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An History of
CANADIAN FISCAL POLICY

A Thesis submitted
to the Committee on
Post-Graduate Studies of
The University of Manitoba

By

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In partial fulfillment of the requirements for
the Degree of Master of Arts

April 1931'



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FOREWORD

Recent pronouncements, recent developments, and conditions which prevail at the moment, force the student of things as they are, to turn to the records of things as they were. Economic conditions which obtain in Canada today cannot be divorced from the theories and practices of Federal Fiscal Policies which have been developed since Confederation -- policies which have their more remote origins in the Colonial and Fiscal policies and theories of the Mother Country in particular, and organized society in general.

It has been said, of those to whom Canadians have entrusted the guidance of the fiscal policies of the day, that their future lies behind them, that they have forgotten nothing and learned nothing by the march of the years.

The student of economics will however hesitate to attribute to the Liberal-Conservative Party the sum total of economic retrogression or to suggest that the opposing Liberal Party has been consistently forward looking, although it is the party which saw the vision, and by its pronouncements at the Ottawa Convention of 1863 (1) promised to give leadership to a movement which would establish government on a sound economic basis. It has repeatedly failed, if not consistently, to be the vehicle of true liberalism in matters of fiscal policy where tariffs as a means of taxation have been concerned. With regard to the latter statement Doctor Michael Clark, speaking in the House of Commons, in 1919, said:-

(1) Tariff Resolutions pages 71-2 of the Official Report.

"As a matter of fact, Mr. Speaker -- and this is a statement which I make very deliberately and of set purpose, and it is important that it should be made in this period of the history of Canada -- the great majority of the people of that part of Canada from which I come have been able to see, in the last twenty five years, very little difference, if any, between the records and the performances of the two parties." (1)

When in 1930 we find the pronouncements of the middle nineteenth century rehabilitated in modern phraseology -- or lifted verbatim from the declarations of that day -- we are constrained to turn the pages of history -- to examine the conditions, the arguments and counter arguments of that day -- in search of an explanation of their revival.

Since 1839 questions of Canadian Fiscal Policy have been a purely Canadian Affair. The last occasion upon which the British Ministry of the day ventured to inject an official opinion into the discussion of Canadian policy was in 1859. A.T.Galt, later the first Canadian Minister to become Minister of Finance, settled for all time the independence of Canadian governments in matters of fiscal policy when he declared, "The right of the Canadian Legislature to adjust the taxation of the people in the way they deemed best, even if it should unfortunately happen to meet with the disapproval of the Imperial Ministry." (2)

The need for a fiscal policy originating in Canada for Canada dates back to the Repeal of the Corn Laws in England in 1846, and became a question of primary and immediate concern with the Abolition of the Navigation Laws in 1849.

(1) "House of Commons Debates" 1919 - page 236.

(2) Skelton, "Life and Times of Laurier" pages 153-4

Since that time Canadian Fiscal policy has proceeded along two pathways toward widely separated ideals. Perhaps in the main these ideals have been confused, pathways have converged, have run parallel save for isolated instances, chiefly of historical interest, when the supporters of each theory have seen the way clearly before them.

Sooner or later the student of economics finds himself turning to Adam Smith. It may be as in this case, for a definition-- it may be for clear exposition of principle, of which art he is the master -- it has often been for the principle itself and even for exception and refutation. On this occasion a quotation from his introduction (1) furnishes a clear distinction between the aims and conflicting opinions of those who uphold the traditional viewpoints on Canadian fiscal policy. He says "Political economy considered as a branch of the science of the statesman or legislator proposes two distinct objects; first to provide a plentiful revenue for the subsistence of the people, or, more properly, to enable them to provide such a revenue or subsistence for themselves, and, secondly, to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign." (2)

It is with the legislators conception of the former that we are in this instance concerned. We may therefore ignore the fact that Adam Smith himself destroyed this conception of Political economy. In theory at least it has been the aim of one school of

(1) Book IV of the "Wealth of Nations"

(2) Adam Smith, "Wealth of Nations" Introduction to Book IV.

thought to tax sufficiently to provide for the needs of the sovereign and to permit the people to provide their own subsistence, in a market, which would give to each individual the fullest and free'st opportunity to exercise his own judgment and his own free will.

To such an ideal Wilfred Laurier subscribed, when, speaking to the tariff resolution of the Liberal Convention held at Ottawa in 1893, he said -- "Let it be well understood that from this moment we have a distinct issue with the party in power. Their ideal is protection; our ideal is free trade". (1) And again he said: "I submit to you that the ideal fiscal system is the British system of Free Trade". (2)

An opposing school of thought has, since 1856, consistently espoused a policy of protection, designed to force the people to make involuntary contribution to the profits of a special group. To accomplish this they have advanced all the known arguments by which men are led to disregard economic ^{truths} ~~truths~~ in the vain pursuit of the better happiness and welfare of the state.

A general discussion of all phases of Canadian Economic Policy in its entirety is obviously outside the scope and nature of this undertaking. It is manifestly impossible to deal in comprehensive detail with Dominion Legislation having regard to banking, railways, disposal of crown lands, defence, immigration, administration of justice, post office legislation and the like; save when and where it touches the evolution of tariffs as a means of producing revenue, or as a means of fostering Canadian

(1) Page 33, "Official Report of the Liberal Convention 1893"

(2) "Official Report of the Liberal Convention 1893"

Canadian industrial development and nationality.

For the purpose of this study it will be sufficient to trace in such detail as available sources permit, the growth of a Canadian political Economy in the sense suggested by the above quotation from Adam Smith: to attempt to see what might have been in the light of economic history and precept; and to analyze the condition of public thought today.

INTRODUCTION

Our examination of Canadian Fiscal Policy will show that since the Cayley Tariff of 1858 the idea of protection has been the key to a majority of the tariff enactments of successive governments. In opposition and on the hustings, those who professed Free Trade principles have not been inactive, in power their free trade theories have at best, been watered down to "freer trade" enactments; at worst, they have frankly surrendered to what Porritt calls the "Government of Business".

Canada became a fiscal entity during the century which witnessed the triumph of free trade in England. With her fiscal emancipation in 1859 the "last nail was driven in the coffin of the Old Colonial System." And yet -- from almost that very hour she has created in this new land pitfalls from which the Mother country was even then newly emerged. Unhappily the end is not yet.

The appeal for protection is made so naturally, so plausibly, and so subtly that it is not surprising to find that it never dies; that on the contrary it is revived to feverish activity from time to time. Quite apart from its plausibility, the great source of its strength as a theory, lies in the fact that it appears to be in the selfish interests of a powerful class, numerically relatively small, and therefore easy to organize, wealthy and generally looked upon as the natural leaders of the people. Because of the profit which they associate with the practice of protection -- the theory is nursed and bolstered and never allowed to die.

"The arguments for protection are not based exclusively, or even mainly on economic grounds", says Bastable.(1) An examination of the modern arguments as applied to this question in Canada and elsewhere bears out his statement. As early as 1846 and as late as 1930 Canadians have appealed to on the grounds of patriotism, of national prejudices and antipathies. We find still flourishing side by side with the scientific doctrines of the economists a popular economy -- which approves of "making work" of "spending money" of "employing native industry" and many similar fallacious ideas".(2)

Writing in his book "Free Trade the Tariff and Reciprocity" Professor Taussig gives as one explanation of the political prevalence of protection, despite its intellectual absurdity, the importance of national sentiment. He says, in part, "not less important, however, is the sentiment of nationality and its unfortunate counterpart, the sentiment against foreigners". (3)

So important is the part played by national sentiment in the consideration of tariffs that the student is tempted to conclude that it must inevitably becloud the question of world trade till a new era dawns, if it ever does, when man will be cosmopolitan rather than national.

To discuss the advantages of national feeling would be to labor the obvious. One may with Taussig, and borrowing freely from him, consider the various ways in which it dims the consideration of tariff and trade.

(1) G.F. Bastable, "Theory and International Trade"
page 142.

(2) Bastable, "Theory of International Trade" Chapter
IX-154

(3) Taussig, "Free Trade The Tariff and Reciprocity"
page 29.

Adam Smith could and did reconcile protection for defense with his advocacy of Free Trade upon the ground that, "defense is of much more importance than opulence" (1) Since mans duty is to further the greatest good of the greatest number the sacrifice of economic profit was justifiable in securing the greater happiness (liberty) of the nation.

Unhappily the protectionist appeal to national sentiment is based on grounds which are on a lower plane than the old Greek "greatest good of the greatest number". The appeal is to prejudice rather than to altruistic sentiment. Centuries of experience have tended to convince mankind that nations, like some individuals, are in business, "not for the glory of God but the profit of the shareholders". The idea is as prevalent as it is false that in every transaction one party loses while the other gains. The natural result of such a condition would be isolation. Since this is neither practicable nor possible men and nations attempt to be on the winning end of each transaction. This attempt has led, and will lead, to many and varied expedients which, like quacks prescriptions, are guaranteed to secure the desired result. To find sanction for such measures, which like the prescriptions are often costly, an appeal is made to national prejudice, to national pride, to national conceit and to man's individual or collective and inherent selfishness, or to his greed.

(1) "As defense is however of much more importance than opulence the Act of Navigation is perhaps the wisest of all the commercial regulations of England". Adam Smith, "Wealth of Nations Book IV, Chapter 11".

This appeal to national feeling upon the ground of expediency is one of the outstanding bulwarks of those legislators who scorn principles which they cannot combat. The proof of this and the remedy for it are, perhaps, to be found in the same illustration. In foreign dealings the United States ranks among the foremost of protectionist countries -- within her own far flung borders perfect freedom of trade exists and apparently will continue to exist despite the fact that, save in the appeal to nationality, the same arguments adduced in favor of protection might be applied as against a sister state. We may assume that the difference in protectionist sentiment in the United States in respect to countries as opposed to States, is, from the standpoint of the Protectionist, the sum of the effect of a more or less militant national feeling. When this militant nationalism is applied to the wider sphere of world trade there is some ground for a pessimistic supposition that the ideal of world freedom of trade will not be fully realized until that visionary day, "when the war drums throb no longer, and the battle flags are furled, in the parliament of man, the federation of the world".

Closely allied with the argument for protection based on an appeal to national pride or prejudice, is the excuse sometimes offered for protection, namely the Retaliation Theory. On this ground Canadian protectionist progaganda has been preached and its dogma practised. Since reciprocity and retaliation are chiefly differentiated in degree of ferocity we may venture to deal with them together. Reciprocity says briefly "I will let the bars down if you do". Retaliation takes the other end of the same stick

"I will put my bars so high that you will be forced to take yours down". Reciprocity is favored nation treatment; retaliation is the big stick.

Adam Smith held that, "as there are two cases in which it will generally be advantageous to lay some burden on foreign for the encouragement of domestic industry, (1) so there are two others in which it may sometimes be a matter of deliberation ; in the one how far it is proper to continue the free importation of certain foreign goods, and in the other, how far or in what manner it may be proper to restore that free importation, after it has been for sometime interrupted". The first is the case for retaliation says Nicholson. (2)

On the subject of retaliation Adam Smith held that "it may sometimes be a matter of deliberation how far it is proper to continue the free importation of foreign goods, when some foreign nation restrains, by high duties or prohibitions, the importation of our manufactures into their country". (3)

Adam Smith points out that revenge is the motive which "almost invariably dictates retaliation". "Nations accordingly," he says "seldom fail to retaliate in this manner". He appeals to history citing Colbert and the Dutch War (1672-1678) to illustrate the danger of such retaliation. His acceptance of retaliation would be contingent upon the likelihood of "The recovery of a great foreign market", which, "will generally more than compensate the

(1) "Defense" and "Import Duties" to Balance Taxes on Home Products "

(2) Nicholson, "A Project of Empire" Chapter IX. 14

(3) Adam Smith, "Wealth of Nations" Book IV, Chapter 2.

transitory inconvenience of paying dearer for a short time for some sort of goods". Nicholson's comment is that "Retaliation which fails is worse than useless".

The great weakness of retaliation -- apart from the fact that it is economic war and so a breeder of real war -- lies in the fact that it "imposes a real tax upon the whole country not in favor of that particular class of workmen who were injured by our neighbors prohibitions, but of some other class". (1)

The modern advocates of retaliation, as witness the Canadian party of protection, seem to look not to the recovery of a foreign market but rather to revenging themselves by excluding the foreigner from our markets. This as Nicholson says is to "reduce retaliation to the ordinary case of protection to native industries." Nicholson points out also that retaliation is trade war - that to be effective it must run the risk of ending in bloodshed. (2) Even List - sturdy exponent of protection, notes that retaliation tends to create vested interest difficult to reestablish if and when retaliation shall have successfully restored the foreign market.

Retaliation has one objective but may reach several. In any case its success depends upon the power of national animosity at home and it breeds it in the country aimed at. Theoretically it may succeed, and the fiscal history of Canada records one successful example, as we shall see. Whether in that isolated instance the result justified the cost is a matter of opinion.

(1) Adam Smith, "Wealth of Nations Book" Book IV, Chapter 11

(2) J.S. Nicholson "A Project of Empire" page 168-70

Granting its possible theoretical success such success is bound to be temporary. It is effective only until substitutes or new markets appear; or until the nation discriminated against is able to return the pressure with interest. Inevitably it breeds national animosity. The element of compulsion essential to its success may readily create greater evils than it aims to remove.

Reciprocity between two nations has been accepted by those who favor freer trade as at least partial free trade between the reciprocating nations. It admits of mutual advantage but carries with it an implied threat to that advantage. The cancellation of the pact between Canada and the United States in 1866 was confidently expected by many citizens of the United States to bring Canada into the Union. In short, its cancellation was, in effect, an attempt at economic intimidation. That it failed in its object is a tribute to the sturdy nature of Canadian national independence which it helped to engender. It is noteworthy that in Canada it was the breaking off of the pact rather than its proposed renewal which gave rise to the most serious consideration of Commercial Union and even of annexation. The proposal to re-enter reciprocal relations with the United States aroused a storm, of perfervid national prejudice masquerading in the cloak of patriotism, which proved the downfall of the scheme. No more sordid spectacle of national inferiority complex disgraces the pages of Canada's history.

Much has been made of the infant industry exception to the economists' theory of trade. It is particularly plausible in a new country, witness its a successful advocacy in the United States by Hamilton and List. Hamilton is perhaps the most convincing of

modern protectionists and the summing up of his points reads, in the main, like an election pronouncement of the Conservative party of 1930. Hamilton would adopt protection on these grounds:

1. It has been adopted by other competing nations
2. To protect infant industries
3. For its advantage to manufactures
 - (a) the diversification of industry
 - (b) new employment
4. For the encouragement of immigration
5. negatively - a monopoly of the home market would not ensue.

With the first three, Canadians are as familiar as the Conservative party has been able to make them from countless platforms. The fourth has been equally pleaded but has been, for the moment, conveniently dropped. The fifth they ignore, since such a monopoly is the hoped for result on the part of their staunchest supporters.

List would limit protection, to infant industries, to the period of transition from simple pastoral and agricultural pursuits into a balanced period of industry and agriculture. Hamilton would retain the protection on other grounds when the period of infancy had passed.

Canadian experience, like that of the United States has shown that infant industry^{ies} never mature. These Canadian industries which qualified in 1879 are, by their own admission, still lustrous infants crying for more. Like grey haired messenger "boys" they never grow up.

To those who contemptuously refer to the theories of the last century as obsolete and inapplicable, it might be pointed out that the plea for continued protection is based on the vested interest claim foreseen and discussed by Adam Smith in 1776. He stated as his second case "in which it may sometimes be a matter of deliberation how far or in what manner it is proper to restore free importation of foreign goods after it has been for sometime interrupted, is when particular manufactures, by means of high duties or prohibitions upon all foreign goods which can come into competition with them, have been so far extended as to employ a multitude of hands". (1)

In the latter case humanity may require "that freedom of trade should be restored only by slow gradations". From 1896 to 1911 the Laurier administration defended their continuation of the National Policy on the ground that vested interests must be given time to re-establish themselves. c.f. Sir Wilfred Laurier speaking at Yorkton July 29, 1910, in answer to memorials presented by the United Grain Growers of Saskatchewan; "The tariff will be reduced from time to time. If I had my own way I would have a free British Tariff. Britain is my model, not only for history, not only for constitutional government, not only for public life, but for political economy. But I recognize that all views must be met, and changes made gradually". (2)

Dealing with Colonial Policies Bastable has this to say, "a tendency toward higher tariffs and greater exclusiveness is a

(1) Adam Smith, "Wealth of Nations" Book IV
Chapter 11.

(2) "Grain Growers Guide" July 27, 1910

feature of colonial policies everywhere". (1)

Because the United States had suffered under the Old Colonial system with all its restrictions, it would have seemed only natural that here the tendency would have been toward greater freedom in trade as well as in things political. That such was not the case may be attributed to those conditions, outside the realm of economic consideration, which threaten to prevent, forever, the decision of questions of economic policy upon their merits. In this case hostility toward England was the primary cause of a leaning toward protection. Coupled with this says Gregory, (2) was the belief fostered by Hamilton that the long suppressed industrial activities of the Colonies needed encouragement in their new freer existence.

The Continental System of Napoleon and the Navigation Acts of England, arising wholly outside the realm of American economic consideration, nevertheless embroiled the U.S.A. in a war which further influenced her policies.

Because war is the extreme limit of protection, effectively shutting off imports from belligerent neighbors these early years of the nineteenth century brought about a tremendous industrial growth in the United States. When this extreme protection vanished with the peace of 1814 these mushroom industries, many of them of hot house delicacy, raised the cry of infant industries and raised it successfully; as witness the tariff of 1816 with its then relatively high rates against manufactured woollens, cottons and iron.

(1) Bastable "Commerce of Nations" Chapter IX" T.E. Gregory
Edition

(2) Revised Edition of Bastables Commerce of Nations
Chapter VIII pages 72-4

A financial crisis -- always an opportune time to raise the cry for protection -- arose in 1819 and, in the Tariff of 1824, bore fruit in increased duties on manufactured textiles. By 1828 the protected list was enlarged to include a large number of the raw materials of manufacture.

Despite variations, "taking the whole period from the establishment of the Constitution 1789 to the Civil War, it appears that, starting with almost nominal duties, there was a tendency shown in the tariffs of 1816, 1824, and of 1828 to bring them to the point of high Protection. At no time was there any such system as Free Trade in the English sense." (1)

This digression, to consider the development in the United States, is made because it illustrates the various uneconomic considerations affecting the economic policies of all countries -- and because at every stage, the tariff policies of Canada have been considered in their relationship to those prevailing in the United States.

From the agitation in Montreal and elsewhere in 1846 to the Countervailing duties provided for in the Dunning Budget of 1930 and the theories expounded in 1930 by the Right Honorable R.B. Bennet -- the tariff policies of the United States have influenced Canadian tariff making. For this reason an understanding of what has happened in the United States is essential to a proper understanding of what has taken place in Canada.

The Civil War led, as war inevitably leads, to frenzied finance. Taxation essential to the raising of war revenues, was resorted to without any attempt at economic justification.

(1) Gregory Edition "Commerce of Nations" page 75.

The plea of necessity sufficed as it must always do. Taxation of an extreme character provided protection which encouraged industrial development and such development created vested interests which the consumer has never been able to shake from his back. In a real sense generations yet unborn will continue to pay for that tragedy of Civil War.

The attempt to restore the finances of the country began with reduction of internal revenues. Replacement of revenue was attempted by resort to protection. Reductions in import duties were made in 1870-72 but even the reductions of 1873 did not succeed in making any inroads into the growing power of the protectionists. In 1890 the McKinley Tariff was frankly protectionist. Its immediate results were so disastrous to the consumer, that the low tariff Democrats came into power in 1892. So drastic were the Senate modifications to the Democratic Tariff Bill of 1893, however, that when it passed in 1894 no serious breach had been made in the Protectionist system.

Two years later the return of the Republicans brought about a change. The Dingley Tariff enacted in 1897 was a decided victory for protection. This enactment was not amended until 1909.

