

## Developing Nova Scotia: Railways and Public Accounts, 1848-1867

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ROSEMARIE LANGHOUT

## Developing Nova Scotia: Railways and Public Accounts, 1849-1867

SEVENTEEN YEARS AGO DEL MUISE argued that the view of history which cast Nova Scotians as uniformly and vehemently anti-Confederate needed revision.<sup>1</sup> Pointing to the substantial group of voters in Nova Scotia who supported the Confederation option — with its implications of continental and industrial, rather than maritime and commercial growth — he suggested the existence of aspirations radically different from those commonly attributed to Maritimers of the Golden Age. Whereas traditional historical treatments of the wood, wind, and sail economy had presumed among Nova Scotians an affinity for a state structure which exercised only a limited jurisdiction, Muise's work made it clear that the option of an activist, interventionist state was not anathema to all colonial Nova Scotians. A revisionist interpretation of Maritime history has begun to appear in the last decade, but much of this literature has been predominantly concerned with the post-Confederation period. As a result, the origins of the developments Muise discussed have remained largely unexplored.<sup>2</sup>

In Nova Scotia the period of Responsible Government, from 1849 to 1867, was one of crucial importance in the development of public policy. As Nova Scotian politicians recognized, accepted and explored the control they could now exercise over the province's economic future, priorities shifted. Of central importance to this shift was a change in attitudes with respect to the role the state should play in society. Through much of the 19th century, political rhetoric, both in Britain and the colonies, supported cheap, limited government. Yet in Nova Scotia the government made a substantial financial commitment when, in the early 1850s, it decided to build and operate railways at public expense. By doing so, it adopted a stance of economic interventionism. "The Railroad is of too much importance to be trusted to any individuals, not directly responsible to the people", the *Novascotian* commented in 1850. Clearly then, the "development of our Provincial resources, and the establishment of works of public utility, are among the legitimate functions of the local government".<sup>3</sup> In more

1 D.A. Muise, "The Federal Election of 1867 in Nova Scotia: An Economic Interpretation", *Nova Scotia Historical Society Collections*, XXXVI (1968), pp. 327-49.

2 An important exception to this generalization is Brian Tennyson, "Economic Nationalism and Confederation: A Case Study in Cape Breton" *Acadiensis*, II, 1 (Autumn 1972), pp. 39-53.

3 *Novascotian* (Halifax) 23 December 1850. A direct link between railroads and the fight for Responsible Government was demonstrated in the same piece: "We observe that the *Colonist* is willing that the Hon. Provincial Secretary should get the money in England, by Government

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contemporary parlance, the government had accepted the view that the state had a significant developmental function.<sup>4</sup>

The transference from Britain to Nova Scotia of full control of the colony's finances marked the commencement of the period of Responsible Government, and thus the evolution of public policy is readily apparent in the colony's public accounts. A study of these financial documents provides a useful supplement to the political history of the period. Governments, after all, dole out money according to the priorities they establish, and spending can be expected to reflect more clearly than rhetoric, the value an administration attaches to any particular policy area. More importantly, public accounts, by offering a fairly accurate representation of the operation of the machinery of the state, may be used to assess the role played by the state at any particular time, and to illuminate the manner in which that role changed. In turn, an examination of this changing role should offer valuable insights into the political, economic and social aspirations of Nova Scotians prior to Confederation.

Only once before has an attempt been made to sift through the financial records of Responsible Government in Nova Scotia. J.A. Maxwell completed a doctoral study of the public accounts of the province in 1927.<sup>5</sup> Maxwell's study covered a broader time period than does this study, but confined itself to published primary sources — the *Journals of the Assembly*, and the *Statutes of Nova Scotia*. It also focused on "representative" fiscal years, largely ignoring the broader context in which they occurred. As a result, Maxwell missed both the continuity of focus in public finance during Responsible Government and the interconnection between the financial and political developments of the time.

guarantee, or otherwise, for constructing the Rail Road, but still objects to the undertaking being a government measure. Thank you Mr. *Colonist* for nothing! We presume our contemporary would very much like to see the money expended as in days of yore, when a few interested persons kindly took the matter in hand, and considerably appointing some of their relatives or protégées to the several offices, the whole affair went off swimmingly. Now as these individuals in ninety-nine cases out of a hundred, know nothing whatever about the business they were called upon to superintend, it ceases to be a matter of surprise that each successive enterprise began in this city, ended in disappointment and ruin. No, no Mr. *Colonist*, we have had quite enough of the 'good old times' and the ancient system of irresponsibility".

4 State, of course, is not synonymous with government. But if the balance between the various institutions of the state determines how far governmental power is circumscribed by state power, it is also true that the institutional complex of the Nova Scotian state was as yet fairly simple. During the period of Responsible Government, the bureaucracy and the judiciary, and even the local militia, were much more creatures of government — through the power of patronage — than they would later be. Government, therefore, quite closely approximated state. Nevertheless, it was a government initiative which caused the alteration in the state's structure and function in Nova Scotia, and so the mode by which this change was accomplished takes on a special significance. For a theoretical discussion of this question see Leo Panitch, "The Role and Nature of the Canadian State" in Panitch, ed., *The Canadian State: Political Economy and Political Power* (Toronto, 1977), pp. 3-27.

5 J.A. Maxwell, "A Financial History of Nova Scotia, 1848-1899", Ph.D. thesis, Harvard University, 1927.

This is illustrated by his comments on railway interest payments. Maxwell suggests that "as far as interest payments were concerned the government pursued a conservative policy, for it endeavoured to meet these entirely from recurrent revenue; and in only three of these years and to an amount of \$230,000 was this not done".<sup>6</sup> Viewed from another perspective, however, these interest payments were the direct result of a radical policy of government intervention which led to a more than ten-fold rise in per capita indebtedness during the period of Responsible Government.

The Nova Scotia government's railway enterprise was one of the first large scale efforts at state capitalism on the North American continent. Detailed examination of the public accounts and related financial papers reveals that railroads were the major preoccupation of Nova Scotian administrations throughout the period of Responsible Government. There were four direct results of this preoccupation. First, a restructuring of the capital account left both total and per capita indebtedness at much higher levels than had hitherto been the norm. Second, under the pressure of these financial obligations, the developmental function that the state accepted in 1854 blossomed into a more comprehensive directive function. Third, as public expectations of government were whetted by public railroads, the state's legitimacy function — that is, those activities of the state which served generally to ameliorate the condition of society — was expanded. And fourth, government's financial management became more centralized and controlled. All of these conditions suggest a modern (or at least an incipiently modern) state structure, capable of exercising jurisdiction over an industrial community.

The growth in the directive function of state, which public railways were eventually revealed to imply, was a necessary precursor to the development of an industrial capitalism that consistently declined to take the *laissez-faire* ethic to heart. But while government railways predated the advent of indigenous industrial capitalism in Nova Scotia, it would be misleading to assume that from the outset the connection between the two was widely recognized. Nova Scotia's railway was initially promoted as a commercial railway — one that would enhance the colony's trading capabilities by funnelling overland trade through her territory and building up population along its route. Only under the financial pressures railways created did the dream change from one of commercial empire to one of internal development led by industrialism. The unanticipated nature of the consequences of railway building was not unique to Nova Scotia,<sup>7</sup> but in

6 Maxwell, "Financial History", p. 36.

7 John R. Kellett made this point with respect to Britain in *The Impact of Railways on Victorian Cities* (Toronto, 1969), p. 64, when he wrote that the "social and urban consequences of railway building...were, in a majority of cases, precipitated inadvertently by the railway entrepreneurs". In the same vein, W.T. Easterbrook and Hugh G. Aitken spoke of government railways built in the Maritime Provinces before Confederation having "given hostages to fortune": *Canadian Economic History* (Toronto, 1956), p. 250. Recently, and more to the point, Paul Craven and Tom Traves have alerted us to the unintended industrializing effects of railway building in

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Nova Scotia the fact that the government itself owned and operated a railway encouraged the transformation of the state into an economic actor of the first importance. The decision to embark upon the construction and operation of railroads as public works radically altered, not only the condition of government finances, but also the role of the Nova Scotian state itself.

