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British North America at Confederation

A Study Prepared for the Royal Commission on Dominion-Provincial Relations

BY

D. G. CREIGHTON

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BRITISH NORTH AMERICA AT CONFEDERATION

EDITORIAL FOREWORD

Professor D. G. Creighton of the Department of History at the University of Toronto was retained by the Royal Commission on Dominion-Provincial Relations to make the following study. He was asked to include a review of the forces which brought about and shaped Confederation; an analysis of the economic, social and financial conditions of the period (with particular reference to the clause in the Order in Council appointing the Commission which said "that it is expedient to provide for a re-examination of the economic and financial basis of Confederation and of the distribution of legislative powers in the light of the economic and social developments of the last seventy years"); an interpretation of the economic and financial clauses of the B.N.A. Act in the light of the conditions and anticipations of that time; and an indication of the nature of the state which the Fathers of Confederation planned.

In addition to public sources, Professor Creighton has used a collection of contemporary documents, speeches, memoirs and editorials, and hitherto unpublished compilations of public finance and other statistics made by the Commission research staff. The method of presentation and any expressions of opinion are the responsibility of the author, and not of the Commission.

The study portrays a period of violent and critical flux in the life of British North America, a period in which fundamental economic and political decisions were made. In the years before Confederation the colonies were gradually ceasing to be simple economies devoted to the export of raw materials, and were acquiring diversity. Superimposed on the growing pains of this change, and on the stresses and strains of the international crises and depressions of 1857-66, were two major adjustments of almost revolutionary importance.

Abandonment of protection and colonial preferences by the United Kingdom disrupted the trade of the colonies and caused heavy losses on the St. Lawrence waterway system, though the Reciprocity Treaty with the United States (1854-1866) and American markets incidental to the Civil War provided, for a time, compensating commercial opportunities. Of even greater importance was the rise of mechanized industry and transport. In the period of transition from the wood-wind-water era to the age of steel and steam, railways became the primary consideration of Canadian business men and public men alike. Railways promised rapid expansion of frontiers, growth of trade and population, and new prosperity; but they also threatened established and flourishing regions such as the Maritimes unless these regions could quickly adapt themselves to the new order of things. Until the coming of the railway there had been relatively little trade or common economic interest between the colonies. Railways made them think in continental terms. Simultaneously, the loss of tariff privileges enjoyed under the old colonial system made them look for new trading outlets. Common plans and action seemed essential if the colonies were to make the most advantageous use of the new techniques, to promote trade effectively, and to acquire the prairie and Pacific territory before it was absorbed by the American land rush.

Extensive government assistance and strengthened finances were equally necessary. Developmental expenditure, in the pre-Confederation period, was the one permitted exception to the traditional *laissez-faire* theory of governmental

functions, and the building of canals had seriously strained the credit of the Canadas. The advent of the railway, in which there was a large investment of public funds from 1850 on, threatened the solvency of every British North American government. In union, it was thought, there would be strength, greater financial power and an opportunity for concerted action impossible while the colonies remained apart.

These were the economic stimuli of Confederation. The motive of common military defence was also present. British withdrawal from responsibility for defending the colonies synchronized with the rise of the United States as a formidable and threatening military power.

With this background of Confederation in mind, Professor Creighton examines the general economic and financial provisions of the B.N.A. Act. He reaches the conclusion that it was the clear intention of the Fathers of Confederation to create a strong federal government with all the powers necessary to build, equip, administer and defend a transcontinental nation; and that the provinces were maintained as governmental units to preserve certain traditional and cherished educational and legal systems and were intended to administer purely local affairs. Not only was provincial jurisdiction limited to matters then considered of only local interest (though some of these may since have become of national importance) but provincial revenues were similarly curtailed, both the Quebec and the London resolutions conferring on the Dominion "the powers of taxation." Supporters and opponents of union, Professor Creighton argues, were agreed in thinking that if there was to be Confederation at all, it must be—with the lessons of the United States civil war vividly before them—Confederation under a strong central government.

Professor Creighton's first chapters discuss the influences which, before Confederation, affected all the British North American colonies alike. In succeeding chapters he relates the economic history—roughly for the period 1850-67—of the Canadas, the Maritimes, the prairies and the Pacific coast settlements. The second half of the study deals with the economic aims of Confederation; public finance before 1867; the financial settlement reached in that year; and finally the first consequences of that settlement.

The first draft of this study was completed in August, 1938, and after having been circulated to the Dominion and provincial governments for comment, was revised where necessary and put in its present form in the spring of 1939.

Section I

INTRODUCTORY

The purpose of this study is to provide a survey of certain important elements in the life of the British North American provinces on the eve of Confederation. The economic and social conditions of the provinces at that time and the public finances of their respective governments have been selected for special study; and an attempt has been made to present an historical analysis of the chief decisions taken at Confederation, and of the main objectives which Confederation was expected to realize, so far as these relate to economic and financial matters.

The Confederation of the British North American provinces was achieved at a particular time, by a particular generation and in the midst of a peculiar conjuncture of circumstances. The conditions of the period, economic, social and political, constituted the major premise of the architects of Confederation; and in building for the future they could use only the materials of the present within certain limits imposed by the traditions of the past. Their work bears the stamp of their own period, and the impress of the whole Canadian history, of which their period formed only a brief part; and the strength and weakness, the successes and tribulations of the federal structure which they created are not explicable apart from the circumstances of its birth.

These circumstances were, in part, peculiar to the troubled decade of the 1860's; but in part also they have been common to all periods of modern Canadian history. The world of post-war Canada and the world of Mid-Victorian British North America are linked by many similarities, just as they are separated by obvious differences. The transition from water-transport to railways, from frontier self-sufficiency to industrial diversification, from colonialism to national autonomy, had passed its first important stage by 1867; and, indeed, Confederation may be regarded as a solution of the earlier problems of the modern age, and as a device for the realization of its first promises. The political settlement of 1867 was the product both of conditions which have vanished and of others which have been regularly renewed. Its anachronisms and modernities, its inadequacies and virtues, alike have much of their explanation in the structure of British North American communities in the 1860's.

In the years which immediately preceded Confederation, the provinces of British North America were responding, in their various ways, to the advent of the new industrialism, the new transport and the new attitudes of Great Britain and the United States. The economic bases of the provinces differed; for generations their political histories had been distinct. This particularism had encouraged variations in provincial growth; but it could not prevent the development of common problems and common aspirations. In all the provinces, railways had bred new commercial hopes and debts created new burdens; and the approaching abrogation of the Reciprocity Treaty with the United States appeared to necessitate re-orientation of the trade of British North America as a whole. The political instability of the Province of Canada, which was the product of fundamental social and sectional differences, precipitated the impending reorganization; and, once the process had been set in motion, it was carried forward by the weight of all the ambitions, apprehensions and commitments which agitated the provinces at the time. The culmination of strains and difficulties within the colonies was accompanied by an intensification of pressure from without. On the one hand were the territorial expansion, the commercial rivalry and the political truculence of the United States; on the other were the decline of the old British imperialism and the approaching termination of imperial defence. The concurrence of forces which hastened the achievement of Confederation was exceptional and transitory; but these ephemeral influences helped to shape a settlement which was intended at once to satisfy the claims of tradition and the demands of the modern world.

It is obvious that, while the excellences of the Confederation settlement remain as undoubted as ever, its defects have become more conspicuous with the passage of time. The Fathers of Confederation were not endowed with the prophetic power which enabled them to anticipate the gov-

ernmental responsibilities of the future; and, indeed, they made no direct reference to the possible development of new legislative powers. This reticence may have been due to a modesty from which succeeding generations have been slow to profit; and it may be that the constitution which Macdonald regarded as "a mere skeleton and framework which would not bind us down" has unfortunately been permitted to lose the elasticity which he expected would be one of its distinguishing characteristics. At all events, whether or not the outcome might have been different, the omissions in the Confederation settlement have now become major defects. The Fathers of Confederation intended to unite the economies of British North America in a strong, national integration; but they naturally judged the wants of this new economic unity in the light of the conditions of their own day and milieu. They hoped for the development of manufacturing and for expansion to the prairies. But they could not foresee the modern industrialism of eastern Canada; they had no experience of the wheat economies which were to develop in the west; and the legislation respecting marketing and social welfare, which the modern age has deemed legitimate and necessary, was undreamed of at the time of the Quebec Conference. The Fathers of Confederation devised a federal scheme which sufficed for decades to meet the needs of a relatively simple economy; but its weaknesses have been exposed, as they never were before, by the pressure of those burdens which are the inevitable accompaniment of a complex and unstable modern world.

Section II

EXTERNAL INFLUENCES IN THE DEVELOPMENT OF THE BRITISH NORTH AMERICAN PROVINCES

I

On the eve of Confederation, the economies of British North America were almost as numerous and distinct as the political units of which it was composed. This condition of political disunity was the result both of local centrifugal forces and of deliberate imperial policy. This economic and social separateness was the product of prime geographic factors and of long-established and contrasted human enterprises and habits. But the divisions which kept the northern provinces apart were not the only, nor perhaps the most important, feature of their collective history during this period. The study of British North America on the eve of Confederation must deal largely in terms of separate provinces and differing regional economies; but it must at least begin with a survey of the problems which were common to all provinces and the forces which acted impartially upon all economies alike. The burden of these common problems and the pressure of these outside influences were largely responsible for the movement which ended in Confederation. But if there had been no Confederation, and even if there had been no federal movement, the forces acting upon the development of British North America would have involved the different provinces in common difficulties and spurred them on to comparable efforts and enterprises.

The outside influences which affected the northern provinces came inevitably from the two countries with which they had always been most intimately associated—from Great Britain and the United States. The politics, wars and treaties, the fiscal systems, commercial programs and business cycles of the two great English-speaking countries invariably had repercussions, either direct or indirect, upon the life of British North America. Though these influences were comparable in extent and profundity, they differed widely in character; and in large measure the difference was the result of the contrasted relationships which had developed between British North America and Great Britain on the one hand, and British North America and the United States on the other. Traditionally the provinces had clung to the political support and economic assistance of Great Britain. From the beginning, they had tried to offer competition to the political and commercial expansion of the United States. But the years which immediately preceded Confederation saw the last stages of Great Britain's withdrawal from the commitments of her ancient empire; and this withdrawal coincided with one of the great eras in the continental expansion of the United States.

The old colonial system, both political and economic, had been wrecked by two revolutions—by the political revolution in the Thirteen Colonies and by the industrial revolution in Great Britain. In the early 19th century, the stunted little colonies which survived the disruption of the first empire were judged and condemned in the light of the new political economy; and England turned in relief from the burdens of mercantilism to the promises of machine manufacture and free trade. By the middle of the century Great Britain had surrendered the apparent advantages of empire in exchange for relief from its undoubted burdens. The grant of responsible government was accompanied by the abolition of the navigation laws and the removal of the old imperial preferential tariffs on colonial wheat and timber. After the middle of the 19th century, the chief surviving element of the old imperial system was the burden which still rested on the mother country for colonial defence.

The effects of this contraction of the old official imperialism were modified, for a time, by the brisk movement overseas of British private capital. The preferences, bounties, monopolies and military assistance of the past were gone or going; but heavy British investments in Canadian municipal bonds and Grand Trunk Railway securities supplied a new and almost equally fortifying influence in the early fifties. This stream of financial largesse was dynamic in its effects but brief in its duration. After many of the municipalities had defaulted in the depression which followed the panic of 1857, after the Grand Trunk had reached a state of chronic financial chaos in the early sixties, the British investor began to follow the colonial office in its retreat from the North American colonies.

Canadian Confederation was preceded by the failure of Canadian governments to float new loans in the London market; it was followed by the withdrawal of the last imperial garrisons from Quebec; and it was put through in large measure by the British authorities, who in 1864 decided to give their full support to the newly formed Quebec scheme.[1] This British assistance might be interpreted as an effort to assist in the creation of a great holding company in which could be amalgamated all those divided and vulnerable North American interests, whose protection was a burden to the British state and whose financial weakness was a grievance of British capital.

At the same time, while their last imperial supports were failing, the North American provinces were confronted with the possibility of attack from the United States. Even if its intentions were not actually bellicose, the actions of the American republic were certainly aggressive. In the past, the provinces had tried, as best they could to compete with the United States. The St. Lawrence commercial system had been devised to contend with New York for the prize of the western trade: the Maritimes had struggled with New England for the domination of the fisheries and the control of the West Indies commerce. But the British repeal of the Corn Laws and the collapse of the entire mercantile system produced a violent change in the economic affiliations of the provinces. They had always been—and, in particular, Canada—dependent upon a political and commercial metropolis; and the swing of Canada away from Great Britain and towards the United States was expressed politically in the Annexation Manifesto and economically in the demand for reciprocity with the American republic. The Reciprocity Treaty of 1854-66 inaugurated a new era of harmony between the provinces and the United States. It facilitated the full development of those closer trade relations which were a feature of the period. But, soon after the passing of the treaty, disputes began to gather about its interpretation;[2] and, finally, the American Civil War, with its border incidents and its Anglo-American disputes, brought the period of harmony effectively to a close.[3] In 1864, the year of the Confederation conference, the United States appeared in its old light, a vast and encroaching organization, politically truculent, economically aggressive.

[1] Chester Martin, "British Policy in Canadian Confederation" (*Canadian Historical Review*, vol. 13, March, 1932, pp. 3-19).

[2] D. C. Masters, *The Reciprocity Treaty of 1854* (London, 1936), pp. 115-70.

[3] Chester Martin, "The United States and Canadian Nationality" (*Canadian Historical Review*, vol. 18, March, 1937, pp. 1-11).

The *Trent* affair had brought Great Britain and the United States to the very brink of war; the St. Albans Raid and the plottings of the Fenian Brotherhood embittered the relations between the republic and the northern provinces. On the border, the United States stiffened its passport regulations; and it threatened to end the Agreement of 1817 which limited naval armaments on the Great Lakes. Against this formidable neighbour, which the shock of civil war had made one of the greatest military powers in the world, all the provinces stood practically undefended, while some of them were admitted to be virtually indefensible. It was only natural that public opinion in the colonies and official opinion in England should be largely concerned with the question of defence; but, at the same time, the problem of American aggression was by no means merely military or political in character. Of necessity, it involved commercial rivalry and territorial expansion.

Long before 1866, the approaching abrogation of the Reciprocity Treaty by the United States was first suspected and then known. In the American Congress, there were threats to repeal the laws of 1845-46, which permitted Canada to import and export freely, in bond, through the United States, and which constituted the legal basis for the extension of the Grand Trunk Railway to Portland, Maine. All the provinces faced the certain loss of markets. The Canadas were confronted with the possibility of the stoppage of their winter communications to the sea;[4] and Nova Scotians were uneasily conscious that the abrogation of reciprocity would stop the free entry of their fish into the United States, without preventing the aggressive competition of American fishermen in their inshore waters.[5] In the west, the march of American settlement was already endangering the dream of a transcontinental British North America. Minnesota was admitted as a state in the American Union in 1858; and the Red River valley was already economically tributary to St. Paul. This American aggression, which was the counterpart of the British imperial retreat, brought the North American provinces to a state of insecurity and apprehension. On the one hand, was the evident decline of the old Britannic imperialism; on the other was the ominous fermentation in the United States. And if the provinces were to survive as separate North American powers, within the British Empire and outside the American republic, it seemed inevitable that they would be forced to assume a new attitude with regard to both Great Britain and the United States.

[4] *Montreal Gazette*, Feb. 8, April 20, 1864; *Acadian Recorder*, (Halifax), Feb. 4, 1865.

[5] *Evening Express* (Halifax), Jan. 23, March 24, 1865.

II

This political and commercial reorientation was not, however, the only necessary readjustment of the period. The provinces had to accommodate themselves not only to the changing policies of Great Britain and the United States, but to the new technology and the new industrialism. In Great Britain, and to a lesser extent in the United States, the twenty years which preceded Canadian Confederation formed a stage of importance in the great transition from commercialism to industrial capitalism. The revolution in technology, which had begun far back in the 18th century, continued without interruption; iron and coal provided at once the physical expression for human inventions and the power to drive them; and mechanized land and water transport carried the productions of large-scale industry to the four corners of the globe. The shift from wood to iron, from water-power to steam, from canals to railways and from sailing-ships to steamboats became virtually an accomplished fact. All these changes fell with jarring force upon provincial economies which were unprepared to sustain the tremendous and expensive adjustments involved.[6]

The British North American provinces, for reasons many and obvious, were not uncomfortably adjusted to the economic organization which was now passing rapidly away. Their economies had been largely based upon wood, wind and water. The business organization of Canada had been built up in relation to the St. Lawrence and the Lakes; the economic activities of the Maritimes centred in the sea, its trade, its shipping and its fisheries. The natural routes of ocean, lake and river had been improved and extended merely by canals. Wooden shipping dominated the trade of the waterways and provided work for the shipbuilders of Quebec and the Maritimes; and the trade in timber and lumber still struggled in Canada for that supremacy which it so easily maintained in the Province of New Brunswick. For these primitive economies, the coming of machine-driven industry, the advent of the railway and the iron ship, both posed problems and offered opportunities. It was through their desperate efforts to realize the advantages of the new transport, that the provinces acquired that burden of debt which was one of the chief common denominators of their pre-confederation troubles. The burdens of public finance were created by the railways; but, in compensation, the railways made possible a broad base on which these burdens could be borne. In the past, the political aspirations of British North America had been limited by the very nature of its water communications. The building of the St. Lawrence canals had virtually necessitated the union of the Canadas in 1841. The railways suggested a transcontinental federation and made it possible.

These long-run changes in the economic organization of the West-European and American world were accompanied, moreover, by a series of briefer, and sharply upsetting movements. In the United States even more than in Great Britain the business history of the period 1850-1867 was troubled by recurrent crises, both economic and political. The second half of the century opened with a return to moderate prosperity after the depression of 1847; and the upward movement was encouraged and strongly supported by Californian and Australian gold. "It is easy to develop the earth with capital at 2 per cent. The men of the early 'fifties' set about it."[7] Throughout Europe, the period was one of eager speculation and the export of British capital to the United States was resumed on a large scale. "The breeze which propelled the American ship of business so rapidly forward at this time came in large measure from across the Atlantic."[8] In Canada, the breeze became almost cyclonic; and the heavy imports of English capital for the construction of the Grand Trunk Railway helped to set in motion an over-speculation in land, building and general development.[9] The outbreak of the Crimean War in 1854 stopped the export of Russian wheat to western Europe; and the bad harvests in Great Britain forced up the price of breadstuffs. But the middle fifties were prosperous years for Canadian agriculture; and the wealth of the staple industries at once justified and encouraged the boom spirit.

The year 1857 was the crisis year. The failure of the Ohio Life Insurance and Trust Company was the immediate occasion of panic conditions in the United States. Commodity prices and railway securities broke sharply; the banks suspended payments, and discounts, where they were available, rose suddenly to abnormal heights.[10] Almost immediately the panic was communicated to England, where Glasgow and Liverpool were peculiarly sensitive to any disturbances in the United States;

[6] H. A. Innis, *Problems of Staple Production in Canada* (Toronto, 1933), pp. 17-23.

[7] J. H. Clapham, *An Economic History of Modern Britain, Free Trade and Steel, 1850-1886* (Cambridge, 1932), p. 303.

[8] W. B. Smith and A. H. Cole, *Fluctuations in American Business, 1790-1860* (Cambridge, 1935), p. 91.

[9] K. W. Taylor and H. Mitchell, *Statistical Contributions to Canadian Economic History* (Toronto, 1931), pp. 47-49.

[10] A. H. Cole, "Statistical Background of the Crisis of 1857" (*Review of Economic Statistics*, vol. 12, Nov., 1930, pp. 176-80).

and "almost everywhere the immediate cause of trouble was some stoppage in anticipated remittances from America."[11] In both Europe and the United States the financial crisis, though severe, was relatively short-lived; but the recovery of trade and industry was exasperatingly sluggish. In British North America, the boom and the first period of railway construction came to a halt. In Canada, the depression coincided with bad harvests, with the new Cayley-Galt tariff and with Galt's desperate efforts to reduce the interest on the debt.

At the beginning of the new decade, when movements were still erratic and uncertain, the whole course of British and American business was thrown into difficulties by the advent of the Civil War. The war reduced exports and brought misfortune to the cotton manufactures of Lancashire; in the United States it entailed an increasing inflation and rising commodity prices. But though the conflict created all kinds of special demands from which the northern provinces tried to make a profit, it did not immediately bring those wider opportunities for which they had hoped. Bread was cheap in England; the wheat of the northwestern states was used to satisfy the wartime demands of the United States; and it was not until the war was virtually over and the period of reconstruction began that goods from British North America moved in really imposing quantities across the international boundary. In Canada, the post-war trade boom was interrupted by the termination of the Reciprocity Treaty. In England, the brisk expansion of business brought on a financial crisis; the great house of Overend and Gurney Limited failed in May, 1866, for over five million pounds, and Sir Samuel Peto's contracting firm which had built the Grand Trunk Railway, went down in a resounding crash.[12] This contraction of American markets and of British capital came at a crucial time in the life of British North America. It came at the very moment when the provinces were making desperate efforts to solve their political problems and to readjust their onerous financial burdens.

[11] Clapham, *Economic History of Modern Britain*, p. 370.

[12] *Ibid.*, p. 376.

Section III

THE PROVINCE OF CANADA

I

The Province of Canada, which occupied the drainage basin of the St. Lawrence, was, of all the British North American possessions, the most populous, prosperous, ambitious and politically unstable. In no region of British North America did the changes of the confederation period come with greater impact: in none did they produce more rapid and striking results. When the period opened, Canada was a relatively undiversified commercial state, still concentrating largely upon simple extractive industries and upon the export of raw staple products to the British market. The whole life of the Province centred upon the St. Lawrence and its lakes. Wood had been the chief article of export, water the main channel of transportation; and it was wind and water-power that drove the ships, moved the timber-rafts and worked the grist mills and the saw-mills. Upon this simple system, developed so easily out of the munificence of nature, the new industrialism was to have particularly potent effects. The coming of steamships, railways and machinery, the advent of English capital and American entrepreneurs, the opening of new markets in industrial Britain and war-torn America were to alter the face of the Province in a few decades.

The new Canadian railways were built to assist the St. Lawrence in the struggle for the western American trade. Without achieving their objective, they piled debt upon the Province; but at the same time, in recompense, they hastened its settlement and exploitation. The timber industry, which in the past had existed to supply Great Britain with square timber and deals, was now reorganized and turned into the headlong preparation of roughly manufactured boards and planks for the American market. In agriculture, the self-sufficient economy of the pioneers provided the basis for the commercial production of wheat on a large scale; and then the repeated difficulties of wheat-cropping and the new market in the United States encouraged farmers to begin the production of coarse grains, the raising of live stock and the development of dairying. With a speed which the new economy alone made possible, the Province was passing rapidly towards an industrial diversification which would have been unthinkable a decade or so before. In Montreal, Toronto and Hamilton, the new manufactures were providing consumer's goods for the local market, as well as some of the capital goods required for railways, mills, farming and building construction.

The zenith of this great period of expansion was reached and passed in the fifties; and with its passing came a new sense of limits and a new consciousness of burdens. The tide of settlement and exploitation, pressing irresistibly across the continent, had travelled through and beyond the Province. The good lands were occupied; immigration from Great Britain had been succeeded by emigration of Canadians to the United States. The men of the St. Lawrence had built a great province by the river; but their heavy expenditures had merely opened their own territory and had failed to win for them an inland commercial empire in the American west. Imperialist ambitions for western domination had been the driving force of the Canadian economy since the days of the fur trade; and when the failure of the railways followed the failure of the canals there was left in Toronto and Montreal a feeling of profound dissatisfaction.

This sense of financial burdens and commercial frustration coincided, in Canada, with a growing realization of political impasse. Within the limits of its boundaries and the iron restrictions of its political system, all the expansive forces of the Province were held rigidly in check; and in their state of inactivity and failure the Canadians were forced to look on while the aggressive expansion of the United States continued westward across the continent. The Province was practically undefended: Canada West was conceded to be virtually indefensible; and every American diplomatic threat and every change in American commercial policy served merely to strengthen the forces in the Province which were making for political reconstruction. It was only natural that Canada should take the lead in the reorganization of British North America. From the days of the French, it had been a colony of grandiose schemes,

of abrupt reversals of policy, of sudden changes in fortune; and the rebellions, the Union of 1841, the Annexation Manifesto and the crusade for reciprocity with the United States testified to the energy and the pragmatic realism of its inhabitants.

II

In Canada, the new economic organization exercised its first and most decisive influence upon the transportation system of the St. Lawrence. It was only natural that transport should be altered first; it was equally natural that its alteration should have serious consequences for the Canadian economy and the Canadian state. In a very real sense, the transportation system of the St. Lawrence was the heart and centre of all Canadian activity. There had been a time—not very far away—when Canada was primarily a trade-route and only very secondarily a community of settlements; and the St. Lawrence had always been and was still regarded as the natural basis of a great commercial empire stretching far into the international American west.[1] The transportation system of Canada had imposed financial burdens: it had hastened political changes. The desperate efforts of the Canadians to complete the river route and to capture the western trade had left their results in the physical property of the canals, in the mounting obligations of the provincial debt, and in the drive towards unity and centralization which had culminated in the Union Act of 1840. The St. Lawrence transportation system was the greatest investment of the Canadian people. Its alteration would entail further heavy expenditures; its failure could not be contemplated.

By the middle of the century, the canals, to a depth of 9 feet, had been completed from Montreal to Lake Erie; and the 15 foot ship channel below Montreal was finished in 1853. Already, however, and almost from the moment that the water route was thrown open, its usefulness was impaired by changes in steam shipping and its prosperity reduced by the competition of railways. By 1850, the American railway system had been brought to the focal points of the international boundary and stood ready to tap the trade of the northern Province. On ocean and lake, the steamship was slowly gaining at the expense of the sailing ship, the propeller was displacing the old paddle-wheeler and the large iron ship was gradually supplanting the small, wind-driven wooden vessel of earlier times. The number of ocean steamers ascending the river above Quebec to Montreal rose from 40 in 1861 to 117 in 1869;[2] and in 1867, of the total tonnage cleared outward from Canadian inland ports, 3,056,821 tons was steam and only 1,065,320 sail.[3] In size, the new steam-driven vessels were regularly and substantially increased. As early as 1860, one-fourth of the vessels in the grain trade of the lakes could not pass the Welland Canal; and by 1871 the proportion had risen to three-quarters.[4]

These impediments threatened to rob the Canadian system of its last and greatest advantage—the cheapness of its inland navigation. In the past, the St. Lawrence had always struggled vainly against the low rates for ocean freight and insurance which obtained at New York; and now, as the increasing competition of rails and steamships began to carry inland freight rates lower, the last advantage of Montreal was obviously endangered. Though, during the period 1850-1867, the traffic in the Canadian canals increased slowly, the route definitely disappointed the sanguine hopes of its supporters. In 1853, the goods carried down the St. Lawrence canals amounted to 386,945 tons: the total rose to 750,176 tons in 1867.[5] But in the same year, 1867, the Erie Canal carried 2,226,112 tons of produce to tidewater at New York.[6] These were the years of the phenomenal growth of the new northwestern American states; these were the years when the exports of grain from Canada and the principal western states normally totalled over 100,000,000 bushels a year. But while, in 1867, shipments of grain to New York port alone amounted to 36,957,785 bushels, they totalled only 5,915,106 bushels in the same year at Montreal.[7]

The Canadian railways were planned to strengthen the St. Lawrence route and to remedy the deficiencies of its water transport; and like the canals, they were built in accordance with that continental strategy which had been for generations the distinguishing feature of the commercialism of the St. Lawrence. In the west, the railways were expected to tap the traffic of the American grain-producing states; and in the east—since the project of the Intercolonial Railway had broken down—it was planned to use the American Atlantic ports as winter outlets for the

[1] D. G. Creighton, *The Commercial Empire of the St. Lawrence 1760-1850* (Toronto, 1937).

[2] H. A. Innis and A. R. M. Lower, *Select Documents in Canadian Economic History, 1783-1885* (Toronto, 1933), p. 445; *Montreal Gazette*, March 25, 1864.

[3] Dominion of Canada, *Sessional Papers*, 1867-8, No. 1.

[4] Innis and Lower, *Select Documents*, p. 481.

[5] Province of Canada, *Assembly Journals and Sessional Papers*, Trade and Navigation Returns.

[6] N. E. Whitford, *History of the Canal System of the State of New York* (Supplement to the Annual Report of the State Engineer and Surveyor, Albany, 1906), vol. 1, p. 910.

[7] Dominion of Canada, *Sessional Papers*, 1871, No. 54.

produce carried over the Canadian system. By this time, the northern American railways, with the co-operation of Canadian promoters, were beginning their invasion of Canadian territory. The St. Lawrence and Atlantic could be regarded as a northern extension of the New England railway system, while the Canadian Great Western was frankly planned as a link in the through line from Boston and New York to Chicago. The Grand Trunk Railway—the "trunk line" about which Canadians had been talking for so many years—was designed to counteract these centrifugal tendencies and to focus the new Canadian transportation system at its historic centre in Montreal.

In the east, in Canadian territory, the system ended in the air, at Rivière du Loup; and its real winter terminus was Portland, in the state of Maine. From Montreal, the line extended westward to Toronto, with branches into the lumber-producing areas, and from Toronto, it radiated in three main directions, northward to Collingwood *via* the Northern Railway, westward to Sarnia *via* the Grand Trunk, and southwestward to Buffalo and Detroit *via* the Great Western. These lines were begun and completed during the 1850's: all too rapidly the railway age succeeded the canal age of the previous decade. In 1850, there had been some sixty miles of railway in Canada: by 1860, there were more than two thousand.[8] Construction was supposedly planned according to English ideas of high original outlay and low upkeep; but actually the Canadian railways piled up capital costs without noticeably achieving durability. In 1867, there had been expended in Canada a total of $145,794,853 for 2,188 miles of railway operated by sixteen different companies.[9]

Though some of the private capital used in these undertakings came from Canada and the United States, the great bulk of it was imported from England. In form, the Canadian railways were ordinary private commercial enterprises; but in fact, of course, their purpose and the resulting magnitude of their design made them matters of enormous public concern. Canadian politicians, in their private capacity as investors, promoters, lawyers, contractors and directors, became inevitably associated with the railways; the railways were succoured by loans of public money and salvaged by opportune parliamentary legislation. But these outward and visible connections were, in one sense, merely the expression of an inward identity of purpose, shared equally by the transport companies and by the state. The railways repeated, in the new material of iron, the ancient architectural style of Canadian business life; and the Grand Trunk, by its very title, reasserted the old claim of the St. Lawrence to the trade of the American west. These traditional purposes, held equally by French and English, by politicians and merchants, by canal builders and railway promoters, could be achieved only by the united effort of the entire people. By June 30, 1867, the provincial government had advanced a total of $20,264,799 to the Northern, Great Western and Grand Trunk Railways; and upon this sum, interest, amounting to $13,060,243, was in arrears. In addition, the Canadian municipalities, through the Upper Canada and Lower Canada Loan Funds, had borrowed and expended $6,822,840 in aid of railway enterprises.[10] More than ever before the transportation system had become the major expression of the St. Lawrence state.

Yet the railways failed to achieve their ultimate objective, as the canals had already failed, and for much the same reasons. The through traffic of the American west, which Montreal considered as its "natural right," was in fact monopolized by Boston, New Orleans, New York and the other ports of the American coastline. Competing not only with American waterways and railroads, but also with the St. Lawrence canals, the Canadian railway system acquired only a small fraction of the western trade. In 1869, from the port of Chicago alone, 2,339,063 barrels of flour and 13,244,249 bushels of wheat were shipped east by rail; but in the same year, only 538,429 barrels of flour and meal and 655,966 bushels of wheat and peas were received at Montreal *via* the Grand Trunk Railway.[11] The chronic financial difficulties of the Canadian railways, and of the Grand Trunk in particular, proclaimed the failure of the ambitious scheme; and this last and conclusive defeat of the ancient plan for western empire had important effects on the outward thrust of the Canadian system. From then on, the plan of a national transcontinental economy began slowly to supplant the old design of an international commercial empire. And it was perhaps only natural that Edward Watkin, who came out to Canada to reorganize the Grand Trunk Railway, should end up by becoming a major prophet of Canadian Confederation.[12]

[8] G. P. de T. Glazebrook. *A History of Transportation in Canada* (Toronto, 1938), p. 172.

[9] *Ibid.*, p. 173.

[10] *The Municipal Loan Funds and the Hospitals and Charities of the Province of Canada* (Quebec, 1864), pp. 4, 38.

[11] Dominion of Canada, *Sessional Papers*, 1871, No. 54.

[12] R. G. Trotter, *Canadian Federation, Its Origins and Achievement, a Study in Nation Building*, (Toronto and London, 1924) c. 13; Sir E. W. Watkin, *Canada and the States, Recollections, 1851-1886*, (London, 1887).

The railways, however, had a positive as well as a negative influence upon the Province of Canada. They failed to realize its external ambitions, but they speeded up its internal development. "Railroads with us," said one enthusiastic Canadian to an inquisitive traveller, "are magic wands, horns of plenty, from which we scatter the seeds of population, and they spring up and fill the place we have made for them as water does when you dig a canal in a moist country."[13] Railways were the channels through which the effects of the industrial revolution and of North America expansion were brought home to the St. Lawrence. Railways were the means by which the exploitation of the Province was pushed to its limits in the circumstances of the time.

III

The years 1850-1867 coincide roughly with the first stage in the Canadian transition from the pioneer economy of the past to the diversified industrial production of the future. The period saw the birth and growth of new enterprises; but it had effects equally important for the older industries, and in none was its influence more conspicuous than in the business of lumbering. The production of square timber for the British market had been, since the beginning of the century, the greatest single commercial enterprise in the Province; and even as late as the 1840's, it was only on exceptional occasions and for special reasons that the total value of agricultural exports equalled or surpassed the total value of the exports of the forest. But in the 1850's with the increase in wheat production, the beginnings of the live stock industry and the greater traffic in coarse grains, the old supremacy of lumber was threatened. In the seven years before Confederation, 1865 was the only year in which the estimated value of agricultural exports was noticeably lower than the value of the exports of timber and lumber. If the category of animals and their products be added to the category of field crops and bread-stuffs, then the produce of the farm had definitely surpassed the produce of the forest in the export trade of the Province of Canada.[14]

Its relative decline in the Canadian economy as a whole was not, however, the only change of the period for lumbering. Of equal significance were the developments within the industry itself. In the past, the Canadians had concentrated upon the production of square timber; and alongside this simple and wasteful method of forest exploitation there had grown up gradually the manufacture of deals—semi-manufactured boards three inches thick or over, which were carefully prepared for the exacting demands of the British market. It was about the middle of the century that large-scale changes in the industry became manifest. The middle of the century saw the opening of the American market: the new methods of production and distribution began to have their effects. With the help of railways and steam shipping, the industry expanded territorially, along the Ottawa and its tributaries and into the Trent river valley; and lumbering had perhaps its most spectacular advance when, in 1854, the Northern Railway opened the pine stands of Simcoe county to the operations of the saw-mill.

The export trade in lumber to the United States, which began years before the Reciprocity Treaty, was accompanied by the advent of American capital and American entrepreneurs to Canada. It was Messrs. Bronson, Eddy, Perley, Pattee and other American and Canadian promoters who began, on a really grand scale, the headlong preparation of quantities of boards and planks, of all sizes and all qualities, produced out of any and every kind of pine timber.[15] The use of the circular saw in "gangs" of increasing numbers helped to meet the insatiable demand for greater production; and although the big mills—for example, those at the Chaudière—relied at first upon the cheap and readily available supplies of water-power, the mechanization of the industry through steam continued during the period. In 1851, there were only 158 steam mills in operation out of a total of 2,632; by 1861, the number had risen to 331 out of a total of 1,651.[16] In the quarter century from 1850 to 1875, steam came to be the main motive force in the larger mills which were already beginning to dominate the industry.

The new methods of transport and of mechanized mass production had important effects upon the industry and the regions in which it was established. The Ottawa valley was marked off from the more normal agricultural areas of Canada East and Canada West; and here, as in the Peterborough district, a "shanty" market developed for the supply of the lumbermen and their animals. In 1863, it was estimated that 15,00 axemen were employed in the Ottawa country; and already the saw-mills had

[13] J. G. Kohl, *Travels in Canada, and Through the States of New York and Pennsylvania* (London, 1861) vol. 1, p. 239.
[14] Province of Canada, *Sessional Papers*, Trade and Navigation Returns.

[15] Lower, Carrothers and Saunders, *The North American Assault on the Canadian Forest* (Toronto and New Haven, 1938), pp. 109-15.
[16] *Census of Canada*, 1870-71, vol. 3.

become so numerous and capacious that 10,000 men were said to be employed in them.[17] The old square timber business declined relatively in comparison with the rise of the manufacture of deals and boards and planks. The export of boards and planks, which were shipped largely to the American market, showed a steady and almost uninterrupted increase during the period. In 1851, the total export had been 120,176 M. feet; it advanced to 533,192 M. feet in 1867.[18]

With the fall of the forest industries from their old supreme position in the Canadian economy, agriculture became the main source of provincial wealth. The altered position of the industry as a whole was significant; but its internal changes were just as important. Before 1850 agriculture in the Province of Canada was still in the main self-sufficient. In Canada West it had all the primitive characteristics of frontier farming; in Canada East it revealed the habits of an old and unprogressive agricultural routine. Wheat was the chief field crop produced for commercial purposes in Canada West, as it always had been in Canada East; and the poor cattle, as well as the coarse grains and dairy produce, were used and consumed on the farm for the sheer lack of a market either domestic or foreign. The hard facts of pioneer life, as well as its sense of scope and opportunity, still ruled the lives and coloured the views of Canadians. The farmlands were mere patches hewn with difficulty out of the forest; and the forest seemed to stretch forward interminably over a land of illimitable possibilities.

All this was changed, and rapidly, by the opening of new markets, by the influx of men and capital and machines, by the building of roads and canals and railways. The introduction of British and American capital and the construction of the Canadian railways coincided with the high prices for breadstuffs which were a consequence of the Crimean War. Under this multiple stimulus, the expansion of the Canadian economy became a speculative race; and the boom which lasted from 1853 to 1857 was marked by a mania for real estate speculation, town-planning and building construction.[19] Districts, hitherto regarded as inaccessible, were suddenly reclaimed from the wilderness; towns sprang into existence along the railway lines; great hotels and rows of unoccupied town houses, which astonished visitors during the sixties, date from the land and building boom of the previous decade.[20] Deep in the forest, the pioneers toiled on to realize the hopes of the promoters and speculators; and for the last time in its history, the southern part of the province exhibited the entire drama of settlement—from forest to clearing, from clearing to stump farm, and from stump farm to prosperous settlement.[21]

In 1851, there had been 3,705,523 acres of improved land in Upper Canada and 3,665,167 acres in Lower Canada; but by 1871 the improved land had increased to 8,833,626 acres in Canada West and to 5,703,944 acres in Canada East. "It is a fact," wrote the commissioner of crown lands in his report of 1862, "that the best lands of the Crown in both sections of the province have already been sold."[22] The occupation of the Bruce peninsula proceeded with great rapidity in the late forties and early fifties. Settlement was brought to the edges of the Laurentian barrier; and as early as the middle fifties the provincial government was reduced to the expedient of opening up the difficult Ottawa-Huron region by means of colonization roads, in the hope of providing provisions and communications for the lumber industry and of attracting a last influx of settlers.[23] But in fact, of course, the policy of the northern colonization roads was not a success; and by 1860, the problem was not to promote immigration to Canada, but to prevent emigration from Canada to the United States. It has been estimated that the number of persons emigrating from Canada between 1850 and 1870 was not less than 345,000 and possibly as high as 440,000.[24] There was no longer a land frontier in Canada; the land frontier for the whole continent lay in the west. And it was significant that the disappearance of the good lands in the Province should be accompanied by the first stirrings of active interest in the territories of the Hudson's Bay Company. The partisans of settlement, as well as the promoters of railways, had already fixed their eyes upon a Canadian west.

The changes within agriculture itself reflected the slow transition in the Canadian economy as a whole. Wheat had been the first great staple produced for commercial purposes by the self-sufficient farming which was characteristic of Canada in its

[17] S. P. Day, *English America: or Pictures of Canadian Places and People* (London, 1864), vol. 2, p. 288.

[18] Province of Canada, *Assembly Journals and Sessional Papers*, Trade and Navigation Returns.

[19] Adam Shortt, "Railroad Construction and National Prosperity: An Historic Parallel" (*Proceedings and Transactions of the Royal Society of Canada*, series 3, vol. 8, sec. 2, pp. 295-308).

[20] G. H. Borrett, *Out West: A Series of Letters from Canada and the United States* (London, 1866), pp. 25-30.

[21] W. Chambers, *Things as They Are in America* (Philadelphia, 1854), pp. 123-4.

[22] Innis and Lower, *Select Documents*, p. 527.

[23] A. R. M. Lower, "The Assault on the Laurentian Barrier, 1850-1870" (*Canadian Historical Review*, vol. 10, Dec. 1929, pp. 294-307).

[24] Innis and Lower, *Select Documents*, p. 632.

pioneer stages. "In the past," wrote the Hon. Adam Fergusson, "the great and almost sole object of serious interest to the Canadian farmer, was to grow wheat as largely, and to repeat the crop as frequently, as any decent return could be obtained."[25] The high prices for bread-stuffs which ruled during the Crimean War encouraged the cropping of wheat; and the threshers, mowers and reapers, which came into general use in the period prior to Confederation, facilitated large-scale production. The acreage devoted to wheat in the Province increased until 1881. In Canada West the crop of 1861 was estimated at 24,620,425 bushels, while that of 1851 had been reckoned at only 12,682,550. But the census of 1871 showed a crop of only ten million bushels for the western part of the Province; and, as for Canada East, its production declined from 3,073,943 bushels in 1851 to 2,057,076 bushels in 1871.[26]

The fact was that wheat was gradually ceasing to be Canada's only agricultural staple for export. Farmers were turning to other cereals, influenced in part by the troubles which seemed inevitably to attend the production of the old staple. The exhaustion of the soil due to constant cropping, the ravages of the wheat midge in the years from 1830 to 1860, and the constant difficulties with rust and winter-killing all favoured experimentation in other crops. And in the meantime, while the tribulations of the wheat growers appeared to be unending, the market in the United States was opening for cattle and coarse grains. Like the trade in lumber, the export of agricultural produce to the United States had its beginnings before the Reciprocity Treaty of 1854; and the resulting tendency to diversification in Canadian agriculture was hastened by the special demands of the American market during the Civil War. The export of cattle, which went almost exclusively to the United States, rose from 8,301 head in 1850 to 146,641 head in 1866. In 1850, only 66,514 bushels of barley and rye were shipped outward from the Province; but the export increased, almost without interruption, to 6,355,191 bushels in 1866. The shipments of oats in 1850 had been only 667,652 bushels. In 1860, the total export reached 3,598,826 bushels, and, in 1864, 5,915,931.[27]

Some of the special crops, which had been artificially promoted by the American Civil War, went largely out of cultivation after 1866. But the agricultural diversification which had been set in motion was not seriously interrupted. The export of oats and barley to the United States continued; and dairying developed, either as a part of the domestic economy of the farmer or as an element in the increasing industrialization of the Province. Cheese factories, which were first established in 1864, increased rapidly in number after the termination of the Reciprocity Treaty; and by 1871, there were said to be 348 in operation in Ontario and Quebec.[28] In agriculture, as in so many other things, the transition from the simplicity of pioneer days to the complexity of established settlement had advanced one long stage by 1867.

The industries of the farm and the forest were overwhelmingly the most important economic activities in Canada in the period before Confederation. But, as the Province was settled by its increasing population, as its good lands were occupied and developed, the various resources of the country were exploited as they had never been before. There were certain obvious limitations to this development, for Canada had little iron and no coal; and it was not yet in a position to begin a serious attack upon the mineral deposits of the Precambrian shield. But the very thoroughness with which the land between the St. Lawrence, the Ottawa and the lakes was opened up uncovered the more accessible non-metallic minerals and made possible their rapid exploitation. Salt was discovered in 1866; gypsum was mined for plaster and fertilizer; and clay and stone works increased with the development of towns. It was, however, the oil boom in western Upper Canada which really fired the imaginations of contemporaries and foreshadowed most faithfully the intensive mining developments of the future. Operations in the petroleum fields in the Enniskillen district of Lambton county began in 1857. American miners and American capital moved in quickly. Towns like Oil Springs, Wyoming and Petrolia sprang into existence; and during the ten years prior to Confederation "Oily Enniskillen" went through all the feverish activity of a mining boom.[29] Some of the oil was exported; it was used domestically and for lighting railway carriages; and production increased to 2,772,224 gallons in the fiscal year 1868-69.[30]

It was, however, the development of manufacturing in the years before Confederation which most clearly revealed the strength and the diversification of the Canadian economy. In the past, in the days when the old commercialism had

[25] R. L. Jones, *History of Agriculture in the Province of Canada* (Ph.D. Thesis in the University of Harvard, 1938), p. 40.