Such a period of the frankest protection brought about a condition so universal, that the student of economics may be pardoned if he accept it as the inevitable result of its virtually unrestricted application. It was an era marked by the development of vast accumulations of aggregated capital -- interlocking directorates -- combinations in restraint of trade -- price fixing and all the evils associated with the formation

of powerful trusts and combines -- a condition which, as we shall see, has had its counterpart in Canadian history.

The Payne-Aldrich Tariff of 1909 was an effort, made in response to consumer demand, to break down this condition. So strongly were the friends of protection entrenched, that, despite the intervention of President Taft, many of the reductions made in the tariff were of little or no importance or effect. It did however pave the way for the offer of reciprocity made to Canada; the more readily perhaps as a sop to the growing numbers of the more implacable foes of protection. The history of that offer may well be left to the consideration of reciprocity in Canada -- except that its rejection by Canada tended to strengthen the hands of those in the United States who preached protection in and out of season.

In 1913 the Underwood tariff attempted what was designated as a "competitive Tariff", an expression much in the mouths of the supporters of the Conservative Government of Canada today. The tendency was, as Taussig points out, "to lower duties that had been prohibitory, or, to abolish duties that had been nominal. Much of the larger part of the duties were probably of this sort". (1) Then the World War intervened and out of its cataclysmic course a new set of conditions arose with the usual result -- a result which in the United States, has been greatly complicated by the fact that their participation in the war dates from 1917.

(1) T.E.Gregory Edition, Bastable, "The Commerce of Nations", page 80.

From 1914 to 1917 old resentments against England flamed anew and found expression in tariff revision in 1916. But it was with peace that conditions arose, non-economic in their origins, which were to cause a new chapter to be written in the history of Protection in the United States.

Wilsonian policies, for International Peace and the readjustment of post war problems, fell upon evil days. The traditionally protective Republican party turned their triumph, won on nationalistic grounds, to a triumph of high protection. The latent fear of pauper labor competition, so deeply embedded in United States Labor and Capitalistic consciousness, gave impulse to the enactment of the Emergency Tariff Act of May 1921. This was followed by the Fordney Tariff of September 1922. This latter schedule is described by so eminent an authority as Professor H. Parker Willis as being, "unquestionably -- both actually and potentially, the highest general tariff law ever enacted in the history of Protection". (1)

But this is not the whole story. The new tariff of 1930 has carried protection to a new pinnacle of folly. To such an extent is this the case that the signs of reaction are already evident. True it is that in the presidential elections of 1928 there was little to choose between the tariff pronouncements of the two great parties, and yet, indications are not lacking that the end is in sight. Two factors are outstanding in any consideration of what may happen. The first is the traditional low tariff policy of the Democratic party who seem to be headed for control, if they do not already exercise it, in both chambers.

(1) C.F. Bastable, "Commerce of Nations" Gregory Edition Chapter VIII

The second is the insurgent faction, or rather two factions, within the Republican Party itself. On the one hand a Western and Middle Western farm block is aggressive in the interests of their people whose need is for lowered costs of production. On the other hand, the United States has become a creditor nation to such an extent that Republican capitalists are beginning to realize that the policy of exclusion by tariffs is not working in their interest. Apart from stubborn national prejudice, ~~and~~ apart from party shibboleth, they are realizing that unless a freer trade policy is adopted the United States is facing the proposition that she cannot collect.

No better example, and, with the possible exception of Australia, no worse, is to be found in modern economic history, of the origins and the vicious results of protection. With this in mind it might be well to turn again to the consideration of this question as it affects Canada. Particularly as at the moment of writing she appears to be poised on the brink of abysmal folly.

We have seen that the appeal of protection is to sentiments that are ignoble in the individual and questionable in the nation. It has been shown that the arguments advanced by its protagonists, are not exclusively or even in the main, economic in their nature, save from the standpoint of the selfish interest of the individual few. We have seen in the United States that the condition which gave birth to protectionist tendencies was nationalistic and antagonistic to Great Britain. We have seen financial depression the whip and spur to goad the protectionist horse. War and the aftermath of war have furthered its cause.

We have discovered restraint of trade, the burdening of the consumer, the degrading of labor, the corruption of public life and an unhealthy social system, the result of legislative attempts to regulate trade.

Despite a damning array of evidence that it is born of man's weakness and perpetuated in his folly; we are faced with the fact brought out by T.E.Gregory in his introduction to the ninth revised edition of "The Commerce of Nations," that many "able and enlightened men have embraced a system that is notwithstanding injurious both to social and economic progress".

From the standpoint of the student of economics and bearing in mind that the first half of the nineteenth century marks the period of the growth of Free Trade sentiment in England, we might reasonably expect to find in Canada a well developed Free Trade sentiment. The object lesson of the old land might be expected to convince the colonists that "all the difficulties of representative institutions are increased by the adoption of protection which diverts attention from the main issue of good government to the impossible task of pleasing the many incompatible interests which seek its encouragement and support". (1)

History abounds with illustrations of the fact that nations which aspire to leadership must strive, not for exclusiveness but rather, must accept fully and freely the material and intellectual productions of their neighbors. Perhaps the greatest contribution

(1) C.F.Bastable, "Theory of International Trade" page 151

which international trade has made to the world, has been the acquisition and dissemination of knowledge. Since the Phoenicians sailed their ships up and down and out of the Mediterranean -- and before that -- traders of the world have been missionaries of culture. The organization and study essential to its' success are agents for the development of mans resourcefulness and skill. Since restrictions of trade remain economically unsound, and, further, result in the loss of moral and social advantages derived from such trade -- the task of justifying any such restriction is doubly difficult.

We are sadly aware that the experiences of England has had to be relived in Canada. We look now for the causes that underlie the establishment and growth of protection as the key to Canadian fiscal policy.

Wherein lies the appeal of protection? How is it that "many able and enlightened men have adopted a system that is, notwithstanding, injurious both to social and economic progress?" What are the benefits that we are promised shall obtain under the sway of such a policy? What has its history to tell us of these results? What are its inherent weaknesses? To what extent has the experience of Canada born out the conclusions which answer these questions? And, when we shall have answered them, whither are we headed and to what end?

BRITISH INFLUENCE

Consideration of Canadian fiscal problems is usually dated from the year 1849, the year in which political self government was achieved -- and when the change in England's fiscal policy took full effect. Protection as a Canadian policy may be said to date from 1846. On January 27th, 1846 Peel announced the adoption of Free Trade. In a letter to The Times of February 6th, Isaac Buchanan, a Canadian publicist who happened to be in London, denounced the ending of the old preference which Canadian grain and lumber had enjoyed in the British market. He prophesied "the loss of the colonies, the bankruptcy of England, the downfall of the monarchy and the Repeal of the Canadian Act of Parli that gave protection to British manufacturers in Quebec and Ontario. (1) He spoke of the Canadian people "writhing under the feeling that England has dishonorably broken her promise of protection to Canadian wheat and lumber, made by every Ministry from the Timber Panic of 1806 downward. (2)

His plea for the continuance of the preference was to be reiterated again and again from Canada. The Maritimes long continued to complain that Britain had failed to secure to them any advantage in the carrying trade to the Ports of the U.S. The Canadians held it to be a grievance that Peel did not secure from the United States the free admission of their products to that country.

- (1) Porrit, "Protection in Canada" Chapter 11
- (2) The Times, February 6, 1846.

A Free Trade League was organized in Montreal as soon as Peels' pronouncement reached Canada. Even before the British Parliament had implemented Peels policies the movement for Reciprocity with the United States had been organized in Canada and the Maritime Provinces. Almost simultaneously the movement for a National policy began.

During the winter of 1845-46 great depression prevailed in the commercial centres of Quebec and Ontario. Adverse local conditions were aggravated by the apprehension with which the coming Free Trade in England was regarded. Among the traders at Montreal there was a feeling that Britain's adoption of Free Trade was a blow to Canadian trade that nothing could remedy.

Peel's proposals were known in Canada in February 1846. Before the Legislature convened in March, the Montreal Board of Trade, drew up a memorial addressed to the Secretary of Trade for the colonies. It was urged that Canadian grain shippers could not compete with the United States and that the St. Lawrence canals would become a liability to the province.

Simultaneously the Board of Trade at Quebec presented a petition drawing attention to the drawback law of the United States of 1845; which law allowed a remission of duties on goods arriving at Portland, Boston, New York and other American ports for transshipment to Canada. It complained of the reductions of duties on Baltic timber and urged that Peel's policy if carried into effect would "gradually, silently, and imperceptibly" (1) wean Canadians from their true allegiance to Great Britain, and bias their minds in

(1) "Colonial Office Correspondence 1846"

favor of a closer connection with the United States" (1)

The Toronto Board of Trade also petitioned for a continuation of the preference -- here, a member of the Board even suggested that Britain might well make Canada a present of the Canals and public works since their revenues, lacking protection, must cease.

History fails to record that the feeling in the cities, indicated by the memorialists, was general among the agrarian classes. Actually much of the flour and grain exported from Montreal and Quebec was produced from the fields of Ohio and Illinois. The advantage to Canadian farmers which accrued from the old system was probably much overestimated.

Gladstone's replies to the petitions were firm and unrelenting. He pointed out that to continue to admit American grown grain on a preferential basis when exported to Britain via Canada would be a violation of the spirit and the letter of England's trade relations with foreign powers.

The Canadian House met on March 20*1846 and on the 26th Cayley moved an address to the Queen praying that the claims of Canada be not overlooked and specifically requesting that "wheat flour, wheat, peas, and all grain and meal from any discription of grain and pulse, imported into the United Kingdom, might be admitted on the payment of the smallest possible specific duty, not exceeding a penny the quarter" (2)

(1) Porrit, "Protection in Canada" page 46

(2) "Colonial Correspondence 1846," after Porrit

Five pleas were raised in the early months of 1846:

- (1) that the preference be continued on North American
lumber
- (2) that the registration fee on Canadian cereals, raw or
prepared, should be a nominal one -- one penny as against
the foreigners' one shilling.
- (3) that United States grain and grain products exported
through Canada be treated as Canadian.
- (4) that the Act of 1842, insofar as it imposed duties on
United States grain or flour entering Canada, be repealed
- (5) that Imperial duties on all overseas importations into
Canada should cease.

The British Government acceded to the last two -- with the result that the Legislatures of British North America were given the power, to pass such enactments with regard to duties and trades as their needs and geographical situation warranted. It left the colonies free to make advances for Reciprocal trade with the United States.

Dealing with the Colonial policies of European Nations Adam Smith has this to say of England; and her North American colonies: "The first regulations which she made with regard to them had always in view to secure to herself the monopoly of their commerce; to confine their market, and to enlarge her own at their expense, and, consequently rather to damp and discourage, than to quicken and encourage their prosperity" (1) The policies by which this object was to be brought about were effected by a series of

(1) Adam Smith, "Wealth of Nations" Book IV
Chapter 7

Navigation and Corn Laws and by restrictions in the form of direct prohibitions. These policies were inspired by the growing industrial and powerful merchant classes, who, having the ear of the legislators, promoted their own selfish interests with little regard for the welfare of either the Mother Country or the Colonies.

The Colonial trade enactments of England are says Adam Smith, "only somewhat less illiberal and oppressive than that of the rest" (of European nations) (1). A digression to consider the Corn Laws and the Navigation Acts of England is, perhaps, justified in view of the fact that it was the abandonment of these policies which gave impulse to the development of a distinctly Canadian fiscal policy. Any study of the protectionist sentiment born of this period belongs, properly, to the consideration of the growth of these Societies, in Canada, which gave birth to the "National Policy of Protection".

On the ground that defence "is of much more importance than opulence" the Navigation Act of 1660 has been described by Adam Smith as probably the "wisest of all the commercial regulations of England"; although he did not fail to point out its economic weaknesses. In their earliest stage of development, the colonies did not suffer from the monopoly which the Navigation Laws gave to the Mother country, since their exportable products were surpluses of raw materials. Such grievences as the Colonies had

(1) Adam Smith, "Wealth of Nations" Book IV, Chapter 7.

were in the main political, although, there was no deep political grievance which was not compensated by the protection which they enjoyed in time of war and latterly the advantages of trade which accrued to them.

Cheap land of high fertility and unbounded timber resources created a lumber and cereal surplus which were the main staples of export in Canada. Relatively high wages prevalent in the new country made it little or no hardship to pay the somewhat higher price for the finished product of the English manufacturer.

Under the Corn Laws of 1843 the cereals of Canada enjoyed a preference in England which compensated, in some measure at least, the loss of the nearer American market, and was a factor in the agricultural prosperity of upper Canada. After 1806 Canadian lumber enjoyed a substantial preference in the British market. The provisions of the Navigation Acts which permitted importation into Great Britain, "in ships of the country where those goods are produced, and of which the owners, masters, and three fourths of the mariners are of that particular country"; while subjecting such imports carried otherwise to the double aliens duty, gave an advantage to the ships of the Maritimes in the carrying trade.

It is not surprising then that in Canada and the Maritimes such dissatisfaction as existed in their relationships with the Mother Country, was political rather than economic.

The struggle for responsible government was conducted on the high plane of the sovereign rights of the colonists, as British subjects, to govern themselves, rather than as a means of resisting taxation imposed upon them by the Imperial government. When almost simultaneously with the granting of responsible government, Britain deserted her Mercantilist monopoly of Colonial trade policy -- the result, as we have noted, was a series of pleas for the continuation of those policies.

The result of the American war of Independence -- and the tendency in England, to consider colonies as liabilities -- contributed to the comparative ease with which Responsible Government was achieved in 1849. Many in England had ceased to expect profit from the Colonial trade which could compensate for Colonial expenditures, and to these, Responsible government was simply a painless loosening of the ties that bound the colony to Britain. Some there were who foresaw that by loosening the bonds, those more intangible but infinitely stronger ties of blood, language, a common heritage and allegiance to the sovereign would be immeasurably strengthened.

In Canada and the Maritimes the sense of being cast off, evidenced in 1846 and again in 1849, was due largely, to the removal of protection which was the result of Britains adoption of a Free Trade policy. Men like Buchanan pleaded for economic ties to bind the Empire which he believed to be disintegrating.

These are the ideas which motivated Joseph Chamberlain in his campaign for an economic structure of Empire, conducted between 1902-6. A similar conception, uniquely enough, seems to motivate the present Prime Minister of Canada. (R.B. Bennet) At the 1930 Imperial Conference in London he declared the Empire to be at the "parting of the ways" and proposed to strengthen the ties of Empire by a fiscal policy of his own conception. In 1849 as in 1930 - we find inability to realize that the possibilities of disintegrating friction would be immeasurably increased by any form of restrictive economic partnership with all the diversity of interest which such an arrangement entails.

Quite naturally the demand for some form of economic union recurs, as it first arose, in a time of economic distress.

THE GROWTH OF ORGANIZATIONS

The period from 1845 to 1858 witnessed the organization of a number of societies which grew quite naturally out of the unsettled conditions then prevailing. The dissatisfaction arising out of the Repeal of the Corn Laws and Navigation Acts -- and the hysteria which followed the passing of the Rebellion Losses Bill in 1849 contributed to the feeling of unrest which found expression in Memorials to the Imperial Government, in Annexation Manifestos and in the organization of societies to promote these views. The most important of these societies was, perhaps, the "Association for the Promotion of Industry in Canada". Isaac Buchanan -- the same who published the letter in the Times of Feb. 1846 -- is generally conceded to be the founder of the Association. It was the most important because its founders were able, between 1845 and 1858 to impress their protectionist views upon the government, to such an extent that by 1858 tariff changes were being made at its instigation. So great was its influence that in 1859 British Manufacturers were complaining to the Imperial Parliament. The suggestions of that Parliament to the Canadian Government brought from Galt the declaration of Canadian policy previously quoted. This Association was the forerunner of the National Policy League of the seventies and eighties, and of the Canadian Manufacturers Association which has exerted so great an influence in more recent years. The story of this movement is the record of the influences

which, together with events in England in 1846, have made Canadian fiscal policy protectionist in its outlook.

Even before the Parliament at Westminster had enacted its Reform Legislation which secured the fiscal freedom of the Colonies -- the Canadian Legislature had begun to frame tariffs in the interest of Canadian Industry. Protective Legislation was, of course, outside the power of the Assembly but the same object was achieved, as early as 1845, by reduction of duties on raw materials. From this Act the National Policy of 1879 may be said to date, although no protectionist influence is traceable in the framing of that legislation. So far as the intention of the legislators is concerned the Tariff of 1847, which made increases in the custom duties, aimed at increased revenues and is one of the few Canadian examples of tariff for revenue. In spite of this fact -- this Tariff -- the first enacted by Canada after she received her fiscal freedom -- gave sufficient protection to Canadian industry to rouse the ire of Industrial England. Interference on the part of the Imperial Parliament ceased after 1859 but as late as 1887 complaints continued to be voiced in the Parliament at Westminster.

The first Canadian Tariff to embody in its clauses an offer of reciprocity with the United States was the Tariff of 1849. In this same Tariff the weight of protective opinion made itself felt.

At a public meeting held in Hamilton November 17, 1847, R. B. Sullivan delivered a lecture which became the text and handbook for protectionist prop^gaganda. He deplored the importation of merchandise which could be manufactured in Canada "under a better system". "He was", says Porrit, "as little disposed to discriminate in favor of imports from England as were the Canadian Manufacturers who complained of British imports to the Tariff Commission of 1905-6". The same writer quotes him as saying "We walk on carpets and sleep on blankets made in distant England --- the profits on the manufacture of goods used by us accumulate in Birmingham, Sheffield, Manchester, Glasgow" etc. The time honored time worn pleas for Protection were advanced in turn. This is their first appearance in Canada. They were to be re-iterated in the fifties and sixties and repeatedly since then up to the present day. It was not, however, until after 1879 that protectionist appeals were made in the Maritimes.

Sullivan could see no reason why British manufacturers should enjoy a preference in Canadian markets -- he prophesied that lack of such a preference would bring British capital into Canadian industrial production and increase Canadian population and prosperity to such an extent that trade with Britain would be greatly increased.

From Sullivans day to this the Canadian friends of Protection have urged this as a reason for its adoption. Such a plea is assailable on two grounds. In the first place Sullivan made the prophecy in 1847, and although it was again re-iterated by the

Conservative party in 1930, eighty three years of Protection, with a limited preference since 1901 it is true, have failed to bring this happy condition to pass. History fails to record any such development on a scale commensurate with the costs which anti-British duties have imposed on the Canadian Consumer. In the second place - this claim that protection encourages immigration of labour and capital is only acceptable when applied to a single commodity in which the protecting country enjoys a virtual monopoly of consumption. Even in this case the labor and capital so displaced in the producing country will first seek, and usually find, new employment at home. In the protecting country an adjustment will also be necessary to take care of falling off of exports resulting from a decline in the imports protected against. The general effect of the protection afforded native industries is a rise in prices -- or, as in 1930-31, (footnote) to keep them at a level above the natural competition level and therefore to reduce both wages and profits, thus checking the immigration of both labor and capital. Such a check is admittedly hard to discern in times of prosperity and particularly in a country where wages and the interest on capital are high. It is discernable that the immigrant labor attracted to Canada in normal times is not, for the most part, employed in protected industries.

Footnote -

e.g. - British woollens used in custom tailoring of Men's Clothes. Prices in Winnipeg increased from \$60.00 to \$75.00 in some cases and otherwise have failed to decline in an era of falling prices.

This demand that the foreigner enter the Canadian field as a producer and thus give employment to Canadian labor, although discredited, remains a politically effective election plank -- and Protection is still the means by which its supporters hope to achieve it.

It fell to a Nova Scotian, Gesner, to first raise, in 1849, the plea for protection on the ground that it was necessary to keep the young men of the colony from emigrating to the United States. The organized friends of Protection have adopted this cry. They have deplored, and still do, emigration to the United States. They have played on the heartstrings of Canadian parent voters totally ignoring the modern mobility of labor -- the fact that such emigration is largely seasonal -- and the compensating immigration from the United States. This exchange, for normally it is an exchange, is the natural result of geographical situation and the proximity of a relatively small and an exceedingly large state.

