THE ROLE OF REGIONAL CONFLICT IN CANADIAN DEVELOPMENT

by

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C O N T E N T S

CHAPTER I

INTRODUCTION AND STATEMENT OF PURPOSE

The overall objective of the present study, as its title suggests, is to outline the role of regional conflict in Canadian development. An attempt will be made (a) to provide an analytic perspective from which to view the underlying dynamics of regional division, and (b) to assess the influence of regional conflict in shaping the character of Canadian federalism.

In contrast to a number of interpretations which have stressed the ethnic, religious and cultural basis of regional division, the thrust of the present study will consist of an attempt to analyse the material and economic foundations of regional conflict. Specifically, this analysis will focus upon the origins and development of an inter-regional exchange imbalance between Canada's regional economies. It will be argued that (1) underlying this exchange imbalance and constituting its essential dynamic are the conflicting interests of regionalized commercial classes and economic sectors, and, that "regional conflict" ultimately is interpretable in terms of the divisions between regionally differentiated commercial interests.

Consistent with the perspective of analysing the economic bases of regional conflict, an attempt will be made to relate the phenomenon of Canadian regionalism to international economic and political developments. Insofar as regional divisions are a reflection of Canada's historically triangular relationship with Britain and the United States, and insofar as regional conflict has been conditioned by the interplay of contradictory pressures reflecting the influence of these competing imperial centers, the ultimate material conditions for regional conflict reside within the framework of international economy. Important therefore to the present study will be an

attempt to situate the development of regional conflict within the context of the international pressures and forces which initially gave rise to, and interactively reinforce, regional division.

It will be argued, in this context, that (2) Canada's historical transition from colonial dependency upon Britain to a high degree of integration with the United States has involved a significant restructuring of the Canadian economy and that, despite the consolidating and centralizing efforts of the Canadian federal state, tendencies toward economic balkanization and regional division have been exacerbated in the process. Economic balkanization will be viewed in terms of its structural origins in international economy, and in terms of the specific policies of the Canadian state, which, in determining the terms of inter-regional exchange, have produced regional conflict.

Concorporate with the attempt to define and describe the material bases of regional division, an effort will be made to assess the influence of regional conflict on Canadian development. It will be demonstrated that the evolution of Canadian federalism bears the indelible influence of regional conflict and its animating dynamic: commercial rivalry. Specifically, an attempt will be made to relate three important aspects of Canadian development to the phenomenon of regional conflict. These are:

1. the development of political parties and movements,
2. the evolution of federal-provincial relations, and
3. Canadian constitutional history

It will be argued that developments in each of these three areas are interpretable within a broader framework in which regional conflict is central. The following analysis may, consequently, be viewed as an attempt toward developing a political economy of Canadian regionalism.

Outline for the Work

In the chapters in Sections I and II, the history of regional conflict is examined from Confederation to the present. The origins and motive force of Confederation are examined, as are specific developments giving rise to a structured inter-regional exchange imbalance. Major political developments of this period are viewed from the perspective of regional division, and their longer-term consequences for the federal structure.

Section III, upon the basis of a theoretical perspective outlined in previous chapters, attempts an analysis of exchange imbalance in current perspective. Here, the structural components of regional imbalance are examined separately, and an attempt is made to understand the inter-regional exchange dynamic, as it operates today.

The final section, Section IV, will provide an overview of regional conflict with particular emphasis upon the role of regional factors in the Canadian political process. The Canadian polity will be viewed from the perspective of regional conflict and the underlying regionalization of Canadian economy.

S E C T I O N I

REGIONAL DIVISION AND CONFLICT:

ANTECEDENT CONDITIONS AND IMMEDIATE ORIGINS

CHAPTER II

CONFEDERATION: ROOTS OF THE ARRANGEMENT

Any attempt to understand the character and evolution of Canadian federalism is destined to failure unless efforts are made to understand the historical context in which the Canadian nation-state was formed. As accustomed as we are to visualizing the creation of Canada as either the product of a gradual political and economic integration of the British North American colonies, or as the expression of the democratic aspirations of the British colonists, neither of these explanations adequately interpret the situation leading up to Confederation.

The process of Confederation was neither natural nor democratic; it was, instead, part of an overall strategy of colonial consolidation devised and implemented by an emerging Canadian bourgeoisie with full backing from the British Colonial Office. As part of this strategy, Confederation was prompted by three inter-related factors: political instability in the British colonies, the structural fragility of the colonial arrangement in America, and the changing character of British Commercial Policy.

Political Instability in the Colonies

Consolidation through political unification, as a strategy, did not originate with the Act of Confederation. Its origins are easily traceable to the attempted union of Upper and Lower Canada in 1822, and more directly, to the 1837 MacKenzie and Papineau rebellions which posed the first serious challenge to colonial stability since the War of 1812. Significantly, it was this rebellion that prompted British authorities to reevaluate their strategy for British North America, the ultimate result of which was the Act of Canadian Confederation.[1] Lord Durham's now famous Report on the Affairs of British North America constituted, not only a formula for the introduction of respon-

sible government, but the first in a series of strategic efforts to consolidate the British North American colonies.

That political instability and the republican influence of the United States were of prime importance in Britain's decision to unite Canada East and Canada West (Act of Union, 1840) and grant responsible government to the new colony is evidenced by the words of Lord Durham himself:

> The border town ships of Lower Canada are separated from the United States by an imaginary line; . . . Every man's daily occupations bring him in contact with his neighbours on the other side of the line . . . Such common wants beget an interest in the politics of each country among the citizens of the other . . . and men discover that their welfare is frequently as much involved in the political condition of their neighbours as of their own countrymen.[2]

In uniting Canada East and Canada West, the British government sought to diffuse pro-American and republican sentiment in Canada West and halt the democratic national movement amongst the French population of Canada East. Recognizing the impossibility of a military suppression of these movements, the British colonial secretary Earl Gray stated (in 1846),

> . . . it is neither possible nor desirable to carry on the government of any of the British provinces of North America in opposition to the opinion of the inhabitants.[3]

Britain's creation of the Province of Canada and its granting of responsible government to the colony were thus strategic undertakings designed to undermine the republican movement and consolidate the British North American colonies against American republican influence and the U.S. economic threat.[4]

Structural Instability of the Colonial Arrangement

Prior to Confederation, the fragility of the British imperial presence in North America was highlighted not only by the republican movement in the colonies and the American presence to the South, but also by the instability

of the British colonial structure itself. Even after the Act of Union which joined Canada East and Canada West into a single province, the British colonies were marked by diversity and isolation rather than by homogeneity. Each of the British colonies--Canada, Newfoundland, P.E.I., New Brunswick, Nova Scotia and the Western Territories--constituted isolated, semi-autonomous political and economic units. Unlike the American states to the south, where specific geo-political and economic factors helped shape an integrated (if divisive) economic growth, the British colonies had developed few trade and no political bonds amongst themselves. Their unity (such as it was) derived solely from their common colonial status and their extensive trade relations with Great Britain.

Although the suppression of the 1837 rebellion, the Act of Union, and the decision to allow responsible government in the colonies provided a short term solution to the political instability and structural fragility of the British colonies, these actions alone, clearly, could not have resolved Britain's longer range problems in America. Indeed, within the framework of a divided British North America, these actions alone--particularly the granting of responsible government--could have only reinforced pressures for greater autonomy and independence from imperial control.

Pressures toward colonial independence were already evident during the 1840's when the British colonies, reacting to Britain's repeal of the Corn Laws and the termination of colonial preferences, moved in the direction of closer economic and political ties with the United States. Early appeals for political union between the British colonies and the United States (such as the 1849 Annexation Manifesto) were combined with proposals for closer commercial relations. The negotiation of the 1854 Reciprocity Treaty between the colonies and the U.S. is indicative of the direction that the British colonies would have taken if left to their own resources.

Changes in British Commercial Policy

The political consequence of Britain's granting responsible government to the colonies and its termination of colonial trade preferences was the movement toward closer political and economic relations between the British North American colonies and the United States. This, of course, was an undesired, yet inevitable consequence of the changes in British Commercial Policy in the 1940's. In ending colonial preferences and introducing free trade, Britain sought not only to reduce the cost of its raw material and agricultural imports, but also to expand British industrial production and the foreign market for her industrial goods. British industry, having outgrown the fetters of the British market, now sought expanded markets through free trade.

The implications of this new Commercial Policy for British colonial policy in North America were particularly unsettling. With the ending of colonial preferences and a reduction in colonial trade, Britain's ability to counteract the U.S. economic threat in its North American colonies was diminished. And, as the divided colonies -- reacting to the effects of Britain's Commercial Policy -- sought to expand their economic relations with the U.S., Britain's ability to indefinitely retain political and administrative control over its colonies was threatened. British Commercial Policy, formulated in the broad interests of British industry, seriously undermined the British colonial structure in North America.

The free trade era and Britain's new Commercial Policy thus required a fundamental modification of British colonial policy in America. This modification marked the abandonment of the old colonialism, under which colonies had been secured and administered for the purpose of resource exploitation, and the adoption of a neo-colonial policy, under which trade and investment dependency were substituted for direct political domination.

But however great the resources of British industrial and finance capital, this strength alone could not guarantee the success of a neo-colonial policy in North America. In light of the diversity and isolation of the North American colonies and their growing integration with the U.S., Britain could neither hope nor realistically expect to maintain control of her territories without a major political initiative on the continent.

By the 1850's the economic threat posed by the United States had become quite apparent. In the Atlantic colonies and Canada the British connection was rivaled by the development of trade ties with the U.S., while the vast Western territories, nominally 'controlled' by the Hudson's Bay Company, were completely open to U.S. annexation or absorption. Major initiatives undertaken jointly by British and Canadian financial interests to counteract the U.S. pressure were, by the late 1850's, failing. The idea that Canadian transportation routes could supplant American routes by capturing the trade of the American Middle West had proven illusory.

Inevitably, these failures intensified interest among British and Canadian capitalists in continental expansion into the Western territories, which during the years of the fur trade had been an important source of Canadian wealth. Now of course, the motivation was no longer that of the fur trade, but of colonization and agricultural development along the U.S. pattern. Having failed in their efforts to canalize American trade into Canada, the idea of westward expansion became increasingly attractive to the imaginative minds and acquisitive instincts of the Canadian financial bourgeoisie.

Not coincidentally, this interest in westward colonial expansion corresponded to the strategic interests of the British government--consolidation of its North American colonies and territories. As early as 1849, proposals for an inter-colonial rail link from the Atlantic to the Pacific had been advanced.[5] By the 1850's the growing instability of the British colonial

structure in North America rendered consolidation, linked with a program for westward expansion, a strategic necessity.

CHAPTER III

THE STRUGGLE FOR CONFEDERATION: ITS REGIONAL BASIS

However Canadians may look at Confederation today, it is quite certain that few are aware of the economic forces and political intrigue involved in its creation. The degree of hostility and division which characterized the Confederation debate stands out as a particularly striking aspect of the struggle for nationhood. And a struggle it most certainly was! The majority of the inhabitants of the colonies were either disinterested or openly hostile to the idea of colonial union. In contrast, commercial interests, particularly in the Province of Canada, strongly favoured the proposal and were instrumental in its implementation. So great was the anticipated hostility to Confederation that the colonial representatives who met in 1864 in Quebec to discuss union agreed not to submit the question to the electorates in plebiscites or referenda. Instead, the right to decide upon the issue was arrogated by the Colonial legislatures. From the beginning then, the task of unification in British North America was perceived by its promoters as one of circumventing the democratic process, and relying upon the elected legislatures of the day.[1]

If obtaining the approval of the colonial legislatures was considered expedient, it nonetheless proved to be a difficult undertaking for the leading exponents of Confederation. The colonies were by no means unanimous in their acceptance of the confederation proposal, a fact evidenced by the initial rejection of the scheme by Newfoundland and Prince Edward Island. Even amongst the founding participants--Canada, N.S. and N.B.--regional conflicts and sectional cleavages delayed the acceptance of the unification proposal for several years.

The nature and intensity of these regional differences amongst the colonies is perhaps the most significant aspect of the debate leading up to Confederation. Certainly from the point of view of the present study it is the

most interesting, for at no point in Canadian history have regional and sectional conflicts of interest been more divisive or assumed such articulate and explicit expression by the parties concerned.

The importance of regionalism and the obstacles to Confederation posed by regional interests have been widely acknowledged by historians. But in many cases, the nature of these "regional" conflicts has been obscured, either through interpretations which emphasize the importance of personalities in the conflicts or through superficial interpretations of political party behaviour which ignore the socio-economic basis of the programs expressed by party formations.[2]

In order to understand the nature of the conflicts which arose among the colonies over the question of Confederation, it is necessary to understand that each of the five British colonies had developed economic institutions which, while basically dependent on Britain, nonetheless evinced a relative independence from one another. Correspondingly, within each of the five colonies, the predominant economic activities were directed by local commercial classes whose interests differed by virtue of the divergencies of their economic activities and because of their isolation (autonomy) from the commercial classes of the other colonies.

An understanding of the commercial structures and economic institutions of British North America must therefore be the starting point for a serious analysis of regional and sectional conflicts among the colonies/provinces. In this regard, economic developments within the province of Canada are particularly important in view of the fact that it was from within Canada that the major colonial support for Confederation emerged.

i) <u>The Province of Canada</u>

Although deep cleavages and differences characterized political life within Canada, the provincial legislature voted as early as 1864 to accept the

proposals for colonial union outlined in the Quebec Resolutions. Canada was the first colony to endorse the Resolutions and subsequently became a major force in the overall struggle for Confederation.

Contemporary historians have correctly depicted Canadian support for Confederation as a decisive event in the process of colonial unification. All too often however the Confederation coalition of Macdonald, Galt, Cartier and Brown has been characterized as a "national" coalition of French and English Canadians forged out of the conditions of political deadlock which gripped the united legislature in the early 1860's. In fact, the reasons for the formation of the coalition ran much deeper, were far more fundamental than the immediate conditions of political deadlock. The formation of the Confederation coalition can only be understood with reference to the change in economic relations within Canada which overrode the sectional cleavage between Canada East and Canada West and produced a strategic coincidence of interest between the commercial groups of Montreal and Toronto.

Only in an immediate and superficial sense would it be correct to understand the political crisis of the early 1860's as the cause of the Confederation coalition.

> Political deadlock was not the mainspring of the Confederation movement, for political deadlock was itself the result of the entanglement of social and regional interests.[3]

The conflicting interests of Canada East and Canada West within the union constituted the fundamental component of the legislative deadlock. For the ascending commercial groups in Canada West, the existing federalism of the Canadian union proved frustrating to their ambitions for westward colonial expansion. The formal political equality of the two regions within the legislature likewise proved contentious. Although the population and revenue base of Canada West was larger, the Act of Union required that revenues be divided equally between the two regions thereby producing a net outflow of revenues

from the West to Eastern Canada.

For their part, the representatives of Canada East feared that the expansion of Canada West would upset the formal balance of the union, and result in the subordination of Canada East within whatever new political structure might emerge. The threat of cultural and economic domination exerted a conservatizing influence on Canada East, impelling the latter to oppose westward expansion along with all other measures (for example, representation by population) which would endanger the formal equality of the two regions within the union.

This dispute or sectional cleavage between the two regions was the underlying factor in the political deadlock in the legislature and, correspondingly, was the basis from which the solution to Canada's political crisis would emerge. Out of this deadlock and the ministerial crisis of 1864 sprang the Confederation coalition of Macdonald, Galt, Cartier and Brown--an unlikely combination given the historical antagonism of the participants--but fully explicable in terms of the changing perspectives of the Montreal and Toronto commercial groups in whose interests the coalition was formed. The Confederation coalition was a compromise government whose objective was to find a solution to colonial instability through unification.

> In the 'great coalition', Macdonald with Galt represented the general interests of the leading English--Canadian business community closely tied in with London and the Grand Trunk and having Montreal as its main headquarters. Brown spoke for the industrial and commercial leaders of Toronto, rivals of Montreal and a large area of rural as well as urban reform opinion in Canada West. Cartier was the spokesman of the conservative wing of the French Canadian Bourgeoise and of the church, allied with Anglo Canadian capital.[4]

The combination of these forces, allied in a common effort to consolidate the British colonies, constituted the major source of support for the strategy of colonial unification.

It would be misleading to assume that the Confederation Coalition resolved the rivalries between Montreal and Toronto or that it reconciled the differences (national and economic) between the French and English regions of Canada--more than 100 years of history has proven this not to be the case. Rather, the coalition was the political reflection of the strategic compromise between the leading commercial sectors within Canada, and as such signalled the temporary relaxation of those sectional conflicts between the regions that were motivated and sustained most immediately and specifically by commercial rivalry.

Accelerated by the loss of colonial preferences in the late 1840's, the forces of industrialization and economic development, that had begun to gather momentum in the 1830's, significantly altered the situation of commercial rivalry existing between the two Canadian regions. Rapid development of the means of production, transportation and communication had created the foundation upon which the French and English bourgeoisie--bankers, industrialists, promotors--increasingly moved towards accommodation and integration. The government of the Province of Canada played a considerable role in this process, first by financing the canal system along the St.Lawrence and later by subsidizing the construction of the Grand Trunk Railway, an effort jointly promoted by Montreal and Toronto commercial interests. The development of the canal system and the Grand Trunk reflected and served to promote the common economic interests of the Toronto and Montreal commercial groups both of whom sought the development of transportation facilities as links with world markets and both of whom directly benefited from the state subsidies provided the railroads.

It is here that it is possible to identify a major point of difference between the commercial interests of Canada and those of the Maritime colonies. Unlike the Atlantic colonies, whose economies were based almost entirely on

export trade, the economy of Canada had developed beyond the stage of simple trade dependency characteristic of its earlier phases. Economic development and industrial progress in Canada had proceeded at a much more rapid pace than the Maritime colonies. The establishment of the Bank of Montreal in 1817, the Bank of Upper Canada in 1822 and the Bank of Toronto and the Toronto Stock Exchange in 1855, and the subsequent growth of these interests testifies to the strength and complexity of the commercial structures of Canada relative to those of the Atlantic colonies. In addition, the process of industrialization had developed further in Canada. By 1860, woolen and cotton, lumber, distilling and agricultural implement industries had developed and although the total industrial factory production of Canada was still small it nonetheless far exceeded that of the Maritime colonies.[5] This, in addition to the continued development of export-oriented industries (timber, wheat and other agricultural commodities), gave a more diverse and progressive character to the economy of the Canadian colony.

Accompanying these developments in Canadian industry and commerce was a corresponding increase in the social and political weight of the Montreal and Toronto capitalist groups whose differences had been diminished by the economic development of the province and their common dependence on British finance capital.

In the case of Canada, British capital was particularly active in the development of railroads especially when the support of the Canadian legislature provided solid assurance of substantial profits. The impetus for the construction of the rail transportation network, aside from its immediate profitability, stemmed from the necessity of developing trade routes for the export of raw materials to Britain and of facilitating the integration of the colonial economy. It is particularly interesting to note that, although the Railway Act of 1850 provided that the Grand Trunk Railway could be built as a public work by the Province of Canada, it ultimately became the project of British financiers and

promoters who, along with Canadian and American investors, capitalized on the massive subsidies made available by the Canadian government.[6]

Of central concern here, however, is the extent to which Canadian economic development was linked with British capital and investment. Particularly noteworthy is the massive involvement of British capital in the development of the early Canadian rail system--a fact best understood if we will recall not only the almost certain profits in rail construction but also the strategic imperatives confronting Britain in North America.

The predominance of British finance capital in Canada and the consequent integration of British and Canadian financial interests (as evidenced in their joint efforts in railway construction) were the underlying causes of Canadian support for Confederation. That Canadian railway promoters, financiers and industrialists emerged as the most ardent advocates of Confederation is therefore not surprising.[7]

Canadian support for Confederation was the immediate reflection of the long-term interests of the Toronto and Montreal based financial sector. In their efforts to consolidate the British colonies and expand westward, these commercial interests found their greatest ally in the British Colonial Office. As expressed by the Canadian historian Donald Creighton:

> This British assistance may be interpreted as an effort to assist in the creation of a giant holding company in which could be amalgamated all those divided and vulnerable North American interests whose defense was a burden to the British state and whose financial weakness was a grievance to British capital.[8]

If, on the one hand, the protection of British interests in North America made Confederation necessary, it was the strength and influence of indigenous financial interests in Canada, linked with London, that made Confederation possible.

ii) <u>The Atlantic Colonies</u>

The situation of the Maritime colonies and Newfoundland engendered a much

different case and a much different perspective on the question of colonial union. Unlike Canada, where the impact of British capital had resulted in the development of transportation facilities and the beginnings of industrial manufacture, the Atlantic provinces, for the most part, had experienced little in the way of industrial and commercial development. Containing in their aggregate only a quarter of the population of British North America, the four Maritime colonies had been by-passed by British capital in favour of more lucrative and strategically important investment in the Province of Canada. Hence, the economies of the Maritime colonies were based primarily on exports and, as such, were locked into a pattern of trade dependency with the United States and Great Britain.

Here, the principal economic activities--those of fishing, lumbering and shipbuilding--derived comparative advantage from their Maritime location, but, nonetheless were precariously based upon pre-industrial technology and manufacture.

Even as late as 1866 the export of fish accounted for over 40% of the total value of exports from Nova Scotia.[9] Ship building, lumbering and the carrying trade made up the balance of Nova Scotian economic activities.

In New Brunswick, trade dependency was even more extreme and the economy even less diversified. In 1866 forest products, excluding ships, made up nearly 70% of the total exports.[10] Shipbuilding provided the major source of manufactured exports but the shipbuilding industry too was highly dependent upon the foreign markets. Still, the comparative advantages afforded the Maritime colonies by virtue of their geographical location and the abundance of extractive resources (principally fish and lumber) combined to produce a relative prosperity in the region. This prosperity was however a prosperity of export-dependence, the basis of which was destined to be undermined by changing world markets, depleting sources of accessible timber, technological progress in the carrying trade

(notably the introduction of the steamship) and,--not least importantly - by the economic realities brought about by Confederation itself.

Thus, although on the eve of Confederation the Maritimes had a prosperous economy, this prosperity was almost totally dependent on the extraction and export of raw resources and primary materials.[11] With the exception of domestic agricultural production in Nova Scotia and New Brunswick and the export-oriented agricultural economy of P.E.I., Maritime wealth was based upon the exploitation of fish, forest and, less importantly, the mineral resources of the region. As such, the commercial classes of the colony were highly dependent upon their trade links with Britain and the United States. Their capacity for, and concern with industrial and economic expansion was limited, and assumed the form of promoting construction of rail links to the interior of the continent, a project their limited financial resources were incapable of achieving. Because capitalist industry in the Maritime colonies was small and underdeveloped in comparison with Canada, there was no large industrial bourgeoise corresponding to the ascending class of industrialists in Toronto. Neither had British finance capital achieved any great penetration of the Maritime economy. The local commercial class was comprised preponderantly of the owners of the lumber, fish and ship building industries, their functionaries, and financial institutions which were the direct outgrowth of trading enterprise.

For these reasons, the Confederation proposal which proposed to link the Maritimes with Canada invoked contradictory responses from the leaders and the people of the Atlantic region. Their traditional dependency upon Maritime activities and the prosperity obtained thereby provoked hostility and suspicion of the scheme from isolationists and pro-U.S. elements within the province. On the other hand, the promise of a railway with Canada (the Intercolonial Railway) was seen as a major advantage for N.S. and N.B. commercial interests who had already added some $10.5 million to their public debt in

attempts to construct such a facility.

The pull of continental integration assumed quite a different dimension in New Brunswick where commercial interests sought to promote the building of a rail link between Saint John and the State of Maine thereby facilitating trade and integration with the United States. In each of the colonies, sectors of the commercial aristocracy, especially those whose trade depended upon Britain, looked favourably upon the Confederation proposal, particularly the possibility of expanding inland transportation facilities. At the same time, the traditions of self-government and the relative autonomy of Maritime commercial interests were important factors promoting suspicion and hostility towards the Confederation proposal. Anti-Confederation sentiment in the Maritimes was encouraged by commercial interests who sought greater ties with the United States and saw Confederation as an obstacle to such a development.

Unlike Canada, where the dominant commercial classes experienced little difficulty in manoeuvring legislative support for Confederation, commercial interests in the Maritimes were divided on the question creating the conditions for a fierce struggle between pro and anti-Confederation forces. For the island colonies of Newfoundland and P.E.I., the prospect of colonial union appeared to offer few advantages for local commerce. Thus as early as 1864, the P.E.I. legislature decided not to enter any federation or union with Canada. In Newfoundland opposition to the proposal was so strong that the Quebec Resolutions were never presented to the legislature. In N.S. and N.B. however the promise of an inter-colonial rail system appeared to offer a major advantage to local commerce and stimulated significant support for the unification scheme. Still, the 1864 elections in New Brunswick brought to power an anti-Confederation government whose ties with American railroad interests underlined the urgency of British intervention if Canadian objectives for consolidation and expansion were to be realized.

It would not be difficult to predict the outcome of the struggle for Confederation in the Maritimes had the British government not intervened on the side of the pro-Confederation forces. Without British support and maneuvering, the proposal for colonial unification would most certainly never have received acceptance in the N.B. and N.S. legislatures. This support was forthcoming in 1866 when the lieutenant governor of New Brunswick, acting on explicit instructions from London, dismissed the anti-Confederation government and opened the way for a second electoral struggle between the pro and anti-Confederation forces.[12]

This time, aided by a campaign chest funded from Canada, the pro-Confederation forces headed by Tilley carried the province. Shortly after, the New Brunswick legislature passed a resolution of support for Confederation with the stipulation that the construction of the Inter-colonial Railroad be included in the terms of the union. In the same year, Tupper in Nova Scotia secured the passage of a general resolution in support of colonial unification, thereby achieving the necessary legislative support for Confederation. In addition to explicit support from the British government, the proposal for colonial union had been given additional stimulus by changing economic conditions, particularly the U.S. abrogation of reciprocity (1866) which threatened to reduce U.S.-Maritime trade. The termination of reciprocity was not however of central importance in Maritime "acceptance" of the Confederation proposal. Indeed, amongst an important sector of Maritime commercial interests, the termination of reciprocity gave rise to demands for more privileged relations with the U.S., including the proposal for annexation. The intervention of British commercial interests and the British government were certainly decisive in achieving Maritime support for Confederation.

Once the principle of colonial unification passed in these three colonial legislatures, the final details of the agreement were worked out in London when representatives of the colonies met to revise the Quebec Resolutions of

1864. The resulting document--the British North America Act--was passed by the British parliament in March, 1867, thereby establishing the Dominion of Canada comprising the former colonies of New Brunswick, Nova Scotia and Canada.

CHAPTER IV

REGIONAL CLEAVAGES IN POST CONFEDERATION CANADA

Nature of the Confederation Agreement

The passing of the B.N.A. Act was a significant victory for the financial interests of Central Canada and their backers in London. But the Act of Confederation itself was not to erase the basis of regional and sectional division existing between the colonies/provinces. The failure to win Newfoundland and P.E.I. to the union was merely symptomatic of the sectional divisions that continued to exist among the colonies. Even within the new Canadian federation, regional conflicts continued to occupy a central position in the political relations between the provinces. Powerful regional and sectional conflicts had in fact predetermined the character of the federal union itself. Rather than overcoming regional differences and antagonisms between the colonies, Confederation merely transposed these conflicts into a new political framework.

The specifics of the terms of union confirm such a conclusion. As has been stated, the driving force of Confederation originated in Central Canada with the coalition government of the Blues of Canada East (Cartier), the Conservatives of Canada West (Macdonald) and the Liberals of Canada West (Brown). But within the Confederation movement, differences existed over the form that the union should assume. Macdonald, articulating the views of Central Canadian financial interests, argued for the creation of a strong central government--"a great central legislature"--a formula generally considered conducive to the consolidation and integration of the colonies into a single unified state.[1] Cartier, however, as spokesman for the French Canadian business interests and the French Catholic church, sought to check the centralist tendencies of the Upper Canadian group and argued for the protection of French Canadian rights and the allocation of powers to provincial legislatures.

Having achieved formal legislative equality within the Province of Canada, the French nationality could not have tolerated a Confederation scheme which would have involved its overt subordination to the English majority of Canada West. Whatever may have been Cartier's personal viewpoint, the existence of the oppositional Parti Rouge, whose adherents were strong upholders of French Canadian rights, would have prevented Cartier from accepting the sort of legislative union proposed by Macdonald.

Canada East's acceptance of the Confederation scheme required that it contain at least theoretical safeguards for the rights of the French nationality. But consideration for the rights and expectations of French Canada was not the only factor that militated against the concentration of all power in the central government. The heritage and local interests of the Maritime colonies likewise required that the proposal for colonial union not appear to concentrate all authority in the central government. Just as the French Canadians feared subordination within the union, the people and commercial classes of the Maritime colonies feared absorption and political debillitation at the hands of the "Upper Canadians".[2]

Thus, the Quebec Resolutions, which served as the basis of further Confederation debate, reflected a compromise between the legislative centralist concepts of Macdonald and the federalist proclivities of the French Canadian and Maritime representatives. Although strongly weighted in favour of the central government, the new union would not be a unitary state. In addition to containing theoretical safeguards for the rights of the French nationality, the B.N.A. Act recognized provincial jurisdictions over a number of important legislative areas. Each of the Maritime provinces would retain its legislature; in the Province of Canada, two new legislatures would be created.

The character of the union consequently reflected the contradictory nature of its constituents. As a contemporary scholar has observed:

> . . . It is hard to know whether we should call it a federal constitution with considerable unitary modification, or a unitary constitution with considerable federal modifications.[3]

This dual character of the Canadian political structure expresses, at one level, the centralizing tendencies of British capital and the Central Canadian bourgeoisie, while, at another level, it reveals a strong tendency towards the centrifugation of power stemming from the contradictory interests of different commercial classes in the colonies.

Regionalism in Post Confederation Canada

The history of Canada up to the present reveals the uneven, yet continuing, interplay of the forces which shaped and determined the character of the colonial union. Tendencies towards the expansion and integration of the national economy and political system have, at various moments and in different ways, been offset and undermined by the continued growth and periodic resurgence of sectional and local conflicts of interests among different regions and their dominant classes.

In the immediate aftermath of Confederation, the interplay of these conflicting tendencies combined to produce two, almost contradictory, developments for the Canadian state. On the one hand, the new Dominion faced the "nation-building" tasks of territorial expansion and political consolidation of Confederation, while on the other, conflicting class interests gave rise to growing regional disunity and provincial autonomism.

i) Regional Division - Revolt in the Maritimes

Shortly after the enactment of the British North America Act, hostility and opposition to Confederation experienced a revival in the two Maritime provinces, particularly Nova Scotia. Neither of these colonies had ratified the terms of union and in both provinces the anti-Confederation movement seized upon this fact, depicting Confederation as a betrayal of Maritime interests

by the British government. In the 1867 provincial and federal election in Nova Scotia, anti-Confederates captured 36 out of 38, and 18 out of 19 seats respectively. The entire pro-Confederation membership of the Tupper government went down to defeat at the polls. In the following year the provincial assembly passed a resolution calling for repeal of Confederation, subsequently sending a delegation headed by Joseph Howe to London to appeal to the British cabinet.

Many explanations have been offered for Nova Scotia's immediate rejection of confederation. The strong, almost nationalist, feelings of Nova Scotians towards their colony; the economic recession of 1866-1869; even the personal influence of Joseph Howe --all of these factors have been invoked as reasons for the birth of the anti-Confederation movement. But whatever the effect these factors may have had in kindling the flames of regionalism and anti-Canadian sentiment in Nova Scotia, the underlying cause was most certainly the threat posed to the commercial interests of that province by the central Canadian bourgeoisie and the very structure of the federal union. That Confederation coincided with a serious recession in the economy no doubt intensified Maritime hostility to the union. But only in the most immediate sense was the Recession a cause of Nova Scotian opposition. As at least 60 years of subsequent history visibly confirms, the origins of Maritime anti-federalism resided in the historic isolation of the Atlantic provinces and their subordination within the Canadian federal structure.

Perhaps more than any other factor, Nova Scotian opposition to Confederation was a reflection of the dependency and ultimate impotency of its small local bourgeoisie. Dependent upon trade relations with Britain and the United States, the position of Nova Scotian commercial interests was extremely vulnerable. As Joseph Howe, the leader of the anti-confederates, lamented

> Placed between two mighty nations we sometimes
> feel that we belong to neither.[4]

Placed between two mighty nations, Nova Scotian commercial interests were caught between the lure of closer economic relations with the U.S. and their colonial relationship to Britain. It was precisely for this reason that its commercial classes swung periodically between acceptance and rejection of Nova Scotia's role within Confederation.

The case of Nova Scotia is instructive because it clearly shows that the underlying force in the development of regionalism and sectional self-interest in Canada, rests, in large part, on the existence and strength of economic relations between the regions of Canada and the United States. This relationship can be seen as fundamental in the orientation of Nova Scotians as early as 1867: in many ways the history of the opposition movement in Nova Scotia is also the history of the movement for Nova Scotian-United States Union.

Such was the extent of pro-U.S. sentiment in Nova Scotia that, by 1869, a leading annexationist newspaper was able to claim:

> . . . we have vast numbers of our people looking to Washington and openly advocating annexation.[5]

In the same year, the Anti-Confederation League named itself the Annexation League. For a significant number of Nova Scotians, including a large sector of the local commercial interests, the prospects of Confederation fared poorly in comparison with the far greater advantages of integration with the United States.

Had Nova Scotia's commercial interests been allowed unrestricted power to determine the political destiny of their province, it is almost certain that Nova Scotia would have opted out of the Confederation scheme, as would have New Brunswick also. The intervention of two related forces prevented this. The first (and most obvious) was Britain's refusal to repeal the B.N.A. Act and reinstate the Maritime colonies to their previous status. In light of the strategic requirements of British colonial and commercial policy in North

America, such a decision was inevitable. The second factor which modified Nova Scotian opposition to Confederation was the federal government's decision to renegotiate the financial terms of Nova Scotia's participation in the union. The subsequent defection of Joseph Howe to the camp of the Confederates together with the cyclical upswing in the Maritime economy combined to divide the anti-Confederation movement, for a time quieting Nova Scotian opposition to the federal structure.

ii) Maritime Revolt and the Challenge to Federal Power

In historical terms, the development of the oppositional movement in Nova Scotia was the first of a series of provincial offensives which in subsequent years would seriously weaken the federal power and strengthen the provinces. In challenging first the political legitimacy, and secondly the economic basis of Confederation, the provincial government of Nova Scotia helped lay the groundwork for "provincial rights" theory and provincial checks on the federal government. At the very minimum, the revolt in Nova Scotia revealed the impossibility of a rigid political centralization in a regionally divided nation, and, in this way, acted to check the full emergence of the centralist tendencies inherent in the constitution. Nova Scotia's action undoubtedly reinforced the federal, anti-unitary provisions of the Confederation arrangement.

Nova Scotian opposition moreover underscored the element of instability which continued to characterize the colonial economic and political structure. Locked into a political structure over which they had little control, Nova Scotian commercial interests immediately felt threatened by the Confederation arrangement and the subordinate status this arrangement portended for their less developed economy. Henceforth sprang their initial attempts to break with Canada, and develop closer trade relations with the United States.

Nova Scotia opposition and the response of the federal state in the light of this opposition is significant because it at once acknowledges and confirms the central problem of Canadian federalism: the unequal union of disparate regional economies under the authority of a single political administrative apparatus overwhelmingly weighted in favour of Central Canadian commerce. The 'repeal' movement represented a fundamental challenge to this new structure and succeeded in exacting an immediate concession from the federal government in the form of greater federal subsidies. Although this concession fell considerably short of redressing the political disarmament of Maritime commercial interests, the granting of "Better Terms" to Nova Scotia nonetheless signified the strengthened role, and greater manoeuverability, that the provinces would henceforth have within the federal structure.

The granting of better terms to Nova Scotia, furthermore, precipitated a reaction in Ontario and Quebec where local and provincial politicians (mostly Liberals) questioned the federal government's authority to unilaterally alter the terms of union as outlined in the B.N.A. Act. Very early then, Nova Scotia's opposition to Confederation created the climate in which provincial challenges to the federal power would become common and recurrent events in Canadian history. But the foundation upon which subsequent provincial-federal conflicts would emerge was not conditioned by this factor alone.

The material basis of the challenge to federal power (and federal-provincial conflict in general) rested most immediately in commercial rivalries between the Central Canadian financial sector and commercial elements disadvantaged by Confederation and the subsequent policies of the Canadian state. Among those disadvantaged or otherwise threatened by the policies of the federal power were a wide range of export-oriented industries, particularly those in the Maritime region whose trade links with foreign

metropoles were endangered by Canadian trade policy. Commercial rivalry also characterized relations between commercial sectors in the central provinces of Quebec and Ontario, giving rise to political struggles in Central Canada as well. Within this context of commercial rivalry and regional conflict materialized the origins of the Canadian two party system, and the Liberal-Conservative division (see also Chapters 6, 13, 14).

For more than four decades the Liberal and Conservative parties gave expression to the conflicting interests of rival commercial classes antagonistically united within the Canadian federal system. In this capacity, the Conservative and Liberal parties operated as vehicles of specific class interest, from which sprang their respective advocacy of centralist and "provincial rights" positions. As the representative of British and Canadian finance capital, the Conservative Party reflected the expansionist designs of the financial sector and its efforts to consolidate control over the regionalized Canadian economy.[6] Resisting this pressure was a constellation of commercial interests united in an inter-regional alliance comprising the Liberal Party. As will be shown in Chapter VI, the origins of federal-provincial conflict, and the Liberal-Conservative division were rooted in the material conditions of Canadian Confederation and the regional and sectional conflicts present therein.

Consolidation and Expansion

Although the first two decades of Confederation saw the emergence and growth of provincial and regional conflicts within Canadian federalism, it was also during this period that the most significant measures were undertaken towards the integration, expansion and consolidation of the union. Of particular importance were the related "national policies" of the Macdonald government: territorial expansion to the west coast, the construction of a national railway, and the development of a national economic policy. These

were the basic and essential tasks confronting the central government which, if left uncompleted, would have hastened the process of internal fragmentation and U.S. penetration, (i.e., continental integration).