From the advent of Responsible Government, and even before this time, great interest had been expressed in the possibility of constructing an Intercolonial railroad to enhance the defence and communications capabilities of the British North American colonies. Negotiations between the colonies respecting the financing of an Intercolonial eventually led to consensus in 1850, but arrangements failed to materialize, as Britain withdrew her offer of a loan guarantee.<sup>8</sup>

Nova Scotia's Reform government was unwilling, at this juncture, to lose the momentum toward the acquisition of that most modern of communications systems — railroads. They had won local autonomy; now they sought to exercise the powers granted to the benefit of the community. As satisfactory arrangements could not be reached with either of the two consortia of British contractors who expressed an interest in the work, an explicit policy of economic interventionism was introduced. It was rationalized by the Executive Council in an 1853 address to the Lieutenant Governor in the following terms:

The policy of constructing railways upon the chief throughfares of the Province as Public Works was deliberately adopted by its Legislature and people, from the general conviction, which still obtains, that these improvements cannot be secured within a reasonable period of time by private enterprise.<sup>9</sup>

The state intervened not through any desire to usurp the legitimate role of private capital, but in order to speed the inevitable arrival of a new era of prosperity. Nevertheless, some scepticism with respect to the abilities (and proclivities) of private capitalists was evident in the Executive Council's pointed comment that "those who vote the money and those who are responsible for their conduct, will guard the public interest quite as well as those who merely seek to profit from the expenditure".<sup>10</sup> Even at this early stage, the state was

Canada in their "Canadian Railways as Manufacturers, 1850-1880", *Historical Papers/Communications historiques* (1983), pp. 254-81.

8 Sandford Flemming, *The Intercolonial: A Historical Sketch of the Inception, Location, Construction and Completion of the Line of Railway Uniting the Inland and Atlantic Provinces of the Dominion, with Maps and Illustrations* (Montreal, 1876), p. 53.

9 Address to the Lieutenant Governor from the Executive Council, 14 February 1853, Vol. 236, #9, RG 1, Public Archives of Nova Scotia [PANS].

10 In the same statement the Council noted sourly their experience with the Shubenacadie Canal Company. In the period after 1824 that company had spent £18,000 of its own money, along with a £30,000 provincial grant, a £25,000 imperial grant, and £30,000 raised from British stockholders. The works were pushed ahead slowly. After they were badly damaged by severe winter

seen as an institution ideally suited to sweeping away obstacles to progress. It embodied society's aspirations, and thus had the potential to be an apolitical, though not disinterested arbiter.<sup>11</sup>

The government did attempt to bring in a railroad-building programme as an all-party measure; this met with less than unqualified success. In practical terms, the passing of enabling legislation was dependent upon its appeal to a particular part of the political spectrum. Nova Scotia's Reformers generally preferred a limited role for government, but they also cherished dreams of a Nova Scotian commercial empire, extending both inland and across the seas. To gain their support, proponents of direct government involvement in railroads had stressed the idea that railroads would benefit the colony's commerce. This, they felt, tended to legitimize government involvement in railroad construction and operation. Communications enterprises like railways and electric telegraphs, it was argued, "are distinctively the property of the whole public". As such, government "as the agents and guardians of the people should construct and regulate [them]...for the benefit of the many, and the profits resulting therefrom belong legitimately to the public treasury".<sup>12</sup>

It was largely due to Joseph Howe's influence that Reformers accepted such direct government intervention. Howe, who had been one of the leaders in the movement for Responsible Government, was also the critical figure leading the Reform government to take upon itself the task of building a provincial railway network. He was the Provincial Secretary when the effective railway legislation was passed in 1853, and the following year he resigned from the Executive Council to take up the duties of Chief Railroad Commissioner.<sup>13</sup> Howe's enthusiasm for railroads mirrored that of the British, and like the British, he firmly believed that railroads, economic growth, and prosperity were inextricably connected. For example, in an 1851 speech, Howe, noting that the province's population was growing by a steady 15,000 souls each year, urged that there was nothing to fear in assuming railway debts:

I never see a bride going to church with orange blossoms in her bonnet, or a young couple strolling to Kissing Bridge of a summer evening, but I involuntarily exclaim, Heaven Bless them — there go the materials to make the Railroads. (Loud cheers and Laughter.) So long as Love is made in

weather in 1835 a British mortgage was foreclosed. From the perspective of provincial legislators, "All this money was wasted because the Provincial government was weak enough to make large grants from the public chest without retaining out of the expenditure any control".

11 This idea of the state has persisted into the 20th century. See, for example, Paul Craven, *'An Impartial Umpire': Industrial Relations and the Canadian State, 1900-1911* (Toronto, 1980), p. 87.

12 *Novascotian*, 11 March 1850.

13 J. Murray Beck, *Joseph Howe: Volume II: The Briton Becomes Canadian, 1848-1873* (Montreal, 1982), p. 72.

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Nova Scotia, and love makes children, we shall have 50 or 60,000 added to our population every five or six years, who will add at least £20 or £30,000 to our annual income.<sup>14</sup>

While some objected to what they saw as the mortgaging of the colony's future for only limited returns, Howe saw debt acquisition as a tool of indispensable value to the colony in its attempt to develop, by building railroads, its full commercial potential.

Railway enabling legislation specified only that a trunk line cutting across the middle of peninsular Nova Scotia, from Halifax to the New Brunswick border, and two branch lines — one to Pictou, and one to Victoria Beach, Digby County — would be built. It was fully expected that Nova Scotia's railroads would "ultimately connect with lines projected through the Province [of New Brunswick] to Canada and the state of Maine".<sup>15</sup> With Halifax as one terminus of this far-reaching railway system, continental trade would be funnelled through Nova Scotian territory, to the great advantage of the colony's commercial element. The preamble to the railway legislation of 1853 expressed the aspirations of the commercial group concisely, stating that the railroad was designed to "greatly facilitate the internal trade of Nova Scotia, developing her resources, and opening up communications with the neighbouring states and provinces".<sup>16</sup> The Reform government's development strategy was thus one of commercial, entrepôt growth. The railroad was expected to bolster the traditional commercial economy through the improvement of transportation and communication links and the concentration of trade. At this point, the state's developmental role was still seen as a limited one, for it was believed that once railroads were initiated and nurtured by the state, they would generate their own internal growth imperative, and fairly rapidly become self-supporting.<sup>17</sup> The financing of the enterprise created unexpected obstacles to the fulfillment of these objectives.

As early as 1852, the Lieutenant Governor was advised by the Nova Scotian Assembly to make conditional arrangements for funding railway works, by

14 Joseph Howe, *Speech of the Hon. Joseph Howe on Intercolonial Railroads, and Colonization, Delivered at Halifax, Nova Scotia, May, 1851* (Halifax, 1851), p. 14.

15 Circular — Nova Scotia Bonds (1853), Vol. 3, pp. 1458-69, MG 24 D 21 (Baring Papers), Public Archives of Canada [PAC].

16 16 Victoria Cap. 2, *Statutes of Nova Scotia, 1853*.

17 Howe's later remarks on the Grand Trunk illustrate his feelings toward railways generally in this regard: "The Grand Trunk must be made to pay, as all other Railroads in America are made to pay, by peopling the country through which it passes, by directing latent resources and by growth of internal commerce and manufacturing...as population increases the Colonial Revenues will increase, and as they do, all the Roads that run into or connect with the Grand Trunk will be pushed forward, giving to that line increased animation": Joseph Howe to Thomas Baring, 31 December 1861, Vol. 3, pp. 1458-69, Baring Papers, PAC.

enlarging the Savings Bank,<sup>18</sup> issuing more Treasury Notes,<sup>19</sup> opening cash accounts with provincial and British banks, and by selling provincial bonds.<sup>20</sup> These methods of financing were used by the Nova Scotian government with varying degrees of enthusiasm.

Province Notes and Savings Bank deposits were essentially the same type of funding alternative. Both were repayable, but could be turned over as long as there were sufficient purchasers or depositors with faith in the government. Further, it was recognized that both were used as indicators of the state of the colony's financial health, and thus that they should not be irresponsibly utilized.<sup>21</sup> Figure One shows clearly that these two sources of capital were most readily tapped during periods of railway construction (1854-1858 and 1864-1867).

With respect to obtaining money from banks, the government of Nova Scotia was even more conservative. Before railway construction commenced in 1854, restraint had been the watchword of government spending. While the government routinely passed legislation allowing themselves to borrow up to £10,000 "for the purposes of the province" they seldom exercised this right.<sup>22</sup> Longer-term debt was a different matter. The government made enquiries of local and British banks, and during the 1851 election Howe claimed that two London banks had agreed to act as Nova Scotia's financial agents.<sup>23</sup> However, only the Bank of Nova Scotia — that same bank which Howe had so furiously denounced for its monopolistic tendencies in the period leading up to Responsible Government<sup>24</sup> — subsequently made a concerted effort to obtain the government account, and thus effective domination of the banking trade in the colony.<sup>25</sup>

18 The Savings Bank was directly controlled by the government of Nova Scotia. Bank deposits were placed at the disposal of the Provincial Treasury and the government retained legislative power to manipulate the total amount of money which the bank was allowed to accept on deposit. The pertinent bills are 9 Victoria Cap. 14, *Statutes of Nova Scotia, 1846*, and 11 Victoria Cap. 22, *Statutes of Nova Scotia, 1848*.