Previous to 1852 the claims of Protection, outside the Legislature, were voiced by the speech of Honorable R.B. Sullivan, subsequently published, and in the editorials of Isaac Buchanan. In September of that year a convention of delegates from various Boards of Trade met under the chairmanship of Hugh Allan, and, as a result of their deliberations, urged protectionist policies upon the government. A month later the Legislative Assembly debated a National policy and the Inspector-General, Francis Hincks, declared for Protectionist policies.

The debate in the House of Assembly was precipitated by a motion of Clark Gamble advocating a protective tariff which should not be confined to goods imported from the United States -- but "come from where they may". He did however, make an exception of the other North American colonies.

Gamble was probably the first member of the Legislative Assembly to urge that Canadian policy should imitate the Protectionist example of the United States. His speech is, apparently, the first reasoned appeal for a National Policy, that was made in that Assembly.

The debate was re-opened in the session of 1853. The theme outlined the previous year by Gamble was elaborated by Rideout who expressly indicated that no preference for British products should be considered. Gamble declared himself for "Canda First" and dwelt on the National Advantage of Manufacturing as a means of creating a home market for the products of the farm. This policy still lives in Protectionist doctrine despite the fact that protection cannot increase productive power but simply alters its direction. Both Sullivan and Buchanan had advocated extension of the home market, by protection, as a means of fostering agriculture. Hincks, who had abandoned his Free Trade Principles by 1853, was still unprepared to tax British Imports except for revenue. He looked to protective duties against the United States as a retaliatory measure which would hasten Reciprocity with that nation.

Sullivan's speech, Buchanan's writings, the deliberations of the Boards of Trade and the Parliamentary debates of 1852-3 gave

rise to a movement which finally crystallized in the organization of the "Association for the Promotion of Industry". The first meeting was held in Toronto March 24, 1858. Five resolutions were passed. The first acknowledged the advantages of self government. It is noteworthy that 1858 was a year marked by trade depression and the second resolution attributed this depression to the fact that the Canadian tariff was based on erroneous principles. A third resolution pointed to tariff adjustments on protective principles as the remedy for prevailing despondency, as a means of attracting fresh capital to the country, and for the encouragement of native industry. At the same time it expressed the opinion of the delegates that revenues would not decline. Fourth - the convention decided to petition the Legislature, then in session, to proceed at once to revise the tariff upward. The fifth resolution approved the appointment of a committee of fifty-five who would keep in touch with the government and press for Protective tariff legislation.

Three new developments of Canadian Protectionist thought and organization arose out of the deliberations of this convention. For the first time, in Canada, we hear of a class who are unsuited to agriculture, and who have a claim for government consideration, that they may be profitably employed. Although new in 1858, it was elaborated by Sir John A. MacDonalld and has been kept alive down to the present day. The second innovation was the appointment

of a committee of fifty-five to wait upon the government. This is the first organized lobby conducted in the Canadian Legislature and it developed into the "Red Parlour" of Sir John A. Macdonald's day, 1870-91. For the first time a delegated body waited on the government with a concrete program for tariff legislation.

On April 16, 1858 the committee's draft of seven sections was presented to Cayley. "There were seven sections in the draft. In the first, it was proposed that all goods, wares, and merchandise not mentioned in the other six sections should remain as they stood in the Tariff in force. In the second section there was a list of articles, thirty one in number, which it was proposed should be transferred from the free list or the two and a half per cent to lists in which the duties were higher. In the third was an enumeration of raw materials or partly manufactured materials - thirty-three items in all -- which, it was suggested should go on the free list, or at a rate of duty not to exceed two-and-one-half per cent. Section four was the most significant, as it contained a list of nearly two hundred manufactured articles on which it was urged that the duties should be at the rate of twenty-five percent - an increase of ten percent, as most of the articles enumerated were in the fifteen percent schedules of the Tariff of 1856. In the fifth section were books, drawings and engravings, lithographs, music, paintings and prints, on which the duties suggested were ten per cent; cotton manufactures of every description

except yarns and warps; woollen manufactures of all sorts; cordage, lines, twines, hawsers, ropes, and rigging, on which it was suggested that the duties be twenty per cent; and clothing and wearing apparel, made up or partly made, of any material, on which a duty of thirty per cent was recommended. Tea, raw sugar, coffee and molasses were in the sixth section; and the recommendation of the general committee of the Association for the Promotion of Industry was that the duties on them should be reduced to the lowest point that the revenue would permit of. "Other articles, now paying specific duties, such as spirits cordials, wines and tobacco" reads section seven, and last "might remain as at present, or the duty thereon be increased if necessary".(1)

Cayley was sympathetic and indicated that the government proposed to introduce legislation in the next session which he believed would give satisfaction. It is true that Cayley did not accept the draft Tariff which the Association for the Promotion of Industry had presented but he did embody many of their ideas and recommendations in his Tariff schedule of 1858. The measure was carried in the Legislature Assembly by a vote of sixty eight to twenty eight and Canada was launched on a policy of Protection.

In this tariff the general range of duties was increased to twenty percent. (In 1856 it was only fifteen percent) Duties on boots, harness, saddlery, leather, clothing and wearing apparel were as high as twenty-five percent. Articles not otherwise

(1) Porrit, "Protection in Canada" Chapter VII.

enumerated were made liable to a fifteen percent rate. A specifically mentioned list of partly manufactured goods were subjected to a five percent rating, and the free list -- mostly raw materials -- numbered about one hundred and forty items.

The twenty per cent list consisted of eighty items -- manufactured articles, the bulk of which were imported from England. It is significant that the protection against dumping was first directed against England. This does not seem so surprising when we remember the bitterness with which Gamble and Rideout in 1852-3 attacked the quality of merchandise imported from England; and Sullivan's castigation of British products in his speech of 1847.

The twenty per cent list included baskets; beads; blacking; bracelets; candles; chandeliers; furniture; carpets; rugs; confectionery; chinaware; cutlery; coach and harness furniture; fans, fire screens; gilt frames; glass guns; rifles and firearms; jewelry leather; sole and harness; mattresses; millinery; mowing machines; reaping machines; manufactured silks, velvets and satins, brasses; leathers; coppers and papier mache; oil cloths; plated and gilded ware; railway and fencing iron; scales and weights; shawls; spades and shovels; spikes, nails and locks; silk woollen and cotton embroideries and tambour work; soap, stoves and all other castings; thread, lace, and insertions; and woollen goods.

Prior to 1858 duties were ad valorem - specific duties were put on soap at the instigation of one, Matthews, a soap maker^e and a prominent member of the Association for the Promotion of Canadian Industry. He it was who introduced the anti-dumping plea and the

remedy which he suggested, and that the government adopted, was the imposition of a specific duty.

The success achieved by the Association in 1856 served but to whet the appetite of the Protectionists for more. The next objective was to remove duties from such products as Canada could not or did not produce and to bring them under the duty from time to time as their production should be undertaken. Porrit has pointed out that under successive Tariff Enactments some industry has been singled out for preferred treatment. He points to soap by Cayley in 1858; to sugar by Galt in 1859; and notably, since 1896 the iron and steel industries. It is noteworthy that, in the Budget brought down by the Honorable Charles Dunning, on May 1st, 1930, the tariff clauses affecting iron and steel "May be said to rank first in the tariff in length, intricacy and importance. It's relationship to our national life is illustrated by the fact that the industries concerned employ over one hundred and twenty thousand people in over eleven hundred plants with an aggregate annual payroll of about one hundred and seventy million dollars.

In revising the schedule the government has kept in mind first, the national necessity of maintaining an efficient and self reliant iron and steel industry supplying Canadian consumer demand at reasonable prices, and, second, the national desire to facilitate trade, in iron and steel products with those countries which facilitate export trade from Canada". (1) Two details of this

(1) page 1706, "House of Commons Debates - Official Report" -- Unrevised Edition Thursday May 1, 1930.



quotation invite comment and examination. The student of economics will realize the absolute contradiction of "maintaining" by tariff legislation, a "self reliant" industry. The second thought, a prompting to examine just what is proposed in this lengthy and important schedule is the implied threat to countries which do not "facilitate export trade from Canada".

The Dunning budget classified the Iron and Steel schedule into three hundred and twenty five items. "Under the general tariff, rates have been reduced on sixty-six items and increased on forty. Under the intermediate tariff, the reductions number eighty-six, and the increases twenty-four. Under the British Preferential Tariff the rates have been increased in eight cases and reduced, or made free in one hundred and fifty-two. Prior to this budget the number of items, in the iron and steel schedule, which were free under the British Preferential Tariff was ninety-seven; this group of free items has been increased to number to hundred and seventy". (1).

The will not be necessary at this point to examine further the measure of Protection afforded to the Iron and Steel industry in the Dunning Budget. Sufficient has been quoted to show that as late as May 1930 the industry was still receiving more than ordinary consideration at the hands of a government whose policies, tended toward tariff reduction. It is noteworthy that Cayley's special

(1) page 1709, "House of Commons Debates -- Official Report" -- Unrevised Edition -- May 1, 1930.

consideration of Soap was a concession to one man, an active protectionist who sought his own particular advantage. It is to be noted that Galt's sugar legislation in 1859 bestowed on one Montreal refinery a protection which increased consumer cost to all Canadians. The Iron and Steel Industry has received largesse since 1897 on the ground that it is nationally important, a "Key Industry" Beyond doubt its' importance in war time, fresh in the memory of Canadians, has influenced public opinion very greatly. In May 1930 an election was pending -- public sentiment was unquestionably nationalistic and retaliatory hence such duties as were raised. Of such conditions and sentiments customs duties are born.

The Association for the Promotion of Canadian Industry remained an actively organized body until 1876. From that time its members formed the National Policy League organized to promote the protectionist ideals of the Conservative party under Sir John A MacDonal'd. This organization continued to function until 1886 when it was succeeded by the present organization, The Canadian Manufacturers Association. The history of this latest organization and its influence belongs, properly, to that section dealing with MacDonal'ds Application of the National Policy -- and subsequently.

Because of the success of its propoganda and the permanence of its influence, the growth of the Association for the Promotion

of Canadian Industry, has overshadowed another organization which preceded it in time. A Free Trade League was organized in the Canadas and the Maritimes, even before Peel's^s legislation had been enacted at Westminster. For a period, extending until almost the close of the century, this organization had one object in common with the Protectionist party -- the promotion of a third movement which had as its aim Reciprocity with the United States. A fourth movement, arising out of the dissatisfaction of 1845-49, aimed at annexation to the United States and culminated in the manifestos of 1849. To this movement many of the men destined to be leaders in the protectionist party subscribed, and their later attempts to fasten the stigma of disloyalty upon those who held Free Trade principles may be attributed to this fact.

John Young an Ayrshire Scot, who came to Canada in 1825, was the founder of the Canadian Free Trade Association which came into being in 1846. The manifesto issued at that time declared: "United on the basis of Free Trade, we shall respectfully but firmly demand, in the first place, the removal of all Imperial Acts imposing discriminating or regulating duties; in the second place, the repeal of all duties, Imperial and local, levied on American wheat, provisions, or corn of any kind whatsoever; and lastly, we pledge ourselves to resist, by every lawful means, the future enactment of any protective, prohibitive, or merely regulating

duties whatsoever, believing such to be detrimental to the general interests of society, and at variance with sound policy. We further avow that we entertain the opinion that duties should be levied solely for the purpose of creating revenue to provide for the necessities of the government and the extension of internal improvements; and that for these objects such articles only should be selected for duty as will afford it without restricting or fettering the general commerce, the carrying trade, or the agriculture of the country". (1)

The principles laid down show clearly the influence of the training which Young had had in Scotland. The early influence of his organization was largely confined to the period of his own Ministry in the Hincks-Merin Government of 1851-54. He retired in 1852 when Hincks repudiated his free trade principles. Among the newspapers which supported the organization were the Toronto Globe and the Montreal Pilot (edited 1844-48 by Francis Hincks).

To trace the influence of this organization is a task that presents almost unsurmountable difficulties. Its history is not marked by legislative acts, its policies have had no spectacular triumphs because its principles have not been tried. And yet is important because, in the manifesto quoted above, principles were

(1) "Globe", April 7, 1846 after Porritt.

laid down which determined the attitude of the Liberal Party in Canada toward Protection. To make such a statement is not to infer that the Liberal party has always, or in power ever, adhered strictly to those principles which it adopted for its own. Liberal newspapers have preached these policies. Men like Sir Richard Cartwright and Sir Wilfred Laurier sounded the clarion call of opposition to the National Policy after 1879 and, after 1896, so modified their views that Porritt speaks of the Liberal Tariffs after 1897 as the "Great betrayal". It is easy to condone, it is easier to condemn. All of the conditions which arise in a period of increasing protection became chronic in the long period of its unbroken application from 1879-96. Vested interests, public opinion, the sense of an established order, complicated the Liberal problem of destroying the National Policy after 1896. To this may be added the fact that the years between 1896 and 1910 were years of tremendous development and general prosperity. In such times it is difficult and becomes well nigh impossible to shange the established order. Perhaps the most complete political answer that can be made to the charge, that the Laurier government betrayed its economic principles, is to point to what happened when in 1911 the attempt was made to create a breach in the Protective system by a Reciprocity agreement with the United States. So long as Sir John A. Macdonald lived Reciprocity remained a hoped-for Tory goal. With the probability of its realization the Tory friends of

of protection cast Reciprocity to the winds, and, summoning every appeal which could be mustered, declared against any policy of "truck or trade with the Yankees".

In its darkest hour almost every cause has its doughty champion; and during the doldrums of the "tariff for Revenue" principles of the Liberal party, such a champion kept the flag flying. Dr. Michael Clark, sitting for Red Deer, continued without cessation to press this view upon the Legislature.(1)

The principle, enunciated by Young in 1846, re-iterated by Laurier and Cartwright at the convention of 1893, although it slumbered in disuse was not dead. The story of its re-emergence into political life is written in the history of the Agrarian movements of 1901-10, and the Western uprising of 1921. Its first triumph dates from 1924 -- its latest setback from August 27, 1930.

(1) "I am innocent enough to believe that you will trade better, just as you will run a race better if you do not have obstacles".
Dr. Michael Clark, House of Commons Debates, 1919, page 236.

"But my honorable friend (Mr. McMaster) said that he was in favor of tariff for revenue. He is the product, not of a quarter of a century ago but of the intervening period when the policy which had formerly been enunciated was lost sight of or not pursued with any great degree of enthusiasm".
Dr. Michael Clark, House of Commons Debates, 1919, page 236.

THE ELGIN-MARCY TREATY 1854-56.

It has been noted that the Canadian movement for reciprocity with the United States began with the announcement, February 1845, of Peel's Free Trade proposals in Britain. The movement was wide spread in Canada and in the Maritimes. The possibility of its accomplishment was barred, until 1849, by the Navigation Acts which were repealed at that time.

The observations of the Governor General Lord Elgin, made at this time, shed light on the conditions which prevailed in Canada, and his correspondence reveals that he pressed upon the home government the need for the immediate repeal of the Navigation Acts. He pictures mill-owners, merchants and shippers as ruined at "one fell swoop" by the Repeal of the Corn Laws. He notes declining revenues, and instances the falling off of Canal dues. He declares private property to be unsaleable and mentions that the civil list is paid in debentures which were not exchangeable at par.

Elgin was sufficiently impressed with the distress in the colonies that he held Annexation to the United States to be almost universally acceptable to the Commercial class of the colony.

Holding this view, and being a witness to the prevailing distress, it was natural that Elgin should seek to pave the way for Reciprocity with the United States. The fact that at

this time prosperity was being experienced in the United States lent weight to his argument and added fuel to the fire of Colonial discontent. Since the Navigation Acts stood in the way of any reciprocal relations with the United States Elgin's first objective was the repeal of these Acts.

Perhaps the best possible explanation of the motives which prompted Lord Elgin to press for Reciprocity with the United States is to be found in his own words. In a letter to Earl Grey, August 1850, he said, "To render annexation by violence impossible, or by any other means improbable as may be, is, as I have often ventured to repeat, the polar star of my policy". (1)

From Lord Durham's day until 1846 self interest had weighed in the balance on the side of the British connection. After 1846 self interest in the colonies seemed to weigh on the side of closer connection with the United States. In 1849 the wheat grown on the American side of the river brought one fourth more in the American market than the wheat of the Canadian farmer brought in his market, although their farms might be but three minutes walk from each other.

Under such conditions Lord Elgin conceived it to be essential that no political grievance should be permitted to exist between Britain and the colonies, hence his ready acquiescence in such

(1) Bourinot, "Lord Elgin" page 189

measures as the Rebellion Losses Bill of 1849, which, though controversial, was a purely Canadian affair. As a result of his enlightened support of the principle of self government a feeling of satisfaction prevailed in Canada.

His second achievement was the Elgin-Marcy Reciprocity Treaty which he saw accomplished after six years of untiring effort. The efforts of Mr. Hincks, of the Canadian Government, and the British Government were all unavailing. It was not until Lord Elgin went in person to Washington that the much sought treaty was arranged. The history of the negotiations lies chiefly within the annals of the United States congress and senate. In Canada there was little or no opposition at anytime - in the United States, more of indifference than opposition. The subject of the Treaty was introduced in the American Assemblies in each successive year from 1850 to 1854 and its final realization was perhaps as much due to the influence of the democratic southern vote as to the good offices of Lord Elgin. In the United States Southern sentiment had no desire for the annexation of Canada which they felt would strengthen the hand of the non-slave North and weaken the influence of the slave owning South. The Eastern States were interested in Canada as a source of the raw materials of manufacture, wool for example. The middle Eastern States were won over by the offer of free use of the

St. Lawrence waterway. On the Atlantic sea-board concessions, for mackerel fishing, and for the lumbering industry in Maine, offered by Canada, were instrumental in winning support for the treaty.

The Treaty exempted from customs duties on either side of the line certain articles which were the growth and produce of both the colonies and the United States. The principal items were: grain, flour, breadstuffs, animals, fresh, smoked and salted meats, fish, lumber of all kinds, poultry, cotton, wool, hides, ores of metal, pitch, tar, ashes, flax, hemp, rice and unmanufactured tobacco. Equal navigation rights were extended to the United States in the St. Lawrence River, the Canadian canals and Lake Michigan. The Maine Lumbermen were permitted to float lumber to the sea, via the St. John and other Maritime streams without payment of export duty. And finally the vexed question of the three mile limit was shelved by a clause which permitted the inhabitants of the United States to "take fish of any kind, except shell fish, on the sea coasts, and shores, in the bays, harbors, and creeks of any British Province, without any restriction as to distance, and (they) had also permission to land on these coasts for the purpose of drying their nets and curing their fish".

(1) The same privileges were granted to the colonial fishermen in American coastal waters north of the 36th parallel of north

(1) Bourinot, "Lord Elgin" page 199

latitude.

A proper appraisal of the worth of the treaty to either of the contracting parties, was rendered exceedingly difficult, if not impossible by the conditions which arose out of the American Civil War. On the whole, the weight of evidence tends to prove that the treaty was mutually advantageous. The volume of trade rose from the first, reaching in its final year, at war prices, the then enormous sum of \$84,070,955.00 whereas the average pre-treaty sum was \$14,230,763.00. No small measure of the success of the treaty was due to the fact that it promoted mutual sympathy and understanding and did much to destroy old antipathies and prejudices. Such a result was one of Lord Elgin's objectives and is everywhere repeated in the history of freer trade movements.

The advantages which accrued to the lumber and grain producers of Canada were such that no political party dared, to do otherwise than to attempt to renew the treaty after its abrogation. Reciprocity with the United States remained a plank in the platform of both the Canadian political parties till after 1900. It is true that the sincerity of the efforts made by the later administration of Sir John A. Macdonald, has been called into question. It is equally true that, irrespective of their sincerity, they recognized and pandered to the popular demand.