Even prior to Confederation the groundwork for Canadian annexation of the northwest hinterland had been laid. As early as 1863, the Grand Trunk Railway had acquired controlling interest in the Hudson Bay Company--a move designed to facilitate Canadian westward expansion.[7] As previously mentioned, Confederation and westward expansion of the union were inseparable elements in British and Canadian strategy for British North America.

Formal entry of Rupert's Land and the North West Territories into the Dominion was effected in July 1970 when the British government transferred these territories to the Canadian government. It is interesting to note that in the western settlement of the Red River region, as in the Maritimes, local opposition to the forced union with Canada was intense and widely felt amongst the population. During 1869-1870, this opposition formed the basis of a popular insurrection by the French and Metis residents of the Red River settlement who feared Canadian domination. A military invasion was required before the Canadian government was able to settle its claims on its new western province of Manitoba.

This annexation of the western territories in 1870 was succeeded in the following year by the addition of British Columbia to the Canadian federation and the expansion of the Dominion to the western seacoast. In British Columbia support for confederation was strong, stronger perhaps than in any other province. Even here however, a number of local capitalists in Victoria had publicly declared themselves in favor of annexation to the U.S., and the B.C. assembly, at least initially, was sceptical of union with Canada.[8]

The agreement ultimately reached between British Columbia and Canada reflected this scepticism and the attempt of the B.C. representatives to

exact the maximum in financial benefits as part of the terms of union. This they succeeded in doing by getting the federal government to agree to a level of subsidization based on an exaggerated provincial population.[9] On only one question was there substantial initial agreement -- the commitment of the federal state to complete a national rail link within ten years. Here, the interests of B.C. businessmen in forging links with the Canadian market coincided with the interests of the Central Canadian financial community to open up and consolidate the Western territories. The entry of British Columbia was an essential ingredient in the strategy to consolidate the British North American colonies, all the more so because it added impetus to the necessity of constructing a rail link to stave off U.S. railroad penetration of the Western hinterland.

The final act of geographical expansion (until 1949) occurred with the entry of Prince Edward Island in 1873. Although local opinion strongly opposed the union, persistent British and Canadian pressure proved to be irresistable. Lofty promises of year-round ports and increased shipping trade, alongside severe economic sanctions (including a refusal to help the colony float a loan) combined to force P.E.I. into Canada. Although the terms of entry allowed a settlement of the Island's absentee landlord problem, the burden for compensating the landlords fell squarely upon the local government; insofar as federal subsidies were utilized for this purpose, the returns of Confederation accrued to British landholders. Totally vulnerable, and dependent upon Britain, Prince Edward Island was (in the words of its government) "partly cajoled and partly forced into the union".[10]

Canadian expansionism and political consolidation thus proceeded rapidly in the aftermath of 1867. In its efforts to solidify its claims over the British territories, the Canadian state incorporated new provinces and embarked upon a strategic program to construct a national rail connection bet-

ween the Atlantic and the Pacific. Balancing and limiting these expansionist undertakings were commercial interests in Maritimes, Red River, British Columbia (as well as the central provinces) each of which, in differing ways and to differing degrees, were disadvantaged by federal policy and the concentration of state power in Ottawa. The same nation-building policies that unified the Canadian regions thus provoked an antithetical response from subordinated regional interests and commercial classes. Underlying these conflicts were, of course, the unresolved differences and divisions between commercial classes and industrial sectors, divisions which crystallized and attained greater political importance as the Central Canadian bourgeoisie attempted to further consolidate its hegemony in the National Policy of 1878.

CHAPTER V

THE NATIONAL POLICY AND ITS CONSEQUENCES: THE ORIGINS OF STRUCTURED REGIONAL IMBALANCE

Confederation and the subsequent acquisition of the North-West Territories and British Columbia brought together under a single administrative apparatus the entirety of British territorial possessions in North America, with the exception of Newfoundland. On the political level, Confederation had centralized and consolidated the otherwise divided and vulnerable colonial structure, thereby reinforcing the British presence in America.

But this political unification had not been the outcome of an evolutionary integration of the colonial economies; nor was it the expression of the common interests of colonial commercial classes, a significant number of whom had obstreperously opposed the Confederation scheme. The material basis of Canadian 'unity' rested, not within the colonial reality, but in the strength of British imperialism, and its ability to re-structure colonial arrangements in its interests. In its most essential aspect, Confederation was a political solution imposed upon a colonial structure whose constituent elements were rapidly evolving into the political orbit of U.S. capitalism.

This underlying economic reality (to which Confederation had been the response) had not been fundamentally altered by the political unification of the colonies. Indeed, insofar as Confederation involved an imposed political centralization which lacked even the barest material foundations in inter-colonial trade, pressures toward colonial division were significantly intensified in its aftermath. Political discontent in the Maritimes highlighted this division, but its effects were felt in the Prairies and B.C. as well. Unlike the U.S., Germany or Italy where political unification was essentially the product of expanding forces of production which led to a structural integration of the national economy (and the homogenization of the national bourgeoisie) the re-

gional economies and commercial classes of the British colonies in North America remained divided and isolated -- a condition which, in the context of global inter-imperialist relations, involved their continued integration with the United States.

Having achieved a formal political unification of the British colonies, the central problem confronting the Canadian state, and its animating force, finance capital, was consequently that of integrating the Canadian regional economies, and economically undermining their relations with the U.S. This, essentially, was the design of the National Policy, a policy of 'national unification' whose underlying objective was that of subordinating the divided and isolated regional economies to the interests of the Central Canadian bourgeoisie, and in doing so replacing their economic dependence upon foreign metropoles with a dependency upon Central Canada. The re-structuring of the British colonial presence in America thus involved a re-shaping of exchange relationships within the colonial structure. Within this process lie the origins of inter-regional exchange imbalance, and regional conflict.

Background to the Policy: A Conflict of Perspective

At the time of Confederation, the federal government and the corporate interests it represented were constitutively unable to consolidate the formal gains achieved through the process of political unification. Uncompleted was the task of economically integrating the colonial structure and buttressing it against U.S. imperial penetration. The immediate inability of the financial bourgeoisie to accomplish this task in turn derived from the political instability of the new colonial arrangement and uncertainties about Canada's future relations with the United States.

In order to consolidate its political control over the Canadian regions, the financial bourgeoisie of Central Canada favoured a policy which would curtail Canadian commercial relations with the United States. In broad outline,

such a policy entailed an escalation of the Canadian tariff and the creation of a protected domestic market. The ability of the Canadian state to enact such a policy was limited however by the strength of the commercial interests it sought to integrate/subordinate, particularly those of the Maritime region whose close ties with U.S. markets produced a strong political affinity with Washington. The early orientation of the financial bourgeoisie, reflected in state policy, was consequently conciliatory in tone (as is shown, for example, in its conceding "Better Terms" to Nova Scotia).

As a pre-condition for Maritime entry into Confederation, financial interests in the Province of Canada (over the objections of small manufacturers) had agreed to a reduction of the Canadian tariff to a level roughly comparable to the tariffs of the Atlantic colonies. But even this concession was insufficient to forestall the development of a secessionist movement in Nova Scotia. Had the Central Canadian bourgeoisie sought to restrict trade with the United States by enacting a protectionist policy in this period (a hypothetical possibility only given the strength of free-trade forces in the Dominion Parliament), the rift between the Maritimes and Central Canada would have assumed unresoluable proportions, and Nova Scotia, (and likely New Brunswick) would have effected a break with Canada, even, it may be ventured, if this necessitated a break with Britain also. As it was, the low Canadian tariff allowed the Maritime commercial class to transact business with the United States and Britain on much the same terms as before Confederation; only in the future would the tariff issue attain significance within the Anti-Confederate movement in Nova Scotia.

But, if, on the one hand, the 1866 tariff concessions offered to the Maritimes were a necessary pre-condition for <u>political unification</u> of the British colonies, the low Canadian tariff was, on the other hand, an obstacle to the <u>economic integration</u> of the new colonial structure. In the absence of an effective limitation of U.S.-Canadian trade, commercial connections in North America continued to evolve along a north-south axis, a development which with each pas-

sing day undermined the precarious economic foundations of Canadian unity. The central problem confronting British and Canadian finance capital (and therefore the Canadian state) was consequently that of developing an integrated national economy which would provide a material basis for the "holding company" brought into existence in 1867.

Although delayed by the threat of Nova Scotia secessionism, measures to accomplish the task of economic integration took little time to surface publicly. Immediately after the "settlement" of Nova Scotia's grievances (the "Better Terms" agreement of 1869), the Canadian state exercised its monopoly over trade policy by escalating duties on cereals and coal in 1870. This early attempt at enacting protectionism was however thrown back by a constellation of commercial interests, seeking a renegotiation of the reciprocity agreement, abrogated by the U.S. in 1866. Only in the strategic plan of the Central bourgeoisie did protectionism make any sense. A majority of commercial interests sought to expand trade with the U.S. -- a trade which during the last years of reciprocity (1863 - 1866) had yielded significant surpluses on the Canadian account.[1] Thus, Macdonald's (retaliatory) duties on cereal and coal of 1870 were repealed in the next year when members of Macdonald's government voted with the Liberal opposition in favour of freer trade with the U.S.[2]

Protectionism found little audience among export-oriented industrial sectors, regardless of regional location; neither did it particularly appeal to strata of the petty-bourgeoisie in Central Canada, such as merchants. Anti-protectionist, free-trade forces thus constituted a significant political force whose weight was sufficient to place a free-trade Liberal government in Ottawa in 1874. The election of the MacKenzie government in 1874, following revelations of bribery and corruption within the Conservative Party, brought to power a party whose internal unity was a reflection of the common interests of export-industries for a policy of free-trade.

Almost immediately, the MacKenzie government undertook to reinstate reciprocity between Canada and the United States resulting in a draft treaty

of June 1874. Reflecting the interests of export industries for unrestricted access to U.S. markets and manufactured items, the agreement proposed reciprocity in all agricultural implements, furniture, wood, cotton and leather manufactures, heavy industrial equipment, paper and printing products, and a significant number of other commodities.[3]

By 1874, however, protectionist sentiment in the United States had grown to the extent that the Senate refused to ratify the terms of the agreement.[4] It was this failure to gain U.S. acceptance of reciprocity, imposed upon the context of global depression, declining trade volumes and decreased tariff revenues, that pushed the Canadian government inexorably in the direction of protectionism. The escalation of the general tariff rate from 15 to 17½% in late 1874 although motivated in terms of the need for increased revenues was the first in what would emerge as a series of permanent upward revisions in the Canadian tariff over the next 40 years.

It is almost certain had the Conservative Party held power between 1874-1878, a full-blown protectionist policy would have emerged much earlier. Under the Liberal government, however, the implementation of such a policy was impossible. Even the small 1874 tariff escalation had evoked opposition from Maritime Liberals representing the export-oriented industries of that region. Because of the regional and class character of the Liberal party at the time, specifically the strength of its Maritime free-trade wing, the MacKenzie administration overwhelmingly was a government of free-trade.

The National Policy Emerges

During the years of the MacKenzie administration, the Canadian government, hard hit by the effects of the depression, had achieved little progress in railway construction and territorial consolidation. By comparison, the U.S. rail companies had already reached North Dakota by 1873, and by 1878 had linked up with the Pembina branch to provide Winnipeg with a direct rail link to the

United States.[5] American penetration and colonization of the western frontier were progressing at a rate much faster than were Canadian efforts, thereby significantly altering the relationship of continental economic and political forces between Canada and the United States.

Inevitably, this alteration of economic forces was felt within the Conservative Party where it prompted growing support for a program of westward expansion to be subsidized by, and complemented with a policy of tariff protectionism. Whereas Liberal policy under MacKenzie had been conditioned by the coalition of divergent regional elements (and interests) that formed its bases, (see also Chapter VI), the policy of the Conservative Party meanwhile had developed as a clear reflection of the national and centralizing objectives of the largest and most powerful sectors of the Canadian bourgeoisie. Foremost amongst these objectives was the necessity to recommit the resources of the Canadian state to an aggressive policy of consolidation and westward expansion, towards which little progress had been made during the years of the Liberal regime.

The electoral defeat of the MacKenzie government in 1878 was both a reflection of, and a necessary pre-condition for the realization of this intensified pressure for westward expansion and tariff escalation. Once in power, the Conservatives under Macdonald immediately moved to implement the National Policy, which had emerged as the central element in their program. The most significant (and divisive) feature of this policy was the drastic escalation of the Canadian tariff in 1879, whose essence was the undisguised attempt by Central Canadian manufacturing and financial interests to assert their hegemony over regionalized free-trade commercial classes, to consummate political unification by forcing national economic integration through inter-colonial,pan-Canadian trade.

In its most general aspect, the protective tariff may be interpreted as a response to the depressed conditions of international trade, including the

U.S. refusal to renegotiate reciprocity with Canada in 1874. But the National Policy represented more than a response to conjunctual circumstances; instead it constituted an historic assertion of the strategic interests of the Canadian bourgeoisie. Its design and implementation were tailored not only to the needs of the industrial bourgeoisie to whom the tariff would deliver a protected domestic market, but also -- and more importantly -- to the strategic requirements of the financial bourgeoisie whose ambition was nothing less than transcontinental supremacy. If, on the one hand, the timing of the National Policy was defensive vis-a-vis developments in the United States and world economy, its objectives and aims were also clearly aggressive: expansion, consolidation and development of the western hinterland in the interests of British-Canadian capital.[6]

The National Policy itself involved more than the upward revision of the Canadian tariff although this was its most distinguishing feature. Other elements of the policy included a renewed emphasis on railway construction, the development of east-west trade relations and the encouragement of domestic industry. Described by Easterbrook and Aitken, the main features of the policy were:

> The central place of the St.Lawrence area as the basis for continental expansion, the reliance on transportation improvements to provide the backbone of this expansion, the emphasis on a few staple products for export to European markets, the encouragement of developments in finance and secondary industries to support this structure, and finally the slow shift (??) to tariffs to round out this broadly conceived policy of economic growth.[7]

On the political level, the policy was presented as a program for "nation building", inasmuch as its avowed purpose was to create the conditions for national unity and independent economic development. But, although its defenders interpreted it in terms of the need to diversify and unify the export-oriented Canadian economy ("the time has certainly come when we are to decide whether we will simply be hewers of wood and drawers of water"), its under-

lying notions were unequivocably motivated by specific class interest. It was -- after all -- (at least insofar as the tariff was concerned) a policy designed to protect manufacturing and commercial interests in Central Canada. As Macdonald bluntly stated:

> ". . . let each manufacturer tell us what he wants and we will try to give him what he needs".[8]

Even more important was the role it assigned the banks and railroads in financing and constructing the national transportation system. Heavily subsidized by the government (subsidies took the form of cash grants, loans and land allowances) the railroads were to spearhead the penetration and exploitation of the western hinterland. They were to act as the infrastructural basis along which further development would follow. Required by virtue of their function as future carriers of prairie agricultural produce for the export market, the railways would additionally open a western market for central Canadian manufactures, thereby expanding and consolidating the protected domestic market.

National Policy and Regional Conflict

Although the election of the Conservative government in 1878 marked the ascendancy of central Canadian commercial interests over those in Canada's regions, in no sense did it resolve the underlying conflicts between the financial and regional bourgeoisie. To the contrary, the policy to which the Conservative party committed the Canadian state merely intensified the contradictions between Canada's regions and industrial sectors.

The objective of the National Policy was the transcontinental expansion of the Canadian frontier, the solidification of British (now Canadian) claims on the western territories, and the integration of the National economy. Tariff protectionism coincided with this objective both because tariff revenues would be used to finance this expansion and because, in creating a pro-

tected domestic market, the lines of trade and commerce in Canada would develop along trans-continental, east-west axis rather than in a north-south direction.[9] The beneficiaries of such a policy, inevitably and as planned, would be Central Canadian manufacturers, railway and banking interests.

It was in reference to this feature of the National Policy that the liberal historian Professor F.H. Underhill has written:

> What Macdonald did was to attach to the national government the interests of the ambitious, dynamic, speculative, enterpreneurial business groups, who aimed to make money out of the new national community or to install themselves in the strategic positions of power within it -- the railway promoters, banks, manufacturers, land companies, contractors, and such people. They supplied the drive behind his so-called National Policy and they stood to reap the greatest benefits from it.[10]

In spite of its auspicious label, the National Policy of Macdonald was anything but a policy aimed at the uniform development of the nation as a whole. Inevitably its application within the regionally differentiated Canadian economy would have the effect of discriminating against the economic activities of one region in favour of those of another and creating an inter-regional imbalance of exchange. Those disadvantaged by the policy included the Maritime region in general and Canadian primary industries whose markets were largely foreign. Not only did protectionism erect barriers to the marketing and exporting of primary materials but, in impeding the import of foreign manufactures, protectionism increased the price of manufactured items for domestic consumption. As a consequence, farming, fishing and lumbering interests emerged as major opponents of the policy. In every province an anti-tariff movement developed, in each case around the reciprocity question (the Unrestricted Reciprocity movement and its variant Commercial Union).

National Policy and the Maritime East

As soon as it was announced, immediate opposition to the National Policy came from the Maritime provinces, particularly Nova Scotia where anti-Confederation sentiment continued to ferment since the "Better Terms" arrangement of 1869. In many ways Nova Scotian opposition to Confederation has been the strongest of all Canadian provinces. Developments within the province following the implementation of the protective tariff would strongly support such a view.

As might have been expected, the introduction of the protective tariff had a damaging effect on the Nova Scotian economy already experiencing the effects of the Great Depression. Crippled by the world-wide reduction in trade, Nova Scotian commercial interests felt particularly disadvantaged by the policies of the federal government, including its refusal to renegotiate and extend the "Better Terms" agreement of 1869-1879 and, the introduction of the tariff in 1878. These three factors -- the depression, the tariff and the provincial-federal financial dispute -- were the focus of widespread discontent and provided the material basis for the reemergence of the 'repeal' movement in Nova Scotian politics.

Again, the provincial Liberal party provided the vehicle for anti-Confederation feeling and in 1882 succeeded in gaining 24 out of 30 seats in the provincial legislature. Three years later the Nova Scotian assembly had passed a motion threatening secession from the union.

> . . . if the Government and Parliament of Canada fail to make provision, during the present session of said parliament, to place the province of Nova Scotia in a better financial position in the union, this house affirms that it will be necessary to consider the advisability of taking steps to secure the severance of the political connection between the province and the Dominion of Canada.[11]

It has been suggested by more than one writer that actual secession was never a serious consideration and that the Liberal Party in adopting the resolution sought only a better bargaining position with the federal government.[12] It is questionable, however, if the secession resolution of 1885 can be considered merely a tactical ploy by the ruling Liberals. Many leaders in the party were professed annexationists who sought a severance of the connection with Canada and its replacement with union with the United States. For them, the political connection with Canada and the Canadian tariff was an obstacle to unrestricted Maritime trade. As the Attorney General of Nova Scotia stated in 1888,

> Twenty years of political union and nine years of an inexorable protective policy designed to compel inter-provincial trade have been powerless to create any large trade between these two sections (the Maritimes and Canada -- K.C.) and what has been created has been unnatural, unhealthy and consequently profitless.[13]

There can be no doubt that Maritime resentment of the National Policy (and opposition to Confederation itself) was strong, particularly amongst commercial groups experiencing declining trade volumes. The basis for this hostility was well founded in the economic realities brought about by the National Policy and more fundamentally by Confederation itself.

Indeed, in their effect on the Maritime economy, Confederation, and later the National Policy, represent significant landmarks in an historical process that would eventually lock the Atlantic region into an economic structure strongly weighted in favour of Central Canadian commerce. Within the National Policy may be found the origins of a structured imbalance of interregional exchange which has come to characterize economic relations between Canada's regions. As a result of this unequal exchange, the Maritime economies were subjected to systematic underdevelopment as evidenced by trends in manufacturing and private capital formation, banking, provincial govern-

ment revenues, and even, resource-based production.

In the area of manufacturing, the National Policy set in motion competitive forces which led to a contraction of Maritime production relative to the rest of Canada (see Appendix E). Exchange relations in manufactures between the Maritimes and Central Canada were given a rapid stimulus by the National Policy, but the character of this exchange was largely a one-way street heading East. (A "profitless" trade in the words of the Nova Scotian Attorney-General). In exposing small-scale Maritime industries to competively superior Canadian manufacturing, and in compelling pan-Canadian trade, the National Policy brought ruination to uncounted Maritime industries. Consequent to this, the role of the region, as Prof. H.G. Thorburn has observed, "became that of a producer of primary products and a purchaser of finished goods from central Canada".[14]

Exchange imbalance thus developed through a systematic distortion of the Maritime economy, and the progressive destruction of its small manufacturing sector. The National Policy made the Maritime region increasingly reliant upon the 'import' of Central Canadian manufactures, without structuring an equally significant trade in primary products. There were few markets in Canada for timber or fish leaving only coal and steel as exchange items for central Canadian manufactures. The tariff, for its part, although it encouraged the development of Maritime steel and coal industries, made the marketing of Maritime exports abroad more difficult and the prices of manufactured goods at home more expensive. In general the National Policy severely disadvantaged Maritime industry and trade -- both in relation to foreign and domestic metropolitan markets.

In terms of public finance, Confederation exerted a paralyzing effect on the Maritime economy. In joining Canada, the Maritime colonies, along with all other colonies, had surrendered their most important source of revenues -- duties and customs -- to the federal government in exchange for subsidy payments.

(Joseph Howe in Nova Scotia had denounced this exchange claiming Nova Scotians had been sold for 80¢ a head). The long range effect of this exchange was to seriously undermine provincial government finances and create towering provincial debts for each of the Maritime provincial economies.[15]

But it was in the area of private capital formation and banking that Confederation most clearly revealed its class character. The disproportionate concentration of industrial manufacturing in Central Canada inevitably operated to the competitive disadvantage of Maritime manufacturing reducing its profitability and consequently its investment potential. As smaller manufacturing units in the Maritimes were forced out of the market, this important source of indigenous capital formation was seriously undermined. The federal monopoly in banking, moreover, enabled the central Canadian financial establishment to penetrate the commercial sector in the Maritimes where it systematically subordinated and/or bankrupted small local banks. The banking system, as R.T. Naylor has correctly observed, was an indispensable element in the political strategy of Anglo-Canadian capitalism for it provided a highly efficient mechanism through which to transfer Maritime capital from the region and undermine its regional commercial bourgeoisie.[16]

Such, in reference to the Maritimes, were the major economic consequences of the National Policy, and the major motive mechanisms of exchange imbalance.

National Policy and the West

Unlike the Maritimes whose indigenous commercial classes launched a political offensive in response to their debilitation at the hands of Canadian finance capital, the scant and largely native population of the West was capable of much less effective forms of political resistence. Apart from short-lived military encounters, the consolidation of the Western territories proceeded relatively unhampered. Unlike the situation in the Atlantic region were existing commercial elements had to be subordinated, a significant Western economy

had yet to be created. Only with the development of this economy did conflicts erupt between the West and the federal state.

From the beginning, the development of the Western economy was orchestrated by the requirements of Central Canadian manufacturing and financial interests. Immediately, this involved constructing a transportation infrastructure and promoting Western settlement and immigration. The state policies necessary to accomplish these objectives did however provoke considerable opposition. Consolidation of the West meant its integration with Central Canada, and a subordinate status within Confederation.[17]

i) The Railway Question

Apart from the Red River insurrection of 1869-1870, the first symptom of conflict between the Dominion and the West erupted as a result in the delay in the completion of the trans-continental railway. British Columbia spearheaded this confrontation demanding that the federal government honour its commitment to build the railway within ten years. But, despite numerous threats of secession during 1877 and 1878, the controversy surrounding this issue was far less threatening than the secessionist movements in the Maritimes. It died with the National Policy of Macdonald's new government and the completion of the Crow's Nest Pass branch in the 1890's. Its significance resides in the fact that, like the Maritime provinces, the province of British Columbia experienced almost complete economic isolation from the rest of Canada and the political orientations of its commercial classes consequently were divided and vacillatory.

Bearing a resemblance to New Brunswick's earlier demand for the construction of the Inter-colonial, B.C.'s insistence that the national rail link be completed on schedule was a reflection of its isolation and necessity to develop economic relations with the central provinces, under whose political control British Columbia had been since 1871. In the absence of

the trans-continental rail link, U.S. railroads had succeeded in penetrating the B.C. interior where they became carriers of southbound minerals and timber. In the words of V.C. Fowke, the entire south inter-mountain area of B.C. had become "a hinterland to the northwestern states".[18]

British Columbia's support for Confederation and the National Policy reflected the predominant pro-British orientation of the B.C. business class, and -- more importantly -- the ambitions of this class to extend its influence within the province by curtailing the threatening activities of U.S. capital in the region. Incapable of effecting such an expansion on their own, B.C. businessmen sought an alliance with British and Central Canadian finance capital; it was this alliance that provided the material basis for B.C. entry into Confederation.

The early clashes between British Columbia and the federal government, over the progress of the railway, were accompanied by a growing sentiment for closer relations with the U.S., but this sentiment arose fundamentally as a response to the decentralist policies of the MacKenzie government and not to the unifying and consolidating objectives of the Central Canadian bourgeoisie. B.C. opposition to the overt attempts of the MacKenzie government to delay railway construction was not an opposition to Confederation, but to the slow pace at which its objective of national economic unification was being realized, and the absence of a material foundation to sustain the political unity brought into force in 1871. Pro-U.S. annexationist and secessionist sentiment in B.C. subsequently waned as the Conservative government in 1878 recommitted the Canadian state to unifying the national economy.

Of far more fundamental importance were the conflicts which arose between the prairie farmers and the federal government, conflicts which, initially, assumed the form of Manitoban opposition to the terms offered the C.P.R. As part of the bargain struck by the federal government with the C.P.R., 6400 acres of land were to be given to the railway for each mile of road con-

structed. In total, this involved the appropriation of 30,500,000 acres of prairie land which was turned over to the C.P.R.[19] Contrary to the spirit, if not the letter of the B.N.A. Act, the federal government had retained control over unalienated land in Manitoba, Saskatchewan and Alberta, even after their incorporation as provinces. The fact that these lands remained under the control of the federal government which offered them as incentives for the railroads would later emerge as an important point of contention between the federal government and the prairie provinces.

During the 1870's, however, the major point of conflict was the federal government's refusal to allow the construction of competitive rail facilities between Manitoba and the American railway system.

> Repeatedly the provincial government chartered railway companies to build lines to the international boundary and repeatedly the Dominion government disallowed them on the grounds that the projected lines would divert traffic to the United States and thus conflict with settled policy on the Dominion.[20]

The Canadian Pacific, as part of its agreement with the federal government, had been guaranteed a 20 year federal prohibition on the construction of any rail connection with the American rail system.[21] This provision, inasmuch as it denied Manitoba the authority to construct a line in competition with the Canadian Pacific-operated Pembina branch was a thorny issue in relations between Manitoba and the federal government.

The economics of this situation were of course simple -- the C.P.R. wished to prevent the development of competitive transport facilities and the federal government, always sympathetic to the wishes of railroad, (and having committed itself to the development of trans-continental trade) obligingly acquiesced to the railroad's demands. For Manitoba, which had enjoyed an energetic non-rail trade with St.Paul since the 1850's, the disallowance of the north-south transportation link-up was an untenable act of federal

interference, the consequences of which would hinder the development of its economy.[22] In preventing the province to develop what was unquestionably the most natural and profitable transportation network the federal government demonstrated its disregard for the Manitoba grain farmer and its intention to protect the Canadian Pacific from the competition of the American rail system. But then, wasn't this the essence of the Confederation scheme? A triple alliance, as Professor Underhill has stated, between "the federal government, Conservative Party and big business interests".[23]

ii) National Policy and Western Settlement

Apart from the railway question (which provoked two differing responses, reflecting the differing orientations of the business class in B.C. and agricultural interests in the prairies), the task of integrating the national economy produced a number of equally serious conflicts between Central Canada and the West. These conflicts hinged fundamentally upon the role of the tariff which set forth the structural conditions for an inter-regional exchange imbalance weighted against the Western region.

It is generally acknowledged that one of the direct results of the National Policy was the lowering of the standard of living throughout the Canadian Dominion.[24] This effect was particularly important to the development of the West where, partially because of the higher prices of agricultural implements and manufactured items, a large number of Canadian farmers and settlers emigrated to the United States.

In terms of the overall strategy for settlement of the northwest, the National Policy thus contradicted its stated objectives making immigration to the Canadian West less attractive than it might otherwise have been. Even today, a cursory examination of the population levels of the Canadian and American prairie regions reveals a substantial difference in settlement patterns. Without suggesting that the National Policy was entirely responsible for the

relatively slow development of the Canadian West, it is nonetheless true that the settlement of the northwest was retarded by economic conditions on the prairies which were, at least in part, the result of the regionally discriminatory effects of the National Policy, particularly the tariff.

One time leader of the Liberal party and opponent of the National Policy, Edward Blake, expressed this view, when in speaking of the policy he stated:

> It has left us with a small population, a scanty immigration, a north-west empty still; with enormous additions to our public debt, and yearly charge, an extravagant system of expenditure, and an unjust and oppressive tariff.[25]

iii) The Tariff and the Western Economy

Although the tariff increased the costs of manufactured items throughout the Dominion, its specific result was to structure exchange imbalance between Canada's regions. The costs of protectionism were borne unequally by different regions, and the prairie West, along with the Maritimes, bore the brunt of these costs.

These increased costs (and the exchange imbalance to which they gave rise) were reflected in a deepening of regional disparity and a widening of inter-regional income differentials. In the West, this was particularly evident after 1900, when despite the expansion of the Wheat Economy, the incomes of prairie farmers experienced a significant relative decline. The decade after 1900 was marked by an unprecedented growth of agricultural production: wheat production more than tripled, the value of farm capital increased from $158 to $1417 million,[26] and agricultural goods consistently accounted for more than 60% of total Canadian exports.[27] Easterbrook and Aitken note that during this same period, "world wheat prices moved sharply upward . . . and farm productivity increased rapidly".[28]

Thus while productivity in the farm sector increased, and prairie agricultural production boomed, the incomes of prairie farmers continued to lose

ground relative to incomes in Canada's more developed regions.[29] An anomaly indeed --- but fully understandable in terms of the elements of National Policy that determined the relationship between the prairie economy and Central Canadian capitalist enterprise. Capitalist control over the marketing and transportation of grain, a discriminatory tariff, and powerful "eastern" banks were the essential mechanisms which determined exchange imbalance between Central Canada and the West.

Conflicts between the West and the federal government consequently revolved around the determinants of inter-regional exchange. Manitoba's attempts to charter a railroad to the international border were motivated directly by its desire to develop a transportation network that would replace or reduce the high freight rates imposed by the C.P.R. Even after the (1888) revocation of the federal prohibition on the construction of rail link to the U.S., the high C.P.R. rate structure remained a central point of Western grievance.

When the farmers of Western Manitoba met and organized the Farmers' Union in 1883, two issues -- freight rates and the tariff -- emerged as the central issues underlying their discontent. Such was the intensity of their opposition that the 1884 farmers' Convention threatened Manitoba's secession if these injustices in National Policy were not corrected.

But despite this early expression of "western alienation", the government in Ottawa took no corrective action. It moved instead in 1885 to solidify its control over the western territories by defeating the insurgent Metis and Indian forces of the Saskatchewan rebellion. The objectives and class loyalties of the federal government thus received a dual confirmation: in its treatment of the western farmer's movement and its suppression of the Metis settlers along the Saskatchewan, the central government once again demonstrated its committment to "develop" the West in the interests of Central Canadian capitalism.

It had been the objective of the National Policy to open the vast agri-

cultural hinterland of the prairies so that the transportation and financial monopolies might profit from the potentially abundant prairie economy. That this should involve the ruthless exploitation of the prairie grain producers was not fortuitous, but rather an inevitability which flowed directly from state policy. It is not surprising therefore, that prairie farmers organized against this class and regional exploitation (this will be discussed at length in later chapters).

One of the inevitable consequences of the National Policy was thus to create the material basis for a fundamental regional cleavage between the central provinces and the West. Underlying this division were the conflicting material interests of western grain growers and Central Canadian capitalists; mediating between, and enforcing this discriminatory division were the political legitimacy and material resources of the Canadian state.

The National Policy and Central Canada — Origins of the Branch Plant

By implication, we have already discussed certain aspects of the impact of the National Policy on the provinces of Central Canada. In terms of economic development, the National Policy's impact on Ontario and Quebec was largely the inverse of its impact on the Maritime and Western provinces. Its objective and consequence was to create and maintain an essentially "hinterland-metropolis" relationship between Central Canada and the remaining Canadian provinces. Most immediately, this entailed a strengthening of the Canadian manufacturing sector and the creation of inter-provincial trade and commercial relations.

* * * *

At the time of Confederation, manufacturing output in the central provinces far exceeded that of any other Canadian region/province (see Appendix E). Trade relations between the provinces were however, minimal; each province had extensive trade relations with external economies (mainly the United States

and Great Britain) which far outshadowed the volume of inter-provincial trade. Although it had been expected that Confederation would provide expanded opportunities for inter-colonial trade, inter-regional exchange in manufactures had not sizeably increased. Within each of the regions, domestic manufacturing provided some of the goods for local consumption, while the majority were imported from Britain or the United States.

Central to the National Policy was a strategy to integrate the National economy by reducing Canadian dependence upon imported manufactures and encouraging the development of Canadian manufacturing. To the degree that it was successful, that is, to the degree that the protective tariff impeded the flow of foreign manufactures into Canada, the National Policy acted as a direct stimulant to the development of Canadian industry, specifically in Ontario and Quebec.

Formal exclusion of foreign commodities by the tariff could not, however, exempt Canadian industry from the international thrust of competitively superior foreign manufacturing. Whereas the tariff could effectively deny foreign manufactures external access to the Canadian market, it could not impede the international flow of capital. Its long term effect was consequently to accelerate the infusion of foreign, mainly direct U.S. investment capital into the Canadian manufacturing sector.[30] Precisely because it proved an effective barrier against the import of U.S. industrial commodities, the tariff acted to facilitate the import of U.S. capital into Canada.

This, of course, was not an unforeseen consequence of the National Policy. It was however a wholly inevitable consequence of tariff protectionism and the inability of Canadian and British Capital to finance Canadian industrial development. The tariff had been implemented to serve a "political" function—the consolidation of the Maritime and western provinces into a single unit physically bound together by the transportation infra-structure and an east-centre-west distributive network.[31] U.S. industrial capital would certainly

avail itself of the profitable investment opportunities in the now-protected Canadian manufacturing sector, but, the alternative of foreign ownership in the Canadian industrial sector was certainly preferable to the almost inevitable invasion of the Canadian market by American industrial goods, the gradual integration of the continental market, and the continentalization of trade and exchange connections. Although the tariff encouraged the growth of U.S. industrial manufacturing in Canada, it nonetheless offered an expeditious solution to the immediate problems of consolidation and unification of the Canadian regions.

The development of U.S.-owned branch plant industrial facilities in Canada is sometimes held to illustrate the "continentalization" of the North American economy, but there is less truth in this view than might be supposed. In reality, the influx of U.S. capital into Canada served to counteract the integration of the Canadian-American market and the continentalization of trade and commercial connections that would inevitably result. In this manner, the tariff acted to retard the continentalization of the North American market and the development of complementary trade patterns.

Although Canadian trade policy after 1879 acted to encourage the penetration of U.S. capital into Canadian manufacturing, the impact of this investment on Canada was not seriously felt for at least twenty years. Thus by 1900, the total value of U.S. capital in Canada accounted for only 14% of total (direct and portfolio) nonresident investment, compared to 85% for Great Britain (Appendix A). During these twenty years, the Canadian state was able to construct the trans-continental railway and firmly establish its political and economic control over the Canadian hinterland regions: these being the exigent tasks for which the National Policy was designed.

Admittedly, the long term effect of the Policy was to facilitate the penetration of U.S. capital, a process which rapidly accelerated after 1914 and has continued to the present. Still, as a strategy to consolidate the

Canadian regions and sustain the British connection, the National Policy was an unqualified success. Between 1879-1914, as British capital flowed into Canada, Canada's export trade with the U.S. experienced a significant relative decline, while that with Britain increased. In redirecting Canadian exports away from U.S. markets and U.S. transportation routes, the National Policy thus forestalled the continentalization of trade connections, and secured, for Britain, Canada's abundant staple resources.

The efficacy of the National Policy is decisively confirmed by the strengthening of the Canadian financial sector after 1879. According to Jacob Viner's estimates, British portfolio investment in Canada vastly expanded after 1880 and continued to increase up until 1913.[32] The form in which this capital entered Canada helped stabilize state finances, promote the development of railways, and encourage the growth of an indigenous financial sector. As Creighton has argued, British investment in Canada fostered the development of an independent commercial sector.[33] The strengthening of this sector and its hold over the Canadian regions was the principal objective of the National Policy and Confederation itself.

Modelled after similar policies adopted earlier by the United States, the National Policy sought to duplicate the U.S. example, to produce in Canada an autonomous industrial base which would serve the Canadian market. Given the inability of the Canadian financial sector (whose capital was directed towards extending the infrastructure) to finance industrial development on the necessary scale, and Britain's declining ability to compete with U.S. manufacturing, the penetration of U.S. capital was wholly inevitable. But, having established a transcontinental transportation infrastructure and consolidated its territories, the Canadian financial bourgeoisie could now tolerate, even welcome, foreign capital -- since industrial development would facilitate the expansion and integration of the Canadian market along an east-west axis.