19 Treasury Notes, or Province Notes as they were also called, were government issued, gold redeemable currency.

20 Minute of the Executive Council, 25 August 1852, Appendix 1, pp. 4-5, *Journals and Proceedings of the House of Assembly of the Province of Nova Scotia, 1853*.

21 For example, an 1850 memo on the subject of Treasury Notes indicated that "no obstruction now exists that would prevent the passage by the Colonial Legislature of a law to authorize [their] issue...to any amount that they deem safe", but suggested that a correlation existed, and presumably should continue to exist, between the population and the number of notes in circulation: Memo on Treasury Notes 1850, Vol. 259, # 137, RG 1, PANS.

22 For example: 12 Victoria Cap. 37, *Statutes of Nova Scotia 1849*; 13 Victoria Cap. 47, *Statutes of Nova Scotia, 1850*; 14 Victoria Cap. 11, *Statutes of Nova Scotia, 1851*; 15 Victoria Cap. 12, *Statutes of Nova Scotia, 1852*; etc.

23 Howe, *Speech on Intercolonial Railroads and Colonization*, pp. 7-8.

24 J. Murray Beck, *Joseph Howe: Volume I: Conservative Reformer, 1804-1848* (Montreal, 1982), p. 113.

25 Proposal of the Bank of Nova Scotia to advance money to the Provincial Government, Vol. 455,



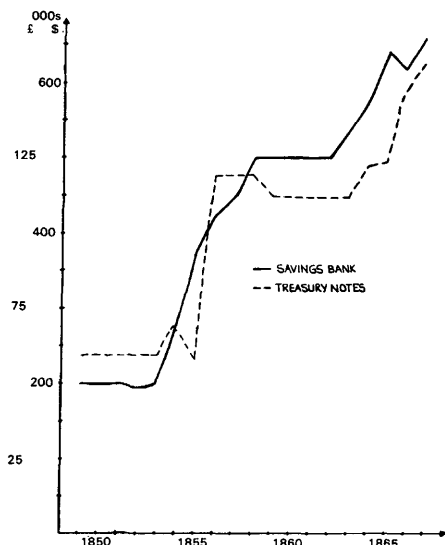


Figure One  
Provincial Indebtedness Attributable to  
Province Notes and the Savings Bank

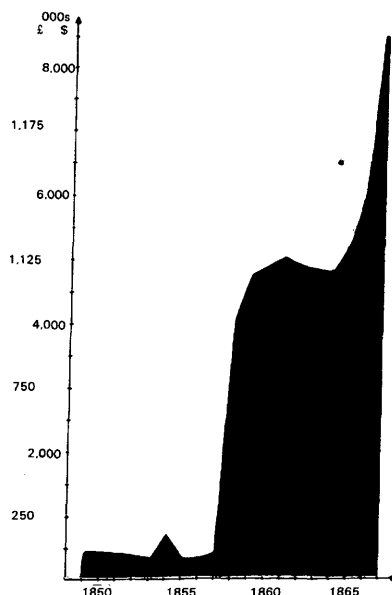


Figure Two  
Government of Nova Scotia —  
Capital Account Balance

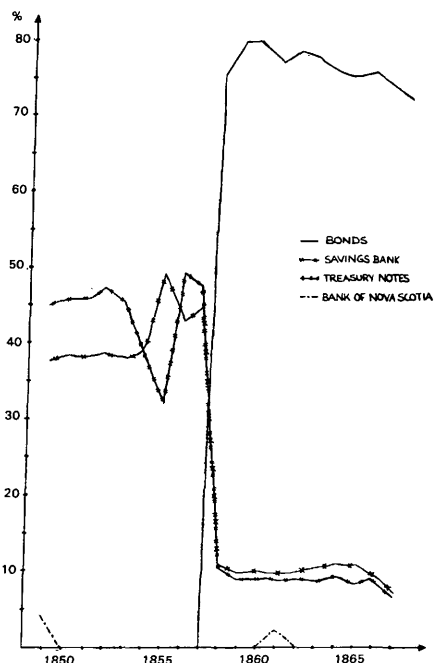


Figure Three  
Proportional Distribution of Indebtedness

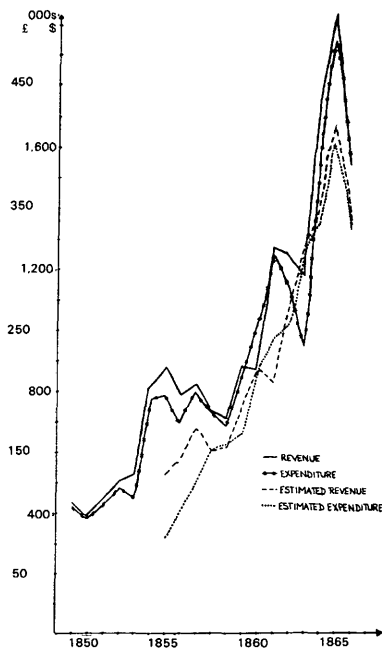


Figure Four  
Current Account Revenue and  
Expenditure, 1849-1867

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After considering the bank's proposal, the Executive Council, not surprisingly, concluded that "it is obvious that this large amount cannot be borrowed within the province", and that it was therefore necessary "to apply to English Capitalists".<sup>26</sup> Soon afterwards an agreement was struck with Baring Brothers and Company of London for the sale of Nova Scotian debentures on the London financial market. Revenue from the sale of debenture bonds was directed by law to be used solely for the purpose of carrying out the colony's railway programme.<sup>27</sup>

Baring Brothers and Company were already the London agents for the Canadian government, and their interest in British North American affairs made them a natural choice as banker to Nova Scotia.<sup>28</sup> From the very start of negotiations the Nova Scotian government had shown great concern for the relative merits of Canadian and Nova Scotian bonds. It is obvious that they hoped to enter the market that Barings had created for British North American bonds and become important participants in it. In 1854, Howe informed Barings that "as our province is prosperous, we can probably sell as many [bonds] here as will cover the operations of a year or two, at about the same premium that Canada Bonds command in London".<sup>29</sup> Soon after the Nova Scotian government committed itself to the agency of Baring Brothers, Howe wrote to Thomas Baring that he was inclined "to open public sale for what they [Nova Scotia bonds] will bring. The position of [Canadian] Provincial securities is wonderfully changed since 1850, and the difference between the two Provinces ought to be only a shade".<sup>30</sup> Arrangements made to fund the economic development scheme for which the Nova Scotian government opted were, in fact, closely patterned upon those of their Canadian brethren. Government promotion of public works financed by British capital was the generally accepted mode of development in British North America. While this uniformity is surprising in light of the contemporary Nova Scotian rhetoric which condemned profligate Canadian spending habits, it does make more comprehensible a Confederation agreement built around the consolidation of colonial debts.

Bonded debt, like all long-term public debt, was registered in the colony's capital account. Before bond sales were first entered into this account, in 1858, it

# 94, RG 1, PANS, and M.B. Almon to Joseph Howe, 3 September 1852, Appendix 1, *Nova Scotia Journals*, 1853.

26 Minute of Council, 7 June 1855, appended to a letter from Joseph Howe to Baring Brothers, 20 June 1855, Vol. 7, pp. 246-57, MG 24 B 29 (Joseph Howe Papers), PAC.

27 17 Victoria Cap. 2, *Statutes of Nova Scotia*, 1854; also 18 Victoria Cap. 6, *Statutes of Nova Scotia*, 1855.

28 For a detailed discussion of the Barings' North American activities, see Ralph W. Hidy, *The House of Baring in American Trade and Finance: English Merchant Bankers at Work, 1763-1861* (Cambridge, Mass., 1949).