The advantages of the United States are more difficult to fix. The fishing, and waterway concessions were certainly most valuable. The woollen industries deplored the abrogation of the treaty, claiming that they would be virtually exterminated. A commission to report to Congress on the treaty resulted in two reports. Such a result was inevitable since the effect of the treaty was sectional rather than national. Israel T. Hatch of Buffalo, New York, one of the commissioners reported unfavorably. He pointed to the protectionist tendencies of the Canadian Tariffs of 1858-9, reporting them to be "avowedly based on an isolating and exclusive policy" (1) Hatch based his recommendation for abrogation on the rising tide of protectionist feeling in Canada. So great were his objections that he regretted the necessity of the two year notice clause.

James W. Taylor of St. Paul, Minnesota, the second commissioner, submitted a report which admitted defects from the United States point of view, but recommended amending the treaty and opposed abrogation. His viewpoint is that of the middle western states. He visualized a populated Canadian Northwest Territory and declared the possibilities and advantages of a future customs union. His report quoted freely from Western United States sources in favor of the continuation of the treaty, and in summing

(1) Porrit, "Protection in Canada" Second Edition, page 115.

up he held that what was needed was revision in accord with "the principle which the United States has always advanced -- freedom and not restriction of commercial intercourse" (1).

This principle was, however, no longer a dominant force. As was noted in the introduction to this thesis, the policy of protection was particularly rampant in the United States immediately following the Civil War. The representatives of the industrial states, which had been adversely affected by the Cayley and Galt tariffs of 1858-9, pressed for notice of abrogation. Resentment against Britain and Canada, arising out of their real or supposed sympathy for the rebelling South, added to the discontent with which the treaty was regarded. The idea that Canada was dependent upon the treaty for her economic welfare was seized upon by some who sought to intimidate her into the Union by abrogating it.

The friends of the Treaty in the United States took, for its defense, the attitude that by amendments all that was wrong with it might be rectified. In Canada efforts were made to win favorable American opinion for its continuance. On a memorable occasion Joseph Howe delivered to an American audience one of the most stirring addresses of his career. His plea^f was favorably received but the tide of opinion was too strong. The treaty was

(1) Porrit, "Protection in Canada" page 118
Second Edition

doomed, and on March 17th, 1865 formal notice of denunciation was given to Lord Palmerston's Government in London.

RECIPROCITY WITH THE UNITED STATES

From 1865 until 1899 there was in Canada a latent hope for the renewal of reciprocal trade relations with the United States. Such an arrangement was a plank in the platform of both the political parties, and, despite the coldness with which all proposals were received by the government of the United States, successive pilgrimages were made from Ottawa to Washington. The failure of these delegations brought from Sir Wilfred Laurier a declaration after 1899, that in so far as his government was concerned suggestions for the renewal of reciprocal relations would have to come from Washington. Chief among those who sought Reciprocity were the grain farmers of Ontario and Quebec and the fishermen of the Maritimes. The situation in which the Maritime fishermen found themselves after 1859 was not of their own creation. In so far as the national policy tariffs of Cayley and Galt were instrumental in influencing the United States to abrogate the treaty of 1854, the Maritimes were guiltless, and yet the abrogation of the treaty bore heavily upon them.

The grain farmers whose principal market was destroyed by the abrogation of the Elgin-Marcy treaty had no part in the organizations which engineered the tariffs of 1858-9. These were tariffs designed in the selfish interests of an exceedingly small industrial group and their success cost of the agricultural producers of Canada the market which had brought them eleven years

of unparalleled prosperity.

Under such circumstances it is not surprising that we find Canada anxious to renew reciprocity with the United States. Three efforts to renew the treaty were made between 1866 and 1874. The first two efforts were futile. The United States government was interested enough to appoint Mr. J.M. Larned of Buffalo, a Canadian by birth, to make an investigation of trade relations between Canada and the United States. His report was submitted to Congress in 1871 and its content is largely a justification of American abrogation of the Elgin-Marcy treaty. Mr. Larned did, however, hold that although the old treaty was bad from the American standpoint, freer trade between the two countries was desirable and a matter to be adjusted. In his view, the protectionist sentiment of Canada as implemented by the Galt Tariff of 1859, was an almost insurmountable barrier to such an arrangement, and further, he pointed out that Canada could not discriminate in favor of the United States as against the Mother Country, Great Britain.

So much for the results of the first two attempts. When the Mckenzie administration came into office in 1874 a vigorous attempt was made to renew reciprocity. Sir John A. Macdonald's tariff of 1870, the first after confederation, and the last Tory tariff before the National policy became a Tory platform plank, offered reciprocity on similar terms to those offered in 1846.

Washington was not interested in Reciprocity of natural products and nothing was done until McKenzie appointed George Brown a commissioner to Washington in an attempt to renew Reciprocal relations. With Brown was associated Thornton, the British Minister at Washington. As a result of their labors a draft treaty was drawn up in 1874 for presentation to the Congress of the United States.

Brown and McKenzie were free traders; and although the negotiations of 1874 were abortive they are important because the statement of conditions submitted by Canada fixes the high water mark of official Free Trade Sentiment in Canada. Under McKenzie in 1874 the Liberal party, in office, was actually that which in opposition it purported to be until 189⁶, the party of free trade.

Admittedly, industrial development, although well established in Canada in 1874, has scarcely assumed proportions of great national importance. It is true that no such array of vested interests confronted McKenzie as were to confront Laurier in 1897. It is noteworthy that as a result of the National Policy all these conditions which arise in a era of protection had assumed tremendous proportions in the brief span of time between 1878 and 1897.

In a memorandum of April 28, 1874 the McKenzie government expressed its desire for a freer exchange of commodities so long

as it was not seriously prejudicial to Canadian interest. This saving clause is indicative of the recognition that the effect on Canadian industry would not seriously prejudice Canadian interests as a whole. The memorandum suggested that the free list include: animals and their products; products of the farm; products of the mines; products of the water; dye stuffs, agricultural implements, to be defined; bark; bricks; ochres; hay; tme; malt; manufactures of iron or steel; manufactures of iron or steel and wood jointly; manufactures of wood; numeral or other oils; plaster, raw or calcined; salt; straw; stone, wrought or unwrought.

The Tory Government of Britain approved the memorandum. A draft treaty was formulated and was sanctioned by Great Britain. It's fate now lay with the Senate of the United States. From 1859 to 1862 Isaac Buchanan had advocated Commercial Union. The McKenzie-Brown Draft went as far in reciprocal offers as Canada could go, short of Buchanan's plan. Nevertheless, the treaty was rejected by the Senate of the United States.

COMMERCIAL UNION

Commercial Union was to be seriously advocated in 1867 but in 1874 its hour had not yet struck. The free trade ideals which dominated the administrative acts of the McKenzie government continued to be cherished by the Liberal Party in opposition, and reached their most positive endorsement at the Liberal Convention called in Ottawa in 189³. In the interval the Commercial Union ideal of Buchanan became an important question.

In 1867 Commercial Union came to be regarded as the alternative to a renewal of Reciprocity with the United States. After 1874 hope for Reciprocity flagged in Canada and men like Goldwin Smith bent their efforts to achieve a continental Zollverein in America. They looked for the abolition of customs barriers between Canada and the United States and a common rate of tariff against the rest of the World.

The weakness of the movement lay in the fact that it involved discrimination against the Mother country. Its defenders pointed out that the protectionist traducers of the scheme had already effectively legislated against British manufactures and, with less justice, declared that Britain having deserted the colony in 1846-9 could not resent it if the colony made the best bargain possible in her own interests.

In the United States the movement received strong support on economic grounds and in Canada influential papers, such as the "Toronto Mail", and, for a time the "Globe" supported the movement. Trade was actually moving north and south - it seemed a fine distinction as to whether unrestricted trade was in any degree less loyal to the Mother Country than the trade which then prevailed. To the charge that commercial union was but a step to political union the "Globe" replied that on the contrary it would remove the only temptation to annexation which existed: the desire to share in a wider market.

In reply to the charge of disloyalty levelled against the Commercial Unionists, the ^{answer} ~~reply~~ was made that Britain could remedy the conditions which made the Union imperative by a preference on foodstuffs - and that this she had repeatedly refused to do. The project was opposed, from its inception, by the protectionist Tory press. They urged that such a proposal was disloyal; that it would subject Canadian manufacturers to the highly organized competition of the United States; that it involved the acceptance by Canada of a Made-in-Washington tariff; that political union would be the inevitable result.

Although the demand was made for an election to decide the issue of Canada's attitude toward Commercial Union, such an accomplishment was impractical. The Tory party opposed the project and the Liberal Party, as such, never allied itself with

it. It is true Sir Richard Cartwright, the most representative Liberal of the day, in Ontario, was favorable. It is equally true that Wilfred Laurier the Liberal Leader refrained from giving even qualified approval in the election of 1891. Mr. Blake refused his blessing whilst expressing his consciousness of the need for freer north and south trade movement.

The Liberal position was clarified by the caucus of 1888. A resolution introduced by Sir Richard Cartwright reads as follows: "That it is highly desirable that the largest possible freedom of commercial inter-course should obtain between Canada and the United States, that it is expedient that all articles manufactured in, or the natural products of, either of the said countries, should be admitted free of duty into the ports of the other, articles subject to duties of excise or of internal revenue alone excepted: that it is further expedient that the government of the Dominion should take steps at an early date to ascertain on what terms and conditions arrangements can be effected with the United States for the purpose of securing full and unrestricted reciprocity of trade therewith". (1)

Subsequent events would seem to indicate that the resolution was stronger than the sentiment of its sponsors. Perhaps the desire to take issue with Macdonald's government actuated the caucus in permitting this wording to stand. In any event the Liberal Party was definitely committed.

(1) Willison, "Sir Wilfred Laurier and the Liberal Party" page 148.

THE CANADA FIRST MOVEMENT

The aims of the Canada First Movement were set forth in 1874 by that great Canadian Statesman, Edward Blake. He defined them as: Consolidation of the Empire; a voice for Canada in the making of treaties affecting the Dominion; the development of commercial, and eventually, political relations with the West Indies; the adoption of the secret ballot; compulsory voting; abolition of property qualifications for members of parliament; and the reorganization of the Senate.

In Ontario the members of the movement were, for the most part, protectionists. In Quebec the adherents of Canada First were recruited mainly from the "Parti-National" under which name the erst-while "Rouges" were organized. In this group also protectionist leanings were prevalent. Opposed to these groups ~~was~~ ^{were} the Free Trade government of Alexander Mackenzie and the more or less organized sentiment of the Maritime Provinces.

Previous to 1875 protection was hardly to be termed a party issue. Following Confederation in 1867 concessions to the Free Trade sentiment of the Maritimes resulted in a downward revision of Falt's protectionist tariff of 1859. Macdonal's ^d tariff of 1870 made some attempt at conforming to the tariff for revenue program which both parties had virtually accepted. With such a tariff either party was prepared to view with tolerant approval such protection as this so called tariff for revenue might afford. In the ranks of both parties there were men who were free traders but

prior to 1875-6 their political affiliations were not out of keeping with their fiscal beliefs.

When Mackenzie refused to raise the tariff in 1876 the Conservatives under Sir John A Macdonald declared for protection. The Canada First Party became divided into two factions. On the one side, were arrayed those who believed in Commercial Union or at least reciprocity with the United States as a basis for the development and expansion of Canadian enterprise. On the other, were those who adopted as their objective, a protective policy which would aid in the development of Industrial Canada and ultimately make her a self supporting community.

The aims of the protectionist of 1876 are more understandable than those of their apostolic successors the protectionists of 1931. The Canada of their immediate knowledge and concern consisted of Ontario, Quebec and the Maritimes. Of the then new provinces of Manitoba and British Columbia comparatively little was known, save to the few. Consideration for their needs or for the needs of the then virtually untouched areas of the Northwest Territories was naturally lacking. The possibility of creating an industrial organization sufficiently extensive to create an effective home market was at least a possibility. With the development of production in the West which began in the late nineties, and still continues, the creation of an effective home market for primary

products has become a ridiculous farce. Such is the tenacity of the protectionist grip on the theories of protection, however, that the hope of a home market sufficient to absorb our present export surplus is still dangled before the eyes of a credulous and financially distraught populace.

Of the other ideals which actuated the Canada First Movement a word may be said in passing. The demand for a voice in treaty making has been granted more completely than the conception of that day envisioned. Commercial relations with the West Indies improved materially during the late administration of W.L. Mackenzie King. Political relationship would appear to be as far removed as in 1874 and, perhaps, less earnestly to be desired. The secret ballot has been adopted; compulsory voting is only fitfully urged; the property qualification for a seat in parliament has been removed; and Senate reform is fifty-seven more years overdue.

It is for the impulse which the Canada First Movement gave to the National Policy of Protection that it is remembered. Its slogan has been revived by the Bennett administration of the day as the rallying cry of the forces of protection and more protection. While the protectionist members of "Canada First" condemned Commercial Union and unrestricted Reciprocity as disloyal in 1870, the new disciples of Canada First have in the person of their

high priest the Right Honorable R.B. Bennett served notice on the Mother Country, and backed words with customs duties, that "Canada First" makes no exceptions on patriotic grounds. Indeed, lest there be any doubt, the Prime Minister has gone to the length, in his reply to a remark of the Honorable J.H. Thomas, of threatening to leave out the Mother Country in future consideration of Canada's fiscal arrangements within the Empire.

The influence of this movement on the fiscal policies of Canada is written in the history of the National Policy.

THE NATIONAL POLICY 1879-1896.

The doctrine of the Association for the Promotion of Industry was carried to its first triumph in the Cayley and Galt Tariffs of 1858-9. Each success increased the desire for more and the ranks of the supporters of protection were constantly increasing. When Sir John A. Macdonald's government was defeated in 1874 the organization found itself without friends in the government, and a reorganization took place resulting in the formation, in 1876, of the National Policy League.

Defeated, and as it seemed, disgraced, Sir John's head was "bloody but unbowed". His leadership of the remnants of the Confederation administration, now in opposition, was unchallenged. Sir John in his hour of political extremity cast about for a policy which might carry his party and himself to power with the swing of the political pendulum.

Alexander Mackenzie's free trade principles, and those of his able lieutenant Cartwright, were at variance with the "tariff for revenue" and even protectionist sentiments of some of his supporters. Hesitation about raising the tariff in 1876 and the final refusal to do so indicated to Macdonald a weak spot in the administration's armour. In the programme of the National Policy League he found the material for a fight and he made that organization his own. It was easy for Sir John to take the position which

he now adopted. "He had argued for incidental protection in 1846; had associated himself in 1850 with the British American League which aimed at forming a commercial national policy; had supported Galt when as Finance Minister in 1858 he had announced protection to native industries as the policy of the government; and had advocated readjustment of the tariff to favor home manufacturers in the general elections of 1861 and 1872". (1)

The movement for a national policy such as was promoted by the British American League was fostered by the obvious intention of the United States to abrogate the Elgin-Marcy treaty. It is significant that while Sir John approved as early as 1850 he was not an active protectionist until after 1874. His was never a policy of pioneering, his rather to watch and wait, clinging in true conservative fashion to what he had until the new was proven and virtually forced upon him. Then having been seized with its inevitability he promptly made it his own; so with Confederation, so with the National Policy. ^{now} The time was ripe for protectionist propaganda. Time and time again history records the revival of protectionist policies in times of depression. To such an extent is this true that the student is tempted to dub it the child of despair. The year 1876 was no exception to the general rule. Trade was depressed, manufacturing stagnant, the products of the farm and forest brought relatively poor returns. In the season of 1876 Sir John outlined conditions and demanded protection.

(1) Parkin, "John A. Macdonald" page 219.

Mackenzie denied the power of government to alleviate the distress and advocated personal economy and patience till the turn of the tide. "While Macdonald and his followers were advocating what was at least a specious remedy for the industrial depression, the Liberals had no alternative to offer save the recommendation to the electorate to practise thrift and to wait for the swing of the economic pendulum." (1) History would seem to repeat itself when we consider this appeal and answer in the light of what transpired in the 1929 session of the Canadian Parliament. It repeated itself again in the result of the elections which followed in 1879 and 1930.

The adoption of the National Policy by Macdonald is marked by the campaign throughout the constituencies which followed this event. A series of political picnics were organized at which he spoke. Unemployment was rife and in the industrial centres artisans were given a holiday when Sir John spoke. Unemployed and factory worker thronged to hear him speak. These passages, quoted by G.R.Parkin, from a speech at the Norfolk picnic illustrates the style and argument of Sir John at the political picnics of 1876.

"We are in favor of a tariff that will incidentally give protection to our manufacturers; that will develop our manufacturing

(1) Parkin, "John A. Macdonald", page 223.

industries. We believe that it can be done, and if done it will give a home market to our farmers. The farmers will be satisfied when they know that large bodies of operatives are working in the mills and manufactories in every village and town in the country. They know that every man of them is a consumer, and that he must have pork and flour, beef and all that the farmers raise, and they know that instead of being obliged to send their grain to a foreign and uncertain market they will have a market at their own door. And the careful^e housewife, every farmer's wife, will know that ~~ev~~erything that is produced under her care -- the poultry, the eggs, the butter and the garden stuff -- will find a ready and profitable market in the neighboring town and village".

"No country is great with only one industry. Agriculture is our most important, but it cannot be our only staple. All men are not fit to be farmers; there are men with mechanical and manufacturing genius who desire to become operatives or manufacturers, of some kind, and we must have means to employ them, and when there is a large body of successful and prosperous manufacturers, the farmer will have a home market for his goods, and we shall have nothing to fear. And therefore I have been urging upon my friends that we must lay aside all old party quarrels about old party doings. Those old matters are matters before the flood, which have gone by and are settled forever, many of them settled by governments of which I was a member. Why should parties divide on these old quarrels? Let us divide on questions affecting the

present and future needs of the country."

"The question of the day is that of the protection of our farmers from the unfair competition of foreign produce, and the protection of our manufacturers. I am in favor of reciprocal free trade if it can be obtained, but so long as the policy of the United States closes their markets to our products we should have a policy of our own as well, and consult only our own interests. That subject wisely and vigorously dealt with, you will see confidence restored, the present depression dispelled, and the country prosperous and contented". (1)

By 1878 the word protection had disappeared from the pronouncements of Macdonald. His natural political shrewdness forbade making the issue a clearcut fight between the Reciprocity and Commercial Union advocates and those who might hope to profit by protection. The wording of the resolution which he introduced in 1878 is framed to appeal to all the varied interests of the electorate. It reads in part; "That this House is of the opinion that the welfare of Canada requires the adoption of a National Policy which by a judicious adjustment of the tariff will benefit and foster agricultural, the mining, the manufacturing, and other interests of the dominion". (2) In his speech he goes on to defend such a policy on the ground that the result will be to hasten Reciprocity which all parties claim to desire.

(1) Parkin "Sir John A Macdonald", pages 221-2-3.

(2) Parkin "John A Macdonald", page 225

Before proceeding to the consideration of the Tariff of 1879 it will, perhaps, be wise to look for a moment at the legislation of 1870. In the tariff rates of that year three details stand out pre-eminently. Despite the fact that, due to the free trade sentiment of the Maritimes, the tariff was, on the whole, for revenue rather than protection, the first serious blow was struck at British shipping and British trade. A duty on coal, fifty cents a ton, was imposed on bituminous and anthracite although no anthracite was then mined in Canada. British ships to Montreal and Quebec came with coal in ballast, in the previous year 1869, 159,000 tons had arrived in British ships at these ports and 26,000 tons to Maritime ports. (1) The duty was aimed at this trade and Britain paid it until it was repealed in 1871.

The second noteworthy feature was the preference which British salt enjoyed, paying no tax while American salt paid five cents per fifty-six pound bushel. This was a frankly retaliatory duty against the United States and is the first and only example of British preference prior to the Fielding enactment of 1897.

One other feature distinguishes the tariff of 1870. For the first time in Canada, an attempt was made to protect agriculture. The method was a tax of 25 cents on a barrel of flour and taxes on cereals -- the object was to impress upon the

(1) Porrit, "Protection in Canada" page 227
Second Edition.