National Economic Integration and Inter-regional Exchange Imbalance

The effects of the National Policy in terms of consolidation and expansion were highly contradictory. For while the tariff facilitated the development of Canadian industry (even if much of this was foreign owned) and thereby helped consolidate the Canadian market and create inter-regional trade, it also created the basis for a profound social and economic cleavage between the Canadian regions. The broad outlines of this cleavage have already been discussed in previous sections; we shall now attempt to further interpret and clarify the previous discussion.

i) The Tariff and Secondary Industry

Chiefly because of its central geographical location between East and West, the larger size of its local market, and the prior development of its productive facilities, Central Canada was the major beneficiary of the expansion of Canadian manufacturing. This in itself imposed a burden on the Maritime provinces whose manufacturing facilities were smaller and consequently less competitive. The problem was not, however, simply one of the non-competitiveness of Maritime manufacturing; for in any case Maritime manufacturing could not have avoided the pressures of more competitive industrial facilities in the U.S. and Europe. More specifically, the problem was the tariff, the protected domestic market, which required that the Maritimes and the West purchase the higher priced industrial goods of Central Canada, rather than purchase lower priced goods on the world market. The tariff operated as a subsidy paid by the less industrialized regions/provinces to the manufacturing interests of Central Canada.

ii) The Tariff and Primary Industry

The tariff, moreover, increased the costs of production of Canadian export industries (fishing, lumbering, agricultural, mining, etc.). In increasing the costs of equipment, tools and productive facilities in general, the

tariff operated to increase the prices of exported primary materials, and hence to disadvantage Canadian export industries on the world market. In the case of prairie agriculture, the higher costs of equipment and manufactured durables lowered the returns in farming and was largely responsible for the out-migration from the Canadian West during the early days of the National Policy. In its overall impact, the tariff not only weakened and undermined regional manufacture, but regional primary industries as well.

iii) The Tariff and Inter-regional Trade

The forced inter-provincial trade in manufactures that the tariff necessitated strongly favoured the industrialized regions of Ontario and Quebec. In effect, industrialized Central Canada supplanted foreign centres and became the manufacturing metropolis for, and at the expense of the rest of Canada. The Maritimes and the West (and the outlying areas of Ontario and Quebec for that matter) became hinterland dependencies whose activities were geared towards staple production mainly for the export market.

The consequence was a glaring imbalance in inter-regional exchange. Hinterland regions, forced to pay higher prices for manufactures within the protected Canadian market, were required to sell their primary products on the world market (which might also be protected but with inverse consequences). Because inter-provincial trade in manufactures far exceeded the volume of inter-provincial trade in primary commodities, the provinces whose economies were based on staple production experienced the negative effects of this imbalance. Since the sale of primary materials on the world market could not compensate for the adverse internal trade position of the hinterland regions (i.e., the Maritimes and the West), the development of these regions was retarded by their internal dependency on Ontario and Quebec.

By contrast, the provinces of Central Canada, the recipients of the tariff subsidy, were able to develop along an industrial model as producers

of manufactured goods for the domestic market. Inevitably, this produced widening population, industrial, and income differentials between Canada's regions. In creating inter-regional trade, the tariff also defined its terms and, in doing so, created the basis of an inter-regional imbalance of exchange and inter-regional disparity. But the tariff itself was only one (albeit it very important) mechanism in the strategy of hinterland consolidation and exploitation.

iv) Other Elements of Exchange Imbalance

The transcontinental extension of rail facilities provided another readily available means of hinterland domination. Manipulative usage of rail freight rates resulted in oppressive cost structures which served to increase the cost of manufactured commodities in the hinterland regions, and reduce the returns on hinterland produce (particularly wheat, which was, and is today, totally dependent upon rail transportation). Even apart from outright discrimination,[34] the actual cost of transportation alone resulted in higher costs for manufactures in hinterland regions.

To the tariff and freight rates must be added the federal government and Central Canadian monopoly over banking and the control over the foreign marketing of hinterland produce, as existed for example in the agricultural sector. In draining off surplus capital, the banking system prevented the rationalization and specialization of local manufacturing particularly in the Maritimes where such industries as shipbuilding, merchant trading and resource-related manufacturing might well have flourished. Monopolization of grain marketing has already been mentioned; this, in combination with the banking system and the tariff constrained economic diversification in the west.[35] The transportation, banking and merchandising monopolies were consequently key components in the exploitation of the hinterland. They serve to illustrate the extent of domination of hinterland regions by the Central Canadian bourgeoise.

* * * *

Underlying the economic structures established by finance capital, and the inter-regional imbalance of exchange these produced, was the struggle of two imperialisms for control of the Canadian territories. The Canadian financial sector had supported the National Policy precisely to protect its relationship with British capital and to counteract the serious economic threat posed by the United States. This rivalry between Britain and the U.S., which by 1900 was assuming global proportions, reflected itself in microcosm in political and economic relations within the Canadian state where it exacerbated regional conflict and division.

The success of British capital in consolidating the Canadian colonies and in preventing the continentalization of commercial relations had stimulated opposition from Canadian interests (particularly agriculture and lumbering) whose perspectives in differing ways were linked to closer ties with the U.S. The conflict between Britain and the U.S. consequently expressed itself in a division between resource-based, pro-continentalist trade liberalizers in Canada and the pro-protectionist financial and manufacturing sector, which despite a growing independence remained closely linked with British capital throughout the nineteenth century. A structured inter-regional exchange imbalance and its far-ranging consequence for the political balance of Canadian federalism were the necessary accompaniments of the imperial strategy of British capital and the efforts of the Canadian financial sector to integrate the national economy.

CHAPTER VI

FEDERAL-PROVINCIAL CONFLICT 1867-1911

The Challenge to Federal Power: Its Regional and Class Bases

The outbursts of regional discontent and sectional hostility that characterized the first decades of Confederation affected each of the regions and provinces in the new Dominion. Discriminatory federal policy provoked wide-scale opposition from a number of different commercial groups whose demands (that federal policy be altered) generalized and assumed the form of an offensive against the constitutional powers of the federal government. While the nature of these grievances differed between the regions, and reflected the immediate interests of different commercial sectors, it is nonetheless possible to identify several common factors in these regional reactions to federal policy.

The most basic of these factors was, of course, the existence of the Canadian tariff, the operation of which further exacerbated existing economic differentials between the regions. Expressing their opposition to the tariff were commercial interests and farmers whose activities were export-oriented, and who were particularly disadvantaged by the establishment of tariff barriers between Canada and the United States. The pull of continentalism for these interests directly contradicted the 'national' objectives of the Canadian financial sector, which favoured the tariff precisely because it countered the development of north-south commercial connections.

For the two major Maritime provinces and Manitoba, trade related issues (e.g., the tariff and the railways) were the major issues of dispute. The existence of a high tariff, and discriminatory railway policy, directly weighted the terms of inter-regional exchange against regional (resource-based) industry in favour of the central Canadian manufacturing and financial

sector, and for this reason were opposed by commercial classes in the Canadian hinterland. Other issues, such as the financial terms of union and the level of federal subsidization of the provinces were also important components of the regional reaction against federal policy, insofar as policy in this area directly expressed the subordinated status accorded the provinces within the reshaped colonial structure.

Unlike the Maritimes and the West whose major industries, being resource-based and export-oriented, were almost universally disadvantaged by federal policy, commercial interests in central Canada were divided over most aspects of federal policy. The existence of the developing manufacturing sector in Central Canada inevitably produced a central Canadian constituency which supported the protective tariff, thereby creating, in the area of a trade policy, an internal cleavage between the manufacturing-financial sector and the interests of agriculture and lumbering.

A framework for political conflict thus resided in the conflicting economic needs of different industrial sectors, which to a large degree paralleled a regional division. Under the political influence of the respective owners of these industries, voters in the regions were divided, setting the stage for political conflict which expressed itself both in intra-parliamentary struggles, and in the sphere of inter-governmental relations. Residing in these divisions and conflicts of commercial interest are the origins of federal-provincial conflict, and the challenge to federal power.

The Institutional and Constitutional Setting

The character of Canadian federalism, the nature of the political and economic structures which emerged in the new Dominion after 1867, were a direct reflection of the strength of the Canadian financial elite in shaping the Canadian nation. It is universally acknowledged that in framing the Canadian Constitution -- the Quebec Resolutions and the B.N.A. Act -- conflicts

had arisen between different delegates over the powers to be granted the central government. These conflicts, to a large degree, were resolved in favour of financial and railway interests whose representatives advocated a strong federal government. Thus, while the ultimate agreement fell immeasureably short of creating a unitary state, Confederation succeeded in bestowing far greater authority in federal government.

(i) In the area of finances, the federal government alone was given unlimited authority to impose taxes. The provinces could levy only direct taxes and were thus made dependent upon federal subsidies to finance the large number of non-revenue bearing functions assigned to them (education, health, etc.). It is true of course -- and very significant -- that the federal-provincial jurisdictional division reflected the conflicting and disparate character of the British colonies prior to Confederation, and that these conflicts and divisions had held in check the creation of a single legislative union. Still, the overriding character of the Canadian Constitution was centralist, considerably so in its distribution of financial and taxation powers.

(ii) The federal government, in addition, had been given control over the most important areas affecting economic development. Trade, banking, and transportation all fell within the federal domain as did ultimately immigration policy, even though provincial governments (curiously) were given control in this area as well. The powers of the federal government consequently made possible a centralized control over economic development within Canada, while the functions of the provinces, disproportionately, were directed towards the provision of social services.

Although the jurisdictional division between the federal and provincial government cannot, in itself, explain the growth of provincial power or provincial challenges of federal policy, this division constituted the institutional framework within which such conflict emerged. Precisely because Cana-

dian commercial interests were divided, and because the axis of these divisions were in matters the control of which rested within the federal government, the focus of commercial divisions and rivalries became centered around conflicts between the federal and provincial governments.

Concrete Conflicts of Commercial Interest

Firmly in control of the Conservative Party and the federal government, the manufacturing and financial sector in central Canada succeeded in establishing national policies which reflected its interests and the interests of British capital. The subordinated commercial classes of the Maritimes, along with farmers, exerted little influence at the federal level, but proved capable of utilizing provincial government to do their bidding with the federal power. The political consequence of regionally discriminatory national policy was thus the development of federal-provincial conflict which is best understood as the political embodiment of the conflicting interests of different commercial and class forces within Canadian federalism.

Although the form and content of federal-provincial conflict varied in given instances depending upon the particular problems and the specific interests involved, the long term effect of this conflict led to the diminuation of the federal power. This is particularly true of the priod 1867 - 1911, during which repeated challenges of federal power -- from the secession attempt of Nova Scotia to the demands of Manitoba for railway charters -- eroded the legitimacy of the federal government and strengthened the political and constitutional position of provincial governments. Faced with heightened antagonism between indigenous commercial elements in its colony, and forced to mediate these disputes, the British Privy Council repeatedly endorsed liberal interpretations of the constitution, interpretations which profoundly limited the expression of federal power.

Common to federal-provincial conflict generally, constituting its un-

derlying dynamic, is the attempt of subordinated commercial interests -- through the mediation of strong provincial governments -- to modify the terms and conditions of exchange between themselves and the financial sector whose interests are represented by the federal government and federal policy. In regional terms, provincial demands expressed the interests of regionalized commercial classes for closer, often unrestricted, commercial connections with the U.S. The salience of this factor illustrates the discriminatory aspect of the structures established under the National Policy and confirms the "continental logic" inherent in economic developments prior to 1867, and reinforced by subsequent changes in international economy. But specific conflicts over federal policy and federal-provincial conflict in general were not limited to conflicts of a regional nature. Equally serious divisions in the central provinces gave rise to successive challenges of federal policy from the provinces of Ontario and Quebec.

During the first decades of Confederation and lasting up until World War I, the most important constitutional battles between the federal government and the provinces were fought between commercial classes within the central provinces. The Liberal governments of Ontario and Quebec quickly emerged as the most staunch defenders of "provincial rights", and the conflicts generated during this period had lasting effects upon the structure of Canadian federalism. Significantly, it was private interests, supported by the province of Ontario, who initiated the case of Hodge versus the Queen (1883), the landmark in provincial-federal relations in which the Judicial Committee of the Privy Council formalized the emerging reality of Canadian federalism by its statement that provincial legislatures are coordinate, not subordinate bodies under Section 92 of the B.N.A. Act.[1]

It seems certain that the vigour with which "provincial rights" were championed by the Ontario and Quebec legislatures cannot be explained by such idealist notions as "provincial pride" (an argument advanced by W.L.

Morton)[2], but reflected, instead, the resolve of local commercial interests to defend themselves against encroachment by the federal government and the financial sector. As brilliantly argued by Christopher Armstrong and H.V. Nelles, conflicts between the government of Ontario and the federal government issued out of concrete conflicts of material interest. Here the issues were public control of lands, resources, and utilities, and the attempted subversion of this control by the financial sector operating under the accommodating wing of the federal government. Pitted against each other in this struggle were "local businessmen and small manufacturers on the one hand and large financiers on the other".[3]

> This produced federal-provincial conflict in which the two levels of government represented opposing economic interests. A consistent pattern soon emerged as different elements within the business community regularly sought help from different levels of government. Local business and manufacturing interests (along with certain other reformist groups) came to rely upon provincial control of property and civil rights. The national financial community looked to Ottawa.[4]

In the case of Ontario and Quebec, provincial assaults on federal policy sprung, not from the regionally discriminatory effects of federal policy, for indeed the National Policy strengthened the economy of Central Canada generally. Challenges to federal policy represented, instead, the specific concerns of commercial sectors whose interests were jeopardized by the proponderant power of the financial sector represented in the federal government. The successful limitation of the federal power of disallowance[5] and the insistence of Ontario and Quebec that the Lieutenant Governor be appointed and responsible to provincial governments are but two further illustrations of the attempts by local commercial interests to expand provincial prerogatives and safeguard their interests.

These conflicts in the central provinces cannot, of course, be strictly interpreted in terms of conflicts between capitalist sectors, for intervening

were the important interests of the organized agrarian community. Neither is it to be assumed the federal-provincial conflict was limited to the right of provincial governments to control resources and utilities. Even within Ontario and Quebec, conflicts over tariff and transportation policy were important, particularly during the 19th century when agricultural and lumbering interests, represented in the provincial government, challenged federal trade policy. The challenge to federal power thus represented a combination of capitalist and non-capitalist forces -- lumbering, small manufacturing, merchant and agricultural interests -- allied in common effort to check large finance capital.

In all provinces, the differing positions of commercial classes produced differing responses to the federal government. In British Columbia repeated delays in railway construction during the 1870's caused local commercial interests to reconsider their ties with Ottawa. The absence of a rail connection with Central Canada produced growing discontent in the province and, again, B.C. capitalists began to look southward. This orientation intensified sharply between 1874 and 1878, when the Liberal government in Ottawa, under pressure from its regional constituency, attempted to modify the terms of B.C.'s entry by extending the 10 year limit for the construction of the C.P.R. The delay of the MacKenzie government prompted direct imperial intervention from the British Colonial Office whose fears that B.C. would secede were rapidly materializing in the political life of the province.

Only with the return of the federal Conservative Party in 1878, and the subsequent offering of financial concessions, was the tide of B.C. secessionism decisively stemmed. Significantly, British Columbia was the only major province whose government did not participate in the challenge of federal power during the first decades of Confederation. This, perhaps, may be explained by the predominant orientation of its commercial class towards union with central Canada. (see Page 50).

Unlike the commercial class in British Columbia the majority of which looked expectantly to commercial connections and trade with Canada, businessmen and farmers in Manitoba and the Maritimes, having experienced this connection, were reacting to it sharply. After the defeat of the MacKenzie government and the escalation of the Canadian tariff in 1879, discontent in Manitoba and the Maritimes quickly crystallized around questions of federal trade and railway policy -- two issues which because of their strategic importance were considered, by the federal government, to be definitively settled. Nova Scotia's demand for tariff reductions and Manitoba's proposed railway system struck at the heart of the National Policy and its objective of economic integration along an east-west axis, and for this reason were issues over which little accommodation was possible.

On thewhole, provincial challenges to federal power thus represented a mosaic of interests loosely agglomerated in a common assault on the power of the financial sector. Each attempt by finance capital to consolidate or expand its political or economic control over the Canadian regions was resisted by a corresponding offensive by regionalized (and otherwise threatened) sectors seeking a limitation of the financial sector and federal authority. This conflict, moreover, expressed itself in political divisions within each province, divisions which further reflected the conflict of orientation between the financial sector, linked with London, and those groups for whom the pull of continentalism was strong.

Federal-Provincial Conflict: The Role of the Liberal Party

That confrontation in provincial-federal relations evolved out of conflicts between and among different classes (these having a predominant regional character) is evidenced by the political form that this conflict assumed. Fundamental in this respect was the early emergence of the Liberal Party as the major representative of subordinated and regionalized commercial sectors in

their confrontations with the federal authority and the Central Canadian financial sector. In previous chapters it was shown how the policies of MacKenzie's Liberal government which held federal power between 1874-1878 were influenced by the party's regional character and composition. This relationship between the Liberal Party and regional commercial interests was even stronger at the provincial level.

In each of the Canadian provinces, the Liberal Party became the political vehicle through which the interests and anti-federal grievances of local businessmen and farmers were articulated. Provincial challenges to federal authority (insofar as provincial Liberal governments spearheaded these challenges) express this relationship, and, for this reason, are best understood as conflicts or rivalries between commercial classes and sectors.[6]

Nowhere is the significance of this factor -- the Liberal party's espousal of "provincial rights" doctrine -- more transparent than in the proceedings of the Inter-Provincial Conference of 1887. It is interesting to note that of the seven provinces invited to the Conference, only those with Liberal governments chose to attend. Prince Edward Island, British Columbia, and of course, the Conservative federal government were absent, for what were clearly political reasons.

It was at this conference that the participating provinces first coordinated and formalized a series of provincial demands for presentation to the federal government. To be sure, the demands themselves were not new; they merely echoed the twenty-year history of what Ramsay Cook had termed the "provincial rights offensive" within the Dominion. But, in calling for larger federal subsidies to the provinces, the abolition of the federal power of disallowance, the recognition that public lands belonged to the provinces, and the right to control public works within the provinces, the Conference gave a common voice to existing provincial grievances. In brief, the issues raised by the conference constituted a general call for the curtailment of

federal power and the increased allocation of jurisdictions to the provinces.

More important from the perspective of the present study however was the Conference's proposal calling for unrestricted reciprocity between Canada and the United States. Coming nine years after the introduction of the protective tariff, this offensive against the trade and foreign relations policy of the federal government was a crystal expression of the forces motivating the "provincial rights movement" and animating the provincial Liberal parties. In every province the issue of reciprocity was actively promoted by local commercial interests disadvantaged by the National Policy and the tariff. The Liberal Party's identification with this cause reflected at once the pro-reciprocity sentiment in the party's base, and the political viability of a party whose orientation was toward closer economic links with the United States.

So closely identified with anti-federalism and continentalism was the 1887 Conference of Liberal Premiers that its resolutions formally recognized Nova Scotia's right to separate from Canada, if conditions necessitated. 'Secessionist' businessmen in Nova Scotia and such farm organizations as the Manitoba Farmers' Union were major components of the broad coalition seeking closer ties with the U.S., specifically through tariff reductions. The concept of Commercial Union, as it was called, also drew considerable support from the central provinces where agricultural and lumbering interests were in the forefront of the campaign. This loose agglomeration of forces comprising Prairie grain farmers, Maritime loggers, Ontario dairymen, and Quebec saw mill operators -- all for the most part engaged in export-oriented production -- formed the bases of Liberal Party support.

Provincial Liberal Party governments, in articulating the opposition of these groups to the tariff, thus reflected a mosaic of provincial interests united in one objective: the liberalization of Canadian trade especially with the United States, and an end to Canadian protectionism.

As shown by the 1887 Conference, conflicting economic interests between regionalized commercial sectors were the major component of the provincial offensive against the federal government. That this offensive had as its objective, not merely the alteration of federal trade policy, but the aggrandizement of provincial authority reveals the extent to which provincial governments expressed the interests of local commercial groups, and the important role played by provincial governments in challenging the political domination of finance capital.

The role of the Liberal Party in expressing the interests of Canada's hinterland regions is one of the most important features of the party's early development (see also Chapter XIII). But in spite of the conflict that this role entailed, the Liberal Party functioned in the long term to regularize political conflict and confine its development within the established boundaries of the federal system. The emergence within each province of a strong Liberal Party which championed provincial rights (as opposed to the centralizing Conservative Party) tended, especially since Liberal parties held provincial power for so many years, to translate (regional) commercial rivalry into provincial-federal conflict, and to institutionalize this conflict within the framework of the two-party parliamentary structure. As such, it operated to canalize regional discontent and sectional conflict into "legitimate" political forms, always with the promise that a national Liberal government would rectify federal policy and harmonize regional imbalance.

Regional Conflict and the Re-Emergence of the Reciprocity Issue 1879-1911

In many ways the reciprocity question epitomizes the regional contradiction of the Canadian state, at least in its formative period. Differences over the issue are reducible, in the final analysis, to the divergent and contradictory interests of Canada's regions and commercial sectors; and, as such, are firmly rooted in the structure of Canadian economic life. Torn

between their ties with British capital and the "logic" of continental integration, Canadian commercial classes were in conflict, not merely circumstantially over issues of immediate interest, but strategically over fundamental questions of orientation and perspective.

Whereas support for protectionism represented (and represents) the orientation of the Central Canadian Manufacturing and financial sector toward transcontinental, east-west integration and development, support for reciprocity among export-oriented sectors and regions was actuated by the attraction of continental economic integration along a north-south axis. The "reciprocity-protection" issue of 1867-1911 consequently is of more than passing historical interest. It provides a concrete clue to the contradictory orientation and perspectives that divide Canada's regions and commercial-industrial sectors.

Following the introduction of the National Policy in 1879, widespread opposition to the tariff emerged throughout the Dominion. Discontent with the protectionist policy was so acute that it even received expression within the protectionist Conservative party when, in 1892, the Conservative administration proposed to renew a limited reciprocity with the U.S. The Canadian proposal for reciprocity without the inclusion of manufactures was, however, a totally one-way street. Not unexpectedly, the United States failed to become interested in such a plan.

It was the Liberal government of Laurier in response to very genuine gestures from the U.S. government that led Canada closest to renewing reciprocity and repudiating the tariff of the National Policy. The draft agreement negotiated by his government in 1911 was the first serious attempt at introducing free trade since 1874. Its terms called for free trade in raw agricultural produce and low tariff rates on processed foodstuffs and a variety of heavy manufactures including agricultural implements. Although it was never implemented, its essence was a return to reciprocity on much the same basis as the early years of the 1854 agreement.

Hostility to the tariff had, by 1911, reached a fevered pitch throughout the Dominion. The partial preference for British imports introduced a decade earlier by the Liberal administration had done little, if anything, to reduce the cost of manufactured items in Canada. In the West, provincial organizations of grain growers had emerged in each of the three prairie provinces where the struggle against the buyers' and elevator monopolists had developed into major proportions. The 1909 merger of the western organizations with the Grange Movement in Ontario forming the Canadian Council of Agriculture, created the first national organization representing agricultural interests. Its energies were immediately directed in the fight against the discriminatory tariff.[7]

Opposition to the tariff was equally strong in the Maritime provinces where the industries of farming, fruit growing, fishing and lumbering continued to suffer under the high prices of manufactured commodities.[8] Likewise in Central Canada, spokesmen for the lumbering and agriculture industries were strong opponents of the tariff and the National Policy. With the exception of a very few manufacturers, who from a strong competitive position sought access to wider markets, support for reciprocity stemmed from Canada's resource-based industries and regions.

Support for the tariff came from Conservative elements in the Dominion, most of whom had ties with the financial, manufacturing and transportation sectors. The Canadian Manufacturers Association, bankers, railroads, and certain mining interests all sought the preservation of their protected position and the retention of the tariff. Centralized capital needed the tariff: "British industrialists feared the loss of their Canadian market, railway financiers in Britain and Eastern Canada feared American competition, and the manufacturers of Ontario and Quebec feared an influx on United States' goods".[9] The struggle for reciprocity in 1911 was a struggle between finance capital allied with manufacturing vs. regionalized capitalist sectors, allied with agriculture. Its essence was that of a struggle between contending class forces for

hegemony at the national level.[10]

In 1911, as in the previous four decades, the Liberal party served as the major vehicle for opposition to the National Policy and the tariff. But since its federal victory in 1896, the Liberal party had lost much of the political clarity it exhibited when in opposition. No longer was it merely the party of regional opposition and "provincial rights". As the federal administration, it now embodied elements very much allied with manufacturing, financial and railroad interests.

The reciprocity issue correspondingly caused deep divisions within the party. Liberals from the Maritimes, the prairies and rural regions of Quebec and Ontario almost unanimously supported the proposal for reciprocity, whereas members from the manufacturing centres in Ontario and Quebec generally favoured the retention of the protective tariff. Regionalized class interests thus split the Liberal party and led to the desertion of the so-called Committee of Eighteen, a Toronto group of protectionist Liberals who joined the Conservative party over the reciprocity issue.[11] This defection and a prolonged parliamentary filibuster necessitated the federal election of 1911 which saw the Conservative Party once again capture parliamentary control.

The subsequent resounding defeat of the Laurier government in the election of 1911 spelled an end to the Reciprocity Agreement negotiated by his administration. With the Conservatives once again in power, the powerful Central Canadian financial bourgeoisie achieved ultimate confirmation of its victory of 1878. The tariff would remain. Originally proposed as a "temporary" measure to hasten national development, the tariff had created and strengthened vested interests capable of its defense. Firmly entrenched and for the most part in control of the Conservative and Liberal parties, the powerful industrial and financial interests of Central Canada had successfully defended themselves against the anti-protectionist offensive of regional economic interests.

S E C T I O N II

REGIONAL CONFLICT IN THE TWENTIETH CENTURY

CHAPTER VII

WORLD WAR AND REGIONAL DIVISION IN POST WAR CANADA 1914 - 1929

Developments in Canadian federalism during the twentieth century have tended to parallel the history of Canada in its formative period. Forces underlying regional disunity and conflict have continued to exist and resurface periodically in sharp confrontation with the federal power. The evolution of federal-provincial relations and regional and sectional conflict has thus been extremely uneven. Although the expression of this conflict has been modified (quite obviously) by emergent circumstances such as two world wars and the depression, the underlying pattern of regional division - created and maintained by the National Policy - remains.

* * * *

The War Period

The 1911 defeat of the Reciprocity Movement, the election of the Conservative government and the outbreak of war in 1914 signalled a temporary attenuation of regional conflict and contradiction in Canadian federalism. The reassertion of federal initiative during wartime was accompanied by a rapid expansion and strengthening of the federal government and its apparatus. By contrast, the ascendency of provincial governments which had characterized the first four decades of Canada's history was brought to a halt.

In mobilizing the national resources for the conduct of war, the central state apparatus experienced a rapid growth and increase of its powers -- powers it used to further the sectional class interests it represented. In spite of this, and with the exception of the conflict over the conscription issue, the character of federal-provincial relations during the war was one of overall cooperation rather than overt antagonism. In 1914 with the consent of the provinces, the federal government acquired the exclusive right to impose direct personal and corporate taxes (an area constitutionally belonging to the

provinces) and in 1917, parliament enacted Canada's first personal income tax law. Although provincial governments would, in subsequent years, demand Ottawa's withdrawal from fields of direct taxation, it was a reflection of the federal government's heightened authority that its initiatives in this area went unopposed at the time.

The wartime policies of the federal government clearly demonstrate the alliance between the Conservative and Liberal parties, big business and itself. As part of its "bold" initiative in public finance, the government in the course of six years magnified the national debt from its pre-war level of $.5 billion to over $3.5 billion by 1921. This wartime expenditure of the Canadian government constitutes one of the most massive public donations to corporate interests in all of Canada's history. In addition to the immediate outlay of $100 million for the "nationalization" of the faltering Grand Trunk Railway and the Canadian Northern Rail Systems (requested by the owners of these lines), a further $2.1 billion in debt was contracted within Canada of which (a government commission would later acknowledge) 80 - 85% was owed to "business organizations, financial institutions and individuals with substantial incomes".[1] The chief result of this federal initiative in public finance was thus the redistribution of national income in favour of central Canadian capitalists and the vast expansion of the public tax burden. As the Rowell-Sirois Commission later commented:

> . . . wage earners and others with low incomes had been called upon to contribute more than their share. The Dominion tax system now forced wage earners and other low income groups to carry the major part of the post-war burden.[2]

War brought domestic hardship and war fatalities to the Canadian working class and farmers. For the wealthy, it had occasioned the opportunity of private enrichment at public expense. Far from reducing regional and class inequalities, federal wartime policy had the effect of further intensifying existing imbalances and inequalities. Conscription, the tax burden, the C.N.R.

charity affair, the post-war decline of wages -- each of these created additional points of grievance against the federal government which in the aftermath of war propelled forward movements for social and economic change. In spite of appearances, federal policy initiatives and the strength of the federal government during wartime were neither the consequence, nor the cause of a balanced federalism or a united Canadian nation.

The Re-emergence of Regional Conflict in Post War Canada

A. The West

The wartime aggrandizement of the federal power was a temporary phenomenon rapidly overcome by the reassertion of provincial, regional and class interests at the end of the war. Of the numerous developments in the post-war period, the growth and subsequent consolidation of the Canadian labour movement was perhaps the most significant for the nation as a whole. The post-war period saw the astronomical growth of labour organizations and militant activities on the part of Canadian workers, such as the Winnipeg General Strike. From the perspective of our present work, however, the regeneration of the Farmers' Movement in Ontario and the West is of more direct relevance and interest.

Since their 1911 defeat over reciprocity[3] and continuing throughout the war, the farmer's organizations in Ontario and the prairies had continued their struggle for the removal of the Canadian tariff, reduction of freight rates, and a change in agricultural marketing practices. In 1916, the Canadian Council of Agriculture drafted the Farmers' Platform (revised and renamed the "New National Policy" in 1918) which among other things called for a reduction of tariffs and the introduction of a progressive taxation system within the Dominion.[4] Not surprisingly, neither of these proposals was acted upon by the federal government.

The government had, however, during conditions of war, implemented another of the council's proposals calling for government intervention in the market-

ing of wheat. The temporary price fixing agency established by the government during war years was later replaced, in 1919, by a formal marketing agency, the Canadian Wheat Board, whose responsibilities were price determination and the orderly marketing of wheat.

But what had been necessary to sustain and rationalize the sale and production of wheat during emergency conditions became dysfunctional (notably to the grain companies and commodity speculators) during peace time. In 1920 with international prices still high, the federal government abolished the board, thereby reinstating private grain companies and commodity exchanges as the chief marketing mechanisms for wheat. The subsequent depression of returns to the producer confirmed what the farmers had known all along -- federal agricultural and economic policy was formulated in the interests of rail and grain companies, grain exchanges and the central Canadian business establishment with little regard for the primary producers.[5]

As a result of the general economic slump and the parasitic stranglehold of the grain companies, farmers purchasing power declined by 59% from 1920 to 1924.[6] This relative deterioration of economic conditions in the west, and in agriculture generally, provided the material basis for the militancy and continued growth of the agrarian revolt.

The response of Canadian farmers necessarily assumed both an economic and political dimension. On the economic front, the loss of the central marketing agency stimulated the growth of co-operatively operated prairie wheat pools as well as co-operative ventures in the retail trade. On the political front, the abolition of the Wheat Board intensified the strength of the emergent farmers movement which was rapidly transforming Canadian politics.

Having failed in attempt after attempt to bring about changes in federal economic policy, the farmers' organization beginning in 1911 had undergone a process of disillusionment with the two older political parties.[7] In

each of the prairie provinces and Ontario, the farmers' organizations became increasingly active in provincial politics, co-ordinating and undertaking interventions independent of the Liberal and Conservative parties. These provincial initiatives came to fruition in 1920 when, having consolidated provincial support, the farmers' organizations launched the National Progressive Party into the federal electoral arena.

Western disillusionment with the Liberal and Conservative parties received dramatic expression in the election of 1921, when, of the 40 members returned to the House of Commons from the Prairies, all but 2 were members of the Progressive party. Ontario sent 24 more, British Columbia - 2, and New Brunswick - 1 -- bringing to 65 the number of seats held by the fledgling party.

For the first time in Canadian history, regional discontent, that is, regionally-based class antagonism, had manifested itself in the development of new political formations at the federal level. The groundwork for this development had of course been firmly established in Canadian political culture.[8] For decades the federal and provincial Liberal parties through their espousal of "provincial rights" doctrine and opposition to the tariff had established themselves on the crest of the resentment and antagonism that characterized western attitudes towards the central Canadian capitalist establishment. Western support for the Progressive Party was not simply the result of changing social conditions on the prairies or changing class loyalties of western voters. Rather, it was the expression of a politicized farmers' movement now organized independently of the two traditional parties.

The emergence of the National Progressive Party had been an almost natural consequence of developments at the provincial level. For although provincial Liberal parties had retained their nominal pro-farmer, anti-tariff character (even after the split in the federal Liberal Party over this issue), the radicalization of the farmers' movement had brought forth an independent

farmers' party and government in Ontario in 1919, to be repeated in 1921 by the victory of the United Farmers of Alberta in that province. One year after the federal progressive landslide in the west, the United Farmers of Manitoba were forming another farmers' government, the third in Canada's history. The successes of the Progressives thus weakened the Liberal and Conservative parties and for a period decisively smashed the monopoly of the two older parties over prairie, and federal politics.

B. The Maritimes

Elsewhere in the Dominion, regional conflicts and contradictions temporarily smothered by war time exigencies, rapidly burst forth with the end of the war. In the Maritimes, the historical resentment of federal policy (particularly over the tariff and freight rates) combined with labour militancy of the post-war depression to form the basis of broad-based popular movements similar to those of the prairies. Here, as in the prairies, a radicalizing workers' movement proved an important component of the protest.

In the 1920 provincial elections in Nova Scotia the Farmer-Labour Movement won 4 seats and succeeded in dislodging the Conservative party as the official opposition in the Nova Scotian legislature; while in New Brunswick the United Farmers won 9 seats and Labour candidates won 2 (there was no election in P.E.I. in 1920 - 21).

The 1921 federal election saw a corresponding increase in farmer-labour support at the federal level. Although only one Progressive was returned from New Brunswick, the movement nonetheless made significant inroads into Liberal-Conservative constituencies. Throughout the Maritimes it appeared as though the traditional grievances of the Atlantic provinces would once again be raised to predominance, this time by new parties representing interests other than those reflected in the Liberal and Conservative parties.

There can be no doubt that the major underlying cause of the protest -- discriminatory federal policy and its effect on the Maritime economy -- was

a widely understood and popular political issue within the Atlantic provinces.[9] Although the war boom had achieved a measurable degree of prosperity within the Maritimes, the post-war reduction in demand for primary products and shipping caused a serious recession and an accompanying growth of regional consciousness in the Atlantic provinces. The subsequent failure of the Farmer-Labour Movement to capitalize upon this discontent was certainly not due to the unpopularity of the issues at stake. Rather, it was a pre-emptive offensive by the Liberal and Conservative parties, their "rediscovery" and "re-emphasis" of the traditional grievances of the Maritime provinces which spelled the decline of the popular movement.

> The Conservatives (in Nova Scotia) realized that if they hoped to continue as a viable force in provincial politics they would have to absorb the protest movement that had brought forward the Farmer-Labour Movement.[10]

This absorption was achieved principally through Liberal and Conservative concentration on regional issues, divorced from the explicit class appeal characteristic of the Farmer-Labour Movement. A similar trend developed in New Brunswick and Prince Edward Island where both Conservative and Liberal politicians resurrected provincial rights doctrine giving rise to what was quickly termed the "Maritime Rights" Movement.

It would be misleading however to suggest that the reassertion of Maritime rights by the Liberal and Conservative parties was merely a political maneuver designed to undermine support for the radical protest movement.[11] Clearly this is not the case. The points of regional grievance articulated by Maritime political parties -- freight rates, the tariff, taxation, industrial underdevelopment -- represented genuine concerns of Maritime commercial interests as shown by the support given to the "Maritime Rights" Movement by the Maritime Board of Trade.[12]

There can be little doubt that the support of Maritime commercial interests for the "Maritime Rights" Movement was a genuine response to the

adverse economic conditions confronting Maritime industry. Between 1920 and 1929, Nova Scotia's portion of total Canadian manufacturing production declined by 45% from 3.8 to 2.1 per cent, while that of New Brunswick declined by 30% from 2.3 to 1.6 per cent. Even more startling, these provinces' percentage of total Canadian production in agriculture, fisheries and mining as well as construction and infra-structural development also declined.[13] As a comparative assessment of social conditions, Professor Morton can not have been far wrong when he stated that as late as the 1920's, the Maritimes as a whole were still living in the Post-Confederation depression.[14]

The roots of the "Maritime Rights" Movement were thus firmly entrenched in the relative decline of the Maritime region. By 1921, the post-war depression had raised industrial unemployment levels among trade unionists to over 20%,[15] contributing to a growth of labour militancy. As such, the image of the Maritimes subordinated within the Dominion invoked sharp political reactions from all classes. It was the skillful popularization and exploitation of these regional issues that enabled the Conservative and Liberal parties to rout/out the emerging radical movement of workers and farmers/and thereby re-establish the traditional dominance of the two-party structure in the Maritimes. It is significant however, that both the Farmer-Labour and Liberal-Conservative parties focussed their platforms, to a large degree, on regional issues and complaints.

That they did so from alternative class positions is as obvious as it is important. The Farmer-Labour Movement sought to replace the existing provincial and federal governments with governments based on the independent organizations of workers and farmers. To the degree that this involved propaganda and agitation against discriminatory National Policy and central Canadian capitalist groups, the Farmer-Labour advocacy of "regional" rights involved a clear inter-class conflict.

By contrast, Maritime manufacturers and commercial interests challenged federal policy and the structures of the Canadian economy on a less fundamental level. Their objectives, echoed in their call for a reduction of the tariff and freight rates, were limited to increasing their competitive ability vis-a-vis other capitalists, both domestically and internationally. The support of the Maritime Board of Trade for the Maritime Rights Movement was quite specifically an expression of inter-capitalist, that is, intra-class rivalry. The fact that the Conservative and Liberal parties in championing the cause of Maritime rights were able to undermine the basis of support for the Farmer-Labour Movement is an important aspect of Maritime political history. Equally important and far less understood is the significance of the Maritime Rights Movement, as an objective expression of conflict between the commercial interests of the Maritimes and those of Central Canada.