[26] *Census of Canada*, 1870-71, vols. 3 and 4.

[27] Province of Canada, *Assembly Journals and Sessional Papers*. Trade and Navigation Returns.

[28] *Census of Canada*, 1870-71, vol. 3; Ruddick, Drummond, English, Lattimer, *The Dairy Industry in Canada* (Toronto, 1937), pp. 45-48.

[29] J. E. H. Skinner, *After the Storm: or Jonathan and His Neighbours in 1865-66* (London, 1866), vol. 1, p. 190.

[30] Innis and Lower, *Select Documents*, pp. 372-3.

dominated the activities of Canadians, it had been the theory of the St. Lawrence that manufactures should be imported from England to Quebec and Montreal; and where theory was contradicted by fact, the contradiction lay rather in the import of American manufactures than in the growth of native industry. The manufacturing enterprises of Canada had been small affairs either clearly subordinate to the staple industries of farm and forest, or closely related to the domestic economy of a pioneer community. And it was not really until after 1850 that these conditions began manifestly to change. In the years which followed, the decline of the old self-sufficient farming weakened domestic industry and left an increasing appetite for manufactured goods. The introduction of railways and machinery, the increased use of water-power and steam, at once left an opening for the start of heavy industry and made possible the more effective manufacture of consumers' goods. Industry in its early beginnings was, of course, a provincial rather than a purely urban phenomenon; but the railways, which almost from the start began to depress some of the old commercial centres, made for industrial concentration; and cheap water-power and available supplies of coal thrust forward the industrial development of Toronto, Hamilton, Brantford, London, and—above all—Montreal.

The heavier industries, and particularly the basic iron industries of the new industrialism, made only a small beginning during this period. Yet the demand for machinery and implements, the needs of building construction and requirements of the railways, all helped to foster enterprises which in Canada were distinctly novel. The Great Western Railway, the Grand Trunk and the contracting firm of Gzowski and Company all founded factories for making iron rails or for manufacturing and repairing railway rolling stock.[31] Agricultural implement factories were established at Newcastle, Beamsville, Oshawa and other places; and by 1860 "so great has the supply become from our home manufacturers that an American made machine is now as great a rarity as a Canadian one was a few years ago."[32] Foundries were scattered along the north shore of the St. Lawrence and Lake Ontario, and throughout the western part of Upper Canada; but the most remarkable concentration was at Montreal, where before 1867 three puddling and rolling mills were in operation.[33] In a general review of the metal industries of Montreal, published in 1864 by the *Montreal Gazette*, sixteen factories and shops were listed; and steam engines, boilers, agricultural implements, mining machinery, mill gearing, piping and steam-fittings, stoves, grates, spikes and nails were among the numerous products.[34]

As in the past, a great deal of Canadian manufacturing was directly dependent upon the chief extractive industries of the Province—lumbering and farming. Yet even here the scale of operations and the use of machinery and steam-power were novel features. Factories for the manufacture of staves, shingles, matches, doors, sash and furniture were widely distributed through central and eastern Upper Canada. The enormous supplies of the necessary cereals supported an active brewing and distilling industry; and the production of beer increased from 1,247,803 gallons in 1858 to 6,925,380 gallons in 1867.[35] Flour milling, which was solidly based upon the prime industry of the country and catered to its chief staple trade, was still the most important industrial enterprise. According to the census of 1871, Ontario had 951 flour and grist mills, and Quebec 810; and some of the bigger mills in Montreal, which made effective use of water-power and elevators, could grind as many as 500 barrels of wheat a day.[36]

Though Canada's main industries continued to rest upon the solid basis of the staple trades, there were other manufactures which sought to profit from the decline of rural self-sufficiency and from the demands of a higher standard of living. Paper, paint and candle works, glass factories and sugar refineries were established during this period. The growth of towns and the slow decline of domestic industry in the farmhouse were accompanied by the development of woollen mills and clothing factories; and it was estimated, in 1867, that there were 91 woollen mills in Canada West and 31 in Canada East.[37] The boot and shoe industry, which was supported by increasing supplies of live stock and numerous tanneries, made rapid progress during the period, particularly at Montreal. In 1867, there were said to be 20 factories in the city. The industry was largely mechanized and employed about 5,000 hands; and total yearly production, which had increased 33⅓ per cent since 1863, was estimated at 2,400,000 pairs.[38]

[31] *Montreal Gazette*, Sept. 5, 1864; Innis and Lower, *Select Documents*, p. 293.

[32] R. L. Jones, *History of Agriculture in the Province of Canada*, p. 163.

[33] S. P. Day, *English America*, vol. 1, pp. 179-85.

[34] *Montreal Gazette*, July 20, 22, 1864.

[35] Province of Canada, *Assembly Journals and Sessional Papers*, Trade and Navigation Returns.

[36] S. P. Day, *English America*, vol. 1, pp. 183-6.

[37] W. J. Patterson, *Statements Relating to the Trade, Navigation, Mining...of the Dominion of Canada* (Montreal, 1867) pp. 61-2.

[38] *Ibid.*, p. 63.

IV

When the economic activities of the Province were changing so markedly, it was only natural that society should be affected in its turn. In the census of 1851, the population of Canada West had been set down at 951,004, and that of Canada East at 890,261; but by 1867, the population of the whole Province had risen to 2,648,000, with a total of 1,525,000 in Upper Canada and 1,123,000 in Lower Canada. Amid the simplicity and ignorance of pioneer farming communities, it is not surprising that the rate of infant mortality was high; and epidemics, particularly the great cholera epidemic of 1854, were responsible for heavy losses of life among all ages of the people.[39] Yet the population grew, regularly and substantially, for the birth rate was high in both sections of the Province; and from 1851 to 1857, immigration added 20,000 to 50,000 people yearly to the total number of inhabitants.[40]

The population of the Province was divided into groups by differences which might be economic, cultural or racial, or a mixture of all three. In the Ottawa region and the Trent river valley the business of lumbering gave society a marked individuality; in Upper Canada there were homogeneous settlements of Germans, Scots and Irish with distinctive communal characteristics; and in the Eastern Townships the New England background of the people was reflected in their habits and pursuits. All these differences, however, were dwarfed in importance by the prime dissimilarity which separated the French-speaking from the English-speaking inhabitants of the Province. Here there were not merely two races and two languages; here there were also two types of economic aptitude, two styles of living and two philosophies of life. In 1841, when the united Province was first formed, the French-speaking part of the population had possessed a numerical superiority; but after 1850 this preponderance definitely disappeared. The French were outnumbered by the people of other national origins; and the population of Canada East had been surpassed by that of Canada West.

The rapid development of Upper Canada was one significant feature of this period; but it was marked almost as prominently by the rise of towns and the growth of industries and habits characteristic of urban life. It was true, of course, that throughout the fifties and sixties the Province still remained solidly agricultural in character. In 1871, in Quebec, out of a total of 333,608 gainfully employed, 160,593 were listed as farmers; and in Ontario the agricultural class formed a total of 228,519 out of 461,114 employed in all occupations. In a province so dominated by its countryside, and so imbued with the spirit of its rural population, the new towns were bound at first to hold a fairly modest position; but, with the coming of railways and the beginnings of industrial diversification, the little trading centres and shipping ports of the past were growing steadily more complex, populous and wealthy. Although towns like Kingston and Belleville and some of the older places on the St. Lawrence showed only a moderate growth or a decline during this period, Hamilton, London, Ottawa, and the other newer towns forged rapidly ahead. In the period 1851-1871, the population of Toronto increased from 30,775 to 56,092; and that of Montreal from 57,715 to 107,225.[41] Before 1850 street lighting had been introduced and flagged or planked pathways had been laid down in the principal Canadian towns; and during the years before Confederation sewage disposal systems were extended, street railways with horse-drawn cars were built, and the great hotels and public buildings were erected which so impressed visitors to Toronto and Montreal.

The increasing prosperity of the Province, and its rising standard of living are assumptions which, though unsusceptible of positive proof, are repeatedly confirmed by the records of the time. Travellers like Anthony Trollope, who came from the United States to Canada, were conscious of passing from a richer into a poorer country;[42] but, on the other hand, the people of the Maritimes looked on the progress and prosperity of Canada with an admiration which was not entirely innocent of envy.[43] In good years, such as 1866, wages for skilled farm labour in Canada West varied from $10 to $20 per month with board and lodging;[44] and during the construction period of the middle fifties most trades were paid at the rate of 6s. a day, while bricklayers and stonemasons received as much as 7s. 6d.[45] In both town and country, however, work was seasonal; employment and wages were immediately and drastically affected by depressions; and it was during this period that the troubles which

[39] J. J. Heagerty, *Four Centuries of Medical History in Canada, and a Sketch of the Medical History of Newfoundland*, (Toronto, 1928), vol. 1, pp. 205-211.

[40] Innis and Lower, *Select Documents*, p. 631.

[41] *Ibid.*, p. 618.

[42] Anthony Trollope, *North America* (New York, 1862), p. 43.

[43] W. M. Whitelaw, *The Maritimes and Canada before Confederation*. (Toronto, 1934), pp. 3, 25-6.

[44] W. J. Patterson, *Report on the Trade and Navigation of Montreal*, 1866.

[45] Innis and Lower, *Select Documents*, p. 621.

attended the construction of the Grand Trunk Railway, and the strikes such as that of the Montreal carters in 1864 began dimly but ominously to foreshadow the oncoming disturbances of industrialism.[46] In Quebec and Montreal, the overcrowding, bad housing and inadequate sanitation of the period were evils so flagrant and so conspicuous that they were repeatedly criticized by visitors; and the plight of the farmers of Lower Canada was unfortunately all too real, as successive parliamentary committees of inquiry show. Calamities, like the cholera epidemic of 1854, the depression of 1857, and the ravages of rust, the wheat-midge and the hessian-fly fell heavily upon a people who had neither the power nor the knowledge to soften the impact of the blow.

V

The prime social division which existed between the English-speaking and French-speaking inhabitants of the Province had taken the concrete form of an obvious sectional cleavage. This cleavage had inspired the creation of the two Provinces of Upper and Lower Canada; it led to their continuance as two virtually distinct entities even after the political consolidation of 1841. Canada, after the union of 1841, was in form a unitary state; in fact, it was an unacknowledged federal system; and the division of portfolios, moneys and parliamentary places between the people of Canada East and Canada West was the inevitable consequence of inward and fundamental social differences. Ministerial places were apportioned with fair equality between the members from the two sections of the Province. Certain government departments, such as that for education, were split into two distinct divisions, equipped with separate staffs and granted approximately equal appropriations. Legislation affecting one section of the Province only was passed at every session of the provincial parliament: and even when, as in setting up the Municipal Loan Funds, no essential differences of treatment were contemplated, separate statutes were often passed for Canada East and Canada West. Expenditures in one section of the Province could not go uncompensated by comparable expenditures in the other. On the extinction of the seigniorial tenure, by which the Province was committed to the payment of substantial sums, efforts had to be made to recompense the Eastern Township of Lower Canada and the Upper Canadian municipalities; and these indemnities increased the financial burdens of the Province and complicated its accounts, without really satisfying the demands of the western section.

These administrative difficulties, serious as they were, were only one aspect of a fundamental political problem. The political system of the time was suspended in uneasy balance; but the economic and social forces of the period threatened disequilibrium. The straining energies and ambitions of the western section of the Province could find no scope within the *de facto* federalism of the existing union; and the cultural interests of the eastern section were thought to be endangered by anything but a *de jure* unity. The demand of the Grit Party for representation by population, and the urgings of Canada West for expansion into the territories of the Hudson's Bay Company, were alike inadmissible for they would alike destroy that rough political equality by which alone the Union of 1841 had been made acceptable to the French. The social composition of the country seemed to necessitate a static political dualism; the economic ambitions of the St. Lawrence appeared to encourage an expanding political unity. It was certain that these two different though equally legitimate interests could not both find peaceful satisfaction within the existing political system. Burdened with debts, inhibited from expansion, and distracted by its sectional differences, the Province reached the end of its difficult and erratic course in the ministerial crisis of 1864.

[46] *Montreal Gazette*, Sept. 29, 1864.

Section IV

THE MARITIME PROVINCES

I

In Canada the consequences of the new transport and the new industrialism had come with dramatic suddenness; in the Maritime Provinces the effects were to appear more slowly and to loom less conspicuously, in the period before Confederation, than they did further west. The Maritimes had certainly less immediate need to take advantage of the opportunities of the new era; and their reliance upon the industries and techniques of the past slowed up the rate of economic change. Even more than the drainage basin of the St. Lawrence, the Maritime region was based upon the old resources and powers of wood and water, wind and sail. The St. Lawrence was a river system draining an enormous continental area; but Nova Scotia looked seaward, not inland, for the satisfaction of its interests, and both geography and political boundaries interposed barriers to the continental expansion of New Brunswick. For the Maritimes the sea and the forest provided the main sources of wealth, the chief modes of transport and the great avenues of trade.

All this had helped to create in the Maritimes a distinctive economy and an unusual way of life. The products of the sea and the forest—fish, timber, lumber and ships—seemed almost to dwarf the importance of the products of the land. In Prince Edward Island alone, the tiniest of the three Maritime Provinces, the inhabitants had forsaken the sea to become farmers who merely lived beside it. The limitations which geography had placed upon the development of agriculture were strengthened by the very characteristics of the competing industries of forest and ocean. Fishing and lumbering were peculiar industries, migratory, seasonal and individualistic. They carried men away from the daily routine of farming and the co-operative enterprises of settlement; and trade found its most attractive markets, not in the unpromising areas of the interior, but in regions beyond the seas. In Canada, the St. Lawrence was a trunk line which was continued undeviatingly across the ocean to Great Britain. In the Maritimes the lines of commerce radiated outward, from the continent which they had been unable to penetrate to the many markets of Europe, America and the West Indies.

The St. Lawrence had helped, in Canada, to unify an enormous territory; but the ocean divided even the small land areas of the provinces by the sea. The tendency towards centralization in Canada was expressed in the supremacy of Montreal and Toronto, in the canal and railway systems and in the achievement of political union in 1841. Among the Maritimes, only the Province of New Brunswick had a drainage system with a similar tendency to focus affairs; and this centralization of economic and political activity in the river valleys of New Brunswick, and particularly in the valley of the Saint John, could have only a provincial, not an intercolonial significance. In the Bay of Fundy and along the south shore of Nova Scotia dozens of outports vigorously contested the ambitions of Halifax and Saint John. Except in New Brunswick, where lumbering along the big rivers tended to promote the growth of large sawmilling enterprises, the business affairs of the Maritimes were in the hands of individuals, families and small firms. Canada had developed great transcontinental companies and transport systems; she had built the physical structure of nationality in spite of cultural differences. But the political division and the economic decentralization of the Maritimes were in harmony, not in conflict. And perhaps their greatest common possession was a provincial loyalty and a rugged independence of spirit which were the results of the very divisions of their economic and social life.

For provinces so constituted the effects of the world economic transition were likely to be serious. Railways and steamships threatened the business of wooden shipbuilding and the small commercial activities of the outports. Dimly the new technology and the new methods of transport foreshadowed drastic changes in the conduct of the fisheries. The age of commercial capitalism, with its wooden shipping and relatively low tariffs, had called forth the best efforts of the Maritime Provinces; but in the near future they would be required to adjust themselves to the era of modern industrialism, with its steam shipping, high tariffs and great national economies. For the Maritimes the pressure of these developments came after Confederation; in the period before 1867 the approach-

ing difficulties of adjustment were visible, not so much in the drastic changes of the old industries, as in the slow development of the new. The provinces pursued a course of economic and social growth which was gradual in comparison with that of Canada. They could not concentrate, as did Canada, upon the production of cereals for the new industrial areas of Europe; and, despite the reliance of Nova Scotians upon their coal, they had not yet made any great progress in building up industries of their own.

II

For provinces which were dependent upon foreign trade and which had set up a thriving business in wooden shipbuilding, the consequences of a revolution in transport were likely to be serious. But while in Canada the problems of steam navigation had found an immediate focus in the question of the canals and the ship channel of the St. Lawrence, the effects of the new transport in the Maritimes were distributed and less immediately apparent. Various small lines of steamers, partly supported by provincial subsidies, plied between the ports of the north shore and those of the Bay of Fundy; and on the St. John river, the most important inland waterway, steamboat services were extended beyond Woodstock.[1] These purely provincial enterprises were dwarfed in importance by the great trunk-line steamship companies which swept the Maritimes into their orbit. Halifax became a port of call on the Cunard Company's route from Liverpool to Boston; and there were lines of Cunard screw steamers between Halifax and Newfoundland and Halifax and Bermuda.[2] In the 1860's a summer service of steamships was established between Quebec and Pictou; and the Grand Trunk Railway Company began to operate a line of vessels from Portland to Saint John and Portland to Halifax. All this implied the distant but inevitable concentration of commercial activity at ports like Saint John and Halifax. It meant the relative decline of the smaller harbours, the smaller outports, and the hundreds of coasting vessels which had carried the trade of Nova Scotia up and down the coastline of North America and over to the islands of the Atlantic.

It was, however, railways even more than steamships which were revolutionizing the economies of North America; and though the people of the Maritimes could see the possibilities of railways, they found considerable difficulties in attaining them. It was obvious that railways could open a western hinterland which always in the past had been barred to the provinces; and for virtually the first time in their history New Brunswick and Nova Scotia felt stirrings of that continental imperialism which for generations had goaded Montreal.[3] All the lines originally planned in the provinces were trunk lines, designed to attract the through traffic in agricultural produce to the ice-free ports of Saint John and Halifax.[4] The Saint Andrews and Quebec Railroad was to run *via* Woodstock through western New Brunswick to the St. Lawrence; and the European and North American was intended to follow a route through Nova Scotia and New Brunswick to Portland, Maine, where it would connect with the Grand Trunk Railway to Montreal. Finally, the Intercolonial Railway, which was expected to terminate at Halifax, was to strike through Nova Scotia and New Brunswick and to meet the Grand Trunk at Rivière du Loup. In Nova Scotia, Howe was determined to construct a publicly-owned system; and in 1851 he believed he had obtained from the imperial authorities the promise of a guarantee for the financing of the European and North American as well as for the Intercolonial. It was railways for colonial "defence" however, and not railways for colonial "opulence" that the British government was prepared to guarantee; and although it was ready to underwrite the Intercolonial, it insisted that the route should follow "Major Robinson's line" which hugged the eastern shore of New Brunswick. At these decisions New Brunswick's interest in the ambitious railway scheme died rapidly away. It was hard enough to lose the European and North American and its connections with the American market; but it was absolutely impossible to accept an Intercolonial which failed to travel through Saint John and Fredericton.

In the meantime, while negotiations for the Intercolonial were periodically and unsuccessfully renewed, the Maritime governments proceeded with the construction of short provincial roads which could at least be regarded as sections of the abandoned trunk lines. By Confederation, Nova Scotia had built 145 miles of railway which connected Halifax with Windsor, and with Truro and Pictou, and joined the Atlantic frontage with the north shore and the Bay of Fundy.[5] In New Brunswick, the Saint Andrews and Quebec had been pushed as far as Woodstock by 1868; the provincial

[1] Innis and Lower, *Select Documents*, p. 669.
[2] T. F. Knight, *Nova Scotia and Her Resources* (Halifax, 1862), pp. 58-9.

[3] J. A. Chisholm, *The Speeches and Public Letters of Joseph Howe* (Halifax, 1909), vol. 2, c. 17.
[4] Glazebrook, *History of Transportation* in Canada, pp. 154-60.
[5] *Ibid.*, p. 159.

government had itself completed the first section of the European and North American from Saint John to Shediac; and, by Confederation, New Brunswick railways totalled 234 miles.[6] In their provincial railway systems, Nova Scotia had invested $6,291,038 and New Brunswick $4,514,080; but, as Confederation drew near, they went on to make additional commitments in aid of other commercial roads. The subsidy which Nova Scotia agreed to pay the Windsor and Annapolis Railway amounted, on June 30, 1867, to a capital liability of $979,500. In New Brunswick, the provincial government had contracted to pay subsidies for the eastern and western extension of the European and North American, and in aid of the Fredericton, St. Stephen and Woodstock branch lines; and, on June 30, 1867, the capital liabilities on account of these commitments totalled $1,869,296. Thus, in a relatively short time, the railways had substantially increased the provincial debts; and though they were only fragments of the ambitious undertakings which had been planned originally, they were already creating disturbances in the wood-and-water economy of the Maritimes. They threatened the coasting trade of the provinces; they had annihilated the distances between the Atlantic frontage, the north shore and the bay.

III

The industries peculiar to the forest and the ocean dominated the economic activities of the Maritime Provinces; New Brunswick was a lumberman's province just as Nova Scotia was a colony of sailors, fishermen and small traders. Originally the three provinces had been covered with the same types of timber which were now the pride of New Brunswick; but Prince Edward Island had been "lumbered out" and lumbering in Nova Scotia was secondary in importance to fishing and agriculture. In Nova Scotia title to timber went with the ordinary title to the land; and its relatively smaller forests were exploited wastefully by hundreds of small producers.[7] Its saw-mill industry, strongest in Halifax, Lunenburg, Cumberland and Colchester counties, was organized on a definitely smaller scale than that of New Brunswick. In 1871, Nova Scotia had 1,144 saw-mills to New Brunswick's 565; but while the Nova Scotian mills employed only 2,710 hands, those of New Brunswick employed 6,293.[8] Nova Scotia used her forests to build vessels for her fisheries and carrying trade: her export of deals and timber to Great Britain was not comparable to that of New Brunswick, and during the Reciprocity Treaty her wood exports to the United States were relatively unimportant.[9]

In New Brunswick lumbering was the dominant industry and the export of timber, deals and wood products formed the provincial staple trade. The pine forests of New Brunswick were as good as those of Maine or better; and the excellent drainage system of the Province made possible the same technique and the same rapid type of exploitation which had been practised in the northern New England states and in the Ottawa valley. If, in fact, the Ottawa valley had been torn from Canada to form a separate province, its general character would not have differed very greatly from that of New Brunswick; and the lumbering industry in both areas was affected by the same trends. The decline of the old square timber industry was illustrated in the steady drop in the exports of New Brunswick pine from 100,000 tons in 1856 to 27,174 tons in 1865.[10] The saw-mill industry, particularly at the mouths of the bigger rivers like the St. John and the Miramichi, expanded for the production of deals, boards and planks, scantling, shingles and sugar-box shooks. As in Canada, the plentiful supplies of water-power tended to delay the employment of steam; but as early as 1861 it was stated that the number of steam mills in the Province was rapidly on the increase.[11]

In addition, the forests of the Maritimes supported their chief secondary industry, shipbuilding. Nova Scotia built more ships than New Brunswick, but her tonnage totals were lower; and although large vessels were built for exportation to England, "the greater proportion of the vessels constructed in Nova Scotia are of the smaller class, adapted to the coasting trade of the Province, the sister colonies and the neighbouring States."[12] In New Brunswick the north shore ports were largely engaged in the production of ships for export to Great Britain; and in the Bay of Fundy, particularly at the port of Saint John, a good many large vessels were built for sale abroad.[13] It was the last great period of maritime shipbuilding, for the industry reached and passed the peak of production

[6] *Ibid.*, p. 159.

[7] Lower, Carrothers and Saunders, *The North American Assault on The Canadian Forest*, pp. 65-6.

[8] *Census of Canada*, 1870-71, vol. 4.

[9] S. A. Saunders, "The Reciprocity Treaty of 1854; A Regional Study" (*Canadian Journal of Economics and Political Science*, vol. 2, Feb., 1936, pp. 41-53).

[10] Province of New Brunswick, *Assembly Journals*, 1866, appendix 16.

[11] N. Y. Hind *et al.*, *The Dominion of Canada* (Toronto, 1869), p. 599.

[12] Knight, *Nova Scotia and Her Resources*, pp. 46-7.

[13] *The Morning News* (Saint John), Sept. 19, 1864.

in 1864. The demand for shipping to serve the gold rush to Australia had stimulated the industry in New Brunswick;[14] and the American Civil War, which played havoc with American shipbuilding and the American merchant marine, increased the sale of provincial ships and the operations of maritime builders.[15] The 148 new ships built in New Brunswick in 1865 were valued at £524,125 (stg.).[16] In a survey of the shipbuilding industry at Saint John, conducted by the *Morning News* in 1863, 20 builders were listed, employing a total of 1,267 men at an average wage of $1 a day.[17]

The fisheries dominated the economic life of Nova Scotia in the same way as lumbering did that of New Brunswick. It has been calculated that in 1865 fish formed 39·3 per cent of the total exports of Nova Scotia and only 7·5 per cent of those of New Brunswick.[18] The counties of the whole Atlantic frontage, of the north shore and of Cape Breton were deeply concerned in the fisheries; and although the census of 1861 listed only 14,332 Nova Scotian fishermen, this was considered to be a considerable underestimate since "a large proportion of the farming population are also engaged in the fisheries."[19] The new means of transport, the development of refrigeration, the changes in consumer demand were, in the future, to cause derangements in the fisheries and to undermine the security of small ports and fishing villages. The freeing of the slaves in the southern states and the relative decline of the importance of the West Indies trade were to affect the markets for inferior grades of fish. In the period up to 1867, however, the changes were not conspicuous; and a conservative industry pursued its traditional way. The exports of mackerel, a product of the inshore fishery, increased substantially towards the end of the period; but the trade in fresh fish, such as salmon, did not show any marked improvement.[20] The great staple of the industry was still the codfish, caught on the banks, on the Labrador coast and off the Atlantic shoreline, salted and dried, and shipped to the old-established markets in the West Indies.

In the Maritimes, agriculture struggled against the limitations of soil and climate, as well as against the competition of more firmly established industries. Prince Edward Island, which as a whole was more favourably situated for agricultural pursuits, had become a farming province; and oats, barley, potatoes and other roots made up the bulk of its export trade. In Nova Scotia and New Brunswick, fishing, lumbering and agriculture were interrelated; and there were writers in both Provinces who considered that the connection was, in certain ways, prejudicial to the interests of agriculture. The fisheries carried a large part of the hardy population away from the land; and in New Brunswick the slow development of agriculture was attributed to "the universal tendency of the people to lumbering and shipbuilding."[21] Nova Scotians, who tried to combine agriculture with fishing and with trading ventures, were accused of indifferent husbandry; and the attempted combination of lumbering and agriculture produced settlers who, it was suggested, were "neither farmers nor lumbermen, yet engage in the occupations of both."[22] These associations may have checked the development of agriculture; and its growth was conditioned as well by certain important geographical factors. Even those Nova Scotians who were most anxious to improve the agricultural resources of the Province, were forced to admit that a great part of the Atlantic frontage was unsuitable for farming;[23] and travellers from Halifax to Windsor had the impression of passing from a desolate wilderness into a flourishing garden.[24] The rich areas around the Bay of Fundy and the river valleys of New Brunswick were the chief sources of agricultural produce in the bigger Maritime Provinces. In Nova Scotia, Pictou, Colchester, Cumberland, Annapolis, King's and Hants were the most productive counties; and in New Brunswick, farming was most successful in King's, Queen's, Westmoreland and Albert.

In Nova Scotia improved land under cultivation increased from 799,310 acres in 1851 to 1,627,091 acres in 1871; in New Brunswick, it rose from 643,954 acres in 1851 to 1,171,157 acres in 1871; and in Prince Edward Island there were 368,127 acres of improved land under cultivation in 1861.[25] Thus a considerable expansion had taken place; and the experts and publicists of the period insisted that there were ample opportunities for further growth. Yet, in the eyes of immigrants, the lower

[14] F. W. Wallace, *Wooden Ships and Iron Men* (London & Toronto, n.d.), c. 2.

[15] S. A. Saunders, "The Maritime Provinces and the Reciprocity Treaty" (*Dalhousie Review*, vol. 14, pp. 355-71).

[16] New Brunswick, *Assembly Journals*, 1866, appendix 16.

[17] *Morning News*, January 9, 14, 19, 21, 1863.

[18] Saunders, "*The Reciprocity Treaty: A Regional Study*," p. 48.

[19] Knight, *Nova Scotia and Her Resources*, p. 43.

[20] Province of Nova Scotia, *Assembly Journals*, Trade and Navigation Returns.

[21] A. L. Spedon, *Rambles Among the Blue-Noses*, (Montreal, 1863), p. 80.

[22] A. Monro, *New Brunswick; With a Brief Outline of Nova Scotia and Prince Edward Island* (Halifax, 1855), p. 81.

[23] P. S. Hamilton, *Nova Scotia Considered as a Field for Emigration* (London, 1858), pp. 17-27.

[24] Chambers, *Things as They are in America*, pp. 35-8.

[25] *Census of Canada*, 1870-71, vols. 3-4.

provinces could not compete with the agricultural opportunities which were offered by Canada and the northwestern American states. It was impossible for the Maritimes to imitate the immense production of wheat which characterized the agriculture of Canada. Prince Edward Island, with its exports of horses, oats and potatoes, helped to support the lumbering industry in New Brunswick; but its resources were limited, and the other Maritime Provinces—and New Brunswick in particular—were obliged to import bread-stuffs and provisions from the United States and Canada. Canada was growing slowly into agricultural diversification, persuaded both by the difficulties of continual wheat cropping and by the opening of new markets for live stock, coarse grains and dairy produce. The Maritimes were induced to diversify their farming even more extensively, because of the limitations of their soil, the demands of their lumbering and fishing industries and the competition of cheap supplies of western wheat. In the "dyked" and "intervale" lands, the farmers concentrated most successfully upon the production of potatoes, root crops, oats, hay and live stock.[26]

The effects of the new industrialism were perhaps more apparent in mining than in any of the other industries of the Maritimes. In Canada there was no coal and the moment had not yet arrived for the exploitation of the metals of the Canadian shield; but in Nova Scotia the greater accessibility of mineral deposits encouraged an earlier development. In 1861, gold was discovered in Halifax, Lunenburg and Guysborough counties and there followed a small boom in quartz mining at various points near the sea coast. Steam crushing mills were established; in 1863 there were said to be 18,296 men employed as miners;[27] and the production of gold increased from 7,275 ounces in 1862 to 27,583 ounces in 1866.[28] As was to be expected, the "gold rush" attracted excited attention; but it was upon coal, the old mineral of the Province, that the wiser heads really counted. Coal was making the greatness of modern Britain; and in those comparisons which Nova Scotians were accustomed to draw between their own province and the mother country their coal mines were put prominently forward. The inspector of mines dilated with justifiable pride upon "the growing importance of the coal fields of the province"; and the total production of coal and the value of coal exports increased fairly rapidly during the sixties.[29] The United States was, during this period, the biggest purchaser; in 1863, she imported 263,374 tons, the British North American provinces 58,233 tons, and 75,529 tons were sold for home consumption.[30]

Although there were people in the Maritimes, and in Nova Scotia in particular, who looked forward hopefully to the time when their coal would drive the machines of prosperous manufactories, the industrial development of the Maritimes during this period was relatively slight. "The manufactures of the Province" wrote a contemporary Nova Scotian essayist, "are only in their infancy,"[31] and in New Brunswick another essayist admitted that "New Brunswick can hardly be called a manufacturing country."[32] Wooden shipbuilding and the preparation of lumber for the British, American or West Indian markets were the chief industrial enterprises in the Maritimes. In 1861, there were only 11 foundries in Nova Scotia; in the same year the iron castings manufactured in New Brunswick were valued at $202,500;[33] and all the provinces were largely dependent upon imports from abroad for their implements, machinery and hardware. Clothing was imported or was made domestically; according to the census of 1861, there were 13,230 hand looms in Nova Scotia, and the cloth and homemade fabrics produced in New Brunswick were valued at $711,394. Though furniture and carriages were manufactured, the secondary wood industries had not made any very great progress; but, on the other hand, there were 44 tanneries in Nova Scotia in 1861 and, in the same year, the leather, saddlery and boots and shoes produced in New Brunswick were valued at $750,015.[34] Little by little, as small supplies of capital were accumulated, industries struggled into existence to compete for the domestic trade; and in 1865 the analyst of the trade and navigation returns of New Brunswick could report that "for years past there have been great additions to our manufactories not only in Saint John, but in other parts of the province. . . ."[35] In 1864, at the second provincial exhibition, held at Fredericton, agricultural implements, castings, carriages, stoves, grates, cloth, hats, and boots and shoes were among the exhibits.[36]

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[26] Innis and Lower, *Select Documents*, pp. 689-94.

[27] Province of Nova Scotia, *Assembly Journals*, 1863, appendix 6.

[28] Innis and Lower, *Select Documents*, p. 714.

[29] W. J. Patterson, *Report on the Trade and Navigation of Montreal, 1866*, p. 51.

[30] Nova Scotia, *Assembly Journals*, 1863, appendix 15.

[31] Knight, *Nova Scotia and Her Resources*, p. 44.

[32] J. V. Ellis, *New Brunswick, as a Home for Emigrants*, (Saint John, 1860), p. 32.

[33] *Census of Canada*, 1870-71, vol. 4.

[34] *Ibid.*

[35] Province of New Brunswick, *Assembly Journals*, 1866, appendix 16.

[36] *Morning News*, Oct. 7, 1864.

IV

It has been estimated that in 1867 the population of Nova Scotia was 364,000, that of New Brunswick 271,000 and that of Prince Edward Island 88,000. During the period 1850-67—and particularly during the fifties—the population was growing; but it was not growing very rapidly; and the natural increase had not been augmented by any considerable number of immigrants. The stream of immigration which had peopled Canada West and passed beyond it had avoided the Maritimes almost from the beginning; and during the period 1850-67, the yearly total of immigrants arriving in the province of New Brunswick varied from a high of 3,762 in 1853 to a low of 230 in 1859.[37] To a very large extent, therefore, the people of the Maritimes were native born. There was growing in them that conscious sense of provincial unity which was the result of common environment, common tasks, common loyalties and aspirations; but racial and religious divisions, whose results in Canada were so severely criticized in Halifax and Saint John, were not entirely absent from the Maritime Provinces themselves. In addition to the descendants of New Englanders and Loyalists, who formed the basis of the population in Nova Scotia and New Brunswick if not in Prince Edward Island, there were important groups of French and Irish Roman Catholics, German Protestants and Highland Scots. Religious animosities were occasionally a factor in politics, but, on the whole, there was reason for the pride of the Maritimes in the moderation of their politics, the sobriety of their peoples and the fundamentally rugged health of their provincial life.

Lumbering, mining and fishing were occupations laborious in the extreme. Their rewards were fluctuating and often meagre; and it was not unnatural that the domestic life of the inhabitants should be characterized by a hardy, self-reliant simplicity, which was honoured by different Maritime leaders and perhaps most eloquently by Joseph Howe. In one of his speeches at Halifax, A. G. Archibald referred proudly to "the great body of the settlers in the country, whose backs are covered with woollens of their own production—whose feet are shod from the hides of their own cattle,—whose heads are covered with straw from their own fields—who sleep between blankets of their own wool and their own weaving—on feathers from their own farmyards."[38] The wants which could not be satisfied with the products of domestic crafts were supplied by imports of manufactures from overseas; and thus there was comparatively little opportunity for industry and no great reason for urban development. Between 1851 and 1871 the population of Montreal had doubled, and that of Toronto had nearly doubled; but, in the same two decades, the population of Halifax had increased only from 20,749 to 29,582 and that of Saint John from 22,745 to 28,805. In these small provincial towns the march of progress appeared often to be extremely slow; and the inadequacy of civic improvements in such Maritime cities as Halifax drew forth the criticisms which had been levelled against similar conditions in Quebec and Montreal.[39]

The construction of railways, the activity in the shipyards and the needs of American markets during the Civil War all helped to bring a considerable degree of prosperity to the provinces during these years; and the period before Confederation has often been looked back upon as a "golden age" in Maritime history. Good times must have increased the provincial loyalty of the people and fortified their belief in the promises of the future; but the existing prosperity did not satisfy the ambitions of some Maritimers nor did it end those unfavourable comparisons which were sometimes drawn between the progress of the Atlantic provinces and that of Canada. The region had enjoyed no such boom as had galvanized the Province of Canada during the 1850's. There had been little immigration in the immediate past; there was, in the present, an alarming emigration of youth and energy. "Emigration, we are sorry to confess," wrote one editor, "seems to be growing popular with some of our people. What makes the matter worse is that the fashion is confined to our young men, to the very bone and sinew of the country."[40]

V

By 1850 the contest for responsible government had been won in the Maritimes, as it had been in Canada; and Maritime union became the issue of greatest intrinsic importance, though not perhaps of greatest popular interest. The legislative union of the Atlantic provinces was supported by governors in both Nova Scotia and New Brunswick; it was endorsed by leading politicians in both provinces; and up to the autumn of 1864 it was favoured by the British colonial office.[41] Con-

[37] Province of New Brunswick, *Assembly Journals*, 1866, appendix 16.

[38] *Evening Express*, January 4, 1865.

[39] *Acadian Recorder*, August 26, 1865; *Evening Express*, January 9, 1865.

[40] *Acadian Recorder*, September 23, 1865.

[41] Chester Martin, "British Policy in Canadian Confederation" (*Canadian Historical Review*, vol. 13, March, 1932, pp. 3-19).

federation was, in fact, preceded by regional unions or attempted regional unions in all parts of British North America; and the union of the Canadas in 1841, the union of Vancouver Island with British Columbia in 1866, as well as the abortive effort at Maritime union, were all parts of a general movement towards consolidation in which the British authorities actively participated. It was, however, the fate of Maritime union to be associated, almost from the beginning, with the greater cause of Confederation. The arguments for and against each of these proposed political amalgamations were much the same. Even in the minds of its heartiest supporters, Maritime union was seldom welcomed solely on the grounds of its own intrinsic merits;[42] it was often regarded either as a precursor of British North American union or as an antidote against it.[43] Since the union of the Atlantic provinces was intended from the first to be legislative in character, its immediate result would be the elimination of the local governments; and against this the opposition in Prince Edward Island was naturally very strong. The campaign for Maritime union, against the realization of which there were likely to be formidable if not insurmountable barriers, thus served to foster the growth of the other and competitive union movement; and the strange turn of events by which the meeting of Charlottetown for Maritime union was converted into a conference for the federation of the British North American provinces was a surprising, but not entirely illogical, result.

[42] *Debates and Proceedings of the House of Assembly of Nova Scotia*, pp. 179-94.

[43] W. M. Whitelaw, *The Maritimes and Canada before Confederation* (Toronto, 1934).

Section V

THE WEST

The Hudson's Bay Company, which in 1850 still controlled the vast, vaguely defined area of Rupert's Land, was exposed to various new hostilities in the period 1850-67. The company was the last of those great monopolistic joint-stock enterprises which, in the 16th and 17th centuries, had extended the empire and the trade of England to the continents of America, Africa and Asia. Its companions of the brave days of mercantilism had disappeared, or declined, or surrendered their great territorial and political pretensions; and the Hudson's Bay Company was left in vulnerable isolation, a relic of mercantilism surviving into an age of free trade, a monopoly ill at ease in the midst of anti-monopolistic sentiment. Trade was the basis of the company's territorial claims; but the new expansion into western North America was conceived in terms of land and its solid occupation. Settlement had undermined and was undermining the economic and social foundations of the fur trade; but the fur trade was the business of the company. Its slow and costly method of transport had been dependent upon the intricate drainage system of Hudson Bay; but iron and steam were the new powers of transport and the railway was the new track of western imperialism.

In 1821, when the North West Company submitted to an amalgamation with its rival, the Hudson's Bay Company had won its last great victory. But the triumph of 1821 was merely the triumph of one great fur-trading company over another, of the drainage system of Hudson Bay over the drainage system of the St. Lawrence. The York boat of Hudson Bay had conquered that even more primitive unit of transportation, the canoe; the long route *via* the Ottawa and the Upper Lakes had failed, in the end, to maintain its competition with the shorter route from Hudson Bay.[1] After 1821 the far west was lost to the old fur-trading city of Montreal; the Ottawa route was virtually abandoned; the chief ocean port of the Hudson's Bay Company was York Factory and its chief inland distributing centre was Norway House at the head of Lake Winnipeg.

But while fur traders could defeat their rivals, they were powerless in the end against the coming of settlers and the claims of settlement. In the centre of the continent settlement was flowing rapidly into the state of Minnesota, immediately south of the Company's jurisdiction; settlement was slowly establishing itself in Assiniboia, in the very heart of the Company's chartered preserve. Numerically, the colony of the Red River was insignificant; by 1871 it was estimated that there were 5,720 French-speaking half-breeds, 4,080 English-speaking half-breeds and 1,600 white settlers in the settlement.[2] In the period before Confederation the economic activities of these people were extremely simple. They hunted the buffalo and worked in the transport system of the Hudson's Bay Company; but in agriculture, the hope of the new west, they were indifferent performers. Their racial qualities, their distinctive land system and their primitive hunting habits were to make trouble for the new Dominion of Canada in the very near future. But in the period before 1867, attention was attracted to the settlement not so much by its peculiarities as by the mere fact of its existence. Its situation in the middle of vast tracts of unoccupied land aroused interest; its rapidly changing relations with the outside world created apprehension.

The fact was that the old isolation of the settlement was over. By 1860 there were 172,000 inhabitants in Minnesota; in 1858 it became a state in the union; and several years before this had happened the transport and communication system of the Hudson's Bay Company had already been diverted southward, away from the Bay and towards the newly established American settlements. By 1857 there were said to be 300 carts employed in the overland journey between Fort Garry and St. Paul; and, in the same year, a connection was established with the American postal system which had reached as far north as Pembina.[3] In 1859 the introduction of steamboats on the Red River strengthened the southern route; and in 1864 the Northern Pacific Railway was chartered to build

[1] H. A. Innis, *The Fur Trade in Canada, An Introduction to Canadian Economic History* (New Haven, 1930), pp. 263-84.

[2] G. F. G. Stanley, *The Birth of Western Canada, A History of the Riel Rebellions* (London, 1936), p. 13.

[3] Glazebrook, *History of Transportation in Canada*, pp. 221-2, 226-7.

westward from Lake Superior to Portland, Oregon. It seemed as if the transport system of the United States might defeat the Bay, just as the Bay had defeated the St. Lawrence. It seemed as if the new economic connections might be succeeded by strange political affiliations, as if the coming of trade goods from St. Paul might be followed by an inrush of American frontiersmen from the upper Red River valley. Outside the Company's jurisdiction was the pressure of American settlement; inside the colony was the disaffection of the settlers, already sharply critical of the Company's council rule.

These perplexities caught the Hudson's Bay Company at a peculiarly unfortunate time, for its 21-year licence for exclusive trade was due to expire in 1859. The mere question of the renewal of a trading licence was thus inevitably involved in the far wider questions of British power in North America; and from 1857 on there ensued a long series of investigations and negotiations which only ceased with the transfer of the territory to the new Dominion. Apart from annexation to the United States, there were three ways in which the political problem of the west could be settled.[4] The Hudson's Bay Company could be confirmed in its political control of the Red River settlement; and its resistance to disaffected colonists and intruding Americans could be strengthened by imperial military assistance. Secondly, the territory might be erected into a Crown colony, as Vancouver Island was; or, thirdly, it might be annexed to Canada. From the beginning, the Company was not unwilling to consider the last two solutions, so long as its charter was respected and its territorial rights were bought and paid for. It was, as Edward Ellice bluntly said, merely "a question of a million of money."[5]

There is no doubt that the prospect of the opening up and settlement of the great northwest had for years held a peculiar fascination for the people of the British North American provinces in general, as well as of Canada in particular. The glowing prophecies which Howe made to the citizens of Halifax in 1851, and which Chief Justice Draper repeated to the British parliamentary committee in 1857, stand out from many others mainly because of the picturesque vigour of their phraseology and the prestige of their authors. By 1864 the theme of British westward expansion had become so common that the editor of the *Acadian Recorder*—himself speculating romantically about the settlement of the great northwest—could declare that "the subject has got to be a hackneyed one . . . about which glib Colonial politicians prate. . . ."[6] But this interest, while it was widespread and pervasive, was stronger in Canada than in the Maritimes; it was stronger also, and not altogether unnaturally, in Canada West than in Canada East. For generations there had been only one Canadian town with western imperialist ambitions; but now there were two, Toronto and Montreal.[7]

The Canadian interest in the northwest was a mixture of different elements, among which economic considerations were conspicuous if not predominant.[8] It was a speculative prospect in which politicians, promoters, merchants and newspapermen were all concerned. The *Globe* and the Clear Grit party looked upon the territory chiefly as a region for future Canadian settlement; Toronto speculators were perhaps encouraged by the hope of competing with the Hudson's Bay Company for the fur trade; and from the early 1850's on, there were railway promoters in Montreal as well as in Toronto, who hopefully envisaged a transcontinental railway across the northern prairies which would connect Canada with British Columbia and with the trade of the far east. It was in the imaginatively constructive mind of Edward Watkin, the visionary and the realist of the Grand Trunk Railway Company, that this scheme assumed its most grandiose form. He aspired to connect his railway system with the Pacific as well as with the Atlantic. Though he planned to build and to use lines south of the upper lakes for the connection between Sarnia and Fort Garry, his far western section was intended to run through Rupert's Land, just as his eastern section, the Intercolonial, was planned to strike through British American territory to Halifax and Saint John.

