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## Economic Nationalism and Confederation

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## ECONOMIC NATIONALISM AND CONFEDERATION

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### I

It should be emphasized at once that in this paper I make no attempt to supply what might be called an "economic interpretation" of Confederation. The effort to explain one group of phenomena supposedly "political" in character by reference to another group of phenomena supposedly "economic" in character seems to me as mechanical and unreal as the historical dichotomy upon which it is based. I am interested, not in seeking such simple causal connections, but in exploring some small part of the enormously complicated relationships of industrialism and nationality in the nineteenth century. In the British Empire, Germany, and the United States, the rise of the new industry and the new transport was accompanied by a strong tendency towards territorial expansion and by an equally marked impulse towards political union and centralization. It seems to me that the foundation and early growth of the Dominion of Canada afford a small but fairly typical example of this complex politic-economic process. Within the short space of less than fifteen years, the British North American provinces reached four major decisions: they decided upon political union, westward expansion, transcontinental railways, and a protective tariff. The coincidence of these decisions was surely not accidental: they were all products of a vast complex system of related forces which were continually acting and reacting upon each other. It is this process of interaction that I propose to explore—in a very general fashion—this afternoon. And I shall focus attention upon only one of these four decisions—the determination to establish a protective tariff—in an endeavour to trace its origins and estimate its significance in the general historical process.

In the middle 1840's, the point at which this analysis must begin, the great triumphs of industrialism and nationality were still in the future. Except in England, the broad general interests of agriculture and commerce still dominated affairs. The economic order was characterized by wooden shipping, wind- and water-power, ocean and river transport. The relatively tranquil world of politics was made up of little states, small provinces, unconsolidated federations and sprawling, decentralized empires. The provinces of British North America had grown up in this world and they were fairly happily adjusted to it. Their economies were based upon the St. Lawrence River and the Atlantic Ocean; agriculture, lumbering, and fishing were their staple industries; and they had put their money into canals to improve the inland waterways and into wooden ships to peddle their goods around the world. It was their settled habit to think in terms of remote markets, of commercial systems which extended far beyond their narrow boundaries and vastly transcended their parochial interests. They were members—and fairly satisfied members—of the low-tariff British mercantile system; and the idea of reciprocity, of interchange of privileges, of economic and political give-and-take, was familiar and acceptable to them. Their trade relations with each other were almost negligible; they had no political link beside their common allegiance to Great Britain; and nobody had yet conceived the idea of a transcontinental British North American

union. There was little interest in the remote West, little conception of the future of railways, and little appreciation of the vast potentialities of the tariff.

This innocent and idyllic world of our great grandfathers must have appeared to possess a most comforting substantiality. But in actual fact it was already ominously threatened with approaching dissolution. The first major shock which fell upon it came, appropriately enough, from the original industrialist country, Great Britain. In Great Britain, as in Germany, the United States, and British North America, the problem of commercial policy in general and of the tariff in particular was of essential importance in this period of rapid economic and political change. There were few measures which summed up the interests and expressed the philosophy of the new industrialism and the new nationality more completely and effectively than the repeal of the Corn Laws. To John Bright and the other reforming manufacturers, who somehow contrived to suggest that they ran their mills as unimportant side-shows to the main business of professional moralizing, the principle of free trade was a timeless truth of universal validity. It was not only economic orthodoxy: it was certainly Christian morality: there were even inspired moments when it seemed to take on the awful grandeur of divine revelation. In the light of these heavenly intimations it was easy for the free traders to convince themselves—and very nearly to convince posterity—that they acted in a spirit of cosmic altruism. Obsessed with the elevation of humanity in general, they drove straight towards the goal of national self-interest. In the main, the Anti-Corn Law League was an association of British manufacturers who preferred, with natural Christian humility, to conceal their real identity; and the repeal of the Corn Laws was just as strictly and exclusively a policy of economic nationalism as the tallest tariff on earth. In the interest of industrial specialization at home, and world trade abroad, the free traders had sacrificed both the agriculture of Great Britain and the commerce of British North America. "Blessed are the free in trade," ran the new British industrial beatitude, "for they shall inherit the earth." This terrestrial paradise of world commerce glimmered radiantly in the distance; but to win it, to make oneself worthy of it, it was first necessary to cast off the fleshly trammels of the old British Empire. For Great Britain the new nationality was at first inevitably written as "Little Englandism." It meant the withdrawal of colonial preferences, the recall of colonial troops, the abandonment of colonial obligations. Just as Prussia was forced to break up the ramshackle Germanic Confederation before she could achieve the consolidated German Empire, so Great Britain had to shake herself free from the Old Colonial System before she could begin to realize the world empire of free trade.