29 Howe to Barings, 11 May 1854, Vol. 2, pp. 809-11, Baring Papers, PAC.

30 Howe to Baring, 15 August 1855, Vol. 2, pp. 919-20, Baring Papers, PAC.

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had often been the proud boast of the Nova Scotian administration that a single year's revenue could almost cover the accumulated debts of the colony.<sup>31</sup> Never again during the period of Responsible Government would this be so. Per capita indebtedness increased more than ten-fold during the last decade of the period. Figures Two and Three show clearly the dramatic, and absolute, results of the policy decision taken with respect to railroads. Total colonial indebtedness rose abruptly and steeply in response to the sale of Nova Scotian railway bonds. At the same time, the proportion of total indebtedness accounted for by Province Notes and the Savings Bank, in one year fell from 80 per cent to about 20 per cent of the total, while the proportion of provincial bonds leaped more than 70 per cent. A second sale of bonds, floated to finance the Pictou Extension Railway, was principally responsible for the second large increase in indebtedness in the final years of Responsible Government, but this bond sale did not affect the stability of Nova Scotia's debt formation after the 1857-1858 divide. The policy shift which the decision to build railways entailed was a decisive one. In one fell swoop, the financial structure on which the Nova Scotian state rested was fundamentally altered.

In addition to the single dramatic shift in the capital account, there were two great shifts in the current account of the province. These are shown in Figure Four and Table One. Railroad construction and financing provide the benchmarks by which the period of Responsible Government may be sectioned into three discernible phases for examination. In the transitional phase from Imperial rule to Responsible Government (1849-1853), caution was the first word in Nova Scotia's public policy, as colonial politicians gradually became accustomed to their new duties. The early railroad phase (1854-1860) saw government take a firm interventionist stance with its decision to build railways as public works. As a result of this decision, the scale upon which the state operated in Nova Scotia expanded. During the pre-Confederation phase (1861-1867), railway interest payments began to fall due, and the full impact of the government's railway policy became visible in the current account.

It is hardly surprising that no financial innovation was attempted in Nova Scotia during the early days of Responsible Government. Financial accountability was the greatest responsibility arising from the recent change in the colony's status, and colonial politicians regarded it with great seriousness. In any case, a belief in the desirability of government retrenchment characterized most of the British North American Reform Parties of this era; Nova Scotian reformers, both before the grant of Responsible Government, and when they formed its first administration, displayed an interest in both the rhetoric and the substance of an economical, limited state. In the assembly, for example, one member objected to the 1850 great road appropriations on the grounds that "the Legislature might be called upon to negotiate a further loan and increase the

31 For example, Memorandum to Baring Brothers from Joseph Howe, 20 June 1855, Vol. 7, pp. 246-57, Baring Papers, PAC.

Table One  
Expenditure from Current Account  
(as % of total)

	1849-1853	1854-1860	1861-1867
Public Works	38.68	52.97	36.74
Government Operation	19.28	14.21	8.83
Revenue Expenses	10.62	9.61	8.91
Debt Servicing & Coinage	8.54	3.56	22.33
Other	22.88	19.65	23.19

Revenue in Current Account  
(as % of total)

	1849-1853	1854-1860	1861-1867
Duties	80.32	68.30	63.67
Debt Incrementation & Coinage	6.32	10.06	6.41
Public Works	0.96	1.44	11.66
Other	12.40	20.20	18.26

debt of the Province".<sup>32</sup> Emphasis on lean government was more comprehensively demonstrated in the colony's current accounts. By 1852, prudent expenditures and an improving economic climate enabled the government to redeem the principle and interest of the existing funded debt.<sup>33</sup> There were also concerted efforts to rationalize the collection of customs duties — government's biggest source of current revenue. During the transitional years government operated on the premise that its function was to perform its established duties as cheaply as possible, and while doing so, to interfere as little as possible with the workings of the commercial economy. This approach to government was not substantially different from what had been the practice of Imperial authorities in Nova Scotia. The emphasis was on balanced budgets, free trade, and minimizing the cost of government operations. The transition to Responsible Government was thus achieved without disrupting traditional patterns of colonial public finance, or colonial notions of the role of the state.

During the early railroad phase the current account reflected the major policy decision which had made the state a much more active agent in the development

<sup>32</sup> *Novascotian*, 25 May 1850.

<sup>33</sup> Reports of the Public Accounts Committee in *Nova Scotia Journals*, 1853. It should be noted that the Public Accounts for any given year are to be found in the *Journals* of the following year.

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of the province. Expenditure for the transitional phase had peaked in 1852 at £121,395. After the railway was inaugurated, total government expenditures never fell below £172,648.<sup>34</sup> Between 1853 and 1854, current account revenues jumped by 55.7 per cent; expenditures grew by 55 per cent.<sup>35</sup> Although growth was not constant, the state now functioned at a higher plateau of revenue and spending. Average annual revenues between 1854 and 1860 were £201,720, compared to an average of £115,755 between 1849 and 1853. Average annual expenditures were £190,362 and £109,231 respectively for these two phases.<sup>36</sup>

Predictably, railways provided the primary stimulus for the increased level of government spending. During the transitional phase public works had consumed an average of 38.7 per cent of annual government expenditures; during the early railway phase, the annual average spent on public works rose to 53.0 per cent of expenditure. There were equally significant ramifications of railway building on the revenue side of the ledger. During the first three years of the early railroad phase, the revenue category of debt incrementation and coinage rose to its apogee as a percentage of total government revenue, for the entire period of Responsible Government. The increase in this category reflected the government's policy of funding the initial phase of railway construction by raising the deposit ceiling at the Savings Banks and issuing more Treasury Notes. Responding to the impact of this policy initiative, duties fell off as a percentage of government revenue from 80.3 per cent in 1849/53 to 68.3 per cent in 1854/60.<sup>37</sup> In 1854, 1855, and 1856 respectively, the Savings Bank and Treasury Notes alone accounted for 15.3 per cent, 25.3 per cent, and 14.8 per cent of total government revenues. This may be compared to the average of 1.9 per cent of total government revenues for which the Savings Bank and Treasury Notes were responsible in the years 1849 through 1853.<sup>38</sup> In all, between 1854 and 1856, some £116,000 was obtained from the Savings Bank and Treasury Notes — a sum which exceeded the annual average of total government revenues between 1849 and

34 Calculated from Public Accounts in *Nova Scotia Journals*, 1853-1868.

35 Calculated from Public Accounts in *Nova Scotia Journals*, 1854-1855.

36 Calculated from Public Accounts in *Nova Scotia Journals*, 1850-1861. It is true that there was inflation in Europe and parts of North America during this period, but its effects in Nova Scotia were not such as to cause comment in the government's financial correspondence. It might also be noted that expenditures on two items which could be expected to be relatively constant in "volume" did not show concomitant increases in "value". The cost of salaries of the officers of government increased a mere 0.9 per cent between 1850/53 and 1854/57; the cost of the judiciary by 6.5 per cent. Legislative expenses rose by 43.9 per cent during the same period, but even this was a far cry from the 72.3 per cent generalized increase in expenditures between the transitional and early railroad phases.

37 This trend was concentrated during the years of construction on the trunk line. Between 1854 and 1858, duties accounted for only 63.9 per cent of government revenue. Calculated from Public Accounts in *Nova Scotia Journals*, 1850-1861.

38 Calculated from Public Accounts in *Nova Scotia Journals*, 1850-1854.

1853.<sup>39</sup> This dramatically illustrates the extent to which the railroad policy decision changed the role of the state in Nova Scotia. Where previously economy had been of paramount concern, the government was now prepared to borrow, in only three years, a sum which, shortly before, would have been sufficient to support all of the state's functions for a full year. The desire for economy had been superseded by another, more pressing imperative.

The mid-1850s was not an easy time to radically alter the nature and scope of the state's activities. Nova Scotia's revenues and expenditures were generally declining between 1855 and 1859, as the Reciprocity Treaty with the United States depressed the usual growth in tariff revenues and the Crimean War caused world-wide financial dislocation. Railway-building too produced new and unfamiliar policy problems. Government was not long involved with railroad construction before it lost the security of current account surpluses. Surpluses formed an important component of current revenues as "balances held over" in the year after they occurred, and their steady decline from 1855 through 1858 left government with less financial manoeuvrability. The fact that "balances held over" were the "revenue" items which, next to duties, and debt incrementation/coinage, were most changed during this early railroad phase suggests the constraints government started to feel.