All these schemes and aspirations grew naturally in the contemporary Canadian scene: they revealed Canada's expansive powers just as they suggested its irritating consciousness of limitations and weaknesses. It was not without significance that Canadian interest in northwest settlement became vocal at the very moment when the good lands in Canada West had been almost entirely occupied. It was openly acknowledged that Watkin's western and eastern railway extensions were designed to rescue the Grand Trunk from its accumulating

[4] Chester Martin, "Confederation and the West" (*Canadian Historical Association Report*, 1927, pp. 20-8).

[5] Glazebrook, *History of Transportation in Canada*, p. 231.

[6] *Acadian Recorder*, Aug. 27, 1864.

[7] F. H. Underhill, "Some Aspects of Upper Canadian Radical Opinion in the Decade before Confederation" (*Canadian Historical Association Report*, 1927, pp. 46-61).

[8] Stanley, *The Birth of Western Canada*, pp. 23-7.

financial difficulties. The immigrants who were already deserting Canada were to be diverted from the American northwest to British regions on the Red River and the Saskatchewan: the plan of attracting the through traffic of the international American West was to give place slowly to the design of building a trunk railway westward to the Pacific through British American territory.

To a greater or lesser degree all these schemes involved a change in the political and economic status of Rupert's Land. The Hudson's Bay Company remained, solidly blocking the advance of all revolutionary changes; and if its chartered rights could not be overthrown by judicial proceedings, they would have to be bought up. It was natural that British statesmen, travelling rapidly and unregretfully along the path of imperial decentralization, should be unwilling to impose upon Great Britain the price of the purchase, or the expense of creating new Crown colonies in the territory. It was, however, not immediately obvious why the Province of Canada, which was so ready to advance its own claims to parts of Rupert's Land, should be so curiously reluctant to press them to a conclusion. The Toronto *Globe*, which was just as suspicious of British fur-trading corporations as it was of Canadian railway companies, assumed that the Macdonald-Cartier government was paralysed by the influence of the Hudson's Bay Company.[9] There was, in all probability, a measure of truth in this accusation; but, apart altogether from the Company and its influence, there were other reasons for Canada's reluctance and delay. When in 1858-9 the Colonial secretary, Sir Edward Bulwer Lytton, invited the Canadian government to press its claims against the Hudson's Bay Company, the Province was in the throes of the depression and the government was passing through a crisis in public finance. It was doubtful if Canada's financial resources could support the charges of westward expansion; and it was certain that the Province's sectional differences would not permit the incorporation of Rupert's Land into the existing provincial system. The annexation of the west would upset the unstable political equilibrium of the Province in the same way as the establishment of representation by population; and both changes, for that reason, were unacceptable to Canada East. Politically, as well as financially, Confederation was the best possible basis for westward expansion.

In 1858, however, the colonial office through the mouth of Bulwer Lytton made clear its opposition to the federal scheme. The Canadian government probably could not, and certainly did not, respond to Lytton's challenge to press its claims against the Hudson's Bay Company; and in the early 1860's all thought of an immediate annexation of the territory to Canada had been temporarily abandoned. Yet the inactivity of the politicians did not by any means imply any decline of interest in the problems or possibilities of the west. The movement toward Confederation advanced contemporaneously through different planes of human activity; and the work of politicians was paralleled by the enterprises of promoters and railway builders. To Edward Watkin of the Grand Trunk Railway, the Pacific and Atlantic extensions of his system were equally important and necessary. He aspired to build a telegraph line, a road and ultimately a railway across the British North American west; and he began a negotiation which ended only when the stock of the Hudson's Bay Company was acquired by the International Financial Society, in which Watkin and his friends were interested.[10] The new company entered immediately upon a plan of intensive development. But it was Watkin's fate to plan schemes which were completed by others; in 1869 he was forced to resign from the presidency of the Grand Trunk Company; and the Pacific railway which he had imagined was to be the work of other men. Yet, in the movement towards Confederation, he had done valuable and indeed essential work; and his plan of a transcontinental system of railway transport was the necessary basis of a transcontinental political union.

[9] Underhill, "Aspects of Upper Canadian Radical Opinion," p. 52.

[10] Glazebrook, *History of Transportation in Canada*, pp. 230-5.

Section VI

THE PACIFIC COAST

The wave of settlement and exploitation had threatened but not yet actually invaded the eastern territories of the Hudson's Bay Company. In the ultimate west, on the Pacific coast, the course of events was to be very different; but in the early 1850's the indications of the approaching Pacific boom were few indeed. In 1846 the Washington Treaty had settled the main problems of the western international boundary between British North America and the United States. In the years which followed there were various promoters who showed an interest in the development of Vancouver Island; and in 1849 the Hudson's Bay Company, which already possessed the trading monopoly on the mainland, was awarded the island by letters patent on the express condition that it should promote immigration and settlement. The obligations of the Company and the hopes of the empire builders were somewhat imperfectly realized. The Company brought out some colonists; but they were its own servants, rather than *bona fide* settlers. These few hundred people, together with the fur-traders and the Indians on the mainland made up the population of British North America on the Pacific Coast. The fur trade, relatively undisturbed, continued in its ancient courses; and except in Nanaimo, where a few miners had been brought over to work the coal beds, it dominated the economic activities of the region.

But the California gold rush had created an army of skilled miners and prospectors; it had infected the whole population of the region with a restless eagerness to find the deposits which it was popularly believed must lie elsewhere along the coast. In 1855, gold was discovered on the Columbia river, just north of the international boundary; in 1856 it was found on the Thompson and Fraser rivers; and in the spring and early summer of 1858 the tent city of Victoria sprang into existence as a result of the sudden advent of thousands of miners.[1] The gold rush transformed the country. The contemporary oil boom in western Upper Canada and the development of quartz mining in Nova Scotia were no parallels, for they were comparatively unimportant occurrences in well-developed provincial economies. But, on the Pacific Coast, the abrupt and violent effects of gold mining fell immediately upon a country which was undeveloped and unprepared. Gold forced an artificial, hot-house growth: it supplied the energy of a powerful stimulant. For about ten years it galvanized the activities of the coastal provinces; and then its mesmeric influence vanished, leaving the provinces with the population, equipment, burdens and problems which its presence had created.

Landing at Victoria, Esquimalt and the ports of Puget Sound, the miners found their way to the Fraser and travelled up the river, prospecting and testing every bar of sand. In 1858, Hope and Yale were the chief centres of placer mining: in 1859 the industry had shifted northward, above Lytton and Lillooet. Some of the miners deserted the Fraser river for the Thompson: others—and there were many of these—pushed further north to reach the Quesnel river and Cariboo Lake; and in 1860-1 they came upon the creeks which emptied into the Cariboo—the last and most spectacular discoveries of the great rush. As the miners advanced further into the interior, as the costs of transport and provisions rose higher, the whole character of mining was transformed. Down below, on the bars of the lower Fraser, it had been an affair of rockers and cradles where poor miners in small partnerships or companies could succeed. These simple methods were followed by more complex operations on a larger scale; and by "flumes" or wooden aqueducts a whole series of sluice-boxes could be supplied with a current of water to wash away the earth from the pay dirt. On the Cariboo creeks the system became even more laborious, complicated and expensive; and here capital was necessary to sink shafts to bed rock and to push tunnels far into the earth.[2] The Kootenay region and the Big Bend of the Columbia subsequently attracted another influx of poor miners in search of shallow diggings; but the new claims never paid as handsomely as the old.[3] In 1861 the mining population of the Province was estimated at 5,000; but by the end of the 1860's it had begun definitely to decline. Total produc-

[1] R. C. Mayne, *Four Years in British Columbia and Vancouver Island* (London, 1862), pp. 44-5.

[2] Innis and Lower, *Select Documents*, pp. 780-8.

[3] E. O. Scholefield and F. W. Howay, *British Columbia from the Earliest Times to the Present* (Vancouver, 1914), vol. 2, c. 14.

tion of gold increased from $750,000 in 1858, to $3,913,563 in 1863; but by 1870 it had fallen off to $1,336,956.[4]

The exploitation of the gold fields brought a sudden and enormous influx of population. It provided exhilarating commercial opportunities; it necessitated a headlong building program: it stimulated subsidiary industries in agriculture, ranching and lumbering. Some of these subsidiary industries, based as they were upon the enormous natural resources of the coast, were destined to grow into staple industries in the near future; but in the sixties the economic activities of both Vancouver Island and British Columbia were so largely dependent upon gold mining, that the momentary interruption of its stimulus halted development and the inevitable decline of its potency brought on a general stagnation and discouragement. It is possible that some twenty-five thousand people entered the two provinces in the first year of the mining boom;[5] but in 1866—less than ten years later—the total population of the region was not much more than ten thousand.[6]

Agriculture was encouraged by the enormous costs of transportation and by the consequent high prices which ruled at the mining camps. On the lower Fraser, at Sumas and Chilliwack, farming communities began to produce small quantities of grain, vegetables and dairy produce: and the first tentative settlements were established in the grasslands of the Thompson and Okanagan valleys.[7] But, during the sixties, production was unable to satisfy even the fluctuating demands of the camps; and the provinces depended mainly for foodstuffs upon imports from the more settled and productive communities in California and Oregon. At Nanaimo coal was readily available to support the steam-propelled shipping which crowded the ports of the island and the mainland; and at San Francisco a sizeable foreign market existed. Production of coal increased from 14,600 tons in 1861 to 32,819 tons in 1865.[8]

It was, however, the lumbering and saw-milling industries which showed in this period the most impressive independent development, and which contained the greatest hope for the future. Like every other activity in the region, lumbering received its first impetus from the gold-mining boom. Lumber in quantities was necessary for the rapid building construction in the "cities" of Victoria, Esquimalt and New Westminster, and in the towns along the Fraser: lumber was required for the sluice-boxes, flumes and buildings of the upper Fraser, Thompson and Cariboo areas. At the beginning of the boom sawn lumber was imported from the American saw-milling towns in Puget Sound; but little by little, under the insistent pressure of the demands of gold-mining, men turned to the forest resources of the mainland and the island, and saw-mills sprang up at New Westminster, Yale, Lytton and Lillooet. On the ocean coastline of Vancouver Island, with all the varied markets of the Pacific beyond, development was even more rapid and on a greater scale. The ships which entered the ports of the provinces and which often sailed away in ballast for want of an outward cargo, were ready enough to load with sawn lumber for export; and American saw-millers from Puget Sound, anxious to avoid the long journeys through the straits of Juan de Fuca, established saw-mills in Barclay Sound in 1861.[9] These Alberni mills, together with the mills at Sooke, Cowichan and elsewhere, exported about 60,000,000 feet of lumber in the decade ending in 1870.[10]

On the western coast of British North America, the problems of transport were difficult and peculiar. On the one hand, the easy accessibility of Vancouver Island and the mainland to the steam shipping of Oregon and California permitted thousands of men and tons of goods to be dumped in the provinces from the moment the boom began. But the topography of the country and the nature of its drainage system made penetration inland very difficult; and even stern-wheel steamers could ascend only a short distance up the lower Fraser. For a time the roundabout Harrison-Lillooet route served to give access to the interior; and by a combination of water transport and short stretches of road the construction costs of this route to the upper Fraser were kept within manageable limits. It was only when placer-mining had been pushed north to the Quesnel river and Cariboo Lake that the inadequacy of this route, and of the existing northern trails, was made manifest. Already, in 1860, the government had commenced the construction of the Dewdney trail from Fort Hope to the Similkameen river; and in 1861 Governor Douglas began to let contracts for his most ambitious undertaking—the Yale-Cariboo road. In

[4] Innis and Lower, *Select Documents*, p. 789.

[5] Scholefield and Howay, *British Columbia*, vol. 2, p. 18.

[6] W. N. Sage "The Critical Period of British Columbia History, 1866-71" (*Pacific Historical Review*, Dec., 1932, pp. 424-43).

[7] Scholefield and Howay, *British Columbia*, vol. 2, c. 34.

[8] Innis and Lower, *Select Documents*, p. 802.

[9] Mayne, *Four Years in British Columbia and Vancouver Island*, pp. 228-30.

[10] Innis and Lower, *Select Documents*, p. 799.

1865 it had been pushed as far north as Barkerville; along it dashed the express coaches of Billy Ballou and F. J. Barnard and, almost at once, freight to the Cariboo was cut from 75 cents to 15 cents a pound. It was estimated that the Cariboo road cost in round numbers about $1,250,000; but of this a considerable proportion was paid by contractors who hoped to make a profit on their expenditure from the collection of tolls.[11]

Since 1851, James Douglas had been governor of Vancouver Island; and when in 1858, in the first months of the gold rush, the mainland Province of British Columbia was created, Douglas was appointed to be its governor as well.[12] The new colonies could expect no pampering from an imperial mother now grown prudent and wary of commitments; and Lytton, the colonial secretary, intimated sternly and repeatedly to Douglas that his governments must pay their own way. So long as Douglas kept his strict control upon Vancouver Island and British Columbia, their finances, even in the midst of the excitements of the mining boom, were managed with the greatest prudence. It was no part of the governor's belief that posterity should bear the burdens of provincial improvements; but from this policy of pay-as-you-go he was driven with evident reluctance into the bond market. Vancouver Island was free-trade and its revenue was principally derived from sales of crown lands, a small land tax, trading licences, liquor licences and harbour dues. On the mainland a tariff had been established as early as 1858, with specified rates on most foodstuffs and an *ad valorem* duty of 10 per cent on other commodities; and during the early sixties, when produce poured into the infant Province for the mining camps, the tariff gave handsome returns to the treasury. There were, of course, other sources of revenue—land sales, head taxes, mining and trading licences and road tolls—for Douglas was determined that his new roads should be paid for as soon as possible by those who used them; but in 1861, customs yielded £41,177 out of a total revenue of £77,053. Even the Cariboo road, an enormous undertaking for an undeveloped province, did not seriously alter the peasant character of Douglas's provincial finance. At the end of 1863, British Columbia had a bonded indebtedness of £112,750 and a floating debt of only £17,000.[13]

In 1864 the boom, the governorship of Douglas, and the financial stability of the provinces ended almost simultaneously. Douglas had been governor of both the island and the mainland; and this double authority, largely exercised from Vancouver Island, had provoked in British Columbia an insistent demand for a separate provincial administration. In 1864, on the retirement of Douglas, the two provinces were each awarded a governor and each equipped with a distinct government. These new establishments, which were cumbersome and expensive, particularly for Vancouver Island, were set up at the very moment when the mining boom had reached the highest peak and approached its inevitable decline. The Big Bend region, which was popularly expected to succeed the now declining Cariboo as a great productive gold field, disappointed all hopes during the season of 1866; and the extensive credit system which had been built up to serve the new mining enterprise crashed about the merchants and traders of Victoria and New Westminster, and plunged the Province in gloom and depression. In 1864 MacDonald's Bank had failed; the Bank of British Columbia was in difficulties from 1866 to 1868.[14] The deficits succeeded each other with mechanical regularity in both Vancouver Island and British Columbia. At the end of 1866, the net debt of Vancouver Island was $293,698 and that of British Columbia, $1,002,983. Efforts to continue the developmental program and to maintain the expensive administrative machinery proved too great a strain for a declining economy and a decreasing population. "The spectacle of two colonies, with a population less than that of a third-rate city, staggering along with a debt of over one hundred dollars a head, and with two governors, two chief-justices, two attorneys-general, and so on down the list, seems more like a page from opera bouffe than from history."[15]

The union of Upper and Lower Canada in 1841 had been, to a large extent, the result of the financial weakness of Upper Canada and the need for a

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[11] Scholefield and Howay, *British Columbia*, vol. 2, c. 6.

[12] W. N. Sage, *Sir James Douglas and British Columbia* (University of Toronto Studies, History and Economics, 1930).

[13] F. W. Howay, *British Columbia, The Making of a Province* (Toronto, 1928), p. 145.

[14] Innis and Lower, *Select Documents*, pp. 805-6.

[15] Howay, *British Columbia, The Making of a Province*, p. 163.

stronger fiscal base to support the completion of the St. Lawrence canals. It was, even more obviously, the financial weakness of British Columbia and Vancouver Island, and the need of combined strength to support the decline of placer-mining, which forced the union of the two Pacific provinces in 1866. In other circumstances the union might have salvaged the colonies; but the decline in mining was not compensated by the rise of other industries; and while Governor Seymour was able effectively to limit expenditures in British Columbia, it was beyond the power of anybody to arrest the fall of the revenue. The deficit in 1867 was $134,465; and in 1868 the Bank of British Columbia threatened to charge 18 per cent on the overdrawn account of the provincial government.[16] Gold had not only created a province: it had also—ironically enough—created deficits and a debt. British Columbia was depressed and discontented; and its people began to examine all possible solutions by which their isolation could be ended and their burdens relieved.

[16] Sage, *Critical Period of British Columbia*, p. 428.

Section VII

THE RELATIONS BETWEEN THE PROVINCES

The inter-relations of British North America on the eve of Confederation were not provincial but regional. Canada was an economic unit; the ties which bound the Maritime Provinces together were strong and close; but the relations between Canada and the west on the one hand, and Canada and the Atlantic provinces on the other, were undeniably tenuous where they existed at all. The weakness of these connecting links, as well as the strength of the regional differences, inspired some of the most telling arguments of the opponents of Confederation. "We don't know each other," argued the editor of the *Acadian Recorder* in his analysis of component parts of the "New Nation." "We have no trade with each other. We have no facilities, or resources, or incentives, to mingle with each other. We are shut off from each other by a wilderness, geographically, commercially, politically and socially. We always cross the United States to shake hands. Our interests are not identical but the very opposite—they are antagonistic and clashing. Our political habits and history run in different channels. Debt and tendency to debt, and legislative and executive corruption, and misgovernment repel us. Our wants are different. The laws of the two countries are different, and framed for a different state of things. . . ."[1]

This comprehensive indictment, though coloured by exaggeration, undoubtedly contained a considerable amount of truth. Earlier proposals for the union of British North America, by Lord Durham in 1838 and by Canadian publicists during the controversy over the Union Bill in 1822, have an interest which is largely antiquarian; and their impracticability was made manifest by the conditions of the time. It is true that Acadia and the region of the St. Lawrence had shown a remarkable, and not altogether explicable, tendency to remain together under the control of one imperial suzerain. It is true that Montreal had built up a transcontinental fur-trading system which extended westward to the Pacific. But in 1821 the St. Lawrence had lost its control over the west and in the succeeding decades its contacts with the Maritimes had not been appreciably strengthened. In the wood-and-water economy which dominated British North America up to the middle of the 19th century, the obstacles to interprovincial union were serious, where they were not insuperable.

In the west the river system supported the extensive commercial empire of the Hudson's Bay Company; but continuous navigation was possible only between Canada and the Atlantic provinces. It was not Halifax and Saint John, however, which were most accessible to the ships of the St. Lawrence, but the relatively unimportant ports of the north shore; and for over half the year the ice-barrier in the river interrupted this communication. The overland route between Canada and the Maritimes *via* the Temiscouata road was incredibly difficult, as the imperial soldiers found in 1861 when they were hurriedly sent to strengthen the defences of Quebec against possible American aggression.[2] The hazards of the "North-West Passage by Land" to the Pacific are vivid still in the pages of Milton and Cheadle's account.[3] American railways and the Grand Trunk to Portland in summer as well as winter supplied communications between the ocean and the interior, just as the route between Fort Garry and St. Paul brought the Red River settlement into contact with the east. Only a small fraction of the mails destined for Canada were carried over the route between Truro and Rivière du Loup;[4] and the effort made to establish an extremely infrequent postal service between Collingwood and Fort Garry was abandoned in 1860, only two years after it had been begun.[5] The telegraph line between Canada and the Pacific existed only in the mind of Watkin and other promoters. Even the telegraphic communication between Canada and the Maritimes was carried largely over American lines.[6]

In their isolation, which had been much greater even a few decades before, the provinces had pursued an independent course of development. Their economic bases were different. The gold of British Columbia, the furs of the prairies, and the

[1] *Acadian Recorder*, July 27, 1866.

[2] Trotter, *Canadian Federation*, pp. 190-2.

[3] A. G. Doughty and G. Lanctot (eds.), *Cheadle's Journal of Trip across Canada. 1862-63* (Ottawa, 1931).

[4] William Smith, *The History of the Post Office in British North America, 1639-1870* (Cambridge, 1920), pp. 227-8.

[5] Glazebrook, *History of Transportation in Canada*, p. 226.

[6] Whitelaw, *The Maritimes and Canada before Confederation*, pp. 95-6.

cereals and lumber of Canada contrasted with the fisheries, coal and timber of the Maritimes; and the different economies which resulted had been nourished for generations by the governments of distinct political units. Whether in obedience to the dictates of geography or in pursuance of the policy of divide-and-rule, the British imperial authorities had, by the end of the 18th century, created six different provincial governments in British North America. From that time on the provinces had gone their separate ways in a spirit of jealous independence, which was shared alike by governors, legislatures and peoples. The efforts of the British to secure a measure of co-ordination by the appointment of general governors with overriding commissions had, on the whole, been futile; and the attempts at political amalgamation, such as the union of the Canadas and the annexation of Cape Breton to Nova Scotia, had not had altogether happy results. It was true that the political histories of the different provinces had exhibited certain strikingly similar features: the conflicts between the demands of provincial autonomy and the claims of imperial control had been common to them all. But, at the same time, there were important dissimilarities. In Canada, the centralizing tendency of the St. Lawrence was at war with the divisive forces of two distinct cultures; and this had set up serious internal contradictions which were absent in the Maritimes, where economic decentralization and political particularism were in harmony.

The first serious inroads upon the early particularism of British North America began with the beginning of the railway age. The new transport and the new industrialism, which had set in motion such serious disturbances within the separate provinces, were to provide also the means and the incentives for their union. In 1830 the Quebec and Halifax Navigation Company was founded to promote trade between Nova Scotia and Lower Canada; and within the next two years the famous steamship, the *Royal William*, made three trips between Halifax and Quebec. In 1836 the *Saint Andrews and Quebec Rail Road Association* was chartered by the New Brunswick Legislature; and in 1844 plans for the Intercolonial Railway began to take shape. These efforts to improve interprovincial transport were indicative of that consciousness of common interests which was growing slowly in the British North American provinces during these and the following decades. During the 1840's the provinces were all affected by the revolution in British Colonial policy; and, by the Reciprocity Treaty, they were all—with the exception of the Pacific provinces—brought into closer trade relations with the United States. The year 1864 has been called the "get-together" year of British North America; but just as the regional unions had preceded Confederation, so the conferences at Charlottetown and Quebec in 1864 were prefaced by a long series of interprovincial meetings, conferences and joint expeditions to the colonial office. One of the first of these interprovincial conferences, held in Montreal in 1847, had to do mainly with the postal system of British North America. In 1851, at Toronto, the provinces agreed to establish a joint protective service for the Atlantic fisheries. There were other meetings to discuss interprovincial trade and tariffs; and still others to plan the construction of an Intercolonial railway.

From the very beginning of the railway age, the project of the Intercolonial gripped and retained the interests of the colonies. But the realization of the scheme was repeatedly postponed by the regional interests of the different colonies, as well as by the British concern for colonial defence and financial retrenchment. In 1851, Earl Grey's promise of a financial guarantee had proved unacceptable to the Maritimes since it was not intended to cover the construction of the European and North American. In 1852, the revised scheme proposed by the provincial governments was rejected by the colonial office, since the line was planned to run *via* the St. John valley. In 1857 and 1858, when joint provincial delegations to London sought imperial financial aid in the construction of the railway, they were turned away empty-handed on the ground of other commitments and the urgent need for economy. It was the adroit diplomacy of Edward Watkin which revived the dormant scheme in the early 1860's; but in 1862, when everything appeared to be settled, and when the grant of the imperial guarantee only awaited the final agreement of the provinces, the delegates of the new Macdonald-Sicotte ministry in Canada effectively broke up the negotiations by objecting to the imperial requirements for a sinking fund. The fact was that the Reform Party, in Canada West at any rate, had its eyes fixed westward, not east; and for the *Globe* in Toronto the Intercolonial was a "Grand Trunk job" intended merely for the gratification of Mr. Watkin and "a few hermits in the wilderness which lies between Trois Pistoles and the New Brunswick line. . . ."[7] The divided

[7] Quoted in, F. H. Underhill, "Some Aspects of Upper Canadian Radical Opinion in the Decade before Confederation" (*Canadian Historical Association Report*, 1927, pp. 46-61).

interests of the Maritimes, the pull between the eastern and western thrust of Canadian expansion, and the cost-accounting methods of the new British imperialism, had in turn sufficed to block the enterprise; and though negotiations were resumed, and surveys of the route undertaken, it was plain that completion of the railway would be difficult, if not impossible, in the existing political system of British North America.

Along with the negotiations for the Intercolonial Railway, there ran a parallel series of negotiations for interprovincial free trade. This project, like the scheme for the railway, encountered opposition both in England and in British North America. As early as 1850, the provinces passed concurrent legislation which established interprovincial free trade in a list of natural products substantially the same as that later incorporated in the Reciprocity Treaty with the United States. In 1858, the Canadian government went a long step further. It proposed interprovincial free trade in all products, manufactured as well as natural, and the assimilation of all the provincial tariffs in a general customs union. The Board of Trade in England had had misgivings about the agreement of 1850; but it had even more forcible objections to the new proposals, which would extend the system of differential duties, which might raise the maritime tariffs to the high Canadian level, and which would be, in consequence, an even more disastrous evasion of the sacred principles of free trade. In 1861, the colonial office brushed aside the academic protests of the Board of Trade; but when, at the interprovincial conference in the autumn of 1862, the Canadians once more brought forward the project of economic union, it was negatived by the representatives from the Maritimes, just as the agreement on the Intercolonial was to be killed in London a little later by the Canadian delegates. The proposed free trade and customs union would, argued the Maritimers, entail for them a loss of revenue in the face of increasing expenditures for the Intercolonial; and, at the same time, they were already concerned at the prospect of competition from Canadian manufactures. William Annand, the Nova Scotian representative at the conference, argued that "it would not have been just to existing interests, hastily, and without sufficient notice, to bring the larger and more advanced manufactures of Canada into competition with the limited and infant productions of the Maritime Provinces. . . ."[8]

Thus, up to Confederation, there was no customs union; there was interprovincial free trade only in natural products, not in manufactured goods. The provinces confronted each other, as well as the world in general, with distinct tariff systems; and though the differences between them have been exaggerated, there is no doubt that there were considerable variations in the general levels of the tariffs. It has been estimated by one authority that in 1861 the ratio of duties collected to the total value of all dutiable imports was 19 per cent in Canada, 13¾ per cent in New Brunswick, 11⅜ per cent in Nova Scotia and 10¾ per cent in Prince Edward Island. Similarly it has been calculated that, in the same year, the ratio of duties collected to the value of all imports, free as well as dutiable, was 11 per cent in Canada, 9⅛ per cent in New Brunswick, 8½ per cent in Prince Edward Island and 7⅜ per cent in Nova Scotia.[9] The higher level of the Canadian tariff was maintained until the eve of Confederation; but the changes of 1866, which increased Canadian excise taxes, reduced the *ad valorem* customs duties in a great many manufactured products from 20 to 15 per cent, thus leaving the New Brunswick rate of 15½ per cent the highest for a considerable number of commodities.[10] It was customary, during the Confederation controversy, for speakers to compare the taxes which were paid by the peoples of the different provinces through tariffs; and, on the basis of the returns of 1865, the New Brunswick analyst of trade and navigation estimated that Canada paid $2.37, New Brunswick $2.47 and Nova Scotia $2.90 *per capita* of population.[11]

There is no doubt that the trade between Canada and the Maritime Provinces formed only a small part of the total commerce of these territories. In 1863, Canada's exports to the colonies of British North America were valued at only $935,196 out of a total outward trade of $39,347,890;[12] and in the fiscal year 1865-6 the total exports, and the exports to British North America, were valued respectively at $50,256,852 and $1,571,116.[13] Throughout the duration of the Reciprocity Treaty, these totals did not, of course, include the value of those natural products which were shipped from Canada through

[8] Quoted in, Whitelaw, *The Maritimes and Canada before Confederation*, p. 165.

[9] J. C. Hemmeon, "Trade and Tariffs in the British North American Provinces before Confederation" (*Proceedings of the Canadian Political Science Association*, 1934, vol. 6, pp. 31-9).

[10] Province of New Brunswick, *Assembly Journals*, 1866, appendix 16, p. 28.

[11] *Ibid.*, pp. 25-7.

[12] Province of Canada, *Sessional Papers*, 1864, appendix 3.

[13] Province of Canada, *Sessional Papers*, 1867-8, appendix 1

the United States and which eventually found their way to the Maritime Provinces. The export trade in bread-stuffs from the United States to the Atlantic provinces was not inconsiderable during this period. It was reported that in 1866 the export of flour had reached a total of 749,736 barrels;[14] and in Canada it was generally, and probably correctly, assumed that a large proportion of these shipments was made up of Canadian flour exported eastward *via* the Grand Trunk Railway to Portland. Maritime exports to the Province of Canada were largely made up of fish, fish oil, and coal, together with re-exports of West Indian products such as sugar and molasses from Nova Scotia. The great bulk of Canada's exports to the Maritimes was composed of flour and other agricultural products; but already there were small shipments of boots and shoes, "haberdashery" and other manufactures.

The trade was admittedly small, but it was confidently expected to increase. The termination of the Reciprocity Treaty would, it was argued, improve interprovincial commerce; and its totals would be still further augmented by the building of the Intercolonial and the establishment of free trade. But the provinces had failed to conclude a railway or a trade agreement; and the unsolved problems of their communications and their commerce thus remained as factors of considerable importance in the movement leading to Confederation.

[14] W. J. Patterson, *Report on the Trade and Navigation of Montreal*, 1866, p. 22.

Section VIII

THE ECONOMIC OBJECTIVES OF CONFEDERATION

The central economic ambition of the Fathers of Confederation was to increase the production, to hasten the expansion and to promote the prosperity of the British North American provinces by the establishment of a new national economy. The other economic hopes of Confederation were, in the main, included within or dependent upon this major expectation; the other economic decisions taken at Confederation were meant, on the whole, to serve this major purpose. The creation of a national economy was the economic counterpart of the establishment of a new political nationality. In both designs there was the same element of grandeur; both equally were novelties in the history of British North America; and both, it could be argued, were made necessary by the exacting conditions of the time. Thus, in the minds of its authors, the creation of the new national economy occupied a place of central importance. It was an enterprise which was consciously adopted and deliberately put into execution.

Whether it was implied or explicit, there was in most of the public utterances of the Fathers a definite view of the nature of a robust national economy; and it was one of the chief tasks of the supporters of Confederation to prove how nearly the new economy would approximate to this ideal. It was believed that the resources and industries of British North America were diversified and complementary: it was argued that the integration of these various elements would provide the requisite basis of a stable economic life. ". . . .It is not so much," said Galt, "by the extent of a country that its power and real greatness are to be estimated, as by its containing within itself the elements of different interests, for it is in the diversity of employment that security is found against those sad reverses to which every country, depending mainly on one branch of industry, must always be liable."[1] It was true of at least some of the provinces that they had depended largely upon one branch of industry. It was hoped that through economic union they would find the security and prosperity which they were unlikely, while divided, to obtain.

[1] *Canadian Confederation Debates*, p. 63.

The belief that the colonies possessed complementary advantages, that their resources could be consolidated in a powerful integration, was expressed frequently during the period. Canada, with its vast territories, needed the sea-board which the Maritimes possessed; the Maritimes required the "back country" which Canada could supply. "I need hardly bring to your notice . . ." said Cartier at a public meeting held in Halifax immediately after the Charlottetown Conference, "that we in Canada have those two great elements of nationality—the personal and territorial elements; but we know our shortcomings—that though great in territory and population, we want the other element which is absolutely necessary to make a nation, that is the maritime element. . . . Nor must you lose sight of this fact, that though the Maritime Provinces occupy a sea-board position, yet if they do not unite with us, they must be for all time to come only a mere strip of sea-shore."[2] This argument was repeated, with evident approval, by Tupper and McCully of Nova Scotia, by W. H. Pope of Prince Edward Island and by several speakers in the Canadian Confederation debates.[3] To speak of the Union of the "territorial element" and the "maritime element" became a favourite method of expressing the general idea of the integration of complementary resources; and, from the Charlottetown Conference on, it became the fashion to elaborate this argument by reviewing the resources of the British North American provinces, by enumerating the gold and timber of British Columbia, the furs and wheat of the prairies, the minerals of the Lake Superior country, the wheat, timber, oil and manufactures of Canada, and the coal, iron, fish and forests of the Maritimes. The unification of these diversified resources would, it was argued, give the new country the desired stability. ". . . . In Confederation we should not be so dependent as now;" said McMillan in the Assembly of New Brunswick, "if lumber fails, we could fall back on the crops of Canada. . . ."[4]

[2] Edward Whelan, *The Union of the British Provinces...* (Charlottetown, 1863), pp. 24-5.

[3] *Ibid.*, pp. 67, 166; W. H. Pope, *Observations on the Proposed Union of the British North American Provinces....* (Charlottetown, 1865), p. 14.

[4] *Debates of the House of Assembly of New Brunswick*, 1865, pp. 135-7.

"We may therefore rejoice," said Galt, "that, in the proposed Union of the British North American Provinces, we shall obtain some security against those providential reverses to which, as long as we are dependent on one branch of industry as a purely agricultural country, we must always remain exposed."[5]

This conception of a national British North American economy which would make for increased stability, productivity and expansion was, of course, subjected to a severe critical attack, particularly from the Maritimes. It was argued that insuperable geographical obstacles would defeat the realization of such a scheme. It was maintained that the resources and industries of the Maritime and Canadian regions were not complementary, but competitive; and that their interests were contradictory and clashing. It was contended that the proposed consolidation would rob regions of their old advantages while at the same time it would impose new burdens upon them. "The territorial shape of our Confederation," wrote one editor, "will be something totally unprecedented in the history of nations: Never was there before a country at once so long and so narrow. . . . Confederation is like a string of beads, not even all in contact, for wilderness sometimes intervenes between them. . . . ."[6] A unity created in defiance of these distances and barriers would, it was argued, be essentially unnatural and uneconomic; and the effort to achieve such an artificial integration would impose heavy burdens on people whose interests it could never satisfy. The aspirations of Canada had always been continental; the historic interests of the lower provinces had been maritime. Nova Scotia and New Brunswick could have little interest in that western development for which, nevertheless, they would be forced to pay heavily; and their true prosperity should be sought overseas, as it always had been in the past, in the markets of Great Britain, Southern Europe, the West Indies, the United States, and Central and South America. "How would this policy suit Nova Scotia," asked Joseph Howe in one of his letters on the "Botheration Scheme," "with her noble fleet of ships and annually extending foreign trade? How would she like to be hooped around, in an enclosure, with three or four millions of people, to the injury of her commerce? . . ."[7] "With such boundless fields before us," wrote William Annand of Nova Scotia, "and the open markets of this country (Great Britain), what do we care for the consumption of two or three millions of people who live in the rear, and why should we permit them, for their own advantage, to cripple our trade with hundreds of millions of people who are as much our brethren and fellow subjects as they are, and with all the world besides?"[8]

Whether it was attacked or defended the national economy of British North America was a recognized objective of Confederation. But the territorial limits of the new economic integration were a matter of more uncertainty. There is no doubt, of course, that the Fathers of Confederation and their contemporaries envisaged a transcontinental economy. As McGiverin said in the Canadian debates, Confederation was intended to be "not simply a union with the Maritime Provinces, but a union of all the British colonies in America from the Atlantic to the Pacific Coast. . . ."[9] George Brown and the members from Upper Canada regarded western expansion as an essential part of the Confederation scheme; western development was assumed by Cartier in one of his speeches following the Charlottetown Conference;[10] and the subject was agitated in the Maritime Provinces by people who took for granted that sooner or later the project would be carried out. But while the Fathers undeniably envisaged expansion to the Pacific, many of them did so without great clarity and some with positive apprehension. The opponents were fearful, and the supporters uncertain of the steps which would have to be taken in opening up the west. "Sir," said George Brown, "the whole great ends of this Confederation may not be realized in the lifetime of many who now hear me. We imagine not that such a structure can be built in a month or in a year. What we propose now is but to lay the foundations of the structure—to set in motion the governmental machinery that will one day, we trust, extend from the Atlantic to the Pacific."[11] In the Quebec Resolutions, the definiteness of the proposals for the unification of the Maritimes and Canada is in significant contrast with the indefiniteness of the measures for the development of the west. Resolution 68 committed the general government to the immediate completion of the Intercolonial Railway; but resolution 69 asserted merely that the "communications" and the "improvements required for the development of the trade of the Great West with the Seaboard"

[5] *Canadian Confederation Debates*, p. 63.
[6] *Morning Freeman* (Saint John), Jan. 10, 1865.
[7] *Yarmouth Tribune*, Jan. 23, 1865.

[8] William Annand, *A Letter to the Right Honourable the Earl of Carnarvon*... (London, 1866), p. 15.
[9] *Canadian Confederation Debates*, p. 467.
[10] Whelan, *Union of the British Provinces*, p. 25.
[11] *Canadian Confederation Debates*, p. 86.

were regarded as matters of the "highest importance" and would be prosecuted as soon as "the state of the finances will permit." During the Canadian debates, Holton of the opposition tried—and failed—to extort from Brown the pledge that "the opening of the North-West territory should proceed *pari passu* with the construction of the Intercolonial Railway."[12]

There were good reasons for the greater definiteness of the plans for the integration of the Canadian and Maritime economies. To a certain extent, the eagerness of the Canadians for western development was checked by the apprehensions of the Maritimes. The acquisition of the west would inevitably increase the financial burdens of Confederation; while, at the same time, it did not hold out any obvious commensurate advantages to the Maritime Provinces, which were already fearful of new expenditures and taxation. The cost of Union was a favourite topic with all the anti-confederates in the Maritimes; and E. B. Chandler in New Brunswick and W. H. Pope in Prince Edward Island evidently considered the prospect of western expenditures as one of the most serious objections to Confederation.[13] They tried to meet it by arguing, on the one hand, that the development of the west was not an immediate necessity of Confederation and, on the other, that its eventual prosecution would bring benefits to the Maritime Provinces.

There was another and a more important reason for the indefiniteness of the program for the development of the west. The problems of the integration of the Maritimes and Canada were already known through a long period of experimentation, of trial and error; but the tasks to be undertaken in the west could be only dimly foreseen. "The peculiar position of the North-West question," declared the *Globe*, "formed the reason why the Convention at Quebec could not deal more definitely with it. No member of that body had any authority to speak for the North-West. It was one thing to agree definitely to secure the Intercolonial Railway through provinces represented in the Convention and a totally different thing to speak of a road to pass through a territory for which the Convention had no sort of claim to speak."[14] Here emphasis was placed upon the still unresolved legal and political problem of the chartered rights of the Hudson's Bay Company. But the economic and the political future of the west was still uncertain.

[12] *Ibid.*, p. 475-6.

[13] *Debates of the Legislative Council of New Brunswick*, 1866, pp. 15-8; Pope, *Observations on the Proposed Union*, p. 5.

[14] *The Globe*, Jan. 3, 1865.

The Fathers of Confederation could not anticipate with any great clarity the position which the west would occupy in the economy as a whole. They could not foresee in any great detail the steps which would have to be taken for its development. It is true that the rapid growth of Vancouver Island and British Columbia had provided easterners with a certain amount of fairly definite knowledge concerning the resources and possibilities of the Pacific; and both in Canada and the Maritimes there were references to the gold, furs and timber of the Pacific coast and to the possibilities of trade with the Orient. George Brown, who, as an earnest advocate of western expansion, was doubtless expected by the government to deal with the problem, spoke, not very successfully, on the profits of the fur trade, the prospects of mineral wealth and the hopes of agricultural production on the prairies.[15] James Ross, of Red River, who happened to be in Toronto when the banquet of the Maritime delegates was given, predicted that the western territories would sustain a great population of farmers;[16] and in the Maritimes there were occasional references to the "vast fertile districts" of the far west and to the possible production of "millions of bushels of grain." But the value of the west, both as a productive area and as a market, was usually estimated in very general terms. Possibly McGiverin, who argued from the experience of the United States, came closest to a definition of the value of the west to commercial and industrial Canada. "What then," he asked, "may we not expect our great North-West to become? If we had it opened up, Canada would be the carriers of its produce, as the Middle States are the carriers of the Western States, and the manufacturers of its goods as the Eastern States are now the manufacturers of the goods consumed by the West."[17] These anticipations, more detailed and concrete than most of their kind, were yet sufficiently vague. Canada had staked out a claim; but it could form no accurate estimate of its value, nor could it yet map out a program of development. In intention, the new national economy was transcontinental; in the actualities of the moment, it was limited to the regions of Canada and the Maritimes.

The Fathers of Confederation expected great things of the new economy; and they evidently believed that its inherent strength made artificial support unnecessary. The establishment of a free trade area of nearly four million people and its integration by means of improved canals and new

[15] *Canadian Confederation Debates*, p. 104.

[16] Whelan, *Union of the British Provinces*, pp. 184-5.

[17] *Canadian Confederation Debates*, p. 470.

railways were, in the minds of the Fathers, the sufficient means for the realization of their ideal. Apart from Isaac Buchanan and a few others, who definitely linked Confederation with a national policy of protection, there were few people who wished to bind the new economy together with a tariff. The almost entire absence of any demand for a new fiscal policy was due as well to the tariff views which obtained in Canada as to the tariff apprehensions which agitated the Maritimes. "In Nova Scotia, from whence I come," said Jonathan McCully frankly at the banquet at Toronto, "we have an *ad valorem* tariff of ten per cent, and one of the greatest difficulties we shall have to contend with in that Province in inducing our people to come into the Confederation, will be to reconcile them to the raising of that tariff to any very large extent. . . ."[18] This prophecy was, of course, fulfilled to the letter; and for Howe, Annand, Smith and J. C. Pope, for the *Morning Freeman*, the *Novascotian* and the *Acadian Recorder*, the burden of the Canadian tariff was one of the favourite complaints against Confederation. Though the tariff of New Brunswick was, in fact, closest to that of Canada, A. J. Smith in the New Brunswick Assembly was ready to predict that the immediate consequence of Confederation would be the raising of the rates in New Brunswick ports from 30 to 50 per cent;[19] and there were many who asserted that the building of the Intercolonial, the improvement of the canals and the opening of the west would inevitably entail an increase in the tariff in the not distant future. The higher tariff, which the opponents of union in the Maritimes expected as the natural consequence of Confederation, would not only impose additional financial burdens on the people; it would also give the Canadian manufacturers special privileges which the lower provinces, as maritime and commercial colonies, would desire to extend without discrimination to the entire world.

The prevalence of these views, and the vigour and frequency with which they were urged, had their influences in the minds of the Canadians and their results in rates of Canadian customs. The reductions in the Canadian tariff, which Galt effected in 1866, were intended, among other things, to take "from the adversaries of Confederation in those provinces (the Maritimes) some of the arguments with which they have been accustomed to combat the project."[20] This interesting pre-Confederation decision to grant concessions to the sectional interests of British North America was not, however, the only motive back of the reductions of 1866. On the whole Galt was probably more influenced by English than by American fiscal policy, a point in his disfavour which was noted by a real protectionist like Isaac Buchanan.[21] He was not in principle a protectionist, still less were the Conservative and Unionist ministries in which he held the portfolio of finance; and his tariff policy, as will be seen later, had rather different objectives.