This sudden assertion of British national independence was the first formidable impact of the new order on British North America. It was followed almost immediately by another shock, the direct introduction of the new technology. The repeal of the Corn Laws compelled the provinces to grope their way towards a new commercial policy: the construction of the first railways equipped them with the rudiments of the new industrial system. In Great Britain, the first rapid growth of machine manufacture had preceded the construction of railways; but in North America—and for obvious reasons—this order was almost exactly reversed. In the new continent the railway was the first great

embodiment of the age of iron and steam; and the construction of the Grand Trunk and the other railways of the 1850's formed the first stage of the slow industrialization of British North America. From that time onward, the development of the provinces was guided by the compulsion of two forces, one external and one native to the provinces themselves. The external pressure was to come from those two great industrialized nationalities, Great Britain and the United States: the internal pressure was to originate in the movement towards industrialism and nationality within British North America. Each of these influences was driving the provinces towards a new policy, political and commercial. And in time it was to be discovered that the goal of both was one and the same.

## II

There was, however, nothing very novel in the first British North American reaction to the new world order. The original responses ran along safely traditional lines. Flung rudely out of the shelter of the Old Colonial System, the provinces could not believe themselves capable of enduring what the British industrial monopolists could complacently refer to as the "bracing atmosphere" of free trade; and except for a moment, during the deep depression of 1849, there was not much serious discussion of a protective tariff. In fact, the provinces had not the slightest intention of taking any action which, in the elephantine language of modern diplomacy, could be described as unilateral. Through long membership in the British Empire, they were accustomed to the idea of an interchange of privileges, of a rough balance of benefits and concessions. And when Great Britain had summarily and forcibly ejected them from their first commercial association, they turned naturally to that other imperialist power, the United States. In 1854, they concluded with the American Republic a treaty of Reciprocity, which established a series of reciprocal preferences and concessions, more systematic certainly than anything the provinces had known before, but roughly on the same lines as the old imperial system.

Within the comforting protection of these new fiscal arrangements, the provinces intended to carry on pretty much as they had done before. They were still largely absorbed in commerce, not manufacturing. They still thought, not in terms of a British North American economy, but in terms of great international commercial systems based on the ocean and the continental rivers. Even though they now began to use the new technology of steam and iron, they used it instinctively to buttress and strengthen commercial empires which had been built up long before in the pre-industrial age. It was significant that the Intercolonial, the one serious railway project which was intended to link the Maritimes with the Province of Canada, was taken up by governments rather than by private capitalists; and it was significant also that all the governments concerned, at one time or another, extricated themselves from agreements for its construction with the most surprising agility. The Grand Trunk, which was by far the biggest British American railway enterprise of the period, was obviously planned to strengthen the old international trading system of the St. Lawrence. It was intended, like the St. Lawrence canals before it, to capture the trade of the American Middle West.