Although budgetary surpluses were still the order of the day, the government's margin for error had been much reduced and in 1857, coincident with the change of government which occurred in that year, it was decided that the current account of Nova Scotia was burdened to its limit. The new Conservative administration sought an alternative source of revenue with which to meet expenditures. Despite the fact that the London market was going through a period of contraction, they pressed Barings, who had been selling provincial debentures since 1856 and crediting the account of the Nova Scotia Railway, to speed up bond sales.<sup>40</sup> They also went one step further. In August 1857, the Receiver General informed Barings that "Our Railway Commissioners are pushing forward to completion the present season, the line to Windsor. This and the contracts to Truro involves a heavy expenditure. I regret therefore the diminished sale of Bonds in July which compel me to draw in anticipation of future sales".<sup>41</sup> This was the first time the Nova Scotia government appeared to resort to this form of deficit financing. At this time it was probably already clear that the 1857 current account surplus would be lower than it had been in the previous year, though it would have been hard to judge by how much.<sup>42</sup> In this situation, the

39 Calculated from Public Accounts in *Nova Scotia Journals*, 1850-1857.

40 For example, Stayley Brown to Baring Brothers, 21 May 1857, Vol. 18, RG 31-101, PANS. See also Sidney Homer, *A History of Interest Rates*, 2nd edition (New Jersey, 1977), p. 183.

41 Stayley Brown to Baring Brothers, 13 August 1857, Vol. 18, RG 31-101, PANS.

42 It should always be recalled when assessing the government's activities that the figures with which we are dealing reflect year-end totals that could be predicted during the year with even less accuracy than they can be today. Revenue estimates were not of much assistance, as during

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government, by opting to draw advances from bond sales rather than deriving needed cash from traditional sources of current revenues, revealed its growing familiarity with, and acceptance of, the possibilities of debt financing.

Concomitant with financial uncertainty during this period was the contingent nature of financial policy making. This is witnessed by the criticism Howe, then in opposition, made in 1858:

Come what will the credit of the Province will be maintained. All accounts and papers are not in but we have enough to show that if the Government had taken my advice, and reduced the Road vote to £30,000 and had not increased the School grants, they could have gone through the financial year without raising the *ad valorem* duty from 6¼ to 10 per cent. We shall reduce this year and let the 10 per cents stand till we know what the [rail]Roads pay.<sup>43</sup>

That Nova Scotia registered a current account surplus in each year of this decade was a testament to the continuing caution with respect to the public purse and public credit demonstrated by successive governments.

During these precarious times the first flush of enthusiasm for railroads passed, and there commenced in the colony a period of ambivalence about the direction railroad policy should take. Construction proceeded slowly as doubts arose as to whether the railway could fulfill the expectations of the commercial element. These doubts were manifested in the popular reaction to the completion of the trunk line in 1858. One contemporary noted not only that this was achieved "without...demonstration", but also that "[a] funeral procession would not have been observed more quietly".<sup>44</sup> Accompanying this ambivalence with respect to railroads was the inability of either party to secure a firm majority in the Nova Scotian House of Assembly between 1857 and 1863. Reformers had retained control of the legislature till 1857, but Howe had had difficulty reconciling his supporters at the extremities of the colony to the value of a railroad that simply cut through the middle of peninsular Nova Scotia, from Halifax to the New Brunswick border. Even Halifax, the primary beneficiary of the project, proved reluctant to contribute the money the city had earlier pledged to the road's construction.<sup>45</sup> Growing opposition to the financial burden of Howe's railway programme had provided one motive for the defection of Reform supporters

the years 1855 to 1860 they underestimated actual revenue by an average of £45,718 per year, or almost 40 per cent. In this case, there may well have been real fears of a deficit. When the final figures were toted up, the 1857 surplus was £6,593, well below the £22,384 in 1856.

43 Joseph Howe to Thomas Baring, 10 February 1858, Vol. 3, pp. 1147-52, Baring Papers, PAC.

44 Quoted in Beck, *Joseph Howe, II*, p. 127.

45 "Observations of the Attorney General on Chap. 40 of Acts 1861, 'An Act assessing the City of Halifax for Railroad Liabilities'", Vol. 471, RG 1, PANS.

46 *Novascotian*, 16 February 1857.

in the legislature. A government sponsored railway damages assessment bill was defeated during the 1856 session, and in the debate on a non-confidence motion early in 1857 Tupper attacked the government's inability to agree on a coherent financial policy.<sup>46</sup> The pinch of an economic downturn, and concern about the implications of railway policy, may well have helped merchant members to decide that the moment was opportune to switch their allegiance. A Tory ministry was formed in 1857.<sup>47</sup>

Meanwhile, limited work was done on the provincial railway.<sup>48</sup> This attitude, however, should not be mistaken for indifference. In the legislature, for example, in Murray Beck's words, "sparks flew in abundance only on railways".<sup>49</sup> The Tories had initially objected to a publicly funded programme of railway construction because they wished to avoid any unnecessary burden on the public coffers,<sup>50</sup> and until the early 1860s they attacked railway operations as inefficient. During the period of ambivalence, however, they came to the conclusion that too much had already been invested to abandon the project. In 1856 Tupper had remarked in the House of Assembly that "the policy of having railroads, and railroads by Government, is now settled".<sup>51</sup> Shortly after the 1857 change in government, the new Tory Financial Secretary, J.J. Marshall, observed that "no government can now let them [the railway works] stand still".<sup>52</sup> Tory attitudes at this juncture are perhaps best encapsulated by the remarks of the new Attorney-General on the subject. J.W. Johnston acknowledged that the railway policy was irreversible, but he felt free to attack the instigator of this policy in these sharp terms: "In referring to the state of affairs as passing from the hands of the late government, ought he [Howe] not have said something as to that heavy [railroad] liability? Is it nothing that we are obliged to raise a revenue to meet that?

47 Traditionally, and no doubt accurately, the primary cause of this shift in power has been attributed to a religious quarrel. The Tories did not gain office because of their own strength, but because of disarray in Liberal ranks. See Kenneth G. Pryke, "Nova Scotia and Prince Edward Island Consider an Effective Upper House" *Dalhousie Review*, Vol. L, No. 3, (1971), p. 338. Nevertheless, dissatisfaction with the financial policies of the Liberals should not be ruled out as a contributing factor.

48 The trunk line from Halifax to Windsor was officially completed in 1858, but it had been reported in 1857 that "the force employed [on railway building] has not been sufficient to give the requisite levels and stakes during the progress of the work and we consequently find at several places the grading of the line [inadequate]". As a result there was some spending on railroad construction in every year between 1858 and 1864, when the next major railway building project — the Pictou Extension — was started: *Nova Scotia Journals*, 1858, Appendix 35, p. 317, and Public Accounts in *Nova Scotia Journals*, 1859-65.

49 Beck, *Joseph Howe*, II, p. 122.

50 Eldon Pringle Ray, "The Transition to Responsible Government in Nova Scotia, 1835-1864", Ph.D. thesis, University of Toronto, (1945), pp. 132-3.

51 Charles Tupper, Speech to the House of Assembly, 3 February 1856, quoted in E.M. Saunders, ed., *The Life and Letters of the Rt. Hon. Charles Tupper, Bart.*, K.C.M.G. (Toronto, 1916), Vol. I, p. 50.

52 *Yarmouth Herald*, 23 April 1857.



Is it nothing that we have to go on increasing the debt, increasing the interest which is payable?"<sup>53</sup> The ambivalent stand taken by both parties with respect to the issue of railroads at this time reflected the close balance of power in the House of Assembly. Out of these doldrums, however, there emerged a significant political debate.

Charles Tupper, Provincial Secretary in the Tory cabinet of 1857, was still very much an apprentice politician when, on accepting a seat on the Nova Scotia Railway Board, he professed an "earnest desire for the welfare of the great work and a full sense of the responsibility it imposes on me".<sup>54</sup> Tupper became increasingly influential, and it was under his leadership the Tories came to support public ownership of the colony's railroads — and their extension.<sup>55</sup> At first the Railway Commission under Tupper took much the same line it had under Howe. In response to Britain's renewed refusal to provide financial assistance to an intercolonial railway in 1858, the Commission suggested that in the event that they failed "to enlist the sympathy and co-operation of the Imperial government in completing the intercolonial railroad, in which the general interests of the Empire are so largely involved, Nova Scotia must turn her resources to the construction of a line to Pictou [sic]".<sup>56</sup> If forced to build the extension to Pictou, Nova Scotia would exhaust her reserves, and could no longer be expected to participate in any intercolonial scheme. But the drift of future policy direction was foreshadowed, even in this expression of the government's limited intentions, by the unreserved support given to a Pictou Extension railway. The extension was intended to gain year-round access to Pictou's coal resources by means of a rail connection to the ice-free winter port of Halifax. The support for this extension went hand in hand with the breaking of the General Mining Association's monopoly control over the colony's coal resources, for in 1858 the Tory administration had finally succeeded in opening the way for locally controlled development on a grand scale.<sup>57</sup> Coal and iron

53 *Ibid.*

54 Charles Tupper to W. Pryor, 9 May 1857, Vol. 267, # 53, RG 1, PANS.

55 As early as 1857, a study of the railway was commissioned by the Conservative government on the grounds that the "interest which the public take in the road, from its being a public work, built on the revenues and on the credit of the province — the influence which it is confidently anticipated that its completion will have upon the business and prosperity, not only of the section of the country through which it passes, but on the whole province, — the expectation that if it is successful and self-sustaining that the same facilities will be extended to other sections — render it desirable that the fullest information, and a fair and candid statement of the facts should be presented": *Nova Scotia Journals 1858*, Appendix 35, p. 282.