This new national economy, this relatively unprotected free-trade area of four million people, the Fathers of Confederation proposed to unite by means of certain important public works. Broadly speaking, there were three great developmental projects which had been under consideration in the period before the Quebec Conference. The first was the construction of the Intercolonial Railway, the second was the improvement of the Canadian Canals, and the third was the opening up of the North-West Territories by means of communications and transport services the nature of which had not yet been determined. For the Canadians, the Intercolonial Railway was most important as a political and defensive measure. As McConkey said in the Canadian Assembly, it was "just as necessary to the proposed Confederation as the spinal column to the human frame."[22] In exceptional commercial circumstances, such as the repeal of the bonding laws by the American Congress, it would become an economic necessity; "if," as the *Globe* said, "it should ever become the only winter route to the seaboard open to us without heavy duties, its value would be incalculable."[23] But the Canadians hoped that the winter outlets through the United States would remain open, just as they evidently expected that Montreal would continue to play its role as a summer port; and, as a result, they regarded the Intercolonial less favourably than the roads, improved canals and railways which would strengthen communications with the American and British North American west. As early as the banquet given to the delegates at Halifax, Macdonald himself declared "that the Railway, as a commercial enterprise, would be of comparatively little commercial advantage to the people of Canada";[24] and in the Canadian legislature, Brown,

[18] Whelan, *Union of the British Provinces*, p. 169.

[19] *Debates in the House of Assembly of New Brunswick*, 1867, pp. 13, 50-1.

[20] *Speech of the Honourable A. T. Galt, Minister of Finance of Canada*.... (Ottawa, 1866), p. 13.

[21] Isaac Buchanan, *British American Federation a Necessity* .... (Hamilton, 1865), p. 29.

[22] *Canadian Confederation Debates*, p. 890.

[23] *The Globe*, March 2, 1865.

[24] Whelan, *Union of the British Provinces*, p. 45.

Flint, McMaster, Reesor and McConkey, among others, were sceptical of the commercial value of the road. Tilley, on the other hand, expressed what Canadians understood to be the Maritime position, when he declared frankly at Quebec: "We won't have this union unless you give us the railway."[25] The Canadians accepted the Intercolonial as a necessity of Confederation, required both by political considerations and reasons of commercial policy; but, at the same time, their attitude implied that its construction was a special concession to the commercial interests of the Maritime Provinces—a concession which ought, in justice, to be requited by a grant of comparable value to the people of Canada.

Compensation adequate to reward the people of Canada for their acceptance of the Intercolonial was bound, of necessity, to take the form of transport facilities and communications with the West. For generations, the Canadas had cherished the ambition of monopolizing the trade between the international west and the ocean; for years, the promoters, merchants and publicists of Upper Canada had advocated the opening up of the British territories on the western prairies. The settlement and commerce of the west were regarded as the special interest of the Canadas, just as the Intercolonial was accepted as the special concern of the Maritimes; and it was only natural that the Fathers of Confederation, in defining their public works policy, should attempt to deal equitably with both sections of the projected federation. Clause 69 of the Quebec Resolutions, which committed the general government to the construction of "communications with the Northwestern Territory" and to the "improvements required for the development of the trade of the Great West with the Seaboard" was interpreted and accepted as a pledge that these historic aspirations of the Canadas were to be realized as soon as was financially possible.[26] The nature of the proposed "communications with the Northwestern Territory" could not be exactly determined for reasons which have been already discussed; but the clause referring to the "improvements required for the development of the trade of the Great West with the Seaboard" was held at the time to imply the improvement of the Canadian canals. In his opening speech on the Quebec Resolutions in the Canadian Assembly, George Brown discussed the public works program of the projected federation with specific reference to clauses 68 and 69 of the Quebec Resolutions; and, in the course of his remarks, he repeatedly coupled the improvement of the Canadian canals with the opening up of the North-West.[27] Later on in the debate, at the conclusion of the speech by McGiverin, the member for Lincoln, George Brown restated this interpretation of the promise to proceed with the works necessary for the development of the western trade. "What he said was this," said Brown, referring to McGiverin's remarks, "that he understood the Government were pledged, as a portion of their policy, to the enlargement of the canals and the opening up of the North-West, as well as the construction of the Intercolonial Railway, and that he believed we were sincere in the earnest determination to go on with all those works at the earliest possible moment. He was perfectly correct in making that statement. The Government are pledged to that. If my honourable friend has any doubt about it, he will find it there in the conditions of agreement come to by the Conference."[28]

This attempt, on the part of the Fathers of Confederation, to satisfy the different sectional interests of the projected union, did not, of course, remove all doubts or quiet all opposition. In Canada, the advocates of western expansion and western trade, were suspicious and critical of the fact that the construction of the Intercolonial railway had plainly been given priority in the Quebec Resolutions; and, on the whole, the Intercolonial proved to be a less powerful inducement to the Maritimes than the members of the Quebec Conference expected that it would. The partisans of Confederation in the Maritimes naturally took the line that union would bring the achievement of a work upon whose value everybody had agreed for the past decades. "For twenty long years," said Tupper, "the ablest public men had combined all their talents and energies to bring about the construction of this great work but all their efforts have proved futile."[29] Despite these statements, however, the Maritime Provinces were not united in approval of the railway, nor did it receive unanimous support from any one province. "It is a matter of indifference to our people," said A. A. Macdonald of Prince Edward Island at the Quebec Conference, "whether the Intercolonial Railroad is built or not."[30] Edward Palmer, who

[25] *Ibid.*, p. 72.

[26] For a different interpretation of this clause, see: *Submission by the Government of the Province of New Brunswick to the Royal Commission on Dominion-Provincial Relations*, Part II; *Royal Commission on Dominion-Provincial Relations, Report of Hearings*, May 23, pp. 9014-9055.

[27] *Canadian Confederation Debates*, p. 103.

[28] *Ibid.*, p. 476.

[29] *Debates and Proceedings of the House of Assembly of Nova Scotia*, 1866, pp. 219-21.

[30] A. G. Doughty (ed.) "Notes on the Quebec Conference, 1864" (*Canadian Historical Review*, vol. 1, March, 1920, p. 46).

was also a member of the delegation to Quebec, argued later that the construction of the Intercolonial would inflict a positive injury upon Prince Edward Island, since it would bring the agricultural products of Canada into competition with those of the Island in the markets of Saint John and Halifax.[31] New Brunswick, which brought forward its old objection to the north shore route, was if anything more interested in the "western extension" of its railway system to Portland than it was in the Intercolonial. The old complaint of the *Novascotian*, that "Hincks sold the North-eastern Railroad" when he built the Grand Trunk to Portland, was revived; and it was argued that the Intercolonial, as a commercial proposition, could never compete with the route by ship and rail *via* the St. Lawrence, or with the route by rail and ship *via* the United States. The Saint John *Morning News*, which was strongly in favour of Confederation, admitted that the Intercolonial was a slightly dubious enterprise, which nevertheless had real chances of success.[32] There were even people in the Maritimes who insisted that, in view of Canada's dependence on the uncertain favour of the United States for winter communication with the sea, the Intercolonial was of greater importance to Canada than it was to the lower provinces.[33] "I . . . hold as I held in 1862," said Annand, "that however valuable the Intercolonial railway may be to New Brunswick and Nova Scotia, it involves the existence of Canada."[34]

The hope of creating a national economy with expanding frontiers and improved communications may be regarded as the central economic aspiration of the union movement. It was the chief task of the unionists to canvass all the economic prospects of the new economy, to indicate all the ways in which its increasing productivity and prosperity would be revealed. Among all these particular expectations, the hope of increased internal trade was perhaps the chief. The unionists admitted, as of course they had to, that the trade between the Maritimes and Canada has been relatively small; but they insisted that the removal of provincial tariffs and the improvement of interprovincial communications would provide the sufficient stimulus for a large increase. The creation of a free-trade area of four million people would provide a compensation for the abrogation of the Reciprocity Treaty; and security against the caprices of foreign commercial policy would come with the development of inter-regional trade in naturally interchangeable goods. "What one thing," asked George Brown, "has contributed so much to the wondrous material progress of the United States as the free passage of their products from one State to another? Sir, I confess to you that in my mind this one view of the union—this addition of nearly a million of people to our home consumers—sweeps aside all the petty objections that are averred against the scheme."[35]

The volume and character of interprovincial trade was a favourite theme of the Unionists. "You in the east," said George Brown, "would send us your fish and your coals and your West India produce, while we would send you in return the flour and the grain and the meats you now buy in Boston and New York. Our merchants and manufacturers would have a new field before them. . . ."[36] One of the hopes of the Canadians was to monopolize the market for flour and grain in the Maritimes; and one of the aspirations of the Maritimes was to find a new outlet for their coal in Canada. Both Galt of Canada and Tilley of New Brunswick prophesied that Confederation would bring expanding opportunities for the manufacturers of their respective provinces,[37] and in Nova Scotia, Lynch answered his own query as to what Nova Scotia proposed to send over the Intercolonial by replying "our manufactures."[38]

These confident expectations of mounting interprovincial trade were subjected to a severe criticism by the opponents of Union. "We could not be benefited," said Duncan during the 1866 debates in Prince Edward Island, "even by free and unrestricted commercial intercourse with them. Everything which could be exported from this Island, Canada produces; and, therefore, no trade of any importance can spring up between that Province and this Colony."[39] Many products of the two regions were not exchangeable, argued the opponents of Union; and even where they were, as in the case of Canadian flour and Nova Scotian coal, Canada could obtain its supplies as easily and cheaply from Pennsylvania and the Maritimes from the ports of the New England States. With considerable effect Annand recalled the fact that Tilley, at the time of the provincial conference on the customs union, had agreed with him that the "infant manufactures" of

[31] *The Globe*, Dec. 13, 1864.

[32] *Morning News*, Sept. 26, 1864.

[33] *Acadian Recorder*, Feb. 4, 1865.

[34] *Debates and Proceedings of the House of Assembly of Nova Scotia*, 1866, pp. 195-7.

[35] *Canadian Confederation Debates*, p. 99.

[36] Whelan, *Union of the British Provinces*, p. 37.

[37] *Canadian Confederation Debates*, p. 64; *The Globe*, Nov. 29, 1864.

[38] *Evening Express*, Jan. 9, 1865.

[39] *Debates of the Assembly of Prince Edward Island*, 1866, p. 102.

the Maritimes should be protected against the competition of more mature Canadian concerns. ". . . . The Canadians," said Annand, "are largely in advance of us in manufacturing; they desire our market, they have much to sell us and we but little to dispose of in return, and therefore it was their interest then, as it is now, to have free trade with this and the other Maritime Provinces."[40] Finally, there was the argument, urged in all the Maritime Provinces and particularly in Nova Scotia, that, as seafaring and commercial colonies with interests radiating widely over the whole world, their economies would be endangered by inclusion within a nationality whose fiscal policy they would be unable to control.[41]

Confederation was not merely intended by its supporters to increase internal trade; it was expected to promote external commerce as well. In support of this belief, it was argued, for one thing, that Union would give to the confederated provinces a place of greater prominence in the commercial world—a chance to bargain more effectively for commercial privileges as well as to resist commercial injuries. "May we not then," inquired Brown, "when this union is accomplished, fairly claim to be the third maritime state of the world. . . .? Will it not strengthen our position abroad?—will it not give us a degree of influence and importance to have it known that British America wields so large a share of the world's commerce?"[42] The new Confederation, as "the very best customer" of the United States, would be able to bargain more advantageously for the renewal of the Reciprocity Treaty.[43] The privilege of using the canals, the right to navigate the St. Lawrence, the liberty of the fisheries—all these advantages could be defended more efficiently by the Confederation or granted to foreigners only on the basis of real returns.

The Atlantic fisheries were frequently referred to as a resource which could be best defended and commercially exploited by a united British North America. Brown's contention, that it would be difficult "to poach on our fishing grounds, when these provinces are united and determined to protect the fisheries of the Gulf," was echoed in the Maritime Provinces. To be sure, the opponents of Confederation argued that the fisheries would be sold and sacrificed to satisfy the sectional interests of Canada, just as they were alleged to have been sold in the Reciprocity Treaty negotiations; and even Tupper admitted that in all important matters respecting commercial policy in British North America, Canada—whether united or not with the Maritimes—would likely have the decisive word.[44] But, as partners in a common national economy, would not both Canada and the Maritimes find the protection of the fisheries to be equally their duty and their interest? "Indeed," declared the *Evening Express*, "if anything can open the eyes, especially of our fishermen, it must be the conviction which cannot fail but force itself upon them, that as mere units they are helpless—while, as a consolidated power, representing a community of interests, they could show a front which not even Yankee audacity would dream of trifling with."[45]

It was felt, moreover, that Confederation, apart from its beneficial effects on commercial policy, would increasingly promote the volume of the external trade of British North America. The combination of the resources and advantages of the provinces, and the prospective expansion of their united economy, were both relied upon to help in the realization of this hope. The Confederation would start with certain obvious commercial advantages—with excellent Atlantic ports and with a great river draining the interior of the continent. In the canals, the railways and the mercantile marine, about which George Brown and the Maritime delegates expatiated so proudly, the Union would begin life with a considerable amount of capital equipment. The public works were, so Galt argued, merely "parts of one great whole"; and the effectiveness of this system in international trade would be enhanced by the construction of the Intercolonial, the improvement and extension of the canals, and the building of a transport service to the Pacific. The share of Canada in the trade of the American west would be combined with the share of the Maritimes in the international commerce of the Atlantic ocean; and to this would be added the trade with the Pacific and the Orient which would follow the completion of the inter-oceanic railway. The problem of communications with the Pacific, like the more general problem of the economic development and the political reorganization of the west, was barely formulated and certainly unresolved at this time; but mention of the Pacific Railway and optimistic estimates of the trade which might be expected to follow its completion occurred fairly frequently in the public

[40] *Morning Freeman*, Jan. 6, 1865.

[41] Joseph Howe, *Confederation considered in relation to the Interests of the Empire* (London, 1866).

[42] *Canadian Confederation Debates*, p. 102.

[43] Whelan, *Union of the British Provinces*, p. 36.

[44] *Debates and Proceedings of the House of Assembly of Nova Scotia*, 1867, pp. 45-7, 54.

[45] *Evening Express*, March 24, 1865.

addresses of the delegates to the Charlottetown and Quebec Conferences, in the debates in the different provincial legislatures and in the newspapers. Both the Maritimes and Canada hoped to obtain their share of this increased through traffic. From Galt's Sherbrooke speech, it is plain that he expected that Lower Canada would be "the great commercial centre for the whole of the Provinces";[46] but on the other hand both Canadians and Maritimers indulged optimistic hopes for the prosperity of Saint John and Halifax. ". . . We form," said Lynch at Halifax, "the nearest point to Europe, while British America, extending across the whole continent, is laved by the waters of the Atlantic and Pacific. Suppose a mighty railroad running across this great country, it would pass through the finest of its territory, and bring us in juxtaposition to the best part of the continent of Asia—China and Japan. . . . If made only a place of transit for the mighty trade which I have portrayed, it would be of incalculable benefit to us. What made Venice and Genoa but there (sic.) being situated somewhat as we are, but without half the advantages."[47]

It was hoped that all the staple industries of British North America would benefit, at least in some degree, from this widening of provincial and international markets. In all these general reviews of the prospects of British North American production there was, however, a place of special importance given to manufacturing. Business men and politicians believed that Confederation would promote the growth of British North American manufacturing; and these hopes were based almost entirely upon that larger market—larger, for the Maritimes by three million people—which union would open up. There was no general demand that Confederation should be strengthened by a national policy of protection; and so far as fiscal policy was a factor in the prospects for manufacturing, it was probably expected to play the part indicated by Galt, who argued, in the budget speech of 1866, that light taxation and cheap materials would best enable the manufacturers of Canada to keep their own markets and to compete abroad. It was not upon protection, but upon geographical position, natural resources and widened markets that the manufacturing interests of the different provinces based their hopes.

In the Maritimes these hopes were particularly high. What Tupper called the "geographical advantages" and "geological attributes" of Nova Scotia appeared to imply that in the new federation it would play a role comparable to that of Great Britain in world trade, or to that of the New England States in the American Union.[48] "In fact," said Tupper in the debates of 1867, "the possession of coal mines, together with other natural advantages, must, in the course of time, make Nova Scotia the great emporium for manufactures in British America."[49] It was in British industry that Nova Scotians usually discovered the presage of their own success; it was in the United States that New Brunswickers found a forecast of their future industrial development. The manufacturers and mechanics of Saint John believed that they would manufacture for the "granary" of Canada, just as New England manufactured for the wheat-producing western states;[50] and Tilley found in Pittsburgh a forecast of the industrial future of Saint John.[51] "It is folly to say," declared the Saint John *Morning News*, "that Canada can ever compete with New Brunswick as a manufacturing country."[52] This calm assumption was contradicted by the equally confident, though possibly less vocal, expectation of Lower Canada, that it would certainly become the manufacturing centre of the Confederation.[53] On the whole, it was the claims of the Maritimes which were disputed, while those of Canada went uncontested. The opponents of union in the Maritimes ridiculed the aspirations of their manufacturers. Manufacturing, they argued, was further advanced in Canada than in the Maritimes; the Canadians could obtain coal easily from the United States; their materials, such as iron, were as cheap as they were in the Maritimes, and their labour costs less high.[54]

These rising industries and trades would, it was hoped, be supported by an increased population. Union was expected to bring a new influx of immigrants. "We are now," said Tupper, "a field of emigration, instead of one for immigration";[55] and this gloomy realization inclined men in Canada as well as in the Maritimes to emphasize the connection which they thought they found between Union and a greater population. "On this question of immigration," said George Brown, "turns, in my opinion, the whole future success of this great scheme which we are now discussing. Why, Sir, there is hardly a political or financial or social

[46] A. T. Galt, *Speech on the Proposed Union of the British North American Provinces*...(Montreal, 1864).
[47] *Evening Express*, Jan. 9, 1865.

[48] *Debates and Proceedings of the House of Assembly of Nova Scotia*, 1865, p. 211.
[49] *Ibid.*, 1867, p. 54.
[50] *Morning News*, Feb. 22, 1865.
[51] *The Globe*, Nov. 29, 1864.
[52] *Morning News*, Sept. 30, 1864.
[53] *Canadian Confederation Debates*, p. 63.
[54] *The Globe*, Dec. 27, 1864.
[55] *Debates and Proceedings of the House of Assembly of Nova Scotia*, 1865, p. 212.

problem suggested by this Union that does not find its best solution in a large influx of immigration. . . . I go for a Union of the Provinces because it will give a new start to immigration into our country."[56] This belief was uttered not infrequently during the Confederation debates in Canada; and it was echoed by Tupper in Nova Scotia and Chandler in New Brunswick.[57] Separated, the colonies were either unknown to the emigrating public or poorly regarded by it; but united they would, so Brown argued, present themselves to the world in the most favourable light. Union, with its accompanying program of public works, would attract immigrant labourers and capitalists. Above all, union meant the ultimate development of the west; and thus a great new grain-producing area would become available to immigrants and to Canadians now inclined to abandon Upper Canada. "The North-West," said McGiverin, "should be placed in precisely the same position as regards Canada that the Western States occupy in relation to the Eastern. It is a melancholy fact that for the want of such a country, our youth seek homes in a foreign land. . . . If we had that country open to them, to say nothing of the foreign immigration it would attract, it would afford homes for a large population from amongst ourselves now absorbed in the Western States."[58]

Finally, the supporters of Confederation believed that Union would improve the credit of British North America and facilitate the flotation of new loans for both public and private developmental projects. During the early sixties, Canadian credit had been depressed by the rumours of war between Great Britain and the United States, by the delays in the reorganization of the Canadian Militia and by the evident financial difficulties of the Grand Trunk Railway. Galt, Brown and Tupper—the three men who, with Tilley, shared the major responsibility for the financial settlement of Confederation—all believed that Union would inspire a confidence in British North America which had not existed before. "There is nothing," said Tupper, "that lowers the credit of a country more than the insecurity that attends such isolation as these provinces exhibit at the present moment."[59] But the isolation and obscurity of the past would be ended with the establishment of the new and imposing political unity; and, as Galt said, "the credit of the whole country would be greater than that of any of its parts."[60] Brown, Galt and Tupper all took pride in pointing out that the first reports of the Confederation scheme had revived English confidence in Canada and raised the price of Canadian securities and Brown endeavoured to prove that the subsequent decline in the quotations had been due entirely to the news of the St. Albans raid. The Fathers of Confederation believed that they were creating a structure which would be stronger financially, commercially and politically—a structure which would command the confidence of investors, as well as the interest of merchants and the respect of statesmen.

[56] *Canadian Confederation Debates*, pp. 102-3.

[57] *Debates of the Legislative Council of New Brunswick*, 1866, pp. 20-5.

[58] *Canadian Confederation Debates*, pp. 469-70.

[59] *Debates and Proceedings of the House of Assembly of Nova Scotia*, 1865, p. 211.

[60] Galt, *Speech on the Proposed Union*, p. 11.

Section IX

THE DIVISION OF ECONOMIC POWERS AT CONFEDERATION

I

In conformity with the method employed throughout this study, the division of economic powers at Confederation will be subjected to a purely historical examination. Such an inquiry differs essentially, in both purpose and method, from a legal investigation. It is concerned, not only with the British North America Act, but also with the forces and purposes which lay back of it; and it relies for its authority upon contemporary historical evidence and not upon subsequent judicial decisions and opinions. For the purposes of such historical study, there exists a considerable and varied body of evidence, of unimpeachable authenticity. Confederation was not, as sometimes seems to be imagined, the result of some mysterious crisis in the remote dark ages; it was the product of a period which until very recent times was regarded by historians as "contemporary history"; and it has left materials much more voluminous than those which support generally accepted interpretations of events far more remote in the past. This evidence comprises among other things, the resolutions and proceedings of the Quebec and London Conferences, the debates in the imperial parliament and the provincial legislatures, the official and private correspondence of the time, and the printed matter, official and otherwise, which was current at the period. The results of an investigation into such materials may be regarded as speculative and debatable; some of the conclusions must admittedly remain in the realm of inference. It should be emphasized, of course, that a considerable measure of agreement exists among historians concerning some of these inferences; but differences of opinion do still exist. And there is no final historical court of appeal whose decisions are absolute and binding.

There can be little doubt that one important general principle was used to determine and to explain the division of legislative powers in the projected Canadian federation. From their speeches at the time of the Charlottetown and Quebec Conferences, and from their explanations in the debates in the different provincial legislatures, it is apparent that the Fathers of Confederation intended that all matters of a general or national importance should be entrusted to the general legislature, and that all matters of merely local significance should be confided to the local legislatures.[1] The second of the Quebec Resolutions—which, we are told in the official minutes, was carried unanimously in the Conference[2]—declared that: "In the Federation of the British North American Provinces the system of government best adapted under existing circumstances to protect the diversified interests of the several provinces, and secure effeciency, harmony, and permanency in the working of the Union—would be a General Government charged with matters of common interest to the whole country, and Local Governments . . . charged with the control of local matters in their respective sections. . . ." This clear distinction between a general government or legislature on the one hand and local governments or legislatures on the other—between matters of general or common interest on the one hand and local matters on the other—was maintained throughout the Quebec and London Resolutions and throughout all the explanations of the Quebec Resolutions which were presented by their principal authors. In his opening speech on the Quebec Resolutions in the Canadian Assembly, John A. Macdonald repeatedly and emphatically stressed this essential contrast. "In the proposed constitution," he declared, "all matters of general interest are to be dealt with by the General Legislature; while the local legislatures will deal with matters of local interest, which do not affect the Confederation as a whole, but are of the greatest importance to their particular sections. . . . We have strengthened the General Government. We have given the General Legislature all the great subjects of legislation . . . any honourable member on examining the list of different subjects which are to be assigned to the General and Local Legislatures respectively, will see that all the great questions which affect the general interests of the Confederacy as a whole, are confided to the Federal Parliament,

[1] W. P. M. Kennedy, *Essays in Constitutional Law* (London, 1934), pp. 85-94; F. R. Scott, "The Development of Canadian Federalism." (*Proceedings of the Canadian Political Science Association*, vol. 3, 1931, pp. 231-47); V. C. MacDonald, "Judicial Interpretation of the Canadian Constitution" (*University of Toronto Law Journal*, vol. 1, No. 2, 1936, pp. 260-85).

[2] Pope, *Confederation Documents*, p. 8.

while the local interests and local laws of each section are preserved intact, and entrusted to the care of the local bodies. . . . Besides all the powers that are specifically given, the 37th and last item of this portion of the Constitution, confers on the General Legislature the general mass of sovereign legislation. . . . We thereby strengthen the Central Parliament, and make the Confederation one people and one government, instead of five peoples and five governments. . . ."[3]

This clear distinction between a general government charged with all matters of general interest and local governments entrusted with matters of purely local concern was affirmed by Galt in his Sherbrooke speech and in his address to the Canadian assembly.[4] It was stated by Cartier and D'Arcy McGee in their speeches in the Canadian legislature.[5] "The real object which we have in view," said Lord Carnarvon, the colonial secretary, in introducing the British North America Act to the House of Lords, "is to give to the central government those high functions and almost sovereign powers by which general principles and uniformity of legislation may be secured in those questions that are of common import to all the Provinces; and, at the same time, to retain for each Province so ample a measure of municipal liberty and self-government as will allow and indeed compel them to exercise those local powers which they can exercise with great advantage to the community. . . . Just as the authority of the Central Parliament will prevail whenever it may come into conflict with the local legislatures, so the residue of legislation, if any, unprovided for in the specific legislation . . . will belong to the central body."[6]

It is reasonable to assume that, in dividing between the Dominion and the provinces the legislative authority to control the economic affairs of the country, the Fathers of Confederation attempted to observe this broad distinction between general and local matters. They may have failed to appreciate the limitations of their guiding principle, as applied to economic activities; they may appear to have made distinctions which were artificial and ambiguous. But the existing conflicts of jurisdiction are not necessarily their responsibility; and, from the historical point of view, the intelligibility of their decisions is to be tested solely by reference to the conditions of British North America at that time and to the historical forces which had created those conditions. To the Dominion the Fathers assigned a relatively large number of economic powers, including the important authority to regulate trade and commerce. To the provinces they confided the control and beneficial interest in the public domain, together with the power to legislate in relation to property rights and civil rights. Any theory designed to account for the division of these powers into the two categories of general and local matters, must admittedly be tentative in character; but it is suggested here that the Fathers of Confederation attempted to separate the affairs and interests associated with commerce from certain rights and customs dependent upon land. The former, which covered the great bulk of the economic activities of British North America as they knew it, they gave to the control of the Dominion; the latter, which included matters of minor economic, or of largely cultural, importance, they entrusted to the provinces.

As has been repeatedly noted in this study, land and commerce were the two great economic interests of British North America. From the very beginning, the basic inducements to settlement in the new world had been free land and trade; and trade and land had constituted the economic foundations of successive stages of European civilization. The political and legal structure supported by land had come to be termed feudalism, that based on commerce had been known as mercantilism. The ancient rights of the sovereign in the land and the basic property rights and civil rights of the subject were derived historically from feudal times. The laws, regulations and practices designed to encourage trade and commerce were the special contribution of the mercantilist era. These rights and authorities, transferred across the Atlantic to the new world, had, if anything, gained rather than lost in significance. British North America, which had developed for nearly a century under the protection of the British mercantile system, was a commercial civilization and so regarded itself; but, at the same time, it had good cause to appreciate the importance of the legacies of feudalism. The presence of the vast natural resources of the new world enhanced the value of the rights of the crown in the public domain. The preservation of the distinctive laws and customs of semi-feudal Quebec had contributed to the difficulties and disputes which arose between the two races. The control of these subjects had been, and remained, a matter of importance; but how were they to be divided between the two categories of general and local affairs?

[3] *Canadian Confederation Debates*, pp. 30, 33, 40, 41.
[4] Galt, *Speech on the Proposed Union*, p. 7; *Canadian Confederation Debates*, p. 70.
[5] *Canadian Confederation Debates*, pp. 60, 145.
[6] Quoted in, V. C. MacDonald "*Judicial Interpretation of the Canadian Constitution*," p. 263.

In the light of the conditions existing at that time in British North America, the solution of these problems would not appear to have been excessively difficult. The affairs of commerce were mobile and ubiquitous in character; the range of trade was transcontinental and transoceanic in scope; and the laws by which it was regulated had an international origin in the Law Merchant of Europe. Moreover, the chief economic objective of the Dominion was the commercial integration of the country on a continental scale; and, as the authority which was obviously designed to assume the role of leadership in material development, the federal government was naturally accepted as the regulator of the business affairs of the new, commercial federation. While this decision could be regarded as relatively natural and easy, the allocation of the two other powers might appear, at first sight, to have been a matter of some difficulty. On the one hand, natural resources were certainly fixed and localized in space; but, on the other, the greatness of their extent and the magnitude of their value could be taken to justify their inclusion in the class of general, national interests. Property rights and civil rights might be presumed to be a matter in which no genuine local or provincial interest could exist; but, at the same time, the laws by which these rights were secured differed fundamentally as between Canada East and the rest of British North America. Thus, on the application of the Fathers' guiding principle of division, there followed certain apparently contradictory results; but these contradictions appear less formidable under a closer scrutiny of the facts.

At that time, it was only in certain areas of the projected Dominion that the magnitude of the domain still awaiting development appeared to constitute a genuine national interest. In the west, where settlement and exploitation had barely commenced, the lands were significantly appropriated by the federal government "for the purposes of the Dominion"; but in the four original provinces of Confederation, where large-scale settlement and exploitation appeared to be approaching its limits under the conditions of the time, the natural resources could be logically transferred to the provinces. The Fathers of Confederation could not possibly foresee the enormous general importance which the public domain would acquire in the industrial Canada of the 20th century; and to them, therefore, the natural resources of the eastern and central provinces appeared to have passed from the category of general to that of local affairs. As for the laws relating to property and civil rights, they might seem to represent two broad, cultural interests rather than a number of genuine local or provincial interests. But the use of the distinctive body of law and custom derived from France had been historically limited to the territory which was to be included in the province of Quebec; and, in so far at least as the cultural autonomy of Quebec was concerned, the laws relating to property and civil rights might be regarded as a provincial interest.

II

That the Fathers of Confederation should consider commercial matters to be of general interest, as well as of great importance, is to be expected in view of the nature and development of the communities in which they lived. Colonial societies are forced, by the number and complexity of the problems of physical adjustment which confront them, to be largely, if not chiefly, preoccupied with material concerns. The British North American provinces had been, and remained, intensely commercial in spirit. Their enterprises may appear now to have been small in size, but they were not parochial in character. The very structure of the physical environment of British North America invited and, indeed, compelled its citizens to develop commercial systems which were international as well as interprovincial in scope. The St. Lawrence was a great imperial trade route penetrating far into the heart of the international American West; the Atlantic coastline was the centre of a commercial network which stretched to Newfoundland, the West Indies, South America, Great Britain, Europe and the Mediterranean. The Maritimes had competed with New England for the carrying-trade of the Atlantic; the Canadas had struggled with New York for the commerce of the American West. In view of the economic history of British North America, it would have been virtually impossible for its citizens to look upon commerce as a local affair; they thought of it, and were habituated to think of it, in terms truly oceanic and transcontinental. Galt assumed, as a question beyond dispute, that commercial matters were matters of general interest. "There is one advantage which I feel that I enjoy on this occasion," he said in addressing the Canadian Assembly on the Quebec Resolutions, "and it is that this House is not called upon, in dealing with the commercial and financial interests involved in the proposed changes, to consider the form or mode of government by which such interests are to be promoted. It makes little difference to the consideration of this branch

of the subject whether the Constitution of the new Government be that of a Legislative or Federal Union—the points with which I am about to deal, are those which concern the public at large, and bear no reference to what may be the creed, nationality or language of portions of the people."[7] It followed that, since commercial affairs were unquestionably matters of general interest, they should be entrusted to the control of the general legislature. "It would have the regulation of all the trade and commerce of the country," said Galt, "for besides that these were subjects in reference to which no local interest could exist, it was desirable that they should be dealt with throughout the Confederation on the same principles."[8]

The necessity of entrusting the commercial welfare of the country to the control of the general legislature was the more fully appreciated in Canada in the light of the experience of the past. For fifty years, during which time the provinces of Upper and Lower Canada maintained their separate existence, the control of the St. Lawrence and its commerce had been divided between two distinct and independent governments. This division had not only encouraged conflicts between the two provinces; it had also exaggerated the rivalries between the commercial and agrarian parties in each.[9] Upper Canada had disagreed with Lower Canada, and the Montreal merchants had quarrelled with the leaders of the *Patriote* party, over many economic matters of common interest to the whole St. Lawrence valley. The deadlock which followed had hampered commercial Canada in a critical phase of its struggle with New York for the prize of the western trade; and the resulting embitterment of the merchants was a factor of no small importance in the rebellions of 1837. In 1864, these events were not remote and forgotten; they were part of the living memory of many of the statesmen who made Confederation. Moreover, the moral of these events for commercial men was plain: the control of a commercial system which was interprovincial and international in character must not again be surrendered to local political bodies.

In the discussions and debates of the Confederation period, these commercial difficulties of the past were recalled with the evident purpose of demonstrating the impossibility of their recurrence under the provisions of the new constitution. It was recognized that the British merchants of Canada East had vital material interests which they wished to safeguard, just as the French Canadians had cherished customs and institutions which they desired to preserve; and it was repeatedly asserted that, under the new constitution, the control of each of these classes of subjects had been entrusted to the very legislative authority which in each case the interested parties would themselves have selected. In this connection, the remarks of Galt, Cartier and John Rose are of considerable interest. Galt and Cartier were members of the existing Canadian government and Rose was soon to become Minister of Finance. Cartier and Rose represented ridings in the city of Montreal and Galt was member for Sherbrooke. All three men were closely connected with the business of the country; and all three laboured to remove those apprehensions concerning the future of commercial interests which had naturally arisen in the minds of many of the British in Lower Canada. "We could easily understand," said Cartier, in a passage of great historical interest, "how a feeling against the Federation project was raised in the minds of a few of the British residents of Lower Canada by fears of such difficulties as those which occurred in the days of Mr. Papineau, relative to the passing of laws relating to commercial matters. These difficulties had been of a very inconvenient nature, Mr. Papineau not being a commercial man, and not understanding the importance of these measures. He considered Mr. Papineau was right in the struggle he maintained against the oligarchy at that time in power; but he had never approved of the course he took with reference to commercial matters, and in opposition to measures for the improvement of the country. But this precedent could not be urged as an objection to Federation, inasmuch as it would be for the General Government to deal with our commercial matters."[10]

It was in very much the same fashion that Galt dealt with this problem in his address at Sherbrooke. "And to speak more particularly," he said, "with regard to the British population of Lower Canada, he would remark that, in the General Government they could have nothing to fear. . . . Their interests would be safe there. The interests of trade and commerce, those in which they felt more particularly concerned, which concerned the merchants of Montreal and Quebec, would be in the hands of a body where they could have no fear that any adverse race or creed could affect them. All those subjects would be taken out of the category of local questions, would be taken away from the control of those who might be under the influence

[7] *Canadian Confederation Debates*, p. 62.

[8] Galt, *Speech on the Proposed Union*, p. 10.

[9] These conflicts are examined in detail in D. G. Creighton, *The Commercial Empire of the St. Lawrence 1760-1850*.

[10] *Canadian Confederation Debates*, p. 61.

of sectional feelings animated either by race or religion. . . ."[11] Similarly, John Rose, who spoke frankly from the point of view of the British and commercial minority of Lower Canada, endeavoured to quiet the fears of his fellow countrymen. "What," he inquired, "are you afraid of? Where is the interest affecting you that is imperilled? You have, in conjunction with a majority of your own race, power in the General Legislature . . . to make laws respecting the post office, trade, commerce, navigation; and you have all the great and important interests that centre in the community I represent—all matters that affect the minority in Lower Canada—within your control in the Federal Legislature."[12] It may be said that commercial Canada, whose leadership lay in the city of Montreal, abandoned its favourite plan of legislative union on the clearly understood condition that all the economic matters with which it was most deeply concerned should be entrusted to the general legislature of the proposed federation.

III

In entrusting commercial matters, as well as all other general matters to the control of the general legislature, the Fathers of Confederation made use of terms of great historical import. The phrases "peace, welfare and good government" were phrases of all-embracing significance in the legislative history of the British Empire.[13] They were, in fact, the phrases habitually used by the colonial office and the Imperial government in conveying to colonial legislatures the entire range of their legitimate legislative authority. In the statutes passed by the British Parliament in respect of the different colonies, in the commissions and instructions issued from time to time to the different colonial governors, it was not customary to enumerate specific legislative powers; it was customary merely to grant, in one or other of these accepted phrases, the entire measure of jurisdiction which was deemed compatible with imperial control. In the Quebec and London Resolutions, the Fathers of Confederation used the phrase "peace, welfare and good government" because it was most familiar to them. It had appeared in the Royal Proclamation of 1763, in the Quebec Act of 1774, in the Constitutional Act of 1791, and in the Union Act of 1840.[14] But though "peace, welfare and good government" was the phrase employed in all the chief Imperial statutes relating to the Canadian Constitution, it had not become stereotyped as the only phrase by which colonial legislative authority might be conveyed. In the instructions given to James Murray in 1763, the governor is required "to make such Rules and Regulations, by the Advice of Our said Council, as shall appear to be necessary for the Peace, Order and good Government of Our said Province . . . ."[15] and it is to be observed that the phrase "peace, order and good government" was here used to describe the same legislative authority which, by the Royal Proclamation of the previous October, had been conveyed in terms of "Public Peace, Welfare and good Government." In the Act for the government of New South Wales and Van Diemen's Land of 1842, as well as in the New Zealand Government Act of 1846, authority was granted to make laws for the "peace, welfare and good government" of these colonies; but, in the New Zealand Constitution Act of 1852, the phrase "peace, order and good government" was used in the same connection to grant similar powers.[16] Thus in both the 18th and 19th centuries, and in both the American and Australasian Colonies, the terms "peace, welfare and good government" and "peace, order and good government" had been employed frequently and, apparently, indifferently, to convey the entire body of legislative authority which Great Britain was willing to surrender to its colonies. In effect, these historic phrases are the title deeds of the legislative powers now enjoyed by the self-governing Dominions of the British Empire.

In the enumeration of specific powers, by which the Fathers of Confederation sought to illustrate and exemplify the authority conveyed to the Dominion under the comprehensive phrase of "peace, order and good government," there are a considerable number of clauses which relate directly to the economic activities of the new confederation. The meaning of these clauses, as it was understood by the men who drafted the Quebec resolutions, can best be realized in the light of the economic and political history of the provinces, and of the British empire as a whole. In the development of the empire, the phrase "the regulation of trade and commerce" had come to acquire the greatest importance and the widest amplitude. Even at the height of the American Revolution, when Great Britain at length renounced its claim to tax the colonies, it

[11] Galt, *Speech on the Proposed Union*, p. 20.

[12] *Canadian Confederation Debates*, p. 409.

[13] C. H. Cahan, *The British North America Act, 1867*, (an address delivered before the Canadian Club of Toronto, Sept. 15, 1937).

[14] W. P. M. Kennedy, *Statutes, Treaties and Documents of the Canadian Constitution, 1713-1929* (Toronto, 1930), pp. 36, 139, 194, 433.

[15] *Ibid.*, p. 44.

[16] K. N. Bell and W. P. Morrell (eds.), *Select Documents on British Colonial Policy*, 1830-1860 (Oxford, 1928), pp. 56, 90, 102.

reserved the right to impose such duties as might seem expedient for the "regulation of commerce";[17] and two generations later, Lord Durham excepted, from the powers which he was willing to assign to the local colonial legislatures "the regulation of foreign relations, and of trade with the mother country, the other British colonies, and foreign nations. . . ."[18] From the beginning, the commerce of the colonies had constituted, for Englishmen, the main value and the chief justification of an overseas empire; and up to the time of the American revolution, all questions relating to the colonies were referred originally to the imperial Board of Trade. The duty of the Board was to advise the various departments of government in their task of maintaining that great body of laws—called generally the mercantile system—by which the trade of the whole empire was regulated.

This system of regulation was both comprehensive and detailed.[19] Back of it lay the design of a united and self-sufficient empire, in which the interests of the colonies were to be clearly subordinated to those of the mother country; and this purpose inevitably necessitated a strict supervision and control over the economic activities of the whole empire, so far as this was possible in the conditions of the time. The course of colonial trade was directed by means of tariffs, bounties and total prohibitions. Certain enumerated products of the American possessions could be shipped only to England or to other colonies; and all the produce of Europe could be transported to the colonies only *via* the mother country. The exports and imports of the new world could be carried only in ships which were built and owned in the empire, and manned by predominantly British crews; and since it was intended that Great Britain should be the financial and industrial centre of the empire, the imperial government watched the currency, banks and manufactures of the colonies with a jealous and scrutinising eye. Great Britain checked inflationary tendencies, regulated the colonial banking system, and subjected the woollen and iron manufactures of the new world to legislative control. The maintenance of this system was entrusted, in the colonies, to the colonial governors, and to imperial customs officials and imperial courts of Vice-Admiralty; and the customs officials, by means of "writs of assistance," were permitted to make forcible entry into residences and warehouses and to seize property. The mercantile system, however imperfectly executed, was ambitious in design. It involved the control and regulation of tariffs, shipping, banks, currency and manufactures. The phrase, "the regulation of trade and commerce" acquired its comprehensive significance during the mercantilist age. It was in the light of this historical experience, that the term was used by the inhabitants of British North America.

In the seventy-five years which followed the American Revolution, Great Britain gradually abandoned its mercantile system and its imperial controls. Little by little the colonies assumed the direction of their economic life; but the controls which they regarded as necessary and advisable could still be summed up under the traditional mercantilist formula, "the regulation of trade." As has been seen, the economic activities of the American possessions were changing and developing; but manufacturing, though it had made considerable progress in the years preceding Confederation, was still definitely ancillary to the main extractive industries and staple trades of British America. Contemporaries of Confederation conceived of their economy and its future in commercial terms. For them, trade and commerce still signified the general business of the country. In all the colonies at that time, the export of staple commodities and the import of manufactured goods were the dominant forms of economic activity. In Halifax and Saint John, as well as in Toronto and Montreal, the most important concerns were the great importing and exporting houses; and everywhere the words "merchant" and "trader" were the accepted equivalents of the modern term "business man."

The comprehensive significance of "trade and commerce" was apparent in the legal, as well as in the popular, usages of the time. The contents of the consolidated statutes of Canada, published in 1859, were divided into eleven titles or chapters, two of which were directly related to the economic activities of the country.[20] Title IV, which was called simply "Trade and Commerce," included the laws relating to navigation and shipping and the inspection of lumber, wheat, flour and provisions, together with the legislation concerning weights and measures, banks, interest, promissory notes, limited partnerships and other matters. Title V, which was called "Trading Companies and Corporations," comprised the laws relating to the incorporation of public utilities, railway, telegraph, mining and insurance companies, as

[17] Kennedy, *Statutes, Treaties and Documents*, p. 168.

[18] C. P. Lucas (ed.), *Lord Durham's Report on the Affairs of British North America* (Oxford, 1912), vol. 2, p. 282.

[19] C. M. Andrews, *The Colonial Period of American History*, vol. 4, England's Commercial and Colonial Policies (New Haven, 1938).

[20] *The Consolidated Statutes of Canada* (Toronto, 1859).

well as companies engaged in various manufactures. These two titles, which are among the most important in the book and which include the great bulk of the legislation referring to economic matters, suggest the wide meaning which contemporaries ascribed to "trade and commerce" and their adjectival derivatives. When, therefore, the Fathers of Confederation entrusted the regulation of trade and commerce to the general legislature, without restricting the grant, as was done in the American constitution, to foreign and interprovincial trade, it was only natural that contemporaries should have been impressed by the comprehensiveness of the clause.

In the subsections relating to shipping, banks, bills of exchange, interest and bankruptcy, certain aspects of the regulation of trade and commerce were particularized. It is possible but not certain that these details were added for much the same reason that the enumerated powers were included in section 91 in the first place. In both cases, it was "for greater certainty, but not so as to restrict the generality of the foregoing terms." There was a certain amount of overlapping in the enumerated powers; but since they were all intended to serve as examples or illustrations of the general authority to legislate for the peace, order and good government of Canada, a certain amount of overlapping was unexceptionable and might even serve a useful purpose. In the past, there had been a good deal of dispute in Lower Canada over bankruptcy legislation; and, as was observed during the Confederation debate in the Canadian legislature, the French Canadians had held strong views on the subject of usury and were opposed to complete "free trade" in money.[21] The enumeration of these definite powers did not exhaust the trade and commerce clause any more than the trade and commerce clause exhausted the economic powers implied in the general authority to make laws for the peace, order and good government of Canada. But the inclusion of these particular, and sometimes controversial, matters, did presumably make more clear to the average intelligent Canadian the kind of authority which was being given up. In view of the history of British North America and of the empire as a whole, it must have seemed clear that the general government was assured of the right to regulate the business life of the country.

