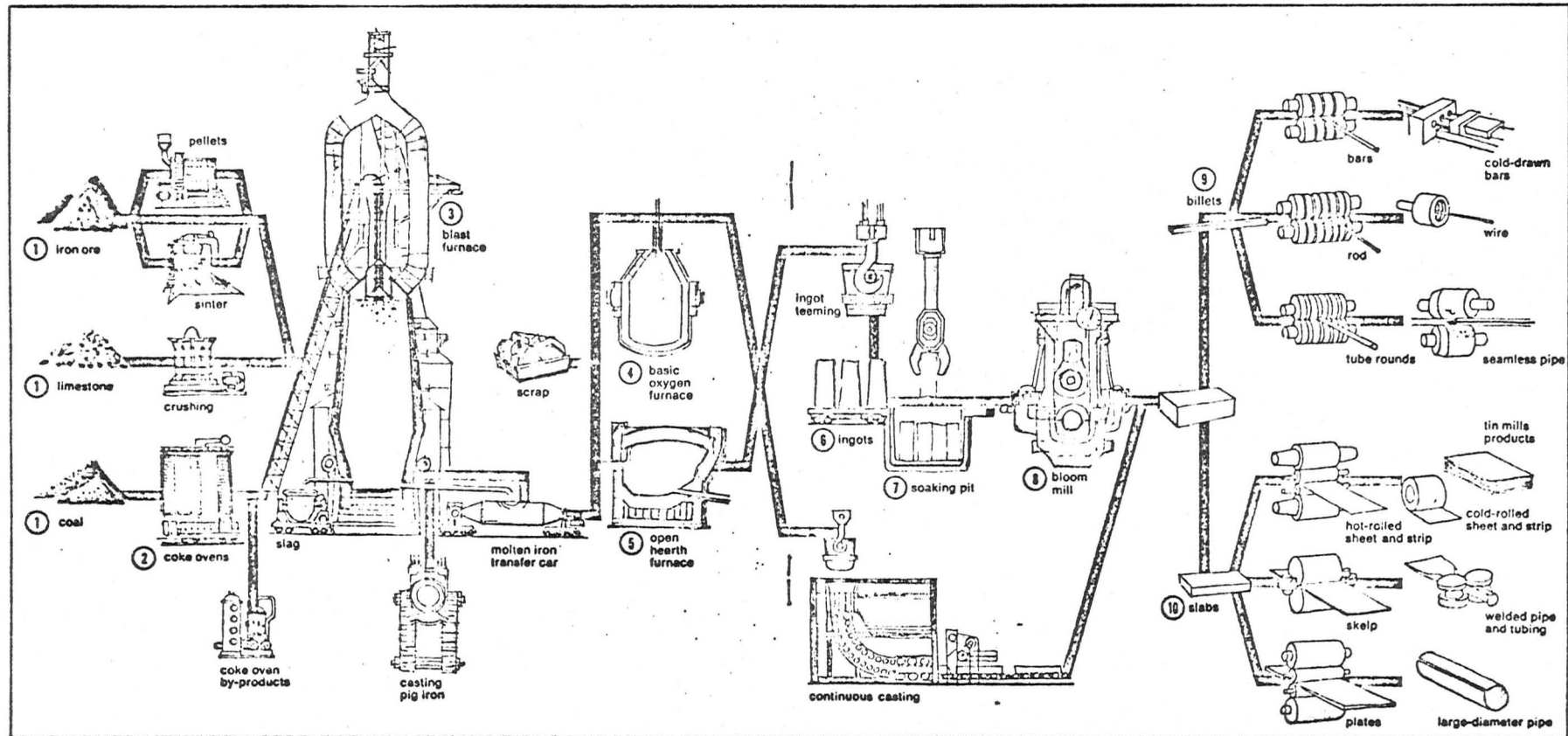
*from Stelco brochure, published 1970's, "A Visit to Stelco"

Appendix - Flow-Chart of Steelmaking Processes

(source: "A Visit to Stelco" brochure published by Stelco, 1970's)

A flowline on steelmaking

stelco



APPENDIX: STELCO'S PRINCIPAL PRODUCTS*

PLATE - up to 140" in width

HOT AND COLD ROLLED SHEET - in coils, cut-lengths, or slit

CONTINUOUS GALVANIZED SHEET - in coils, cut lengths, slit; with a variety of surface finishes and thicknesses of coating

PREFINISHED SHEET (brand name "Stelcolour") - in a variety of colours and textures; at Stelco-Dofasco's Baycoat Ltd.

ELECTROLYTIC TINPLATE (AND TIN MILL "BLACK PLATE") - in sheets and coils

HOT ROLLED AND COLD FINISHED BARS - alloy, carbon, or leaded; in standard and special sections (including structural)

CONSTRUCTION MATERIALS - reinforcing bar, welded wire fabric, pre-stressed concrete wire and strand

WIRE RODS (for conversion into wire and wire products)

FASTENERS AND FORGINGS - bolt and screw products; railway track fasteners; hydro pole-line hardware; standard and custom forgings

PIPE AND TUBING - with various kinds of welds: continuousweld, electric-resistance, submerged arc welded, electric-weld - mechanical and pressure steel tubing, hot and cold formed hollow structural sections, oil country goods, pipe for piling, water-works; also nipples and couplings

MANUFACTURERS' WIRE - wire and "strand"

MERCHANT WIRE PRODUCTS - nails, fencing, barbed wire

FENCE - industrial institutional, residential

SPECIAL PRODUCTS - grinding balls, grinding rods; sucker rods; grader blades

BY-PRODUCTS - coal tar, ammonium sulphate, lime, limestone

*from "A Visit to Stelco" published by Stelco, 1970's