United States the potential power of Canadian retaliation. The measure was intended also to convince the farmers of Ontario and Quebec of the value to them of the National Policy. On every count the scheme was a flat failure. Within a year Maritime agitation resulted in the repeal of these protectionist devices.

Cartwright in his budget speech of 1878 declared that his party would fight protection to the death and in the course of his speech he declared, "--that all taxation however disguised is a loss per se"²; that it is the duty, and the sacred duty of Governments, to take from the people only that which is necessary to the proper discharge of the public service; and that taxation in any other mode is simply in one shape or another legalized robbery." (1)

Cartwright's speech was followed by Sir Charles Tupper's. Tupper maintained that a revenue tariff policy was possible that would at the same time protect Canada from the rest of the world, and, by resort to specific duties on foreign imports, show a preference to Britain.

Mr. Patterson, Mackenzie's minister of customs replied that a British Preference involved retaliatory measures against the United States. He pointed out that in a tariff war with that country Canada would inevitably come off second best.

(1)"House of Commons Debates" February 22nd, 1878

The subsequent attitude of the Tory party to British Preference would seem to indicate that the preference suggestion of Sir Charles Tupper was an example of what Canadians are wont to term "eye wash" or as our American neighbors have it "window dressing". Nothing has since transpired that would indicate it to be more than a political pre-election gesture.

Sir John's speech followed the line of the excerpts from his picnic speech quoted above, but, unlike his present day disciple, Mr. Bennet, he added the admission that the National policy would increase the price of protected products. He attempted, in so doing, to show that by tariff arrangement a lowering of duties on commodities not produced in Canada would compensate the consumer. His classical example was that a lowered tax on tea would compensate for an increase in the price of cottons.

The national policy would, be declared, foster inter-provincial trade. He omitted to state that such trade between the central provinces and the maritimes could only take place at the expense of the trade with the Motherland.

Without reciprocity in tariffs there could be no reciprocity in trade. A policy which failed to realize this Macdonald described as a "jug handled policy". He declared that Canada had become not only a sacrifice but a slaughter market for the

manufacturers of the United States. The policy of these interests, he declared, was to sacrifice prices in order to under-sell the local product and thus cripple Canadian enterprise; and further to glut the Canadian market with the surplus of American factories at slaughter prices rather than to lower the price to the consumer in the United States.

Perhaps the most memorable utterance of the campaign of 1879 was Macdonald's declaration to an audience in Hamilton, cradle of Canadian protection, he said: "I cannot tell what protection you require. But let each manufacturer tell us what he wants, and we will try to give him what he needs". (1)

Victorious on the issue of protection, Sir John and his government implemented this promise. "Needs and wants," says Skelton, (2) "were judged not to lie far apart."

Only in the Maritimes did Macdonald and his followers deny that the national policy meant higher tariffs. Here the contention was that revision and not increase was the plan of the National Policy. Such was the position taken by Arthur Meighen during his tour of the West in 1926.

- (1) Porritt, "Protection in Canada" page 266,
Second Edition.
(2) Skelton, "The Day of Sir Wilfred Laurier"
page 56.

The budget speech in which Sir Leonard Tilley introduced the National Policy in 1879 is the first declaration of the policy of the Macdonald Government. A significant statement is the explanation that the Cabinet had summoned the manufacturers to Ottawa to confer with them on tariff proposals. Since 1879 it has not been necessary to summon them; they have perfected a system of lobbying which is second to none. The outcome of the conference between Macdonald's cabinet and the manufacturers was a tariff schedule in which duties of seventeen and one half percent were increased to duties ranging from twenty to forty percent.

Tilley regretted that the era of prosperity, soon to result from the benefits of the National Policy, must be preceded by an increase in taxation. Where an industry produced a variety of products, a sliding scale of duties was adopted with high rates on those which were wholly imported. In this manner special consideration was given to the cotton industry, at that time only established in Canada in a small way.

The duty on coal, which was designed to assist the Maritime producers of coal, has already been dealt with. Special consideration for small factories owned by influential men was a feature of the enactment of 1879. A clock-maker in Hamilton secured a tariff of thirty-five percent. Nova Scotia had but

one blast furnace in 1879 capable of producing but one quarter of the Dominion's need, yet a duty of "two dollars a ton was imposed on pig iron; two dollars a ton on scrap iron; twelve-and-a-half percent on slabs, blooms, billets, and puddled iron bars; and seventeen-and-a-half percent on merchant iron".(1)

Two years later this solitary highly protected concern was bankrupt. As a result of this failure the Macdonald Government began, in 1883, a system of bounties to the iron and steel industry which by 1900 aggregated over \$2,000,000.00 a year. Apart from the fact that it was this government which first placed Canadian fiscal policy squarely on a protectionist foundation, the chief interests of the Macdonald regime from 1879 to 1891 are political and social rather than fiscal. The completion of the Canadian Pacific Railway, the Northwest Rebellion, the opening up of the West were problems which centred attention and left the government unhampered by serious criticism of the working out of protectionist principles, on the part of the general public.

It was not so in the House of Commons - Sir Richard Cartwright, Mr. Charlton, indeed all, or almost all, of the sixty five Liberal members of the House continued session after session to denounce protection as robbery and to plead for free trade as it was commonly called. More accurately the policy of the then Liberal party has been termed Tariff for revenue only.

(1) Porritt, "Protection in Canada" page 272
Second Edition.

All of the evils which are the outcome of protectionist policies were prophesied and realized between 1879 and 1891. Canadian experience duplicates that of other countries, for example the United States after the Dingley tariff of 1879. Trusts and combinations-in-restraint-of-trade developed under the system and resulted in anti-trust legislation in 1889, 1897 and again in 1907. The Act of 1889 was Macdonald's answer to irrefutable evidence that combines-in-restraint-of-trade existed in the coal, sugar refining, wholesale grocery, binder-twine, salt, and coffin making industries. Such combination was proven to have existed in the cotton industry since the inception of the National policy. In every city and province this condition prevailed. The Act of 1889 was obviously intended to still the public outcry which the anti-government forces had aroused. Its effect on the combines was negligible. The Acts of 1897 and 1907 belong to the period of the Laurier administration.

From 1879 to 1896 the Liberal party continued, in the House and elsewhere, to denounce the government on the ground of corrupt practise. Out of the summoning of the manufacturers to Ottawa in 1879 there grew a system of lobby and contribution which not only corrupted government members but the great body of the public who condoned it. It was freely charged in the House that at these conferences of the so called "Red Parlour"

sums were levied on the manufacturers as contributions to the Tory election chest and that these contributions were in return for, or in anticipation of, tariff favors. To the direct charge made by Cartwright in the House, Mackenzie Bowell could only reply that the charge was ungentlemanly. Sir Charles Tupper was even less diplomatic when he declared that the Canadian people had no proof of such a condition of affairs. "I say the Honorable gentleman cannot prove it. There is no evidence in existence so far as the people in Canada know". (1)

Motions for the tabling of documents letters and other departmental information were voted down, were evaded by subterfuge or brazenly ignored. In ten years the level of Canadian political morality, formerly none too high, had sunk to the level of back-room intrigue.

It is not a difficult matter to pile up evidence of political corruption during the years from 1879 to 1896. The testimony of public men is everywhere on record. Speaking at the Liberal convention of 1893 Sir Wilfred Laurier said, "One of the evils of the National policy and of the system of protection has been here, as everywhere else, to lower the moral level of public life". (2) Sir Richard Cartwright, speaking at the same convention, was more explicit. He said "at this

(1) "House of Commons Debates" March 22, 1892.

(2) "The Official Report" page 35.

moment throughout Canada there exists a most unusual degree of political corruption. And I am sorry to have to say that in Canada, as Canada exists today, public opinion is but a small and weak factor in remedying the evils with which you have to deal. It has remained for this parliament deliberately and publicly to condone the very vilest corruption that could be committed in a country having free institutions." (1).

The system of the "Red Parlour" was explained briefly and clearly by Sir Richard Cartwright. Dealing with the tariff of a cent a pound on rice he estimated a profit of \$170,000.00 a year to two Canadian mills which cleaned imported paddy rice. Of this sum, mulcted from the consumer, he declared that some fifteen thousand dollars was contributed to the election fund of the government. Although the charge was made in the House it was not refuted. Huge sums were expended at elections - the origin of these monies was always shrouded in mystery. Under such conditions it became difficult to legislate contrary to the wishes of the "friends" of the administration. To a lesser degree, let us hope, this evil has persisted in federal politics until the present day. A realization of this has led to legislation demanding returns of monies expended at elections and led also to the antipathy with which the Farmer Organizations of the West have regarded campaign funds.

(1) The "Official Report" page 42.

It was not until the National Policy had extended its scope under the Liberal administration elected to destroy it, that it can be properly studied in retrospect and its evils clearly perceived.

THE NATIONAL POLICY AND THE
LAURIER ADMINISTRATION 1897-1911.

Two estimates of what developed after 1896 in the Liberal party's attitude toward the National policy are of particular interest. The first is from Sir Charles Tupper, Conservative leader in the House of Commons 1897. He said: "The result is that this tariff goes into operation and the honorable gentleman knows that the industries of this country are already paralyzed in consequence, while honorable members gloat over the destruction of Canadian industries---one manufacturer after another declared that their industries were ruined, that their mills must close, and that they saw staring them in the face a return to the deplorable state of things that existed when the honorable gentleman who last addressed the House, (Sir Richard Cartwright), was in charge of the fiscal policy of this country. I say that a deeper wrong was never inflicted on Canada. I deplore from the bottom of my heart the ruin that is going to be inflicted upon the best interests of Canada and upon its great industries --- they (the Government) now prepared to abuse that power at a cost of a sacrifice of the industries of Canada". (1)

The second is a quotation from a letter written to the Conservative Caucus of 1901 by the same Sir Charles Tupper. He wrote in part; "The National Policy of protection to Canadian industries was carried by the Liberal-Conservative Party in the

(1) "House of Commons Debates", 1897.

face of an opposition which denounced protection as immoral, unwise and ruinous to Canadian interests. Where is the Canadian statesman who today (1901) would advocate free trade, unrestricted reciprocity or commercial union?" (1)

Four years elapsed between the expression of these two opinions, ^(N)grating their sincerity we are constrained to discover just why fear had merged into complacence.

We have seen how the National Policy came into existence. It has been shown in the extent and nature of its application. As a prelude to the study of its fate at the hands of the administration of Sir Wilfred Laurier it might be well to look at this policy as the Liberal party saw it in opposition in 1893.

"The Tariff - We, the Liberal Party of Canada, in Convention Assembled, declare:-

That the customs tariff of the Dominion should be based, not as it is now, upon the protective principle, but upon the requirements of the public service; that the existing tariff, founded upon an unsound principle, and used, as it has been by the Government, as a corrupting agency wherewith to keep themselves in office, has developed monopolies, trusts and combinations.

It has decreased the value of farm and other property;
It has oppressed the masses to the enrichment of a few;
It has checked immigration;

(1) "Peoples Almanac, 1902" page 43.

It has caused great loss of population;

It has impeded commerce;

It has discriminated against Great Britain;

In these and in many other ways it has occasioned great public and private injury, all of which evils must continue to grow in intensity as long as the present tariff system remains in force.

That the highest interests of Canada demand a removal of this obstacle to our countrys progress, by the adoption of a sound fiscal policy, which, while not doing injustice to any class, will promote domestic and foreign trade, and hasten the return of prosperity to our people.

That to that end, the tariff should be reduced to the needs of honest, economical and efficient government.

That it should be so adjusted as to make free, or to bear as lightly as possible upon, the necessaries of life, and should be so arranged as to promote freer trade with the whole world, more particularly with Great Britain and the United States.

We believe that the results of the protective system have grievously disappointed thousands of persons who honestly supported it, and that the country in the light of experience, is now prepared to declare for a sound fiscal policy.

The issue between the two political parties is now clearly defined.

The Government themselves admit the failure of their fiscal policy, and now profess their willingness to make some changes; but they say that such changes must be based only on the principle of protection.

We denounce the principle of protection as radically unsound, and unjust to the masses of the people, and we declare our conviction that any tariff changes based on that principle must fail to afford any substantial relief from the burdens under which the country labors.

This issue we unhesitatingly accept, and upon it we await with the fullest confidence, the verdict of the electors of Canada." (1)

Such a lengthy quotation is justifiable on the ground that its full context is essential to an understanding of the obligation which devolved upon the Laurier Government when they assumed power in 1896. In order that the leader, Sir Wilfred Laurier may be placed on record reference is made to a speech which he delivered in Winnipeg on September 3, 1894. In the course of this much quoted speech he said, "I denounce the policy of protection as bondage - yea; bondage; and I refer to bondage in the same manner that American slavery was bondage. Not in the same degree perhaps but in the same manner. In the same manner the people of Canada, the inhabitants

(1) The Official Report of the Liberal Convention, Ottawa 1893, pages 71-2

of the city of Winnipeg especially, are toiling for a master who takes away not every cent of profit, but a very large percentage, a very large portion of your earnings for which you sweat and toil." and again, "as soon as we shall have a Liberal Administration at Ottawa -- and I think we shall have one before very long, although it is not for me to say when, we shall give you free trade; and, although it will be a hard fight, we shall not give in one inch or retrace one step until we have reached the goal and that goal is the same policy of free trade as exists in England today." A minute later he said: "In the meantime -- we must content ourselves with obtaining revenue from customs and similar sources". (1)

It is on the third and qualifying quotation that interest is fixed. Coming as it does after a most definite declaration of free trade ideals, it paves the way for his later policy of delay in tariff reduction on revenue grounds.

With one further quotation from his Winnipeg speech we pass on. He said: "I come to expose to you the policy of the Liberal party. Let me tell you that the policy may be summed up in the good Saxon word "Freedom", in every sense of the term -- freedom of speech, freedom of action, freedom of religious life and civil life, and last, not least freedom in commercial life".

(1) "Manitoba Free Press" September 3, 1894.

What have his contemporaries recorded of the achievements of the Laurier administration?

In 1899 George Foster discussing the tariff reductions of the Administration pointed out that Mr. Laurier had borrowed the Conservative policy. Mr. Foster showed that between 1880 and 1887 the average customs rates on dutiable commodities coming into Canada was 26½%. In 1896, 29.94%; in 1897, 29.96%; in 1898 the first year in which the Liberal government's tariff was in force it was 29.22% and in the first months of 1899 it was 28.95%. (1)

"The general reduction in the tariff under the Liberals did not amount to one third of one percent."

Two opinions expressed in 1904 are significant. Mr. W.K. George, president of the Canadian Manufacturers Association speaking at a Banquet of the Association said: "Canada has learned that her progress does not depend on favorable trade arrangements with the United States but that she possesses in her British connections these markets where she can dispose of all her products. The Canadian people now realize that to build up their industries and develop their resources Canada must have a tariff that will furnish protection against the cheap labor of Europe and the immensely developed industries of the United States. There is no longer any free trade party in Canada. The question of tariff is

(1) "Peoples Almanac 1900" page 54.

simply one of degree." (1)

Agnes Laut, writing for an American publication, and representing as she undoubtedly did a widely held Western Canadian opinion has this to say "It would puzzle anyone to find the difference between the policies of the Liberals and Conservatives. In theory, the parties are poles apart. Liberalism means free trade; Conservatism, protection; but in practise, the Liberal government of Sir Wilfred Laurier, which came into power of the platform of as ardent free trade as Cobden himself could have advocated; has simply continued the protection of Sir John A. Macdonald, the great Conservative."

"Nor is this the fault of the Laurier Government. For Canada, free trade could only be trade with the United States, and this the Liberal Government faithfully tried to obtain -- but they failed to get tariff concessions from the United States and Laurier the free trader was forced to fall back on the protection of Sir John A. Macdonald". (2)

Out of the welter of conflicting opinion, of the pro and con arguments, it is difficult to co-ordinate an opinion which will not be challenged. Perhaps it is impossible. A recital of the facts of what actually transpired in these years, is, of itself, no mean task.

- (1) "The Trend of Political Affairs in Canada"--
"American Review of Reviews", November, 1904.
- (2) "The Trend of Political Affairs in Canada"--
"American Monthly Review of Reviews", November 1904

The tariff was revised in April 1897. Before the revision members of the cabinet visited various Eastern centres and heard representations from manufacturers, importers and others as to tariff needs and opportunities for reform. These hearings were public, the Press was admitted, an innovation in contrast with the secret meetings of the "Red Parlour". These sessions were ignored by farmers and consumers generally and the pleas of the manufacturer were not disregarded in the new tariff.

From the first the government recognized that vested interests had been created by the National policy and by bounties. The prediction made by Cartwright that a Liberal government would ignore vested interests which grew out a tariff imposed, not for the general good but for the selfish few, failed of materialization. Humanitarian and political considerations as well as the requirements of revenue made such an under taking virtually impossible.

This difficulty was recognized by Adam Smith who states that when manufacturing industries have grown up under high protection, "humanity may in this case require that the freedom of trade should be restored only by slow graduat^{ions}, and with a good deal of reserve and circumspection." (1)

It is too much or too soon to expect that matters falling into the hands of politicians will be dealt with on any basis

(1) Adam Smith, "Wealth of Nations", Book IV, Chapter 2.

which is not, in part at least, political. One of the most damning arraignments of protection is that it places the application of what is in reality a set of scientific principles under the control of men who are unscientific and who are furthermore swayed by considerations which have no bearing on the subject. Government under a system such as prevails in Canada is only possible by compromise and in such a system purely scientific development of policy solely with a view to the public good is not to be expected. Within the ranks of the Liberal party of 1897 were men of widely different opinions on matters of fiscal policy-- and such a radical reform as Cartwright had predicted was probably impossible short of revolution. The pathway of gradual tariff reduction was, however, open before the administration and we are concerned to see how well they followed it.

The chief departure of the 1897 enactment was the introduction of the British Preference. Many of the tariff schedules were simplified. In most instances mixed duties were simplified to ad valorem. Duties on iron were decreased but there was a compensating increase in bounties. Decreases were made on stoves, carpets, rugs, and mats, on builders hardware, on pianos and illuminating oils. To offset these reductions there was an increase in the cotton rates.

Embodied in the enactment "were eighty three duties of twenty five percent and seventy of thirty per cent; while fifty

were of thirty five per cent, which, except for two or three items, was the highest range of duties in the tariff of 1894".(1)

Tariff preference for Great Britain had been a question of discussion before 1876. Three Tory proposals, all abortive, had been made, all of which were dependent upon Britain admitting Canadian wheat at a preference. Since such a proposal involved England's departure from the policy of free trade and the imposition of a tax on food, these proposals were mere rhetorical gestures. Honorable W.S. Fielding minister of finance recognized the futility of such proposals and proposed to approximate in some measure to the freedom with which Britain received Canadian exports, by lowered rates on imports from Britain. In 1897-8 the preference was $1/8$, 1898-1900 $\frac{1}{2}$, and $1/3$ in July 1900 and thereafter. It is noteworthy that the chief sufferer under the Preference was the woollen industry and the full measure of the preference, one third, was only in effect from July 1900 until June 1904 when on the eve of a general election a bill was passed fixing the minimum duty on specified woollens at thirty per cent ad valorem. Speaking to this bill Mr. Hance Logan, Liberal member from Nova Scotia informed the House that "Made-in-Canada" should be the watchword of the people of Canada. This and similar un-economic slogans continue to be the means whereby the friends of protection seek to bulwark their position.

(1) Ferrit, "Protection in Canada", Second Edition,
page 323.

The tariff was subjected to amendment on more than one occasion between 1897 and the general revision of 1906-7. Many of the more important changes were along the lines laid down by the national policy. In 1897 and 1899 bounties were extended to plants for the manufacture of steel rails and in 1900 it was stipulated by act of parliament that Canadian rails were to be used on railways which were in receipt of subsidies from the Canadian Government. The debate lasted through some three hundred pages of Hansard - the bill elicited spirited defense from the various prominent leaders and the defense was that it was expedient to develop in Canada a steel rail industry. Mr. Dunning's phraseology previously quoted might well have been put in the mouths of the cabinet of 1900. The history of the Canadian steel industry since 1883 when bounties were initiated by the Tery government of the day down to 1930 would appear to be the history of a "maintained" industry.