56 Delegates from Canada, New Brunswick and Nova Scotia, to Secretary of State, 26 October 1858, enclosure 4, # 1 in Great Britain, House of Commons, *Papers Relating to Railways in British North America* (London, 1862), p. 11.

57 Reformers had been working toward this end for some years, but the Conservatives appear to have been more anxious for the conclusion of an agreement, as they accepted terms which their opponents felt were disadvantageous: Beck, *Joseph Howe, II*, p. 125.

rails were to be the key components of a new technological era.

It is probable that even if a general programme had been fully formed at this time, it would have remained unarticulated due to the insecurity of the Tories' political position. Tupper's stand on the question of railroads once the 1859 election had removed him from power was more expansive. In 1860, he delivered a key speech, in which he brought together the problem of the colony's finances and the wider implications of railway policy:

It is to be hoped that the folly of expecting any large results from local and isolated railways is already fully demonstrated in both Nova Scotia and New Brunswick, and that it has now become a first consideration with them *to direct their attention to the means by which both may be relieved from the consequences of a large debt*, [emphasis added] incurred for works not only unproductive of any direct remunerative results but also unattended by any substantial advantage to our trade or commercial importance. The conviction must have forced itself on the public mind that we must extricate ourselves from these difficulties by obtaining connection with the railways of Canada and the United States.<sup>58</sup>

Clearly, concern over the implications of debt financing was not the sole preserve of Canadian politicians. Tupper advocated more railways (and an enhanced role for the state) as the cure-all for the problem.

The third financial phase of Responsible Government comprises the period between the first payment of railway interest, and Confederation. This pre-Confederation phase was a period of unprecedented growth in both government revenues and expenditures.<sup>59</sup> It is no coincidence, however, that it commenced with the first deficit experienced in Nova Scotia since the advent of Responsible Government. In that year, customs revenues were disappointing, and railway interest payments burst onto the scene to take up fully 23.8 per cent of government expenditures.<sup>60</sup> In addition to the railway's fixed costs — escalating now with the onset of interest payments — operating expenses were being incurred. The negative balance in the 1861 current account was the harbinger of the heavier toll the railway would take upon government finances during this phase. (See Tables One and Two).

The 1854 decision to carry out railway construction as public works had been both substantial and irrevocable. Railway-building had increased per capita indebtedness; it had also left the lion's share of public debt held outside of the

58 Charles Tupper, "Speech delivered at the opening of the Mechanics' Institute, St. John, 1860", in his *Recollections of Sixty Years in Canada* (Toronto, 1914), pp. 34-5.

59 Expenditures rose by an average of almost 11 per cent annually, despite the fact that both 1864 and 1867 were fiscal years of only nine months duration. Calculated from Public Accounts in *Nova Scotia Journals*, 1862-68.

60 Calculated from Public Accounts in *Nova Scotia Journals*, 1862.

Table Two  
Railway Revenue and Expenditures, 1854-1867  
(\$)

	Railway Revenue	Railway Revenue Expenses	Surplus in Current Account due to Railway Operations	Railway Interest Charges <sup>1</sup>
1854	-	-	-	-
1855	-	-	-	2,952
1856	-	-	-	4,900
1857	-	-	-	7,016
1858	-	-	-	9,128
1859	-	-	-	8,968
1860	82,116	79,500	2,616	9,256
1861	166,166	95,500	70,666	242,100
1862	132,777	94,500	38,277	244,269
1863	144,247	127,000	17,247	244,768
1864 <sup>2</sup>	118,616	110,000	8,616	137,833
1865	181,789	169,000	12,789	254,647
1866	257,629	205,000	52,629	286,685
1867 <sup>2</sup>	153,669	162,894	-9,225	253,741

1. Before railway interest is specifically designated in the public accounts in 1861, it is estimated as total interest payments minus the amount devoted to interest payments in 1853. This method probably exaggerates the importance of railway interest payments before 1861, but it does not obscure the tremendous impact of railway debenture interest payments.

2. These were fiscal years of only nine months duration.

colony, rather than within it, as had previously been the case. Together, these factors concentrated public debate upon the value of debt financing. Tories and Reformers, who switched positions of power in the legislature three times between 1857 and 1863, began developing different assumptions about the best ways of raising and spending money. By the end of the period of Responsible Government, opposing attitudes toward debt financing had adjusted and accentuated the previously existing political divisions within the colony. The time lag between the start of railway construction, and the definition of political groupings in terms of their attitude toward debt financing, is largely explained by the fact that the major financial burden of the government's railway policy was en-

dured only in the years after 1860, when bond interest payments started falling due. Railway interest payments alone consumed an average of 18.1 per cent of government expenditure during the last seven years of Responsible Government.<sup>61</sup> This figure was not a particularly high one in comparison to the contemporary Canadian (or British) situation, but it represented a quantum change in the structure of government financing in Nova Scotia.

The way in which Nova Scotian administrations coped with the weight of railway debt provides a useful perspective from which to observe their changing and diverging opinions with respect to the role of the state in Nova Scotia. Howe had been returned to power late in 1859, but he no longer had the influence to carry through his railway plans. Facing an election in 1863, he claimed that the Reform Party were prepared to complete the Pictou Extension within two years, whether or not an Intercolonial deal was struck.<sup>62</sup> But the Reform administration of 1860-63 embarked upon no new railway schemes, and it backed away from promoting an activist role for the state in the colony. Reformers emphasized retrenchment to protect Nova Scotia's trade and commerce, for they had lost faith in railroads as agents of commercial growth, and feared that any increase in the level of the colony's debts, to fund expansion of the system, would place an unconscionable burden on the colony's citizens. Even Howe now claimed that the best policy for Nova Scotia to pursue was "to keep her own people at home, by making home attractive [through low tariffs], to accumulate wealth by domestic and foreign trade, and to pour that wealth into her own bosom, for her own cultivation and improvement".<sup>63</sup> Though they were still concerned about the possibility of wider communications which could enhance the colony's trade, Nova Scotian Reformers were more committed to limited, efficient government — especially in light of what they viewed as the disturbing proposals for British North American federation.

Nova Scotian Conservatives, on the other hand, had by the 1860s accepted the industrial potential of railways. Returned to power in 1863, Tupper's administration — in sharp contrast to the Reformers — embarked eagerly on a coherent policy which expanded and consolidated the powers of the state. His government not only added to the railway system, but also seconded to the executive the sole power of introducing money bills into the legislature. Within this framework, further long-term debts were incurred in order to finance an extension of the provincial railway system, and public support for the colony's school system was legislated. So determined were the Tories on this course of action that they were prepared to risk the public credit with much more daring than had their predecessors.

61 Calculated from Public Accounts in *Nova Scotia Journals*, 1862-1868.

62 Joseph Howe to Edward Watkin, 30 April 1863, #52, MG 24 E 17 (Edward Watkin Papers), PAC.

63 Joseph Howe, "Botheration Scheme #6", 1 February 1865, in "The 'Botheration Scheme', Nova Scotia and Confederation, 1865", Collected newspaper clippings, PAC (Library).