All this implied—or seemed to imply—merely a slight modification of the old objectives and methods. The revised arrangement looked

durable: but there were elements of disturbance within it. And of these variables perhaps the most important was the ominously uncertain condition of the United States. The Reciprocity Treaty—and it is essential to remember this—was negotiated *before* the triumph of industrialism and coercive centralized nationality in the United States. It was a typical product of the period when the agrarianism and commercialism of the South still struggled against the encroaching industrialism of the North. The South had taught the continent its ideas of equalitarian democracy, preached the principle of local autonomy for the benefit of little states and provinces, struggled to defend a rough balance of agricultural, commercial, and industrial interests within the republic. The Reciprocity Treaty was in part injurious to southern interests; but the South supported it precisely because it believed that the arrangement would satisfy the British provinces and prevent or delay their annexation to the United States. The passage of the Reciprocity Treaty was, in fact, one of the last efforts of the South to preserve the economic and political balance of power on the continent, to save North America from what Parrington has called “an unquestioning and uncritical consolidation.” It was one of the South’s last successes. For the Treaty was accepted in the year that witnessed the enactment of the Kansas-Nebraska Bill, which in effect destroyed the Missouri Compromise. From that moment the struggle between North and South for the control of the western domain approached its final paroxysm. And the new Republican party, which represented big business, coercive centralization, and truculent imperialism, adopted a protectionist creed which was to make such arrangements as the Reciprocity Treaty an idle dream for the next half-century.

But the approaching crisis, which was to transform the United States into an industrial and centralized nation, had not yet actually arrived. In the meantime, while North and South were slowly marshalling their forces for the conflict, the first results of railway building began to show themselves in British North America. One at least of these consequences might have been anticipated with tolerable certainty. From the earliest times, the governments of North America including those of the northern British provinces, had been compelled to make one peculiar and significant modification in the doctrine of the *laissez-faire*, non-interventionist state. They had been compelled to accept the idea that the state in North America must clear and prepare the way for the beneficent operations of the capitalist. In the past this had meant the lavish construction of roads and canals; and now it came to imply substantial contributions to railways. In the Maritimes, partly through choice and partly through necessity, the state itself frankly undertook the construction and management of its new transport system. In the Province of Canada, where the Northern, the Great Western, and the Grand Trunk Railway Companies were supposedly independent commercial concerns, the state subsidized, rehabilitated, and revived these enterprises with a frequency which almost earned it the title of ownership. All this involved what to British North America was a new and alarming drain upon the treasury; and when the capital imports incidental to railway building had ceased, and the depression of 1857 had descended, the customs revenue dwindled alarmingly. The province, as its financier Galt explained, had cheapened the cost of British manufactures in Canada, and enhanced the value of Canadian products in England, by

its expenditures on canals and railways. The traffic therefore could very well bear an increased toll. The government needed the money. And, to make a long story short, it proposed to raise the tariff.

Thus the Cayley-Galt tariff of 1858-9 was one of the first results of the railway construction programme. But there was, in addition, another important consequence which perhaps had not been anticipated by even the most hard-headed of the farmers and merchants who had wanted the railways in the first place. The railway boom provided the basis for the new industrialism in British North America. It brought, in volume and numbers such as had never been seen before, the new industrial materials, the new industrial techniques, the new industrial labourers. There was a widening of the economic horizon, a quickening of the tempo of economic life; and the little provincial foundries and manufactories profited from the better markets of the period, and also from the high prices which were partly a result of the Crimean War and partly of the railway boom itself. The little colonial establishments profited; but not, unhappily, as much as they could have wished. Even while the boom was at its height, they were astonished and outraged to discover how much of the profits of Canadian railway construction were going into the pockets of American manufacturers. "The very spades and shovels, axes and hammers used by the workmen and labourers were of American make," wrote one contemporary with indignation. As Galt had intimated, the Canadian canals and the American and Canadian railways were already removing the natural shelter of the northern manufacturers. Their situation had been annoying enough during the boom; it was far worse when the depression of 1857 brought a collapse of prices. They suffered; but this time they suffered in highly important company, for their distress coincided with the financial embarrassment of the government. They desired a higher tariff for protection: the government desired it for increased revenue. And the result of this happy union of sentiments was the Cayley-Galt customs duties of 1858-9. Thus, on the eve of the American Civil War, an important qualification had already been introduced into the traditional commercial policy of British North America. The provinces stood committed to a system of low tariffs and reciprocal preferences. But Canada had abruptly increased her duties with protectionist approval though ostensibly for revenue purposes. This discrepancy was immediately detected in the United States. And disagreements might have followed this discovery, if all such problems had not been momentarily engulfed in the torrent of hatred unloosed by the American Civil War.