Parliament was given not only the right to regulate commerce but also the power to control the major avenues of trade. By the clauses relating to navigation and shipping, to railways, canals, steamships and ferries, and to postal service and telegraphs, the Dominion was charged with the control of all forms of interprovincial transport and communications which existed at that time. The federal government was empowered, moreover, to declare that any public work, though situated wholly in one province, was for the general advantage of Canada; and such a declaration automatically brought the work in question under the legislative authority of the Dominion. Finally, the federal administration was given the right to disallow any provincial statute; and just as the imperial government had used the power of disallowance to defend the provisions of the mercantile system, so the federal government was likely to employ it to protect the economic policies designed for the general interest of Canada. In the first report on the use of the power of disallowance, which was dated June 8, 1868, Macdonald assumed, as a matter of course, that provincial acts would be scrutinized to determine whether they "affected the interests of the Dominion generally";[22] and since that time the power has been used to protect, among other things, the railway and financial policies of the federal government.

IV

While the federal parliament was charged with the regulation of matters coming under the head of trade and commerce, the provincial legislatures were empowered to legislate concerning those rights and authorities which had their historical origin in the feudal communities of western Europe. On the one hand, were the fundamental rights of the subject, such as those which had been embodied in the new Civil Code of Canada East; on the other hand, were the rights of the sovereign, as feudal lord, in the land and its resources. The control and beneficial interest of natural resources, like the control of taxation, fiscal policy, commercial policy, communications and defence, had devolved upon the provincial administrations of British North America with the coming of responsible government. The natural resources which remained, after the wholesale alienations made by the imperial authorities, could be regarded as national or local in interest on the basis simply of their extent and value; and the Fathers of Confederation proceeded to distribute the domain by applying their general principle in this very realistic fashion. The vast unpeopled and undeveloped lands of the west were regarded by everybody at that time as a national interest which could only be exploited by national

[21] *Canadian Confederation Debates*, p. 192.

[22] *Provincial Legislation*, vol. 1, pp. 61-2.

policies; and accordingly, in strict and significant conformity with the general principle of division, the western natural resources were appropriated by the federal government "for the purposes of the Dominion." In the eastern and central provinces, the state of the public domain at that time appeared to be very different. In 1867, the great bulk of the good lands in all the original provinces of Confederation had already been alienated. Nobody could then foresee the mining, newsprint and hydro-electric developments of the future; and the vast areas of Quebec and Ontario which lay north of the timberline could only be regarded as a liability rather than an asset. It seemed, therefore, that in these provinces the domain had ceased to form a part of the materials essential for nation-building; and it was therefore entrusted to the control of the provincial governments.

In addition, the provincial legislatures were assigned the authority to make laws in relation to "property and civil rights in the province." The reasons which prompted the grant of this power, and the contemporary understanding of the significance of the authority so conveyed, are highly debatable subjects; but even a cursory examination of Canadian history reveals what would appear to be a probable explanation of these problems. If there had been, up to that time, a paramount theme in the cultural history of British North America, it was the persistent defence by French Canada of the distinctive laws and customs which formed the basis of its provincial culture; and it is beyond a doubt that any federal constitution for British North America would, of necessity, have included some provision for the preservation of this legal heritage. If differences at all comparable in importance had existed between the English-Canadian provinces, the right to make laws in relation to property and civil rights could have been regarded as a genuinely local or provincial interest throughout the Dominion; but in fact, of course, Ontario, Nova Scotia and New Brunswick, being common law provinces, were distinguished by relatively minor differences in respect of these laws. The arrangements embodied in the British North America Act appear to have been devised in strict conformity with these facts; and accordingly it was only in so far as the province of Quebec was concerned that the power to legislate in relation to property and civil rights was accepted as an unquestionable and permanent local interest. By section 94 of the British North America Act, it was expressly provided that authority to make laws relating to property and civil rights for the whole Dominion except Quebec would be transferred to the federal legislature, so soon as the Dominion parliament had made provision, with the consent of the provinces concerned, for the uniformity of these laws in the three common law provinces of Ontario, Nova Scotia and New Brunswick. There were apparently no vital provincial rights involved which would require the permanent retention of these powers by the provinces; but obviously there were practical difficulties of assimilation which would for a while delay their transference to the Dominion. The provinces were willing to provide that the transfer should be effected, once the uniformity of laws had been achieved; and the work of assimilation was regarded by Macdonald as a practical task which it would be one of the first duties of the federation to perform. It would appear, therefore, that the fundamental purpose of the property and civil rights clause was to protect the cultural autonomy of Quebec by safeguarding the laws and customs which were most characteristic of it and most essential to it; and it is arguable that this power would never have been given to the provinces if it had not been for the peculiarities of the basic civil law of French Canada.

If it was the intention of the Fathers of Confederation to permit Quebec to preserve the peculiarities of its distinctive legal system, then the powers conveyed by the property and civil rights clause would presumably extend only so far as was necessary to attain this purpose. Since imperial and Canadian officials had been preoccupied ever since the conquest, with the problem of French-Canadian law and custom, there could be no serious misunderstanding of its essential and distinctive elements; and opinion was still further clarified at the time of Confederation by the opportune publication of the Civil Code of Canada East, which was given legislative authority in the very session which witnessed the debate on the Quebec resolutions. Historically, the new Civil Code was derived from the Custom of Paris and from a variety of commercial laws and usages;[23] and the Custom of Paris was, from the point of view of English-speaking British America, the most distinctive and peculiar element in the French system. Commercial law was international in origin, just as commerce was international in character; and both English commercial law and the French *Code Marchand* were derived ultimately from the Law Merchant of western Europe. The Custom of Paris, however, belonged to a different category. It was

[23] A. L. Burt, *The Old Province of Quebec* (Toronto, 1933); H. M. Neatby, *The Administration of Justice under the Quebec Act* (Minneapolis, 1937).

the creation of a local feudal community of northern Europe; it became the cherished possession of a local seigniorial community in North America; and it was the chief source of those laws and customs which most intimately affected the lives of the French Canadians and to which they had been most devotedly attached. These were the fundamental laws and customs which concerned the relations of citizen with citizen, which regulated the ownership, transfer and inheritance of property, and which determined the rights arising from personal status and family relationships. Such laws were evidently most essential to the preservation of the traditional social order in Quebec; and, accordingly, these were the very laws which the imperial authorities after the conquest showed the least disposition to disturb with the rough hand of the conqueror. Their attitude to the problem may be illustrated by the instructions issued to Governor Carleton in 1775. Read in conjunction with the Quebec Act, to which they were obviously intended to act as an explanatory guide, the instructions serve to reveal the nature of the laws and customs whose continuance was believed to be most essential to the contentment of the French Canadians. ". . . On the one hand" read the instructions, "it is Our Gracious purpose conformable to the Spirit and Intention of the said Act of Parliament, that Our Canadian Subjects should have the benefit and use of their own Laws, Usages and Customs in all Controversies respecting Titles of Land, and the Tenure, Descent, Alienation, Incumbrances and Settlement of Real Estates, and the distribution of the personal property of Persons dying intestate; so on the other hand, it will be the duty of the Legislative Council to consider well in framing such Ordinances, as may be necessary for the Establishment of Courts of Justice, and for the better Administration of Justice, whether the Laws of England may not be, if not altogether, at least in part the Rule for the decision in all Cases of personal Actions, grounded upon Debts, Promises, Contracts and Agreements, whether of a Mercantile or other Nature; and also of Wrongs proper to be compensated in damages. . . ."[24]

The evidence already presented in this section suggests that the Fathers of Confederation attempted to settle the problem of legislative power along somewhat the same lines as had been contemplated in the instructions of 1775 for the solution of the legal difficulty. Like the imperial authorities, they made a distinction between what was, and what was not regarded as essential for the preservation of the cultural autonomy of Quebec. To the Dominion they specifically confided the power to amend a substantial portion of the commercial law, together with what seemed to them the comprehensive authority to regulate trade and commerce. To the province of Quebec they assigned the right to amend and supplement a body of fundamental law and custom which at once expressed and supported the distinctive culture of an agrarian society. As Rose, Galt and Cartier argued, the business affairs characteristic of a commercial city like Montreal were to be entrusted to the federal parliament, while the laws which time out of mind had regulated the traditional transactions of village society and family life were to be confided to the safe keeping of the provincial legislature. In the light of all the disputes and controversies of the past, this application of the guiding principle which separated general from local matters, must have appeared to be a natural, and even an unescapable, solution; it would seem to have been enjoined by history as the settlement which alone could satisfy the historic requirements of both races. To a people which had lived with the problem for generations, the meaning and purport of the compromise would surely have been beyond question; and this general understanding may well explain what was not said, as well as what was said, in the documents and speeches of the time. If the contemporaries of Confederation had placed upon the property and civil rights clause a construction even remotely comparable to that which the courts have now established, it is reasonable to assume that they would have given some time to a discussion of conflicts of jurisdiction over economic matters; but in fact, of course, the assurances given by Galt and Rose to the commercial minority of Lower Canada that its chief interests would be entrusted to the general legislature, were not qualified by any references whatsoever to subsection 13 of section 92; and even Christopher Duncan, the voluminous critic of Confederation who devoted considerable space to possible conflicts of jurisdiction, never attempted to set the property and civil rights clause against the Dominion power to regulate trade and commerce. If, again, the representatives of the provinces had believed that the subsection on property and civil rights protected important and vital local interests which were equally valuable for all the provinces, they would scarcely have made legislative provision for the transfer of these powers to the Dominion; yet this was precisely what they did do in section 94 of the British North America Act. In his famous speech at Sherbrooke,

[24] Kennedy, *Statutes, Treaties and Documents*, p. 156.

Alexander Galt presented one of the few explanations of the property and civil rights clause which were ever given by the Fathers of Confederation; and he significantly assumed that the fundamental purpose of the subsection was to confide to the province of Quebec the body of distinctive private law which was essential to the preservation of its cultural autonomy. "From the peculiar position of Lower Canada," he said, "it was felt impossible to confide the matter of civil law to the General Legislature. The principles upon which the civil law of Lower Canada were founded differed entirely from those of the English law. Under it property was secured, and civil rights of every kind maintained, and the people had no particular wish to see it changed, especially at this moment, when the work of codifying and simplifying it was about completed, and when they knew that within the next three or four months they would have it put into their hands in one volume. . . . He thought they should rejoice that at the moment when they were obliged to confide to the local Legislatures the administration of this law there should have been put before them, at the start, a volume which would contain in a succinct, beautiful and simple manner the whole civil law of Lower Canada. . . ."[25]

In this section, an attempt has been made to explain certain particular decisions of the Fathers of Confederation in relation to the general design which appears to have governed their work. It is suggested that this is at least a reasonable method of procedure. Explanations of particular decisions will derive part of their authority in so far as they can be reconciled with the established historical facts concerning the general design; and, at the same time, interpretations of the general design must find a large measure of their justification in the available historical evidence concerning a number of particular decisions and arrangements. The study of the purposes of Confederation as parts of a general Confederation plan has not as yet formed the subject of any great number of detailed historical treatises; and, as was suggested at the beginning, the argument of this section represents only one approach to the problem. Objections, both in principal and in detail, may be lodged against it; and it should be admitted at once that it depends in part upon interpretations of particular clauses of the British North America Act which have not been accepted by certain authorities on the subject.[26]

The explanation of the phrase "property and civil rights" must of necessity be an important part of the interpretation of the purposes of the Fathers of Confederation: and it is here perhaps that authorities have differed most markedly in their views. It has been urged, for example, that the expression "property and civil rights" has always had a very wide meaning in Canadian constitutional history. This argument has its basis in an action of Louis XIV, who in 1663 created a sovereign council in Quebec and entrusted to it the power "de connaître de toutes causes civiles et criminelles, pour juger souverainement et en dernier ressort selon les lois et ordonnances de notre royaume." It is contended that this royal edict established in Quebec the entire French law and not merely portions of it; and that, at the conquest, these laws were all in force, whether or not they had been applied. It is therefore, according to this view, irrelevant to attempt to determine the nature and scope of the laws which were actually in use at the time of the conquest; and the statements made by British officials and the instructions given to British governors regarding this problem should not be used as evidence to limit the laws which were actually in force. The Quebec Act, in determining that the laws and customs of Canada should provide the rule of decision in controversies relative to property and civil rights, thus restored without limitation the entire French civil law to the colony. A wide meaning is thus attributed to the expression "property and civil rights" as it was used in the Quebec Act; and it is contended that the phrase retains its significance in later statutes, except where some express limitation is introduced. No express limitation was inserted in the British North America Act; and there is therefore no reason to restrict the amplitude of meaning which the phrase originally possessed. This argument is only one of a number which any survey of the literature of the subject would reveal; and it has been used to illustrate important opinions which are at variance with those expressed in the body of this section.

[25] Galt, *Speech on the Proposed Union*, p. 15.

[26] P. B. Mignault, "Nos Problèmes Constitutionnels" (15, *Revue du Droit*, p. 577); V. E. Gray, "The 'O'Connor Report' on the British North America Act" (17, *Canadian Bar Review*, p. 309).

Section X

THE FORCES BACK OF CONFEDERATION

I

Any brief review of the forces leading to Confederation must, to a certain extent, be misleading through its very abstractions and incompleteness. Contemporary policy and opinion, expressed in contemporary language, can alone impart vitality and authenticity to such a survey; and definition and qualification must everywhere be necessary to give legitimacy to its general ideas. But the need for brevity precludes documentation and makes generalizations inevitable; and the admission of these unavoidable defects must form the necessary preface to any brief study of the movement which ended in Canadian Confederation. A review of the chief conclusions already suggested in these pages, is virtually all that can be attempted here.

In the sense that it involved every major interest and touched upon every important endeavour, Confederation was the work of a whole people, of an entire society. Its origins cannot be found exclusively in any one order of human activity: its beginnings lie in the fields of economic enterprise and social preference, as well as in the realm of political purpose. To weigh these various and interdependent factors—which can be done only after an heroic effort at abstraction—would be difficult at any time; and, in a short study, the task becomes impossible. In their various ways, all these forces left their stamp upon Confederation. They did not merely make a political union possible, they moulded its character. There was no clean slate awaiting the inscriptions of the Fathers of Confederation. Their work was directed and conditioned by the very influences which had enabled them to undertake it and to carry it through.

II

The economic factors in the Confederation movement were rooted in the new economy of steam and machines and railways. The new age gave the people of British North America novel aspirations and novel methods by which they might be attained; and, of all the dynamic agencies for material conquest and political expansion, the mightiest was the railway. The Thirteen Colonies, stretched out along the Atlantic seaboard, had been able to form a political union, even in the wood-and-water economy of the 18th century; but for the British North American provinces, scattered across a continent and divided by mountains, uplands and prairie, real union was possible only in a railway age. Intercolonial railways were the necessary physical basis of Confederation; but, at the same time, Confederation appeared to be the necessary political basis for Intercolonial railways; and those who wanted either the one or the other were inclined to a plan by which both would be achieved. The Maritimes, with their ice-free ports, hoped to monopolize the through traffic to the Atlantic seaboard. The approaching abrogation of the Reciprocity Treaty and the threatened repeal of the American bonding laws made a winter outlet in British North America seem necessary to Canada East, if not to Canada West. Watkin, the statesman of the Grand Trunk, wanted the Pacific Railway as well as the Intercolonial. He supported Confederation in England, while general manager Brydges performed the same office in Canada;[1] and for his services in aid of Confederation, Watkin was warmly praised by Cartier.[2] Railways were not mere adjuncts to Confederation, they were of its essence; and the moral bases of a transcontinental union were the two solemn engagements to provide railway communications from the St. Lawrence valley to the oceans.

The new national economy, which the Fathers of Confederation hoped to establish, had come to appear not merely desirable, but also necessary. The attempt to assimilate colonial tariffs and the efforts to build intercolonial railways were symptoms of the transition from the international commercial strategy of the past to the national economy of the future; and the need for the completion of this transition appeared virtually to be dictated by the conditions of the time. The Nova Scotians were world traders; and the Canadians had struggled for generations to grasp the trade of the international American west. These efforts of the Canadian people had been in vain; and the consciousness of the frustration of their ambitions came home to the Canadians at the very moment

[1] *Montreal Gazette*, August 29, October 17, 1864.
[2] Glazebrook, *History of Transportation*, p. 193.

when an important change in their commercial relationships was impending. The abrogation of the Reciprocity Treaty would mean necessarily a reorientation of their trade. It would cut their special commercial connections with the United States, just as their special commercial connections with Great Britain had been severed by the repeal of the imperial preferential system. The supports of the past were gone or going; but were there not, in British North America, the elements of an economic, as well as a political nationalism, by which some of the disadvantages of dependence could be avoided in the future? It was not, Galt claimed, the extent of a country, but the diversity of its economic interest, which was the real guarantee of prosperity. The cereals of the west, the timbers of New Brunswick and the Ottawa, the manufactures of central and eastern Canada, the minerals and fisheries of the Maritimes were to be the efficient elements in a great economic integration.[3]

III

The role played by social forces in the Confederation movement was more complicated and subtle. It was important, however, for significant cultural differences existed and the public consciousness of these differences was just as unquestionable as the fact of their existence. In Nova Scotia, the opponents of Confederation appealed to the historic traditions of their Province, to the local loyalties and the distinct characteristics of its people.[4] In Canada East, the arguments both for and against Confederation centred very largely upon its probable effects on the religion, language, laws and cultural values of the Canadian French. Social distinctions were the most conspicuous elements in those sectional differences which had made the impasse of Canadian politics. Sectional differences had wrecked the legislative union of Canada; sectional differences had helped to frustrate the legislative union of the Maritime Provinces. The preservation of cultural heritages and provincial identities was a purpose held with strength and tenacity in British North America.

It was held with tenacity, but not with unyielding stubbornness. Confederation, as Brown said, was "necessarily the work of concession"; and perhaps the most important imponderable in the achievement of Confederation was the spirit by which concessions could be made. The union of England and Scotland in 1707 had been prefaced by national rivalries and quarrels: the union of British North America was preceded by sectional differences and animosities. And if the Canadian differences did not attain the gravity of those which had divided Scotland and England 150 years before, the explanation may lie not only in the native disposition to avoid conflict, but also in the strong impressions produced by the Civil War in the United States. "Un exemple terrible," wrote the editor of the *Courrier du Canada* "des maux que peuvent causer les querelles intestines se déroule depuis quatre ans sous nos yeux."[5] With the continent in chaos under the shock of civil war, with their own institutions and integrity threatened, the Canadians had the best of reasons to reassemble amicably the contrasted elements of their national life.

The federal union was a plan by which, through mutual concessions, the cultural interests and sectional loyalties could be preserved without endangering the solidity of the structure as a whole. In the eyes of its authors, one of the greatest merits of the scheme was the satisfaction which it held out to these divergent interests. The surrender of legislative union was to be repaid by the abandonment of extreme sectional pretensions. For two generations, the British of Lower Canada had struggled to obtain a political union of the St. Lawrence which would link them with the English-speaking peoples of Canada West; and the sacrifice of this ancient ideal required and received an ample return. "Il faut que nous nous résignions à n'être dans le congrès fédéral qu'une minorité" wrote *Le Canadien* "comme il faut que de son côté la population anglaise du Bas-Canada se résigne à n'être qu'une minorité dans le législature provinciale."[6] Under the pressure of these sectional loyalties and cultural interests, the political system of Canada had been dissolved into its component parts. The new integration was made possible, and its character was formed, as a result both of the concessions and the claims which were made by the races, religions, languages and cultures of British North America.

IV

The organization and business of politics were inevitably affected by the economic and social changes of the period. The disturbances in the economies of British North America were shown in the common problem of public debt, just as the divisions and conflicts in society were revealed in recurrent political deadlock. For the sake of a

[3] *Canadian Confederation Debates*, 1865, p. 63-4.

[4] *Debates and Proceedings of the House of Assembly of Nova Scotia*, 1865, pp. 249-61.

[5] *Courrier du Canada* (Quebec), October 10, 1864.

[6] *Le Canadien* (Quebec), September 14, 1864.

transportation system which was still composed of isolated and, in some cases, almost meaningless units, the provinces had all assumed a substantial burden of debt; and political union would at once provide a basis upon which these obligations could be more easily borne, and a fund of resources out of which the transport system could be completed and the existing investments made more profitable. The difficulty of obtaining funds abroad, the depreciation of provincial securities in the London market, and, in particular, the financial discredit of Canada were all formidable facts; and both Galt in Canada and Tupper in Nova Scotia argued that the pooling of resources would substantially enhance the credit of British North America as a whole.[7]

Political deadlock was not the mainspring of the Confederation movement, for political deadlock was itself the result of the entanglement of social and regional interests. It was not to make possible a stable government, but to end the sectional troubles of Canada that Brown entered the coalition of 1864; but, at the same time, deadlock, if it was not a prime cause, was at least more than the occasion, of Confederation. Confederation, which was a political achievement, could only be realized with political machinery; and the final breakdown of Canadian government in June 1864, provided both the chance and the incentive to form a party union through which a new political system could be achieved. The pressure of an inadequate political system, the uncertainties of government and the irritating shifts and devices to which in consequence administrations were reduced, all helped to arouse an urgency for action which was peculiar to Canada. The problems of the Maritimes had not found a comparable political focus; and they did not face the same necessity for immediate choice among the different solutions of Confederation, Maritime union or the *status quo*.

Political deadlock, in its most distracting form, was peculiar to Canada; but the problem of defence may be regarded as common to British North America as a whole. The international incidents of the Civil War, the incursions of the Fenians, the threats, official and semi-official, of the United States, served to create an atmosphere of tension whose influences were potent, if ephemeral. It was the fortune of the generation which made the Canadian federal union to live through the greatest war that has ever invaded the North American continent. It coloured the thoughts and nerved the resolutions of British North Americans. On the one hand, they saw the apparent disintegration of the American republic and the rise of a triumphant bellicosity in the northern states; on the other, they were clearly aware of the retreat of British imperialism and of the approaching reconsideration of the military relations between the provinces and the parent state.[8] Nova Scotia, secure in the protection of the British Navy, could afford to look with some detachment upon the question of military defence. But defence did not mean only safeguarding territory: it meant the preservation of economic interests, of political loyalties, of cultural values. And Nova Scotia, with its vulnerable fisheries, and Canada East, with its special institutions and customs, alike had cause for concern in the integrity of British North America.[9]

So far as North America was concerned, Canadian Confederation could be regarded as a foot-note to the history of the American Civil War; so far as Great Britain was concerned, Confederation could be looked upon as an incident of imperial policy. It is probable that the decade of the 1860's represents the nadir of the old British imperialism;[10] and yet, at the very moment when the interest of the British in the settlement colonies was declining, the American Civil War threatened to lay upon them additional burdens for colonial defence. In the autumn of 1864 the colonial office abandoned the scheme of Maritime union, which it had favoured for the past few years, and gave its full support to the grander plan of federation.[11] In British Columbia as well as in the Maritime Provinces, the British exerted their considerable influence through governors who were required to be favourable to the federal scheme.[12] In part, Confederation was an imperial measure; and the support of the colonial office deserves to be counted among all those forces, both imperial and North American, political and economic, transitory and permanent, by which the Confederation of the British North American provinces was accomplished.

[7] *Canadian Confederation Debates*, 1865, p. 67; *Debates and Proceedings of the House of Assembly of Nova Scotia*, 1865, pp. 210-11.

[8] *Canadian Confederation Debates*, 1865, pp. 96-7.

[9] *Courrier du Canada*, March 20, 1865; *Evening Express*, January 18, 1865.

[10] C. A. Bodelsen. *Studies in Mid-Victoria Imperialism* (London and Berlin, 1924).

[11] Chester Martin, "British Policy in Canadian Confederation" (*Canadian Historical Review*, vol. 13, March, 1932, pp. 3-19).

[12] D. C. Harvey, "The Maritime Provinces and Confederation" (*Canadian Historical Association Report*, 1927, pp. 39-45); C. E. Wilson, "New Brunswick's Entrance into Confederation" (*Canadian Historical Review*, vol. 9, March, 1928, pp. 4-24).

PART II.—PUBLIC FINANCE

SECTION XI

PUBLIC FINANCE BEFORE CONFEDERATION

I

The systems of public finance which existed in the different British North American provinces on the eve of Confederation were the result of a historical evolution, in which the influence of several important factors is clearly discernible. The theory and practice of government functions and taxation in British America provide one more example of that combination of British influences, American influences and indigenous forces which has so largely determined the course of Canadian public affairs. The taxation of the American colonies had naturally been based, in the first place, on the practices of the 18th century British fiscal system; but the example of the mother country had been followed with those modifications which American conditions and susceptibilities appeared to make necessary. The functions of government, as they were performed by the colonies in the first formative stage of their growth, had been largely dictated by 18th century British theory and practice; but these traditional duties of government had been gradually supplemented by the heavy tasks of material development, which were imposed by the North American environment and which had been undertaken so vigorously in the United States. By the middle of the 19th century, the colonies faced the beginning of that long process of adjustment by which a simple system of taxation, derived mainly from 18th century England, was to be adapted to tasks of 19th century government as they were understood in North America.

In the process of adjustment, in the slow reorganization of their financial systems, the Canadian provinces were influenced, to a considerable extent, by Great Britain and the United States. In the days when mercantilist principles were the basis of British colonial policy, the mother country had largely controlled the commercial and fiscal policies of British North America. She had regulated shipping and navigation; she had imposed and collected customs duties; she had managed the natural resources and appropriated the casual and territorial revenue; and, finally, she had imposed upon her American colonies the system of civil government and the standard of public remuneration which appeared to her most suitable. The practices of colonial finance had developed under this tutelage; and even after 1850, when Great Britain had abandoned her mercantilist principles and renounced her controls, the remnants of the old connection remained and new financial links were forged to replace those which had disappeared. The colonies, whatever the extent of their local autonomy under responsible government, were still parts of the empire; and the maintenance of the imperial tie continued, though in a lesser degree, to affect the functions of colonial government. Banking houses, such as Baring Brothers & Company, and Glyn, Mills & Company, supplied the guidance and control which the Treasury officials had once exercised. British investors contributed the funds for development which had come more sparingly in the past from the imperial exchequer. And finally, that respectful admiration for the mother country, which the colonials retained during the whole period of imperial disintegration, served to deepen their regard for the theories of British public finance.

The functions of government, as they were understood in a mature country like Great Britain, did not, of course, provide a satisfactory pattern of action for British North America. But, at the same time, the imperial responsibilities which Great Britain continued to perform indirectly affected the appropriation of colonial funds. The large totals of the British naval and military expenditures supplied a partial explanation of the relatively small amounts which the colonies had been accustomed to appropriate for defence. In the days of the old empire, defence had been regarded as primarily an imperial concern; defence remained the chief imperial burden borne by the British taxpayers after the differential duties on colonial products had been abolished. It is true that, during the uncertain years of civil war and reconstruction in the United States, the northern colonies had been

obliged to spend much larger sums than usual on their militia; but these expenditures, great as they were, were not nearly so heavy as those which the dangers of the period would have persuaded independent states to make. In the fiscal year 1866-7, the garrisons which Great Britain maintained in the Province of Canada cost the imperial exchequer £864,000,[1] a sum about three times as great as the $1.4 million which, in the same fiscal year, was expended by Canada on its provincial militia. So far as the ancient function of military protection was concerned, the colonies were dependencies rather than autonomous states.

The theories of British economists and the practice of British statesmen constituted an even more important factor in the reorganization of colonial finance. When British control had been removed, the force of British example lived on; and, for the quarter century before Confederation, there was every reason why British Americans should follow the changes of imperial fiscal policy with the closest attention. From 1842, when Sir Robert Peel introduced the first of his commercial reforms, to 1866, when Gladstone presented the last of his great series of budgets, the whole British fiscal system had suffered a series of revolutionary changes. An attempt, by means of a new commercial policy, to increase the productivity and wealth of the country by cheapening all the essential articles of its production and consumption may be regarded as the central purpose of this revolution. Its objective was the advancement of material progress and the reconciliation of class disputes. The Gladstonian budget, as the Frenchman de Broglie said, was not "a machine for getting money to pay the Army, the Navy, the Court, the Clergy and the public creditor" but "a means of civilization and progress." And, as will be seen, the prestige of this British program was to have potent effects upon the minds of some outstanding colonial financiers.

The methods by which the objective was achieved also provided instruction for the colonies. In popular estimation, the shift from protection to free trade involved a shift from indirect to direct taxation; but Gladstone himself declared that "there cannot be a grosser delusion than the supposition that the work of Parliament . . . has been to destroy indirect taxation."[2] Indeed, the Chancellor of the Exchequer once likened the two forms of taxation to two attractive and equally well-dowered sisters, "the one being more free and open, and the other somewhat more shy, retiring and insinuating," to both of whom he found it not merely permissible, but desirable, to pay his addresses. The income tax had no permanent, inherent value; but it possessed an immediate and beneficial use, and it was to be employed to assist the country in its great work of commercial reform. The protective and differential duties of the past were removed; but the duties on foreign articles of general consumption, on sugar, tea, coffee, wines, currants and spices, were retained. The revenue from customs was as great in 1866 when Gladstone had completed his labours as it was in 1841 before Peel had commenced his reforms; and the customs and excise taxes, during the whole period of the changes, produced at least two-thirds of the tax-revenue of the country.[3] The various means of raising revenue were to be employed impartially; the burdens as well as the benefits of the fiscal system were to be impartially distributed. And the use of empirical methods to carry through a great program of material advancement possessed, for certain colonists, a remarkable appeal.

There is no doubt that the reforms of Peel and Gladstone awakened excited and often indignant interest in the British North American colonies. There is equally no doubt that they exerted considerable influence on the best colonial minds. The repeal of the Corn Laws had aroused almost unanimous disgust in Canada; but once the old mercantile system had been abolished, once the tangle of navigation laws and differential duties had been swept aside, British North Americans settled down to a fairly calm and dispassionate examination of the problems of fiscal change. The competition between what Galt called the "American" and the "European" systems of public finance, which was only ended by the adoption of Macdonald's National Policy, began back in the 1840's; but for some time the controversy was not projected into the arena of party politics.[4] For some years, it continued as a rather academic discussion carried on by the newspapers and a few associations. Joseph Howe's speech in favour of free trade, which he made when the issue was up in Nova Scotia during the early 1850's, illustrated the influence of English policy. But Galt carried English ideas into the practical conduct of Canadian finance. The flexibility with which he adapted Gladstonian methods and the steadfastness with

[1] C. P. Stacey, *Canada and the British Army, 1846-1871, A Study in the Practice of Responsible Government* (London, 1936), p. 202.

[2] F. W. Hirst, *Gladstone as Financier and Economist* (London, 1931), p. 209.

[3] J. F. Rees, *A Short Fiscal and Financial History of England, 1815-1918* (London, 1921), pp. 232-3.

[4] O. D. Skelton, *The Life and Times of Sir Alexander Tilloch Galt* (Toronto, 1921), p. 273.

which he pursued the objective of material expansion and national wealth, earn him the right to be considered one of the greatest of Canadian financiers.

The influence of the American fiscal system was very different. British theory helped to determine the general objectives of the state in British North America and its main sources of revenue: American custom helped to decide the more particular objects of British North American expenditure. The American federal government, though its activity was at first questioned on constitutional grounds, had expended enormous sums on developmental projects. The states had built great works like the Erie canal and had subsidized railways heavily. It was the completion of the Erie which had intensified the demand for the improvement of the St. Lawrence; it was the construction of the northern American railways which had forced Canada prematurely into the vast undertaking of the Grand Trunk Railway. In all these matters, of course, American enterprise simply strengthened the demand for public improvements which grew naturally in British America, as everywhere else on the continent. But even in the methods by which the state made its contribution to the advance of material progress, the northern provinces tended to follow the United States. Like the American states, Canada built its own canals but merely subsidized commercial railway companies. Under the leadership of Joseph Howe, the Maritime Provinces departed most seriously from American example in extending the principle of public ownership to railways.

The federal American taxing system and the purposes which it was obviously designed to subserve did not inspire imitation in British North America to the same degree. Up to 1860, the American fiscal system differed profoundly from that of the British. The internal revenue taxes, which formed such an important element in the British system, had been abolished in the United States at the conclusion of the War of 1812;[5] and for more than a generation excise taxes on spirits and beer, which were among the favourite items of internal revenue taxation in England, were entirely unknown in the republic. Since 1846, there had been no customs duties on tea and coffee; the duties on sugar were extremely low; and the articles of common consumption not produced in the country, upon which free-traders like Gladstone relied for revenue, escaped taxation entirely in the United States.[6] These facts had an important, though a negative, influence on public finance in British North America. It was impossible for Canada to follow British practice thoroughly, when its boundary marched with that of a great republic where British practice had been largely rejected. The imposition of adequate duties on foreign articles of general consumption would have invited both popular criticism and general evasion of the duties by smuggling.[7] It was only during the Civil War, when the necessity of the struggle forced the United States to increase its internal revenue taxes by the imposition of all kinds of excises and sales taxes, that what appeared to be a virtual prohibition, imposed by the United States on Canada, was removed.

The absence of excise taxes and duties on tea, coffee and sugar increased the dependence of the United States on the revenue it derived from the tariff on manufactured goods. The United States was regarded in Canada—and, on the whole, justly regarded—as a country which had adopted a frankly protective system. It is true that the controversy between southern free-traders and northern protectionists had declined during the period 1846-56; it is true that during the same period the rates of customs duties had been sensibly diminished. But the Morrill Tariff of 1861, which had been framed by a protectionist, imposed duties higher than any which existed in British North America, as Galt was able to prove with ease; and the revisions of 1862 and 1864 merely increased the rates.[8] These high tariffs, in which protectionist influences were conspicuous if not dominant, were viewed with greater respect by some Canadians during the depression which succeeded 1857. In 1857, a committee of the Canadian legislature advocated protective principles for Canada.[9] In 1858, the *Association for the Promotion of Canadian Industry*, with Isaac Buchanan of Hamilton as its moving spirit, approached the Macdonald-Cartier government, requesting legislative support for their program;[10] and protective principles may be discerned in the Cayley-Galt tariffs of 1858-59. But though Galt was originally a protectionist, his conversion to principles which were more Gladstonian in character appears to date almost from the beginning of his tenure of office; and these principles are exhibited in his fiscal policy as a whole, if not in his first tariff of 1859.

[5] H. C. Dewey, *Financial History of the United States* (New York, 1922), p. 141.

[6] *Ibid.*, pp. 251, 276.

[7] *Speech of the Hon. A. T. Galt, Minister of Finance of Canada, on introducing the Budget of 1863. . . .* (Quebec, 1862), p. 21.

[8] Dewey, *Financial History of the United States*, pp. 301-4.

[9] Province of Canada, *Sessional Papers*, 1857, appendix 47.

[10] Skelton, *Life and Times of Galt*, pp. 269-70.

In these various ways, therefore, the fiscal policies of British North America were subjected to influences from Great Britain and the United States. But, at the same time, the northern provinces could not, and did not, follow with exactitude the lines of development which either of these two great countries had marked out. Public finance in the colonies had to serve British North American interests and cater to British North American prejudices; and, in certain ways, these interests and prejudices were distinctive. Resistance to direct taxation was almost equally strong in Lower Canada and the Maritimes; but, on the other hand, the demand that the state should take an active part in provincial development was imperative throughout British North America. Even more perhaps than in the United States, public finance was looked upon as the link which would maintain the essential connection between government on the one hand and industry and expansion on the other. The obstacles imposed by geography and political boundaries, coupled with the insufficiency of population and private capital, had placed, and continued to place, upon the governments of British North America a peculiarly large part of the burden of providing communications and promoting provincial prosperity.

Yet, though the treasuries of British North America had assumed comparable burdens, and though they were all, of necessity, dedicated to the task of provincial development, the functions of government differed from province to province. The geographical setting, the economic and social development of the various provinces explain, in large measure, these discrepancies; but they are also to be attributed, in part, to differences in the level of political development. Manitoba had enjoyed no separate political existence at all before it became a province of the Dominion in 1870. Vancouver Island had been established only in 1849, the mainland colony of British Columbia in 1858; and the united colony of British Columbia had been brought into existence in 1866, only a year before Confederation. The sudden creation of top-heavy administrative systems brought trouble to these thinly populated communities; but, in the east as well, there were weaknesses in the organization of government which help to explain some of the problems of public finance. The Province of Canada had assumed relatively heavier burdens of general development; but, in partial recompense, she was spared some of those parochial tasks which the provincial governments of the Maritimes were still obliged to carry out.

At the end of the 18th century, the local government of the Canadas had not differed materially from that of the Maritime Provinces. In both regions, the provincial authorities succeeded in imposing the more undemocratic of the two systems which had existed in the thirteen Colonies before the Revolution. One of these two systems, the New England type of local government, had been distinguished by the prominence of the township, with its town meetings and popularly elected officials; the other, the Virginia type, had been characterized by reliance on the county organization, with appointed sheriffs and justices of the peace. In Upper Canada, as in Virginia, authority in local affairs was for a long time entrusted to the justices of the peace, meeting in the Courts of Quarter Sessions; but the demand for more democratic municipal institutions was strongly voiced, from the beginning of the history of the province, by Loyalists who came from colonies where the New England type of local government had obtained.[11] The agitation for municipal self-government, though its conquests were few in the early decades of the 19th century, was repeatedly renewed. In the 1830's, a number of Upper Canadian towns were incorporated and their affairs entrusted to the management of elective boards; and, with the support of Lord Durham and Lord Sydenham, this system of municipal self-government was soon extended to the whole of the new, united Province of Canada. In 1841, under Sydenham, the District Councils Bill cautiously introduced the elective, representative principle; and by the Baldwin Act of 1849, a complete system of democratic municipal institutions was established in Canada West. In Canada East, where direct taxation for municipal purposes was extremely unpopular, the introduction of local self-government was not quite so rapid; but the statute of 1855, which differed only in detail from Baldwin's act, finally established a democratic municipal system in the eastern part of the province.[12] In both sections of Canada the new municipalities were empowered to levy rates for a variety of local purposes and to borrow money for certain specified local works.

In the Maritime Provinces, municipal institutions had not attained this maturity. The two regions had commenced their history with similar systems of local administration; but, whereas the pressure for the elective principle was strong and persistent in Upper Canada, it was weak and fitful in the Maritimes. At the time of Confederation,

[11] *Canada and Its Provinces*, vol. 18, pp. 405-28.
[12] R. S. Weir, *Municipal Institutions in the Province of Quebec* (University of Toronto Studies, History and Economics, Vol. 2, No. 5).

there was no system of municipal government in Prince Edward Island and the needs of the local communities were a charge upon the provincial legislature. In Nova Scotia and New Brunswick, a few towns and counties had been incorporated and entrusted with the management of their own affairs; but the main business of local government still developed upon the justices of the Courts of Sessions and the grand juries.[13] It is true that statutory road labour and taxes on real and personal property for local purposes had been authorized in the Maritimes as well as in Canada. It is true that the upkeep of by-roads, the maintenance of the poor and the support of education were recognized, in the Maritimes, as burdens which ought in part to be laid upon the localities. But the almost complete absence of municipal institutions left the structure of local government too rudimentary to bear a very heavy weight of local business; and there seems no doubt that the Maritime governments were obliged to give greater financial assistance to the local communities than was customary in Canada. In 1866, municipal expenditures in the Province of Canada amounted to about $5·4 million, the bulk of which was expended in Canada West; and it is evident that disbursements made by local authorities in the Maritime Provinces would be very small in comparison with this.

II

The costs of the chief functions of government in British North America on the eve of Confederation are set forth in the following table:—

TABLE No. 1

Expenditures—Current Account—B.N.A. Provinces—Fiscal years ended 1866

(Source: Public Accounts of the B.N.A. Provinces)

—	Prov. of Canada	N.S.	N.B.	P.E.I.	B.C. (*)	Total Prov.
	($ 000)	($000)	($000)	($000)	($000)	($000)
Debt Charges	2,711	309	358	18	162	4,499
Justice, Legislation and General Government	3,255	351	217	54	256	4,113
National Defence	1,641	145	151	33	.....	1,970
Sub-Total	8,587	805	726	105	358	10,582
Transportation	952	490	213	48	76	1,779
Public Domain and Agriculture	256	85	16	13	.....	371
Sub-Total	1,208	575	229	61	76	2,150
Public Welfare	340	101	44	8	11	505
Education	583	156	116	47	(b)	902
Sub-Total	923	257	160	55	11	1,407
Post Office and Other	972	105	131	22	25	1,264
Sinking Fund	123	.....	.....	.....	30	153
Grand Total	11,815	1,742	1,246	245	510	15,558

(*) Fiscal year ended in 1869.
(b) Education included with Justice, Legislation and General Government.

[13] W. C. Murray, *Local Government in the Maritime Provinces* (University of Toronto Studies, History and Economics, Vol. 2, No. 4).

Undoubtedly, government services and expenditures had increased during the course of the century; but public finance had far from attained the place of importance which it now holds in the Canadian economy. At the present time, total government expenditures amount to a little less than one-third of the national income, while the proportion in 1866 was probably no more than one-fifteenth. The total value of the exports of British North America in 1866, and of the Dominion at the present time, provide the basis for another comparison by which the changing relative importance of public finance may be illustrated. In British North America, during 1866, government (including municipal) expenditures amounted to slightly less than one-third of the $70 million at which the total exports of the provinces were valued; but, at the present time, total government expenditure in Canada is approximately equal to the total value of the exports of the Dominion. Finally, the *per capita* figures of current government expenditure supply another method of measuring the relative importance of pre-Confederation public finance.

TABLE No. II

Per Capita Expenditure—Current Accounts—B.N.A. Provinces—Fiscal Years ended 1866 (*)

—	Prov. of Canada	N.S.	N.B.	P.E.I.	B.C. (b)	Total Prov.
	$	$	$	$	$	$
Debt Charges	1·40	·85	1·32	·20	3·00	1·32
Justice, Legislation, General Government and National Defence	1·84	1·36	1·36	·99	7·33	1·79
Transportation, Public Domain and Agriculture	·46	1·88	·85	·69	2·24	·63
Public Welfare and Education	·35	·71	·59	·63	·32 (*)	·41
Other	·41	·29	·49	·28	1·91	·42
Grand Total	4·46	4·79	4·60	2·78	15·00	4·57

(*) Based on official estimates of the population for 1867.
(b) Fiscal year ending 1869.
(*) Education included with Justice, Legislation and General Government.

Including the disbursements made by municipalities, which were important chiefly in Canada West, total government expenditure in 1866 may be estimated at $6 *per capita;* while, at the present time, total current expenditures of the Dominion, the provinces and the municipalities amount approximately to $90 *per capita.* It is apparent, however rough the estimates upon which comparisons must be based, how relatively unimportant was the place of public finance in the pre-Confederation economy of British North America.

The functions of government had developed rapidly in British North America during the 19th century. They had grown, as has been shown, in response to local demands and under the stimulus

of external influences. Historically the earliest duties of government in the northern colonies were those which had been esteemed legitimate according to the negative 18th century view of the state. But with the beginning of the second quarter of the 19th century, with the introduction of the new forms of steam transport, the demand for public works began to increase; and, by the time of Confederation, the burden of provincial development had come to be the chief financial responsibility resting upon the British North American provinces. The weight of this burden should be estimated, not only from the payments made on account of transport, agriculture and public domain, which were charged to current expenditure, but also from the much greater sums devoted to canals and railways, which were charged to capital and constituted the great bulk of the public debt. The costs of the developmental program equalled or exceeded the charges for justice, government and defence, and completely surpassed the expenditures for education and public welfare.

TABLE No. III

Percentage Distribution of Expenditure—Current Account—B.N.A. Provinces' Fiscal Years ended 1869.

—	Prov. of Canada	N.S.	N.B.	P.E.I.	B.C. (a)	Total Prov.
Debt Charges	31	18	29	7	20	29
Justice, Legislation, General Government and National Defence	41	28	30	36	50	39
Transportation	10	33	18	25	15	14
Public Domain Agriculture	8	15	12	22	2 (b)	9
Public Welfare and Education	10	6	10	9	13	9
Other						
Grand Total	100	100	100	100	100	100

(a) B.C. Fiscal Year ended in 1869.
(b) Education included with Justice, Legislation and General Government.

The administration of justice, the support of civil government and the provision of defence were the three accepted and traditional functions of government which, in the early days, had consumed most of the time and the money of the provincial administrations. With the growth of the provinces and the increasing complexity of their economic and social life, the cost of justice, legislation and general government had slowly increased. In British Columbia, where the union of 1866 had not been followed by a radical reorganization of the expensive administrative systems of the two united provinces, the cost of justice and general government amounted in 1869 to one-half of the total current expenditure. In Canada, during 1866, it did not greatly exceed a quarter of the total expenditure; and in the Maritime Provinces, where justice was administered much more cheaply, the charges of general government constituted a less severe drain on the provincial treasuries. On the whole, the expenses of these traditional and essential services were relatively stationary from year to year; and it was the augmented cost of defence which provided the most significant change in this class of expenditure in the period immediately before Confederation. In 1862, Galt could assert that the advantageous position which Canada occupied "arises in great part from our not having been required to make provision for the maintenance of an army and navy." But, by the middle sixties, despite the rapid increase in the imperial forces in British North America, this condition had completely changed; and in 1866, Galt was endeavouring to explain an expenditure for militia "which is very much larger than the Parliament of Canada has ever before been called upon to vote." The bellicosity of the United States, the incursions of the Fenians and the evident reluctance of Great Britain to carry on its old role of protector placed the colonies in a completely novel position. In 1866, the year which witnessed the principal attempts of the Fenians against the provinces, Canada's charges on account of the militia and volunteers amounted to 14 per cent of total expenditure. In New Brunswick and Prince Edward Island, though not in Nova Scotia, the percentage of total disbursements appropriated to defence did not differ greatly from that of Canada.