In absolute terms, the cost of collecting government revenues rose slowly through most of the pre-Confederation phase. Such, after all, was the cost of an expanded role for the state. Reformers, in power from 1860 to 1863, again demonstrated their belief that the health of the commercial economy required them to maintain and even improve the level of administrative efficiency within the customs establishment. Thus, in 1862 the government procured "additional rooms for the increased and increasing business of the Revenue offices and other departments". Concurrently, Howe informed J.H. Anderson, the Receiver General, that in light of the importance of the revenue office at Halifax, no expense was to be spared in maintaining and expanding it.<sup>64</sup> In this manner, the Reform government attempted to compensate for the increasing demands that the railroad programme was placing upon their resources, while they steadfastly resisted Howe's pressure to build a Pictou extension.<sup>65</sup> Reformers had returned to their predilection for economy in government and, in actual terms, spending on revenue expenses grew by an average of only 2.6 per cent annually under their administration. Under the Tories in 1857/59, the comparable rate had been 8.2 per cent.<sup>66</sup>

Furthermore, when revenue from customs and light duties fell short of expectations by more than \$85,000 in 1861,<sup>67</sup> as a result of market dislocation caused by the advent of the American Civil War, and the Reform government faced a current account deficit, they preferred to override their predilection for low tariffs rather than increase the public debt to meet expenditures. In 1862, a 2½ per cent surtax on articles regularly taxed at 10 per cent *ad valorem* was "specifically appropriated to the liquidation of the balance of expenditure over revenue at the thirty-first day of December 1861".<sup>68</sup> But this was to be a short term arrangement. By February 1863, Howe was able to report that "Our Revenue has increased bravely, down to the year's close...We have swept off the debt contracted last year, principle and interest. Shall strike off our 2½ per cents and be ready for anything".<sup>69</sup> Nova Scotia's Reformers were obviously backing away from dependence on deficit financing.

Within the category of social welfare expenditures, another important trend may be noted. The Conservatives, late in the period of Responsible Government, forced through hotly contested legislation which created a system of publicly supported schools.<sup>70</sup> The current account figures show clearly that Tupper's administration used its power from 1864 to arrest and reverse the trend to

64 Joseph Howe to J.H. Anderson, 29 April 1862, Vol. 159, RG 1, PANS.

65 Beck, *Joseph Howe, II*, p. 134.

66 Calculated from Public Accounts in *Nova Scotia Journals*, 1858-64.

67 *Nova Scotia Journals*, 1861, Appendix 27, and Public Accounts in *Nova Scotia Journals*, 1862.

68 Section 7, 25 Victoria Cap. 3, *Statutes of Nova Scotia*, 1862.

69 Joseph Howe to Edward Watkin, 5 February 1863, # 47, Watkin Papers, PAC.

70 Tupper, *Sixty Years*, pp. 42-3; 28 Victoria Cap. 28, *Statutes of Nova Scotia*, 1865.

declining government support for education, which had been apparent under the Reformers. Education expenditures during the three phases discussed here were 14.4 per cent, 9.2 per cent, and 6.6 per cent of total government expenditures respectively. In the years 1864 to 1867, however, 4.1 per cent, 6.5 per cent, 8.1 per cent, and 10.3 per cent of government spending was devoted to this endeavour. In real terms this represented a rise from \$69,607 to \$159,585.<sup>71</sup> Tupper saw a more powerful state, enhanced by free schools and by railroads, as a necessary prerequisite for industrial growth. He had a much greater interest in industrial than commercial development, and was complacent about the higher level of government expenditures implied in this type of programme. The operations of the state had grown, largely as a result of the pressure which railway building had placed upon it. Committed to building the Pictou Extension and the Windsor/Annapolis Extension, which he had promised in the 1863 election, Tupper felt he could no longer afford to pander to Nova Scotia's commercial interests, especially as they appeared to be adamantly opposed to the Confederation scheme on which the Tories were set. His vision of the future was thus sharply at loggerheads with the commercial one of the Reformers.<sup>72</sup>

Although initially no difference had marked Tory and Reform handling of debt incrementation and coinage revenues,<sup>73</sup> within the context of the financial pressures that railway interest payments created the Confederation option created new alternatives. In response to the pressures on the public purse, and assured that Confederation could soon lighten the financial burden carried by his administration, Tupper attempted a radical change in a different aspect of government financing. Early in June 1867, he wrote to Baring Brothers to request that they "advance to this government *for general purposes* [emphasis added] a sum not to exceed fifty thousand pounds sterling" (about \$250,000) on the security of the bonds they already held.<sup>74</sup> To this query, Barings answered, "with great pleasure", in the affirmative.<sup>75</sup> Never before had it been suggested that the proceeds of debenture sales should be pledged toward any purpose other than that of railway building, and Tupper admitted that "as we go into Con-

71 Calculated from Public Accounts in *Nova Scotia Journals*, 1850-1868.

72 For an elaboration of this argument see D.A. Muise, "Parties and Constituencies: Federal Elections in Nova Scotia, 1867-1896", *Historical Papers/Communications historiques* (1971), pp. 185-7.

73 The sources of funding tapped in this category by administrations of both stripes were almost identical. Except for a \$136,689 loan from the Bank of Nova Scotia — acquired in 1862 to deal with the repercussions of the deficit in the previous year's current account, and paid off in the same year — all the revenue in this category came from the Savings Bank (\$220,500) and Treasury Notes (\$175,000). Debt incrementation and coinage revenue during the pre-Confederation phase was in fact proportionately lower than it had been in the 1854/60 accounts, though the absolute amount of revenue collected from this source was higher: Public Accounts in *Nova Scotia Journals*, 1862-68.

74 Charles Tupper to Thomas Baring, 3 June 1867, Vol. 1, RG 31-119, PANS.

75 Baring Brothers to Charles Tupper, 27 June 1867, *ibid*.

federation the first day of July next we cannot make the revenue beyond that date immediately available but will make arrangements to repay you the amount loaned during the ensuing six months".<sup>76</sup> This represented a further step away from the ethic which had originally informed financial policy in Nova Scotia. Not only were the Tories willing to enlarge their obligations to build infrastructure; they were also prepared to fund current government operations with contingency loans.

Douglas McCalla has recently noted the "abundant need and scope for work to define and, more importantly, to demonstrate empirically both the typical and unique features of the state's role in Canadian economic history".<sup>77</sup> In Nova Scotia, railways fashioned a fundamental alteration in that role during the period of Responsible Government, even as they provided a basis for industrial development. By implementing a policy of debt-financed improvements in transportation infrastructure in the 1850s, Howe's government committed the state to a formidable restructuring of its financial operations.

The impact of the greatly swollen capital account had not been predicted by railroad boosters in Reform ranks. They had genuinely expected that the public debt would melt away in the face of railway revenues, rising land values, and an increasing population. When this happy outcome did not materialize by the late 1850s, they were left disillusioned with the possibilities of railway development and anxious to back away from policies designed to enhance the power of the state. But railroads generated their own imperatives. Public railroads fostered greater public expectations of government — expectations which in turn encouraged greater per capita expenditure. In other words, a decision to expand government in one sphere encouraged expansion in others. Per capita government expenditures, excluding railway charges and revenues, nearly doubled during the period of Responsible Government, from approximately \$1.29 in 1850 to \$2.31 in 1861.<sup>78</sup> Once railroad construction began, and financing was arranged to cover its costs, there could be no return to the limited state of earlier years.

76 Charles Tupper to Baring Brothers, 3 June 1867, *ibid.* Much acrimonious debate arose with respect to this arrangement after Confederation. Barings denied any knowledge of it, and suggested to Galt that he "advise more [financial] order" to the Nova Scotians. By November 1867, McNab — still Nova Scotia's Receiver General — had to admit that the advance would "have to form part of the indebtedness of the province...as Dr. Tupper's expectations 'to pay the amount within six months' cannot be met": Baring Brothers to James McNab, 10 October 1867, Thomas Baring to A.T. Galt, 17 September 1867, Vol. 1, RG 31-119, James McNab to A.T. Galt, 7 November 1867, Vol. 18, RG 31-101, PANS.

77 Douglas McCalla, "The State and Economic Life", *Journal of Canadian Studies*, Vol. XVI, Nos. 3 & 4 (Fall-Winter 1981), p. 212.

78 Calculated from Memo on Treasury Notes, Vol. 259, # 137, RG 1, PANS, and Public Accounts in *Nova Scotia Journals*, 1851. Also, "Population of 1861 and 1871, compared by Electoral Districts within their present limits (1872), with notes of changes since 1861", in *Census of Canada, 1870-1871*, Vol. 1, Table V, and Public Accounts in *Nova Scotia Journals*, 1862.