### III

For the next fifteen years, the American Civil War and its consequences constituted perhaps the dominant factor in British North American affairs. Nothing is more obvious now than that the new order of nationality and industrialism meant war; and nothing is more ironical than the conviction of its apologists that it meant peace. John Bright stood for pacification with the same moral earnestness that he opposed factory acts and denounced colonies. To these middle-class reformers war was unthinkable precisely because they had just succeeded in raising politics to such a high moral plane. As Mr. Gladstone said reverently of John Bright, he had "elevated political life to a higher elevation and to a loftier standard." The Manchester School introduced moral

earnestness into English politics: the American Slavery Abolitionists introduced moral indignation into North American affairs. Surely this ought to have improved human conduct; but the strange fact was that human conduct remained obstinately unregenerate. Far from becoming better, it seemed to be getting steadily worse. The aristocratic intriguers who met at the Congress of Vienna had given Great Britain nearly forty years of peace. But the ushering in of the Manchester men's millenium was followed almost immediately by the Crimean War; and the great humanitarian crusade of the Abolitionists ended in a bloody civil conflict. From 1854 to 1878, the bulk of the period covered by this paper, there were few years indeed which did not see armed struggle among the great powers of Europe and America.

In many ways, which cannot be examined here, the American Civil War was destined to effect the development of British America. Its influence, for example, on the formation of commercial policy was decisive in the end. So far as the Province of Canada was concerned, it helped from the start to promote the industrial growth which had begun during the previous decade. "I trust," said James Watson, President of the Manufacturers' Association of Ontario at a special meeting held in 1875, "I trust that it will be borne in mind that the rapid development of manufacturing [in this country] during the past few years is almost entirely due to the peculiar position of the United States from the commencement of the late civil war." Inevitably the war and the economic dislocation resulting from it focused the manufacturing industry of the United States upon the home market and limited its export trade. In all probability there were a good many Canadian manufacturers like Edward Gurney of the Gurney Stove Company who declared in 1876 that his business had quadrupled since 1861 and that, in effect, it was the war-time rise in values in the United States which had sufficed to give him the home market.

Thus one result of the war was to increase the number of people in the Province of Canada who were likely in future to want a protective tariff. Its far more important consequence, however, was to complete the supremacy of those interests in the United States which would never again submit to such a measure as the Reciprocity Treaty. The war was a struggle between an awakening industrial society and a planter community, a struggle for nationality against local independence. And its result, as Parrington has said, was to throw "the coercive powers of a centralizing state into the hands of the new industrialism." The men who stood for transcontinental railways, large-scale manufacture, and western exploitation were to determine, in large measure, the pattern of future American development. They represented unification and expansion within the country and imperialism without. The purchase of Alaska, the freely expressed desire for the annexation of British North America, are evidences of this renewed impulse towards territorial aggrandizement. The establishment of a passport system for the first time against the northern provinces, the threat to repeal the Rush-Bagot Treaty limiting naval armaments on the Great Lakes, the proposal to stop the bonding privileges for trade through United States territory—all illustrate a new truculence of tone.

Again, as in the case of England, commercial policy summed up and expressed the character of the new America which arose from the wreckage of the Civil War. Before the conflict began, the new Re-

publican party had declared in favour of a protective tariff. The financial necessities of the war brought an enormous increase in the customs duties: and the need for war-time goods and services gave an immense impetus to manufacturing. When the war was over, the tariff was unquestioningly continued as one of the sacred institutions of the unified continental state. In home affairs, it expressed the victory of the industrial North over the agrarian South: in external relations, it signified the triumph of national exclusiveness over international co-operation. In such circumstances as these the Reciprocity Treaty had inevitably to disappear. In the winter of 1866, when the British Americans journeyed down to Washington, in the vain hope of negotiating a new agreement, Mr. Morrill, the principal author of the new American tariff, had only a very singular proposal to make to them. He proposed that, in return for the inshore fisheries and the navigation of the St. Lawrence and its canals, the United States would consider reciprocal free trade in five articles of great commercial importance. These articles were: unfinished millstones and grindstones, gypsum, firewood, and rags.