C. The Central Provinces

In comparison to the prairie and Maritime regions, the Central Canadian provinces, Quebec and Ontario, emerged from the war with expanded productive facilities and possibilities for growth. (British Columbia should be included here also). But although economic recovery from the post-war depression was quicker here than in the Maritimes and the prairies, industrialization and recovery did not produce economic prosperity for all. Within all ten provinces working people and the poor continued to shoulder the tax burden inherited from the war; the situation was no different in Quebec, Ontario or B.C. Industrial unionism, had in fact, burgeoned in these provinces, partially as a reaction to the depressed wages and labour restrictions of wartime, and partially in response to post-war recession and unemployment. Unemployment amongst trade unionists in the central provinces had reached 16.5% in the spring of 1921.[16] Relative to the other provinces, however, the economies of the central provinces were healthy and emerged out of the war relatively strengthened. It was in reference to this relative prosperity that the Rowell-Sirois Report, perhaps

exaggeratively, stated, "Central Canada forged ahead rapidly without interruption throughout this period (1921 - 1930)".[17]

Neither of these provinces had encountered deficit accounts or declining populations as had the Maritime and prairie provinces; and although agricultural and primary industrial sectors continued to be disadvantaged by the tariff, economic growth in (protected) manufacturing enabled a gradual recovery and adaptation from war and the recession.

In short, the structures inherited from the National Policy worked to the competive advantage of the economies of the central provinces. While Maritime manufacturing and (export-dependent) resource-based production contracted and returns in Western agriculture declined, productive facilities in Central Canada continued to expand, largely because of the protected domestic market. Exchange relations between Canada's regional economies, in favouring Ontario and Quebec, thus produced growing regional disparity and regional division.

* * * *

Although World War I produced a strengthening of federal power, this centralization of the federal structure did not extend beyond the exigent circumstances which had initiated it. Increased federal power did not reflect any fundamental resolution of economic conflict between Canada's regionalized commercial interests, for, indeed, these were intensified by developments during and after the war. It reflected instead, a temporary subordination of conflicting regional interests, made necessary and possible by the external demands of war.

Far from resolving basic conflicts, the war and the post-war recession had an entirely opposite effect on the balance of Canadian federalism. After 1918, as world trade declined, industrial unemployment rose and agricultural prices dropped, inter-regional disparity and the tendency toward

class and regional division were intensified. Severely discredited by their identification with Central Canadian capitalism, the Liberal and Conservative parties found themselves challenged by the emergence of new political formations in each of the Canadian provinces. The emergence of the farmers' and workers' parties gave new political direction to the underlying regional and class cleavages which inspired them, and, as will be shown in the next chapter, was instrumental in effecting the decentralization of the federal structure in the 1920's.

CHAPTER VIII

THE REASSERTION OF PROVINCIAL POWER IN THE 1920's

The principal feature of the shake-up of Canadian politics that followed in the wake of the 1911 retreat of the federal Liberal Party and the depressed economic conditions of the post-war period was the emergence of the "farmer-labour" movement, and the victory of Progressive and farmers' parties in the Prairies and Ontario. The post-war realignment of political forces cannot, however, be understood strictly in terms of parliamentary developments at either the federal or provincial levels. Apart from the far-ranging effects that these movements would exert upon the subsequent evolution of Canadian politics, one of their immediate effects was to magnify the conflicts that erupted in the area of federal-provincial relations.

At the end of the war, the relative cooperation that had characterized wartime relations between the federal and provincial governments rapidly dissolved. In the context of widening regional income differentials and declining prospects for the Maritime and Prairie economies, unresolved conflicts over trade, transportation and fiscal policy attained new significance. Having been subordinated to the federal government during the war, provincial governments responded by escalating their demands on the federal power -- a response made all the more forceful by the threatening presence of third party governments in several of the provinces, and strong third party movements in several others. At the same time, regional differentiation within the Canadian economy and the corresponding divergent economic interests of the provinces produced quite different responses from various provincial capitals.

The 1927 Dominion-Provincial Conference

A clear indication of the developing divergencies and differences between the provinces was evident at the Dominion-Provincial Conference of 1927. Called

on the 60th anniversary of Confederation, the conference met to discuss provincial-federal financial arrangements and the position of the provinces in the Dominion. The record of the conference shows that confrontation rather than agreement marked its proceedings. This confrontation was evident in the differing perspectives of the provinces, each of whom sought numerous but differing alterations of the federal structure.

The poorer provinces of the Maritimes and the West demanded that provincial subsidies be increased and that the federal government withdraw from certain fields of taxation. Each of the provinces with the exception of Ontario and Quebec endorsed this proposal. On the issue of constitutional amendment to alter the structure and terms of union, Ontario and Quebec emerged as the strongest and most resolute protagonists. Both absolutely refused to entertain the suggestion that the constitution should be amended. While acknowledging the problem of inter-provincial disparities, the delegations from Ontario and Quebec took the position that these imbalances were the responsibility of the federal government and that the Confederation agreement had been in the nature of a "compact" between the provinces, not subject to periodic revision or alteration.[1] Historical and constitutional argumentation not withstanding, the motivation of the central provinces was of course totally material. Simply stated, these provinces were unwilling to risk the possibility that future constitutional amendments would weaken their financial position within the union and the favourable terms of exchange between themselves and the hinterland regions.

But despite these inter-provincial differences (which are certainly significant) the focal point of regional antagonism continued to be the federal government, as each province in turn presented its case for corrective alterations in federal policy. Each province attributed responsibility for regional disparity to the federal government -- in this essential respect, as in 1887, the provinces were united.

The federal government, for its part, claimed an inability to increase its subsidies to the provinces (because of the federal debt!!) and refused to relinquish the taxation power it had assumed during the war. Thus, at the conclusion of the conference, the basis for continued federal conflict still remained; little had been resolved.[2]

As in the days when the provincial Liberal parties had championed regional rights and the interests of regional commercial groups, the focus of class conflict continued to be the federal government and its regionally discriminatory economic policies. Liberal and Conservative parties now in power in the Maritimes continued to voice the traditional grievances of Maritime commercial groups against the power of the central Canadian capitalist establishment. A new element -- the Farmers' Movement and the governments of the prairies -- had changed the form, but little of the content of historical western hostility with "Central Canada". Longstanding issues such as the tariff, freight rates, and federal payments to the provinces remained at the heart of the regional confrontation and class conflict within Canada.[3]

The 1920's: The Re-emergence of Provincial Power

It is, today, generally agreed that during the 1920's the assertion of government power tended in the direction of the provinces and away from Ottawa.[4] The relaxation of war time restrictions on provincial and municipal capital expenditure signalled an almost immediate expansion of provincial works and services. Having kept war time programs at a minimum, the provincial governments quickly embarked on costly programs of highway construction, social welfare and public utilities.

While total per capita debts and expenditures of the federal government declined, the 1920's saw provincial expenditures rise by 70% and those of the municipalities by over 20%.[5] This shift in fiscal responsibility and expenditure levels doubtlessly reflected a recovery from the sizeable distortions of

expenditure brought about by the war; at the same time, there can be no doubt that it signified also a real growth in provincial fiscal power and administrative authority.

(It cannot of course be claimed that political power is reducible to a consideration of fiscal expenditure alone. The relationship between the generation and expenditure of financial resources and political power is not however fortuitous. Just as the power of a nation state bears a necessary positive relationship to its fiscal resources, so, too, are the powers of a provincial government in a federal system dependent upon, and reflected in its fiscal responsibilities and resources).

It is from this understanding that the growth of provincial expenditure during the 1920's is important. This growth represents not only a shift in the federal-provincial balance in expenditures, but a shift in overall political power and initiative.[6] Insofar as it suggests greater provincial autonomy and the assertion of regional interests, it signifies a tendency toward centrifugalization of power and balkanization of the federal structure. It is important, therefore, to examine the changes in Canadian economic and political life associated with this development. In this connection, structural changes in the Canadian economy and related domestic political tensions emerge as striking concomitants of the ascendancy of the provinces during the 1920's.

i) Strengthening of the Continental Connection

An important pre-condition for the assertion of provincial initiative during the 1920's rested with the emergence of the United States as Canada's principal trading partner and major source of investment capital. World War I decisively altered the relationship of economic forces on a world scale, and, for Canada, signalled an immediate disruption of the traditional internal balance of the Canadian economy. In undermining the strength of British capitalism, the war produced an immediate strengthening of the U.S.-Canadian connection.

Whereas before 1914, Canada's trade had been relatively balanced between her major trading partners, the U.S. and Britain, changed international conditions after 1918 forced a restructuring of Canadian trade and its movement. From a pre-war level of 24%, the proportion of Canadian imports purchased from Britain declined to less than 18% by 1921. More importantly, Britain's purchases of Canadian exports declined from a level of 48% in 1911 to 26% in 1921, while U.S. purchases rose from 38% to 45% during the same period. (see Appendix C).

This shift in trade orientation was accompanied by a corresponding shift in the movement of capital. In 1914, British investors held 72% of total nonresident investment in Canada, compared to 23% held in the United States. By 1930, the U.S. accounted for 61% of foreign capital in Canada, while the proportion held in Britain had fallen to 36%. (see Appendix A). During the 1920's the book value of British long term investment actually declined, while the value of U.S. investment increased by over 500%.

The drastic reduction of trade with Britain brought about by the war weakened internal east-west links within Canada upon which transcontinental unity rested.[7] While weakening the transcontinental integrative mechanism, the expansion of primary industry in Canada based upon exports to the United States[8] increased the tendency toward north-south complementarity and magnified the importance of the provinces whose economies were strengthened by the development of primary industry.[9] As the economist H.A. Innis later observed:

> The extension of the American empire, the decline of its natural resources, and the emergence of metropolitan areas, supported capitalist expansion in Canada and reinforced the trend of regionalism. The pull to the north and south . . . tended to become stronger in contrast with the pull of east and west.[10]

The change in Canada's commercial ties with Britain and the United States -- which shifted away from traditional east-west flows -- found a direct reflection in a resurgence of regional conflict. Commenting upon this relation-

ship, D.G. Creighton has stated that changing trade patterns and the emergence of new staples "seemed to encourage the . . . . process of regional division".[11] Inevitably, this trend toward economic balkanization had a fragmenting effect upon Canadian politics, an effect, which when translated onto the institutional framework of the federal system, involved the escalation of federal-provincial conflict and the emergence of strong provincial governments.

ii) Political Divisions and Federal Minority Government

Part of the stimulus for the emergence of strong provincial governments during the 1920's stemmed directly from the character of third party forces which had sprung to power in several of the provinces, and gained significant representation at the federal level. Characterized by their opposition to discriminatory federal policy (which increasingly conflicted with emerging continental trade ties and the demise of the British connection), the agrarian-based parties clearly expressed the conflict between Canada's farmers and the manufacturing and financial sector of Central Canada.[12] The sudden post-war appearance of Farmer and Labour oppositional movements in each of the provinces, organized around specific class issues, imparted a new vitality to provincial politics generally. While weakening the federal government through a series of successive minority governments, the farmer, labour and Progressive movements gained representation in the provincial legislatures of Nova Scotia, New Brunswick, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia, forming governments in Ontario (1919), Manitoba (1922, 1927) and Alberta (1921, 1926, 1930).

Provincial leadership, for the most part, was either "radical" or firmly entrenched -- in either case, it was firmly committed to provincial and regional interests. In Nova Scotia and New Brunswick the historical defender of "provincial rights", the Liberal Party, was swept from office in 1925 by another "provincial rights" party, the Conservatives, campaigning under their

new-found banner of "Maritime Rights". Quebec, meanwhile was governed by the 'strong' Liberal government of L.A. Taschereau; while Saskatchewan and B.C. continued to elect "radical" liberal administrations.[13]

Thinly disguised class antagonism was the underlying component of the success and popularity of governing parties in each of the Canadian provinces, particularly those in hinterland regions. The inability of the Conservative and Liberal parties to contain these heightened antagonisms resulted in the displacement of the traditional parties in the West by progressive and farmers' governments. In the Maritime East, opposition to federal policy was expressed by the development of the Conservative dominated "Maritime Rights" movement, through which Maritime commercial interests conservatively reasserted themselves against Central Canadian control. Overwhelmingly, political developments were characterized by serious conflicts between social classes and within the capitalist class. The role of provincial governments consequently was strengthened as subordinated regional forces consolidated themselves at the provincial level.

Federally, the weakened Liberal Party was able to retain power only with the direct support of Western Progressives. After the election of 65 members to the federal House in 1921, the Progressives sought and obtained numerous concessions in the form of a tariff reduction and changes in freight rates. Even after the election of 1925 in which Progressive strength was reduced to 24, the Liberals failed to hold a majority and the King government was forced to endorse a number of Progressive measures in order to ensure parliamentary support. Between 1921-1925, the Liberal-Progressive alliance successfully thwarted the attempts of the Conservatives to defeat the government, and the short-lived Meighen ministry of 1926 -- formed after King's attempted dissolution -- was defeated by the combined strength of Liberal and Progressive members.

Lacking a principled basis, the political alliance between the Western Progressives and the Liberals led to a restructuring, and ultimately, to the absorption of the Progressive movement. The demise of the Progressive Party federally had already been foreshadowed by developments at the provincial level between 1920-23. The loss of the United Farmers' of Ontario to the Conservatives in 1923, and the failure of the Progressives to dislodge the provincial Liberals in Saskatchewan anticipated the decline of the federal organization. In the federal election of 1926, progressive supporters and candidates moved in mass towards the Liberals. As a result, King's government emerged with a majority of 118, with 11 Liberal-Progressives. Only 9 independent Progressives remained, of which 7 were elected from Alberta.

The Liberal absorption of the Progressives did not however fundamentally alter the balance of regional forces in the federal parliament, and the demise of the Progressives ultimately stimulated the growth of alternative third parties -- the C.C.F. and Social Credit -- which, under the depressed conditions of the 1930's would gain strength. Even the Liberal majority of 1926 continued to express the regional and class differences of its bases of support. Reflecting the emerging reality of continentalism, and the demands of its Western constituency, the Liberal government moved to further reduce the tariff in 1926 and 1929. Canada's new relationship between Britain and the U.S. also precipitated a severence of Canada's formal colonial ties with Great Britain, a process which culminated in the Statute of Westminster (1931).[14]

Thus while the Liberal Party retained power throughout the 1920's its success nationally rested, in large measure, on its alliance and absorption of agrarian protest and numerous concessions made to regional interests such as the Maritime Freight Rates Act of 1927. The waning of the British connection and continuing continental integration produced enormous strains on the economic structures inherited from the National Policy and resulted in regional division and conflict. Again, as in the 19th century, the role of mediating these

conflicts fell to the Liberal Party, whose numerous concessions to Western protest and Maritime opposition insured it a continued, if shaky, presence in Ottawa.

CHAPTER IX

DEPRESSION AND WAR: REGIONAL CONFLICT AND ITS CONSEQUENCES, 1930-1945

THE DEPRESSION

The period of the Great Depression brought about several contradictory developments in the area of inter-governmental relations and the assertion of political power. Perhaps most noticeable was the reversal of the trend set during the 1920's which had enabled provincial governments to undertake a series of economic initiatives, while fiscal initiatives of the federal government declined. It is in reference to this reversal in federal-provincial authority that Professor Paul Fox has argued that "the Great Depression of the 1930's brought the phase of provincial ascendency to a halt".[1] The reassertion of federal power during the depression did not however fundamentally alter the structure of Canadian federalism. Regional disparity and regional balkanization were, in fact, grossly magnified during the depression years.

i) Canada and the Collapse of World Trade

Because of its intimate reliance on international markets, the Canadian economy was particularly hard hit by the advent of the world depression. Falling world prices affected each of the principal Canadian exports -- wheat and cereals, lumber and paper products, fish, minerals and metals -- precipitating a serious reduction in Canada's earnings in foreign trade.[2] The negative effects of falling world prices were further compounded by decreased trade volumes as world production declined and each country erected tariff barriers to protect domestic markets from foreign competition.

Canada's reliance upon the external trade made her particularly vulnerable to the protectionist policies of foreign governments, and these provoked a strong protectionist response from Canadian business interests seeking to guard the Canadian market. Following the introduction of the Smoot-Hawley Tariff of

1930 which almost doubled the U.S. tariff and inhibited the flow of Canadian produce to the American market, the federal government raised the Canadian tariff bringing about a general escalation of import duties in the order of 50%.[3] Within two years, the continuing deterioration of U.S.-Canadian trade resulted in the negotiation of the Ottawa Agreements (1932) which ex-panded the existing preferential trading system of the Commonwealth. Threatened by the protectionist attitude of the U.S. government, the Canadian bourgeoisie was forced to undertake a much more independent policy, which included forging closer ties with overseas markets.

Reflecting the world wide depression in trade and production, (and only partially the result of Canadian policy), developing continental economic ties between Canada and the U.S. were drastically halted. The flow of U.S. capital into Canada was stabilized, and, in fact, underwent an absolute contraction between 1930 - 1939. While capital imports from Britain also declined, the portion of British capital invested in Canada experienced a slight relative increase during the same period (see Appendix A). Much more significantly, between 1929 and 1939, Britain's purchases of Canadian exports increased from 25% to 35%, while those of the U.S. decreased from 42% to 41%. U.S. imports to Canada also declined while those from Britain and other countries increased relatively (see Appendices B and C).

The depression struck Canada primarily through its effect on the primary industrial sector, but was by no means confined to this sector alone. With income in the primary sector reduced, overall purchasing power in the Canadian economy was lessened. Combined with over-extended inventories of Canadian manufactures, this caused a collapse of Canadian manufacturing as well. The effects of the depression were consequently national in scope affecting every industry and region in the Dominion.

ii) Federal Response in Domestic Policy

It was in response to this economic collapse that the federal government embarked on a number of programs designed to restabilize the economy and to prevent an absolute deterioration of social and political conditions. Most of these measures, with the exception of the tariff escalation, were undertaken in the area of public finance and assumed the form of interventions and subsidies directed toward transportation facilities, the coal and the agricultural industries, payments directly to the provinces, etc. As had been the case during the war, emergency conditions once again necessitated a reassertion of federal power.

But if the federal government was strengthened during this period -- and observers have been unanimous on this account -- this new strength derived, not from an evolutionary integration of regional and class interests, but from unprecedented conditions of regional-class disunity. The strengthening of the federal power that occurred during the depression was clearly the product of economic instability and an intensified regionalism, which threatened to undermine the social and political basis upon which Canadian federalism rested.

Several considerations are relevant in this regard. Perhaps most important is the fact that the depression had variegated effects on Canada's regions, which exacerbated conditions of regional disparity and disunity within the Dominion. Because of their discriminatory effects in different regions, periods of economic recession, historically, have intensified conflicts and contradictions between Canada's regions. The regionally-specific consequences of the 1929 collapse were particularly pronounced.

On the prairies the coincidence of the world depression with a series of drought years combined to create devastatingly severe conditions throughout the region. During the years 1929 - 33, the export price of wheat dropped by over 50% while actual production fell by an even larger percentage.[4] During the same period, per capita income in the prairie region declined by 72% in Saskatchewan,

61% in Alberta and 49% in Manitoba producing a massive out-migration which by the end of the decade had lowered the population of the prairie provinces by a quarter of a million.[5] Provincial and municipal governments meanwhile stood on the brink of default and insolvency. Confronted with maturing debts in the New York money markets, escalating costs for social welfare, and dwindling provincial revenues, the three prairie provinces became heavily dependent upon the federal government for aid.

Similar economic conditions prevailed in the Maritime region, where, between 1929 - 33, incomes in P.E.I., Nova Scotia and New Brunswick declined by 47%, 39% and 36% respectively.[6] Although less harsh in relative terms, the effects of the depression on the economy of the Atlantic provinces was particularly severe. Unemployment in some areas approached 40% and Maritime incomes remained the lowest in Canada. Provincial governments, as a consequence, were forced to turn to Ottawa for fiscal relief.

The response of the federal government to these widespread conditions of economic collapse, as stated, was primarily a modification of policy in the area of public finance. Of particular importance to the prairies were federal attempts to stabilize the production of wheat which lead to government purchases of surplus inventories, and, in 1935, to the re-establishment of the Wheat Board to market accumulated stocks. Faced with ruinous conditions in the agricultural sector, the federal government was forced to undertake measures to safeguard the production of this important export. In the same year, the Prairie Farm Rehabilitation Act was passed in yet another attempt to bolster the weakened prairie economy.

On the surface, the reintroduction of the Wheat Board may well have appeared as a concession or appeasement of grain producers at the expense of speculative interests in the grain trade, but this was not its motivation. The establishment of the Wheat Board was clearly in keeping with the overall policy of the federal government, which in its throne speach of 1935 declared that

". . . New conditions prevail . . . (which) . . . require modifications of the capitalist system . . ." [7]

Modifications were particularly required in the agricultural sector, whose special difficulties corresponded to the problems of Canada's productive facilities as a whole. One year after the establishment of the Royal Commission on Price Spreads, appointed to investigate price-fixing practices in the manufacturing sector, the federal government resurrected the Wheat Board. Rake-off profits of manufacturers and grain speculators could surely be sacrificed in the interests of stimulating production and bolstering the overall export position of the Canadian economy. Such a policy was no mere appeasement, but part of an overall strategy to promote the economic recovery of Canadian capitalism.

Other initiatives undertaken by the federal government during this period reveal similar regulatory and centralizing tendencies, distasteful to some, but completely necessary for the stabilization of capitalist enterprise. The creation of the Canadian Broadcasting Corporation in 1932 and the Bank of Canada in 1934 are two further examples of this greater federal activity. Established during the instability of the depression, the CBC and the Bank of Canada were designed to stabilize Canadian capitalism both politically and monetarily. In response to widespread unemployment and the disruption of the national labour market, the federal government in the next year moved to establish a national employment service and a national unemployment fund, in what was undoubtedly a clear intrusion on provincial jurisdiction.[8]

But it is in the area of provincial-federal financial relations that the most interesting examples of federal activity are to be found. Of importance to all provinces was the federal government's continuation and expansion of its previous policy of providing federal grands-in-aid to the provincial governments.[9] First initiated prior to World War I, the grants-in-aid policy constituted the major federal response to the severe fiscal imbalance which had de-

veloped between the two major levels of government and between the provinces. The overall effect of this policy was to partially redistribute purchasing power to the advantage of the poorer provinces and regions without in any way altering the structural and institutional causes of regional disparity. That this redistribution was accomplished, at least in part, through regressive taxation measures, notably the introduction of the federal sales tax, is of secondary, though notable interest.

It is today universally agreed that in its financial arrangements with the provinces, the federal government adopted extremely conservative policies. In the words of Rowell-Sirois Report,

> . . . the national economic policies which were adopted did little to improve this situation (the disparate impact of the depression on the provinces) and in some respects intensified it.[10]

The upward revision of the tariff had predictable regionally discriminatory effects, the general direction of which has already been indicated.[11] Similarly, the federal government's major response to regional disparity -- its "grants-in-aid" policy -- was piecemeal, disorganized, and in any case, insufficient. In most cases, federal grants to the provinces were barely enough to prevent bankruptcy, and in all cases, provincial governments incurred debts in financing their programs throughout the depression.

But despite increased financial burdens, the fiscal authority acquired by the provinces over the sixty years since Confederation remained relatively unchanged. Although heavily reliant upon the federal government for aid, provincial governments were unprepared to relinquish their taxation powers or jurisdictional autonomy. Even during the severe conditions of the early 1930's, the provinces continued to raise the majority of their revenues independently of the federal government. And by 1937, federal contributions to the provinces comprised less than 10% of total provincial revenues.

Thus while the depression strengthened the federal government by requiring

it to undertake increased regulatory activity in the national economy (e.g. the Bank of Canada, CBC, Wheat Board, grants to the provinces, subsidies to industry, etc.), these actions, by and large, posed little threat to the autonomy of the provinces (although in some areas, such as unemployment legislation, it could be argued that such a tendency existed). The historical ascendancy of the provinces was temporarily stalled -- but not permanently reversed -- by the depression. Whereas sixty years earlier (1874) the provinces accounted for a mere 7% of total government expenditure (and the municipalities 26%), by 1937, the provinces and municipalities together accounted for 53% of total government spending. The relative expenditure position of the federal government had dropped from 67% to 47% over these years.[12]

In its overall impact, the depression had contradictory effects on Canadian federalism. On the one level, its immediate consequence was the strengthening of the federal government and the reversal of the trend towards provincial autonomism. In impoverishing the provinces, the depression signalled an inevitable increase in federal activity which strengthened centralist tendencies within the Dominion. This assertion of federal power cannot however be equated with national unification or regional integration. As a recent study of federalism has observed,

> The course of Canadian federalism has displayed cyclical swings from centralization to decentralization and back again. One should beware however of equating centralization periods with times of social integration.[13]

While at the institutional level, the depression occasioned the growth of the federal government, its effect at the economic level was to intensify regional cleavage and conflict, a process federal policy proved incapable of altering.

iii) <u>The Rowell-Sirois Commission</u>

Deepening cleavages between the provinces were visibly evident in provincial reactions to the Royal Commission on Dominion-Provincial Relations (the

Rowell-Sirois Commission) established in 1937 to review all aspects of public finance and taxation in Canada. In the process of its inquiry, the commission met with two basically different positions advocated by the provinces.

Several of the poorer provinces -- specifically Manitoba, Saskatchewan, New Brunswick and Prince Edward Island -- proposed to transfer to the Dominion certain taxation rights in exchange for increased federal subsidies, the assumption of provincial debts, and assistance in the provision of social services. Long standing grievances of the hinterland provinces such as the tariff and transportation policies were raised and cited as the cause of regional imbalance. In their majority, however, these provinces tended to accept a strategy of fiscal reallocation and federal subsidies as expedients to create some semblance of regional balance.[14]

The more prosperous provinces -- Ontario, Quebec, B.C. (as well as Alberta under its "radical" Social Credit administration) took an entirely different view. The governments of these provinces all disassociated themselves from the commission; only Ontario presented a brief. The positions of these provinces were nonetheless similar; all sought increased taxation powers for the provinces, and a corresponding reduction in federal taxation involvement. It is undeniable that the objective of every provincial government was to improve its net financial position. That the provinces were unable to agree on a common strategy was a reflection of the contradictory needs and interests of the regional economies they represented.

* * * *

Emerging out of the depression then, the strains and stresses of Canadian federalism were in full view. Evidence of increasing regional disparity and contradiction was expressed in the differing orientations of the provinces and in federal-provincial conflict. Unofficial response to the deepening disparity was even more divisive. Threats of secession echoed from nearly every

province in the Dominion. Even in British Columbia, which during the depression enjoyed the highest per capita income in Canada,[15] leading commercial groups and organizations publicly discussed the option of succession. Such currency was given the idea that the Vancouver Sun, in a front page editorial in May 1934, stated openly that if need be, British Columbia could separate and "go it alone".[16]

In the Maritimes, political discontent and the specific interests of Maritime commercial groups expressed themselves in a different, if familiar form. Discredited by their ineffectiveness, the ruling Conservative parties in Nova Scotia and New Brunswick were dislodged by the Liberals in 1935. Under the former Conservative banner of "Maritime Rights", the Liberals won comfortable majorities against the Conservatives whose close identification with the Conservative government in Ottawa seriously undermined their support. As in earlier periods, the Maritime Rights movement was coloured by occasional appeals for 'repeal' and secession from Canada.[17]

Apart from the outburst of openly separatist appeals, the depression and the demise of the Progressive Party in the West gave rise to two new 'populist' political parties -- the C.C.F. and Social Credit.[18] The hostility of these parties to central Canadian capitalism and their explicit class appeal revealed the hitherto somewhat obscured inter-relationship between regional and class issues. Within Alberta, the Social Credit government having experienced federal interference (including disallowance) of its legislative program, took an openly hostile position regarding the federal structure.[19] The C.C.F. likewise reflected a profound opposition to federal policy and the eastern commercial interests it served.[20] Less obviously, but nonetheless importantly, the 1936 victory of the Union Nationale in Quebec also reflected a growing antagonism toward Anglo-Canadian capitalism, as well as a strengthening in that province of French nationalist sentiment.[21]

It is true of course that the relative position of the federal government had been strengthened during the depression. But the exercise of federal power had not achieved, nor had it been seriously directed toward the redress of regional and inter-provincial imbalance. The relative strengthening of the federal government had, to the contrary, corresponded with a deepening of regional differences and cleavages.

FISCAL CENTRALIZATION AND THE WAR

Although Canada's initial response to the outbreak of war in Europe in 1939 was a committment to limited participation only (without conscription), the decision to enter the war nonetheless precipitated a concentration of power in the federal government. In its effort to mobilize resources for the conduct of war, the Canadian state undertook to finance a massive economic recovery, geared primarily toward war production.

> The War Measures Act was proclaimed ... and a number of government committees were established --- The Wartime Prices and Trade Board, to control civilian prices . . . a Foreign Exchange Board, to control the flow of money, a War Supply Board . . . and a Defense Purchasing Board . . .[22]

State intervention in the economy provided a powerful stimulus for economic growth and made possible an unprecedented expansion of productive facilities in each of the Canadian regions.

This concentration of political power in the federal government did not, however, have a firm basis in the fiscal resources of the federal state. Disputes over provincial taxation powers, which had emerged during the depression, remained unresolved and the recommendation of the Rowell-Sirois Commission (that the provinces accept federal subsidies for their decreased involvement in taxation)[23] proved unacceptable to several of the provinces.

A basis for federal-provincial confrontation thus resided in the conflicting fiscal needs of the federal and provincial governments. Prepared, perhaps,

to accept a temporary (wartime) centralization of fiscal resources, commercial interests in several of the provinces were resolutely opposed to a permanent or constitutional alteration of provincial powers. These powers had been the hard-fought gains of seventy years, --- seventy years of struggle against the federal government and the corporate interests it represented; they would not be sacrificed lightly even during war. Particularly uncompromising were the positions of the governments of Ontario, Quebec, British Columbia and Alberta, which from the beginning had rejected the recommendation of the Rowell-Sirois Report that the provinces surrender their constitutional taxation powers to the federal government.

Unable to effect a constitutional re-definition of taxation powers, the federal government moved in 1940 to enact a "tax rental" system which accomplished the practical objectives of fiscal centralization without constitutional amendment. But this concentration of fiscal resources in the federal government for the conductance of war did not signal a voluntary surrender of provincial prerogatives in the area of taxation; rather, centralization had been made necessary (and possible) only through the extraordinary authority assumed by the federal government during war.

Neither did de facto centralization prevent the federal government from attempting to constitutionalize its usurpation of provincial powers. At the 1941 Dominion-Provincial Conference called to discuss fiscal questions, the federal government tried unsuccessfully to secure provincial support for constitutional amendment. Although provincial responses were varied, the provinces whose economies were more developed proved the most vehement opponents of the idea. Premiers Godbout of Quebec and Hepburn of Ontario re-iterated their provinces' unalterable opposition to the federal proposal. Premier Aberhart of Alberta, keenly sensitive to the importance of finances, depicted fiscal centralization as the first step toward "a financial dictatorship or a fascist state".[24]

Much more candid was the response of British Columbia Premier Patullo. Echoing the fears of B.C. business interests that fiscal centralization would result in their further subordination to Central Canada, the B.C. Premier summarized his province's opposition by stating:

> (British Columbia) does not want to be pushed down either to the bottom or half way, there to turn the treadmill in perpetuity.[25]

Only Manitoba, Saskatchewan, New Brunswick and P.E.I. voiced clear support for the centralization proposals. The responses of these provinces were largely the result of their severe fiscal disabilities, and their optimistic expectation that increased federal revenues would be utilized to redress regional imbalance.

No agreement was reached in 1941, but the Conference's failure to formalize fiscal centralization did not change its reality. The exigencies of war accomplished what compromise and federal-provincial discussion could not: the temporary abandonment of the income tax field by the provinces in return for federal compensation. But, as later events would confirm, this "solution" did not reflect a permanent shift in fiscal responsibilities, nor a resolution of underlying antagonisms and regional divisions.

Many of the conflicts in federal-provincial relations which erupted during the war point to the centrality of the federal-provincial taxation dispute, and the attempted usurpation of provincial powers by the federal government. When Premier Maurice Duplessis of Quebec called a provincial election in that province in 1939, the issue, as interpreted by his government, was federal encroachment on provincial powers. After waging a vigourous anti-federalist campaign, Duplessis was defeated by the provincial Liberals, who with federal Liberal support and a sizeable election budget from Ontario,[26] won a decisive legislative majority.

But this "victory" for federalism was much less complete than appearances indicated. The subsequent Liberal government of Premier Godbout proved

equally unprepared to accept the centralist tax proposals of the federal government. At the 1941 Conference, both Godbout of Quebec and Hepburn of Ontario (along with Aberhart of Alberta and Patullo of British Columbia) strongly opposed the tax proposals of the federal government.

In addition to conflicts which arose over taxation rights, strains in Canadian federalism were intensified by political developments at the provincial level which progressively shifted against the federal Liberal government during the war. In succession, Liberal governments in the provinces went down to political defeat -- first Hepburn in Ontario (replaced by the Conservative Party in 1943), Patterson in Saskatchewan (replaced by the C.C.F. under Douglas in 1944), and finally the Liberal party in Quebec when Duplessis' Union Nationale party gained power provincially over the conscription issue in 1944. Compounding the problems of provincial Liberal parties was the growing strength of the C.C.F., particularly in Ontario where it had dislodged the Liberals as the official opposition.

But, despite the emergence of strong oppositional government at the provincial level, federal authority was vastly strengthened and provincial autonomy undermined during the war. Between 1939 - 1946, the federal state apparatus was strengthened by the expansion of the federal civil service from 46,000 to over 120,000 members.[27] Coupled with this expansion of personnel was an increase in the proportion of overall revenues expended by the central government. By 1943, total federal expenditures had escalated from a 1939 level of $483 million to $4,412 million ($3,565 of which was for defence), representing an increase from 40% to 88% of total expenditures of all levels of government.[28] As a result of this unprecedented expenditure, Canada's gross public debt rose from $4 billion to nearly $19 billion between 1940 - 1946.[29]

The necessity for a national mobilization for resources, and the extraordinary powers of the federal government to effect such a mobilization neces-

sarily altered the balance of federal provincial power in favour of the central government. But developments during war time had not erased or resolved underlying issues of regional and class antagonism. Throughout the war provincial electorates had demonstrated their dissatisfaction with the ruling central government. With few exceptions, provincial governments, also, had proven consistent critics of the federal government and had sharply challenged federal policy on a number of important questions.

In spite of improved economic conditions throughout all of the provinces (which between 1939 - 1946 saw the GNP more than double, after having experienced a net contraction during the 1930's), distribution of the national income continued to favour industrialized central Canada over the other provinces. The liberalization of tariff barriers and war-stimulated economic expansion, moreover, set in motion a series of forces destined to expand continental economic connections and further regionalize the Canadian economy. In the post-war period, convergence of these factors intensified regional conflict and confrontation.

Outward signs of the reassertion of provincial power and regional conflict occurred even before the formal end of the war, when in 1945, disputes broke out at the federal-provincial "Reconstruction Conference". As a harbinger of things to come, the provinces proved unable to agree on proposed federal-provincial fiscal arrangements, and were almost unanimously critical of the original federal proposals and fiscal arrangements, pragmatically and reluctantly accepted during the war.

CHAPTER X

POST WAR FEDERALISM: "THE GOLDEN AGE" OF PROVINCIAL AUTONOMISM

Provincial Ascendency and the U.S. Connection: Its Historical Bases

In an historical context no single factor has exerted a greater influence on the balance of Canadian federalism than the movement toward continental integration of the U.S. and Canadian economies. The act of Confederation itself was essentially designed to counter the development of continental commercial connections, and to replace these with an east-west integrative structure tied to staple exports with Great Britain. Subsequent policies of the Canadian state (including railway construction and the tariff of the National Policy) likewise represented attempts to counter the north-south pull by establishing inter-regional ties between the developing provincial and territorial economies.

Precisely because Canadian efforts at territorial and economic consolidation involved a denial of continental ties, these efforts stimulated strong opposition from industrial sectors (such as agriculture and lumbering) disadvantaged by the policies of the Canadian state. An immediate effect of the tariff and the exclusively Canadian transportation system was to isolate Canadian primary producers from the American market, to deny access to cheaper transportation routes and to increase the costs of manufactured goods throughout the Dominion. Inevitably, Canadian trade and transportation policy evoked strong opposition from regional industries, thereby setting the stage for political conflict over these policies. As analyzed in previous chapters, one of the important consequences of these conflicts was the strengthening of provincial governments, and the transposition of regional and commercial rivalry into the sphere of federal-provincial relations (see Chapter VI).

Federal-provincial conflict has experienced a varied historical career.

The "ebb and flow" of federal-provincial conflict has historically been conditioned by international events and processes, not the least of which has been relative demise of the British presence in Canada and the development of substantial U.S.-Canadian commercial relations. As shown in Chapter VIII, the weakening of east-west commodity flows during the 1920's (insofar as these are suggested by the decline in Canada's export-import trade with Britain) and the vast expansion of Canadian exchange relations with the U.S. coincided with the strengthening of provincial governments, politically and economically. During the 1930's, this provincial ascendency was brought to a halt. Significantly, this coincided with world depression, the diminution of U.S.-Canadian trade and capital movements, and the relative strengthening of the British connection (see Chapter IX).

Circumstances After 1945

For Canada, the aftermath of World War II initiated circumstances strongly analogous to those between 1918 - 1930. The war decisively ended Canada's triangular relationship with Britain and the United States, which despite a serious weakening after 1918 had existed up until 1939. From 1945 onward, the importance of the United States as Canada's major trading partner and principal supplier of development capital increased markedly. From a high pre-war level of 66% the proportion of Canada's imports from the U.S. increased to over 70% by the early 1970's (see Appendix B). More significantly, Canadian exports have become increasingly reliant upon U.S. markets; compared with a pre-war level of 41%, Canada by 1970 was exporting close to 70% of its exports to the United States (see Appendix C).

Post-war capital flows into Canada clearly evidence the changing relative strength of British and American capitalism, and their respective influence on Canadian development. Between 1939 - 1969, the proportion of British capital to total foreign investment in Canada declined from 36% to 10%. In

the same period, the proportion of U.S. (mostly direct investment) capital increased from 60% to 79% of total longterm nonresident investment (see Appendix A).