Alongside of these ancient duties of organized civil society, another function of government, of peculiar importance in North America, had developed with great rapidity in the British colonies during the course of the 19th century. To provide communications and transport services by which the provinces could be developed and their prosperity increased, was a task so great that the provincial governments were of necessity called upon to assume a large part of the burden; and, during the first half of the 19th century, the philosophy of "public improvements" made very rapid progress among colonial populations which were otherwise still addicted to negative views of the state. The spheres of government activity might be limited in number; but, within the field of provincial development, the powers and, indeed, the obligations of the state, were practically without bounds. The government was expected to quicken the pace of progress, to hasten the business of exploitation, to throw open the avenues of provincial expansion to the coming of men and the movement of goods. The government, in popular estimation, became a kind of super-corporation, whose expenditures

could alone set free the energies of innumerable promoters and subsidiary organizations. Nothing is more interesting in colonial administrative history than the manner in which the limited 18th century systems of administration, set up under British influence, were gradually altered under the pressure of this typical North American demand. During the whole history of the province of Upper Canada as a separate political unit, the construction of canals had to be entrusted to committees of the legislature, for such business did not come under the control of any department of government then in existence. It was only following the union of the two Canadas in 1841 that a provincial board of works was established; and from that time the program of development was carried forward with great energy.

It was Alexander Tilloch Galt who explained and justified this new function of government, as it had developed in Canada, with a conviction of mind and an amplitude of argument which were almost Gladstonian. His object was to increase his country's production, to augment its wealth, to aid in its expansion; and public finance, itself a heavy and unwieldy burden, was to be the instrument by which other burdens of greater national consequence might be lifted. The country had put the money it could collect and borrow into lighthouses, harbours, canals, ship channels and railways. "All these improvements," said Galt, "have been undertaken with the two-fold object of diminishing the cost to the consumer of what he imports, and of increasing the *net* result of the labour of the country when finally realized in Great Britain . . ."[14] The increased national debt, the heavy interest charges and the resultant rise in taxation were legitimate burdens far outweighed by the benefits which, through their instrumentality, had been diffused through the whole country and through every class of the population. "It is thus clear," said Galt, "if the productive power of the country has been largely developed, and the fruits of the soil realize better prices, the public improvements we have undertaken have been of the greatest possible benefit to the country. . . . It is too often supposed that our canals and railways and other public improvements cost much and yield nothing to the public exchequer; consequently, that they are heavy, unproductive burthens. Sir, there never was a greater fallacy. It is those improvements which, in a great measure, have been the source of the progress of the country."[15]

[14] Province of Canada, *Sessional Papers*, 1862, No. 23.
[15] Galt, *Budget Speech*, 1862, pp. 11-2.

In Canada, as in other parts of British North America, the problem of development, as it was assumed by the state, really meant the problem of transportation. The upkeep of the local roads in Canada was largely borne by the municipalities; the provincial government limited itself to giving assistance and to financing transport projects in outlying parts of the Province, such as the colonization roads in northern Upper Canada. The expenditure, on current account, for transportation in Canada was relatively lighter, therefore, than it was in the Maritimes; and the special features of the Canadian developmental program were the enormous sums, charged to capital, which the government had expended on really national public works. In the provincial balance sheet of 1866, there was recorded a capital expenditure of $18.5 million for canals and ship channels and a grand total of $27.0 million for public works as a whole. In addition, the Canadian government had heavily subsidized important projects for which it did not assume direct responsibility; and the sums granted to municipalities, to railway and canal companies, bulked even larger in the provincial balance sheet. In June 1866, the loans to the Grand Trunk Railway totalled $15.1 million; and on this, and on the smaller loans to the Great Western and the Northern Railway, millions of dollars of unpaid interest had accumulated.

Expenditure on provincial enterprises and lavish grants to commercial companies did not, however, exhaust the list of the Canadian government's contributions to provincial development. In addition, the Province had succeeded all too well in enlisting the assistance of the municipalities in the great work of material expansion and progress. The municipal loan fund project, which was to increase the Canadian debt and to bedevil the Canadian accounts for the next twenty years, was an ambitious scheme which originated in the fertile brain of Francis Hincks. The Municipal Loan Fund of Upper Canada was established by statute in 1852;[16] the Municipal Loan Fund of Lower Canada was set up two years later, in 1854. The purpose of the Municipal Loan Funds was, as Galt explained later, to enable the municipalities "to secure on their united credit loans on better terms than they could obtain as individual borrowers";[17] and these loans were to be used for the encouragement of railways and for the construction of certain public works. By the Statute of 1852, no limitation was placed either upon the loans of the individual municipali-

[16] E. B. Wood, *Report on the Municipal Loan Fund, Province of Ontario*. . . . (Toronto, 1872).
[17] A. T. Galt, *Canada: 1849 to 1859* (London, 1860), p. 34.

ties or upon the total amount of the fund; but the Act of 1854, which created the Lower Canada Municipal Loan Fund, limited each fund to £1,500,000 and restricted the amount which might be loaned to any municipality to a sum not exceeding 20 per cent of the aggregate valuation of the property affected, as recorded in the last assessment roll. The municipalities were required to pay interest at 6 per cent *per annum* and sinking fund at 2 per cent *per annum* on the amount of their borrowings; and on the strength of this security, the fund at first issued its own debentures which were purchased both in Canada and England. The Province, in the first place, acted merely as trustee and did not formally pledge the general revenue for the payment of either principal or interest. But the funds were managed by the Receiver General of Canada; and by provincial legislation he was empowered to require the municipalities to make provision for interest and sinking fund payments. And this provincial sponsorship of the undertaking was interpreted in London as a virtual guarantee.

It was the boom period and the municipalities entered into the scheme with more enthusiasm than discretion. An Act of 1859 practically stopped borrowing by Upper Canadian municipalities and limited further loans to Lower Canadian municipalities to $400,000; but, long before this, very heavy sums had been loaned and, in the end, the total capital indebtedness of the municipalities amounted to $7·3 million for Upper Canada and $2·4 million for Lower Canada. The two sections of the Province differed, not only in the amounts of their loans, but also in the purposes for which they had expended them. The Upper Canadian municipalities, through loans and purchases of stock, had invested $5·9 million in railways; the remainder of their borrowings, or $1·4 million, had been spent in various local improvements. The Lower Canadian municipalities, adopting a rather different course, had expended only $955,000 for railways and $1·4 million for local works.[18]

It was the depression of 1857 which broke the back of this ambitious scheme. The municipalities began to default; and from that day on, a great many of them continued to do so, despite efforts of the Province to collect the money. On June 30, 1866, the arrears of interest amounted to $3·2 million for the Upper Canadian municipalities and $496,000 for the Lower Canadian municipalities. The Province, though it had originally assumed no formal obligation, was unwilling to see the credit of the country suffer by the default of the fund; in 1859 it took over the entire indebtedness and issued provincial bonds at 5 per cent which were accepted by the shareholders at par in exchange for the original debentures. The Province, therefore, through municipal expenditures which had been authorized by provincial statutes, had incurred additional and heavy liabilities for material development; and, from 1857 on, it made various ineffectual attempts to persuade or to coerce the municipalities to honour their obligations. The Municipal Loan Fund Act of 1859 imposed stringent regulations upon the municipalities for the payment of their interest. In Upper Canada the defaulting municipalities were punished by the provision that their share in the Municipalities Fund (Clergy Reserve Moneys) should be merged in the general fund and distributed to those municipalities which had not borrowed from, or had not defaulted to, the Municipal Loan Fund of Upper Canada. But, despite these efforts to exact payment, the Province of Canada ended its existence in 1867 with about ten millions of dollars worth of unrealizable assets in municipal loans.

The other provinces had adopted very different policies for providing improved transport and hastening development. In British Columbia, as well as the Maritimes, charges for transportation constituted a larger percentage of total current expenditure than in Canada. The Maritime Provinces had not sponsored so many great provincial undertakings; but, on the other hand, they had been obliged to shoulder a greater proportion of the burden for local public works such as roads; and these outlays had usually been charged, not to capital, but to current expenditure. In the fiscal year ending in 1866, Nova Scotia had actually expended 28·1 per cent of its current revenue on various transport services; and the corresponding percentages for the other provinces, though lower than this, were appreciably higher than that for Canada. In the Maritimes, these payments constituted a regular, annual charge; but, in addition, the lower provinces assumed certain special obligations for transport which grew steadily heavier as Confederation drew near. They went into the business of provincial railway building, and, not content wth this, they agreed to pay substantial subsidies to commercial railway companies. In Nova Scotia, $5·3 million had been expended on the provincial railway at the close of the fiscal year in 1866; but the Pictou branch, which was then under construction, would necessitate further large capital expenditures and the subsidy promised to

[18] *The Municipal Loan Funds and the Hospitals and Charities of the Province of Canada* (Quebec, 1864), pp. 4, 38.

the Windsor and Annapolis Railway, in its capitalized form, would amount to $1·1 million. In New Brunswick, the European and North American Railway, which was a provincial property, had cost the Province $4·5 million at the close of the fiscal year in 1866; but again, as in the case of Nova Scotia, additional liabilities, on account of subsidies to various commercial railway companies, amounted to $1·9 million by June of the following year. Of all the provinces, Prince Edward Island was the last to enter an ambitious program for improved provincial transport. Her adventures in railway building came after, not before, Confederation. Her liabilities, which had been inconsiderable in 1867, amounted, on June 30, 1873, to $4·1 million. Over half her debenture debt had been incurred for railway construction; and her capital liabilities, including future payments under contracts for the Prince Edward Island Railway, amounted to $2·0 million.

The cause of provincial development and, in particular, the burden of improved transport, had thus become the greatest single responsibility of government in British North America. In importance, it completely overshadowed the older functions of justice, defence and civil government; it almost completely obscured the modest presence of that novel function, the responsibility for social welfare. In both Canada and the Maritime Provinces, the activities of government, as an agency for social welfare, were comparatively new and extremely limited. These limitations were due in part to the popular conception of the role of government and in part to the nature and number of the welfare problems which called for solution. The economies of British North America were, on the whole, expanding economies, in which the poverty and dissatisfaction of the established settlements could find a temporary solution on the frontier. This, at any rate, was the conviction of contemporary British North Americans; and the faith in the inexhaustible opportunities of North America was general and deep-rooted. Joseph Howe was astonished and distressed by the poverty and unemployment which he found in England; but, to him, that poverty was an argument, not so much for social amelioration in England, as for English emigration to North America.[19] North America was the cure for the ills of Europe; and for the ills of North America, North America was its own corrective—if only it were properly developed and amply provided with settlers. It was not direct expenditure for public welfare, but expenditure for provincial development which was expected to cure the distresses of society.

These convictions in respect of public welfare, which British North Americans derived from their faith in the new continent, were strengthened by theoretical considerations as to the nature and purpose of government. The principles of *laissez-faire*, though in one important respect they had been undermined, still governed the political philosophy of British North America. For most people in the colonies, good government was little government—simple, inexpensive and non-interfering government. In Canada, the new factories went without regulation; the new railways were permitted to fix their own rates.[20] And just as government was reluctant to control these beneficent agencies of progress, so it showed no disposition to assist distressed industries or to come to the rescue of a people disheartened by a general slump. The governments of British North America had no remedial program for the depression of 1857. The troubles of agriculture in central and eastern Canada, recurring periodically in the decades from 1830 to 1860, were investigated by different legislative committees; but nothing material was ever done to provide relief.

Even in the case of individual misfits and failures, the governments of British North America were reluctant to assume burdens. Relying upon private enterprise, they relied equally upon private charity. By 1867, all the provinces had established provincial institutions for the insane, though even in as mature a province as Canada, the establishment was scarcely twenty years old.[21] New Brunswick, though not Canada and Nova Scotia, had set up a permanent board of public health. For the poor and disabled, for the aged and the orphans, government had been content, for the most part, to rely upon the agencies which private charity had already created. There were, especially in Canada, a great number of these institutions, supported by municipalities, nationalist societies, religious groups and fraternal organizations; and the assistance of government took the form of subsidies which in Canada, before Confederation, were paid to over forty hospitals, orphanages, homes of refuge and houses of industry. In the fiscal year ending in 1866, Canada's payments on account of public welfare amounted to only 13 cents *per capita* of the population and constituted only 2·9 per cent of total

[19] J. A. Chisholm, *The Speeches and Public Letters of Joseph Howe* (Halifax, 1909), vol. 2, p. 85.

[20] G. P. de T. Glazebrook, *A History of Transportation in Canada* (Toronto, 1938), p. 176.

[21] S. P. Day, *English America*, vol. 1, pp. 129-34.

expenditure. In British Columbia, the costs of public welfare in 1869 formed an even smaller percentage of total provincial outlay; but the Maritime Provinces, as in everything which touched the needs of their local communities, were obliged to pay more heavily for relief.

The reliance upon private charities was so instinctive that people often disputed the right of government to assume new social obligations, or looked forward confidently to a time when its existing social duties would be reduced. In 1864, there was a dispute in Saint John over the projected founding of an "industrial school," for the reclamation of the "youthful depraved." "The people," wrote the editor of the Saint John *Morning News*, "seem to wait for the Provincial authorities, and they in turn consider that here, as in other places, philanthropy should take the lead. . . . Though we believe it to be the business of the state to provide for the prevention as well as the punishment of crime, still we think there are cases in which philanthropy may step in and overcome difficulties which other agencies find insurmountable. The matter under consideration is a case in point."[22] Even Galt, in a reasoned statement such as his Sherbrooke speech on Confederation, was prepared to anticipate the day when private charity would take up once more that part of the burden of relief now borne by the government. "Indeed he hoped the day would come when these institutions would find support from the individual liberality of the people rather than from the votes of Parliament."[23]

In all the provinces, the public support of education had been regarded for some time as an important and essential function of government. In this matter, British North America had followed the American rather than the English system. There were, of course, privately endowed universities and schools in both the Maritime Provinces and Canada; but the great bulk of instruction was given in the free common schools, supported in part by the localities and in part by the provincial governments. The Upper Canadian educational system, under the direction of Egerton Ryerson, had been organized with systematic thoroughness; and, since the middle of the century, public instruction in lower Canada had been very greatly extended and improved. A large part of the costs of this expensive system could, in the Province of Canada, be transferred from the provincial government to the municipalities; but in the Maritimes, the local communities were unwilling and politically unfitted to relieve the state of a comparable proportion of educational costs. In 1866, Canada spent only a little less than 5 per cent of its total disbursements on education. In New Brunswick, the percentage was nearly double that of Canada: in Prince Edward Island, it was nearly four times as great. Canada's *per capita* payments on education and public welfare were considerably lower than those in any of the Maritime Provinces and only half as great as those in Nova Scotia.

III

In the first decades of the 19th century, the provincial governments had drawn their moneys from a few sources, which, with the exception of customs duties, had not been very remunerative. The fines and seizures, the legal fees, licences and permits were not unimportant items; and this fact illustrated, in still another way, the prominence of the judiciary and the bureaucracy in the old provincial governments. In these early days, the provinces derived little revenue from sales of commodities and services, for they had few to sell. The public domain, the revenues from which were later surrendered by Great Britain to the colonial legislatures in return for the establishment of provincial civil lists, gave comparatively little promise of its future value. The only important tax-revenues were derived from import duties, which were established almost with the constitution of the provinces and which, right up to Confederation, constituted the chief source of provincial revenue. The original tariffs, of which that set up by the Quebec Revenue Act of 1774 is a good example, bore most heavily on foreign articles which enjoyed a fairly wide consumption, such as spirits, wines, molasses, sugar, coffee and tea. Upon manufactured goods, not specially enumerated, there was at first in Canada a general tariff of $2\frac{1}{2}$ per cent ad valorem; and, as late as 1841, this general tariff had not been raised higher than 10 per cent.[24]

As the provinces were settled, as their resources were developed and their public works constructed, the sources of revenue increased slightly in number and altered perceptibly in relative importance. The chief provincial revenues, as they stood on the eve of Confederation, are set forth in the following table:—

[22] *Morning News*, August 31, 1864.

[23] A. T. Galt, *Speech on the Proposed Union of the British North American Provinces, delivered at Sherbrooke....* (Montreal, 1864), p. 15.

[24] Skelton, *Life and Times of Galt*, p. 268.

TABLE No. IV

Revenue—Current Account—B.N.A. Provinces—Fiscal Years ended 1866

(Source: Public Accounts of the B.N.A. Provinces)

—	Prov. of Canada	N.S.	N.B.	P.E.I.	B.C. (*)	Total Prov.
Taxes—	($000)	($000)	($000)	($000)	($000)	($000)
Customs	7,338	1,226	1,057	166	345	10,132
Excise	1,889	6	.....	1	4	1,899
Other Taxes	107	.....	.....	15	5	127
Sub-Total	9,334	1,232	1,057	181	354	12,158
Licences, Permits, Fees, Fines and Penalties	281	7	9	4	61	362
Public Domain	993	129	108	30	19	1,179
Sales of Commodities and Services	1,121	153	166	11	94	1,556
Interest, Premium and Discount	497	3	9	4	.....	513
Other	36	17	5	.....	1	58
Total Revenue ex. Trust Funds	12,171	1,542	1,336	221	528	15,798

(*) British Columbia fiscal year ended Dec. 31, 1869.

It is apparent, from this table, that the provinces of British North America had developed largely similar revenue systems. Most of the provinces had made no effort to impose direct taxation; only the Province of Canada derived any considerable revenue from indirect taxes, apart from customs duties; and all the provinces were very heavily, if not uniformly, dependent upon the proceeds of the tariff. Except in British Columbia, where a financially embarrassed government levied various kinds of fees and exactions, the revenue from fines and penalties, from licences, permits and fees, had become generally insignificant. All the provinces had established business enterprises and supplied many more services than in the past; and all were drawing greater revenues from their properties in the public domain.

The percentage distribution of current revenues in British North America on the eve of Confederation is given in the following table. These percentages indicate the relative importance of the different sources of revenue in each province. They also exhibit, in part, the differences which existed between the revenue system of one province and that of another.

TABLE No. V

Percentage Distribution—Revenue—Current Account—B.N.A. Provinces—Fiscal Years ended 1866

—	Prov. of Canada	N.S.	N.B.	P.E.I.	B.C. (*)	Total Prov.
Taxes—						
Customs	60	80	78	75	65	64
Excise	16	.....	.....	.....	1	12
Other Taxes	1	.....	.....	7	1	1
Sub-Total	77	80	78	82	67	77
Licences, Permits, Fees, Fines and Penalties	2	.....	1	2	12	2
Public Domain	7	8	8	9	4	7
Sales of Commodities and Services	9	10	12	5	18	10
Interest Premium and Discount	4	.....	1	2	.....	3
Other	.....	1	.....	.....	.....	.....
Total Revenue ex. Trust Funds	100	100	100	100	100	100

(*) British Columbia fiscal year ended Dec. 31, 1869.

Detailed comment on the fines, licences and fees is unnecessary; but the various divisions in the revenue from the public domain require some explanation. Except in British Columbia, the income from domain constituted an almost equally important factor in the various provincial revenues. There were, however, several main classes of natural resources; and it was already apparent that while certain provinces would derive revenue from all or several of these, other provinces would be forced to rely on one or two. Prince Edward Island, for example, drew all its domain revenue from lands, in the fiscal year ending January 31, 1866. The discovery of gold in Nova Scotia and the growth of its coal mining industry brought increasing returns to the treasury in the shape of royalties, rents and licences; but, on the other hand, Nova Scotia derived nothing from its remaining forests and almost nothing, directly, from its fisheries. In New Brunswick, during the fiscal year ending in 1866, the lands and fisheries were less remunerative, and the mines noticeably less remunerative, than they were in Nova Scotia. The forests were the greatest of New Brunswick's natural resources; and the bulk of her revenue coming under the general head of public domain was derived from the sale of timber limits and from the export duties on timber which had replaced the older stumpage dues. In the fiscal years ending in 1866, Canada drew only 3 per cent and New Brunswick over 6 per cent of their total revenues from woods and forests.

By 1867, the provinces had considerably more commodities and services to sell than they had had in the early decades of the 19th century. From Great Britain they had gained control of the postal service; they had built canals, railways, steamboats, lighthouses, wharfs, bridges and timber slides. These services and business enterprises were, however, a cause of loss rather than a source of profit; they were, in fact, the channels through which the provincial governments made their substantial contributions to the progress and material development of British North America. The costs of the postal service exceeded the returns obtained from it. In 1869, the income from British Columbia's road tolls nearly equalled the current expenditure on roads and bridges; but the revenue from coastal services in both Nova Scotia and Canada was far from meeting the current disbursements in aid of marine transport. Small operating surpluses were derived from the provincial railways in Nova Scotia and New Brunswick, and possibly from the Canadian canals; but these surpluses on operation did not, of course, begin to pay the interest on the heavy capital expenditures involved. In Nova Scotia the

provincial railways earned approximately one-tenth of their interest charges in the eight years 1859 to 1866. The financial history of the New Brunswick provincial railway, the European and North American, was very similar; and, from 1859, when the line was first opened, until the fiscal year ending in 1866, the average earnings of the railway amounted approximately to one-seventh of the interest charges. These business enterprises, the results of the developmental program, were, in fact, a dead weight upon the provincial exchequers of British North America.

In all the provinces the tax revenues still made up by far the greater part of the provincial income, just as they had done in the early decades of the 19th century. Virtually all taxation was indirect. Not a single province in British North America had yet levied direct taxation upon incomes, and only British Columbia and Prince Edward Island had imposed direct taxation on lands. This failure to employ methods of taxation which both Great Britain and the United States had discovered to be indispensable, was due in part to administrative difficulties, for the provinces had not yet developed either the machinery or the accounting methods required for the collection of the income tax; but it was due perhaps even more to the general prejudice which existed against direct taxation in any form. It is true that, by the time of Confederation, direct taxes on land and movable property, for local or municipal purposes, had been applied in both Canada and the Maritimes; but, except in Canada West, such taxation was either relatively new or relatively undeveloped. In the Maritime Provinces, where local direct taxation had been legal for generations, the revenue obtained from it had never been sufficient to relieve the provincial governments of the large burden which they bore in respect of education and local works; and in Canada East, local taxes had been introduced only with the establishment of municipal institutions in the period following the union of 1841. As late as 1840, when the special council of Lower Canada passed an ordinance which for the first time established a provincial system of municipal institutions based on the elective and representative principle, there sprang up a party called *Les Eteignoirs* or "the extinguishers," who attempted to render the ordinance inoperative;[25] and no small part of their hostility may be attributed to the fear of the additional and novel taxes which were expected as a result of the operation of the law. Direct taxation for municipal purposes had been of necessity accepted; but direct taxation for provincial requirements was still opposed. When they came to devise their financial settlement, the Fathers of Confederation discovered that this opposition was insuperable. "Our friends in Lower Canada . . ." declared George Brown in the Canadian Assembly, "have a constitutional disinclination to direct taxation. . . . The objection, however, was not confined to Lower Canada—all the Lower Provinces stood in exactly the same position."[26]

Thus, since the imposition of direct taxes appeared to be politically inexpedient, the provinces were compelled to rely even more heavily upon the tariff. Canada had, indeed, levied inland revenue duties upon the manufacture of tobacco, beer and spirits. British Columbia, Nova Scotia and Prince Edward Island had imposed similar excises on their domestic productions. But, except in Canada, where excise duties returned considerable sums to the treasury, the revenue from these taxes was extremely small. The duties on imports were overwhelmingly the most productive of all forms of taxation in British North America; and even Canada, which of all the provinces was least dependent upon customs, derived 60 per cent of its total revenue therefrom. Both Nova Scotia and New Brunswick drew about four-fifths of their revenues from customs duties. The tariff and the export duty on timber were virtually New Brunswick's only sources of tax revenue.

The burden of taxation and the costs of government properties and services are exhibited in the following table of *per capita* revenues:—

TABLE No. VI

Per Capita Revenue—Current Account—B.N.A. Provinces—Fiscal Years ended 1866 (*)

—	Prov. of Canada	N.S.	N.B.	P.E.I.	B.C. (*)	Total Prov.
	$	$	$	$	$	$
Taxes—						
Customs	2·77	3·37	3·83	1·89	10·15	2·97
Excise	·71	·02	.....	.....	·12	·56
Other Taxes	·04	.....	.....	·17	·15	·04
Sub-Total	3·52	3·38	3·83	2·05	10·41	3·56
Licences, Permits, Fees, Fines and Penalties	·11	·03	·03	·05	1·79	·11
Public Domain	·34	·35	·40	·22	·56	·35
Sales of Commodities and Services	·43	·42	·61	·13	2·76	·46
Interest, Premium and Discount	·10	·01	·03	·05	.....	·15
Other	·01	·05	·02	.....	.....	·02
Total Revenue ex. Trust Funds	4·60	4·24	4·93	2·51	15·53	4·64

(*) Based on official estimates of the population for 1867.
(*) British Columbia fiscal year ended Dec. 31, 1869.

[25] R. S. Weir, *Municipal Institutions in the Province of Quebec* (University of Toronto Studies, History and Economics, vol. 2, No. 3, p. 62).

[26] *Canadian Confederation Debates*, pp. 92-3.

It is apparent that the total *per capita* revenue in Canada did not differ materially from that in New Brunswick and Nova Scotia. Prince Edward Island's total was a little more than half of that in the three bigger provinces, and British Columbia's was more than three times as great. Obviously, British Columbia presented the most conspicuous deviation from the general level of *per capita* revenues in British North America; and the additional burdens borne by its inhabitants are to be attributed to the fact that it was a "gold" province, where high prices ruled and where, in the absence of local industry, heavy imports were necessary. *Per capita* taxation in Nova Scotia and New Brunswick was not markedly heavier than in Canada; but a Canadian paid 60 cents less in customs duties than a Nova Scotian and $1 less than a New Brunswicker. It was the higher *per capita* importations of the two Maritime Provinces which resulted in these differences; and, as will be seen, they cannot be explained by the levels of the Maritime tariffs.

In all the Maritime Provinces, the rates of customs duties had been altered less frequently and less seriously than in Canada. Jonathan McCully spoke truly when he declared at Quebec that Nova Scotia had a tariff of 10 per cent. The rate of 10 per cent had been maintained for years without substantial alteration; and it was applied, with few modifications, to all the manufactured goods imported into the Province. Prince Edward Island, in most of the duties which it levied on imports, followed the 10 per cent rate of Nova Scotia; but in the 12½ per cent *ad valorem* duties which were imposed on vehicles, wooden manufactures, furniture and clothing, there may be discerned a modest effort to give some protection to the Island manufactures. New Brunswick's tariff was higher than any other in the Maritimes; in fact, after the reductions which Galt effected in the Canadian tariff in 1866, it was probably the highest in existence in all the older colonies of British North America.[27] It imposed a rate of 15½ per cent upon a good many articles of manufacture which were charged at the rate of 15 per cent by Canada. On agricultural implements, it levied a duty of 17½ per cent *ad valorem*; and its rate for castings, stoves, vehicles, furniture, boots and leather manufactures was 18 per cent. In British Columbia, where the population was extremely small and the need for revenue very exacting, the rates of duty varied and some of them were fairly high. Duties of 15 per cent *ad valorem* were levied on imports of clothing and furniture, while 20 per cent was charged on boots and shoes, harness and wagons and carriages.[28]

The history of taxation in Canada, during the decade 1857-67, was more complicated than it was in any of the other provinces. It is fortunate that Alexander Tilloch Galt, who acted in obedience to principles and necessities which he was always able fully to expound, was the Canadian Minister of Finance during the greater part of this period. Galt's purpose was to achieve for Canada an approximation to the English fiscal system, as close as the burdens of the Canadian developmental program would permit, and as the capacities and prejudices of the Canadian population would allow. It was not merely out of a desire to find a popular argument, or to curry favour with the English, that he tried to prove, in his pamphlet, *Canada: 1849 to 1859*, how comparatively little the Canadian system had in reality departed from the principles of free trade. His declaration, in the budget speech of 1866, that he preferred the "European system" to the "American protective system" was based not only on theoretical considerations—on what he called "the true principles of political economy"—but also on what he considered to be the real interests of the Canadian economy. It is true that when, mainly for revenue purposes, he was obliged to establish customs duties of 20 and 25 per cent, Galt looked with equanimity upon the "incidental" protection which these duties conferred. But protection, as an end in itself, was no part of his policy; and his budget speech of 1866 echoes the arguments which Peel and Gladstone had employed so long. ". . . With regard to all manufactured goods," he declared, "I have no hesitation in expressing my individual wish, Sir, that we were in a position now to abolish Customs duties on all of them. . . . I think that so far from these changes injuring them (the manufacturers), as some perhaps may fear at the start, their position will be greatly improved . . . by the cheapening of every article that goes into consumption in the manufacture of their goods. . . . If they desire to extend their manufactures, it must be by giving them that position where, by cheap labour, and by obtaining at a low rate the articles used in their manufactures, they will be able to enter into competition with the manufacturers of other nations. . . ."[29]

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[27] Province of New Brunswick, *Assembly Journals*, 1866, appendix 16, pp. xvi-xlix.

[28] Dominion of Canada, *Sessional Papers*, 1872, No. 10, pp. 220-2.

[29] *Speech of the Hon. A. T. Galt...in introducing the Budget* (Ottawa, 1866), pp. 24-6.

In 1859, Galt declared that "the fiscal policy of Canada has invariably been governed by considerations of the amount of revenue required." This pressing need for revenue did not arise, however, from the gradual increase in the general costs of government; it was the direct result of those special and enormous expenditures incurred in the program of development for which the state was directly or indirectly responsible. "The Government," wrote Galt, "has increased the duties for the purpose of enabling them to meet the interest on the public works necessary to reduce all the various charges upon the imports and exports of the country."[30] Galt's taxation was thus an integral part of a great program of provincial development; it was one phase of a national policy designed to increase the wealth and productive powers of the country, by cheapening the commodities required in its consumption and manufacture and by enhancing the value of its production in the markets of the world.

The character of the taxation by which the country was to realize these objectives was determined, in part, by factors over which Galt had little control. Direct taxation, which in Canada had been imposed entirely for local purposes and which had been resisted in Canada East, was regarded as an impossible method for the country as a whole: "we neither possess the required machinery to do it," wrote Galt, "nor are the people satisfied that it is the more correct principle."[31] Excises on spirits, beer and tobacco, and customs duties on foreign articles of general consumption, such as tea, coffee and sugar, were very acceptable to Galt, as they were to free-traders like Gladstone; but, when Galt first inaugurated his policy, there were felt to be distinct limitations on the extent to which this type of taxation could be applied. Galt believed that it would be politically and financially inexpedient for Canada to increase its duties on these and similar commodities when they went practically free of taxation in the United States. "The past fiscal legislation of Canada," he said in 1862, "has necessarily been governed to a very great extent by the policy of the United States with regard to their tariff. . . . If we impose taxation on articles on which they impose no taxation, and raise our duties to a certain point, the very object for which the duty is imposed will be defeated by illicit trade."[32]

[30] Province of Canada, *Sessional Papers*, 1862, No. 23.
[31] Galt, *Canada*, p. 48.
[32] Galt, *Budget Speech of 1862*, p. 21.

The supposed impossibility of certain types of taxation and the inexpediency of others led Galt to rely originally upon a tariff on manufactured goods which was relatively high in British North America. The tariff, thus selected as the means to achieve the objective of increased national productivity and wealth, was a two-edged instrument, as Galt recognized; and the sincerity of this conviction is attested by the subsequent history of his public finance. The tariff of 1859, which imposed duties of 25 per cent *ad valorem* on clothing, boots and shoes and harness, and duties of 20 per cent on woollens, cottons, and their manufactures, was in operation only a few years when it began to be altered; and the downward revision of the tariff was accompanied by the steady increase of excise and the imposition of stamp duties and taxes on bank circulation. In sharp contrast with the Maritimes, Canada was making an energetic effort to enter the field of domestic manufacture and finance. The time, as Galt admitted in the Budget Speech of 1862, was favourable to experimentation, for the American Civil War, which had vastly increased all forms of taxation in the United States, removed some inhibitions from the minds of Canadian statesmen and permitted them "to review our whole system of Customs Duties and Excise." The desire to conciliate the English manufacturers, the hope of saving the Reciprocity Treaty against the protests of the American industrialists and the need for removing Maritime objections to Confederation were all factors in the downward revision of the tariff. The duties on imports were designed to secure revenue, not to provide protection; and, when revenue could be secured by other methods, the tariff on manufactures was reduced. While stamp taxes were imposed, excises multiplied, customs on tea, sugar, spirits and tobacco increased, the general *ad valorem* rates on manufactures were lowered; and by the final revisions of 1866, most manufactured commodities were admitted at a rate of 15 per cent.[33]

IV

The debts of the British North American provinces, as they stood on the eve of Confederation, had been built up with increasing rapidity during the previous twenty-five years. It was during this period that the program of development had reached its full amplitude; and it was largely due to the demands of the developmental program that

[33] Galt, *Budget Speech of 1866*.

the debts had been incurred. Canada, with its ambitious canal system, had assumed the earliest heavy obligations. During the railway building mania of the fifties, the Maritimes, as well as Canada, had heavily increased their indebtedness; and, during the middle sixties, when Canada's capital outlays had declined in importance, Nova Scotia and New Brunswick were committing themselves to substantial subsidies in aid of commercial railway companies. British Columbia, with a top-heavy administrative system and a declining population, had gone into debt with less to show for it than any of the other provinces; and Prince Edward Island, though it was the last province to borrow heavily for developmental purposes, went into debt with great rapidity in the period 1870-1873. The debts of British North America, as they were assumed by the Dominion at the moment of the entry of the different provinces into Confederation, are given in Table No. VII.

TABLE No. VII

Debts of the B.N.A. Provinces on the Eve of Confederation
(Source: Public Accounts of the B.N.A. Provinces and the Dominion of Canada)
(Thousands of Dollars)

—	Canada, June 30, 1867	N.B., June 30, 1867	N.S., June 30, 1867	P.E.I., June 30, 1873	B.C., Dec. 31, 1869	Total
Funded Debt—Direct	62,735	5,145	6,851	1,688	1,164	77,583
Funded Debt—Guaranteed	848	.....	.....	.....	.....	848
Savings Bank Deposits	.....	777	662	250	40	1,729
Bank Loans	3,046	108	351	.....	279	3,784
Other Current Liabilities	184	.....	415	141	.....	740
Capital Commitments	12,976	1,869 (*)	1,002 (*)	2,021 (*)	.....	17,868
Gross Debt	79,789	7,899	9,281	4,100	1,483 (*)	102,552
Deduct—Cash	1,714	29	311	53	.....	2,104
—Investments and Sinking Funds	2,886	87	.....	106	347	3,426
—Current Assets	776	.....	.....	.....	.....	776
Net Debt	74,413	7,786	8,970	3,941	1,136 (*)	96,246
Net Debt accounted for as follows:						
Loans and Investments, excluding Railways, on which partial or no interest was paid	14,742	240	.....	.....	.....	14,982 (‡)
Railways—Direct Investments and Loans	33,256 (*)	4,514	6,291	1,213	.....	45,274 (‡)
Canals	18,676	.....	.....	.....	.....	18,676 (‡)
Other Public Works	9,778	(b)	(b)	(b)	.....	9,778 (‡)
Deficit or Surplus+	15,015+	1,163	1,677	707	.....	11,468+(‡)
Capital Commitments	12,976	1,869	1,002	2,021	.....	17,868 (‡)
Total	74,413	7,786	8,970	3,941	1,136 (*)	96,246

(*) Commitments on account of railway construction with the exception of $22,000 for pensions in Nova Scotia.
(b) In the Lower Provinces, roads, bridges, lighthouses, harbour improvements and other public works were charged to current account.
(*) Approximate. (‡) Exclusive of British Columbia.
(*) Loans and unpaid interest, Grand Trunk Railway, Great Western Railway and the Northern Railway. Unpaid interest amounted to $13,000,000.

The gross debts of the British North American provinces amounted to nearly $103 million, the net debts to a little over $96 million. The debts had grown rapidly, more rapidly than the population; and the burdens they imposed on the different provinces at the time of their entry into Confederation are indicated in the following table:—

TABLE No. VIII

Per Capita Debt of the B.N.A. Provinces on the Eve of Confederation

—	Canada, June 30, 1867	N.B., June 30, 1867	N.S., June 30, 1867	P.E.I., June 30, 1873	B.C., Dec. 31, 1869	Total
	$	$	$	$	$	$
Gross Debt	59-13	29-15	25-50	41-84	43-62	39-03
Net Debt	55-13	28-73	24-64	40-21	33-41	36-18

The *per capita* debts of Canada, Nova Scotia and New Brunswick did not differ materially; but the debt per head in Prince Edward Island and British Columbia was noticeably higher than that in any of the original provinces of the Confederation; and in British Columbia it would have been higher still if the amount had been calculated on the basis of the small immigrant population. In all the provinces, the *per capita* debt had increased fairly quickly, though the rates of growth were unequal. Canada which, according to Galt, had a *per capita* debt of approximately $12 in 1852 more than doubled this amount in the succeeding twenty-five years. Prince Edward Island, which, at the time of the

Quebec Conference had the lowest *per capita* debt in British North America, probably increased its amount by ten times in the following nine years.

In point of size, the debt was a large burden; in point of gravity, it was a dead weight. Cash, sinking funds, investments and other current assets reduced the gross total of British North America's indebtedness by only a little over $6 million, and the $96 million which remained had been invested in properties and enterprises which, though of unquestionable benefit to the peoples of British North America, were an almost unrelieved burden to the provincial governments. About $50 million, or well over half of the net debt, could be accounted for by government expenditures on railways. The only public works appearing in the Maritime balance sheets were the provincial railways, upon which a total of $12 million had been expended. With the exception of a small amount in Nova Scotia, the capital commitments of the Maritime Provinces were made up exclusively of sums which would fall due on contracts for provincial railways, and of subsidies which would become payable in aid of commercial roads; and of the enormous total of $47·9 million, which Canada had spent in loans and advances upon which partial or no interest had been paid, there were over $33 million of assets in the Canadian railway companies. The small operating revenues of the government railways in the Maritimes did not begin to pay the debt charges involved. The heavy investments in commercial railway companies brought in trifling or no returns to the provincial treasuries; and, in June, 1867, there were arrears of interest amounting to $10 million on the Canadian government's $15 million investment in the Grand Trunk Railway.

The other assets in the Canadian balance sheet were equally unproductive of revenue. The Province had assumed $10 million of municipal debt, upon which interest amounting to over $4 million was in arrears. It had invested $18·6 million in a magnificent canal system, which barely met operating expenses, and it had assumed capital commitments amounting to $12·9 million for which there were no corresponding assets at all. To liquidate the Seigniorial system in Lower Canada and, at the same time, to provide a money equivalent for the Eastern Townships and the Upper Canadian municipalities, Canada had incurred conditional and unconditional liabilities amounting to over $7 million. In short, the liabilities assumed by the British North American provinces and the assets obtained, showed clearly the heroic efforts by which these provinces had tried to wrest from the new continent the full measure of material prosperity which it appeared to promise them.

The seriousness of British North America's obligations is evident also in the yearly financial drain which they occasioned. At that time, British North American debentures were usually sold in London; and the weakened prestige of the empire was apparent in the money market as well as in the realm of politics. Colonies could not borrow on such advantageous terms as independent countries; and the political and economic history of the American possessions during the sixties had not strengthened the confidence of investors. Canada had been able to borrow a good deal of its capital at 5 per cent; but the debentures of British Columbia, Nova Scotia and New Brunswick all bore interest at 6 per cent, and those of Prince Edward Island, except the first issue, carried the same rate. As Confederation drew near, even Canada was finding it very difficult to borrow in London on reasonable terms; and Galt admitted in 1866 that he had been unable to float a long-term loan at a rate which he considered the Province could bear. The provincial governments were compelled to fall back upon temporary loans from the local banks, and from English banking houses such as Baring Brothers & Company, and Glyn, Mills, Currie & Company; and Canada, in 1866, had outstanding a sterling loan of $2·5 million which drew interest at 8 per cent. By Confederation, the service of these debts had imposed a heavy burden upon all the provincial governments with the exception of that of Prince Edward Island. In the fiscal years ending in 1866, interest charges absorbed 29·4 per cent of the total revenue in Canada, 26·8 per cent in New Brunswick and 20·1 per cent in Nova Scotia.

These fixed charges, which had grown out of all recognition within the brief space of ten or fifteen years, were a heavy burden upon communities so constituted as those of British North America; and the service of the debt was a factor of great importance in the financial derangement which became general in the provinces as Confederation drew near. It was not until 1866 that Canada really recovered from the fiscal tribulations of the late fifties and early sixties; and as late as the fiscal year 1864-5, there was, so Galt admitted, a deficit of nearly a million on ordinary account. Deficits had helped materially to drive home the necessity for the union of Vancouver Island and British Columbia; and, for the first few years of its existence, the united Province continued to run deficits, though in 1869 it was able to show a surplus. The Maritime Provinces, which, at the time of the Quebec

Conference, had occupied a sounder financial position than Canada, had in the meantime got entangled in difficulties. For the fiscal years ending in 1866, both Prince Edward Island and Nova Scotia admitted deficits on ordinary account. The surplus for the fiscal year ending in September, 1864, was apparently the last surplus achieved by Nova Scotia before Confederation; and John Langton estimated that the deficits of ever-increasing proportions which were reported in Nova Scotia during the period from September 30, 1864, to June 30, 1867, totalled $562,101.[34] It seems unlikely that the Maritime Provinces, as separate political units, would have been able to meet their commitments in respect of railways, without a reorganization of their taxing systems comparable to that which had been forced upon Canada in 1858-9. At the time of the Quebec Conference, it was Canada which felt the burden of debt most seriously; but, by 1867, financial pressure had become severe in New Brunswick, Nova Scotia and British Columbia; and by 1873, it was affecting the Province which had so long remained immune, Prince Edward Island.

V

In finance, as in so many other matters, the Fathers of Confederation were obliged to use the materials of the present in the light afforded by the experience of the past. Thus the grand totals of revenue and expenditure in British North America as a whole, help to elucidate some of the decisions taken at the Quebec Conference, while, at the same time, they provide a general illustration of the business of government in pre-Confederation days. In these figures can be discerned the weight of financial burdens, the relative importance of government responsibilities, the varying pressure of popular demands and the influence of current theories of government. These figures distil the pooled knowledge and experience which Galt, Brown, Tupper and Tilley brought to the finance committee of the Quebec Conference; and the purport of their decisions can be best understood in the light which these figures convey.

The grand totals of expenditures in all the British North American provinces in the fiscal years ending in 1866 reveal once again, with clarity and force, the enormous importance of the developmental program in contemporary public finance. In British North America, debt had been incurred almost exclusively for great public works such as canals, harbours, ship channels and railways; and in 1866, debt charges amounted to 28·9 per cent of total current expenditure. These interest payments were not, however, the only charges borne by British North Americans for public improvements. There were, in addition, current disbursements for transport services which amounted to 11·4 per cent of total expenditure in British North America; and thus the effort to span the distances and overcome the barriers of an undeveloped continent cost virtually 40 per cent of total public expenditure in the northern colonies. In comparison with these sums, the costs of other government functions appeared relatively small. Justice, legislation and general government, it is true, accounted for 26·4 per cent of total expenditure; but education amounted to only 5·8 per cent and public welfare to only 3·2 per cent.

In the revenue totals of British North America, a number of even more glaring contrasts are revealed. The income from customs was 63·9 per cent, and from all taxes, 76·8 per cent of current revenues; and this reliance upon the tariff for revenue, this evident reluctance to develop other forms of taxation were facts of crucial importance in the decisions of 1864. The capital equipment which had been acquired as a result of the developmental program, the canals and railways together with the post office, brought in sums which amounted to 9·8 per cent of total revenue; but these revenues included the gross income of the postal service, which was more than equalled by its costs, and the operating revenues from canals and railways, which did not begin to meet the interest on the capital sums involved. The sales of commodities and services, which apparently ranked second after taxes as sources of revenue, did not in reality provide any net income. Public domain, the proceeds of which amounted to 7·5 per cent of total income, stood third in order of importance; and fines and penalties, licences, permits and fees had declined into relative insignificance.