The tremendous alteration in the whole position of British North America had now been brought to an end. The change had begun with the downfall of the Old Colonial System of Great Britain: it had been completed by the wreck of the old federal system of the United States. The insignificant northern provinces were now flanked by two re-organized consolidated nationalities, heavily industrialized, each of which had adopted a realistic political and commercial policy in its own exclusive interest. In the complete absence, in the apparent impossibility of those reciprocal preferences which had supported the St. Lawrence route in the past, what hope was there for an international commercial system based upon it? Even under the favourable circumstances of the past, the St. Lawrence had never really won the trade of the American Middle West; and there was all the more reason now why it could never do so. This collapse of the old hopes in the wreckage of the old world of trade and politics brought the provinces to the threshold of economic and political nationalism. In the light of the successful examples around them, they saw now how they could use the new concepts of union and expansion as the United States had adapted them for the North American continent. They decided upon a strongly centralized federal union: they determined upon transcontinental railways and the opening of the West. All this was pretty strictly in accordance with the programme which had been developed in the United States during and after the Civil War. But there was one significant difference. There was no lofty protective tariff. In Canada, the decisive change in commercial policy had yet to come.

The fact was that for a decade longer the new federation still clung obstinately to the old economic notions which had been the stand-by of the provinces. The interests of the state, and the interests of the principal groups composing it, seemed still to be satisfied with a moderate commercial policy. In the Maritimes, the financial pressure of railway and railway commitments might have forced up the customs duties; and actually, just before Confederation, the tariff in New Brunswick was probably the highest in British North America. But, on the other hand, the revenue position in the Province of Canada was easier; and in 1866, as a pre-Confederation concession to opinion in the Maritimes, it lowered the level of the old Cayley-Galt duties. The manufacturers



of Canada strongly protested this reduction; but in general the agricultural, commercial, and railway interests were stronger; and both in Canada and the Maritimes they still wanted what Galt called "modified free trade." They put their hopes in the free-trade area of four million people which Confederation would create. They expected that they could make arrangements for preferential exchange of goods with the West Indies and South America. And, of course, they obstinately continued to believe that in the end they would yet get a new Reciprocity Treaty with the United States.

Yet twelve years after Confederation the National Policy was an established fact. The twin pressures, internal and external, continued to act in unison: and together they were driving the new Dominion towards the complete American variant of economic nationalism. Gradually the hope of a Reciprocity Treaty with the United States was crushed out of existence by repeated disappointments. Macdonald failed to obtain a new arrangement at the time of the Washington Treaty: George Brown was unsuccessful in the negotiations of 1874. While the prospect of these international agreements faded, the idea of national exclusiveness had already begun to grow. The phrase "a national policy for Canada" appears as early as 1869. By the next year it has become definitely associated with the tariff. In the election of 1872 Macdonald made an open appeal to manufacturers and workingmen with a proposal to support domestic industry with a protective tariff. In the Maritimes, and in old commercial towns like Montreal, the trading interests were strongly entrenched and resisted stoutly; but Hamilton, Toronto, and the other industrial centres of the future were already converted or half-converted to the new views. All this had occurred while prosperity still ruled and while American manufactures had yet to enter the Canadian market in volume. After 1873 the drift towards protection became accelerated and irresistible. The situation was in many respects analogous to that which had existed in the Province of Canada in 1857-9 when the first Canadian protective tariff had come into being. Again depression had exposed the weaknesses of Canadian industry: again the mass-production American manufacturers had invaded the northern market: and again the Canadian government was badly in need of funds. There was one major difference, however—a difference which aggravated rather than alleviated the problem in the 1870's. In 1857-9, British North America had enjoyed a reciprocal commercial agreement with the United States. Now there was no Reciprocity Treaty and no prospect of one. The forces of industrialism and nationality, internal and external to British North America, had finished their work. And the Dominion of Canada completed its programme of national unification with the National Policy of Protection.