This shifting orientation of the Canadian economy away from Britain toward the United States has produced a growing trade complementarity between Canada and the United States. As Professor H.G. Aitken wrote in 1958:

> United States capital flows into Canada principally to accelerate development in sectors that will serve the United States market. Since the United States is already a highly industrialized economy with a very productive agricultural sector, the market demand that it exerts upon Canada is predominantly a demand for industrial raw materials.[1]

Paralleling the primary resource composition of Canadian exports to the United States, U.S. investment in Canada has increasingly been directed into the resource sector. Of the seven industrial categories included in the federal Department of Industry Trade and Commerce report, Direct Investment in Canada by Non-Residents Since 1945 (1973), the categories registering the largest inflows since 1945 are those of petroleum-gas and mining-smelting. Of a total of $2.3 billion direct U.S. investment in Canada in 1945, only 14.4% of this was active in petroleum and mining. By 1970, 38% of total U.S. direct investment, (which stood at more than $21 billion) was in these categories.[2]

This U.S. investment and trade in the Canadian primary sector has operated to undermine the traditional basis of Canadian unity. In addition to replacing the east-west flow of Canadian staples linked to overseas markets with an increasingly important north-south flow, U.S. investment and trade has stimulated the growth of "subsidiary" resource-based metropolitan centres within Canada (e.g., Calgary), which because of their trade and investment dependence upon the U.S., tend to fall increasingly within the U.S. orbit, thereby undermining their historical relationship with central Canada.

U.S. investment, as long as it was directed towards the establishment of

manufacturing branch plants in Central Canada, was a positive factor in promoting the consolidation of the (protected) domestic market and the integration of Canadian regional economies. Restricted to the manufacturing sector, U.S. capital played a subsidiary role to Canadian finance capital whose well-established control over the Canadian infrastructure (transportation, communication, merchandising, banking) allowed for a mutually profitable partnership of the combined capitals in Canadian development. The growth of the central Canadian manufacturing factor, even though it was dominated by U.S. corporations, served to develop the Canadian distributive-transportation network and to promote (perhaps a better term would be 'force') the integration of the Canadian regions -- all of which helped buttress the dominant position of the Canadian financial sector.

U.S. investment in the primary sector has had entirely opposite consequences for the balance of the federal system. While reflecting the diminished relative capacity of British industry to consume Canadian raw materials (much less finance their development extraction), the growth of U.S. investment in the Canadian primary materials sector has seriously reduced the capacity of the centrally-based Canadian bourgeoisie to direct economic development in the Canadian regions. This inability has been concurrently reflected in the relative inability of the federal state to contain pressures from the provinces (within whose boundaries the expansion of the resource sector has occurred) and in its inability to resolve basic antagonisms which derive from the essentially non-integrated, and internally contradictory character of the Canadian economy.

The Post-War Growth of Provincial Power

Pressures resulting in the strengthening of provincial governments relative to the federal authority have emanated directly from conflicting interests of regionally based economic sectors. As initially argued in Chapter VI, the origins of provincial ascendency are rooted in commercial and class conflict,

which intensifies as the activities of regionalized commercial classes become integrated with foreign metropoles. Provincial ascendency is the political reflection of a poorly integrated national economy distorted by an extreme export dependence.

Previous chapters mentioned the growing role of provincial and municipal governments from Confederation to 1937, a period during which the levels of provincial expenditure and revenue generation underwent a dramatic increase. The present chapter will examine the post-war period and focus upon (i) federal-provincial fiscal arrangements, (ii) provincial revenues and expenditures, and (iii) the changing roles and functions of provincial governments. This discussion will attempt to demonstrate a growing tendency toward regional balkanization as it has produced, and is reflected in, the growth of provincial finances and powers.

i) Federal-Provincial Fiscal Arrangements

The immediate aftermath of World War II saw provincial governments locked into the centralist fiscal arrangements inherited from the war. As Professor D.V. Smiley has correctly observed, the fiscal formula proposed by the federal government at the Reconstruction Conference of 1945 was even more centralist than the centralizing formulas suggested by the Rowell-Sirois Commission.[3] By 1947 however, after a series of negotiations and modifications, the federal government succeeded in obtaining sufficient provincial support for its "tax-rental" proposals.[4] All provinces, except Ontario and Quebec, agreed to full participation in the program for a period of five years.

The readiness with which most provinces had accepted the federal government's taxation proposals was not, however, indicative of things to come. Although renegotiations of the arrangements in 1952 and 1957 saw continued provincial participation in the federal program, the sustained objections and non-participation of Quebec, and partially Ontario, exerted considerable pressure

on the federal government to modify its stance on fiscal matters. Beginning in the 1950's under direct pressure from Quebec[5] and the growing demands of the other provinces, the federal government undertook to replace its tax-rental system (under which the federal government legislated and collected personal, corporation and inheritance taxes) with an abatement program under which the federal government would return to the provinces, directly, a proportion of taxes collected by the federal government.

Under the Federal-Provincial Fiscal Arrangements Act of 1962, this retreat of the federal government from the constitutional taxation territory of the provinces was made much more complete. Under the terms of the 1962-67 arrangements, the federal government agreed to a significant withdrawal from the income-tax field and the provinces resumed their taxation authority in this area.[2] This process of re-adjustment, insofar as it marked a partial return to constitutional taxation boundaries, must be viewed as a significant achievement and a visible indication of the greater role demanded by the provinces.

This re-adjustment has not of course meant complete fiscal independence for the provinces. Federal equalization, stabilization and conditional grant programs (such as that for post-secondary education) continue to provide a large portion of provincial revenues, especially for the poorer provinces[6]; and the actual collection of taxation revenues remains, for the most part, within federal control. At the same time, the recognition of provincial taxation rights stands as an important landmark in the post-war growth of provincial power.

ii) Growth of Provincial Finances

In the three decades since 1945, the financial positions of the provinces have undergone a considerable strengthening, from both a revenue and expenditure standpoint. Since the war, total provincial revenues, excluding intergovernmental transfers, have increased by over 2400%, while federal revenues

have increased by less than 800% (see Appendix G). Expressed as a percentage of the Gross National Product, provincial revenues have grown from 4.6% in 1946 to 12.6% in 1972; during the same period, federal revenues declined from 22.1% to 18.7% (see Appendix H).

Municipal governments too have grown in the post-war period. Including the revenues of local governments which fall under provincial jurisdiction, the combined 1972 revenue figure, excluding transfers, for provincial and municipal governments was $18 billion, compared with $19.3 billion for the federal government. This compares with the 1946 figures of $982 million and $2.6 billion respectively.[7]

From the expenditure perspective, the role of provincial governments is even larger, owing to the effect of federal transfers to the provinces (equalization, stabilization and cost-sharing payments). Compared with a 1946 total of $630 million, including transfers, provincial expenditures have increased to $18.1 billion in 1972, a gain of 3,000%. Corresponding total federal expenditures for the same years were $2.9 billion and $20 billion, a gain of less than 700%.[8] Municipal expenditure in these years was $504 million and $9.8 billion -- a growth of nearly 2,000% (see Appendix I).

Since 1945, the provincial and municipal levels of government have recovered from their fiscal subordination during the war and have significantly surpassed the federal government in the area of public expenditure. Whereas in 1946 federal expenditures comprised 72% of total government expenditures, by 1972 this percentage had declined to approximately 40% exclusive of transfers.[9] Such a pattern would appear to conform to the prediction made in 1960 before the conference of the Canadian Tax Foundation that by 1980 each of the three governments will be spending approximately one-third of total government revenues.[10]

Instructive as they are, fiscal statistics alone cannot reveal the full significance of the growth of provincial power in the post-war period. Deve-

lopments in post-war federal-provincial fiscal relations and revenue generation has been accompanied by a series of inter-governmental disagreements and confrontations, the nature and importance of which defy precise statistical interpretation and definition. As the Tremblay Commission Report demonstrates, the struggle for provincial fiscal responsibility, particularly the restoration of direct taxation powers, has met with repeated opposition from the federal government. The post-war inter-governmental redistribution of revenues and expenditures has been accomplished through a prolonged process of federal-provincial conflict and negotiation. Quebec of course has played the most visible role in this process, first by its refusal to countenance the 1947 tax-rental agreement and later through continued attempts to gain more effective control of the direct tax field appropriated by the federal government during the war.

But each province has waged equally intense campaigns to increase their share of overall revenues. For many provinces (particularly the poorer ones) the demand for larger federal subsidies and equalization payments has proven a preferable alternative to the demand for autonomous taxation powers; but the underlying motivation -- increased provincial revenues -- has been common to all provinces.

There are of course serious theoretical difficulties in arguing that the growth of provincial finances evidences the growth of provincial power and provincial autonomism. These limitations notwithstanding, the growth of provincial (and municipal) finances in the post-war period must be considered an important aspect in the development of Canadian federalism. Insofar as this decentralization of fiscal responsibility is a reflection of the power of the provinces in successfully challenging the centralizing tax proposals of the federal government, it constitutes an important component of federal-provincial conflict. The origins of provincial fiscal power, moreover, are closely linked to regionalization of the economy and the conflicting demands of provincial governments and regional commercial classes to gain more effective

control and autonomy over their local economy.

iii) Growth of Provincial Functions

A) In 1946, the combined expenditures of the provinces, including transfers, represented 16% of total government spending. By 1972 the proportion of revenues expended by provincial governments had climbed to 45%, exceeding the pre-war level of 39% (1939).[11]

Most of this growth is attributable to the rapid expansion of four important functions, the constitutional responsibility for which resides with the provinces. In the post-war period, expanding services and rising costs of education, health, welfare and highways have consumed the largest portions of provincial revenues. Moreover, the expansion of these services has been relatively stable. Expenditure on these four items was approximately 78% of total provincial spending in 1962-63 and approximately 76% in 1972-73.[12] In the ten year period from 1962 - 1972, a period during which combined provincial expenditures rose by approximately 400%, the expenditures on education rose 423%; health, 354%; highways, 236%; and welfare, 380%.[13]

B) Although the most important functions of provincial governments (in terms of expenditure) continue to involve the administration of social services, the post-war years have witnessed the expansion of provincial governments into other areas, particularly economic development. The vast expansion of expenditure in infra-structural development, such as highway construction, is but one example of this heightened activity. Even more interesting is the increasing provincial involvement in the area of direct economic development and trade.

Provincial spending on trade and industrial development has, in fact, experienced one of the most rapid growth rates of all items of provincial expenditure. Although trade and development spending still represents only a small portion of total provincial expenditure (from .3% to 2.9% in 1972-73),[14] the past decade (1962 - 1973) has seen expenditures in this area increase

in each of the provinces as follows:

Newfoundland	- 3368%	Ontario	- 356%
P.E.I.	- 891%	Manitoba	- 564%
Nova Scotia	- 804%	Sask.	- 12%
N.B.	- 888%	Alberta	- 1477%
Quebec	- 1161%	B.C.	- 371%

for an unweighted average increase of 731%, compared to an overall growth of provincial expenditure of just over 400%. During this decade combined provincial expenditure on trade and industrial development rose from the 1962 level of $19 million to $139 million in 1972.[15]

C) Statistics however do not reveal the complete picture. Within the last two decades, the provincial scene has been characterized by a movement towards the establishment of departments, agencies and crown corporations whose sole objective is to encourage the growth of industry and trade. In addition to the provincial departments of "industry and commerce" (the official designations vary and sometimes include economic development, trade, etc.), there now exist, in each province, agencies whose purpose is to attract and, if necessary, subsidize economic investment and expansion within provincial boundaries. The emergence of these "development corporations" is a relatively new phenomena, as indicated by the following partial chronology.[16]

1956	New Brunswick Industrial Finance Board
1957	Industrial Estates Limited (Nova Scotia)
1958	Manitoba Development Fund (now Manitoba Development Corporation)
1959	New Brunswick Development Corporation
1962	General Investment Corporation of Quebec
1963	Saskatchewan Economic Development Corporation (reorganized in 1972)
1967	Newfoundland Industrial Development Corporation

1968	Department of Economic Growth (New Brunswick)
1966	Ontario Development Corporation
1969	Prince Edward Island Lending Authority
1970	Northern Ontario Development Corporation
1971	Quebec Industrial Development Corporation (replacing an earlier agency)
1971	Department of Development (Nova Scotia)
1972	Newfoundland Rural Development Authority
1972	Nova Scotia Resources Development Board
1972	Alberta Opportunity Company
1973	Newfoundland and Labrador Development Corporation
1974	British Columbia Development Corporation

The establishment of provincial Development Corporations and the proliferation of provincial planning and advisory agencies is one of the single most important aspects of the growth of provincial power. These agencies which operate to stimulate investment and assist industry, provide further evidence of the increasing role that provincial governments are playing in the national economy. Their very existence is in fact predicated upon the fact/assumption that federal policy initiatives have not and can not adequately fulfill the needs of the provinces. This holds true particularly in the case of the poorer provinces, those in the Maritimes and the prairies, provinces against which federal policy has historically discriminated. In this connection it is significant that provincial spending on trade and industrial development, expressed as a percentage of total provincial expenditure, is higher in the poorer regions of Canada and that the poorer provinces were the first to establish Development Agencies.

The percentage of provincial expenditure directed towards industrial development in the four Maritime provinces is roughly double the national average and more than five times greater than the expenditures of Ontario and British

Columbia. In 1972 - 1973 the expenditures of Newfoundland on economic development were almost as large as those of Ontario, a province whose total budget was twelve times as large.[17]

The nature and extent of provincial involvement in economic development varies from province to province. Different provinces have established different agencies -- crown corporations, government departments, semi-private companies -- to spearhead their development objectives. But despite these differences, all provinces share a basic similarity of approach on the question of development.

It is true of course that some differences exist between and within provincial governments over development strategy. The issues of private vs. public investment and foreign vs. Canadian ownership create discernable lines of demarkation between different governments. But these differentiations are far more noticeable at the ideological and political level than in the area of practice. As even a cursory observation will illustrate, each of the provincial governments maintains substantial and overriding committments to private investment and development. In at least this one respect, the efforts of the provinces duplicate (in miniature) the efforts of the federal government in regional development, which will be discussed in Chapter XII.

All provinces sponsor programs under which businesses wishing to locate or expand their in-province operations may receive direct financial assistance, either through outright grants, low interest or guaranteed loans, partnership arrangements or other forms of aid. In addition, each province offers a variety of other services to the private sector, a partial list of which would include business counselling, market analysis, trade promotion and infrastructural development. Several provinces also sponsor trade missions in major foreign market areas such as Japan and countries of the European economic community.

Provincial involvement in economic development is of course not new. Each province since Confederation has endeavoured to attract and stimulate economic growth within its boundaries. Municipalities too have historically proven anxious sponsors of private industry and have always competed to attract capital. But at no time in the past have provincial and local government efforts in this area been so vigorous, sustained, or consumed a larger proportion of national/provincial expenditures.

Owing to the increasingly regional nature of the Canadian economy and the apparent federal inability to overcome this regionalism (which will be discussed presently), provincial governments have assumed increased responsibility for the economic destinies of their region. This responsibility not only involves accelerated efforts to stimulate economic growth, but involves also the creation and expansion of provincial government agencies to analyze and monitor economic activity in much the same way as nation-states direct and monitor economic developments within their boundaries (witness: the Quebec Bureau of Statistics).[18]

In Canada, inter-provincial competition for investment capital is a firmly grounded historical fact. Recent provincial efforts to assist and attract capital -- the formation of provincial development corporations etc. -- merely formalize and systematize these historically competitive relations between regions and jurisdictional units. As such, these efforts represent a heightening of inter-regional and inter-provincial competition; they signal a "new phase" wherein provincial governments are assuming an increasingly important position in inter-regional rivalry in Canada.[19]

Provincial Ascendency, Commercial Rivalry, and the Terms of Inter-regional Exchange

In order that the above discussion and examination of the growth of provincial power may extend beyond the level of description, it is important to examine more concretely the issues and problems around which the growth of pro-

vincial governments has occurred. The initiating role of the province of Quebec during the 1940's in defending its jurisdictional integrity in fiscal matters, and the actions of other provinces to expand their fiscal capacities, are only one aspect of the growth of the provinces in the post-war period. More generally, the three decades since 1945 have witnessed the revival of an intensified regional conflict in which regional issues have assumed an increasing importance in political life at both the national and provincial level.

This growth of provincial power, which is reflected in, but not limited to the growth of provincial finances, has occurred in direct relation to deepening regional balkanization, the erosion of transcontinental integrative links (and their progressive replacement with continental connections), and the apparent current resolve of regionalized commercial and industrial interests to press their grievances against the federal government and its biased national policies. As in the past, the issues currently being raised are all fundamentally related to the economic needs and requirements of regional industries, subordinated within the institutional structures of Canadian federalism. These structures will be examined concretely in latter chapters. For the moment, it is necessary only to state that "provincial and regional rights" as articulated by provincial governments and regional interest groups ultimately hinge upon the nature of the exchange relationship between different sectors and regional components of the Canadian economy.

Given the underlying imbalance of exchange which is the touchstone of the inter-regional economic relationship, the strengthening of provincial governments and their articulation of regional grievances must be seen as a reflection of heightening inter-regional conflict (of which the struggle to attract and retain investment capital is merely illustrative) and the desire of localized commercial/industrial interests --- through the mediation of strong provincial governments --- to effect changes of policy that will posi-

tively modify the character of exchange relations between themselves and their out-of-region competitors/rivals.

Historically, "regional" conflict in Canada has focused upon such issues as taxation powers, freight rates, the tariff, industrial development, and commercial and agricultural policy of the federal government --- mechanisms which directly, and in the long term, determine the balance of inter-regional exchange. It is interesting to observe that present-day regional grievances (as reflected in the policies of city governments, chambers of commerce, trade associations, regional industries, and provincial governments) have not departed from their historical emphasis on exchange-related issues. This historical continuity confirms the fundamentality of the exchange dynamic as the basis of regional conflict in Canada.

In the final analysis, this exchange is not, of course, most meaningfully conceived of as an exchange between regions, but, more correctly, as an exchange between competing economic sectors and classes. It is here -- in the actual exchange transactions between economic groups (for example, between farmers and the rail and grain companies; Maritime lumbering companies and central Canadian banks) -- that the exchange relationship exists and is most readily understood.

Inter-regional exchange is thus the composite of exchange relations between regional economic classes and sectors, relations which necessarily involve conflict as the separate participants to the exchange strive to modify its terms to their own advantage. There is nothing mystical about this process; it is simply an expression of capitalist competition operating within a regional framework.

Inter-regional imbalance of exchange results, as in the case of Canada, when the terms of exchange are weighted against one region in favour of another. This has occurred in Canada because the superior resources of the central canadian bourgeoisie have resulted in its being able to determine federal policy

in its own interests and against the interests of regionalized economic groups. To the degree that provincial governments have and continue to struggle against regionally discriminatory federal policy, they do so on behalf of, and in the interests of whatever regional economic forces animate the government. The fact that, today, they do so within accepted limitations and boundaries (the most universal of these being an acceptance of the legitimate existence of the federal structure) in no wise lessens the importance of this conflict, nor does it annul the importance of inter-regional exchange imbalance as the underlying cause of regional conflict.

S E C T I O N III

STRUCTURED INTER-REGIONAL IMBALANCE

IN CURRENT PERSPECTIVE

CHAPTER XI

REGIONAL CONFLICT AND EXCHANGE IMBALANCE

The Analytic Framework: The Exchange Approach

Before proceeding to examine the question of regional imbalance, it is necessary to contrast briefly what emerge as two conflicting approaches to the study of the regional disparity problem in Canada. These, summarily, may be termed the comparative approach and the exchange approach, although the terms themselves are inadequate descriptions of both perspectives.

Over the last two decades, widespread public interest in the problem of regional disparity has resulted in the publication of numerous studies showing large and persistent inter-regional differences. The approach employed by the vast majority of these researchers has been to select indices of economic development and compare the characteristics of each region -- the comparative approach.

The Economic Council of Canada, for example, in its Second Annual Review (December, 1965) devoted a chapter to "Regional Growth and Disparities" in which it compared various indices of economic development by region.[1] Included in the council's report were inter-regional comparisons of per capita income, manpower utilization, educational levels of the labour force, usage of physical capital, population concentration, occupational structure, etc. Based on its findings, the Council confirmed the existence of large inter-regional disparities which have persisted without change for a period of forty years.

Using a similar comparative approach, academic researchers such as T.N. Brewis[2] and Mildred Schwartz[3] have researched the regional disparity problem only to arrive at an essentially descriptive conclusions concerning inter-regional differences. Their studies demonstrate, for example, that incomes and education levels are highest in Ontario, lowest in Newfoundland; unem-

ployment is persistently higher in the Atlantic region and in Quebec; migration patterns tend to favour existing industrial regions, etc. In short, these studies demonstrate empirically that which -- in any case -- is generally known about the state of regional inequality in Canada.

Statistical comparisons of inter-regional differences are not of course without their usefulness. They document, at least, the present magnitude of the regional disparity problem and its persistence over time. Unfortunately, in ignoring the more important questions concerning the origin of these differences, such studies tend to substitute a static descriptive analysis of the symptoms of disparity for a more rounded appreciation of its causes.

Equally important is the direction in which many practitioners of the comparative approach look when attempting to study inter-regional disparity. The widespread research preoccupation with indices based on individuals -- income, education, to name but two -- betrays an approach which attaches unjustifiable significance to the symptoms of regional disparity as reflected in individuals. A similar concentration on the characteristics of business firms and comparative levels of development also finds, almost by definition, that industries located in outlying regions are generally smaller, undercapitalized, etc. Thus it is that the comparative approach subtly reinforces conclusions which seek an understanding of regional disparity in phenomena which are little more than symptomatic of the problem. A vast number of considerations and important factors are, in this way, ignored or relegated to the category of "further necessary research" which, not too surprisingly, never gets done.

As the Economic Council itself has stated in its report on "Regional Growth and Disparities", its researchers failed to consider a number of important questions. These, by the Council's admission include:

> ". . . The relationship between urban concentration and regional growth, the economic and industrial potential of the various regions (including

> the availability of natural resources), the effects of rapid technological change, the roles of international and inter-regional trade and transport costs in development . ...[4]

In a sentence, what the Economic Council and most other researchers have ignored is the dynamic inter-relationship between Canada's regions. It is here that the exchange approach becomes both important and essential, for, if, as we have hypothesized, the problem of regional disparity resides fundamentally in the terms of inter-regional (and international) exchange, then the political and economic relationships between Canada's regions and regional economic interests should be of greatest concern. Unlike the comparative approach which studies regional disparity through descriptive statistics, the exchange approach attempts an analytical integration of the regional disparity problem.

The exchange approach cannot of course proceed in an empirical vacuum. It requires as its basis an understanding of comparative levels of development and the attendant characteristics of each region. Its objective however, is not merely descriptive in the comparative statistical sense, but rather analytical inasmuch as it provides a framework from which to integrate isolated statistics and examine inter-regional relationships.

The following section will thus focus upon what most studies on regional disparity have ignored: the inter-regional exchange relationship. The utility of the exchange approach rests, not merely with its usefulness in studying regional disparity per se, but, more generally, in its ability to explain the influence of exchange relationships in shaping regional growth and Canadian development as a whole.

As previous chapters have shown, it is possible to understand Canadian historical development only through an understanding of the conflicting regional and class interests that have been at play. By in turn examining the Canadian (A) manufacturing, (B) primary resource and (C) transportation sectors, an attempt will be made to analyse the components of inter-regional exchange imbalance and its role in Canadian development.

A) INTER-REGIONAL EXCHANGE AND THE MANUFACTURING SECTOR

i) Regional Incidence of Canadian Manufacturing

In previous chapters, repeated reference was made to the 'manufacturing metropolis' of Ontario and Quebec and the 'resource hinterlands' of Canada's other provinces and territories. This regional characterization was used both to describe the course of early Canadian development, and to explain the origination of regional imbalance. In earlier pages, considerable emphasis was placed upon the exchange of manufactures (and the role of the tariff in compelling this exchange) as the key component of inter-regional imbalance.

The manufacturing industry reflects in fact -- more than any other industrial sector -- the high degree of regional differentiation that characterizes the Canadian economy. For reasons previously outlined in Chapter V, the provinces of Ontario and Quebec have historically dominated manufacturing in this country. Such has been the magnitude of this domination that in 1971, Ontario produced more than 50 per cent of total Canadian manufactured goods, while Quebec contributed approximately 27 per cent.[5] Combined, these two provinces account for more than three-fourths of manufacturing activity in Canada, a position they have held consistently over the last forty years.[6]

TABLE 11.1: PERCENTAGE OF CANADIAN MANUFACTURING, BY PROVINCE, 1972

Province	% of total	Per capita value
Newfoundland	.54	$ 563.
P.E.I.	.01	560.
Nova Scotia	1.59	1086.
New Brunswick	1.59	1351.
Quebec	26.85	2395.
Ontario	52.87	3689.
Manitoba	2.72	1473.
Saskatchewan	1.26	675.
Alberta	4.14	1368.
British Columbia	8.38	2062.

Source: Tables 5.4, and 17.1, Canada Year Book 1973 Per capita calculations based upon population estimates for 1971.

This unequal distribution and excessive concentration within the manufacturing sector, moreover, appears to be increasing with Ontario emerging as the principal beneficiary of this trend. Quebec and the four Atlantic provinces meanwhile have all undergone a relative weakening of their manufacturing output since 1961.[7]

Viewed in terms of per capita manufacturing output (which is an immediate measurement only, and one which ignores historical migration patterns out of underindustrialized regions) the ratio between Canada's most industrialized province, Ontario, and the least industrialized provinces (Newfoundland and Prince Edward Island) is in the order of 6:1.[8]

These comparisons however merely establish the generally understood relationship concerning the concentration of industrial capacity in central Canada; and although they document the fact of regional industrial differentiation, they provide only suggestive evidence of the role of inter-regional exchange in manufactures as a component in regional disparity. To arrive at a deeper understanding, it is necessary to examine the destination and shipment of manufactured goods on an inter-provincial/inter-regional basis.

ii) Inter-regional Exchange Patterns

Historically, information relating to inter-regional trade flows has not been available in Canada, despite official recommendation dating back to the 1920's that it be collected.[9] Indeed, the only available source of such information is based on the results of a 1967 study by the Dominion Bureau of Statistics and produced in its 1971 report, Destination of Shipments of Manufacturers. This important study supports the analysis, outlined in Chapter V, concerning the historical relationship between central Canada and the hinterland provinces; it shows conclusively that the net flow of manufactured goods within Canada originates in the central provinces and terminates in consumption in the hinterland. It confirms the existence of what might be termed "central

Canadian imperialism", the gearing of central Canadian manufacturing to a regional Canadian market.

The study reveals that in 1967 -- without exception -- each of the Canadian provinces registered substantial trade deficits in the exchange of manufactures with Ontario and Quebec. The principal manufacturing province, Ontario, accumulated a surplus account in its trade with the other provinces totalling approximately $3,000,000,000.[10] Quebec, by contrast, experienced small surpluses with each of the other provinces (and a deficit with Ontario) thereby securing a surplus of just less than $3,000,000. (It must be remembered, however, that this study was conducted 8 years ago and does not reflect the recent industrial strengthening of Ontario, or the overall expansion of manufacturing in Canada as a whole).

The remaining provinces and territories sustained substantial deficits in the net exchange of manufactured items. The size of these provincial deficits, expressed as a ratio between inter-provincial exports and inter-provincial imports, were approximately 1:5 for Newfoundland, 3:7 for P.E.I., 2:3 for Nova Scotia, 3:5 for New Brunswick, 7:10 for Manitoba, 3:7 for Saskatchewan, 7:10 for Alberta, and 7:10 for British Columbia. These ratios do not however fully illustrate the origin and direction of 'trade' imbalance. This direction is made very clear when inter-provincial commodity flows are analysed in terms of the Province of Ontario.

Expressed as a ratio of exchange with the province of Ontario, provincial deficits in 1967 were roughly as follows: Newfoundland - 3:1,000, P.E.I. - 2:47, Nova Scotia - 2:11, New Brunswick - 1:3, Quebec - 4:5, Manitoba - 3:10, Saskatchewan - 1:15, Alberta - 1:8, British Columbia - 1:6.[11] In short, these ratios demonstrate an overwhelming exchange imbalance weighted in favour of Ontario.

But the significance of these findings does not reside merely in the fact that central Canada benefits from inter-provincial trade in manufactures. It

is important to look beyond this fact to determine the basis of this exchange imbalance. It is here that the question of the tariff, which protects the Canadian domestic market, emerges.

iii) The Terms of Exchange, The Tariff Subsidy

In a previous chapter, the term subsidy was used to describe the operations of the tariff in appropriating regional resources and transferring them to central Canadian manufacturing interests. Subsidization is, in fact, precisely the process at work when the net exchange of manufactures favours the center at the expense of the periphery.

It has been estimated that due to the lower economies of scale (resulting from shorter production runs), average costs in Canadian manufacturing (branch plant or otherwise) may run from 35 - 40% higher than in the United States.[12] The tariff, in preventing the access of lower cost foreign manufactures to Canada, and in creating a more or less protected Canadian market, has thus increased the overall costs of manufactured goods in Canada. But the benefits of tariff protectionism have been differentially distributed among Canada's regions.

Given the unequal regional distribution of Canadian manufacturing, and the overwhelming exchange imbalance in manufactures, the tariff operates as a subsidy to central Canada, or, more precisely, central Canadian manufacturers and commercial sectors. Those disadvantaged by the tariff are Canadian primary industries and underindustrialized hinterland areas in general.

It is difficult, given the virtual nonexistence of statistical data, to determine the magnitude of the subsidization that results from the tariff. In the 1920's, an economist working for the province of Nova Scotia, who later became federal Minister of Labour, attempted such a determination and concluded that, together, the Eastern and Western provinces were contributing $80,000,000 a year for the support of manufacturing industries in Ontario and Quebec.[13] In a 1957 study for the Royal Commission on Canada's Economic Prospects, Professor

J.H. Young, using estimates based on 1954 production, concluded that the cash costs of the Canadian tariff, including government expenditures and retail distributions costs, were in the order of $1 billion.[14] Young's analysis did not, however, attempt to analyze the regional incidence of these tariff costs.

A more recent attempt at an analysis of the regional effects of the tariff may be found in a 1975 presentation of the four Western provinces to the federal government. Aimed at modifying Ottawa's position in the negotiation of trade matters under the General Agreement on Trade and Tariffs (GATT), the Western provinces have stated that because of the tariff, they are contributing "at least 800,000,000 a year in transfer payments to central Canadian manufacturers and distributors".[15]

Whatever the actual regional costs, it is clear that the tariff represents a mechanism of regional subsidization which results in an indirect transfer of resources from the net consuming regions of Canada's industrial hinterland to Central Canada. This mechanism involves the transfer of millions of dollars annually from the economies of the hinterland provinces to those of central Canada (particularly, Ontario). It is here -- in this exchange imbalance -- that the origins of regional disparity may be found.

Because of its volume and overwhelmingly discriminatory character, domestic exchange in manufactures constitutes the single most important component of exchange imbalance.

But, the role of the tariff in regional development extends far beyond consideration of the effects of the present subsidization of the metropolis by the hinterland regions. To abandon an analysis at this point would involve overlooking the historical influence that this subsidization has exerted on the development of the hinterland economies. In Chapter V it was argued that the tariff had lowered the standard of living throughout the Dominion and that, specifically, its cumulative historical effect was to "shape, limit and curtail" economic development of the Maritimes and of the West.[16]

It is precisely here that the full importance of Canadian trade policy (that is, the tariff) becomes important. Not only has the tariff, as a mechanism of appropriation, compelled centralized concentration of regional resources but it has progressively created the conditions upon which the possibilities (i.e., profitability) of regional industrial development have been systematically undermined. In combination with a monopoly banking system and the discriminatory freight rate structure (which will be examined presently) the tariff has enabled existing manufacturing interests in central Canada to curtail the development of manufacturing in both the eastern and western region of Canada. Its effect, moreover, as earlier stated, has been to increase the costs of primary industrial production in all regions of Canada.

B) INTER-REGIONAL EXCHANGE AND THE PRIMARY SECTOR

The primary industrial sector in Canada is not an economically homogeneous entity. Unlike the manufacturing sector which is regionally concentrated, structurally capitalist and relatively monopolized, the primary sector is regionally dispersed and differentiated in terms of class ownership. Its major categories include such important economic activities as mining, petroleum, lumber -- pulp and paper, agriculture and fishing. Rather than attempt to generalize upon this sector, it is necessary to attempt a consideration of several of its major components separately.

Although primary industries in Canada share basic structural similarities (for example, export orientation, dependence upon world markets, discriminatory treatment by the tariff, etc.) activities in the primary sector are sufficiently differentiated to require independent consideration. For practical reasons, the following discussion on the primary sector will focus upon its three major components -- mining, petroleum and agriculture. While the exclusion of other primary industries will limit the analysis somewhat, it may be partially justified on the following basis:

A. The remaining important primary industries - forestry, fishing, and trapping - although highly regionally differentiated - account for a much smaller proportion of total primary production than the industries chosen for examination.

B. The export orientation of the remaining primary industries make them less important from the perspective of interregional exchange.

C. A brief consideration of the forestry and mining industries will be included in a latter part of this work.

a) Mining

Exchange relations between regions, which have been shown to be heavily weighted against the hinterland in manufactures, could (conceivably) be reversed by exchange in the primary sector -- but, in fact, this is not the case. As in manufacturing, the central provinces also command a leading share of production in mineral resources on a comparative basis. In 1970, for example, the two central provinces, Ontario and Quebec, accounted for approximately 60% of total non-fuel mineral production, on a ratio of 2:1 respectively.[17] The relative superiority which the central provinces possess in manufacturing capacity is thus accompanied by a similarly advanced degree of development in the prime materials sector (see Table 11.2).

Although offset by provincial per capita comparisons, the development of the metallic, non-metallic and structural mineral industries in Ontario and Quebec is more advanced than any other province or region. Ontario alone accounts for about 40% of total Canadian production in metals making the province the leading Canadian producer. "In fact", commented the Financial Post, "no other province comes remotely close".[18]

TABLE 11.2: MINERAL PRODUCTION BY PROVINCE, EXCLUDING FUELS, 1970
(in $000)

Province	Value of Production	% of total
Newfoundland	353,260	8.8
Prince Edward Island	640	---
Nova Scotia	36,322	.9
New Brunswick	101,704	2.5
Quebec	803,262	20.0
Ontario	1,583,711	39.5
Manitoba	317,356	7.9
Saskatchewan	161,980	4.0
Alberta	70,001	1.7
British Columbia	364,942	9.1
Yukon & N.W.T.	211,325	5.3
Total	4,004,503	99.7

Source: Tables 12.6 and 12.7, Canada Year Book 1973, p. 550

The impact of the mineral industry on the overall balance of inter-regional exchange is suggestively summarized by the estimate of Statistics Canada that in 1970 Canada exported 90% of its total output of raw minerals and fabricated mineral production,[19] most of this to the U.S. Net inter-regional exchange in primary mineral production is, consequently, almost negligible since most of Canadian production, regardless of regional origin, is destined for the export market. Although statistics are not available on (net) inter-provincial exchange in minerals, it seems certain that whatever inter-regional exchange occurs will not seriously disadvantage the central provinces, if it does so at all.

b) Petroleum

The petroleum industry is one of the few major industries in Canada whose products move from hinterland provinces to markets in Central Canada. Significantly, the provinces in which the oil industry is primarily located -- Alberta, Saskatchewan and British Columbia -- have recently been able to capitalize upon this resource to effect a more balanced distribution of national resources. In 1972, Alberta accounted for 83% of total oil and gas production, Saskatchewan for 11% and British Columbia for 5%, with the remaining 7 provin-

ces together producing the balance of one per cent.[20]

The economic significance of this regional incidence of petroleum resources resides in the fact that western oil is able to serve as an effective counter-balance against the ongoing 'exploitation' of the West by eastern Canadian commercial and manufacturing interests. The origins of this exchange counterbalance derive from the importance of Western petroleum in the context of both the domestic and international oil trade. Internally, the Western provinces, particularly Alberta, have been the major suppliers of oil and gas to points in Canada lying west of the Ottawa valley. Thus, although Quebec and the Maritimes have been linked to imported supplies from Venezuela, Ontario has provided a large market for Western oil. Within the international context, the export of Western oil to the United States has provided the government of these provinces with royalty revenues which help strengthen the economies of the Western provinces within Confederation. The fact that Western Canada exports approximately 50 to 60 per cent of its total petroleum production to the United States[21] provides the region with strong and somewhat independent economic leverage, a leverage visibly absent in the Atlantic region.

Oil is, consequently, one of the few examples of a resource the exploitation of which has been of sufficient significance to offset and overcome the effect of adverse internal trade balances in manufactures experienced by hinterland provinces. The relative strengthening of the Albertan economy since the 1930's, when its government was on the brink of bankruptcy, is in fact a direct consequence of its ability to utilize earnings of foreign and domestic trade in oil to compensate for the structural discrimination historically experienced in its exchange relations with central Canada.

There is evidence also that the Canadian government will in future extend internal trade in petroleum by opening the Quebec and Maritime markets for Western oil. In December, 1973, the federal government announced plans involving the extension of the Trans-Continental Pipeline to Montreal and

the creation of a National Petroleum Company to finance exploration and the development of Canadian petroleum resources. Faced with escalating prices for imported crude, the federal government has apparently decided to reduce its reliance on foreign sources by extending internal trade in this commodity.

The Terms of Exchange

It is difficult however, to predict the effects on the Western oil economy (and the balance of inter-regional exchange) that such a change in federal energy policy would have. For although the extension of the pipeline into the east would increase the volume of inter-provincial trade in petroleum, its effect on inter-regional trade balance depends exclusively on the terms of this exchange.

Historically, the Western provinces have provided central Canada, that is Ontario, with a cheap supply of oil.[22] Before the recent price escalations, Time magazine in January, 1974 estimated that Albertan oil reached Ontario at a price of $4.50 per bbl. compared with a price of $6.50 per bbl. paid for imported oil in the Maritimes and Quebec.[23]

With international prices now well over $11 per bbl, the present domestic price of $6.50 per bbl. (soon to be raised to $8.50) is indeed an "oil bargain", not only for Ontario which presently uses Western oil, but for Quebec and the Atlantic provinces as well whose petroleum consumption is presently subsidized with federal revenues derived from taxes on Canadian oil exports

The important consideration is thus the terms of exchange in the internal petroleum trade. At the present time, Canada's 'one-price policy' for domestic oil operates as an indirect appropriation of western resources in the interests of central and eastern consumers. Although Alberta, Saskatchewan and British Columbia continue to benefit from increased royalties, both from foreign and domestic oil sales, the size of these increased royalties bears little relation to the potential benefits -- given present international oil prices and

increased world demand.