These were the functions of government and the sources of revenue which the Fathers of Confederation were to divide between the provinces and the new Dominion. The developmental program, the great effort to extend and to enrich the provinces by means of improved transport, stood out as the dominating factor which had moulded the whole structure of public finance. On the one hand, it had left the debts, which were British North America's greatest burden: on the other hand, it had created the capital equipment of canals and railways, which were British North America's greatest property. And finally, from the days of Galt and Cayley onwards, it had been inextricably linked with the tariff, which was the greatest source of British North American revenue.

[34] Province of Nova Scotia, *Assembly Journals*, 1869, appendix 1, pp. 50-1.

Section XII

THE FINANCIAL SETTLEMENT OF CONFEDERATION

I

Viewed from the point of view of public finance, the problem faced by the Fathers of Confederation was essentially the problem of dividing the functions and revenues, and the assets and liabilities, of the confederated colonies between the new general government and the provinces. Conceivably the division of political powers, of governmental responsibilities and resources might have been based upon a purely financial arrangement, designed to secure the solvency of all the governments in the new confederation. The attempt to solve the problems of federalism by the touchstone of finance was never undertaken, of course: and such a procedure is suggested merely to emphasize the difference between it and the method which was actually pursued. No simple and satisfactory scheme of union could be deduced from the financial history of the provinces. The kinds of expenditure they had incurred differed even more radically than the types of revenue they had collected. Their debts varied absolutely and in relation to population; their properties and assets were of different orders; and finally, the variations in the organization of local governments placed relatively unequal burdens upon the provincial administrations.

In any case, the division of functions and revenues at Confederation was dictated mainly by political considerations. Confederation, whatever the forces back of it, was a political achievement; and the political practices and theories of the period determined its fundamental framework. There can be little doubt that, as Lord Monck said, the intention of the Fathers of Confederation was "to form out of these Provinces a solid and lasting political consolidation with a supreme central authority managing all the general interests of the people of the Union." The reasons behind this basic intention were various and strong. The Fathers hoped that their union would avoid certain great weaknesses in order that it might undertake certain great tasks. To sustain the heavy burdens of defending, developing and integrating the provinces of British North America, the new union must be immune from the centrifugal tendencies of American federalism; and thus, when legislative union had to be abandoned in favour of Confederation, the influences making for a strongly centralized union became dominant. From the evidence afforded by the discussions at Quebec and the debates in the legislatures of the different provinces, it is apparent that the Fathers of Confederation wished to invest the new general government with the bulk of those functions which at that time were regarded as the most important and onerous responsibilities of the state. It is equally apparent that the Fathers intended to effect a considerable reduction of the duties which up to that time had come within the sphere of the provincial governments. This interpretation of the intentions of the period has its historical basis in the contemporary statements of both unionists and anti-unionists, who showed a large measure of agreement in their understanding of the Quebec Resolutions. To be sure, there were some people who declared themselves uncertain as to the real character of the federal plan which was offered for their approval. Christopher Dunkin, one of the shrewdest of all contemporary critics of Confederation, argued that the proposed constitution was a "new, untried, mongrel system" operated by "machinery entirely unlike that of the United States, and entirely unlike that of the British Empire," and exhibiting "the disadvantages of both and the advantages of neither." On the whole, however, the supporters and the opponents of the Quebec plan disagreed, not so much in their conception of its purport and meaning, as in their estimate of its wisdom and acceptability. Confederation was both defended and attacked on the ground that it would raise the general government to a position of manifest superiority and that it would reduce the provincial governments to the level of mere "municipal councils." "It will be apparent," wrote Lord Monck to Carnarvon in 1866, "that the intention of the framers of the Quebec plan was to constitute a strong central authority the power of which should be supreme and pervading throughout the Union with provincial bodies of a completely subordinate and municipal character for the administration of purely local affairs."[1]

[1] Quoted in W. M. Whitelaw, "Reconstructing the Quebec Conference" (*Canadian Historical Review*, vol. 19, June, 1938, p. 136).

These political decisions determined, in the main, the allocation of powers and consequently the division of functions and revenues, of liabilities and assets. In future, the central government was to provide for defence and communications; it was to take over the major responsibility for the promotion of national development by means of improved transport, a task which was at that time accepted as the most serious and burdensome function of government. The Dominion was required to build the Intercolonial Railway; the Dominion was pledged to open up communications with the west; the Dominion was expected to deepen and improve the great canal system of the St. Lawrence. All the vast structure of debts, properties and assets which had been built up in pursuit of this dominating scheme of material expansion was to be taken over by the one government which, above all others, was expected to carry the plan through. The Dominion was to become a great corporation upon which would be piled all the burdens, past and future, of defence, development and consolidation in British North America.

It followed, in the first place, that the Dominion was to assume all provincial indebtedness, except certain guarantees and the conditional liability arising out of the municipal loan fund indemnity account of Upper Canada. As a result of these adjustments the liabilities assumed by the Dominion do not in all respects agree with the debts of the provinces as set forth in their respective balance sheets on the eve of Confederation. For the liabilities and assets assumed by the Dominion, see Table 5 of the Appendix; for the balance sheets of the provinces on the eve of Confederation see Table 7 on p. 76. The gross total of the debt assumed on June 30, 1867, amounted to $93·1 million. Certain deductions from this gross amount were permitted; but they were permitted only in virtue of realizable assets which were securities for definite sums of money. Thus, the cash, sinking funds and investments, which went with the debt as its offsets, reduced the grand total to $88·6 million; and of this Canada contributed $72·1 million, Nova Scotia $8·7 million and New Brunswick $7·8 million. The last two totals included certain capital commitments on behalf of railway construction. The other assets, the products of the developmental program, which, as John Langton said later, were not "a security for money," were taken over at the same time. In this class were included, not merely the physical properties of the publicly owned harbours, lighthouses, steamboats, canals and railways, but also the loans and advances made to privately owned commercial concerns such as railway companies, upon which partial or no interest had been paid. These assets and properties were regarded as national works; but local works, such as roads and bridges, for which probably part of the debt had been incurred in Nova Scotia and New Brunswick, were not, of course, transferred at the same time. No attempt was made to exclude from the total Maritime indebtedness assumed by the Dominion, that portion incurred for local works to be retained by the provinces. And similarly no attempt was made to evaluate the assets which were actually transferred. These were not accepted as deductions from the debt.

This decision was contested, at the time of the Quebec Conference and later, by representatives of the Maritime Provinces; but it is not clear upon what principles these assets could have been evaluated and certain of them accepted as offsets to the provincial debts. As John Langton argued later, it would have been difficult, if not impossible, to evaluate them in terms of the money return they might be expected to yield; and even a valuation in terms of their original cost would have been extremely difficult to extract from the public accounts.[2] The Province of Canada, as has been shown, had charged to capital its expenditure for public works and loans in aid of railway companies; and the history of these transactions was recorded in the provincial balance sheet. The Maritime Provinces, on the other hand, had paid for many of their lighthouses, harbours and public buildings out of current revenue and these expenditures had been lost to sight in the public accounts. Moreover, the assets of the provinces varied in character; their developmental programs, as has been seen, had been prosecuted by different methods. The Maritimes, as well as Canada had given subsidies and loans to commercial railway companies; but, in addition, the Maritimes possessed the physical properties of their own provincial railways, while Canada could bring forward nothing but the doubtful asset of $34·4 million, which had been loaned to the Grand Trunk, the Northern and the Great Western Railways, and upon which interest was seriously in arrears. It was this evident contrast which prompted the protests of Tupper and Tilley at the Quebec Conference and of A. W. McLelan in the negotiations of 1869. "It is wrong to assume assets to be of equal value when they are not so," declared Tupper.[3] "This scheme . . .," said Tilley, "takes over railways which cost us a

[2] Province of Nova Scotia, *Assembly Journals*, 1869, appendix 1, pp. 27-36.
[3] Pope, *Confederation Documents*, p. 84.

very large sum of money and gives us nothing in return. The Grand Trunk stock is of no value, yet we find it put down as an asset. . . ."[4] Possibly the Canadian delegates argued that the Maritime Provinces had no properties comparable to the canals, upon which Canada had expended $18·7 million. Possibly they argued, as John Langton argued later, that the true value of these assets was to be sought, not in their alleged financial returns, but in "the benefit which the whole country will derive from them." At all events, all these properties and assets were granted to the new Dominion upon terms of unconditional surrender.

The Dominion, which assumed the liabilities and assets of the past and which was expected to undertake the major developmental expenditures of the future, was granted financial powers in accordance with its responsibilities. There is a considerable body of evidence which suggests that the general government was regarded as *the* taxing power of the new federation. In this respect, as in many others, the Fathers of Confederation endeavoured to avoid what were regarded as the mistakes of American federalism. By the constitution, the United States was prohibited from imposing duties on exports; it was permitted to levy capitation or other direct taxes only on a system of apportionment among the different states according to population. These and other possible limitations were disregarded at Quebec. The terms by which an unlimited right to impose taxation in any form was assigned to the Dominion, differed slightly as they were set forth in the Quebec Resolutions, the London Resolutions and the British North America Act; but there is no indication that the altered phraseology was intended or interpreted at the time to imply any diminution of the grant. The solitary limitation made in the Quebec Resolutions on the Dominion's right to impose export duties was omitted from the London Resolutions and from the British North America Act; and the only other suggested curtailment of the taxing powers of the general government, proposed at the Quebec Conference by Tupper, was not accepted by the delegates.

The language employed by the Fathers of Confederation and their contemporaries suggests that they regarded the extensive taxing powers of the Dominion as tantamount to a virtually exclusive, as well as an unlimited, right to impose taxation. In his Sherbrooke speech, Galt declared, as if he were speaking of a single prerogative, that "the power of taxation had been confided to the General Legislature,"[5] and in the Canadian Confederation debates, Brown referred to the federal parliament as "the house that holds the purse."[6] This interpretation was not only uttered in speeches: it was also recognized in the official documents of the time. In both the Quebec and London Resolutions it was stated that subsidies were to be paid to the provincial governments "in consideration of the transfer to the General Parliament of the powers of taxation." This phrase did not appear in the British North America Act; it was not inserted in the Manitoba Act, nor in the Order in Council admitting British Columbia into the union. But in a slightly altered form, it reappeared in the order in council by which Prince Edward Island entered Confederation in 1873.

There was a general expectation and, in the Maritimes, a widespread fear that these unlimited powers of federal taxation would be fully employed by the general government. It was, of course, assumed that the existing taxes, of which customs, excise, stamp duties and bank imposts were the chief, were the taxes most likely to be levied by the Dominion in the near future. It was not expected that the federal government would be under any immediate necessity of imposing direct taxation on lands or incomes. In Great Britain and the United States, the two countries whose fiscal policies had exerted most influence upon the public finances of British North America, the income tax had been regarded as a special instrument which could be most legitimately employed in exceptional national circumstances. "The general views of Her Majesty's Government with respect to the income tax," said Gladstone, "are that it is an engine of gigantic power for great national purposes. . . ."[7] The income tax had been imposed by Great Britain during the Revolutionary and Napoleonic Wars, and by the United States during the Civil War; it had been levied by the United Kingdom during the commercial and fiscal revolution which witnessed the abolition of mercantilism and the establishment of free trade. In all probability, the Fathers of Confederation believed that the imposition of federal direct taxes would be justified, and might be necessitated, by political and economic crises such as these. They confidently hoped that war between Great Britain and the United States might be avoided; but, at the same time, they were forced to admit the possibility of a conflict; and, indeed, the whole scheme

[4] *Ibid.*, p. 83.

[5] Galt, *Speech on the Proposed Union*, p. 11.

[6] *Canadian Confederation Debates*, p. 92.

[7] Hirst, *Gladstone as Financier and Economist*, p. 148.

of Confederation was designed, in part, as a protective measure. On the one hand, therefore, it was assumed that the Dominion would naturally rely upon such historic British North American taxes as customs and excise; but, on the other hand, there was no disposition to question, or to explain away, the right of the national government to avail itself of other modes of taxation, including those which had been concurrently granted to the provincial legislatures. When, at the Quebec Conference, Tupper proposed to limit the taxing powers of the Dominion to "general taxation," John A Macdonald objected that "you could not then tax shares."[8] In the Canadian Legislative Council, when James G. Currie inquired whether the general government was to have the power of "imposing local taxation upon the lands of the provinces," he was answered by Alexander Campbell, who was a member of the government and a delegate at the Quebec Conference, with the simple words, "the general national power of taxation is to be in the General Government."[9] Beyond a doubt, the Fathers of Confederation intended that the new nationality should possess the financial strength to support the dignity which they hoped it would attain and to shoulder the obligations which they expected it to undertake.

II

The establishment of such a powerful federal structure meant the inevitable reduction of the functions and revenues of the provincial governments. In the work of economic expansion and integration, the provinces were clearly expected to play a minor role. They would be required to support civil government and to contribute to the maintenance of justice within their respective jurisdictions; but these were relatively stable charges which it was hoped under Confederation might be materially reduced. There was, at the time, not the slightest expectation that the problem of public welfare would ever become a serious burden; and the total cost of charitable and social undertakings, even including education, had not amounted to more than 9 per cent of total expenditure in British North America during the fiscal years of 1866. In those days, the need of social services was small; it was expected, if anything, to diminish rather than to increase. The British North American provinces were, on the whole, expanding agricultural economies. There were no great industrial centres in which unemployment could find a fixed focus; there was no economic discontent which was not expected to find a ready solution on the frontier. In the relatively decentralized structure of society, public welfare was necessarily a local problem; and the practice of coping with it by means of municipal, fraternal and religious charitable organizations was confirmed by the prevailing theories of the time.

There was thus no reason for the Fathers of Confederation to anticipate any large increase in the responsibilities of the provincial governments; and both unionists and anti-unionists agreed upon the relative unimportance of the functions which had been entrusted to them. At the Quebec Conference, George Brown reminded the delegates of "how insignificant are the matters agreed at Charlottetown, to be left to the Local Governments";[10] and, in his Sherbrooke speech, Galt assumed, as a matter of course, that they would have "a very insignificant amount of work" to do.[11] In the Prince Edward Island Assembly, George Coles complained that "in this House, scarcely anything should be left for us to do, but to legislate dog taxes and the running at large of swine";[12] and these complaints were echoed in the legislatures of the other Maritime Provinces. "Every one knows what the local legislatures will be under this scheme—very insignificant bodies," declared Bourinot during the debate on Confederation in the Nova Scotia Assembly.[13] And his fellow member, Le Vesconte, waxed very sarcastic at the expense of the future local governments.

This general assumption of the relative unimportance of provincial functions is clearly reflected in contemporary discussion of the form and organization of the provincial governments. By the Quebec Resolutions, it was left to each province to determine the constitution of its future local legislature; and this decision, which was the result of differences of opinion, significantly illustrates the general state of uncertainty which existed concerning the future status of the provinces. It was expected, by both supporters and opponents of Confederation, that the new provincial legislatures would be inferior legislatures, definitely different from the provincial parliaments of the past. It was also generally believed that in consequence, the new provincial legislatures should be as simple and inexpensive as possible. But contemporaries of Confederation found it very difficult to give a definite

[8] Pope, *Confederation Documents*, p. 80.
[9] *Canadian Confederation Debates*, p. 340.

[10] Pope, *Confederation Debates*, p. 77.
[11] Galt, *Speech on the Proposed Union*, p. 18.
[12] *Debates of the Assembly of Prince Edward Island*, 1865, pp. 65-71.
[13] *Debates of the Assembly of Nova Scotia*, 1865, p. 266.

institutional form to these general conceptions. There was, in fact, a contradiction in their ideas, a contradiction which was implicit in the body of political doctrines and practices which they inherited as members of the British Empire. On the one hand, was the new and developing custom of responsible government; on the other, was the far older tradition of imperial regulation and control. The lives of the Fathers of Confederation coincided roughly with the transition from governance to self-government. They had had living experience of both the old colonial system and the new colonial policy. And, saturated as they were in the traditions of the empire, they tried to use the legacy of its political ideas to solve the practical problems of the new Dominion.

In the laws and customs of the old colonial system they found much which seemed eminently useful for their purpose. The controls and regulations of the old system had been intended to achieve the mercantilist ideal of a united, integrated and self-sufficient empire. The purpose of the Fathers of Confederation—to found a united and integrated transcontinental Dominion—was comparable with that of the mercantilists; and in both designs there was the same need that the interests of the parts should be made subordinate to the interest of the whole. The Dominion was the heir in direct succession of the old colonial system. It was put in possession of both the economic and political controls of the old régime. On the one hand, it was given the power to regulate trade and commerce, which had been the chief economic prerogative of Great Britain; on the other hand, it was granted the right to nominate provincial governors, to review provincial legislation and to disallow provincial acts, the three powers which had been the chief attributes of Great Britain's political supremacy. "We propose," said Colonel Gray of New Brunswick at the Quebec Conference, "to substitute the Federal Government for the Imperial Government."[14] In the Confederation debates in the Canadian legislature, Macdonald made the same point with equal clarity. "The General Government," he said, "assumes towards the local governments precisely the same position as the Imperial Government holds with respect to each of the colonies now."[15]

It was in the light of this analogy that many people instinctively explained the future position of the provinces. Their status, it was generally believed, would be an inferior one; and it would, therefore, approximate fairly closely to that of the colonies in the old colonial system before the introduction of any large measure of self-government. In the official theory of the old empire, the colonies had been regarded as very subordinate governments. They had been looked upon as inferior corporations, like the boroughs and counties of England, and their assemblies had been likened to municipal councils rather than to the English parliament. This old conception of the essentially municipal character of colonial governments appeared to explain not inaccurately the position which the provincial legislatures would occupy in the new Dominion; and it is significant that many of the contemporaries of Confederation wrote and spoke of the future provinces in definitely municipal terms. In the Canadian Confederation debates, for example, several members, from both Canada East and Canada West, spoke of the provincial legislatures as "large municipal deliberative bodies," "municipal councils on a large scale," "local municipal parliaments." Galt assumed that the local legislatures would have to deal "rather with municipal than great general questions."[16] Tupper declared that "we propose to preserve the Local Governments in the Lower Provinces because we have not municipal institutions."[17] Finally, during the debate in the Canadian legislature in the summer of 1866, when the constitutions of the future provinces of Quebec and Ontario were determined, Macdonald announced that the "local parliament would, under the circumstances of the general legislature, be more of the nature of a municipal than a legislative body."[18]

George Brown, who disliked the patronage incidental to responsible government and who was very impressed with the working of the county councils, made the most drastic proposals for a new type of provincial government. In the debate on the constitutions of Ontario and Quebec, he declared that "it was exceedingly to be regretted that responsible government—British Parliamentary Government in the sense in which we had enjoyed it in this country—should be applied to the local bodies."[19] Simple and inexpensive government, based on an elective system, was what he advocated. At the Quebec Conference and again during the debate in the session of 1866, he proposed that each province should have a unicameral legislature and a small executive council, each elected by the people for a period of three years. The executive councillors or

[14] Pope, *Confederation Documents*, p. 87.
[15] *Canadian Confederation Debates*, p. 42.
[16] *Ibid.*, p. 70.
[17] Pope, *Confederation Documents*, p. 85.
[18] *The Globe*, July 14, 1866.
[19] *Ibid.*, August 3, 1866.

heads of departments would not be voting members of the legislature, nor would they be politically responsible to it. As is well known, this plan was unacceptable to the members of the Quebec Conference and it was not seriously discussed during the debate in the Canadian legislature in the summer of 1866. The fact is that it conflicted with that other political tradition of British North America—responsible government or self-government on the British parliamentary model. "We must have miniature responsible Governments," said Jonathan McCully at the Quebec Conference.[20] In the debate on the constitutions of Ontario and Quebec, both Macdonald and Cartier assumed that the executive council of the lieutenant-governor would be responsible to the local legislature.[21]

Yet this decision did not really settle the matter. The idea of responsible government in the provinces was still in conflict with the doctrine of their subordination to the Dominion. The lieutenant-governors were to be appointed by the federal government; and, as Langevin admitted during the Confederation debates and as Macdonald clearly indicated in his report of August 25, 1873, the lieutenant-governors were regarded as Dominion officers, responsible to the federal government and obliged to reserve provincial bills on federal instructions.[22] The Dominion, moreover, was to have the power of disallowing provincial acts; and, as Macdonald's report of June 8, 1868, definitely stated, it was expected that "the general government will be called upon to consider the propriety of allowance or disallowance of provincial Acts much more frequently than Her Majesty's Government has been with respect to colonial enactments."[23] These implications of the new system were realized by a number of people before Confederation was carried out. The grant to the Dominion government—to the government on the spot—of the old imperial powers, appeared to revive the type of provincial subordination which had characterized the old colonial system. Opponents of Confederation argued that there was no guarantee of a responsible system and that nothing could prevent the lieutenant-governors from acting as their own prime ministers, as they had done in the past before the introduction of responsible government. In the summer session of 1866, the opposition introduced an amendment to the governments' resolutions on the constitutions of Ontario and Quebec; and this amendment declared that the executive authority of the lieutenant-governor was to be administered according to the well-understood rules of responsible government, and specified the number of members of which his executive council was to be composed.[24] This amendment was, of course, voted down; but its rejection does not cast any doubt upon the sincerity of Macdonald's assurances concerning responsible government in the provinces. The Fathers of Confederation intended that self-government, on the British parliamentary model, should operate in the provinces; but it was to be self-government with limitations not unlike those which Lord Durham had proposed nearly thirty years before. If, in certain respects, the lieutenant-governor was to be the local analogue of the sovereign, in other respects he was to be a Dominion officer, charged with the protection of Dominion interests.

All these efforts to clarify the future status of the provinces—to define their position in terms of the political thought of the Empire—are clear indications of the general opinion that, under the terms of the union, the character of provincial government would be fundamentally altered. The consequences of this change, so far as the machinery of government was concerned, were not as yet certain; but to contemporaries there seemed no doubt that the responsibilities of the provinces would be materially lessened and their political importance reduced. These generally accepted views of the place of the provincial governments in the new federation helped largely to determine the financial settlement. The provinces were expected to perform minor functions in the future; and, at the same time, they were to be relieved of all the financial burdens of the past. The Dominion was to assume all provincial debt. But manifestly the *per capita* borrowings of Canada were heavier in 1864 than those of the Maritime Provinces; and so, in accordance with the principle of representation by population, which the Fathers of Confederation honoured in so many ways, it was proposed to give to each of the provinces a debt allowance based on its population by the census of 1861. Since the *per capita* debt of Nova Scotia and New Brunswick amounted to about $25, this was the figure selected; and, with some deviations, the debt allowance of each province was obtained by the simple process of multiplying its population in 1861 by $25. Actually, the sum of $7,000,000, which was the debt allowance conceded to New

[20] Pope, *Confederation Documents*, p. 76.

[21] *The Globe*, July 14, 1866.

[22] *Canadian Confederation Debates*, p. 374; *Provincial Legislation*, vol. 1, p. 105.

[23] *Provincial Legislation*, vol. 1, pp. 61-2.

[24] *The Globe*, Aug. 2, 1866.

Brunswick, was somewhat in excess of what it would have been according to the $25 rate; while the debt allowances of Canada and Nova Scotia, $62,500,000 and $8,000,000 respectively, fell a little short of their real due. If the debt of a province exceeded the allowance, it was to pay interest to the Dominion at the rate of 5 per cent on the excess; if its debt was less than the allowance, the Dominion was to pay interest to the province at the same rate on the deficiency.

This method of procedure effected a virtually complete sweep of the balance sheets of the Maritime Provinces. Their cash assets went to reduce their gross debt; and in this way their net obligations were brought within measurable distance, one way or another, of their debt allowances. The lighthouses, harbours and public buildings, which had been paid for out of current revenue, and the railways, which had been charged to capital, were both transferred to the Dominion, not as offsets to the debt, but as contributions to the general stock of the new federation; and virtually nothing appearing in their balance sheets was retained by the provinces. With Canada, the case was somewhat different. Her net debt, as recorded on June 30, 1867, was $72·1 million, her debt allowance amounted to $62·5 million, leaving a balance of nearly $10 million upon which interest at 5 per cent would have to be paid to the Dominion. But, on the other hand, Canada possessed a number of assets, of which the Upper Canada Building Fund, the Law Society Fund of Upper Canada, the Building and Jury Fund of Lower Canada, the Municipalities Fund (Clergy Reserves Moneys) and the Consolidated Municipal Loan Funds were the chief; and for these there was no counterpart in the public accounts of the Maritime Provinces. These funds had been established in connection with legal, educational, municipal and other local affairs over which the provinces would assume jurisdiction; and to a considerable extent, they constituted the excess of debt over the debt allowance of $62·5 million upon which Ontario and Quebec would in future be required to pay interest. For these reasons, these assets, of which the extremely doubtful asset of the Municipal Loan Funds made up the bulk, were left with the Province of Canada to be divided between Ontario and Quebec.

Thus, in the main, the provinces were relieved of their debts and their assets: they were entrusted with what were regarded as minor functions and they were expected to practice economy. Still, the provinces had to assume responsibilities, however reduced they might be; and to meet these they had to have revenues, however economical they might become in spending them. It was in the attempt to find a solution for this problem that the Quebec Conference encountered perhaps its most serious difficulties. The provinces were to be permitted to levy licences and permits; they were put in possession of the revenues from their natural resources; and, since New Brunswick had established an export duty on timber and lumber in place of the stumpage dues which were found difficult to collect, it was permitted to continue this levy. But, in the fiscal years ending in 1866, the proceeds of licences, permits and fees had only amounted to 2·2 per cent, and the income from public domain to only 7·5 per cent, of the total revenue of British North America as a whole. If, as Brown and other members of the Quebec Conference hoped, the provinces would be required to live on the revenues which they themselves collected, obviously other sources of financial strength would have to be put at their disposal.

In their attempt to find a solution for this problem, the Fathers of Confederation appeared, on the whole, to avoid rather than to copy the example of the United States. In the American union, the individual states possessed extensive taxing powers. They could not, of course, impose customs and transit duties; but, in addition to concurrent powers over other forms of taxation, they came to possess virtually the exclusive right to property and poll taxes.[25] Such extensive powers as these the delegates at the Quebec Conference were unwilling to concede to the Canadian provinces. They were prepared to give the provincial governments the concurrent right to impose direct taxation, but the value of this privilege, as estimated by contemporaries of Confederation, bears no comparison with the worth at which it is reckoned in modern times. As has been shown, direct taxation on incomes had not even been contemplated in British North America. No direct taxation on lands and movable property had been levied by Canada, Nova Scotia or New Brunswick, the three largest of the northern provinces. Direct taxation, in fact, was regarded as a taxing method which could be most appropriately employed by the governing bodies of municipalities. In Canada West, where the conception of the municipal character of the provincial governments was most widely held, the advisability of direct taxation by the provinces was vigorously supported;

[25] B. P. Adarkar, *The Principles and Problems of Federal Finance* (London, 1933), pp. 70-3.

and George Brown and other delegates at the Conference were "earnest advocates" of this method of meeting the provincial needs.[26] But these proposals met an insurmountable opposition. Both the Maritime Provinces and Lower Canada insisted that they would not dare to impose direct taxes upon their people, who had been unused and opposed to them in the past.

What were the delegates to do? They must either give the provinces financial assistance or assign them further taxing powers. There were some Canadians, disliking the idea of subsidies, who argued that if the general government "could afford to part with the revenue, it could equally afford to part with the source of it";[27] but this suggestion that the Dominion should surrender the concurrent right to some form of indirect taxation such as excise, was unacceptable to the financial experts at Quebec. Deliberately, they made their historic choice in favour of subsidies. "Two courses were open to us," said Brown, "either to surrender to the local governments some source of indirect revenue, some tax which the General Government proposed to retain—or collect the money by federal machinery, and distribute it to the local governments for local purposes. And we decided in favour of the latter."[28] Apparently, the Fathers preferred to preserve the fiscal supremacy of the federal government even though it involved the necessity of subsidies to the provinces.

It should be noticed, at this point, that while the Fathers of Confederation regretfully accepted the idea of subsidies, they did not withdraw the provincial right to direct taxation. Subsidies were to be granted because the provinces had almost unanimously asserted their inability to levy direct taxation; and, therefore, it might have been expected that the right to direct taxation would be withdrawn. This was not done; and the reasons for the decision are not entirely clear. The power of imposing direct taxes was not welcomed as an important privilege by the defenders of provincial autonomy; it was, on the contrary, condemned as an onerous burden. The Fathers of Confederation had correctly anticipated the public attitude on the subject; and the arguments in the provincial legislatures at the time were concerned, not with the advantages to be derived from direct taxation, but with the chances of avoiding it altogether. The opponents of unions, such as Annand in Nova Scotia and Smith in New Brunswick, tried to prove that the deficiencies of provincial income under Confederation would make the imposition of direct taxes inevitable. The defenders of Confederation argued that the Dominion subsidies, together with local revenues, would amply supply the financial needs of the provinces. Both parties, however, appeared to regard direct taxation as objectionable; both parties tried to show how it could be best avoided.

Thus the opinion formed by the Fathers of Confederation of the possibilities of provincial direct taxation seemed to be justified when tested by the popular opinion of the time. Evidently, direct taxes could not be imposed on a scale sufficiently high to make subsidies unnecessary; and presumably, if direct taxes were imposed at all, they could be levied only at very moderate rates. In these circumstances, it perhaps did not greatly matter whether the right to impose direct taxation was left with the provinces or not. Men like Galt appear to have looked upon the public domain as the chief expanding source of provincial revenue; and direct taxation was evidently regarded as a normally unimportant source of revenue, to which, in financial extremity, the provinces might be driven as a last resource. The fear of direct taxation had made subsidies necessary; but, in partial compensation, the fear of direct taxation would help to compel the economical use of subsidies. "If," said Galt in his Sherbrooke speech, "they increased their expenses in proportion to the growth of population, they would be obliged to resort to direct taxation; and he thought they might trust the people themselves to keep a sharp watch over the local governments lest they should resort to direct taxation."[29] Galt apparently attached considerable importance to this idea, for he restated it vigorously in his speech in the Canadian legislature during the debates on Confederation. ". . . .I do not hesitate to say," he declared, "that one of the wisest provisions in the proposed Constitution, and that which affords the surest guarantee that the people will take a healthy interest in their own affairs and see that no extravagance is committed by those placed in power over them, is to be found in the fact that those who are called upon to administer public affairs will feel, when they resort to direct taxation, that a solemn responsibility rests upon them, and that that responsibility will be exacted by the people in the most peremptory manner. If the men in power find that they are required, by means of direct taxation, to procure the funds necessary to administer the local affairs, for which abundant

[26] *Canadian Confederation Debates*, p. 92.
[27] *Evening Leader*, (Toronto), Sept. 30, 1864.
[28] *Canadian Confederation Debates*, p. 93.

[29] Galt, *Speech on the Proposed Union*, pp. 18-9.

provision is made in the scheme, they will pause before they enter upon any career of extravagance."[30]

Subsidies, therefore, and not direct taxes were to eke out the budgets of the provincial governments. Obviously, it was in the interest of the Dominion to make sure that the subsidies would be enough, but not more than enough, to maintain provincial solvency; but to reach this objective and at the same time to keep an equality of treatment among the provinces, was an extremely difficult task. The delegates at the Quebec Conference were confronted with the difficulty that the Maritime Provinces had been accustomed to spend a greater proportion of their revenue than had Canada on objects which would remain within provincial jurisdiction by the terms of the proposed union. All the provinces would alike be required to surrender over 80 per cent of their revenues to the Dominion; but, on the other hand, the Dominion would not assume an equal percentage of the expenditures of all the provinces. On roads and bridges, education and public welfare, three services which would remain within provincial jurisdiction, Nova Scotia in 1866 had appropriated 31 per cent; New Brunswick 21·1 per cent; and Canada only 9·7 per cent of their total expenditures. This difference, as has been seen, is to be explained by the municipal expenditures in the Province of Canada.

The subsidies, evidently, would have had to be based upon Maritime, rather than upon Canadian, needs; but the delegates, influenced by the compelling demand for economy and simplicity in provincial administration, were fully persuaded that these needs would be less substantial under Confederation than they had been before. The delegates from the Maritime Provinces were invited to pare down their estimates for provincial expenditure under the new regime as closely as possible; and Tupper, on the part of Nova Scotia, contracted to perform local services which in 1863 had cost $667,000 for a total of $371,000 under Confederation —or, as Galt said, a reduction of 40 per cent.[31] Tupper's estimate was chosen as the basis for the calculation of subsidies because, as Galt explained quite frankly, it was the lowest; and this decision was accepted by the other members of the finance committee and by the Quebec Conference without alteration. Certain special grants were demanded and accorded; but the conference preferred to base the general subsidy arrangement upon this extremely economical basis even if it involved a few departures from the general rule. Subsidies, like debt allowances, were to be based upon the population of 1861, which was to be multiplied at a rate sufficiently large to produce a total satisfactory to the Maritime Provinces. Finally, subsidies were not to be altered, either as a result of the rise of new provincial functions or even as a result of the growth of provincial population. "I trust," said Galt, "whatever the amount of the subvention may be that it will not be changed hereafter. It should be definitely settled now and not doubled when the population of any province doubles."[32]

These were the principles upon which the payment of unconditional subsidies was settled at the Quebec Conference. As set forth in the British North America Act, after they had undergone revision at the London Conference, the kinds of financial aid rendered the provinces were four in number.[33] In the first place, there was the *per capita* subsidy of 80 cents per head of population. According to the Quebec agreement, the amount of these subsidies was to be determined on the basis of population according to the census of 1861; but, in response to the demands of the Maritime Provinces, an adjustment was made in their favour at the London Conference. For Nova Scotia and New Brunswick, though not for Ontario and Quebec, the *per capita* grant was to increase with the growth of population, as established by each decennial census, until such population had reached a total of 400,000 in each province. In the second place, each of the provinces was to be given a special grant-in-aid of its government and legislature; and this was to amount to $80,000 for Ontario, $70,000 for Quebec, $60,000 for Nova Scotia and $50,000 for New Brunswick. In the third place, the provinces, if their debt allowances exceeded their net debt, were to receive interest at 5 per cent on the balance from the Dominion. Finally, an additional and special subsidy of $63,000 was to be paid annually to New Brunswick for ten years.

III

This division of assets and liabilities, of functions and revenues, together with the grant of federal subsidies to the provincial governments, constituted the main terms of the financial settlement of Confederation. Fashioned at Quebec, the terms were subsequently altered in detail at London; and, during the next seven years, they were gradually applied to all the existing American provinces, except

[30] *Canadian Confederation Debates*, p. 68.

[31] Galt, *Speech on the Proposed Union*, p. 18.

[32] A. A. Doughty "Notes on the Quebec Conference, 1864" (*Canadian Historical Review*, vol. 1, March, 1920, p. 41).

[33] J. A. Maxwell, *Federal Subsidies to the Provincial Governments in Canada* (Cambridge, 1937), c. 1.

Newfoundland, and to the newly created Province of Manitoba. It is, to a certain extent, a testimony to the wisdom and acceptability of the financial settlement of Confederation that its terms were so widely applied, within such a comparatively brief period, and with such relatively unimportant changes in detail. Nevertheless, there were complaints and difficulties which required, and were met by, adjustments. In the main, these obstacles were of two orders. There were, in the first place, the difficulties connected with the absorption of the old-established Maritime Provinces into Confederation. There were, in the second place, the difficulties connected with the accession of the primitive or relatively undeveloped communities situated in the prairie and on the Pacific coast.

The opposition to union in Nova Scotia and New Brunswick, as well as Prince Edward Island's early refusal to enter Confederation at all, were based, to a large degree, on fiscal considerations. The nature of these arguments is apparent in the negotiations which preceded the better terms granted to Nova Scotia in 1869 and in the representations put forward by New Brunswick in 1871 and 1873.[34] In the first place, both provinces endeavoured to substantiate the general proposition that the disabilities under which they suffered as a result of Confederation were uncompensated by the benefits they derived from it. Confederation had meant increased taxation in the shape of excise duties, stamp taxes and higher customs; and it was argued that this taxation, and in particular the higher customs duties, bore with particular oppressiveness upon Maritime peoples, who, in the past, had always imported more goods per head and paid more customs *per capita* than had Canada. The Maritime Provinces contended, therefore, that their money contributions to the Dominion were heavier than the Dominion's payments to them, in the shape of subsidies, salaries and services.

From these general and somewhat debatable aspects of the question, the Maritime Provinces went on to attack more specifically the terms of the financial settlement. Both Nova Scotia and New Brunswick had criticisms to make of the principles on which the subsidies and debt allowances had been calculated. McLelan, for Nova Scotia, insisted that income from tax-revenue sources should have been taken into consideration as well as population, or in preference to it; and that, on the basis of revenue from customs and excise in 1863, Nova Scotia ought to have been given a debt allowance of $10,000,000, provided Canada was permitted to retain her debt allowance of $62,500,000. Both Provinces argued, as they had argued at the Quebec Conference, that the provincial railway of Nova Scotia and the European and North American Railway of New Brunswick were revenue-producing works for which there existed no equivalent in the Canadian balance sheet; and, therefore, that their value should have been deducted from the gross debt of the provinces, or that the provinces should have been allowed to retain the works as provincial property without a diminution of their debt allowances. As for the grant of 80 cents per head of population, New Brunswick contended that the increase of subsidy should not stop when the provincial population had reached a total of 400,000, but that it should be continued until the population reached the total of either Upper Canada or Lower Canada in 1861.

When these arguments had been questioned and debated by the Dominion authorities, the provinces fell back upon a final grievance, "the want of a sufficient sum for local services." As John Langton admitted, this point was "a most important one for Nova Scotia, and is indeed the basis of the whole question between us." The inadequacy of the funds available for education, roads, bridges and other public works was stressed repeatedly by Nova Scotia and New Brunswick; and when it was suggested that the Maritime Provinces should establish municipal systems upon which some of these burdens might be shifted, the answer came that the population already made large contributions to local works through the system of statutory labour and that the establishment of municipal systems was politically difficult. It was this apparent inability of Nova Scotia to maintain essential local services by means of existing revenues which convinced John Rose, the federal Minister of Finance, and John Langton, the federal Auditor-General, that there should be a modification of the financial settlement of 1867.

The concessions made to Nova Scotia in 1869 were designed simply to place that Province upon the same financial footing as that already occupied by New Brunswick. The concessions were not interpreted as new and special grants; they were regarded as rectifications of the inequalities of the original settlement.[35] New Brunswick's debt allowance of $7,000,000 was rather more than that which the $25 rate would have warranted, while Nova Scotia's debt allowance of $8,000,000 was rather less. In addition, New Brunswick had been

[34] Province of Nova Scotia, *Assembly Journals*, 1869, appendix 1; Dominion of Canada, *Sessional Papers*, 1885, No. 34.

[35] Maxwell, *Federal Subsidies*, c. 2.

granted a special annual subsidy of $63,000 for ten years: and for this, of course, Nova Scotia had no equivalent. It was through the rectification of these original inequalities that the better terms of 1869 were conveyed to Nova Scotia. Her debt allowance, calculated now upon the New Brunswick rate of $27.77 was increased to $9,186,756. In addition, she was to be granted, for ten years from July 1, 1867, a special annual subsidy of $82,698, which had been calculated at the same *per capita* rate as the New Brunswick special subsidy of $63,000.

It was, however, in the west that the financial settlement of Confederation was to meet its severest test and to reveal most fully its limitations. There is no doubt, as has been shown, that expansion to the west was one of the central objectives of Confederation; but there is equally no doubt that at Confederation the financial, as well as the political and economic, problems of expansion to the west were scarcely formulated and certainly unresolved. The Riel Insurrection precipitated a sudden solution of these problems; and the transfer of the Northwest Territories to the Dominion was effected by the same Imperial Order in Council which set in operation the Manitoba Act of 1870. Manitoba, which before had not even enjoyed the status of a Crown colony, became at one stroke a province, and a province of the Dominion. It had no separate financial history because it had had no independent provincial life. It had no debts, no establishments, no independent revenues. Its population was perhaps 12,000 souls. The essential bases of the financial settlement of 1867 did not exist in the newly created Province.

Yet the financial settlement of 1867 was applied to the Province with few modifications in its favour and with one main change to its disadvantage. The population of the Province was assumed to be 17,000. On this basis, the subsidy at 80 cents per head and the debt allowance at $27.77 *per capita* were calculated; and, in addition, a yearly sum of $30,000 was granted for the support of government. These various payments, which were determined strictly in accordance with the principles of the financial settlement, brought the total of the Dominion's contributions to the new Province to $67,204. It was a small sum, small even when measured by those standards of frugality and simplicity which the Fathers had set up for the conduct of provincial administrations; and it was not to be supplemented, as were subsidies to the other provinces, by the revenue from the public domain.[36]

[36] Chester Martin, *The National Resources Question, The Historical Basis of Provincial Claims* (Winnipeg, 1920).

The Manitoba Act provided that "all ungranted or waste lands in the province shall be . . . vested in the Crown, and administered by the Government of Canada for the purposes of the Dominion. . . ." The Dominion, intending to act to the full the role planned for it by the Fathers as chief agent in the national developmental program, intended to grant lands as subsidies for the building of the Pacific railway, and to frame a free homestead system to attract immigrants to the west. The retention of the lands by the Dominion for national developmental purposes is understandable; but the failure to grant a special subsidy for the retention is less easily explained. Subsidies either in consideration of lands which were to be appropriated by the Dominion or in lieu of non-existing territorial revenues, were to be granted in the very near future to British Columbia and Prince Edward Island. Moreover, the idea of a special subsidy in return for natural resources had been present from the very beginning in the financial settlement of Confederation. Article 66 of the Quebec Resolutions granted to Newfoundland an annual sum of $150,000 'in consideration of the surrender to the general government by Newfoundland of all its rights in mines and minerals, and of all the ungranted and unoccupied lands of the Crown. . . ."

The entrance of British Columbia into Confederation presented problems which were very nearly as difficult as those occasioned by the creation of Manitoba. British Columbia's net debt, which had reached a total of $1·1 million in 1869, was absolutely much lower than that of any of the other provinces which had already entered Confederation, with the exception, of course, of Manitoba. But debt allowances and subsidies were calculated by means of population; and the census of 1870 gave British Columbia a total of only 10,586 immigrant inhabitants, including negroes and Chinese, while the number of Indians was estimated by Langevin in his report at 30,000 or 40,000.[37] To establish a debt allowance, on the basis of immigrant population sufficiently large to cover British Columbia's debts, would, therefore, have required a rate of over $100 *per capita*. In these circumstances, British Columbia returned to the argument, which had been put forward in 1869 by McLelan for Nova Scotia, that the debt allowance should be calculated upon the amount of revenue contributed to the federal purse. In form at least, the principles of the financial settlement of 1867 were to be respected; but

[37] Dominion of Canada, *Sessional Papers*, 1872, No. 10, pp 22-4, 152.

total population was to be determined, not from existing statistics and estimates, but "from the amount of revenue contributed to the general fund of the Dominion, from the sources which would be transferred." The revenue from customs and excise for 1870 in British Columbia was estimated by the provincial authorities at $350,000. This sum, it was argued, was more than the amount raised by 120,000 of the population of Canada, "the rate there being, as I am informed," said Governor Musgrave, "$2.75 per head."[38] If, as the British Columbia authorities hoped, the provincial population was assumed at 120,000, then the principles of the financial settlement could be applied in exactly the same way as they had been to Nova Scotia and New Brunswick. The result would be that the Dominion would be required to pay $213,000, in annual subsidies to British Columbia.

This grand total of payments was attained in the final agreement, though by methods very different from those which British Columbia had originally proposed. Objecting to British Columbia's ingenious but revolutionary method of computing population, the Dominion negotiators proposed to assume the number of inhabitants at 60,000, a figure which could be justified only on the ground that it included the Indians at the most generous possible estimate of their number. The subsidy at 80 cents a head and the debt allowance at $27.77 *per capita* were calculated on the basis of a population of 60,000; and the resulting federal payments, together with the grant of $35,000 for the support of government, brought the sum to be paid by the Dominion to a total about $100,000 short of the $213,000 which British Columbia had requested.