In 1904 a dumping clause was enacted to protect Canadian makers of wire-rods from dumping by the United States Steel Corporation. The clause proposed "that wherever it appeared to the customs department that the import price, or the actual selling price to the importer, on any dutiable article of a class or kind made in Canada was less than the fair market value, such article should, in addition to the ad valorem duty, be subject to a special

duty equal to the difference between the such fair market value and such selling price." (1)

It was provided however that such special duty must not exceed in general one half the ad valorem duty. This clause was waved, in certain specific instances such as steel and iron, in which case the special duty was not to exceed 15% ad valorem, or more than the difference between selling price and fair market value. The clause stood from 1904 to 1906. The free list was not subject to it except in the instance of wire-rods over 3*8 of an inch in diameter on which the special duty was not to exceed 15% ad valorem. This was frankly a countervailing clause aimed at the United States practise of dumping. In 1906 the clause was extended to all schedules, except where the duties were equal to fifty percent ad valorem; to goods of a class subject to excise duty; to sugar refined in the United Kingdom and to the raw materials of binder twine.

This anti-dumping legislation was and is popular legislation. Its perpetuation as late as 1930 was greeted with acclaim.

In 1898 Germany placed Canada on her maximum tariff schedule. From 1898 until 1903 repeated efforts were made to adjust the alleged German grievance, which arose out of preferential treatment accorded to Britain. In 1903 the Canadian Government instituted retaliatory measures which took the form

(1) Forrit, "Protection in Canada" page 337.

of a surtax of one third on imports from Germany. The phraseology of the clause omits mention of Germany but reads "articles which are the growth, produce or manufacture of any foreign country which treats imports from Canada less favorably than those from other countries may be subject to a surtax over and above the duties specified in schedule A, such surtax in every case to be one third of the duties specified in the said schedule". (1)

In order to make the retaliation more completely effective it was made applicable to manufactured products originating in a foreign country even although a portion of the process took place in the United Kingdom and would otherwise enjoy the British preference. Politically the enactment was a popular one. Imports from Germany declined fifty per cent in the first year. This enactment seriously dislocated the millinery, cloak and suit trade and hampered British exports to Canada. While the surtax amounted to \$550,000.00 in 1905-6 the whole of this tax plus the wholesale and retail profit on the tax was collected from the consumer. In this particular instance retaliation resulted in the restoration of the market which had been lost to Canada through the change from the minimum or favored nation schedule to the maximum schedule. As Adam Smith points out, the question, remaining is whether or not the sacrifice involved to the consumer was compensated by the re-opening of the German market on favorable terms. The amount of research necessary to present

(1) "House of Commons Debates" 1903.

conclusive evidence is impossible in this thesis. The incident is mainly of interest as an isolated example of technically successful retaliation.

The period between 1896 and 1905-6 leaves the student with a well defined opinion that the Laurier administration had done little to redeem the fiscal pledges as enunciated in the tariff plank of the party laid down at Ottawa in 1893. The "Liberal Handbook for 1900" is brief in its comments on fiscal accomplishments. It says: "The aggregate foreign trade of the country has increased in the three years to the end of June 1899 since the Liberals came into power, by 82 millions which increase is 16 millions in excess of the total increase during the period of 18 years when the Conservative were in power. The reduction of customs taxation since the new Liberal Tariff was adopted has been not less than six millions of dollars; to put it in other words, if the Conservative Tariff had been in operation not less than six millions of dollars more customs taxation would have been imposed upon the people".

The figures, even when we remember that this was 1900 are not impressive. It is not to be doubted that the writer was making the most of his material.

Tariff legislation has moved relatively slowly. There have been periods of change at well spaced intervals with relatively little development in between. Although the tariff

of 1897 is marked as a changing point the changes were of administration rather than imposition. In 1905-6 elaborate preparation was made for revision. As a part of this preparation a tariff commission, consisting of three members Messrs Fielding, Patterson and Brodeur, was appointed in 1905. A seven week tour of Canada followed and evidence was taken from interested parties, as to the working of the tariff. Since 1900 the Canadian Manufacturers Association had been aggressively pressing for another upward revision of the tariff. Fears which assailed this organization in 1896 had, by 1900, been assuaged by the policy of the Laurier administration.

By 1902 trade was well on the up grade - the Liberal Handbook of 1900 relates an aggregated increase of foreign trade to the extent of 82 millions of dollars. The same source indicates that farm products showed an increase of nineteen millions of dollars in the export column. Penny postage had been established, the Inter-colonial railway extended to Montreal, and aid extended for the construction of the Crows Nest Pass Railway. The Crows Nest Pass Freight rate agreement had been negotiated and the Government had secured for Manitoba and the Northwest territories 100,000 new settlers. Encouragement by means of cold storage facilities had been extended to the farmers of the prairies and to the fisherman on the sea. So much by 1900 - progress on these lines together with some reduction in taxation was even more pronounced by 1902.

The plea of the Manufacturers Association, in the face of such evidences of prosperity, underwent a change. No longer able to use their favorite weapon depression, their plea was now for a tariff which would hasten the development of Canadian industry. While the minimum tariff schedule should be raised to a protection level they held that Britain might yet receive a preference over the rest of the world.

They bound themselves over to the task of inculcating a patriotic Canadian spirit which would demand Made-in-Canada products and they expended much money in educational schemes to this end. To the plea for Made-in-Canada these patriotic gentlemen added a rider "when you can't get what you want at home buy within the British Empire".

The Dingley tariff which struck savagely at Canadian lumbering and agriculture was made the basis of a plea for retaliatory tariffs all down the line of industrial enterprise.

Every argument of the creed was marshalled for onslaught on the Government and in 1904 the Government capitulated to the extent of anti-dumping legislation, and revision of the British preference on woollens. An announcement^s was made (1) that the application of the tariff was to be reclassified into three schedules maximum, minimum and the British preference rate. The maximum rate was to apply against such countries as Germany and the United States who subjected imports from Canada to highly

(1) "House of Commons Debates", June 1904

protective duties -- the minimum rate against such countries as Belgium and Holland who impose taxes for revenue only -- and the British preference for Great Britain and such British colonies as had been accorded favorable consideration since 1897. There is here the plain spoken endorsement of that policy which in 1930 was termed the policy of trading with those who trade with us.

The election of 1904 returned the Laurier administration, but, as a result of the tour of the Tariff Commission new light was shed on the tariff consideration of the Cabinet. After the return of the Commission and the completion of its hearings no more was heard of placing imports from the United States on the maximum schedule.

This abandonment of the proposed terms of revision marks the preliminary triumph of such organizations as the Dominion Grange, the Manitoba Grain Growers Association and the Ontario Farmers Association.

The tariff of 1906-7 substituted for the abandoned scheme the plan of maximum, intermediate and minimum as well as British Preferential rates which prevailed in slightly modified form until 1930.

When the revised schedules of 1897 were before the House in 1906 speeches were made which make it possible to fix very definitely the attitude of the Tory opposition - the same theme

runs through them that is heard in Tory speeches in 1931, the plea for the establishment of duties that will encourage Canadian capital to produce in Canada all that Canadians require.

It was the organized force of the agricultural societies that caused the proposed maximum minimum tariff schedule arrangement to be abandoned. It was at their insistent demand that the chief reduction of the tariff of 1907 was made, namely 2½% on agricultural implements.

Three weeks after the introduction of the tariff schedules, the Farmers organizations presented a joint petition which asked that the principle of protection be abandoned and tariff for-revenue-only be substituted as the policy of the government.

The manufacturers Association countered with a report which expressed gratification that the Liberal Party, in power, had abandoned the free trade doctrine which it held while in opposition. This report went on to deplore that the government had not been more aggressive in its policy of protection by raising duties to the point where foreign producers would cease to be a competitive force in Canadian markets.

Despite the variance between the views of the government and the agricultural classes of Canada the administration was returned to power in two elections between 1897 and 1907. This was due, in part at least, to the fact that the only alternative

government was by a party pledged to even higher protective legislation than that which existed under Laurier. It was due also to a multiplicity of reasons which had no bearing on fiscal matters. Quebec was intensely loyal to Laurier. The ultra Empire loving patriots of Ontario and the other provinces could not but hold in high esteem the man whose contribution to Imperial good relations was only matched by his devotion to British institutions and ideals. Laurier's almost matchless genius for leadership endeared him to his followers and his skill in choosing his lieutenants was equalled by his oratorical power on the platform. The superior character of the man himself influenced those who most heartily disagreed with his fiscal policies. Throughout his regime legislation other than fiscal was enlightened and advanced. There are many classes, and some in all classes, to whom tariffs were an "old song" and who failed to be swayed by political orations on the subject. Added to these was the great mass of voters who see no particular difference between parties and who in times of prosperity vote with the government or not at all.

Party organizations was effective, money was readily obtainable and the government Press established and respected. The power of patronage, stronger in those days than now, naturally added to the weight of opinion which sustained the administration.

After 1907 there seems to have been a political stocktaking. Recognition of the operation of trusts and combines became general.

The toll which the new settlements of the West paid to the industrial East under the existing tariff legislation was too burdensome to be lightly borne. The laws which had been passed in 1889 and 1897 had not succeeded in curbing the growth and power of trusts and combines. In the period before 1907 combinations took the form of mutual agreements to control prices. After 1907 they adopted the bolder plan of open merger. As early as 1906 Ontario authorities had uncovered some forty odd combines. There were however no teeth to the anti combine Act of 1897 and there appeared to be no relief from the situation.

In 1908-9 and 1910 the series of mergers continued unabated. It is noteworthy that they flourished the more readily among those industries which enjoyed the most protection. School supplies, soaps, canned goods and groceries generally; cement, asbestos, fresh fish, paper boxes and sawn lumber were commodities the production and distribution of which were in the hands of these merged companies.

So great was the resentment felt in many quarters that it became necessary to pass some anti-combine form of legislation. In 1910 a Bill sponsored by Mr. Mackenzie King, Minister of Labor, was introduced into the House. Perhaps as we approach the immediate past and the present it will be wiser to let the utterances of contemporary opinion serve to put before us the nature and value of the legislation effected from time to time; so with Mr. Mackenzie King's bill.

Its reception by the organized Western Farmer can be indicated by a quotation from the "Grain Growers Guide" of April 28, 1910. "The Anti-combine Bill plans to prevent combines without removing the cause. It is rather like placing a nice tempting bone before a dog, and then training him not to touch it under pain of severe punishment. Trouble would be avoided by removing the bone". Thus this then latest attempt to overcome the combine evil may be seen to have been an attempt to control it rather than an effort to make it impossible.

The study of federal fiscal assistance to the steel and iron industry, in particular, both by imposition of tariff rates, and by bounties and drawbacks is a subject in itself which might well exceed the limits of this thesis. It is sufficient from the historical standpoint to record that it has been a particularly favored industry since 1883, although the bounty system was allowed to elapse in 1911. The question of tariffs on farm implements has been peculiarly important since it has given rise to much of the tariff discussion and discontent in the Western provinces, particularly during the trying times of new settlement and, now, when the whole agricultural industry of Canada is in the depths of an economic slump.

During the period of organization which followed the tariff revisions of 1907, Western farm bodies used the tariff on farm implements as the spearhead of their attack on protection; as for example, the mention of "self-binders" when the Manitoba Grain Growers met Sir Wilfred Laurier at Brandon in 1910. One quotation from the address to Sir Wilfred on this occasion might well be quoted here "There are no trade arrangements the Canadian Government could make with any country that would meet with greater favor or stronger support from the farmers of Western Canada than a wide measure of Reciprocal trade with the United States, including manufactured articles and the natural products of both countries". (1) Undoubtedly the petitioners believed the statement to be true in 1910. Equally undisputably it was proven false, in so far as the farmers of Manitoba were concerned, by the elections of 1911.

Sir Wilfrid's reception of the various Western farm ^mdeputation was sympathetic, courteous, and non-committal. There was none of the fervor of his Winnipeg speech of 1894, or little of it. Within the year, however, he had gambled his political fortunes on the reciprocity demands of the West and the agricultural East and had lost, even in those centres which had exhorted him to this course of action. Again and again local Liberal organizations joined

(1) "Grain Growers Guide", July 27, 1910.

their plea with that of the Grain Growers. Again and again during his tour of the Prairie Provinces Sir Wilfrid was bluntly told that he had not kept his promises. On one occasion, at Saskatoon on July 29, 1910, in reply to such an accusation made by John Evans, he said: "We offered you freer trade and have given you freer trade. To abolish the tariff at one stroke would create a financial crisis. It is impossible for us now to raise the revenue as in England. I am a freer trader. I am not a protectionist. My creed -- what I stand for -- is a revenue tariff, nothing else. We are making progress". (1)

Perhaps the simplest, recorded history of Sir Wilfrid Laurier's Western Tour of 1910 is to be found in the pages of the Grain Growers Guide of that year. From them Ferrit drew much of his material for his text "The Revolt in Canada". With this file the student may travel again the Premier's journey and in a measure think this thoughts.

The oft declared willingness to deal with the United States on Reciprocity if the United States made reciprocal offers was put to the test a year later with disastrous results to the government and the blasting of Western hopes for Tariff reform.

Adam Smith's suggestion that freedom of trade might be restored by slow graduations, with a good deal of reserve and circumspection would seem to have been the method by which the

(1) Grain Growers Guide, August 10, 1910

Laurier administration attacked the problem of implementing Liberal policies as laid down in 1893. The more critical observer would find it easy to say that there was more evidence of "reserve and circumspection", than of restoration even by slow gradations.

RECIPROCITY WITH THE UNITED STATES

Since 1866 Canada had not ceased to look forward with hope for the renewal of Reciprocity with the United States. After 1891 it is true that the Tory party had, at best, but an academic interest in it. Too great a percentage of the party's influential members were so closely allied to the manufacturing beneficiaries of the National Policy for the Tories to contend seriously for any breach in the policy of more protection. After 1899 Sir Wilfred Laurier had declared that there would be no more pilgrimages to Washington. It seemed unlikely that Washington would come to Ottawa and yet it happened.

The Payne-Aldrich tariff of 1909 overshot the bounds of public toleration and the congressional elections of 1910 returned a majority of Democrats. President Taft had instigated clauses in the tariff of 1909 which offered a basis for negotiations with Canada. After the November elections of 1910 he was the more anxious to negotiate Reciprocity with Canada as a sop to the foes of Republican protectionist policy.

The Payne-Aldrich treaty offered free trade in agricultural implements and threatened reprisals if any attempt was made by Canada to place license fees or export duties on pulpwood. Important as a basis of negotiation was a clause providing for a

maximum tariff to consist of an additional 25% ad valorem tax on the rates of Schedule One of the tariff. Opposed to this was a minimum rate effective to those countries who, did not discriminate against the United States and who were so reported by the President of the United States prior to March 31, 1910.

The Government of the United States expressly stated that they would not consider the British Preference to be discrimination against them but would regard it as a purely family affair. France received favored nation treatment from Canada in 1910 and this treaty was the subject of negotiation between Ottawa and Washington. This difficulty was overcome by a series of concessions which placated the United States and only affected the leather industry in Canada. In most cases the reduction of duty against the United States was 2½%. Most of the reductions were on articles not produced commercially in Canada.

With the admission of Canada to the minimum tariff schedule of the United States and the principle of tariff adjustments established, it was but a step to further negotiation.

Less than two weeks after the Republican rebuff in the Congressional elections of November 1910, representatives of the Government at Washington arrived at Ottawa. The result of their

negotiation was the appointment of Messrs. Fielding and Patterson as a committee to negotiate Reciprocity. On January 10, 1911 these gentlemen were in Washington.

In the Summer of 1909 President Taft had indicated to Mr. Bryce, the British Minister at Washington, the desire of his government to negotiate a treaty. The suggestion was coldly received at Ottawa. By November 1910, largely as a result of the Prime Ministers Western Tour, the Canadian Government was awake to the need for action. His pledges given in the West were now in the process of redemption.

Eleven days sufficed for the representatives who met at Washington, to agree on a basis of Reciprocity. By January 21st, 1911 the question was in the hands of the popular assemblies of both contracting countries. By July 22nd the Congress and the Senate of the United States had signified their assent. The agreement was embodied in a note which touched on fifteen points of agreement and developed three schedules.

Schedule "A" admitted reciprocally duty free forty two items of natural products and included stock, wheat, oats, hay, vegetables, fruits, (except citrons), dairy produce, wine, fish, salt, wood, mineral products, coke, (not coal), wire, iron or steel sheets, tin plate, brass rods, pulp and paper (when Provincial restrictions are removed).

Schedule "B" admitted reciprocally fifty two items at reduced rates and included manufactured food products such as meat, canned fish, vegetable, meal, biscuits, and fruit extracts. Also agricultural machinery, cutlery, watches, automobiles, plate glass, stones and slates.

Schedules C and D reduced import duties on seven specified items to the United States and included aluminum, worked lumber, iron ore, and coal slack; and reduced rates on eight imports into Canada the most important of which were cement and coal.

This agreement was for promotion of concurrent legislation with no period fixed. (1)

The Conservative party under R.L. Borden attacked the proposal. They received the whole souled support of the Canadian Manufacturers Association who regarded the treaty as effecting a breach in the protection they had come to assume to be their right.

After two months of obstruction on the part of the Conservatives the House adjourned on May 19th. During the recess before it met again on July 18th Mr. Borden visited the Prairie Provinces and there, in the stronghold of Reciprocity sentiment, he continued to oppose the measure. When the House resumed, the Conservatives kept up a determined filibuster against every measure of business which was brought up. Eleven days of this decided the Prime Minister that the most satisfactory way to deal with the

(1) See Bryce's, "Report to Lord Grey"

was to obtain a verdict from the people. On July 28th he announced an election to take place on September 21st.

For six weeks the bitterest of Canadian election campaigns raged across the country. Apparently there was little fear of defeat in the government ranks as no special effort was made. On the other hand all the sophistries of the protectionist argument, all the wiles of oratorical art, the fever of patriotism and exaggeration of despair were mustered to the offensive. The financial resources of the Canadian Manufacturers Association and the influence of its members were against the government. The antagonisms, prejudices and antipathies of all the years, everything which might be revived against the United States was dragged from its obscurity, and its bones rattled to give some semblance of living force. No re-distribution preceded the election and despite the virtual equality of votes cast, the position of the parties in the Commons was reversed.

As an object lesson to Canadian statesmen the election of 1911 is of some value. It proved how inevitably the forces of protection bite the hand that feeds them when the portion ceases to be larger and ever larger. It proved the anti-national sentiments of its defenders when they drove a wedge between the East and West causing a separation which taxed the healing skill of so able a diplomat as the Right Honorable W.L. Mackenzie King

proved to be during the eight odd years of his administration. Too soon unfortunately, or so it seems, the patient has changed doctors and the wound threatens, if it has not already done so, to open again. Perhaps more serious than even the anti-national effect of this election has been the anti-class feeling which the action of the manufacturers and their co-horts aroused in Canada. ⁴ The decision to accept the agreement for Reciprocity was not made by the Laurier administration without heart burning and some defection from the ranks. It is to the everlasting credit of the late, Honorable W.S. Fielding that he set aside his natural protectionist leanings when he helped to negotiate the draft of the Reciprocity agreement. One other figure stands out in the struggle, it is that of the late Honorable Clifford Sifton. Mr. Sifton had resigned his portfolio in 1905 after a disagreement with the Cabinet. On the reciprocity issue he left his party, declaring that: "You can't have, as the pact proposes, a free trade dumping ground for farmers produce and a closed protected market for manufactured goods. The two things will not stand together. You can reject the pact and remain commercially independent of the United States or you may accept the pact and have commercial union with the United States". (1)

(1) Porrit, "Sixty Years of Protection in Canada"
Second Edition, page 454.