But the volume and direct price of oil are only two factors that influence the terms of exchange in domestic petroleum. Even more important is the question of taxation powers, ownership and control over natural resources. As is well known, the recent escalation of world oil prices has evoked a sharp conflict between producing provinces and the federal government over the right to tax and retain royalty benefits on exported oil. In an unprecedented effort to gain control over petroleum revenues, the federal government in early 1974 introduced legislation which imposed a federal export tax on oil -- an indirect violation of the constitutional rights of provinces to control natural resources and resource revenues. This offensive is, today, the most visible indication of the federal government's intention to undermine the power of the western provinces by decreasing their revenue base and subordinating their natural resources to federal policy and federal jurisdictional domain.

In addition to the question of who benefits from the sale of western oil to export markets, there remains also the problem of who benefits from the internal trade in oil and petroleum products. In concrete terms, exchange relations between the provinces depend very little upon the domestic price of petroleum although this remains the international market standard in relation to which subsidization of the consuming provinces exists. Whether domestic oil prices remain below international prices to provide competitive advantage for Canadian industry or whether the federal government bows to the pressures of the oil companies to raise domestic prices (and oil company profits), the fundamental question in terms of inter-regional balance depends upon the resolution of the present conflict over oil revenues.

Paradoxically, the rhetoric of the federal government now states the necessity to consciously balance provincial government revenues and "distortions" in these bought about by increased oil revenues. No such rationale has ever been utilized in relation to inter-provincial imbalances resulting from indus-

trial differentials and the tariff. This fact alone should lead to critical questioning of the motives of the federal government in its attempt to "equalize" provincial wealth by attacking the constitutional powers of the provinces. The character of the present federal government given its regional basis of support and its intimate identification with industrial and commercial interests of central Canada is also brought into question. These questions will again be considered in a later chapter.

c) Agriculture

The background for an analysis of the role of agriculture in Canadian development and its relation to inter-regional exchange has already been outlined, albeit sketchily, in previous chapters. Unlike the mining and petroleum industries which were developed by mostly foreign capital and rapidly monopolized, the agricultural sector has historically been divided, competitive and resistant to monopoly penetration. The initial settlement and political absorption of the prairie provinces was, in fact, predicated upon the infusion of small-scale agricultural producers into the Western territories.

The importance of agriculture to the early development of the Canadian economy is attested to by the fact that the representatives of Capital who framed the Canadian constitution invested ultimate authority over agricultural policy in the federal state apparatus. From the beginning, the development of "Great Wheat Belt"[24] of Western Canada was key to the strategy of the central Canadian business establishment. The history of the agricultural sector in the West (and in other regions for that matter) has more or less evolved within the subordinated framework in which it was formed and for which the federal state apparatus is immediately responsible.

Like most other primary industries in Canada, the agricultural sector has been beset by problems resulting from the operation of the protective tariff. Higher overall costs for machinery and other manufactured items com-

prised the basis of this discrimination. There is, however, little need to dwell upon the increased costs of production in the agricultural sector which result from the tariff. The important consideration at this point is the relation of the agricultural sector to other sectors of the economy and the regional incidence and significance of this relationship.

While the exchange approach points to the necessity of arriving at a determination of trade imbalances between regionally differentiated industrial sectors, (and regions themselves), it is, in fact, impossible to gauge accurately the net effects of internal agricultural trade on the overall balance of inter-regional exchange. Unfortunately, no statistical data on inter-provincial agricultural trade is available, although Statistics Canada does produce data on regional production and average consumption levels.[25] In the absence of such data, it is necessary to rely upon what, in many ways, is an approximate and speculative determination of the directionality and magnitude of this trade, and its importance for inter-regional exchange balance.

Utilizing available information on regional/provincial production of agricultural goods, and comparing this with population estimates, it is possible to arrive at an estimate of per capita agricultural production as shown in Table 11.3.

TABLE 11.3: PER CAPITA INCOME FROM FARMING OPERATIONS BY PROVINCE, 1973

Province	Cash receipts from farming $	Population	Est. per capita production $
P.E.I.	72,002	113,000	637
Nova Scotia	94,692	794,000	119
New Brunswick	95,571	642,000	148
Quebec	962,358	6,059,000	158
Ontario	1,947,551	7,825,000	248
Manitoba	661,642	992,000	616
Saskatchewan	1,435,534	916,000	1,567
Alberta	1,193,241	1,655,000	720
British Columbia	316,648	2,247,000	140

Source: Farm Cash Receipts, 1973, Statistics Canada, Agricultural Division, Ottawa, 1974, p.5; Canada Year Book 1973, Ottawa, 1974 Table 5.6

The accompanying Table shows clearly that on a per capita basis the three prairie provinces are Canada's leading agricultural producers followed by Prince Edward Island, Ontario and the other provinces. But while this determination may clarify the regional distribution of the agricultural industry, it clearly does not indicate the importance of agriculture in Canada's internal trade.

In the absence of more complete data, it is, in fact, impossible to determine the effect of agricultural trade on Canada's internal exchange balance. In the last decade, about 50% of total Canadian agricultural production has been exported to other countries, most of this originating in the prairie provinces.[26] Thus, while it is clear that Manitoba, Saskatchewan and Alberta are Canada's leading agricultural provinces (on a per capita basis), since the majority of their products are exported, the extent of their agricultural trade with Central Canada remains unclear. There can be little doubt that trade in agricultural goods favours the prairies region over the central provinces. But while the direction of this trade may favour the West, the size of the agriculture sector and the magnitude of agricultural trade, as will be presently shown, make it much less important than trade in manufactures.

Decline of the Agriculture Sector

Relative to other major industrial categories, the overall importance of the agricultural sector has been diminishing over the last forty years. This is shown clearly in the decline of agricultural commodities as a component of Canada's export trade.

Where once agricultural goods were Canada's major source of export earnings and the mainstay of its staple economy, agricultural production has been eclipsed by the growth of manufacturing and other primary sectors. In 1967, for example, the production of minerals exceeded for the first time the value of agricultural production.[27] This shift in the composition of Canada's export

trade and the decline of the agriculture sector corresponds to the growth of complimentary trade patterns between Canada and the U.S., and reflects directly the importance of the U.S. in shaping Canadian development.

TABLE 11.4: AGRICULTURAL PRODUCTS IN CANADIAN EXPORT TRADE 1869 - 1970

Year	Value of agricultural-animal products (000)	Total Trade (000)	% Agricultural
1869	22,642	56,257	40.2%
1879	47,975	70,787	67.7%
1889	49,880	87,211	57.1%
1899	97,990	154,881	63.3%
1914	288,001	455,437	63.2%
1926	730,580	1,260,880	57.9%
1936	457,257	2,047,207	25.0%
1946	914,484	2,312,215	32.2%
1952	1,403,747	4,301,080	32.6%
1960	1,142,428	5,255,575	21.7%
1970	2,100,000	16,401,000	12.0%

Source: M.C. Urquhart and K.A.H. Buckley, Historical Statistics of Canada, Series: F246-269; F298-315; and Canada Year Book 1973, Tables 18.1 and 18.6

More important however has been the growth of Canadian manufacturing whose size today dwarfs that of the agriculture sector. In 1971, total production in manufacturing was $49.1 billion compared with $4.5 billion in agriculture.[28] This historical decline of agriculture (in relation to other primary industries and manufacturing) translates itself, in regional terms, into a decline of the economic power of the prairie West in its relation to Central Canada.

Even within the agriculture sector itself, the prairie provinces in recent years have experienced a gradual, if small, decline in relation to other Canadian provinces. Between 1967 and 1971, for example, the net value of agricultural production on the prairies experienced an absolute decline whereas agricultural output of the remaining seven provinces increased.[29] This development reflects not merely the effects of low international prices during this period, but the conscious efforts of other provinces to increase their agricultural

production and reduce their internal trade reliance on prairie agricultural goods.

Consistent with their efforts to attract industrial capital and promote industrial growth, provincial governments in all provinces have initiated programs to expand agricultural production and encourage agricultural diversification. The province of Quebec, for example, which is the major domestic purchaser of Western feed grains, presently operates a program aimed at self-sufficiency in cereals which has enabled it to significantly reduce its consumption of Western grains.[30] More generally, the governments of all provinces, in efforts to stabilize prices and protect regional producers, have established marketing agencies and diversification programs covering a number of agricultural lines.

Underlying this trend, as shown by the recent "chicken and egg" war,[31] is a tendency toward the consolidation of regional agricultural markets and the restriction (if not legislative regulation) of inter-provincial movements of agricultural goods. Although formal provincial 'import' restrictions have been ruled unconstitutional by the Supreme Court (in Manitoba's challenge of its own egg marketing legislation), the continuing existence of provincial marketing agencies and diversification programs confirms the presence of intensified inter-provincial competition in the agricultural sector.

Two immediate considerations are thus important in evaluating the impact of the agricultural sector on Canada's internal trade balance. The first involves the recognition that, although the prairie provinces undoubtedly enjoy a favourable internal trade balance in agriculture, the comparative size of the manufacturing and agriculture sectors renders internal trade in agricultural commodities significantly less important than exchange in manufactures in determining the overall internal trade balance of the provinces. The second is the indisputable relative decline of the agricultural sector and, relatedly, the drive for regional self-sufficiency in agriculture, both of which tend to les-

sen the ability of the prairie provinces to transact favourable domestic exchange in agricultural products.

The Terms of Exchange

Again, however, as in the case of trade in manufactures and petroleum, the important consideration is not the magnitude or volume of inter-provincial trade, but the terms and conditions upon which this exchange occurs. Western agrarian interests have long emphasized that certain aspects of federal agricultural policies operate against the interests of the farming sector and tend to discriminate, specifically, against the west. The basis of discrimination in this context is not however simply regional, but involves also a clear inter-class conflict both historically and today.

Given the relatively competitive nature of the agricultural producing sector, agricultural producers have been unable to exert little individual influence over market conditions. (This characterization would not apply to specialized producers and certainly not to processors of agricultural goods). Competitiveness and individualization lie at the heart of the problems of the agricultural sector today as in the past. Earlier chapters have drawn attention to the collective efforts of Western and Ontario farmers to modify the terms of exchange between themselves and their exchange "partners" -- the elevator companies, railways, and banks. Wheat pools, co-operatives, credit unions, farmers unions, and eventually the Progressive movement of the 1920's and the populist movements of the 1930's grew directly out of the conditions experienced by Canada's farmers.

Out of this collective activity have emerged certain relative improvements for agricultural producers. The reintroduction of the Canadian Wheat Board in 1935, for example, provided a measure of price support and orderly marketing for prairie grain much demanded by western farmers. Progressive alterations in provincial government policy over the last 50 years have like-

wise tended to benefit farmers, although there is danger of overemphasizing this point.

Despite some improvements (a list would include provincial support for co-operatives, a degree of government intervention in tertiary activities, provincial marketing agencies, etc.) the agricultural sector has remained under the sometimes protective, often domineering wing of the federal government. Federal policy, in any case, has seldom served the economic interests of farmers, except when these coincide with the interests of dominant capitalist sectors.

In response to depressed and declining economic perspectives in the agricultural sector, the federal government (in an attempt to bolster production and/or support prices) has undertaken such measures as establishing/introducing the Wheat Board in 1919 (and again in 1935), the Prairie Farm Rehabilitation Act in 1935, the Prairie Farm Assistance Act in 1939, the Agricultural Prices Support Act of 1944, the Agricultural Products Board of 1951, the Prairie Grain Advance Payments Act of 1957, the Agricultural Stabilization Act of 1958, the Crop Assistance Act of 1959, the Farm Credit Corporation of 1959, the Livestock Feed Assistance Act of 1967, the Canada Dairy Commission Act of 1967, the Farm Improvement Loans Act of 1970, to name but a few.

The total list reads like a veritable grab bag of piecemeal palliatives and ill-conceived 'solutions', the classic example of which was the Lower Inventories For Tomorrow (LIFT) program of 1970. These, however, were measures designed (ostensibly at least) to bolster the agricultural economy. Later-day initiatives in federal policy have been motivated by quite opposite concerns, as the recent decision regarding the Wheat Board starkly illustrates.

When established in 1935, (the severe conditions under which it was established have previously been discussed in Chapter IX), the Canadian Wheat Board was mandated with the responsibility of "marketing in an orderly man-

ner, in inter-provincial and export trade, grain grown in Canada". Under the term of its incorporation, the Wheat Board was given exclusive jurisdiction in the marketing of wheat, barley and oats throughout Canada. In 1974 however, the Liberal government in power in Ottawa apparently decided that "orderly marketing" was no longer necessary in the feed grain trade and proceeded to open the trade in barley, oats and feed wheat to the free market.

In taking the marketing of feed grains out of the jurisdiction of the Canadian Wheat Board, the federal government has exposed prairie farmers to "free" market forces which, historically, have meant nothing but open exploitation at the hands of the grain companies and commodity speculators. Through a deliberate policy of quota regulation and depressed initial prices, Wheat Board policy (set by the Federal Cabinet through Orders-in-Council) has acted to force grain producers to sell on the open market at prices "demonstratably lower" than those available in the regulated trade.[32]

At first glance, this shift in government policy regarding the marketing of feed grains may present itself as a relatively unimportant development in terms of the total Canadian economy. Indeed, judging from its coverage and commentary in the capitalist press, one would question its importance at all! In fact, however, this shift in policy is fundamentally important from the perspective of inter-class conflict and, secondly, from the perspective of regional balance.

The agricultural sector in Canada, as stated, has undergone a relative decline during the last forty years. During the five year period between 1967 and 1971, this historical decline was accentuated by an absolute stagnation in agricultural growth. Unadjusted cash receipts from farming operations during these five years rose less than .03 per cent compared with an increase in the GNP of over 21 per cent.[33]

Beginning in 1971, however, escalating world prices for food stuffs has reversed this trend bringing about an absolute and relative improvement in economic prospects for the agricultural sector. Between 1971 and 1974 unadjusted cash receipts for farming operations have jumped from $4.5 to $8.4 billion, a rise of nearly 100 per cent (see Table 11.5).

TABLE 11.5: CASH RECEIPTS FROM FARMING OPERATIONS, BY YEAR

Year	Unadjusted cash receipts $ 000,000
1967	4,376
1968	4,356
1969	4,189
1970	4,138
1971	4,494
1972	5,386
1973	6,729
1974	8,430

Source: Farm Cash Receipts 1973, Statistics Canada, Agricultural Division, Ottawa, 1974, p.5; Canada Year Book 1973, Ottawa, 1974, Table 11.1, p. 494; 1974 estimates by Statistics Canada, Brandon Sun, Feb. 14, 1975

It is in the context of this relative increase in agricultural prices that the federal offensive towards the feed grains marketing structure must be seen.

Just as increased oil prices and larger oil royalties prompted a federal offensive aimed at gaining control over Western oil revenues, so, too, have recent world price increases in wheat and grain (and the relative strengthening of the agricultural economy) brought about a shift in federal agricultural policy, the underlying basis of which is an attempt to undermine and subordinate the resources of the agricultural sector, which, in regional terms, means the West. This offensive against agricultural producers is not, of course, purely regional -- although the conflict is not without a regional component given the structural inter-relation between the commodity exchanges, grain com-

panies and the central Canadian financial establishment. Most basically, the issue reduces itself to one of inter-class conflict. Its essence is the struggle between two social classes, the farmers and the monopolized financial sector, both of which seek to gain a larger share in the agricultural wealth brought about by increased international demand and favourable domestic conditions in the agricultural sector.

That this offensive against prairie agricultural wealth has been launched at a time when foreign trade earnings in the agricultural sector are increasing is no mere coincidence. Similar circumstances in 1921 saw the Wheat Board dissolved. In the context of high world demand, the present offensive against the Wheat Board reflects, on the one hand, the existence of new possibilities for intensified exploitation of the prairie agricultural economy by finance capital, and, on the other hand, a deliberate political strategy designed to undermine hinterland autonomy and subordinate Canada's regional resources to the central Canadian capitalist establishment and the federal government.

(C) INTER-REGIONAL EXCHANGE AND THE TRANSPORTATION SECTOR

Exchange imbalance develops principally through the inter-provincial transfer and movement of commodities. But activities in the "service sector" -- transportation, merchandising, and banking, etc. -- are also important mechanisms in the inter-regional economic relationship. Transportation is a particularly important component of this relationship, because the transportation sector functions, not merely as a medium of inter-regional exchange, but as a mechanism effecting its terms.

Historically, inter-provincial transportation in Canada has been dominated by railways. The expansion of rail facilities in post-Confederation Canada was, in fact, a key component of the strategy for national unification, the National Policy. In light of the importance of rail transport in Canadian development, the present discussion on the transportation sector will focus upon

the railways.

i) The Development of the Rail System

The impetus for the development of rail facilities in Canada came from Central Canadian financial interests who sought to consolidate the political victory of 1867 by integrating the isolated regional economies. The expansion of rail facilities into the West was designed to connect and develop the Western economy in the interests of Canadian and British financiers who controlled the railways and hoped to direct economic expansion in the West. In a similar manner, the expansion of the rail connection between central Canada and the Maritimes served to consolidate the hold of central Canadian capital over commercial interests, in the Atlantic provinces. The expansion of rail facilities, furthermore, strengthened the manufacturing sector in the Central provinces, making possible a concentration of industrial resources in Central Canada.

The all-Canadian transportation system thus served two complementary functions. It functioned as a medium for the transport of hinterland (initially, agricultural) produce to foreign markets and, secondly, as a conduit to facilitate the consolidation/development of a domestic market in manufactures.

Because of the strategic importance of the rail system, and the initial nonprofitability of rail transportation, the Canadian state completely underwrote the costs of rail development. Private capital retained control over the rail system, but the "risks" were offset by land grants, cash and operating subsidies, and state guarantees of profitability (see Chapter V, p. 50). The railways, consequently, were given almost complete reign over their own development, and in the absence of state regulation, imposed a freight rate structure which heavily discriminated against outlying provinces.

Despite widespread opposition to high freight rates from Western and Maritime interests, it was not until the 1896 election of the Liberal govern-

ment of Laurier that any attempt was made to regulate the rate structure. Under the pressure of its regional constituency, the Liberal government in 1897 negotiated the Crows Nest Pass rates with the C.P.R., which reduced freight rates on the Prairies. In 1903, the Railway Act was passed which established the predecessor of the Canadian Transport Commission. Even then, no attempt was made to formalize a rate structure until 1925, when, under pressure from the Progressives, freight rates were made statutory.[34]

ii) Freight Rates

Before proceeding to examine the Canadian freight rate structure, it is important to emphasize that, insofar as inter-regional conflict is concerned, the role of the railways cannot really be reduced to a consideration of freight rates and resulting transportation costs. Involved too, as recent events have shown, are important questions concerning the operation of branch lines, capitalization in outlying areas and the quality of service in different regions. The question of freight rates is, however, central to an understanding of the role of the transportation sector in the maintenance of regional disparity and the directionality of inter-regional exchange. The historical centrality of the freight rate issue provides additional justification for our concentration on this question.

Historically, the freight rates question has been an important regional economic issue. In earlier chapters, repeated reference was made to the attempts of regional interest groups and provincial governments to affect changes in freight rates as they affect the economies of Canada's hinterland regions. Underlying these attempts has been a recognition that the costs of transportation in Canada are unequally distributed to the disadvantage of under-industrialized regions, between and within the Canadian provinces.

The earliest organization of the farmers in the West focussed directly upon this issue and won a moderate victory in 1897 when the Liberal government

negotiated the Crow's Nest Pass rates. In return for a land grant, a continuing subsidy, and permission to build a route through the Crow's Nest Pass, the C.P.R. agreed to a reduction of rates on prairie wheat and flour moving east and, certain manufactured commodities moving from central Canada to the west. (In 1925, the lower rates on commodities moving westward were cancelled).[35] A similar reduction was enacted in 1927 with the passage of the Maritime Freight Rates Act which provided for subsidized freight movement in and out of the Atlantic region. Introduced at the zenith of the Maritime Rights Movement, this measure provided for increased government subsidization of the railways in return for a general reduction of 20% on Maritime freight rates.

Not withstanding the fact that legislation reducing the regional incidence of transportation costs in Canada has brought about relative improvement for regional economies in the West and Atlantic provinces, an overwhelming body of evidence suggests that the resultant rate structures have continued to discriminate against the outlying regions. This fact was acknowledged by the McPherson Royal Commission on Transportation (1961) whose report stated:

> The regions where competition is weakest (i.e., where the historical domination of the rail monopoly is strongest, the under-industrialized regions--K.C.) are being called upon to pay a larger and larger share of the revenues required to cover railway costs.[36]

This conclusion corresponds with the arguments of the under-industrialized provinces that the discriminatory practises of the railways are contributing to the maintenance of regional disparity.

Admittedly, a problem arises when attempting to define the meaning of the term "discriminatory" as it applies to freight rates. In its most common usage, the term has been used to designate instances in which freight rates are arbitrarily structured so as to produce artificial cost differentials between classes of good shipped, or between various points of origin and destination. Discrimination, in this usage, refers to cases in which freight rates do not con-

form to relative real costs, but reflect the influence of artificial and arbitrary price setting practises. The existence of this type of discrimination is a well documented fact, which has been demonstrated in literally thousands of instances (see for example the briefs presented to both the Turgeon and MacPherson Royal Commissions). Discrimination, in this sense, stems from what Premier Schreyer of Manitoba has termed the "unacceptable . . . capricious evaluation of non-competitive rates"[37] by the rail companies.

More generally, however, the Canadian freight rate structure reflects a deeper type of discrimination which exists because of the nature of the larger economic structure in which the railways operate. In a country such as Canada (in which inter-regional trade produces an overwhelming exchange imbalance) transportation cost structures (even if they are nominally "non-discriminatory", that is, based on relative cost calculations) inevitably operate to the disadvantage of less industrialized regions. Outlying provinces such as Nova Scotia or Saskatchewan, already faced with the necessity of purchasing a majority of their manufactures from central Canada, incur, in addition to an inevitable adverse internal trade balance, increased costs as a result of the transportation overhead on their "imported" goods. Insofar as transportation costs are reflected in the costs of manufactured items, their effect is to increase the costs of manufactured goods in net consuming regions and exacerbate existing disparities.

iii) Railways and Regional Development

Freight rates constitute variable overhead costs which, in combination with other factors, determine the location of secondary industry. In Canada, transportation costs operate to foster the concentration of secondary industry in Central Canada and to inhibit industrial development in resource-producing regions. The fact that the volume costs of transporting raw materials and unprocessed agricultural products (e.g. livestock, feed grains) are lower than

the costs of transporting finished/manufactured goods tends to favour industrial development in metropolitan areas (having larger markets, labour force and a developed infrastructure) rather than in the producing region. (The feed lot, meat processing and petrochemical industries illustrate this tendency).

Thus while low transportation costs on primary materials enhance the competitive position of out-of-region primary materials (thereby, in the immediate term, benefiting the producing regions), these low costs, also, operate to sustain the underdevelopment of certain regions and the concentration of industrial facilities in others (which, in the long term, exacerbates regional differences and the magnitude of trade imbalance).

Freight rate structures and transportation policy are not, of course, the major cause of inter-regional industrial differentials. The operation of cost-based freight rate structures (not to mention overtly discriminatory rates) does however contribute to the maintenance of inter-regional disparity. Functioning within a larger economic framework in which the net inter-regional exchange relationship favours central Canadian industry, transportation practises (and federal allowance/encouragement of these practises) merely sustain and reinforce the pattern of exchange imbalance between disparate regions.

This of course suggests an inseparable relationship between the costs of the tariff and the costs of transportation. It is here that the influence of external trade policy and internal transportation policy converge. The economic consequences of this convergence operate as a burden on the outlying under-industrialized provinces, whose internal trade reliance in manufactures subjects them to disproportionate transportation costs as well.

iv) Transportation Policy Today

Federal transportation policy today reflects two basically opposing sets of priorities, which derive from conflicting demands placed upon the federal

power. While the major objective of transportation policy continues to be (in the words of the MacPherson Commission, 1961) that of helping "the railways find their proper role in the present competitive transportation environment",[38] the federal government has come under increasing pressure from the provinces to utilize transportation policy to reduce regional disparity. Responding to the latter of these priorities, the federal Minister of Transport, Mr. Jean Marchand, has recently stated:

> . . . you can not have a transportation network that is everywhere economic . . . we should have the power to define national objectives . . . .[39]

In keeping with this goal, the federal government has increased the level of subsidization under the Maritime Freight Rates Act to 50%.

Granting that increased subsidization of transportation is directed to symptoms and not the problem itself (in the words of the Economist: "a subsidy is misplaced in that it does not tackle any other important problem associated with a depressed region"),[40] it must be recognized that increased subsidization tends to ameliorate the effects of a structured exchange imbalance and interregional industrial differentials.

But despite increased subsidization of Atlantic freight movements and official acknowledgement that transportation policy should conform to "national objectives", federal policy continues to reflect the interests of the railroads. Alongside recurrent suggestions from federal officials that Crow's Nest Pass rates on grain should be discontinued, the federal government has recently undertaken to support the effort of the railroads to effect a 25% escalation of freight rates country wide. The railways, in their efforts to obtain such an increase, have been aided by the federal Justice Department which recently initiated court action against the decision of the federal Canadian Transport Commission to allow only half of this increase.

In this instance, the actions of the federal government would appear to be directed towards making Canada's regions (and the Western economy in parti-

cular) bear an increased share of transportation costs, and secondly towards bolstering the position of the railways whose profits are, in any case, already guaranteed by state subsidies. Despite arguments from the provinces that the general rate increase "is inequitable to the west and saddles us with a disproportionate amount of the increased burden"[41] and that the increase "will have far reaching effects on the regional economies of all provinces",[42] the federal government appears to have considered the railways and its own internal fiscal priorities before the requirements and the demands of the Maritime and Western provinces.

Federal transportation policy thus reflects the influences of contradictory economic interests which, as it happens, are expressed in opposing positions of different agencies within the state itself. This visible conflict between the Transport Commission and the Justice Department moreover, conceals equally serious conflicts that inevitably must arise between and within such agencies as the Department of Regional Economic Expansion and the federal Department of Agriculture.

The significance of these conflicts (which to some degree parallel conflicts between the provinces of the federal government over freight rates) resides in the differing functions and priorities of different government departments, which in turn reflect the struggle of competing economic forces to affect changes in the terms of inter-regional exchange. That such conflict arises in the area of transportation policy testifies to the important role that the transportation sector plays in determining the balance of this exchange.

(D) THE REGIONAL EXCHANGE RELATIONSHIP IN OVERVIEW

Ideally, a comprehensive study of regional imbalance would involve an analysis of all aspects of the exchange relationship between Canada's provinces and regional economic units. Such a "political economy" of Canadian

federalism would not limit itself to any one area, such as inter-governmental fiscal relations (as does a mistitled article by Professor D.V. Smiley)[43], or a mere description of the characteristics of regional economies (as numerous studies by the Economic Council of Canada and academic researchers have done).[44] It would necessarily involve an attempt to understand the relationship between regional economies, the characteristic features of exchange relations between these units, and the historical context in which these relations have developed.

Unfortunately, there have been few attempts at such a study, and, in several very important areas, the necessary statistical information for an empirical analysis of this nature is simply not available. Gaps in official record keeping in some areas are indeed so vast that it is difficult, if not impossible, to accurately assess the impact of key factors on inter-regional exchange. The absence of statistical information on the inter-provincial movement of primary materials (see Section B) is merely illustrative of the practical difficulties that confront such a study at the present time.

Despite these limitations -- which will be discussed recurrently throughout this section -- it is nonetheless possible to obtain a general picture, an overview, of the exchange dynamic as it operates within the Canadian economy.

Major Features of the Inter-Regional Exchange Relationship - A Summary

The terms and conditions of inter-regional exchange within Canada were initially established, and have evolved out of discriminatory trade, commercial and transportation policies introduced during the first decades of Canada's history. (1) Fundamental in this connection was the establishment of a protected domestic market in manufactures and the pattern of "Metropolis-Hinterland" trade it facilitated. Central to this process is the role of the National Policy in determining the pattern of industrial development in Canada and in creating an inter-regional exchange relationship strongly weighted in

favour of central Canadian industry. The outlines of this relationship were presented in Section A above.

But, inter-regional exchange imbalance (and regional disparity) is not explicable solely in terms of domestic flows in manufactured goods, or the regional concentration of Canadian secondary industry. (2) A more indirect component of Regional imbalance resides in the impact that the tariff and other federal policies have exerted on the development and terms of exchange in the primary sector. In simplest terms, this has involved higher costs of production and higher living costs resulting from higher costs of manufactured items. As shown in Section B, federal control over trade, agricultural and energy policy has additionally discriminated against producing regions. (3) Other areas of federal policy -- such as transportation policy -- have reinforced and contributed to these higher costs, and hence to regional imbalance (see Section C).

The Role of the Banks

(4) To trade and transportation policy must be added the effects of Canadian banking policy which, thus far, has received only incidental consideration in this study. The Toronto and Montreal based chartered banks which comprise the Canadian financial cartel[45] (-- there are ten Canadian chartered banks, five of which control over ninety per cent of the total assets of $61 billion in 1972, see Appendix D--) have played a central role in Canadian economic development and have done so with little visible concern for balanced regional growth. At present, the federal Bank Act protects the financial sector by requiring potential competitors to obtain a federal charter, and by preventing provincial governments from engaging in banking activities.

Unfortunately, it is not possible to explore in any depth the activities of the banks. Apart from the obvious fact that the banking system (and Canadian banking policy) is controlled from Toronto and Montreal, and that major capital investments have occurred in southern Ontario and Quebec, there exists virtually no data on inter-provincial flows of capital, much less anything approaching a

statistical analysis of the role of these flows in shaping Canadian development. Information in this area, moreover, is infinitely more difficult to obtain than data on the inter-provincial movement of goods.

The secrecy in which private financial transactions occur (and the obvious interests of the banks in maintaining this state of affairs) render a documented general analysis of the role of finance capital in shaping regional development well nigh impossible at this point. This of course does not suggest that the activities of the banks are invisible, for, indirectly, they are as visible as the fact of regional disparity itself. The concentration of industrial manufacturing in central Canada demonstrates clearly where the most profitable areas for investment have been and where the largest portion of private capital has been directed.

But in historical terms, the picture is by no means as simple as present appearances might indicate. Apart from the all-important role of foreign capital in Canadian development (see Appendix A) the history of Canada suggests that inter-provincial transfers of indigenous capital have been a crucial component of Canadian growth. It is today widely accepted that the opening of the western territories in the 1870's and 1880's was achieved through the transfer of capital from Central Canada and the Maritimes into the West. Once secured, the Western provinces became an important source of capital for the development of industry in Central Canada.

The transfer of Western resources to Central Canada was not, of course, purely the consequence of banking policy or the operation of the banks, for, indeed, the tariff, railways and commodity exchanges have been equally important transfer mechanisms.

But, the record of the banking sector itself is no less impressive than that of the tariff. As the four Western provinces observed in their joint submission to the Western Economic Opportunities Conference (July, 1973):

> The high concentration of business and industry in southern Ontario and southern Quebec has attracted the disproportionate amount of investment funds . . . . The chartered banks stimulation of development of central Canada appears to have been done at the expense of other regions of Canada. By mobilizing western Canada savings and transferring them to central Canada, the banks, in effect, have reduced the development potential of the west. [46]

In combination with other mechanisms, banking practices and policy have been instrumental in transferring capital from the Atlantic and western provinces into central Canada, and, in doing so, structuring the conditions for inter-regional exchange imbalance.

Internal Balance, Natural Resources and International Trade

The inter-regional balance of Canadian federalism is not dependent solely upon exchange relations within the domestic economy. International trade, especially that of the primary industrial sector, is an important source of Canadian wealth and a major factor in determining the economic position of regional economies and provincial governments. In examining the primary sector in previous sections, it was stated that (with the exception of internal trade in petroleum) the scale of domestic exchange in the primary sector is demonstratively insufficient to offset internal exchange imbalances which result from trade in manufacturers.

The fact that Ontario and Quebec themselves have an abundance of many primary materials and developed resource industries (including forest products, asbestos, copper, gold, nickel, platinum, zinc and structural materials, as well as agriculture) minimizes the ability of other provinces to act as suppliers of these products to the central provinces. The outward flow of finished goods is, consequently, not evenly balanced by the flow of primary materials to the center.

The export of primary materials to foreign markets is, however, an im-

portant component of regional growth and strength. Indeed, to the degree that any province or region has been able to overcome the effect of discriminatory structures as established under the National Policy, this has been accomplished principally through a somewhat autonomous development of the region's natural resources. British Columbia, and more recently, Alberta, fall within this category as examples of two prosperous provinces whose economic strength derives principally from their primary resources and export trade.

It is important to recognize that in their relations with central Canada, both British Columbia and Alberta experience significant trade deficits, as do all other provinces. The value of manufactured goods shipped West from Ontario in 1967 was six times larger than British Columbia's exports, and eight times larger than Alberta's manufactured exports to Ontario (see Section A).

The economies of these provinces likewise are subject to the control of the central Canadian commercial establishment which controls Canadian monetary policy, credit supply, etc. Significantly, one of the principal grievances of local capitalists and farmers in these provinces -- from Aberhart's attempts at radical monetary reform to Premier Bennett's tussel with the federal government over provincial participation in the Bank of British Columbia -- has been in the area of banking policy, and central Canadian control over the banking system.

The comparative wealth that British Columbia and Alberta presently enjoy, consequently, has not resulted from the lack of discrimination from central Canadian business and the federal government; but, rather, has resulted from the role of natural resources in overcoming the adverse internal trade positions of these provinces and in the relative independence of their principal economic activities from those of the central Canadian bourgeoisie. In the case of Alberta, this "independence" is of course little more than a dependence upon the petroleum multi-nationals and the importance of its export

trade with the United States. In British Columbia's case, this "autonomy" likewise is achieved via the integration of its U.S.-owned natural resource industries -- forestry and mining -- with the U.S. market. The existence of these external markets operates to strengthen the regional economy and counteract the effects of discriminatory national policy and an adverse internal trade balance. As the government of British Columbia recognized some time ago, "it is with dollars secured from foreign trade that B.C. pays for goods imported in central Canada".[47]

In Chapter V, it was stated that, in historical terms, an immediate cause of regional disparity and imbalance was the inability of regional economies to derive sufficient earnings in international trade in the primary sector to offset a deficit in internal trade in manufactures. Although the post-war development of the mineral, forest products, petroleum (and just recently agricultural) industries have combined to strengthen the positions of regional resource-based economies (particularly in the West), this relationship remains unchanged. Its validity is in fact negatively confirmed by the relatively recent strengthening of Alberta's economy in the wake of rising international prices for oil. The example of Alberta illustrates the role of primary resources in offsetting the conditions of a structured regional imbalance, as previously described.

To acknowledge the importance of natural resources in the Canadian economy, and to recognize the role of primary exports in strengthening regional economies -- is not, however, to suggest that the basis of regional disparity resides in the unequal incidence of natural resources in Canada's regions. Only in an immediate, superficial and ahistorical sense is this the case. For, as previously argued, the origins of regional disparity and under-development reside fundamentally in a structured imbalance of exchange, which, in turn, derives from discriminatory economic policy at the federal level. In fact, the clearest bases for differentiation between Canada's regional economies is the

unequal incidence of developed resources (for the most part secondary industry). This being so, an explanation of regional difference -- and regional conflict -- must necessarily focus upon the political forces which have produced these differing rates of development, and which have determined the terms of inter-regional exchange. It is this political determination of the terms of exchange, not the mere existence of natural resources, which determines regional balance or imbalance.

The point, here, is not to dismiss the importance of physical factors (such as the existence of natural resources) in favour of a political and historical explanation of regional disparity and conflict. For clearly, political decisions (such as the decisions to build the C.P.R.) are inseparably interwoven with numerous "natural" factors (for example the abundant potential of the prairie agricultural economy). Because physical factors are given however, it thus becomes necessary to study political relationships -- such as the interests of economic classes, conflicts between Canada and the U.S. for the western territories -- if the course of Canadian development is to be understood. While geographical, "natural" factors have no doubt constrained this development, they by no means have determined it.

* * * *

In this chapter, an attempt has been made to examine what -- from the perspective of regional conflict -- have been the most important economic and historical forces in Canadian development. Regional conflict has been examined in relation to the inter-regional exchange dynamic and the political forces involved in its construction. The following chapters will expand upon this analysis by concentrating more directly upon political developments which have emerged in response to exchange imbalance.

CHAPTER XII

FEDERAL REGIONAL WELFARISM: THE GREAT EXCHANGE SCANDAL

Official recognition of regional economic disparity may be traced back to the time of Confederation when, under pressure from the 'repeal' movement in Nova Scotia, the federal government granted "Better Terms" to that province in 1869. The offering of better financial terms to Nova Scotia was the first in a series of legislative measures undertaken in partial response to the problem of regional imbalance.

Federal activity in this area was, however, severely limited in the first seventy years of Canada's history; and always it bore more than a casual relationship to the growth and intensity of regional protest movements, which from time to time succeeded in exacting regional concessions from the federal power. Significant among these concessions was the negotiation of the Crow's Nest Pass Rates in 1897, and the passage of the Maritime Freight Rates Act in 1927 -- two measures which brought about a positive, if insufficient, alteration of the terms of inter-regional exchange. But these changes in transportation policy did not reverse the pattern of exchange imbalance which had developed after the National Policy; despite transportation 'subsidization', inter-regional exchange continued to discriminate against the 'hinterland' provinces.

"EQUALIZATION" AND EXCHANGE

The turning point in federal-provincial fiscal relations and the federal attitude toward regional problems occurred with the depression of the 1930's, which forced the federal government to assume a larger regulatory role within the Canadian economy and political structure. The creation of the CBC and the Bank of Canada, the increased subsidization of transportation and other major industries, and the introduction of a national unemployment scheme -- these were the major responses of the federal government undertaken to stabilize a

shaken economy and federal structure.