This discrepancy was overcome in another way. By the terms of the agreement under which British Columbia entered the union, the Dominion was committed to the construction of a Pacific railway: and to assist in this enormous undertaking, it had already been decided to use western lands as subsidies. But, whereas the ungranted lands of Manitoba were appropriated by the government of Canada "for the purposes of the Dominion," the natural resources of British Columbia had been, and continued to be, under the jurisdiction of the Province. In these circumstances, British Columbia agreed to convey, in trust, to the Dominion, a belt of land twenty miles wide running on each side of the proposed railway, in return for an annual payment of $100,000. It has been argued, on the one hand, that this was a real *bona fide* transaction, and, on the other, that it was a stratagem or subterfuge employed merely to convey an additional subsidy to the Province.[39] In the absence of any considerable body of evidence, it is difficult to determine which of these two interpretations is the more correct; and it may be suggested of both of them, that they tend to over-simplify an admittedly complex problem. It is obvious that, in return for the annual payment of $100,000, British Columbia surrendered real, physical assets of considerable magnitude, though of uncertain value. It is well known that the assets so conveyed were of the type which the Dominion planned to utilize in support of its ambitious project of a transcontinental railway. In these facts there appear to lie the elements of a real bargain; and Sir George Cartier, speaking for the government in the debate in the House of Commons on the admission of British Columbia, insisted that the Dominion had in fact made a very advantageous arrangement with British Columbia for the cession of its lands.

On the other hand, it is to be observed that the Dominion had originally made no offer to buy the lands and British Columbia had put forward no proposal to sell them. It was only after the discussion of the financial terms of union had clearly reached an impasse, that the transaction was proposed at all; and the annual payment agreed upon by both parties appears to approximate more closely to the additional amount required to satisfy the financial demands of British Columbia than it does to the interest on any real or estimated valuation of the lands conveyed. There was no time or opportunity for an accurate, commercial valuation of the lands; and in default of this, Sir George Cartier, in his speech to the House of Commons, estimated their value at somewhat over $15 million. But if the annual payment of $100,000 is to be accepted as interest at 5 per cent on the capital value of the lands conveyed, then such capital value would amount to only $2 million. This sum could not have been based upon any real valuation, nor did it bear any comparison with Sir George's estimate. On the other hand, the annual interest payment of $100,000 approximated closely to the amount required to make up the total of subsidies requested by British Columbia.

With the entrance of Prince Edward Island into Confederation in 1873, the financial settlement of 1867 had to be adjusted to meet a completely novel difficulty. The financial difficulties which helped

[38] Dominion of Canada, *Sessional Papers*, 1871, No. 18, p. 2.

[39] Maxwell, *Federal Subsidies*, p. 40; *British Columbia in the Canadian Confederation*, Part II, *The Confederation Settlement and Better Terms* (Victoria, 1938), p. 4; *British Columbia in the Canadian Confederation, Brief of Argument* (Victoria, 1938), p. 7; *Report of Proceedings, Royal Commission on Dominion-Provincial Relations*, March 25, pp. 5869-5894.

to persuade the Island to accede to the union served also to complicate the problem of its accession. In 1863, according to the figures which Galt presented in his Sherbrooke speech, Prince Edward Island had had a debt of only $240,673. In the meantime, and chiefly on account of the construction of the provincial railway, the direct debt of the Province had increased to $1·7 million; and this, together with the unpaid warrants, the liabilities on account of Savings Bank deposits and the estimated amount of sums which would fall due on contracts for the Prince Edward Island Railway, brought provincial liabilities to a grand total of $4·1 million. Thus a province which would have profited from a debt allowance calculated at the original rate if it had entered Confederation in 1867, would now suffer even if the revised rate of $27·77 were maintained.

It was these exceptional circumstances which forced the Dominion to agree to the first radical change in the terms of the original financial settlement. Prince Edward Island's subsidy and its debt allowance were based upon population according to the census of 1871. The debt allowance was to be calculated at the rate of $50 per head; and the resulting figure of $4·7 million was large enough to cover the Island's prospective, as well as its existing liabilities. In addition, through two special concessions, an effort was made to put Prince Edward Island in a position comparable to that enjoyed by the other provinces in respect of their natural resources. In consideration of the fact that the Island held no lands of the Crown "and consequently enjoys no revenue from that source for the construction and maintenance of local works," the Dominion agreed to make an annual payment to the Province of $45,000, which was the interest at 5 per cent on a capital of $900,000. In addition, and by the same clause, it was provided that the Dominion might advance any sum up to $800,000 whereby the Island might extinguish the rights of the absentee proprietors and build up a public domain of its own; and that interest at 5 per cent on any sum so lent was to be deducted from the annual payment of $45,000.[40]

Up to this time, the changes effected in the financial settlement of 1867 had come as a result either of the entrance of new provinces into the Dominion or of the protests of its original Maritime members. It was, however, the difficulties of Quebec and Ontario which precipitated the general rearrangement of 1873. By the terms of the British North America Act, Ontario and Quebec were held jointly liable for the difference between the net debt of the old Province of Canada and its debt allowance of $62,500,000; and the division of this liability became a most contentious problem in the years immediately following Confederation. By the award of the arbitrators of September, 1870, Ontario was required to assume the liability for $5·5 million or 53 per cent of the debt, and Quebec for $5·0 million or 47 per cent. Against the equity of this decision the Province of Quebec protested. Its protests were strengthened by the difficult position in which it found itself at the moment; and in 1873 the Dominion yielded and assumed the excess debt of the provinces by scaling up the original debt allowance of the Province of Canada to $73·0 million.[41]

This, of course, involved the proportional increase of the debt allowances of all the other provinces with the exception of Prince Edward Island, for which provision had already been made in 1873; and the resulting general readjustment, the most serious since the beginning of Confederation, brought to a close the first chapter in the history of the financial relations between the provinces and the Dominion.

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[40] For a discussion of this grant, see, *The Case of Prince Edward Island, A Submission Presented to the Royal Commission on Dominion-Provincial Relations by the Government of Prince Edward Island* (Charlottetown), pp. 7-10.

[41] Dominion of Canada, Department of Finance, *Federal Subsidies and Grants to Provinces of Canada*, p. 10.

Section XIII

FIRST CONSEQUENCES OF THE FINANCIAL SETTLEMENT

The early operation of the financial settlement of Confederation can perhaps best be observed from the statistics for the fiscal years ending in 1874. By 1874, the Dominion had come to include seven provinces: it stretched from ocean to ocean. And the first formative period of its history was definitely over. All the initial adjustments, made necessary by the protests of the original members of the union and by the accession of new provinces, had been completed; and, for the first time in seven years, the provincial governments and the Dominion were settling down to a period of comparative repose in their financial relations. Any survey of the new system as it functioned prior to 1874 would have only a partial and temporary validity; but by 1874 the financial reorganization of British North America was relatively complete and stable. How faithfully were the Dominion and the provinces playing the roles which had been assigned to them at Confederation? How satisfactorily was the new system performing the tasks of government in British North America?

There is no doubt, in the first place, that in 1874 the functions and resources of government remained substantially as they had been in 1866. The first years of the history of the new Confederation were extremely prosperous. For all the governments, and, in particular, for the Dominion and the central provinces, the period was one of buoyant finance. It saw an aggressive expansion along the old lines, supported by climbing revenues from the old sources; but it did not witness the emergence of new governmental responsibilities or the discovery of new forms of public revenue. British North America was spending much more lavishly than it had spent in 1866; but, in all essentials, both as regards types of revenue and kinds of expenditure, the public finances of British North America remained substantially unchanged. There had occurred simply a complete reorganization of the structure of government and a thoroughgoing redistribution of governmental functions and revenues.

In the first place, the financial responsibility for governmental functions had been divided between the provinces and the new Dominion; and the first effects of this division are apparent in the following table:—

TABLE I

Distribution of the Costs of Governmental Functions under the British North America Act

(Source: Public Accounts of the B.N.A. Provinces and the Dominion)

—	Total Provinces 1866	Total Provinces 1874	Dominion of Canada 1874
	($000)	($000)	($000)
Debt Charges	4,469	19	5,989
Justice, legislation and general government	4,113	2,564	4,851
Defence	1,970	.....	1,351
Public Welfare	505	657	219
Education	972	1,421	.....
Agriculture and Public Domain	317	229	930
Transportation	1,779	1,222	3,200
Subsidies to Provinces	.....	.....	3,765
Other Current Expenditures	1,264	1,385	1,715
Sinking Fund	155	.....	514
Total	15,558	7,985	22,485

Total expenditure in British North America had enormously increased. The provinces and the Dominion were together spending nearly twice as much as the provinces had spent collectively in 1866. The disbursements of the Dominion, however, amounted to more than two-thirds of the total governmental expenditure in 1874; and, under the new regime, the provinces were actually spending only about half of what they had spent in 1866. No previous government in British North America could have been compared with the new Dominion in financial consequence; and all the provinces had been relieved of important responsibilities. The Dominion had assumed the entire burden of defence, and virtually the entire burden of debt. It bore the major share of the costs of justice, legislation and general government. It had shouldered nearly three-quarters of the vastly increased expenditure for transport. The provinces, with many of their old responsibilities either lightened or entirely removed, had increased their expenditure for education, public welfare, agriculture and domain.

The initial effects of the distribution of the sources of revenue are exhibited in table II:—

TABLE II

Distribution of the Sources of Revenue under the British North America Act

(Source: Public Accounts of the B.N.A. Provinces and the Dominion)

—	Total Provinces 1866	Total Provinces 1874	Dominion of Canada 1874
	($000)	($000)	($000)
Federal Subsidies	.....	5,842	.....
Taxes—			
Customs	10,102	1	14,443
Excise	1,899	.....	5,617
Other Taxes	127	42	213
Sub-total	12,128	43	20,273
Fines and Penalties, Licences, Permits and Fees	262	651	14
Public Domain	1,179	1,413	351
Sales of Commodities and Services	1,558	97	1,878
Interest, Premium and Discount	513	608	618
Other Current Revenues	59	38	271
Total	15,797	6,692	23,403

Taxes still maintained their old position of supreme importance in the total revenues of the country; and customs, though they had declined slightly in relative significance, kept their old place of superiority among the tax revenues. The sources of income which the provinces had surrendered to the Dominion were more valuable by 8 millions than they had been in 1866; and, though the Dominion returned a portion of its receipts to the provinces in the form of subsidies, the total of subsidies amounted to only about a third of the revenues which the provinces had derived from taxes in 1866. The Dominion, as chief beneficiary of the provincial public works and as chief agent in the developmental program, drew the lion's share of the proceeds from the sales of commodities and services. The provinces, as principal custodians of the public domain, obtained four times as much revenue from natural resources as did the Dominion.

The percentage distribution of expenditures, designed to show the relative importance of the various governmental services in the Dominion and the different provinces, is given in table III:—

TABLE III

Percentage Distribution of Expenditures—Current Account, the Provinces and the Dominion, Fiscal Years Ending 1874

—	Dom. of Can.	Ont.	Que.	N.S.	N.B.	P.E.I.	Man. (a)	B.C.
Debt Charges	27	.....	.....	.....	.....	2	.....	.....
Justice, Legislation and General Government	21	32	41	25	23	66	76	35
National Defence	6	.....	.....	.....	.....	.....	.....	.....
Transportation	15	11	8	34	37	7	8	50
Public Domain and Agriculture	4	12	13	7	16	3	6	6
Public Welfare	1	13	11	10	6	4	2	3
Education	.....	31	16	25	18	17	8	7
Subsidies to Provinces	17	.....	.....	.....	.....	.....	.....	.....
Other	8	1	.....	.....	.....	.....	.....	.....
Sinking Fund	2	.....	.....	.....	.....	.....	.....	.....
Total ex Trust Funds	100	100 (b)	100	100	100	100	100	100

(a) Manitoba fiscal year ended June 30, 1875.
(b) Exclusive of surplus distribution to municipalities of $1,361,101.59.

It is obvious that the Dominion was concentrating heavily upon those functions of government which the Fathers of Confederation had especially entrusted to it. It is equally apparent that the provinces were following the program mapped out for them at the Quebec Conference with a fair degree of uniformity in general principles but with considerable differences in emphasis. The Dominion was a machine which no longer expended its energies in the multifarious tasks of the past; it was devoted almost exclusively to the great duty of developing, integrating and defending the northern half of the North American continent. The Dominion had assumed the entire burden, past and present, of the national system of transport; in 1874, it devoted 42 per cent of its total current expenditure to debt charges and transportation. The provinces had pursued an entirely different course. Except in Ontario and Quebec, where small subsidies had been voted in aid of railways, they had not yet begun to enter upon any ambitious schemes of provincial development. Their disbursements in aid of improved transport were made very largely for roads and bridges; and, in the Maritimes, where the provincial governments still bore most of the costs of local works, these payments amounted to an even larger percentage of total expenditure than they had in the past. The charges for defence had

been assumed by the Dominion; it paid out $3·8 millions in subsidies to the provinces; and these political obligations accounted for nearly a quarter of its total outlay. On the other hand, the federal government expended nothing on education; its public welfare charges, incurred solely for marine hospitals and Indians, amounted to only 1 per cent of its total expenditure. These were provincial services, of which education was considered to be by far the more important; and in 1874 the provinces devoted 31 per cent of their collective expenditures to them.

The relative importance of the various sources of revenue under the new regime is indicated in table IV:—

TABLE IV

Percentage Distribution of Revenue—Current Account, the Provinces and the Dominion, Fiscal Years Ending 1874

——	Dom. of Can.	Ont.	Que.	N.S.	N.B.	P.E.I.	Man. (*)	B.C.
Federal Subsidies	.....	47	48	81	92	75	88	62
Taxes—								
Customs	62	.....	.....	.....	.....	1	.....	.....
Excise	24	.....	.....	.....	.....	.....	.....	.....
Other	1	.....	.....	.....	.....	4	.....	7
Total Taxes	87	.....	.....	.....	.....	5	.....	7
Fines, Penalties, Licences, Permits and Fees	.....	8	17	1	1	3	11	14
Public Domain	2	25	27	16	6	13	.....	10
Sales of Commodities and Services	8	2	1	1	.....	1	1	6
Interest, Premium and Discount	3	18	6	1	.....	3	.....	1
Other	1	1	1	.....	.....	.....	.....	.....
Total ex Trust Funds	100	100	100	100	100	100	100	100

(*) Manitoba fiscal year ended June 30, 1875.

The Dominion, in exactly the fashion planned by the Fathers, had come to be *the* taxing machine of British North America. The provinces, as most people had expected, had shown not the slightest intention of exploiting their right to impose direct taxes. Virtually no revenue at all came to the Dominion from fines and penalties, and licences, permits and fees. The federal government obtained only 2 per cent of its total income from public domain, and 8 per cent from sales of commodities and services; but it derived 87 per cent of its entire revenue in 1874 from customs, excise and other taxes. The sources of supply which were of negligible value to the Dominion were of prime importance for the provinces. In 1874, Prince Edward Island collected some arrears of its old customs duties, and both the Island and British Columbia continued to levy their land taxes as in the past; but otherwise, not a single province in the Dominion was drawing revenues from taxation in the fiscal years ending in 1874. As the Fathers of Confederation had expected, the provincial governments were relying upon licences, permits and fees, proceeds of public domain and federal subsidies; and from these three sources they drew 88 per cent of their collective revenues in the fiscal years ending in 1874.

The Dominion government, like the country it had been created to serve, was, during these first years of its existence, in a very prosperous condition. Whereas deficits used to rule the affairs of the old Province of Canada, recurring surpluses had been the good fortune of the new Dominion. In the fiscal year ending June 30, 1874, there was a surplus on ordinary account; and in 1873 Tilley boasted "that during the last five years there has been paid out of surplus revenue, over and above the ordinary charges on the consolidated revenue fund, and contributed towards the construction of public works that were chargeable to capital, a sum of $9,522,022."[1] It was this period of buoyant finance which had encouraged the federal government in its great labour of national development and integration. With the help of a guaranteed loan from the Imperial government, the Dominion had practically completed the Intercolonial Rail-

[1] *Budget Speech* delivered....on the *1st April, 1873, by the Hon. S. L. Tilley....*, p. 5.

way at a cost of $17·9 million. It had paid out $2·9 million for the purchase and organization of the North West Territories. It had expended $1·4 million on surveys for the Pacific railway; and it had commenced the deepening and the improvement of the Welland and St. Lawrence Canals. The gross debt which the federal government had taken over from the British North American provinces amounted to about $100 million; but on June 30, 1874, the liabilities of the Dominion totalled $141·2 million.

Essentially, the purposes and principles of the Canadian fiscal system remained unchanged; and, to a very large extent, the Dominion had simply continued the types of taxation and the rates of taxes bequeathed to it by the old Province of Canada. An excise duty on petroleum had been added; and the rapidly rising importance of domestic production was illustrated in the fact that the proceeds of excise amounted in 1874 to 24 per cent of the Dominion's total revenue, a percentage exactly double that for British North America in 1866. The tariff, which practically maintained its old relative importance in the budget, remained very much what Galt had left it in 1866. "I certainly do not think," said Sir Francis Hincks in his budget speech of 1870, "that we can be charged with proposing any very exaggerated tariff, or one that will expose us to any strong charge on the score of being protectionists. . . . Because it is perfectly clear that the tariff as a whole is strictly a revenue tariff, and as such I hope it will receive the support of the House."[2] John Rose, who preceded Sir Francis as federal minister of finance, and S. L. Tilley and R. J. Cartwright who followed him in that office, agreed in maintaining, during the whole period 1867-74, that system which Galt alternately described as "incidental protection" and "modified free trade." In 1870, under Sir Francis Hincks, small specific duties were imposed on grains, flour, coal and salt; the tariff on wines and tobaccos was increased; and an additional surcharge of 5 per cent, calculated on the amount of the duty only, was levied on all articles in the 15 per cent class. But in the next year the bulk of these additional imposts was removed. In 1872, due to the fact that the United States had once more abolished its duties on tea and coffee, the rates on imports of these commodities were reduced in Canada; but in 1874, under the Liberal finance minister, Richard Cartwright, they were raised again. Cartwright, faced by what he considered a serious financial position, sponsored in 1874 the most important increase in the tariff which had occurred since Confederation;[3] but his new duties bore chiefly on wines, spirits, tobaccos and luxury goods, and he merely raised the rate on all articles in the 15 per cent class to 17½ per cent. During the period of prosperity, which by 1874 had reached its term, a higher tariff was neither required as a source of revenue, nor generally advocated as an instrument of national policy.

Of all the seven provinces in the Dominion, the Province of Ontario had enjoyed the greatest prosperity since union and had extended its services most widely. In the fiscal year ending in 1874, it had spent $698,000 on education, over three times as much as had been expended in Canada West on the same service in 1866. In 1874, Ontario had devoted 31 per cent of its total expenditure to education and 13 per cent to public welfare, proportions which were higher than those in any of the other provinces; and since the municipalities relieved the Province of most of the necessary payments for roads, it was able to grant subsidies to railways for which there was no parallel in the other provincial accounts. It was, however, in the surplus distribution of 1873, by which Ontario finally ended the long history of the Upper Canada Municipal Loan Fund, that the Province revealed its affluence most fully. By the Act of 1859, the indebted municipalities had been permitted to pay to the Province at the rate of 5 cents on the dollar of the *assessed annual value* of their property, provided such assessment did not fall short of that of 1858; and, as the resolutions of the assembly of March 26, 1873, asserted, the practical result of this provision was "to reduce every such debt . . . to the sum at which the said rate of five cents in the dollar would pay interest at five per cent."[4] By the Act of 1873, this reduction was accepted as a basis of a new settlement for all the municipalities who wished to avail themselves of it; and to the other municipalities, which had not already benefited by the Act of 1859, or did not care to accept the similar benefits offered by the Act of 1873, compensation was to be given in the shape of certain allowances.

These latter municipalities were to be given grants at the rate of $2,000 per mile for all the railways which they had aided with their contributions. For the Welland Railway, which was judged to be of exceptional value to provincial trade, the rate was raised to $3,000; and for railways undertaken since Confederation and before the passage of the

[2] *Speech on the Budget by the Hon. Sir Francis Hincks....* 1870 (Ottawa, 1870), p. 23.

[3] *Budget Speech....by the Hon. R. J. Cartwright, Minister of Finance,* (Ottawa, 1874).

[4] Province of Ontario, *Assembly Journals,* 1873, p. 330.

Railway Act of 1871, the rate was lowered to $1,000 per mile. In addition, the municipalities not benefited by the "five cent rule" were to be credited with that part of their share of the Clergy Reserve Fund, which had been withheld since 1859; and finally they were to be allotted the sum of $2 per head of their population according to the census of 1871. The result of these provisions was that the Province incurred a capital liability amounting to $3·1 million on account of surplus distribution to the municipalities, of which $1·4 million had been paid out at the end of the fiscal year in 1874. But this, of course, did not exhaust the accumulated surplus on ordinary account which had grown to $5·2 million. Ontario had almost more money than it knew what to do with. Its revenue, which amounted to $2·6 million in 1874, was over half a million larger than that of its nearest competitor, Quebec; and it was less dependent than any of the other provinces upon subsidies from the Dominion government.

The prosperity of the Province of Quebec had almost come to equal that of Ontario. In the first years of the new regime, when Quebec had balanced its budgets with some difficulty and when it faced the unpleasant prospect of paying the Dominion interest on its share of the excess debt of the old Province of Canada, the provincial politicians had become apprehensive; but the rearrangement of the debt allowances in 1873 removed this large capital liability and restored the finances of the province to a sound state. Quebec had built up a rather expensive administrative and judicial system: in 1874, the costs of the administration of justice totalled $558,000 or 29 per cent of its entire expenditure. But the province was able to allocate 16 per cent of its outlay on education, or over $50,000 more than had been spent on the same service in 1866 in Canada East. Quebec, in 1874, was spending $217,000 or 11 per cent of total expenditure on public welfare. It was appropriating modest sums for immigration and colonization roads; and the $38,700 which in 1874 was paid out in railway subsidies, was the first indication of an ambitious program of railway extension which the province was to carry through in the next few years. On a revenue of $2 million the province enjoyed, in 1874, a current surplus of about $90,000. It was drawing considerable amounts from licences and fees, and from the provincial forests; and Dominion subsidies accounted for slightly less than half its total revenue.

The condition of affairs in the Maritimes differed in certain respects from that which obtained in the central provinces. While Quebec and Ontario dealt in budgets of two and three millions, total expenditure in 1874 had amounted to only $754,000 in Nova Scotia, $613,000 in New Brunswick, and $360,000 in Prince Edward Island. This contrast between the lower provinces and the valley of the St. Lawrence had, of course, existed before Confederation as well as after it; but comparisons between the financial state of the Maritimes in 1866 and their condition in 1874 had greater validity, and the results of these comparisons were not always favourable. Prince Edward Island, whose total expenditure was over $100,000 higher in 1874 than in 1866, had maintained or increased the sums devoted to many of its services; it had more than doubled its payments for public welfare and increased its grants-in-aid of education by about $15,000. Such advances, however, had not been always possible in Nova Scotia and New Brunswick. It is true that, as a result of Confederation, these two provinces had been able to effect very considerable savings in the cost of justice and civil government. In the past, justice had been administered very cheaply in the Maritime Provinces. Their judicial divisions were larger than in Canada, for they did not possess municipal institutions; their legal machinery was less complex, for they had not levied the numerous fees which were imposed in Canada. Actually the proportion of total expenditure allocated in 1874 to justice had been only 1 per cent in Nova Scotia and 2 per cent in New Brunswick, whereas in Ontario and Quebec it had been 16 and 29 per cent respectively. But in 1874 both Nova Scotia and New Brunswick were spending less on public welfare than they had spent in 1866; and while Nova Scotia had slightly increased its grants-in-aid of education, those of New Brunswick had slightly declined. On roads, which had now become almost the sole provincial responsibility in respect of transport, both provinces were appropriating a very large percentage of their total expenditures; but while New Brunswick's outlay on account of roads had more than doubled since 1866, that of Nova Scotia had slightly declined. Both provinces were running deficits in the fiscal years ending in 1874.

In all the Maritime Provinces, and especially in Nova Scotia and New Brunswick, the revenue from licences, permits and fees was relatively trifling. Nova Scotia derived 16 per cent, Prince Edward Island 13 per cent and New Brunswick 6 per cent of their total revenues from public domain. New Brunswick's income from woods and forests had in 1874, shrunk to only 4 per cent of her total revenue, a percentage which was only a third of that of

Ontario and only a sixth of that of Quebec; but this disparity is partly to be accounted for by New Brunswick's abandonment of her export duty on timber, which had been surrendered in return for an additional annual subsidy from the Dominion of $150,000. The relative unproductiveness of the very sources of revenue upon which the Fathers of Confederation had expected the provinces to rely, meant that the Maritimes were much more dependent upon Dominion subsidies for their financial needs. In New Brunswick, Dominion subsidies actually amounted to 92 per cent of total revenues in 1874; and in Nova Scotia and Prince Edward Island the percentages were respectively 81 and 75 per cent.

In the prematurely created Province of Manitoba, the rigidity of the financial settlement had had, perhaps, its most unfortunate effects. In the fiscal year ending in 1875 the Province had incurred a total expenditure of $86,156; and to meet this almost pitiful outlay Manitoba had been able to collect a revenue of only $74,045. To exist as a province, to provide even the most rudimentary governmental services, Manitoba had been obliged, in the first place, to build up a simple judicial and administrative machinery; and even this basic requirement over-taxed the financial resources of the Province. In the fiscal year ending in 1875, the charges for justice, legislation and general government had amounted to 76 per cent of total expenditure and had absorbed 89 per cent of total revenue. There was little money left for anything else. In 1875, the Province had spent only $6,609 for roads and bridges and had granted only $7,000 to the Protestant and Roman Catholic schools. It levied no taxes: since the Dominion had appropriated its natural resources, it derived no revenue from public domain. The proceeds of licences, permits and fees formed its only important independent source of income; and in 1875, the Dominion subsidy of $65,412 amounted to 88 per cent of its entire revenue.

British Columbia, in the years which followed its entry into Confederation, had not managed its relatively ample finances with the prudence which had been found necessary in the Maritimes and Manitoba. In 1874, the revenue of the Province was $372,000, its expenditure $583,000. This was not the first deficit since Confederation; and in 1875 the excess of expenditure over income was even greater than it had been in 1874.[5] The payments on account of justice, education and public welfare were greater in 1874 than they had been in 1869; and whereas in 1869 the Province had spent only $77,000 on all forms of transport, it paid out, in 1874, $290,000 on roads, streets and bridges alone. As a large land area, with a topography which magnified the costs of provincial development British Columbia faced the necessity of heavy expenditures; but, on the other hand, its revenue, which in 1874 was over half that of New Brunswick, was a not unsatisfactory income for a province with such a small immigrant population. British Columbia had exploited its various possible sources of revenue more systematically than perhaps any other province. While the other provinces, with the exception of Prince Edward Island, drew no income at all from taxes, British Columbia actually derived 7 per cent of its total revenue from land taxes and road tolls. The proceeds of licences, permits and fees amounted to 14 per cent of its entire income, a percentage higher than that in any other province except Quebec; and though the provincial woods and forests had not yet begun to yield a return to the government, the proceeds of public domain, amounting in 1874 to $37,000 had nearly doubled since 1869 and constituted 10 per cent of total revenue. The Province had secured a settlement with the Dominion which, in comparison with that accorded to Manitoba, was fairly generous; it had developed its sources of revenue with energy; and it had run into financial difficulties by yielding somewhat too optimistically to the many legitimate demands which were made upon its resources. It began to contract a new provincial debt of its own; and in 1875 it drew sums from the Dominion which were either charged to its debt credit or deducted from its forthcoming subsidies.

The Fathers of Confederation, if they had stopped in 1874 to record their impressions of the working of the financial settlement of 1867, might have revealed a fair degree of satisfaction at its results. The horizon of British North America had widened immeasureably, of course; but though the system devised by the Fathers in 1864 had extended its limits, it had not greatly altered in character. The old responsibilities and resources of government remained much as they had been; the provinces and the Dominion had been following with due respect the paths which had been traced out for them in 1864; and though the financial settlement had been altered, it had been altered in relatively minor particulars. Within the Dominion there were rich regions and poor regions, there were prudent provinces and lavish provinces; but the Fathers of Confederation had assumed no undertaking to

[5] Scholefield and Howay, *British Columbia from The Earliest Times to the Present*, vol. 2, p. 377.

remedy the injustices of nature or to correct the vagaries of mankind. The great tasks which they had envisaged in 1864 were being accomplished, even more rapidly than they had anticipated; and it was not their program of expansion, but their fond hope for economy, which had been dissipated effectively by 1874. The costs of such fundamental services as justice, legislation and general administration which some had hoped would be lowered and others expected would be only slightly increased, had in fact nearly doubled since the eve of Confederation; and in 1874 the provinces and the Dominion were together spending eleven millions more than the total expenditures of British North America in 1866. Such facts disturbed the old Liberals of Canada West who had always kept to the watchward of economy; but so long as the prosperous years of the early seventies lasted, the finances of British North America were conducted with greater confidence and success than in the last years of political disunity.

Appendix

The following tables were compiled by Mr. H. R. Balls from the Public Accounts of the Provinces and the Dominion

Table I

Revenue—Current Account, British North American Provinces, Fiscal Years Ended 1866

(Thousands of Dollars)

Fiscal years ended	Canada, June 30, 1866	N.S., Sept. 30, 1866	N.B., Oct. 31, 1866	P.E.I., Jan. 31, 1866	B.C., Dec. 31, 1869	Total Prov 1866 (a)
Taxes—						
Customs	7,328	1,226	1,037	166	345	10,102
Excise	1,889	6	.....	1	4	1,899
Other Taxes	107	.....	.....	15	5	127
	9,324	1,232	1,037	182	354	12,128
Licences, Permits and Fees—						
Court and Legal Fees	226	.....	3	.....	6	235
Other Fees	36	5	6	4	55	106
	262	5	9	4	61	341
Public Domain—						
Mines and Mining	.....	76	1	.....	13	90
Forests, Timber and Woods	366	.....	90	.....	.....	456
Lands	344	43	16	20	6	429
School Lands	187	.....	.....	.....	.....	187
Fisheries	7	9	.....	.....	.....	16
	904	128	107	20	19	1,179
Fines and Penalties	19	2	1	.....	(b)	22
Sales of Commodities and Services—						
Post Office	622	69	76	6	13	786
Net Earnings of Railway	.....	34	52	.....	.....	86
Canals	337	.....	.....	.....	.....	337
Coastal Services	100	48	38	4	12	202
Miscellaneous	72	2	.....	1	70	145
	1,131	153	166	11	95	1,556
Refunds of Expenditure	.....	.....	1	.....	1	2
Interest, Premium and Discount.—						
Interest	471	3	9	4	.....	487
Premium, Discount and Exchange	25	.....	.....	.....	.....	25
	496	3	9	4	.....	513
Other Current Revenue	36	17	5	.....	.....	59
Total Current Revenue ex Trust Funds	12,172	1,540	1,335	221	530	15,797
Trust Funds	422	.....	.....	.....	.....	422
Total Current Revenue	12,594	1,540	1,335	221	530	16,219

(a) As Vancouver Island and the mainland united in 1866, the effects of the Union were not apparent in the statements for that year; 1869 was shown as the year prior to British Columbia's entry into Confederation.
(b) Included with Court and Legal Fees.

TABLE II

Expenditures—Current Account, British North American Provinces, Fiscal Years Ended 1866
(Thousands of Dollars)

Fiscal years ended	Canada, June 30, 1866	N.S., Sept. 30, 1866	N.B., Oct. 31, 1866	P.E.I., Jan. 31, 1866	B.C., Dec. 31, 1869	Total Prov. 1866 (a)
Debt Charges—						
Interest	3,591	309	358	18	102	4,378
Premium, Discount and Exchange	54	...	...	...	...	54
Charges of Management	67	...	...	...	...	67
	3,712	309	358	18	102	4,499
Public Welfare—						
Public Health	...	...	6	...	...	6
Public Institutions	231	91	29	5	...	376
Hospitals and Charities	67	9	7	3	11	97
Indians	22	1	2	...	...	25
	340	101	44	8	11	505
Education—						
Schools	583	156	116	47	(b)	902
Administration and Justice—						
Courts and Court Officials	739	6	15	7	8	775
Police	41	...	...	...	17	58
Prisons	10	...	...	5	...	15
Reformatories	80	...	...	...	...	80
Penitentiaries	53	15	6	...	...	74
	923	21	21	12	25	1,022
Legislation	399	49	64	12	(b)	524
General Government	1,914	281	132	30	231	2,588
Agriculture	102	28	13	9	...	152
Public Domain—						
Mines and Mining	21	15	...	...	...	36
Forests, Timber and Woods	64	...	...	...	...	64
Lands	...	22	...	4	...	26
Fisheries	22	...	3	...	...	25
Colonization	47	20	...	...	...	67
	154	57	3	4	...	218
Transportation—						
Marine	453	180	29	19	27	708
Railways and Canals	279	25	81	...	...	385
Roads and Bridges	219	285	104	30	50	688
	951	490	214	49	77	1,779
Other Current Expenditure—						
National Defence	1,641	145	151	33	...	1,970
Post Office	656	86	73	18	33	866
Refunds	69	...	58	3	2	132
Other	248	18	...	1	...	267
	2,614	249	282	55	35	3,235
Sinking Fund or Debt Retirement	125	...	...	...	30	155
Total Current Expenditure ex Trust Funds	11,817	1,741	1,247	244	511	15,558
Trust Funds	213	...	...	...	...	213
Total Current Expenditure	12,030	1,741	1,247	244	511	15,771

(a) British Columbia fiscal year ended Dec. 31, 1869.
(b) Included in Establishments under General Government.

TABLE III

Revenue—Current Account, the Provinces and the Dominion Fiscal Years Ended 1874
(Thousands of Dollars)

Fiscal years ended	Ont., Dec. 31, 1874	Que., June 30, 1874	N.S., Dec. 31, 1874	N.B., Oct. 31, 1874	P.E.I., Dec. 31, 1874
Federal Subsidies	1,197	976	589	516	269
Taxes—					
Customs	...	...	...	...	1
Excise	...	...	...	...	...
Other Taxes	...	...	...	...	15
	...	...	...	...	16
Licences, Permits and Fees—					
Court and Legal Fees	75	168	...	2	8
Other Fees	135	163	5	6	5
	210	331	5	8	13
Public Domain—					
Mines and Mining	...	...	91	...	...
Forests, Timber and Woods	343	543	...	25	...
Lands	170	...	25	11	47
School Lands	120	...	...	...	...
Fisheries	...	...	...	...	...
	633	543	116	36	47
Fines and Penalties	4	19	...	...	...
Sales of Commodities and Services—					
Post Office	...	...	...	...	...
Canals	...	...	...	...	...
Coastal Services	...	...	...	...	2
Miscellaneous	46	17	8	...	...
	46	17	8	...	2
Refunds of Expenditure	...	16	1	...	...
Interest, Premium and Discount—					
Interest	466	124	5	...	11
Premium, Discount and Exchange	...	...	...	...	...
	466	124	5	...	11
Other Current Revenue	15	7	...	...	...
Total Current Revenue ex Trust Funds	2,571	2,033	724	560	358
Trust Funds	92	...	...	...	...
Total Current Revenue	2,663	2,033	724	560	358

TABLE III—Concluded

Fiscal years ended	B.C., Dec. 31, 1874	Man. (a) June 30, 1875	Total (a) Prov. 1874	Canada, June 30, 1874	Total (a) Prov. and Dom. 1874
Federal Subsidies	230	65	3,842	.....	3,842
Taxes—					
Customs	.....	.....	1	14,443	14,444
Excise	.....	.....	.....	5,617	5,617
Other Taxes	27	.....	42	213	255
	27	.....	43	20,273	20,315
Licences, Permits and Fees—					
Court and Legal Fees	12	.....	265	.....	265
Other Fees	41	8	363	.....	363
	53	8	628	.....	628
Public Domain—					
Mines and Mining	8	.....	.....	.....	.....
Forests, Timber and Woods	.....	.....	.....	93	.....
Lands	30	.....	.....	244	.....
School Lands	.....	.....	.....	.....	.....
Fisheries	.....	.....	.....	14	.....
	38	.....	1,413	351	1,764
Fines and Penalties	(b)	.....	23	14	37
Sales of Commodities and Services—					
Post Office	.....	.....	.....	1,140	1,140
Canals	.....	.....	.....	478	478
Coastal Services	.....	.....	.....	110	110
Miscellaneous	23	.....	97	149	245
	23	.....	97	1,878	1,973
Refunds of Expenditure	.....	.....	17	46	63
Interest, Premium and Discount—					
Interest	2	.....	608	611	1,219
Premium, Discount and Exchange	.....	.....	.....	5	5
	2	.....	608	616	1,224
Other Current Revenue	.....	.....	22	225	247
Total Current Revenue ex Trust Funds	373	73	6,692	23,403	(c) 26,253
Trust Funds	.....	.....	92	480	572
Total Current Revenue	373	73	6,784	23,883	(c) 26,825

(a) Manitoba fiscal year ended June 30, 1875.
(b) Included with Court and Legal Fees.
(c) Exclusive of subsidies paid by the Dominion to the Provinces.

TABLE IV

Expenditure—Current Account, the Provinces and the Dominion, Fiscal Years Ended 1874

(Thousands of Dollars)

Fiscal years ended	Ont., Dec. 31, 1874	Que., June 30, 1874	N.S., Dec. 31, 1874	N.B., Oct. 31, 1874	P.E.I., Dec. 31, 1874
Debt Charges—					
Interest	...	...	...	...	...
Premium, Discount and Exchange	...	...	...	1	8
Charges of Management	...	...	...	...	...
	...	...	...	1	8
Public Welfare—					
Public Health	...	...	...	7	...
Public Institutions	255	218	68	26	12
Hospitals and Charities	43	...	7	1	3
Indians	...	...	...	...	...
	298	218	75	34	15
Education—					
Schools	698	320	185	101	62
Universities	...	...	...	9	...
	698	320	185	110	62
Administration of Justice—					
Courts and Court Officials	208	453	4	12	11
Police	...	63	...	...	...
Prisons	137	4	...	...	1
Reformatories	19	38	...	...	...
Penitentiaries	...	...	...	...	...
	364	558	4	12	12
Legislation	176	173	41	31	21
General Government	198	263	142	96	205
Agriculture	...	61	15	13	7
Public Domain—					
Mines and Mining	...	...	9	1	...
Forests, Timber and Woods	...	...	...	...	...
Lands	132	129	18	7	4
Fisheries	...	...	...	...	...
Colonization	135	66	8	81	...
	267	195	35	89	4
Transportation—					
Marine	52	...	33	18	3
Railways and Canals	114	39	...	...	...
Roads and Bridges	95	115	225	209	23
	261	154	258	227	26
Other Current Expenditure—					
National Defence	...	...	...	...	...
Post Office	...	...	...	...	...
Subsidies to Provinces	...	...	...	...	...
Refunds	23	...	...	...	1
Other	1,361	...	...	...	...
	1,384	...	...	...	1
Sinking Fund or Debt Retirement—					
Total Current Expenditure ex Trust Funds	3,646	1,942	755	613	361
Trust Funds	140	1	...	...	...
Total Current Expenditure	3,786	1,943	755	613	361

TABLE IV—Concluded

Fiscal years ended	B.C., Dec. 31, 1874	Man. (a) June 30, 1875	Total (a) Prov. 1874	Dom. of Canada, June 30, 1874	Total (a) Prov. and Dom. 1874
Debt Charges—					
Interest	.....	.....	.....	5,724	5,724
Premium, Discount and Exchange	1	.....	10	27	37
Charges of Management	.....	.....	.....	238	238
	1	.....	10	5,989	5,999
Public Welfare—					
Public Health	.....	.....	7	.....	7
Public Institutions	4	.....	583	66	649
Hospitals and Charities	12	2	68	.....	68
Indians	.....	.....	.....	146	146
	16	2	657	213	870
Education—					
Schools	39	7	1,412	.....	1,412
Universities	.....	.....	0	.....	9
	39	7	1,421	.....	1,421
Administration of Justice—					
Courts and Court Officials	6	13	707	459	1,166
Police	21	.....	84	256	340
Prisons	.....	3	145	.....	145
Reformatories	.....	.....	57	.....	57
Penitentiaries	.....	.....	.....	300	300
	27	16	993	1,015	2,008
Legislation	11	16	469	784	1,253
General Government	163	34	1,101	2,851	3,952
Agriculture	.....	5	101	.....	101
Puble Domain—					
Mines and Mining	.....	.....	10	47	57
Forests, Timber and Woods	.....	.....	.....	83	83
Lands	32	.....	322	406	728
Fisheries	.....	.....	.....	76	76
Colonization	3	.....	293	319	612
	35	.....	625	931	1,556
Transportation—					
Marine	.....	.....	106	1,421	1,527
Railways and Canals	.....	7	160	1,535	1,695
Roads and Bridges	290	.....	957	434	1,391
	290	7	1,222	3,390	4,613
Other Current Expenditure—					
National Defence	.....	.....	.....	1,331	1,331
Post Office	.....	.....	.....	1,387	1,387
Subsidies to Provinces	.....	.....	.....	3,753	3,753
Refunds	.....	.....	24	209	233
Other	.....	.....	1,361	119	1,480
	.....	.....	1,385	6,799	8,184
Sinking Fund or Debt Retirement	.....	.....	.....	514	514
Total Current Expenditure ex Trust Funds	582	87	7,986	22,486	(b) 26,718
Trust Funds	.....	.....	141	1,681	1,822
Total Current Expenditure	582	87	8,127	24,167	(b) 28,540

(a) Manitoba fiscal year ended June 30, 1875.
(b) Exclusive of subsidies paid by the Dominion to the Provinces.

TABLE V

Provincial Assets and Liabilities Assumed by Dominion at Confederation
(Thousands of Dollars)

—	Canada	N.B.	N.S.	Total Assets and Liabilities assumed by Dominion, July 1, 1867	B.C., July 20, 1871	P.E.I., July 1, 1873	Total Assets and Liabilities assumed by Dominion
Debt Assumed by Dominion—							
Direct Debt	59,621	5,146	6,062	70,829	1,168	1,688	73,685
Guaranteed Debt	150	.....	.....	150	.....	.....	150
Savings Bank Deposits	.....	777	645	1,422	.....	250	1,672
Treasury Notes in Circulation	3,114	.....	606	3,720	.....	(a)	3,720
Temporary Loans	3,097	108	342	3,547	310	.....	3,857
Capital Liabilities	8,212	1,869 (b)	975 (c)	11,056	.....	2,021 (f)	13,077
Current Liabilities	21	.....	404	425	10	140	575
Trust Funds	1,945	.....	.....	1,945	.....	.....	1,945
Gross Debt Assumed by Dominion	76,160	7,900	9,034	93,094	1,488	4,099	98,681
Assets Assumed by Dominion as Offsets to Debt—							
Cash	1,461	20	303	1,784	42	.....	1,826
Sinking Funds	1,889	.....	.....	1,889	442	.....	2,331
Assets *re* Guaranteed Debt	37	.....	.....	37	.....	.....	37
Investments	390	87	.....	477	.....	.....	477
Current Assets	321	.....	.....	321	4	.....	325
Total Assets Assumed by Dominion as Offsets to Debt	4,098	107	303	4,508	488	.....	4,996
Net Debt Assumed by the Dominion	72,062 (a)	7,793	8,731	88,586	1,000	4,099	93,685
Debt Allowance as per B.N.A. Act	62,500	7,000	8,000	77,500	1,666	4,701	83,867
Assets Transferred to Dominion—							
Investments	607	.....	.....	607	.....	.....	607
Loans, Advances, etc., excluding Railways, on which partial or no Interest was paid	1,150	240	.....	1,390	.....	.....	1,390
Public Works—							
Railways—Direct Investments and Loans	33,256 (d)	4,514	6,123	43,893	.....	1,213	45,106
Canals and Harbour Improvements	21,296	(e)	(e)	21,296	(e)	(e)	21,296
Roads and Bridges	1,703	(e)	(e)	1,703	(e)	(e)	1,703
Public Buildings and Miscellaneous Works	4,607	(e)	(e)	4,607	(e)	(e)	4,607
Total Public Works	60,862	4,514	6,123	71,499	.....	1,213	72,712
Current Assets	144	.....	.....	144	.....	.....	144
Total Assets Transferred to Dominion	62,763	4,754	6,123	73,640	.....	1,213	74,853

(a) Subsequent adjustments, due largely to capitalization of annuities, increased the net debt of the Province of Canada to $73,006,088.84 at June 30, 1872.

(b) Commitments for subsidies to railways in the course of construction. At June 30, 1868, $465,764.57 had been paid on this account.

(c) Light Houses, Harbour Improvements, Roads and Bridges and other public works were transferred to the Dominion but as they were charged originally to current revenue, they do not appear in the statement of assets.

(d) Except for $21,437.47 for provincial pensions capitalized, this comprises commitments for subsidies to the Windsor and Annapolis Railway.

(e) Treasury Notes in circulation on June 30, 1873, amounting to $37,311.10, were called for cancellation by the Province.

(f) Balance due on commitments for construction of the Prince Edward Island Railway.

(g) Loans and unpaid interest, Grand Trunk Railway, Great Western Railway and the Northern Railway. Unpaid interest amounted to $13,060,000.

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