Once more a fiscal problem was decided not on its economic merits but on considerations which were national in their claims and anti-social in their effect. Before the ~~Borden~~ Government had been well seated in the saddle the tragedy of war broke upon Canada and the World.

THE REVOLT IN WESTERN CANADA.

The student of Canadian Fiscal policy has but a limited field for research in the period between 1914 and 1924. For ten years the war and its immediate aftermath left all other problems in the background. The Union Government was one in which co-operation was based on winning the war policies, and the break up dates from the time when the question of tariffs other than as war measures, was revived in the Government Caucus. The Honorable Thomas Crerar left the Government. Messrs Guthrie and Manion chose to throw in their lot with the Tory party and protection, under the Right Honorable Arthur Meighen. Today these two gentlemen are the barbs of the spear-head of the protectionist offensive. None is ever so zealous as the apostate who must ever outrun his fellows as the proof of his new conviction.

As for Mr. Meighen, sombre heir of misfortune, for whom fortunes fairest smiles have ever veiled the poisoned cup, he was politically a product of the West. In his early parliamentary days, he was a champion of Western interests. With leadership he inherited responsibility for the misdeeds of the old government. Having been prominent in that government's most unpopular election, in 1917 he was a marked man. His forthright champion-ship of protection, coming on the eve of the election which was ordained to sweep sixty-one Western members into the House as

the champions of lower taxation, political reform and freer trade, was inopportune, a first class political blunder. To attempt to list the various local platforms upon which this solid block of sixty one members were elected is impossible and would be futile were it possible. So far as ^{their} social and political reform ideals were concerned ~~they~~ ^{these} do not affect fiscal policy. The influence of this group on Canada's fiscal policy is to be discovered in the Tariff enactments of 1924 and in the Dunning Budget of 1930. Between 1921 and 1930 these men held the balance of power. For that reason it is well to examine whence they came, what they accomplished and to note whither they are gone.

The political movement which was to topple the governments of Alberta, Manitoba and Ontario and which was fated to bring home to the Government at Ottawa a realization of agricultural and, in particular, Western problems, was one which came into existence almost overnight. At the back of this movement which has been termed the Progressive Movement lies the non-political history of at least six farm organizations. In the order of their organization they are:-

1. The Dominion Grange, Ontario 1880 .
2. Saskatchewan Grain Growers 1901 .
3. Manitoba Grain Growers 1903 .
4. The Alberta Society of Equity 1904 .

and the Alberta Farmers Association 1905 ,
united in 1909 as the United Farmers of Alberta.

5. The Interprovincial Council of Grain Growers 1908.

6. The Canadian Council of Agriculture 1909.

Since 1907 these various organizations had solidly supported the British Preference and pressed for relief from burdensome tariffs. Co-operative marketing in the West led to co-operative buying and the success of such organizations as the United Grain Growers Grain Company lent prestige and power to the movement. The early political activities of these associations were of a provincial nature. The weight of their opinion was hardly felt federally prior to the Western tour of Sir Wilfred Laurier in 1910. The climax of their effort prior to the 1911 election was the "Seige of Ottawa" when a delegation consisting of 800 delegates interviewed the government, in the interests of lowered tariffs and reciprocity, on December 15th, 1910.

An examination of the situation in which the Liberal party found itself at the close of the war may be centred chiefly on the convention held in Ottawa in 1919. Sir Wilfred Laurier was dead. The Borden Administration has begun to disrupt itself as the government of Union; and the Liberal party itself, torn and divided by the War election, now came to elect a leader and to take stock of the situation. Delegate after delegate from the Prairie Provinces rose to proclaim the need of a new Fiscal Policy. The Honorable Duncan Marshall, Minister of Agriculture in Alberta declared; "I would be glad to burn every custom house

between Canada and the United States" (1) The tenor of the speeches generally was somewhat less radical, but the theme was always the same, lowered tariffs.

The tariff resolution was moved by the Honorable George Langley of Saskatchewan who claimed that the tariff was not a Western but a national problem and that all Canadian interests were identical.

As an instance of the solidarity of Western opinion Mr. Langley said that in the previous session Conservative and Liberal members in the Saskatchewan Legislature had united in a resolution addressed to the Dominion Government asking for lower tariff rates.

The tariff resolution as finally adopted reads:

Resolved: "that the best interest of Canada demand that substantial reductions of the burdens of customs taxation be made with a view to the accomplishing of two purposes of the highest importance.

First - diminishing the very high cost of living which presses so severely on the masses of the people.

Second - reducing the cost of the instruments of production in the industries based on the natural resources of the Dominion, the vigorous development of which is essential to the progress and prosperity of our country.

That to these ends, wheat, wheat flour, and all products of wheat; the principal articles of food; farm implements and

(1) "Manitoba Free Press" August 7th, 1919.

machinery, farm tractors; mining flour and saw mill machinery and repair parts thereof; rough and dressed lumber, gasoline, lubricating and fuel oils, nets, nets-twines, and fishermen's equipments; cements and fertilizers, should be free from customs duties as well as the raw material entering into the same.

That revision downwards of the tariff should be made whereby substantial reductions should be effected in the cost of wearing apparel, footwear and other articles of general consumption, other than luxuries, as well as raw materials entering into the same. That the British preference be increased to 50% of the general tariff.

And the Liberal Party hereby pledges itself to implement by legislation the provisions of this resolution when returned to power". (1)

Premier Oliver, Liberal leader in British Columbia, attacked this ^{resolution} ~~resolution~~ as a "get by" proposition, an attempt to look two ways at once. Western Canadian opinion was indicated in the editorial in the "Manitoba Free Press" of August 8, 1919, which reads: "In the Liberal resolution there is no declaration of principle. It is an opportunist avowal of policy, tersely and properly characterized by John Oliver, premier of British Columbia, as a "get-by" proposition."

Just how far short of Western needs and wishes this

(1) Manitoba Free Press August 15, 1919.

official Liberal declaration of fiscal policy fell may be best indicated by considering it in conjunction with the tariff program drawn up by the Progressive party.

In 1916 the Canadian Council of Agriculture drew up a manifesto criticising protection and pointing out the evils which had become general in Canada as a result of the National Policy. This document then went on to make certain specific tariff demands "Resolved ---- our tariff laws should be amended as follows:

(a) by an immediate and all-round reduction of the customs tariff

(b) by reducing the customs duty on goods imported from Great Britain to one-half the rates charged under the general tariff, and that further gradual uniform reductions be made in the remaining tariff on British imports that will insure complete Free Trade between Great Britain and Canada in five years.

(c) by endeavoring to secure unrestricted reciprocal trade in natural products with the United States along the lines of the Reciprocity Agreement of 1911.

(d) that all food stuff not included in the Reciprocity Agreement be placed on the free list.

(e) that agricultural implements, farm and household machinery, vehicles, fertilizers, coal, lumber, cement, gasoline, illuminating, fuel and lubricating oils be placed on the free list and that all raw materials and machinery used in their manufacture also be placed on the free list.

(f) that all tariff concessions granted to other countries be immediately extended to Great Britain.

(g) that all corporations engaged in the manufacture of products protected by customs tariffs be obliged to publish annually comprehensive and accurate statements of their earnings.

(h) that every claim for tariff protection by any industry should be heard publicly before a special committee of parliament. (1).

The Liberal resolution makes no mention of free or freer trade. It is simply a declaration in favor of tariff revision in specific instances. In its selection of sections where revision is to be made the choice is arbitrary and in many instances obviously political.

Throughout the tariff program of the Progressives runs the demand for freer and, as in the instance of Great Britain, ultimate free trade.

It had become apparent by 1921 that the evils which everywhere associate themselves with the policy of protection could only be met by a radical change in policy. No promise of such a change was to be found in the Liberal resolution and the Progressive organizations of Ontario and the Western provinces adopted the tariff resolution of the Canadian Council of Agriculture and incorporated it into the political platform of the National Progressive Party.

(1) "Manitoba Free Press," November 8th, 1921.

The chief points of difference between the Progressive party and the two old parties were to be found in their proposals with regard to tariffs, taxation, banking and credit, and social legislation. The most important of these, because of the international nature of its application, was undoubtedly the tariff.

The manifesto of the Progressive Leader, The Honorable Thomas A. Crerar, issued in the election campaign of 1921 contains this clear definition of policy. "Our goal is the ultimate elimination of the principle of protection in our fiscal policy. But we recognize that changes must be brought about in a manner that will give a fair opportunity to Canadian industries now enjoying protection to adjust themselves to them" (1).

He declared that the Progressives would remove the duty on agricultural implements, mining and sawmill machinery and essential foods, and "a substantial reduction in the general tariff should be made". "For revenue the Progressives would rely"mainly on direct taxation levied on the bas(s) of ability to pay". (2).

The movement had its day upon the stage of Dominion political events. It has made its contribution and would seem to have"taken its final curtain"as a political party.

Three things contributed to the short life of the party as a Federal power. The first was the destructive disintegrating

(1) "Manitoba Free Press," October 18, 1921

(2) "Manitoba Free Press", October 18, 1921

effect of the lack of harmony of ideals within the party itself. Malcontents of all persuasions, opportunists, and self seekers had thronged to it in its ascendancy. Falling just short of complete success these forces speedily began to bring about lack of harmony. As a result the great majority who were its earnest supporters were forced to a degree of impotence which stultified the party. The second cause was constructive. The conciliatory genius of the Right Honorable W.L. Mackenzie King, together with the tariff revisions of 1924 and the advanced nature of the general legislation of 1926-29 convinced the majority of Western progressives that they could do more within the ranks of the Liberal party than, as a balance of power group, without it.

Third, but certainly not least of the causes, was the definite Tory endorsement of Protective principles in 1926 and 1930, necessitating the union of all low tariff forces. This process was not sufficiently complete to ensure a favorable election in August 1930. It is being welded by the fires of adversity under a protectionist regime. One further weakening influence might be noted. It was the defeat of the Farmers Government of Ontario and the consequent weakening of the forces in the federal field.

What the future holds for the party of lower tariffs, tending to free trade, belongs to the undiscovered future and has no place here.

THE TARIFF OF 1924

"The distinguishing mark of the present budget is that it is not conceived in the stand pat spirit which marked the budget of 1923" (1). With these words this Western Journal introduced the first of the Honorable J.A. Robb's budgets to its readers. The debates in the House at Ottawa indicated that the Budget was received as a concession to the powerful low tariff elements to which the administration looked for support. Because these low tariff forces were, for the most part, recruited from the Prairies it is not surprising to discover that the tariff concessions made in the budget are chiefly those calculated to meet with Western approval. Mr. Robb spoke of the desire of the government to foster basic Canadian industries and of them he said; "Of these basic industries I would place agriculture in all its various branches first. Next to agriculture I would put our forests, our minerals, and our fisheries. A real National Policy is a policy that will encourage the growth and development of these basic industries". (2)

Duties were reduced on agricultural implements, manufacturers of these implements to receive a reduction in turn on raw materials: pig iron, bar iron, and bar steel being free when imported by these manufacturers. Duties were also reduced on implements of the fruit industry, dairy industry and poultry industry. Coal, washing machinery and coke making machinery were

(1) "Manitoba Free Press" April 11, 1924.

(2) "House of Commons Debates", 1924, page 1218.

admitted under reduced rates in order to foster the coking industry. Other mining machinery was admitted under lowered rates in specific instances. The rates on machinery used in lumbering were reduced; and, in the case of the fishing industry, all marlin, deep sea fish hooks, and fish nets were placed on the free list. As a further concession, the sales tax was reduced on rubber boots.

Under the British Preference, provision was made for the extension of the preference rates to the products of countries for which the mandate of the League of Nations is held by a British country to which the preference applies.

The budget was attacked by Sir Henry Drayton as having struck a serious blow at an important industry, the manufacture of farm implements, for a paltry saving of \$750,000.00 a year to the Canadian farmer. It was attacked by the Right Honorable Arthur Meighen as a continuation of the Liberal practise of departure from the principles of the National Policy which he declared had resulted in solid progress over a period of four decades. The speeches which fill the pages of Hansard may be summarized in the declaration of the Prime Minister, Right Honorable W.L. MacKenzie King, that: "The guiding principle as regards the tariff has been its revision in such a manner as will help to increase production and help to decrease the cost of living -- in other words, to effect a reduction of living

costs and a reduction of production costs", (1) and the assertion of the leader of the opposition, Right Honorable Arthur Meighen, that; "First and fundamentally Canada needs a protective policy consistently and unflinchingly pursued". (2)

By 1924 the Leadership of the Progressive Party in the House of Commons had devolved upon Mr. Robert Forke. At the opening of the session Mr. Forke had stated that his group would support the Government of the day in any progressive measures which might be brought forward. The budget was accepted by Mr. Forke and his followers as a definite step toward the lowered tariffs which were the ideal of the Progressive Party. His action was generally commended. The "Farmers Sun", a paper whose editorial opinion was definitely Progressive, said; "It is equally apparent that Mr. King has merited the support which Mr. Forke, on behalf of the Progressive group, intimated, at the opening of the session, would be given to the government, providing it brought forward progressive measures". (3).

This budget, hailed by Liberal and Progressive alike, as an advanced step toward the goal of lower tariffs, gave rise to a complete review of the arguments for and against protection. It may be credited with at least two definite accomplishments.

- (1) "House of Commons Debates" 1924, page 2123.
- (2) "House of Commons Debates" 1924, page 2114.
- (3) "Farmers Sun", April 12, 1924.

It forced the Conservative party under Arthur Meighen to a declaration of virtually unqualified protectionist policy and it served notice on Liberal and Progressive alike, that there was need for a closer harmony between them if the friends of protection were to be kept out of power.

The budget of April 10, 1924 was a direct departure from the statement of the Honorable W.S. Fielding that the tariff rates of 1923 represented as much in the way of lowered tariffs as might well be expected in the Canada of that day. The leaven of the Progressive Party was at work in the policies of the Liberal administration. As a result of the Revolt in Western Canada its policies had become articulate in the Federal House. The way was prepared for the inclusion of Mr. Forke in the cabinet, and, despite the revelations of the Customs Scandal the Liberal Party was recognized as the political hope of those who had at least one great need in common, relief from the impositions of a tariff policy which preyed on the many and enriched the few.

THE TARIFF OF MAY 1, 1930

It was Alison Phillips who, in discussing the Treaty of Berlin, described it as a compromise "and like all compromises, pregnant with future troubles". The Dunning Budget was a compromise. Its nature is, in a measure, revealed by the fact that it was attacked, in one and the same breath, as "stolen" from the Tories and as undermining Canadian Industry. It was, in some degree at least, an attempt to do that which the Liberal tariff resolution of the convention of 1919 attempted to do, to look two ways and speak with two voices.

Certainly there was an attempt to pacify the feeling of revenge and the desire for retaliation arising out of the Tariff legislation then in process of enactment at Washington. The countervailing duties were obviously directed against the United States. On the other hand, by means of adjustment of the British preference rates it moved in the direction indicated by the Tariff resolution of the Canadian council of Agriculture of 1916.

"The essential thing about the Dunning Budget was its good nature. It was devised to advance the interests of Canada's trade with overseas countries, and it was designed to do so without putting overseas countries on their ear against Canada."

(1) It foreswore the policy of blasting, and it aimed at substantially increased trade with Great Britain as a means of

(1) "Manitoba Free Press", November 11, 1930.

increasing Canada's market for her export surplus wheat. "It was", says the same editorial, "an attempt to maintain a fair degree of sanity in international trade," and still later; "The Dunning Budget was, perhaps, the last stand for economic liberalism in inter-Imperial relations, and in those wider spheres of trade in which Canada is vitally interested. In practise its moral effect on a tariff-ridden world would have been profound. It would have stiffened and re-invigorated the free-trade forges in Britain, and it would have been ready to meet on friendly terms every move towards tariff reduction made by foreign nations."

It was not in such light that the leaders of the Tory Party saw it. To them it was "Made-in-Washington", in as far as countervailing duties were concerned. "An empty Gesture", they said, and a senseless giving of "something for nothing", was their conception of the British preference.

As an election winner the budget was a failure. Such is the verdict which seems to have been given in August 1930. A more observant analysis of the election of 1930 would seem to indicate that the budget was in reality not an issue. Undoubtedly it won support for the Liberal party, equally certainly the party was forsaken, on other grounds, by thousands of voters who were not opposed either to the extension of the British Preference or the revision of tariff rates. Some there were who

deserted the party because the budget contained some elements of protection; many more, viewing this condition, accepted it as the final proof that, in power, both parties were much the same. The latter voted against the government for no better reason than that times were bad and ^{they felt} it could not do any harm to find out what the Tory opposition would do if elected.

Whereas, the Tory policy in theory, and, since August 1930, in practice is to hinder and to damn, if possible, imports into Canada; the policy of the May Day Budget was to attempt to direct trade into channels which would widen Canadian export markets. The fact is that in May 1930 the various protective tariffs of the World tended to restrict the working of international trade, and to render its natural laws less effective than in a reasonably free state of trade.

A difficulty had arisen, as a result of war finance and credits, which seriously menaced the natural channels of Canadian foreign trade. By 1930 it had become almost impossible to get Canadian credits in Europe transferred to New York. This system had hitherto been Canada's method of paying her debts in the United States. The simple and seemingly obvious solution of this credit difficulty was to accept, in so far as possible, European goods as payment for Canadian exports to Europe, and to reduce Canadian obligations in the United States by the amount of the European goods so imported into Canada. It was as a deliberate attempt to aid this change that the Dunning budget was framed.

The 1930 tariff changes in the United States were, in many instances, intended to hamper and prohibit Canadian exports to the United States. It was against such tactics that the budget proposed to use the weapon of Countervailing, or Retaliatory duties.

In the main, it appears that the student of economics cannot criticize the budget as having attempted to control trade by imposition of restrictions, except in the case of countervailing duties provoked by discrimination against her exports. To the charge that it attempted to divert trade into unnatural channels the defense is already made. The system of international payments through the transfer of credits had broken down. It is true that the failure was not due to Canadian legislation, nevertheless it was a condition that had to be faced. In such an economic crisis the policy of the budget recognized the failure of the natural channels of trade to meet Canadian needs, and the attempt was made to encourage a system of export and import trade which was, in effect, virtually a return to the system of barter.

The Budget gave notice that the clause of the Australian Treaty which admitted New Zealand butter to Canada without duty would be repealed in November 1930. At the time this agreement was negotiated Canada had an exportable surplus of butter, and butter prices were fixed by the foreign demand price. In the

interval a tremendous per capita increase in Canadian consumption of dairy products took place. During this same period grain prices were high and Canadian production of dairy products fell off to a point where butter imports rose to a high level and prices to the Canadian producer and consumer fell below the pre-treaty price. The depression of agriculture was due to lowered grain prices brought about, partly by co-operative attempts to maintain price levels, partly through shrinkage of European buying power, and partly as a result of increased European wheat acreage and a phenomenal world wheat crop in 1929. Such a crisis brought the low price of dairy products to the fore as a political issue. The farmers and dairymen were brought to the point of delivering themselves into the hands of their protectionist enemies by a demand for protection on dairy products. In this demand the Budget acquiesced.

On the whole the tendency of the budget was to leave the general tariff unchanged. Such rates as were raised or made subject to countervailing impositions were more than balanced from the consumers standpoint by the increases in the British preference.

The "Empty Gesture" criticism of the Tories fares ill in the light of a study of the schedules of the Preference. Substantial increases in the British preference were effected in either of two ways; in some cases by admitting British manufactures free, and maintaining the intermediate and general

rates on other importations; in others, by imposing duties against products which were formerly free under all schedules, except in the case of those of British production or manufacture which continued on the free list.

"Summarizing numerically I may say that under the iron and steel schedule tariff rates have been reduced on sixty-six items and increased on forty.

Under the intermediate tariff, the reductions number eighty-six, and the increases twenty-four.

Under the British preferential tariff, the rates have been increased in eight cases and reduced or made free in one hundred and fifty two. (1).