In the sphere of federal-provincial relations, widening regional income differentials and the emergence of new third parties, not surprisingly, were met with a series of federal measures designed to shore up failing regional economies and provincial governments. The most important of these measures involved the unprecedented infusion of federal funds into the poorer provinces in the form of "grants-in-aid". Designed ostensibly to equalize the fiscal positions of the provinces, the "grants-in-aid" policy escalated the level of federal subsidization of the provinces (this - previously having been fixed) and was the immediate forerunner of the "equalization program", recommended by the Rowell-Sirois Commission in its report of 1939.

The federal "grants-in-aid" program of the 1930's had not, of course, succeeded in "equalizing" provincial finances at all -- but rather, as the Rowell-Sirois Commission observed, had merely transferred sufficient federal funds to allow the continued provision of provincial services and to avoid provincial insolvency. This program of fiscal redistribution, reflecting the circumstances in which it was implemented, was an immediate response to (what was interpreted as) an immediate problem, and, as such, lacked the cohesion and planning (not to mention the intent) that a coordinated attack on regional disparity demanded.

Neither did the war-time economic policies of the federal government appreciably alter the conditions of regional imbalance. Crisis conditions of war saw the institutionalization of federal equalization and stabilization formulas, which acted as a surrogate for the erosion/usurpation of provincial taxation powers by the federal government. The introduction of the centralist "tax-rental" structure after the war involved the retention of equalization payments to the provinces, thereby firmly establishing the equalization principle in the federal-provincial fiscal structure. In practise, however, the reality of "equalization" fell immeasureably short of redressing regional imbalance in anything but an immediate sense.

"Equalization" Today

It is interesting to observe that, even with the expansion of equalization payments in the post-war period (which has occurred as a result of pressure from the provinces), regional disparity in Canada has undergone little change over the last forty years.[1] Taxation burdens continue to bear hardest upon taxpayers in the poorer regions while more wealthy provinces have experienced a relative lightening of their taxation load.[2] Regional income differentials have persisted, and taxation differentials have widened, despite the vast expansion of equalization payments. In the last decade alone these payments have risen from a 1962 - 63 level of $182 million to an estimated $1.4 billion in 1973 - 74.[3]

Equalization payments today constitute a significant portion of total provincial revenues in Canada's poorer regions. In 1972 - 73, as the following figures indicate, equalization and stabilization transfers accounted for as much as 26% of the revenues of the poorer provinces:

Newfoundland	- 26%	Quebec	- 9%
P.E.I.	- 20%	Manitoba	- 8%
Nova Scotia	- 17%	Saskatchewan	- 16% [4]
New Brunswick	- 21%		

Without these payments, regional disparity (insofar as it is related to provincial fiscal ability) would be considerably greater. Given the relative importance of equalization, it is not difficult to understand why governments of the poorer provinces have pressured the federal government for an increase in these payments, or why provincial governments continue to support equalization in principle.

The "Equalization" Scandal

An acknowledgement of the importance of "equalization" to provincial government finances does not, however, imply the success of fiscal redistribu-

tion as a mechanism of regional development. Indeed, it is inconceivable how such a policy -- directed fundamentally toward supporting the service role of provincial governments -- can alter at all the unequal distribution and location of industrial capacity and the framework of exchange imbalance which lies at the base of the regional disparity problem. At best, and to the degree that provincial government programs serve a welfare function, fiscal redistribution can effect only the symptomatic expressions of the disparity problem, such as disparities in education, health, welfare delivery, etc. In this sense, "equalization" constitutes a compensation for, rather than a solution to, the problem of regional imbalance.

As a brief submitted by the Province of Nova Scotia to the Royal Commission on Dominion-Provincial relations stated:

> The granting of a subsidy however is inadequate compensation because it does not raise the general economic level of the province. It may make financing a little easier for the provincial government, but as far as we are concerned the real problem is to make financing easier for the half a million or so inhabitants of Nova Scotia.[5]

Necessarily because the origins of regional disparity are rooted in uneven industrial development and a structured exchange imbalance, any policy to reduce disparity must aim at these fundamental conditions. "Equalization" aims not at the origins and bases of these disparities, but rather, at an attenuation of their symptoms through a superstructural redistribution of fiscal resources. "Equalization" itself is thus an attendant symptom of disparity -- the product of "welfare oriented" federal policy incapable of a fundamental resolution of regional imbalance.

Expressed somewhat differently, it is possible to depict "equalization" as an attempt by the federal state to redistribute national taxation revenue (an estimated 70% of which comes from the incomes of individual Canadian taxpayers) in favour of poorer provinces, without in any way altering the existing corporate structure or those federal policies (trade, transportation, bank-

ing, etc.) which have produced this regional imbalance.

It is this attempt to redress regional disparity, without reference to its causes, that constitutes "the great exchange scandal". A second component of this "scandal" resides in federal efforts to restore regional imbalance through its "regional development" efforts.

FEDERAL DEVELOPMENT PROGRAMS

The emergence of regional development programs at the federal level represents a relatively recent innovation of Canadian capitalism confronted with an internal contradiction in the form of variegated regional growth. Although the earliest origins of this uneven growth predate Confederation, and to a large degree are the result of international market forces, it is in the policies of Canadian federal state, notably the National Policy, that the political foundations of regional imbalance may be found (see Chapter V).

This long history of regional disparity is not, however, a history it has in common with the "regional development" programs of the federal government, for the latter are decidedly a post-war phenomena. These attempts have evolved directly out of crisis-spawned programs such as the Prairie Farm Rehabilitation Act of 1935 and a number of related programs aimed at stabilizing the agricultural sector (see Chapter XI).

More recently, and in direct response to the persistent regional imbalance of Canadian federalism, the federal government has introduced legislation establishing the Agricultural and Rural Development Agency (ARDA - 1966), the Fund for Rural Economic Development (FRED), the Area Development Agency (ADA, 1963) and the Atlantic Development Board (ADB) to name only the most significant. The establishment of these regional development programs testifies to the heightened priority that the problem of regional under-development is receiving in the midst of the post-war realignment of the federal structure. Still more recently, the federal government announced in July, 1968, the creation of a new federal

ministry, the Department of Regional Economic Expansion (DREE), an umbrella agency whose responsibilities now include the co-ordination of previous programs such as ARDA, PFRA, and FRED, as well as activities under the Regional Development Incentives Act of 1969. When established, DREE was mandated "to develop a coordinated approach to the problems of areas that have not shared in the economic growth of the rest of the country", and to assist "through loans, grants and special incentives"[6] attempts to develop the industrial base and economic infrastructure of economically depressed areas.

Since it is not possible in these pages to examine in any detail the operations of all the federal government regional development programs, it will be necessary to concentrate upon general activities in this area. With specific reference to DREE, an attempt will be made to situate these programs within the context of regional disparity as it presently exists, and to formulate at least general conclusions concerning these programs and the problem.

The necessary starting point for such an evaluation is a recognition that the differential rate of economic development in Canada's regions has been determined by trade and commercial policy of the federal state (which, by and large, represents the interests of central Canadian commercial and manufacturing concerns). Federal attempts to foster industrial development in underdeveloped areas thus encounter a major obstacle in the trade and commercial policies of the state itself. The federal government, in seeking to promote economic growth in depressed areas, finds itself engaged in battle against prevailing economic conditions which itself has created. Because of the terms of their establishment, federal development agencies are constitutively unable to question this reality, but, instead, must work within the conditions prescribed by other federal policies.

Nonetheless, it is possible to identify other, equally serious obstacles to the present federal approach to regional development. These may be understood by, in turn, examining the scale of DREE's operations, the general

approach to development which underlies DREE's activities, the actual record of the agency, and the economic and political context in which DREE's program must function.

The Scale of Federal Development Efforts

During the period 1969 - 72, which comprises the first four years of DREE's operations, the department allocated approximately $324 million in regional incentive grants of which only $72.6 million was actually expended.[7] Although subsequent department budgets have expanded the scale of DREE's operations, the department is not yet a major spender of federal revenues. Estimates of total department expenditure for 1973 - 74 (including internal administration, research, infrastructural development and industrial incentives) amount to approximately $400 million[8] — less than 1/3 of the allocation under equalization.

Thus, although the very existence of the department testifies to the increasing importance of the problem of regional underdevelopment, DREE's budgetary allocation is less than overwhelming. In the context of total federal government expenditures, the Department of Regional Economic Expansion cannot be said to have major priority. Expenditures of the department in 1974 are estimated to have consumed only 2.2% of the federal budget, compared with 29.8% for other (direct) forms of welfare, 9.5% for defence, 9.4% for servicing the debt,[9] etc. Its allocation for fiscal 1975, moreover, is less (in constant dollars) than its 1974 budget.

The Federal Approach to Regional Development

Barred by the conditions of its incorporation from initiating or proposing development strategies for depressed regions and assuming a major initiative in undertaking public investment, DREE bases its regional development programs almost entirely on the private sector. It seeks — through the mechanism of the industrial incentive grant — to encourage and promote the

regional diversification of private capital into areas, where, for any number of possible reasons, normal market forces operate against such investment location.

To the degree that the incentive is successful in achieving this objective, and to the degree that recipient firms are able to correctly weigh the advantages of subsidization in relation to possible location disadvantages, DREE's industrial incentives serve to guarantee corporate profits and success. In this way, public revenues are utilized to subsidize private corporate activities often (and always in the case of DREE grants) with no provision for repayment or repatriation of public monies.

This is not simply a political or ideological observation on DREE's orientation, for indeed, a convincing argument may be made (on the basis of DREE's record to date) that the majority of DREE's operations are aimed solely at the subsidization of private industry, and not regional development at all. Between 1969 and 1972 for example, only 25% of the industrial incentives offered by DREE were allocated in the Atlantic region, and less than 16% in the prairie region[10] — despite the fact that these regions, the Atlantic provinces in particular, fall far behind the rest of Canada in industrial production of the type DREE encourages (see Appendix E).

During the same period, $149 million or 46% of total DREE grants were awarded to industries seeking to locate in the province of Quebec, where the majority of jobs created were in greater Montreal.[11] In terms of industrial output, Quebec ranks second in relation to all Canadian provinces, on both an absolute and per capita basis. How is it then, that DREE funds channelled to Montreal fall within the jurisdictional boundaries of a program aimed at regional industrial development?

The answer, of course, is that, lacking a strategy for regional development (or even an appreciation of the scope of this concept), DREE officials operate upon a pragmatic understanding of the problem of regional dis-

parity and underdevelopment. While inexplicable in the terms of a strategy for regional development, the allocation of DREE funds into greater Montreal is entirely understandable considering the low income and high unemployment levels present in this area.

It is here that a basic inadequacy of federal policy as it relates to regional development may be seen. This concerns the method by which federal development agencies (in this case, DREE) define and identify regional disparity. Official thinking on this question has tended to focus upon standard economic indices, such as income and unemployment levels, to identify areas of regional under-development which may be then designated for federal assistance. In actual fact, this pragmatic reliance on symptomatic features of the problem leads not merely to symptom-directed treatment, but to theoretical confusion of the problem itself.[12]

It can be stated unreservedly that any attempt to represent the area of greater Montreal as an industrially underdeveloped region or subregion is simple nonsense. Metropolitan Montreal is — to the contrary — one of the two most highly industrialized urban centres in all of Canada. Its substandard income and unemployment levels, consequently, do not derive from the lack of an industrial base or the adverse effects of an internal trade imbalance (as is the acknowledged case in most areas of the Atlantic and prairie provinces). Rather, the low income and high unemployment of this area results from an unequal (and substandard by national comparison) exchange between capital and labour, the terms of which have been determined by the historical weakness of the Quebec labour movement and such structural features as the proliferation of labour-intensive ("light") industry in the city.

Since the orientation of the Department of Regional Economic Expansion is — in no sense — geared to effect a modification of the terms of the labour-capital exchange, but instead accepts existing wage differentials and

disparities as given, DREE's efforts consequently have the effect of expanding the scale of industrial activity in areas, without modifying the immediate cause of income disparities, which, of course, are founded in wage rates, etc.

It is partially true that new industry in any given area will affect unemployment levels, and, in reducing the supply of labour, may ultimately raise wage levels. This indirect consideration, however, sidesteps the fundamental question of who benefits when private capital is subsidized to locate in areas which, because of low wage scales and higher unemployment rates, may already have some attractiveness for investment capital.

Equally important, it sidesteps the immediate question concerning the actual orientation of DREE's development efforts. Are these efforts directed towards regional industrial development and the reduction of regional disparities (as it claims) <u>or</u> are they directed towards areas in which existing disparities (the result of unequal exchange between capital and labour, and not necessarily a lack of industry in any area) make available possibilities for profitable investment by private capital in the interests of private capital? This question is, of course, equally valid in instances where DREE funds are directed into industrially depressed regions such as the Maritimes; but its significance is made all the more apparent by DREE's funding activities in Montreal.

Accepting DREE on its Own Terms

It is difficult, if not impossible, to evaluate the performance of the Department of Regional Economic Expansion within the implicit framework set by the department for its own evaluation. In a 1973 report entitled <u>Assessment of the Regional Development Incentive Program</u>, Dree claims to have created 81,752 direct new jobs and initiated 1,957 industrial projects during its first four years of operation. Leaving aside the important questions of

where the jobs have been located and in what type of activities, it is now known that a considerable number of these jobs simply never materialized.[13]

But more to the point (of whose interests DREE serves), there exists no real method of determining what proportion of these projects were strictly dependent upon DREE funding and what proportion were independently viable and would have developed in any case. At least one existing study suggests that DREE subsidization has merely added to the advantages of firms, which in any case would have located where they did.[14] Given the absolute impossibility of evaluating federal regional development programs in this regard, it is impossible to evaluate their self-established claims of success.

It is, however, not necessary to abandon the task of evaluating DREE's performance because of inherent methodological difficulties. Even if we accept the department's evaluation of its own performance at face value (and there is, to repeat, no reason for doing so), it is clear that its contribution to the solution of regional disparity (and there is also the question as to its "regional" nature) has been, thus far, less than spectacular. Its effect in alleviating regional unemployment, for example,has been termed "marginal". "According to their own data", writes the liberal economist T.N. Brewis, "their contribution has accounted for a reduction of unemployment by at most 1/10 . . . "[15] Neither have DREE's activities succeeded in preventing the continuing concentration of industrial capacity in the province of Ontario, a trend, which as was stated in Chapter XI, has involved a steady relative decline in the industrial output of the Maritimes and the Prairies.

Federal Development Programs - Major Problems

More important than the size or scale of DREE's activities is the underlying operative method employed by the department. Thus far, the closest DREE has come to developing a "co-ordinated approach to the problems of areas that have not shared in the economic growth of the rest of the country" has been

its identification of "special areas" eligible for federal assistance. Its "co-ordinated approach" consists in the offering of industrial incentives to private industry willing to locate or expand into these special areas . . . .

This failure to have developed a national plan for regional development is of course quite understandable given

(a) DREE's inability to change or challenge the structural basis of regional exchange imbalance (trade, transportation, banking policy, etc.)

(b) its essentially passive role in promoting regional diversification which derives from its relationship to private capital and,

(c) the regionally competitive capitalist environment in which DREE and similar federal programs must operate.

The last of these limitations -- the effects of regional competition for private capital -- deserves further attention. An understanding of federal efforts at "regional development" would be incomplete, if it did not recognize the unorganized, competitive and consequently self-defeating nature of regional development programs as they presently exist in Canada.

Given the prevailing reliance on programs designed to induce capital to expand or locate in various regional locations, a 'welfare environment' has been created for private companies seeking to expand their operations within Canada. Former premier Smallwood of Newfoundland expressed this problem succinctly when he stated before the 1969 Constitutional Conference:

> If you want to start an industry in Canada, go first to the premier of Ontario because it is from him that you will get more help, more encouragement, than you can get in any other province. This is known in Newfoundland as feeding the fat sow! [16]

Smallwood's statement capsulizes nicely the realities of regional underdevelopment as reflected in the relative difficulty in attracting capital away

from the "fat sow", the existing industrialized areas of central Canada.

Because of their superior financial resources (which derive from their more advanced industrial development) the existing manufacturing centres (in addition to their possessing more developed infrastructures, a more diversified labour force and closer markets) are able to offer equal, if not greater financial incentives to potential industry. Regional development programs within the extant economic environment thus tend to be self-defeating. The costs of attracting private capital (whether assumed by the federal government or competing provincial government) escalate as each province or region attempts to attract industry unto itself. Other factors being equal (or unequal, as is the actual situation) the more developed regions must win out in any such contest.

In such an environment, even development efforts directed at structural alterations in the industrial economic base are destined to failure -- all the more so, when pursued with an ambiguous regional orientation and the questionable budgetary commitment of DREE. Thus, although federal "regional development" programs (unlike fiscal redistribution programs such as "equalization"), theoretically, contain some possibilities for developing the industrial capacity of underdeveloped regions, their chances of realization are limited both by the conditions of structured imbalance and, relatedly, the existence of a regionally competitive environment for development capital.

That inter-provincial competition for investment capital today characterizes the Canadian scene should come as no surprise given the existence of persistent regional disparities, the presence of increasingly strong provincial governments, and the increased role that governments of all levels are assuming in planning and subsidizing the activities of private capital. While reflecting a tendency toward further balkanization, this competition serves to sustain and magnify existing structural components of regional disparity and conflict.

* * * *

Despite the post-war proliferation of federal regional welfare programs, these programs have not seriously challenged the bases of regional disparity, i.e. inter-regional exchange imbalance. Neither fiscal redistribution ("equalization") nor federal development agencies have been able to overcome the adverse effects of this imbalance in Canada's industrial hinterland.

SECTION IV

REGIONAL CONFLICT AND THE CANADIAN POLITICAL PROCESS

While discussion in Section III concentrated upon the economic basis of inter-regional imbalance, the following chapters will examine the influence of regional conflict and exchange imbalance on the politics of Canada, federally and provincially. Quite necessarily, discussion will focus upon the historical development of national and provincial political systems, the roles played by different parties in the evolution of these systems, and the influence of regional factors in this development.

CHAPTER XIII

REGIONAL CONFLICT IN FEDERAL POLITICS

1867 - 1975

Although Canada's two party parliamentary system in many ways militates against the expression of regional conflict at the federal level, regional conflict has nonetheless played an important role in federal politics. Because the strong norms of cabinet and party solidarity operate to minimize the expression of regional interests within federal parties, regional conflict has tended to reflect itself in divisions between political parties at the national level.

i) Regional Conflict and the Origins of the Liberal-Conservative Division

Regional conflict has played a central role in the evolution of Canadian politics. This, perhaps, is most clearly illustrated in the history of the national two-party system itself, which developed largely as a result of the combination and coalition of regional interest groups and political forces.

The early Liberal Party, for example, was essentially an alliance of oppositionists, whose 'unity' stemmed from their common hostility to the centralizing, class-biased policies of the Conservative Party. For the first ten years of their existence as a political force, "the Liberals" did not constitute a national party as such, but rather operated as an oppositional alliance composed of Brown's Clear Grits in Ontario, the Parti Rouge in Quebec, along with Maritime ministerialists and anti-confederates. Even after 1874 when it formed the federal government, the Liberal party remained in some sense an analgam of sectionally interested individuals and groups, not a cohesive majority united around a positive platform. This factor — more than any other — accounts for the "poor press" given the MacKenzie government

by later day historians,[1] the majority of whom have identified good government with such centralizing (Conservative) achievements as the C.P.R., the tariff, etc.

Although the Conservative Party also was formed out of a coalition (between a French and English wing represented by Cartier and Macdonald), the Conservatives were able to achieve a greater degree of cohesion than was possible for the regionalized Liberal alliance. United around the leadership of Macdonald and his Quebec lieutenant Cartier, the Conservative Party was the dominant political force at the time of Confederation, and from the beginning identified itself with the trans-continental and centralizing objectives of the central Canadian financial bourgeoisie from which it drew support, both financially and in terms of personnel.

The origins of the federal Liberal and Conservative parties are thus intimately interwoven with regional and class divisions in post-Confederation Canada.[2] Just as the Liberal Party's early espousal and defense of "provincial rights" doctrine derived from its regional and class composition, Conservative Party policies such as the National Policy, evolved out of its close affiliation with big business interests of the central provinces. It was this regional division (reflecting the conflict between rival commercial groups) that formed the basis for the establishment and subsequent development of the Canadian two party political structure (see also Chapters III, IV, V, VI).

ii) <u>The Liberal-Conservative Division in the 20th Century</u>

The character of the Liberal-Conservative division has, of course, undergone a vast transformation since the time of Mackenzie and Macdonald. Loose parliamentary alliances have been cemented into structured federations and disciplined political parties. Allegiances too have changed. Beginning with its victory in 1873 and propelled further by its success in 1896, the Liberal party became increasingly allied with central Canadian business interests.

The 1911 defection of the "Committee of 18" Liberals who left the Liberal party over to tariff issue, and precipitated the collapse of the Liberal government, revealed the extent of this transformation and the degree to which both the Liberal and Conservative parties had been subordinated by business interests in Central Canada.

After its defeat in 1911 over the tariff issue, the Liberal party was no longer able to seriously represent itself as a vehicle capable of successfully challenging the National Policy or the tariff. As a consequence,its support in its former regional constituency was significantly eroded. In its place, new formations (such as farmer-labour coalitions and the Progressive Party) emerged which not only threatened the weakened Liberal party but the two party structure as a whole. The 1921 victory of the Progressive Party in the west (which historically is the most dramatic illustration of regional conflict in federal politics) was accompanied by the decisive shift of the Liberal party to its present status as the dominant representative of central Canadian capitalism.

In the process of this transformation, the Liberal Party was able to replace the Conservative Party which, since 1867, had served as the principle exponent of the National Policy and the interests of the central Canadian financial sector. Although during the 1920's and 1930's the Liberals were able to partially absorb the Progressive movement, the party evolved increasingly as a representative of central Canadian capitalism. Today, in the words of Professor John Meisel, the Liberal Party is the principal party of "business, wealth and the upper middle class".[3]

The historical reversal of roles between the Liberal and Conservative parties, not surprisingly, has been accompanied by a change in the parliamentary fortunes of two parties. On only two occasions since 1911 (in 1930 and 1958) has the Liberal party not been in a position to form the federal government. By contrast, the Conservative party, hegemonic throughout the nineteenth century, has captured a federal majority on only three occasions in the last 75

years.

Throughout this period (1900 - 1975) regional factors have played an important role in Canadian federal politics. The near exclusion of the federal Conservative party from federal power in this century has fundamentally been the result of its having established itself as a party strongly identified with the regional constituency, somewhat at odds with the central Canadian "establishment". For although both the Liberal and Conservative parties are today, in the words of Canadian sociologist John Porter, "closely allied with corporate enterprise",[4] the Conservative party retains its regional image and support, inherited from the early Liberal party during the first decades of this century. The election of Manitoba Premier John Bracken to the federal Conservative leadership in 1942 and the party's attempted identification with progressivism (as shown by its adoption of the name of Progressive Conservative in the same year) constitutes formal evidence of the transformation of the Conservative Party in the 20th century.

This change in regional composition and orientation has corresponded to a visible modification of federal Conservative policy. The 1958 victory of the Conservative Party under Diefenbaker, for example, brought to power a party which strongly expressed the needs of the Maritimes and Western provinces. As the political Scientist John Meisel has commented:

> Mr. Diefenbaker's definition of the national interest was . . . less centralist or 'national' than that of his (Liberal) predecessors . . .. The result was that the legislative program seemed to favour certain provinces, regions and interest groups in the country . . . The prairies and farmers generally, the Maritimes, the so-called "new Canadians", these were the groups which, in addition to the old strongholds of Conservatism in Ontario, were expected to re-elect the Diefenbaker government in the 1962 election.[5]

Diefenbaker's Conservatism expressed at the federal level the constellation of regional interest groups that were his party's bases of support. Although the party in winning a landmark 208 seat majority gained clear electoral

margins in all ten provinces, its orientation was nonetheless regional stressing the development of the depressed, under-capitalized parts of Canada.[6] Such an orientation is of course understandable given the party's strong western support which had denied the Liberals a single seat west of the Ontario border.

It was chiefly because of the regional character of the party (and the possible implications for Canadian commercial, transportation and banking policy)[7] that the Conservative Party came under the concentrated attack of big business interests, including part of its Ontario business constituency. In the election of 1962, observes George Grant, "nearly all the economic power deserted the Conservative party",[8] allowing the Liberals to gain strength, and in 1963, win sufficient seats to form a minority government.[9]

iii) Regional Division, Inter and Inner Party Conflict

Although the emergence of more explicitly class-based parties (such as the C.C.F. - N.D.P., and Social Credit) have introduced new "regional" elements into federal politics, the central focus of regional conflict at the federal level continues to be first between (and secondly, within) the two major parties. With the exception of the present Creditiste party whose support derives (mainly) from agrarian interests in rural Quebec, the two minor parties play little role in the promulgation of regional interests at the federal level. The N.D.P. -- if not the Social Credit/Creditiste Party -- has tended in recent years to expand its bases of support on the national level and to some degree overcome its identification with the C.C.F. movement which originated on the prairies. Within the two major parties, however, regional identification and orientation remains strong.

Of the 141 seats captured by the Liberal Party in the election of 1974, 115 or 82% of these were located in the central provinces of Ontario and Quebec. The remaining 26 Liberal seats were won out of a total of 102 electoral con-

stituencies in the Atlantic provinces and the west -- 4 from Newfoundland, 2 from Nova Scotia, 6 from New Brunswick, 2 from Manitoba, 3 from Saskatchewan and 8 from British Columbia.

Although recent Liberal gains in the Maritimes, Newfoundland and British Columbia have tended to restore a partial regional balance to national Liberal support, Canada's coastal regions, at the federal level, remain strongholds of Conservatism. In the prairies this imbalance is even more pronounced. Out of a total of 46 seats in Manitoba, Saskatchewan and Alberta, the Liberals won only 5, 1 more than the N.D.P. or 10% of the total; while the Conservative party captured 37 seats or approximately 80%. Parliamentary representation from the prairies -- more than any other region -- reveals the deeply regional character of Canadian federal politics.

To understand the regionalization which has occured within the two party framework at the national level, it is necessary to grasp the magnitude of the contradictory economic tendencies which prevail within Canada's different regions and the degree to which the two major parties embody and express these differences. The full significance of regional economic conflict is not, of course, reflected in political balances in the federal parliament, because the party structures themselves provide a mechanism for the mediation and attenuation of differences at the national political level. The fact that the two major federal parties encompass (to differing degrees) contradictory regional constituencies requires that they (at least appear to) act as "brokers" between their conflicting bases. This, in fact, is one of the important underlying functions of the national two-party structure within the Canadian federal system.

At the same time, the manifestation of political differences between (and within) the two major parties, corresponds in large measure, to differences between regionally-based interest groups and industries. While both parties, as Porter has correctly observed, retain an abiding commitment and strong identi-

fication with "corporate enterprise" (that is to say, they are subordinated to the interests of central Canadian capitalism) differences arise over such issues as agricultural, transportation and energy policy precisely because regional elements within the Liberal and Conservative parties represent conflicting constituencies and commercial interests.

In general, it is probably safe to conclude that the Liberal party has succeeded in attaining a much higher degree of unity than has the Conservative party. This unity derives, in the final analysis, from the regional composition of its electoral support and parliamentary composition, and the fact that its apparatus is concentrated in central Canada and its leadership generally in tune with the needs of the Central Canadian financial sector. The support it derives within regional constituencies outside of central Canada (and for that matter from working people within Ontario and Quebec) can probably be attributed to its massive financial apparatus (through which Liberal candidates in every region are subsidized) and the "supraregional and supraclass" legitimacy accorded the party by the major means of socialization particularly the media. Porter's conservative observation that the daily newspapers are "the instruments of the upper middle class" would appear to confirm such an analysis.[10]

(A notable exception to this "supraregional" image could perhaps be made with reference to such personages as James Richardson, one of the two representatives from Manitoba -- whose public threat to leave the Liberal party unless policy concessions are given "the West" -- have revealed the existence of an element of regional conflict within the Liberal party itself).

In general, however, the Liberal party is not a regionally divided party, mainly because it is only marginally representative of all of Canada's regions and consequently as a party, does not immediately face the necessity to mediate between competing regional interests. In this respect it closely resembles the Conservative party of the 19th century, whereas the present Conservative party

has assumed the regional characteristics of the early Liberal "alliance".

The term "alliance" as a characterization of the present Conservative party is probably not an overstatement. For, internally, the party is divided in a manner paralleling that of the early Liberal party up until 1911. Hidden beneath the opaque veneer of party solidarity and its image as a national party, there loom very real and persistent differences which largely derive from the regionally differentiated constituency the party encompasses. In an historical sense, the Conservative party might truly be regarded as a contradiction, for it contains within its class forces, which, historically, have polarized Canadian politics in its sharpest yet regional conflict.

It embodies, on the one hand, an Ontario-based faction whose orientation is towards the central provinces (as shown by ever present attempts to legitimize its presence in Quebec and to dislodge the Liberals) and whose policies -- not unlike those of the Liberal party -- are closely allied with central Canadian big business. It is this segment of the party, which in alliance with a few Maritime and western supporters,presently controls the leadership. At the same time, a powerful western wing, based in the prairie provinces (and representing for the most part the interests of the primary resource industries of agriculture and petroleum) provides considerable electoral support for the party and sustains its existence as a national organization. (Without western support, Conservative representation in the current house of Commons would be reduced from 95 to 45). The Conservative Party is thus the coalition of two separate, regionally based, and largely contradictory economic forces: big business of central Canada and the agricultural and resource industries of the prairies. Significantly, neither faction feels entirely comfortable within the alliance, a fact driven home by the desertion of Diefenbaker's government by Ontario business interests in the election of 1962, and the continuing existence of what may be termed the "Diefenbaker (west)" versus "Dalton Camp (Ontario)" conflict.

To the degree that representatives of these divergent interests have been able to coexist within the Conservative coalition, the party has exhibited the characteristics of a genuinely national party (it is after all the only party to have electoral representation from all ten provinces). In fact, however, the party's contradictory bases of support and the dynamics of Canadian federalism (which is to say, the continued existence of regionally-based class conflict) tend inexorably to divide and weaken the party. Periodic western criticism of the present Stanfield-Camp leadership by western Conservatives and recurrent suggestions of establishing a "western Canada party"[11] is merely illustrative of the "hinterland-metropolis" political division which remains central to the Conservative alliance, and to Canadian federal politics in general.

* * * *

Although the regional identity and composition of the two major parties has been reversed during the last century, regional factors remain fundamental to an understanding of Canadian politics at the federal level. In the broadest outline, the division which exists between the Liberal and Conservative party today corresponds to the historical axes of division between the central Canadian "metropolis" of Ontario and Quebec and the hinterland region of the western and Atlantic provinces. This division extends, however, beyond the level of inter-party conflict and manifests itself in regional division within the major national parties themselves.

CHAPTER XIV

REGIONAL CONFLICT IN PROVINCIAL POLITICS

A detailed examination of the history of regional conflict in Canadian provincial politics is, unfortunately, quite impossible in these pages. Suffice to say that this section will attempt only a broad survey of the question with little examination of the specificities of provincial political systems or the complexities these offer for the serious minded student.

The Conservative-Liberal Division at the Provincial Level

As shown in the previous chapter, the basic framework for the development of the two party system in Canada evolved during the first decades after Confederation in the struggle between the federal Conservative Party and its heterogeneous Liberal opposition, and the class forces embodied therein (see also Chapter VI).

As envisioned by the "founding fathers" Canada's political structure would be modelled after the British parliament and would be constituted, provincially and federally, as a two party system. Parallel parties at the federal and provincial level would function to curtail the growth of independentist political movements and hence to unify the federal structure. Recognizing the potential for conflict between the provincial governments and the federal power, and the dangers of regional division, Macdonald even expressed the view that such conflict could be minimized if the same party governed simultaneously at the national and provincial level.[1]

In the immediate term however, the social forces that animated political developments at the provincial level failed to share Macdonald's concern for political unity, much less party uniformity. In 1867, the development of the 'repeal' movement in Nova Scotia brought to power a provincial government solidly opposed to the federal structure itself. As a consequence, the process

of consolidating the Liberal-Conservative two party structure at the provincial level was delayed (as it was at the federal level) by the pattern of regional hostility and commercial conflict that had divided the British colonies prior to Confederation, and had played so crucial a role in the pre-Confederation "debate".

The decline of the anti-confederate movement in the Maritimes signalled the entrenchment of the Liberal Party in that region. Reconciled with the inevitability of Confederation, Maritime commercial interests opted, provincially, for a "provincial rights" party and, federally, for an alliance with free trade elements in other provinces -- a political combination, that despite its limitations, provided the only effective counterforce to the Conservative Party and the Canadian financial sector. Provincially, anti-centralist and anti-tariff forces constituted the provincial Liberal parties whose successful electoral campaigns established Liberal regimes in most of the Canadian provincial capitals.

The development of the two party system at the provincial level thus paralleled its development federally. In both cases polarization occurred around the questions of economic policy, particularly the tariff. By 1887, provincial Liberal parties held power in five of the seven Canadian provinces (Nova Scotia, New Brunswick, Quebec, Ontario and Manitoba). As the Inter-Provincial Conference of that year demonstrates, Liberal popularity was predicated upon its opposition to federal policy and the centralizing Conservative regime in Ottawa.

Thus while, in the immediate term, the consolidation of the federal and provincial two party structure was delayed by the outburst of regional conflict (particularly in the Maritimes), the form in which it eventually crystallized was, in the long term, determined by these same regional and class influences. The Liberal-Conservative division was at once a regional and class division. While expressing generally the interests of export-oriented industry in the Maritimes and prairies, Liberal policy also reflected the interests of the agri-

cultural and lumbering industries of central Canada, thereby revealing the class, rather than strictly regional character of the Liberal alliance. Provincial challenges to federal power, such as those delivered in the 1887 Interprovincial Conference, are illustrative of the resolve of localized commercial interests to effect changes in national policy, which since 1867 had been directed by the predominant sectors of finance capital in central Canada.

The Rise of Third Parties

The fact that regional and class conflict was routinized and institutionalized within the traditional two party system (that is, in the division between the Conservative and Liberal parties) may be attributed to the important role of the early Liberal party as a vehicle of regional-class interest. The ability of the Liberal parties to act in this manner, was in turn, dependent upon the relative strength of regional-class interests, and the relative "decentralization" of the federal and provincial Liberal parties. After the weakness of the federal Liberal Party was confirmed in its defeat in 1911 (which, it must be remembered, was a reflection of its reliance upon the manufacturing and commercial interests of central Canada, the "Committee of 18", etc.), its viability as a vehicle of anti-tariff and anti-centralist interest was rapidly eroded.

While the dimensions of the Liberal-Conservative division provided adequate scope for the expression of regional interests in the 19th century, the changing character of the Liberal party (that is, its subordination to central Canadian commercial interests subsequent to its election in 1897) rendered the Liberal Party an increasingly unacceptable political vehicle as far as Maritime and Western interests were concerned. Its defeat in 1911, and its coalition with the Conservative party during World War I, consummated the transformation of the Liberal Party, precipitating its historic demise as a regionally-based party.

Almost immediately, this transformation signalled the emergence of "third"

party formations in each of the Canadian provinces. Aided by the post-war wave of labor militancy, third party movements established themselves, first at the provincial level, and later, in the case of the Progressive Party, federally. In the early post-war period, third party governments were elected in Ontario in 1919, Alberta in 1921, and Manitoba in 1922; while in other provinces third parties continued to gain support, and in Nova Scotia formed the official opposition.

In the broadest sense, these third parties developed in response to the transformation of the federal Liberal Party from a viable regional alliance against federal policy into a party intimately linked with finance capital. The Progressive and farmers parties, consequently, inherited part of the political territory formerly held by the Liberal Party. At both the federal and provincial levels, support for the traditional parties was rapidly eroded. Where these parties were able to retain power provincially, they did so only by closely identifying with the predominant class interests of their province. In Saskatchewan, for example, the Liberal party, as Professor Morton has observed, assumed most of the characteristics of a farmers' party and (unlike the situation in Manitoba and Alberta) was able to forestall the development of strong third party opposition until the 1930's when the CCF emerged.

In order to insure their survival at the provincial level, Liberal and Conservative parties were often forced to adopt positions which brought them into conflict with the federal government and their political counterparts at the federal level. During periods of federal Liberal dominance, the provincial Conservative parties were less affected by this problem since provincial Conservative campaigns such as the "Maritime Rights" movement could handily be directed against the federal government without embarrassment to the federal Conservative Party. But, provincial parties, whether Liberal or Conservative were effected by their identification with their federal organizations. While this identification could have either a positive or negative effect in different

situations, its long term result was the virtual separation of the federal and provincial wings of the major parties. Too close an identification with the major federal parties (particularly with their centrally-based business constituencies) was almost certain to invite defeat at the provincial level.[2] This pressure largely accounts for the political differences between different provincial organizations of the same party and what D.V. Smiley has termed a "confederal" form of organization between the major parties at the provincial and federal levels.[3]

These same pressures, that is, the incongruencies of the major parties which derive from their contradictory bases of support, largely explain the emergence of third party formations during the 1920's and 1930's. The fact that significant third parties (with the exceptions of successionist movements) did not develop during the 19th century is attibutable to the relatively consistent role of the federal and provincial liberal parties as representatives of regional economic interests. After 1911, when the incapacity of the federal Liberal Party to continue in this role became visible, and when mounting class and regional antagonisms remained unresolved, varying class forces sought new means through which to express their interests.

While the emergence of third parties was widespread during the 1920's and 1930's, it is important to examine the reasons for the success and failure of these movements in different provinces. The fact that third party radicalization developed much further in the Western provinces (producing farmers' governments in Manitoba, Alberta, and Ontario in the 1920's and ultimately giving rise to the CCF and Social Credit movements in the 1930's) while the farmer-worker movements elsewhere in Canada eventually declined is a phenomenon requiring further exploration.