Why did the Nova Scotian government, which held a clean financial slate in 1849, choose the railroad option? The financial ramifications of such a policy were, after all, antithetical to the natural inclination Nova Scotian Reformers had for "restricting the type and range of government activity".<sup>79</sup> Indeed Joseph Howe has been called an unnatural leader for the colony's Reform movement because of his commitment to railway-led development.<sup>80</sup> His drive and political stature in the late 1840s and early 1850s certainly were necessary for the instigation of a policy of publicly built and operated railroads. But of course Howe was not alone in his aspirations. William Annand, as editor of the *Novascotian*, publicly and in the strongest possible terms, gave his support to the proposal for public railways. "The public interest demands the construction of this line", he wrote.<sup>81</sup> Responsible government had, after all, placed protection of the public interest squarely in the hands of the local state. Many Reformers — riding the wave of support for responsibility and progress — were thus made amenable to the exercise of the prerogatives they had been granted, in pursuit of the type of progress they understood. Although Annand claimed that the "support and consent of our capitalists to this provincial work is of secondary importance", the aspirations of the well-established Halifax merchant community did also play a part in the decision to build railroads. Halifax's commercial pre-eminence would be greatly enhanced by the possession of what they hoped would be the railway terminus for all of British North America. Lulled by the prosperity that was confidently predicted with the signing of the Reciprocity Treaty, Nova Scotians were easily convinced of the commercial value of railways.

Railways went on to play an important part in the development aspirations of the colony. The decision to build railroads marked the close of the first phase of Responsible Government. After a prolonged debate, the necessity for direct intervention by the state to provide transportation infrastructure was conceded, and with it, the need for the state to carry the financial burdens of its growth strategy. Government committed the state to a limited developmental function in addition to its administrative one. As the state flexed its muscles, its toleration for the monopoly control that the British-owned General Mining Association exercised over the colony's coal resources diminished. In turn, the breaking of the lease by a Conservative government in 1858 enhanced the developmental function of the state, and assisted its evolution into what would be a more comprehensive directive function. The state's legitimacy function was also boosted as Nova Scotians celebrated the repatriation of an important resource base. Henceforth, Nova Scotia's coal would be developed under public licence and inspection, with an eye to realizing indigenous growth potential. At the same time, the revenues derived from rents and royalties would become increasingly important to the maintenance of the Nova Scotian state.

79 Pryke, "Nova Scotia and Prince Edward Island Consider an Effective Upper House", pp. 332-3.

80 Kenneth G. Pryke, *Nova Scotia and Confederation, 1864-74* (Toronto, 1979), p. 12.

81 *Novascotian*, 11 March 1850.



During the 1850s and 1860s, successive Nova Scotian administrations had to deal with changed policy imperatives on both the revenue and expenditure sides of the public accounts ledger, as reciprocity and railroads posed new and unfamiliar financial problems. Railway construction expenses incurred in the mid-1850s led to growing public scepticism as to the value of burdening the future revenues of the colony to the extent that the completion of all planned railroads would require. The hesitancy with which railway construction was pushed forward during the late 1850s and early 1860s illustrated, in concrete terms, the concurrent uncertainty in the political arena. These political doldrums proved to be an incubation period for the dichotomy that subsequently developed in Nova Scotian politics. In the decline of faith in railway-generated commercial growth were the seeds of the public debate which was ultimately settled only by Confederation. Tempered hopes from railways had precipitated the doldrums, and railways and their implications for the state were central to the ideological split which subsequently erupted over the future of Nova Scotia.

According to Muise, around railroads, coal, and the idea of industrial progress "there emerged a group of politicians who were convinced that government had to involve itself more directly in the economic and social life of the province".<sup>82</sup> Evidently, the Conservatives as a result of their growing enthusiasm for an industrial future, had completely reversed their position on the relative merits of an activist versus a limited state.<sup>83</sup> They acquired their "more positive approach to the actual use of power"<sup>84</sup> largely as a result of the political and financial conditions created by publicly owned railways. The financial burden of state capitalism had as its inevitable concomitant centralized financial control. Once the industrializing potential of railways was accepted, the importance of consolidated financial authority was easily recognizable. It was, therefore, no coincidence that financial control was drawn from the assembly to the executive even as negotiations to finance an expansion of the provincial railway system took place. Tupper's Conservative administration coupled its railway expansion schemes with compulsory assessment in support of public education. A growing belief among Tories that public education was necessary to prepare the population for the age's new imperatives, put a compulsory policy in education on the political agenda. Both policy initiatives were integral parts of a party programme. Both involved an expansion of the parameters of state power, and acceptance of a developmental, and even a directive function for the state.

On the other hand, Howe's vision of government-assisted commercial expansion foundered on the rock of railway expenses. He, and other Reformers, balked at the prospect of further enlarging the state at the expense of the tax-

82 Muise, "Parties and Constituencies", p. 185.

83 In the 1850s, Conservatives had advocated the establishment of municipal institutions as a way of limiting the power of the central state. See Pryke, "Nova Scotia and Prince Edward Island Consider an Effective Upper House", p. 335.

84 *Ibid.*, p. 333.

payer, and they advocated retrenchment and a return to limited government. For the most part, they opted to retain their commercial aspirations and so opposed Confederation. But it had become apparent to many during the 1857-63 period that the resources of the colony were too far committed to allow withdrawal from the railway policy upon which the Nova Scotian government had embarked in 1854. James McNab provided a good illustration of this drift in thinking. Originally appointed Receiver General in the Reform administration of 1854, he was quick to applaud the deal struck with Baring Brothers, and later succeeded Howe as Chief Railway Commissioner. During the period of ambivalence with respect to railways, however, McNab switched his political allegiance. His expectations with respect to railways and progress remained undiminished — unlike Howe's — and this facilitated his resumption of the office of Receiver General under Tupper in 1864, in an administration determined to accommodate government activities to the established financial fact of railways. McNab obviously still believed that railways could bring financial dividends to the public coffers.

It has been suggested that “the Nova Scotia of the early [eighteen] sixties appears to have been moving toward the political impasse which was bedevilling Canadian politics at the same time”.<sup>85</sup> In fact, Nova Scotians went well beyond. By 1864, Conservatives and Reformers could offer clearly divergent options to the electorate. There were, nevertheless, deep-seated similarities between the Canadian and Nova Scotian situations. Nova Scotia had pursued a financial policy comparable to that of Canada, though on the smaller scale befitting her smaller population. Debt-financed improvements in transportation infrastructure, facilitated by the access to British capital markets which only governments could provide, was a normal development route in British North America. In their use of this strategy, Nova Scotians, for all their nose-thumbing at spendthrift Canadians, appear largely to have shared their values and objectives. In effect, Nova Scotia travelled much the same road as her continental sister colony, a fact somewhat obscured by the contemporary political debate. The Canadian government, already deeply in debt for canals, could not afford a direct role in railway development, and instead encouraged private enterprise to act as its surrogate.<sup>86</sup> In Nova Scotia, however, state capitalism provided the answer to the development problem. Because the Nova Scotian state itself had intervened, the political debate was more easily polarized there than it was in Canada. A significant group of Nova Scotian politicians, once they had been seduced by the possibility that the state could manipulate the speed of development, came to the conclusion that it was within the legitimate purview of the state to shape the nature of the province's development.

85 J. Murray Beck, “The Party System in Nova Scotia”, *Canadian Journal of Economics and Political Science*, Vol. XX, No. 4 (November 1954), p. 515.

86 This argument is developed by Michael Piva in an unpublished manuscript, “Financing Responsible Government: Sir Francis Hincks and the Financial Crisis of 1848-1849”.

In the actions of Nova Scotian governments during the period of Responsible Government, we may well recognize the evolution of a prototype for the National Policy as introduced in 1878. Not only did the role of the state expand with its financial obligations, but the manner in which it did so provided a model for the central policy initiative of the late 19th century Canadian state. While it may be true that the policy-making aspect of John A. Macdonald's regime has been "over-dramatized",<sup>87</sup> the same cannot be said of the Nova Scotian politicians of our period. Seldom have they been attributed any ideas or aspirations beyond the parochial. Closer scrutiny of their pre-Confederation "nation-building" policies is necessary in order to put subsequent policy initiatives into perspective. Perhaps Macdonald's National Policy has been over-emphasized partly because the precedents for it have not been adequately recognized. Indeed, Nova Scotia's efforts in the area of state capitalism in the 1850s and 1860s call into question Michael Bliss' claim that "the advent of the National Policy in the nineteenth century was the single most significant departure from the principles of free competition and free enterprise in Canadian history".<sup>88</sup> Instead they raise the possibility that Macdonald's National Policy involved only the carrying through of an established approach to the problems of economic development in British North America.

87 Gordon Stewart, "John A. Macdonald's Greatest Triumph", *Canadian Historical Review*, Vol. LXIII, No. 1 (March 1982), p. 28.

88 Michael Bliss, "'Rich by Nature, Poor by Policy': The State and Economic Life in Canada", in R. Kenneth Carty and W. Peter Ward, eds., *Entering the Eighties: Canada in Crisis* (Toronto 1980), p. 86.