The Budget provided for countervailing duties on:

Potatoes, soups and soup preparations, live stock, fresh meats, cured and pickled meats, butter, eggs in the shell, frozen eggs, frozen egg albumen, wheat, wheat flour, oats, oatmeal, rye, cut flowers, cast iron pipe. Although ridiculed as a measure of retaliation the countervailing duties on these commodities together with the increased preference to British manufacturers was estimated in the United States as likely to decrease Canadian imports from the United States to the extent of a sum in excess of \$300,000,000.00 per annum.

(1) Honorable Charles Dunning, "House of Commons Debates", 1930, page 1709.

The summary of tariff changes in the budget is given in the words of the Minister (Mr. Dunning) himself: "The present budget tariff proposals involve, under the general tariff, increases in rates on 56 items and decreases on 46; under the intermediate tariff, increases on 35 items and decreases on 98; under the British preferential tariff, increases on 11 items and decreases on 270." (1)

Of 1188 items in the schedules, the Budget provided for admission of 589 free of duty under the British Preference.

If compromise is fraught with dangerous possibilities of destruction to itself then it may be that this budget perished because it aimed at pleasing a widely divergent range of opinion, and, attempting so much failed to please any. Certainly compromise and opportunism are written on the face of some of its proposals. On the whole there is something to please almost everyone and little to antagonize anyone. Undoubtedly it went further along the road of freer trade than has come to be expected of Canadian budgets. Undeniably it offered no serious affront to the protectionist who was other than a rank exclusionist.

The Government was defeated; the Budget is now but another milestone in the history of Canada's fiscal policy, an historic document which furnished the student with a plenitude of material for speculative thought.

(1) "House of Commons Debates" 1930, page 1711.

THE BENNETT EXPERIMENT.

In office, the protectionist promises of Borden and Meighen were more honored in the breach than the observance. Little that was a variation from the days of the Laurier administration was enacted. To such an extent is this true that Dr. Michael Clark, in 1919, observed in the House that while Liberals preached freer trade it was the Tories who practised it. In his opinion both parties avoided it. At least one prophetic declaration was made during the course of this speech. Dr. Clark pointed out that the government might, "look for a period -- which perhaps we have not quite arrived at yet -- when we shall undoubtedly have industrial depression and great economic and national difficulties to face. I do not think there is the remotest doubt about that". (1)

Such^a situation arose in 1929 and continues today. The methods by which Dr. Clark would have guarded against such a condition are all but forgotten. The fortunes of politics have brought the Right Honorable R.B. Bennett to the premiership of Canada. The change was made but six months ago; if it is too soon yet to say what he has done, it is reasonable to consider his promises and to anticipate what may be. It is however, not too soon to review the results of his administration with respect to the British preference, the Tariff commission, and the Imperial Conference.

(1) "House of Commons Debates", 1919, page 237.

The Tariff Commission under the Government of the Right Honorable W.L. Mackenzie King was a fact-finding body. Its members were representative of the various sections of the Dominion. Its hearings were public and its conclusions were of invaluable service to the Minister of Finance. Almost the first administrative Act of the new government was to abolish this Tariff Board. In its place Mr. Bennett has resumed the practise of direct representation to the Minister.

The Mackenzie King government was a party to the arrangement of an Imperial Conference planned to take place in London late in 1930. One of the issues of the election campaign had been who should represent Canada at London and the decree favored Mr. Bennett. The avowed purpose of the Conference was to arrive at some basis of economic understanding which would strengthen the bonds of Empire and afford relief for the economic difficulties prevailing in every portion of the Empire. The pre election pledges of the Conservative party involved the assertion that the British preference should only be maintained on a bargain basis. It has been recognized since 1849 that the only possible British preference to Canada was one based on the importation of Canadian foodstuffs. In short, such a proposal involves the taxing of the poor man's bread to give the Canadian exporter a market.

c Both parties in Canada have repeatedly expressed the hope that ultimately such a preference would be given. Hitherto the

recognition has prevailed that it was a question for the British parliament to decide.

In the face of such an issue vaunted Tory loyalty evaporated in 1930 just as it had been absent from the speeches of Gamble and Rideout in 1852-3, of Buchanan and of R.B.Sullivan in 1847. The history of Canadian protection is replete with instances of disregard for British interests. It was Sir Wilfred Laurier who said: "I know what Tory loyalty is. Tories have always been famous for preaching loyalty to others. Tories have always been famous for being loyal, as long as it was profitable to be so. We find that when they introduced the National Policy, and when it was urged that that policy was unfair and ungenerous to England, and that it might possibly endanger the British connection, the cool Tory answer was: 'So much the worse for the British connection!' Sir, this is Tory loyalty. Ready they are today to sacrifice the British connection if the British connection stands between them and their selfishness." (1)

If we substitute "Protectionists" for "Tory" the words might, quite as reasonably, have been uttered in 1931. If we take the performances of Mr. Bennett as representative of the Tory party there is no need for the substitution. Mr. Bennett's action in opposing the Preference is consistent with the policy of his party. It was in 1899, following the Fielding tariff of 1897 which established the preference, that Sir Charles Tupper moved, that; "This house is of the opinion that a system of

(1) "House of Commons Debates", March 16, 1886.

mutual trade preference between Great Britain and Ireland and the colonies would greatly stimulate increased production in, and commerce between, these countries and would thus promote and maintain the unity of the Empire, and that nothing which falls short of such a policy should be considered as final or satisfactory". (1)

The protectionist argument against the Preference has always declared that the first duty of the Canadian Government was to Canadian Industry and that the Preference might be extended where no conflict was to be found. It remained for Mr. R.B.Hanson, Conservative, York Sunbury N.B. to sum up neatly the protectionist Tory principle on British Preference. He said, "I would make a thorough survey of the whole situation, and where I did not think the tariff high enough to start with, I would jack it up first and consider an extension of the Preference afterwards". (2)

Both parties in Canadian politics have expressed the opinion that a preference in the British market would be of advantage to Canada. Sir John A. Macdonald saw it as a future possibility to be desired. In 1879 he sounded out the British Government but bowed to the result of his inquiry. In 1892 Sir Louis Davies (Liberal) moved that Britain be given an immediate and unconditional preference. His proposal was voted down by the administration. (3)

(1) "House of Commons Debates" 1899

(2) "House of Commons Debates" 1930, page 2168

(3) Skelton, "The Day of Sir Wilfred Laurier", page 152

When the Liberals came to power in 1897 their chief fiscal innovation was the offer of such a preference. Dealing with the effect of this offer on the third Imperial Conference Skelton has this to say: "The definite concrete offer of the Canadian preference proved effective, for it was given freely in no huckstering spirit with no demand for any equivalent or that Britain should reverse her whole fiscal system for the benefit of a small section of her trade" (1)

Contrast with this the spirit of the Bennett proposals at the London Conference and the pronouncement of Tory politicians in the House and on the hustings prior to the election of August 1930. If the need for the British market was great in 1897 it was infinitely greater in 1930. The last great free market in which Canada could hope to sell her surplus agricultural products has been notified by speech backed by legislation, that Canada must sell but will not buy.

The spirit of good will which was engendered by the British Preference of 1897 and revived in the hour of need by the extensions in the Dunning Budget of 1930 has been jeopardized by the political manœuvres in which the Prime Minister of Canada engaged at the Conference of 1930.

Ever since 1880 Tory politicians have felt that mutual reference might be obtained if the Canadian government were bold enough to demand it. Sir Robert Borden and Mr. Meighen

(1) Skelton, "The Day of Sir Wildred Laurier", page 179.

refrained from interfering in British politics. Sir John Macdonald, although he made inquiries, conducted his investigation personally and did not involve the Canadian Government in a matter which was purely of British concern.

In 1930 the political situation in England was highly involved. A party had arisen which declared for mutual Empire preferences. The Government of Australia was highly protectionist and Mr. Bennett seized the opportunity to throw the weight of the Canadian Government against that of the government of England in a party struggle.

Mr. Bennett's proposal was rejected as he must have known it would be. His political alliance with the protectionist party in England has not achieved the overthrow of the government of the Right Honorable Ramsay Macdonald. It has embittered the relationships between Canada and the Mother country. The inevitable result of a self seeking policy of "Canada-First" in Empire affairs has resulted in a pronounced spirit of "Great Britain-First" which is unfortunate for Canada, since under normal conditions Great Britain has purchased more than two and one half times as much from Canada as she has exported to Canada.

To the student of economics the lesson is plain. Every effort whether by favorable preference, or restrictive tariff, to interfere with the natural course of trade is fraught with danger and disaster to the consumer at large. The British Preference has been acclaimed as a step in the direction of

unfettered trade. The oratorical outbursts to which it has given rise serve but to indicate the lack of sound economic principle which actuates the speakers. In so far as the Preference has reduced consumers cost in Canada it has accomplished something; but to attempt to extend it by an increase in the consumers cost of British bread is not only bad politics but bad economics.

Such revision of the rates as has been undertaken by the administration is unique in that it has been swift and certain, and avowedly protectionist in intention. For the first time a government has attempted to guarantee that the tax imposed by the tariff will not fall on the consumer of products made-in-Canada. Mr. Bennet has promised that, should the Canadian manufacturer raise his prices as a result of tariff protection his government will abandon the tariff on that commodity. No provision for discrimination is made, or apparently can be made, between those who loyally attempt to live up to this remarkable undertaking and the one manufacturer who violates it. If one fail him, says Mr. Bennet, all will be punished. As evidence of his sincerity the protective tariff on glass has been abolished - the one Canadian Glass Factory having indicated that it could not function unless it took advantage of the tariff to raise prices.

During the six months since the change in government the prices of commodities generally have sharply declined. The

prices of Canadian made protected manufacturers have, it is claimed, failed to keep pace with the general decline and in this instance an actual increase in cost to the consumer has been negatively obtained.

Not only is this the case but further centralization of the industry, always a feature of increased protection, is resulting in the closing down of small factories and the enlargement of large ones. The result has been to increase locally the problem of unemployment while mass production has lowered cost of manufacturing and undoubtedly increased profit. But such means it is possible to evade the promise which Mr. Bennett has taken from the protected interests and to maintain consumers cost at a level above the natural level of supply and demand in an unfettered market.

The result to the manufacturing industries is not so uniformly beneficial as was expected. The tariff changes of the present government have not ushered in the era of development and prosperity that was promised. As early as December 3, 1930 several of the leather manufacturers of Quebec made application for exemption under the Minimum Wage Act on the ground that increases in the tariff had increased production costs to the point where relief was necessary. By the same date "Canadian Cottons, Limited" had closed down their plant at St. John, N.B., despite the fact that their pre-election announce-

ment said they would shortly have to close down if tariff relief were not given.

The contention, which Mr. Bennett holds to be demonstrable, that prices are not raised by protection is one which is widely subscribed to in the United States. It is open to attack on two well established grounds. In the first place it is untrue in the light of revelations made wherever it has been practised. On the other hand if it be demonstrable that it is true then protection is not needed.

To each and every audience which he addressed during the election campaign of 1930, the Prime Minister advocated tariff increases as a means of reducing unemployment and creating a greater home market for the products of agriculture.

Three months after the election the Minister of Agriculture was suggesting that the only cure for inability to market Canada's surplus wheat was to stop growing it. Of this proposal the Manitoba Free Press, lamenting the disappearance of the prairie's golden fields, has this to say: "But color is not to disappear from the landscape. Wild mustard and sow thistle, with a thousand other weeds will give a fine variegated appearance to the country side in place of the despised and rejected grain. Thus is the face of the West to be transformed, as though by the waving of a wand by a Master Magician. Magic, indeed!" (1)

(1) "Manitoba Free Press", November 21, 1930.

CONCLUSION

"The time is out of joint! --- O cursed spite,
That ever I was born to set it right!"

.....

The spirit of Hamlet's self distrust must well nigh overwhelm the student of economics as he looks around him and beholds the economic marvel that is the nations' legislator-made structure of tariffs.

The search for a reasonable explanation of what he finds to be the accomplished condition of prevalent protection leads away, almost at once, from purely economic considerations.

Mr. Norman Angell writing, on protection, for "Foreign Affairs" is quoted as follows: "There is an appeal here to political loyalty, a human instinct of retaliation, all vaguely mixed up with the more purely economic argument that makes of every normal man, who does not happen to have taken a rather special interest in economic science, a protectionist at heart".

Having studied the history of protection in Canada from its earliest stages, and having recourse to the established dicta of scientific economic theory, the conclusion is forced upon one, that the progress of protection is at least partly explainable in such manner as Mr. Angell employs.

Perhaps this pronouncement explains as well as any other the attitude with which the masses of the indifferent or ill

informed regard protection. There yet remains to seek some explanation of why: "many able and enlightened men have adopted a system that is, notwithstanding, injurious both to social and economic progress". (1)

Perhaps the answer is to be found, if it is to be found, in the frailty of legislators and the natural self-seeking interest which is so dominant in mankind. Perhaps it lies in an appreciation of the fact that even among the relatively well informed, the theories of International trade are not well understood. It appears to be true that economists themselves are at some variance as to the working of International trade.

Next to the acquisitive self seeking impulse fear of losing what we have is perhaps the strongest motive force in mans' experience. Fear even in the well informed is a mighty force which lends plausibility to the protectionist theory. With fear we must associate revenge -- retaliation is the form it takes in fiscal policy. Certainly corruption and the exigencies of practical politics have played no small part in the advancement of the cause of protection. Political martyrs are few and far to seek in the history of governments in Canada as elsewhere. The love of power and the force of corruption are as potent with the well informed as with their less enlightened brethren.

For whatever reason and in whatever manner, the result is so plain that, "all who run may read". Protection in Canada has

(1) C.F. Bastable, "The Commerce of Nations", preface to the first edition.

not lacked for worthy champions however unworthy their cause. Throughout the argument of the Canadian protectionist party runs the pleas^e for the "home trade". Made-in-Canada, Made-in-Manitoba, Made-in-Winnipeg, the story goes. It lacks only in the telling its final logical conclusion "Made-by-me".

The Direct Economic advantages of International trade have been systematically ignored by the protectionists who would sacrifice, hamper, and bind it in the supposed interest of the home trade. These advantages might be summed up:

1. It permits of territorial division of industry - under which

(A) goods are produced by the relatively fittest men in the relatively fittest places

(B) national productive power tends to be directed to limited objectives -- thus tending to superior organization of production improving both quantity and quality of the world's produce. (1)

2. It means an increase in "utility per unit of world produce" and thus an increase in the wealth of nations in the widest sense. (2)

3. The extension of markets - tends to steady demand and supply and to limit price fluctuations - and by creating common interests to strengthen the bonds of peace.

The protectionists have, generally, looked to the possible

(1) Nicholson Book 1, Chapter 111.

(2) Bastable, "Theory of International Trade"
Chapter 1.

"disadvantages" of International trade as an excuse for sacrificing the "advantages" in favor of the home trade. They have pointed to export of natural resources and have had recourse to the theory of diminishing return. They have seen that the consumer is not always a perfect judge of his own best interests and have used the tariff as a paternalistic club with which to beat him.

Looking back upon the pages of the history of Canadian Fiscal Policy certain dates stand out suggestively. They mark, first of all periods of great economic depression and in each instance they also indicate periods of protectionist enthusiasm. 1849, 1858-9, 1876-9, 1893-4, 1911, 1929-30, these are dates which chart the study of the development of Canadian protectionist policy and indicate a desperateness, a sort of last resource sentiment, a grasping at straws. Bearing in mind the campaign of 1930 one might almost describe its result as an attempt to grasp and harness the wind.

The history of protection in Canada, for that is what a history of Canadian Fiscal policy proves to be, is not an impressive one. It bears out the time honored criticism that such a policy is anti-social, setting class against class, and corruptive of both the legislator and the electorate. Without protection there could have been no "Red Parlour". Without the injustices of its duties there would not have occurred the Revolt of Western Canada with its consequent loss to national harmony, and the creation of a bitter class consciousness so foreign to a new land.

Protection has created a new "Family Compact" within which the ties of blood may be lacking, but, bound together by the strong ties of self interest, self seeking, and self aggrandisement.

Undeniably protection has been and apparently is, Canada's fiscal policy. The population of today are joint heirs with posterity to the natural consequences of its adoption not only in Canada but throughout the World at large. There are exceptions such as Holland; perhaps Britain should be exempted, and yet, the feeling persists that before these words have passed their final proofing the ramparts of English free trade may be broken.

The present Federal Administration of Canada headed by the Right Honorable R.B. Bennett is frankly, blatantly protectionist. In an era when the world is seriously examining the ill effects of rigorous doses of protection, Canada, in the person of the Prime Minister, is looking backward for inspiration to meet the great problems of economic depression and unemployment. While Mr. Albert H. Wiggin, chairman of the Chase National Bank of New York (claimed to be the largest bank in the World) is describing high tariffs as having, "brought about and prolonged depression", the Canadian government is valiantly lifting at its own boot straps.

The Tariff Commission of the Right Honorable W.L. Mackenzie King has been scrapped. In its place sit the members of the cabinet presided over and dominated by Mr. Bennett. Before this committee appear those who would protest against this revival

of the National Policy. The old system of "it will, it won't, it will, it won't!" has again taken precedence over scientific examination. (1) The whole responsibility for tariff decisions rests on the basis of political expediency and the friends of protection are in the saddle. On November 19, 1930 the Manitoba Free Press quotes the Toronto Star as follows: "The fact is that Canada has now her first convinced and resolute protectionist administration. Even Sir John Macdonald declared -- he put it in the N.P. enactment in so many words -- that the resort to protection was to aid infant industries and bring the United States to the point where reciprocity in trade would be restored."

Return to the Star Chamber method of tariff pleading suggests that the methods of "Red Parlour" tariff making are dangerously near to revival. The hearing^s of the government have not been attended to date by the representatives of the special interests for whom tariffs are made. Their representations are believed to be already in the hands of the cabinet, probably marked "personal^d and confidential". Indeed the feeling prevails that the decision of the government has been made and that the "tariff hearings" are merely so much "window dressing".

For the moment peace hovers over the confines of James Street. The apple of discord has been thrown to the consumers

(1) (Mr. Bennett intervened with: "Only if there are imports". "That is not true" retorted Mr. Deachman. "Alright that settles that," Mr. Bennett returned. "The hearing adjourned until tomorrow morning". Manitoba Free Press, February 19, 1931.

at large and with the first regular session of the New Parliament yet to be held, the future is veiled in obscurity.

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An attempt has been made to make this thesis a running story of Canadian Fiscal Policy. It has been pleasant exercise, and for me a profitable one, since it has involved delving into many volumes which, lacking the spur of a definite objective, I might never have read. Then too, there has been the renewal of acquaintance with books and papers that were familiar friends in undergraduate days, perhaps none too familiar.

Many notations made over a period of years and indefinitely ear-marked have been embodied in the thesis. At times sentences may occur which from long association have become a part of my own vocabulary and thinking. If I have plagiarized some of them it is a fault of familiarity and emulation rather than any hope on my part to reap the reward of another's effort.

If I have succeeded, in any commendable measure, in reaching my objective I am indebted to the helpful criticism and counsel of Professor A.B. Clark M.A., and to Mr. John W. Dafee of the Manitoba Free Press. Mr. Dafee was kind enough to grant me ready access to the volumes of the Press Library and to lend me volumes from his own.

Throughout much of the period with which this thesis deals I have leaned heavily upon the work of Edward Porritt. His "Sixty Years of Protection in Canada" has been an invaluable guide.

I have tried to forget my political affiliation and I trust I have in the main succeeded. So long as the question of tariffs remains bedevilled by political interests the party man will find it easy to condone or condemn as his party's interest shall appear to be served. The "simple and obvious" theory of the economist becomes more involved with its practical application by men who are at the mercy of the public whom they represent. Public opinion remains far from well informed on fiscal matters and the devious pathways of the politician, so bitterly assailed by the economist, are perhaps but the expression of the "divine right" of democracy to be ruled unwisely if it so elects.

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