In short, the varying fortunes of third party movements in Canada's regions derive from the specific class interests represented by these movements and the specific weight of conflicting class forces within provincial political

systems. In the prairies, where the agricultural community and agrarian-oriented commercial interests comprised the bulk of the electorate and wielded most of the economic power (relative to other classes), third parties representing these interests achieved electoral success much more readily than elsewhere in Canada. As Professors Morton, Lipset, and McPherson have conclusively demonstrated in their authoritative respective works on the Progressive Party, the CCF and Social Credit, the bases of third party support in the West rested in the agrarian community.[4]

By contrast, the farmer-labour movement in the Maritimes (and Quebec) was hindered by the predominant strength of capitalist interests in these provinces, and, relatedly, by the consequent strength of the labour as opposed to agrarian component in the labour-farmer "coalitions". (Indeed, these "coalitions" themselves reflected the relative weight and differences between their labour and farmer components).[5] Since the labour and farmers' movements in the Maritimes and Quebec reflected class interests which conflicted with the dominant capitalist interests of these regions, the labour-farmer movement was pitted from the beginning against a class which had been in firm control of provincial politics long before Confederation. Unlike the prairies whose economy and politics revolved around agriculture, dominant economic interests in the Maritimes were expressly capitalist. Whenceforth sprang the support of Maritime commercial interests for a rejuvenated "Maritime Rights" Conservative Party over the emergent third party.

Thus while a broad parallel exists between the agrarian revolt in the West and the "Maritime Rights" movement in the Atlantic Provinces (in so far as both were regional reactions to discriminatory federal policy and the concentration of power and of Canadian financial sector), the situations of the western and Maritime provinces were markedly different. The strength of third parties in the West (and Ontario in the 1920's) derived principally from the political strength of the farmers organizations which were able to reject the

traditional parties precisely because their interests conflicted with those represented by the Liberal and Conservative parties. Maritime commercial interests, by contrast, shared fundamental class interests with the central Canadian bourgeoisie -- hence their hostility to the farmer-labour movement and their identity with the capitalist Conservative Party whose program of "Maritime Rights" simultaneously served as a maneuver to outflank the farmer-labour parties, and an attempt to wring concessions from the federal power.

Strong parallels certainly exist between the agrarian revolt in the West and the revival of provincial and Maritime rights sentiment in the Atlantic provinces. Apart from the increased labour militancy which accompanied and stimulated both developments, these responses involved fundamental questioning of the economic structures of Canadian federalism and as such directly challenged the control of finance capital over Canadian development. As Canada's ties with Britain, and the east-west links these entailed, were eroded by emerging continental connections, strains within Canadian federalism were intensified and regional imbalance exacerbated. While reflecting the interests of different classes, regional opposition nonetheless found common focus against the federal government and regionally discriminatory federal policy.

Provincial Politics and Regional Conflict: 1970's

That the character of provincial politics was significantly altered by the emergence of third party movements in the 1920's and 1930's is visibly demonstrated by the nature of provincial politics today. A broad overview reveals that the history of political conflict at the provincial level, especially in the Western provinces, has been largely conditioned by the contradictory class and regional interests internal to Canadian federalism, -- and that third parties have played a central role in these conflicts.

i) Regional Conflict and the Maritimes

Only in the Maritimes where third party opposition was decimated during the 1920's have the traditional two parties retained their monopoly over provincial politics. This fact may help to explain why the Atlantic provinces, despite their underdevelopment, have proven less vocal opponents of federal policy and its regionally discriminatory effects. It is true of course that "regional rights" in the Maritimes have retained some importance in provincial politics in all four Atlantic provinces. (Witness Nova Scotia Premier Stanfield's campaigns against the federal government during the 1960's). Since the 1930's however the overwhelming character of provincial politics in the Maritimes has been an excessive preoccupation with internal problems, addressed, from limited perspectives. As P.J. Fitzpatrick has written,

> the Liberal and Progressive Conservative parties dominate the political environment without fear of challenge or stimulation by third parties, sustained by gerrymandering, patronage, and constituencies with hereditary political loyalties kept intact by ancient ethnic and religious antagonisms.[6]

Regional conflict insofar as it depends upon the Liberal and Conservative parties for expression has thus been muted in the Maritime region. In marked contrast to the pattern of pre-war years, provincial challenges to federal policies since 1945 have been directed mainly towards larger "equalization" grants and federal subsidization. This reflects the decreasing strength of indigenous commercial interests of the region, the subordination of the region to central Canadian commercial interests, and the absence of significant third party forces representative of the region's farmers, fisherman and workers. While recent proposals, such as Maritime Union, have brought into question again the role of the Maritimes in Canadian Confederation, basic questions affecting interregional imbalance have received little attention.

ii) Regional Conflict and the West

In sharp contrast to the Atlantic region, governments in the prairie provinces and British Columbia have evinced a much stronger capacity to challenge federal policy on a number of important questions. The fact that the party systems in these provinces are asymetrical with those at the federal level is at once an expression and the cause of this political conflict between Ottawa and the West. The relative autonomy and strength of economic interests in the West has directly determined the nature of this conflict, the political expression of which today constitutes the central axis of regional division in Canadian federalism.

In the four western provinces, political polarization has virtually destroyed the traditional two party duel between Conservatives and Liberals. The politics of each province deviate markedly from the traditional two party model. Beginning in the 1920's with the United Farmers of Alberta, the politics of Alberta have been characterized by strong third party support. The victory of Social Credit in 1935 was followed by a long period of Social Credit government uninterrupted until 1970 when the Conservative party experienced a revival. At present, provincial politics in Alberta are polarized between the Conservatives and Social Credit with only marginal legislative representation from the NDP.

Despite the ideological dissimilarities between Social Credit and the CCF-NDP, provincial politics in Saskatchewan are remarkably similar to those of Alberta by virtue of their common rejection of one of the traditional two parties. The 1944 victory of the CCF dislodged the Conservative party provincially, leaving the Liberal party as the only significant opposition. It is interesting to note that the Liberal party in Saskatchewan has legitimized its existence at the expense of a severance of nearly all ties with the federal Liberal party. Former Premier Thatcher's disavowal of Trudeau Liberalism constitutes continuing evidence of the breach between the Saskatchewan Liberal Party and its federal counterpart initially effected during the 1920's.

In contrast to Saskatchewan, provincial politics in Manitoba until recently have shown a much stronger parallel to those at the national level.[7] The Progressives under Bracken which had emerged victorious in 1922 and 1927, entered coalition with the Liberals in 1932, and like their federal counterparts before them, were gradually absorbed by the Liberal party. Third party opposition in Manitoba subsequently subsided during a period when the CCF and Social Credit in Saskatchewan and Alberta were emerging.

Only recently have the NDP in Manitoba been able to penetrate the monopoly of the Conservative and Liberal parties over provincial politics. Significantly however, this has occurred largely at the expense of the provincial Liberal Party, whose counterpart at the federal level is in power. While the specifics of the NDP victory in Manitoba deviate markedly from the history of the NDP and Social Credit in Saskatchewan and Alberta (specifically, because of the evolution of these parties and their differing degrees of rural support), the emergence of the NDP in Manitoba nonetheless signifies a restructuring of the traditional party system provincially.

In British Columbia this restructuring has proceeded further than in any other province. Following the defeat of the Conservatives and the election of Bennett's Social Credit Party in 1952 and the growth of the CCF - NDP, provincial politics in B.C. have evolved in sharp contrast to those at the federal level. As Professor Martin Robin observed in 1966: "in no other province are the two federal minor parties - Social Credit and New Democratic - major parties in the legislature".[8]

The origins of this deviation stem concretely from the relative autonomy and isolation of business interests in the province and their predilection for a political party (Social Credit) capable of defending their general class interests, and their specific interests against the central Canadian financial sector. As Knox and Resnick have argued, the fact that the economy of B.C. is dependent upon its trade links with foreign metropoles,

> has historically allowed the B.C. business class great autonomy and freedom of maneuver within Canadian capitalism, and accounts for the considerable political independence from, and even opposition to Ottawa, on the part of past B.C. governments.[9]

Although every province is dependent upon foreign markets for primary goods (minerals, petroleum, forest products, wheat, etc.), this external dependence is magnified, in B.C.'s case, by the orientation of its manufacturing sector to external markets. In 1967, British Columbia exported 36.4% of its manufactures (compared with 26% for the Maritimes, 15.3% for Quebec, 14.5% for Ontario and 6.7% for the Prairies)[10] -- making B.C. manufacturing much more independent from the Canadian market than are manufacturers in any other region.

The political expression of this independence is the Social Credit Party, whose continentalist orientation (wit: the Columbia River Project) is a direct reflection of the outward orientation of the provincial economy and its reliance on foreign trade as a balance against central Canada (see also Chapter IX, Section D, pp. 161-63).

* * * *

It should be emphasized that the growth of third party formations in Western Canada (and the evolution of Western politics in general) cannot be interpreted solely as a series of regional responses to federal policy or the federal structure. At fundamental issue also is the relationship of political forces within provincial political systems and the degree to which party rivalries in these provinces reflect antagonisms between indigenous social classes and economic sectors. This is especially clear in the case of the NDP whose policies have, to some degree, been directed against commercial interests within provincial boundaries (automobile insurance, labour legislation, mining taxes, etc.).

But while internal (inter-class) divisions within provincial political systems (which are, to some degree, independent of political developments at the national level) may largely explain the success of third parties in the West today, it is important to recognize that the existence of these parties (the NDP and Social Credit) was initially legitimized upon the strength of agrarian interests and their historical opposition to the manufacturing and commercial interests of central Canada. The present existence of the NDP and Social Credit is thus founded upon the struggle between regionally-based class forces in the early century. The fact that agrarian interests in the West have been eclipsed by the expansion of capitalist industry in the region (see Chapter XI, the decline of the agricultural sector, p. 143) explains the subsequent evolution of the CCF - NDP and Social Credit from agrarian parties into parties whose actual class basis are differentiated and also somewhat contradictory.

The transformation of the CCF/NDP and Social Credit from parties of agriculture to parties of labour and business respectively is a direct reflection of the changing social composition of the Canadian population, which has left little room for a party based solely on agrarian interest.

TABLE XIV:1 FARM COMPOSITION OF THE CANADIAN POPULATION, 1911 - 1971

Year	Total Population (000)	Farm Population (000)	% on farms
1911	7,192	2,663	37.0
1921	8,775	3,143	35.8
1931	10,363	3,444	33.2
1941	11,490	3,679	32.0
1951	14,009	2,827	20.2
1961	18,238	2,072	11.3
1971	21,568	1,419	6.6

Source: Canada Year Book 1945, Table 28, p. 122; Canada Year Book 1952-53, Tables 10 and 11, p. 144; Canada Year Book 1963-64, Table 5, p. 161; Canada Year Book 1973, Table 5:11, p. 211

For Canada as a whole, the specific weight of the agrarian community has been drastically diminished over the last sixty years. Even in the "agricultural" West, the size of the farm population has been reduced from an absolute numerical majority in the early century to a position where it now accounts for 13%, 25%, and 14% of the population of Manitoba, Saskatchewan and Alberta respectively.[11] Accompanying and reflecting the decline of the agrarian petty-bourgeoisie, the traditional parties of agriculture have evolved toward closer identification with larger economic classes -- labour and business.

Emerging class antagonisms (specifically the antagonism between labour and capital) within provincial politics in the West have not, however, erased historical antagonisms between Western economic interests and those of central Canada. While it is true that conflicts between the . . . quasi-labour party, the NDP, and Liberal-Conservative-Social Credit parties have increasingly dominated with Western provincial politics, political parties in all four provinces continue to express "regional interests", as evidenced by continuing disputes with Ottawa.

This perhaps is most clearly demonstrated in the continuing efforts of governments of the four western provinces to effect a modification of terms of exchange between the West and Central Canada. Indeed, the governments of the western provinces, despite their party and ideological differences, have been remarkably coordinated towards this end. At the Western Economic Opportunities Conference of July 1973, the Premiers of the four Western provinces sponsored four joint submissions to the federal government focusing upon banking and finance, transportation, agriculture and industrial development. The content of the submissions reveal the degree to which provincial governments of the West remain committed to striking a better bargain with commercial interest of central Canada.[12]

Apart from their efforts to negotiate "better terms" with the federal government, provincial governments in the west have historically been pre-

disposed to overt criticism of federal policies and central Canadian commercial interests. In Manitoba, when the NDP proposed a government monopoly in automobile insurance (1969) one of its principal arguments was that automobile company profits were leaving the province to be invested in "the East" (that is, Ontario). In the election of 1970, the NDP in Saskatchewan won overwhelming support in its attack on federal agriculture and rural development policy which were denounced as prejudicial to Saskatchewan farmers and leading to rural depopulation.

In Alberta and B.C., where economic activity is today highly integrated with the United States, attacks against the federal government and the interests it represents have been even more explicit. From Premier Aberhart's radical denunciation of federal trade and monetary policy in the 1930's, to Premier Bennett's tirades against the "Federals Liberals",[13] and more recently to Premier Lougheed's call for a provincial mandate in negotiations over Alberta oil with the federal government — the governments of British Columbia and Alberta have consistently acted to protect major provincial economic interests against federal encroachment and central Canadian domination.

Final evidence of western government regional response to federal policy and regional disparity may be found in the active promotion of development efforts in these provinces. Previous chapters pointed to the role of all provincial governments in subsidizing secondary industrial growth, and, also in stimulating agricultural production and diversification. Perhaps even more interesting, in the case of the western provinces, have been their attempts to encourage the development of natural resources. As Philip Mathias has observed in his book, Forced Growth, the activities of government funding agencies and provincial (as well as federal) efforts to promote economic expansion have occurred, often, with little concern for social and environmental costs, economic viability of the enterprise, or provisions to safeguard the interests of "the public" supposedly served by such projects. In the western provinces,

such activity has been particularly vigorous and has resulted in such resource controversies as the Columbia River Project in B.C., Saskatchewan's subsidization of the pulp and potash industries, Churchill Forest Industries and the Churchill River project in Manitoba, and most recently Alberta's joint venture in the Syncrude oil project.

In summary, politics in the western provinces have evolved in a manner involving recurrent conflict between the provincial and federal levels of government. Underlying this development initially was the strength of the agrarian community which gave birth to the CCF and Social Credit parties and in whose interests these parties functioned. While the success of these parties in the post-war period reflects also internal changes which have involved their identification with larger economic interests (roughly stated, Social Credit as a representative of business; the CCF - NDP as a representative of labour), these parties, along with western Conservative and Liberal parties, have played an important role also in mediating between provincial interests (which necessarily, in any given instance, are reducable to specific class interests) and the interests of the central Canadian financial and manufacturing sector which receive expression in federal policy.

The fact that the ascendancy of third parties in the West has coincided with the decline, almost collapse, of the Liberal Party of Manitoba, the Conservative Party of Saskatchewan, the Liberal Party of Alberta, and both the Liberal and Conservative parties in British Columbia is related both to conflicts between regional business interests and to the existence of class antagonisms and political polarization around broadly defined class issues within provincial political systems.

Finally, the influence of regional conflict on provincial politics in the West today is illustrated by the fact that, since 1911, provincial Liberal and Conservative parties have developed somewhat independently of their federal counterparts. Such is the nature of the Canadian federal structure today that

even like parties are unable to bridge the division of interest which inescapably separate regional economic interests, and, consequently, the federal and provincial levels of government.

iii) Regional Conflict and Central Canada

"Regional conflict" (used to designate the existence of regionally-based class antagonism) has a significant history in the central provinces, just as in the rest of Canada. Since the days of the early Liberal Party whose basis of support rested with agricultural and lumbering interests, along with small businessmen of Ontario and Quebec, very real and persistent divisions have existed between rural and metropolitan areas in the central provinces. The successes of the early federal and provincial Liberal parties were, in fact, predicated upon their rural basis of support. It was for this reason that the Liberal governments of Ontario and Quebec were able to join with Nova Scotia, New Brunswick and Manitoba in 1887 to call for the repeal of the tariff and the curtailment of federal power. Even as late at 1919, agrarian and reform elements in Ontario were able to form the government of that province and to challenge federal policy from Toronto.

While much has changed since 1919, there remains significant conflicts between rural interests of the central provinces and the financial manufacturing sectors of the metropolitan centres. The historical divisions between rural and urban constituencies in Ontario, and the continued life of the Creditistes in rural areas of Quebec testifies to the differences that divide "hinterland-metropolis" interests in these provinces. Provincially, these conflicts are illustrated in the strength of the Ontario Conservative party in rural ridings and the continued presence of the provincial Creditiste movement in rural Quebec.

The fact that these historic divisions between rural and metropolitan interests prevail does not suggest, however, that regional antagonisms are

the major factors in the politics of the central provinces. Provincially, the focus of political conflict in both of the central provinces has shifted in recent years from a rural - urban (or regional division) to a conflict between business and labour. In Ontario, the growth of the CCF during the late 1930's and 1940's placed it dangerously close to provincial power and evoked the strongest reaction from dominant capitalist interests in the province.[14] The 1943 and 1948 provincial elections in Ontario are particularly interesting in this regard. Recovering from a significant setback, the CCF - NDP today constitutes a significant force within the Ontario provincial legislature.

Somewhat differently, provincial politics in Quebec until recently have been dominated by a division between the fiercely anti-federalist Union Nationale and the provincial Liberal Party. Whether or not one chooses to characterize the regime of the Union Nationale in that province as an example of third party government, it is clear that its nationalism and anti-federalism were the major components of the party's success. From a different point of view, the strength of the Parti Quebecois today reflects both the nationalism and anti-federalism of the Union Nationale - - these having been transformed from the reactionary and theocentric philosophy of Duplessis into the reformist views of such persons as Rene Levesque.

Although the politics of Ontario and Quebec show considerable disimilarity, significant parallels exist also. The governments of both provinces (irrespective of party label) have historically been the most vigorous proponents of "Provincial Rights", dating back to the early Liberal governments of the 19th century. (In this regard, it is important to note that even the otherwise federalist Bourassa Liberal government was the only provincial government to reject the 1971 proposal for constitutional ammendment embodied in the Victoria Charter). The vanguard role of the Quebec and Ontario provincial governments in decentralizing the Canadian political structure, as

shown in previous chapters, is one of the most significant aspects of the evolution of Canadian federalism.

But unlike the governments of the Maritimes and the West, the governments of the central provinces, since at least the 1920's have remained conspicuously silent on basic questions affecting the balance of inter-regional exchange, such as banking, trade, transportation, agriculture, regional development, if not energy policy. Little insight is required to locate the genesis of this silence in the favoured industrial - comercial position of the central provinces, and their consequent unwillingness to criticize federal policies that operate in their favour. More concretely, the failure of provincial governments in Ontario and Quebec to have challenged federal policy (in areas other than those relating to fiscal and jurisdictional autonomy) is a reflection of the character of governing parties in these provinces, and their close affiliation with central Canadian business interests.

The Heterogeneity of Provincial Politics

Perhaps the most salient feature of Canadian provincial politics is their heterogeneity. Unlike most other industrialized nations where politics at all levels have tended to polarize around two or three parties, provincial politics in Canada have assumed diverse and historically changing forms. In the post-war period, it is possible to identify more than six different parties which have held provincial power or seriously challenged governing parties at the provincial level (the Liberals, Conservatives, Union Nationale, CCF - NDP, Social Credit, and Parti Quebecois). In historical terms, this list must be expanded to include several secessionist movements; the various progressive, coalition and non-partison farmers parties, such as the United Farmers of Alberta, Manitoba and Ontario; short-lived coalitions such as the Bloc Populaire and the Union des Electeurs in Quebec; as well as various labour and socialist movements.

The political heterogeneity of provincial politics, furthermore, is expressed in disimilarities between different provincial parties of the same label, and considerable organizational and political distance between provincial and federal wings of the same party. An explanation of these differences, and the heterogeneity of Canadian politics generally, certainly must be multifaceted, just as is the problem itself. In so far as the development of political parties and movements have reflected a variety of specific and differing class, ethnic, religious and cultural differences, the numerous Canadian political parties reflect the specificity of the political culture from which they emerged. But the specificities and particularities of provincial political systems do not obviate the necessity of a general interpretation.

Conventional interpretations of Canadian politics have tended to magnify far out of proportion the importance of such specificities as ethnic, religious and cultural differences, with little attempt to analyse the structural and institutional context within which such factors attain political importance. It is true of course that ethnic, religious, and cultural factors are strong correlates of political (voting) behaviour. But an acknowledgement of the correlative presence of these factors does not support the widely accepted proposition that it is these factors which play a determining role within the political process.[15]

Because of the strong empiricist tendency to interpret political phenomena in terms of their immediate correlates and surface accompaniments, it is tempting to ascribe the diversity of Canadian politics to the heterogeneous ethnic, religious and cultural character of the Canadian population. It is necessary, however, to situate these factors within a broader context, a structural context.

Essential to an understanding of the diverse and heterogeneous character of the Canadian polity is the role of commercial rivalry and conflict in shaping the development of the Canadian political system. As has been shown, it is within the broader framework of inter-regional conflict and commercial rivalry that the two-party, Liberal-Conservative division developed, and it is

within the context of a structured inter-regional imbalance that regional protest movements and Canada's third parties initially emerged.

Insofar as specific religious, ethnic and cultural differences are strongly associated with party preferences, etc., these factors are important variables at the immediate level, where, indeed, they manifest themselves in heterogeneous and mosaic fashion. But in no sense can these factors explain the larger processes of party formation and development. The heterogeneity of Canadian politics is not explicable with reference to cultural specificities, but derives, fundamentally, from the relatively non-integrated nature of the Canadian economy, and the specific and conflicting regionalized interests present therein.

SUMMATION AND CONCLUSIONS

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1. The origins of Canadian regionalism are traceable to the pre-Confederation character of the British North American colonies: their isolation, export dependence and consequent integration with foreign metropoles, specifically Great Britain and the United States. Because of the isolated and semi-autonomous character of the colonies, the political unification of 1867 lacked an economic foundation. There were virtually no trade ties between the colonies, and the commercial classes of the different regions were mutually independent, often hostile to one another. In the absence of economic bonds to sustain the political bond, tendencies toward regional division and conflict rapidly developed. Between 1867-70, as business interests in New Brunswick were still attempting to develope a rail with the State of Maine, their counterparts in Nova Scotia were openly advocating secession from Canada. The idea of Confederation had initially been rejected in Prince Edward Island and Newfoundland; even after the entry of P.E.I. in 1873, the commercial classes of the two island colonies remained antagonistic (at best, ambivalent) toward Canada.

2. With the addition of the Western territories in 1870 and the extension of the Dominion to the West Coast in 1871, Canada's 'regional' problems became more acute. Confronted with insurrectionary pressures on the Prairies, U.S. penetration of the B.C. interior, and a B.C. business class vacillating between union with Canada and its U.S. connections, the Canadian state faced the necessity of consolidating its political and territorial claims through a program of railway construction and westward settlement.

3. Even more pressing was the task of consolidating a national market, in the absence of which commercial connections were rapidly evolving along a north-south dimension. To counter this developing continentalism, Central

Canadian business interests, backed by British finance capital, implemented the National Policy (and tariff) of 1879. Its design was the consolidation of a national market, the re-direction of regional trade links and economic integration of the colonies along an east-west transcontinental basis. But its successes in achieving these objectives stimulated an antithetical tendency in the form of an intensified regional conflict.

4. Subordinated by the political structures of Confederation and the economic structures of the National Policy, commercial interests in the Maritimes, farmers in the Prairies (and export industry in general) sought redress through the abolition of the tariff, reduction of freight rates and redefinition of the federal structure. This opposition struck at the heart of the consolidating formula of the Canadian state and resulted in political conflict, between the manufacturing and financial establishment in Central Canada and commercial interests in Canada's hinterland. Within this conflict lie the roots of the Liberal-Conservative division, the growth of provincial power and the subsequent decentralization of the federal structure.

5. In essence, regional conflict developed out of the conflicting interests of regionalized commercial classes each of whom sought to modify the terms of internal and international exchange. To counter the U.S. pull, commercial interests in Central Canada had supplanted the United States as the manufacturing and commercial metropole for the rest of Canada. This strategy required tariff protectionism, a transcontinental transportation structure and a monopolistic banking system. In their success these mechanisms shaped a 'complementary' economic relationship between Canada's regions and consolidated a national market. At the same time, and to the degree that these mechanisms curtailed relationships between Canadian primary industries and the world market, they acted to the disadvantage of regional industry. This discriminatory aspect of the National Policy is best understood with reference to

its consequence: structured inter-regional exchange imbalance. This imbalance in the immediate-term precipitated conflict over the terms of exchange, and gave rise to political movements, eg. secession attempts, Progressive Party, Maritime Rights movement etc. In the long term, it established the basis for differential economic development of the regions, thereby exacerbating inter-regional disparities and intensifying the material cleavages which produce regional conflict.

6. If on the immediate level, regional conflict expresses the competitive struggle of regional commercial classes to modify the terms of exchange, the evolution and development of this conflict has, in turn, been modified by underlying processes which mediate and determine the relationship of Canada's regional economies to the Central Canadian and world market. Foremost among these factors has been the continued development of commercial relationships between the Canadian regions and the United States. Based on exports of primary materials, these trade and investment ties have tended to undermine the basis of transcontinental unity, and intensify pressure toward regional balkanization. This tendency toward continental integration introduces strains and conflicts which derive, not simply from exchange imbalance within the domestic market but from macro-pressures which objectively operate to undermine the integrity of the domestic economy as a whole. The trade and investment dependence of Canadian regional economies upon the United States subvert the "hinterland-metropolis" relationship within Canada, exerting pressure to extend this relationship into the broader framework of the international market. Conflict thus arises between domestic commercial centers, who not only attempt to modify the terms of internal exchange, but, also, to determine the terms and character of Canada's exchanges with foreign markets.

7. This conflict is actuated by material interest, but its expression necessarily assumes a political form. Provincial governments in the hinterland, resource-producing regions have historically proven the most consistent representatives of commercial interests of their area, and the authority and strength of provincial governments is an expression of the conflicting and independent character of the relationship between different commercial and industrial sectors. Efforts of provincial governments have been directed toward striking and better bargain with other regions and with the federal state.

8. To sum up, regional conflict finds its origin in inter-regional exchange imbalance and the terms of exchange which are politically determined. The resolution of this conflict and imbalance necessarily requires a modification of its structural causes. Although regionally-oriented welfare programs such as fiscal redistribution and regional development policies may attenuate the symptomatic expression of regional imbalance, such efforts cannot successfully overcome regional inequalities.

9. Regional conflict is endemic to the Canadian economic reality. Although it is clear that a homogenization of economic activity at the national level has, over the past 70 years, integrated a domestic market, there remain regional cleavages of significance which continue to be animated by commercial rivalry and underlying pressures of continentalism. No projections will be made at this point. We have sought here only to outline and analyse the mechanisms of regional imbalance and conflict, not speculate as to their future course.

NOTES AND BIBLIOGRAPHY

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CHAPTER II

1. "The Rebellions(of 1837) focused attention on the Canadian problems and, at the same time, fostered the conviction that the assimilation of French Canada was essential to the maintenance of the British connection" William Ormsby, The Emergence of the Federal Concept in Canada 1839 - 1845, Toronto, 1969, p. 122.

2. Quoted by Richard P. Bowles et al., Canada and the U.S.: Continental Partners or Wary Neighbours, Scarborough, 1973, p. 225

3. For source material on the views of Lord Elgin and Earl Grey, see A.G. Doughty (ed) The Elgin-Grey Papers 1846 - 1852, Ottawa, 1937.

4. Lord Durham himself saw the Act of Union as a method of restoring "harmony", "regularity" and "vigour" into the administration of the colonies. See D.C. Masters, Short History of Canada, Princeton, 1958, p. 107.

5. V.C. Fowke, The National Policy and the Wheat Economy, Toronto, 1957, p. 30.

CHAPTER III

1. Most historians have recognized the anti-democratic, "elitist" character of Confederation.

   W.L. Morton in his opus Kingdom of Canada characterizes Confederation as "an amazing tour de force carried by a political elite who with imperial support had overcome the provincialism of the continental colonies . . ." (W.L. Morton, Kingdom of Canada, Toronto, 1963, p. 328)

   Frank H. Underhill has likewise noted the anti-democratic flavour of Confederation (The Price of Being Canadian, p. 6, and elsewhere)

   E.R. Black and Alan Cairns have similarly observed: "Confederation was the accomplishment of a small group of elites who neither sought nor obtained popular support for the new undertaking". "A Different Perspective on Canadian Federalism", Canadian Journal of Economics and Political Science, Vo. IX, No. 1, March 1966, p. 29.

   It is clear that Canadian Confederation was not founded upon the democratic aspirations of the "Founding fathers". In addition to supporting the retention of the monarchy and establishing the senate whose propertied members were appointed, Canada's first Prime Minister, John A. Macdonald, urged the disenfranchisement of allday labourers and persons with incomes less than $400 per year (and of course, women). See Norman Ward, Canadian House of Commons: Representation, Toronto, 1950, p. 211.

2. See for example J. Murray Beck's article "Joseph Howe: Anti-Confederate" published by the Canadian Historical Association (1965). Making only

oblique references to the economic position of Nova Scotia and the position of local commercial interests, Beck's analysis probably obscures as much as it reveals about Nova Scotia's opposition to Confederation.

3. D.G. Creighton, British North America at Confederation: A Study Prepared for the Royal Commission on Dominion-Provincial Relations, Ottawa, 1939, Appendix 2, p. 61.

4. Stanley Ryerson, Unequal Union, Toronto, 1968, p. 342

5. The relative position of the Maritime colonies and Canada in regards manufacturing capacity remained fairly constant till about 1890. The following figures for 1880 illustrate the relative development of manufacturing in the various regions and colonies of British North America.*

Region or Colony	Gross Value Manufactures	% of Total
P. E. Island	3.4 million	1
Nova Scotia	18.6 million	6
New Brunswick	18.5 million	6
Quebec	104.7 million	34
Ontario	158.0 million	51

* excludes Western regions

Source:
Province of Nova Scotia, A Submission on Dominion-Provincial Relations and the Fiscal Disabilities of Nova Scotia within Confederation, undated, Circa 1934

6. For a thorough and probing account of the development of Canadian railways and the interrelations between rail interests and Canadian politicians see, E.B. Biggar, The Canadian Railway Problem, Toronto, 1917.

7. Antoine A. Dorion (M.L.A. Hochelaga), among others, recognized this relationship between railway interests and supporters of Confederation. Their contributions to the Confederation debates within the Canadian Assembly are particularly interesting. See, P.B. Waite, The Confederation Debates in the Province of Canada, 1865, Toronto, 1963

8. Donald Creighton, British North America at Confederation, p. 10

9. D.V. Smiley (ed), The Rowell-Sirois Report, Toronto, 1964, p. 17

10. Ibid., p. 18

11. Ibid., p. 21

12. W.L. Morton, Kingdom of Canada, p. 323

CHAPTER IV

1. For a more detailed account of Macdonald's views see, Edward Whelan, The Union of the British Provinces, Toronto, 1927

2. The conservative historian Donald Creighton appears to recognize this aspect of Confederation; see, Donald Creighton, Canada's First Century: 1867 - 1967, Toronto, 1970, p. 10

3. K.C. Wheare, Federal Government, London, 1963, p. 19

4. Cited in George Rawlyk, "The Maritimes and the Canadian Community: A Study of Nova Scotian Regionalism" in Mason Wade (ed), Regionalism in the Canadian Community, Toronto 1969, p. 107

5. Richard P. Bowles et al, Canada and the U.S., Scarborough, 1973, p. 204

6. In the case of the Conservative Party, its dedication to the cause of national "unity" and consolidation was determined by its close ties with railway and commercial interests; "the triple alliance" as Professor Underhill has characterized it, "between the federal government, the Conservative Party, and big business interests". F.H. Underhill, The Image of Confederation, Toronto, 1964, p. 25

7. Stanley Ryerson, Unequal Union, Toronto, 1968

8. Phillip Resnick "The Political Economy of B.C. - A Marxist Perspective" in Paul Knox and Phillip Resnick (eds), Essays in B.C. Political Economy, Vancouver, 1974, p. 6

9. British Columbia in the Canadian Confederation, A submission to the Royal Commission on Dominion-Provincial Relations by the Government of the Province of British Columbia, Victoria, 1938, p. 4

10. The Case of Prince Edward Island, A submission presented to the Royal Commission on Dominion-Provincial Relations by the Government of Prince Edward Island, Charlottetown, 1938

CHAPTER V

2. See Edward Porritt, Sixty Years of Protectionism in Canada, Winnipeg, 1913, p. 266 and discussion

1. See trade figures and the discussion in Samuel E. Moffet The Americanization of Canada, 1907, reprinted Toronto, 1972, p. 79

3. See the schedule in Edward Porritt, Sixty Years of Protectionism in Canada, p. 145 onward

4. The fact that five-sixths of U.S. federal revenues were derived from customs and excise duties, and that these were declining as a result of the depression is widely accepted as the major factor in the U.S.

refusal to accept the reciprocity agreement of 1874. See D.C. Masters, Reciprocity, Canadian Historical Association, Toronto, 1961, p. 13

5. H.A. Innis speaks of the "jealousy" this Manitoban-U.S. trade aroused in central Canada. See H.A. Innis, The Canadian Pacific Railway, 1923, reprinted Toronto, 1971, p. 93 n2

6. In his essay, "Industrialism and Settlement in Western Canada" H.A. Innis conservatively sums up the defensive and aggressive aspects of the National Policy with his statement that "It was imperative that Western Canada should be developed in the shortest possible time from the standpoint of the prosperity of Eastern Canada and from the fear of annexation to the United States" (Report of the International Geographical Congress, Cambridge, 1928, p. 374)

7. W.T. Easterbrook and H.G.J. Aitken, Canadian Economic History, Toronto, 1956, p. 388. This assessment, although correct in outline, suggests that the "slow drift" to tariffs was a predetermined component of Canadian policy. In fact however, the implementation of the protective tariff was neither slow nor predetermined, but was the decisive outcome of a conflict from which the commercial and industrial interests of Central Canada emerged victorious over their regional rivals.

8. Edward Porritt, Sixty Years of Protectionism in Canada, p. 281

9. The role of the tariff in national consolidation has been widely accepted by economic historians. In their criticism of the Rowell-Sirois Report, S.A. Saunders and Eleanor Back note that the Report bases itself upon two assumptions: "first, that the "pull of geography" would normally have led to a north-south flow of commerce, and that, to overcome this "pull of geography", it was necessary to establish a costly east-west all-Canadian transportation system; and second, that, to make this east-west transportation system work, it was necessary to establish an artificial freight rates structure, and to force regional integration and east-west traffic by means of a protective tariff". The Rowell-Sirois Commission, Part II, A Criticism of the Report, Toronto, 1940, p. 25

In broad outline this analysis of the Rowell-Sirois Report has been accepted by the present author. It was not of course the "pull of geography" per se, but rather the pull of the powerful United States economy to the south that required the implementation of the National Policy.

10. F.H. Underhill, The Image of Confederation, Toronto, 1964, p. 25

11. Quoted by George Rawlyk, "The Maritimes and the Canadian Community", p.110

12. Ibid.

13. Quoted in K.A. MacKirdy et al (eds), Changing Perspectives in Canadian History, Don Mills, 1967, p. 201

14. Hugh G. Thorburn, Politics in New Brunswick, Toronto, 1961, p. 16 Thorburn's observation about New Brunswick holds true for Nova Scotia. Interested readers are advised to study the submission of the Province of Nova Scotia to the Royal Commission on Dominion-Provincial Relations (the Rowell-Sirois Commission) for a well-documented and convincing

argument on the destruction of Maritime industry by the National Policy.

15. Hugh Thorburn, Politics in New Brunswick, p. 15

In a similar vein, W.A. MacKintosh has stated that the protectionist policy "presumably restricted the revenues of provincial governments and increased the expenditures necessary to cope with the problems of declining industries and declining areas". W. A. MacKintosh, The Economic Background of Dominion-Provincial Relations, p. 89 (original document)

17. As stated by Professor Morton, "Confederation was brought about to increase the wealth of Central Canada, and until that original purpose is altered, and the concentration of wealth and population by the National Policy ceases, Confederation must remain an instrument of injustice". W.L. Morton, "Clio in Canada: The Interpretation of Canadian History", in Carl Berger (ed), Approaches to Canadian History, Toronto 1967, p. 47

16. R.T. Naylor, "The History of Domestic and Foreign Capital in Canada" in R.M. Laxer (ed), Canada Ltd: The Political Economy of Dependency, Toronto, 1973, p. 50

18. V.C. Fowke, The National Policy and the Wheat Economy, Toronto, 1957, p.53

19. Norman MacDonald, Canada: Immigration and Colonization, Toronto, 1970, p. 178

20. D.V. Smiley, The Rowell-Sirois Report, p. 71

21. W.L. Morton, The Kingdom of Canada, p. 362

22. For further discussion on the controversy over C.P.R. and Pembina Route rates, see H.A. Innis, The Canadian Pacific Railway, Toronto, 1971

See also G.P. de T. Glazebrook, A History of Transportation in Canada, Vol. II Toronto, 1964, p. 112

23. F.H. Underhill, The Image of Confederation, p. 25

24. See Melville H. Watkins, "Economic Nationalism" in Canadian Journal of Economics and Political Science, August 1966, p. 388

25. Joseph Pope, Memoirs of the Rt. Honourable John A. Macdonald, Toronto, 1930, p. 777

26. Full statistics on Canadian wheat production from 1869 - 1961, along with the values of farm capital, are given in M.C. Urquhart (ed), Historical Statistics of Canada, Toronto, 1965, p. 363 and 353

27. See also Chapter IX, Section C, Agriculture

28. See Chapter XX, "The Wheat Economy", in W.T. Easterbrook and H.G.T. Aitken, Canadian Economic History, Toronto, 1961, p. 477

29. An article by Alan G. Green entitled "Regional Aspects of Canada's Economic Growth: 1890 - 1929", (Canadian Journal of Economics and Political Science, Vol. XXXII, 1967, pp. 230-245) documents the relative decline of Prairie incomes during this period.

Green's article is worthy of examination because of the lack of analysis and interpretation of his findings. Having statistically demonstrated a growing interregional disparity in personal incomes, Green concludes his article with the casual remark that perhaps an explanation might reside in the "occupational structure of the migration to these regions".

Clearly however, these interregional disparities in income are not attributable to the characteristics of individuals migrating to various canadian regions. The suggestion is itself nothing short of preposterous.

It is interesting that Green fails to so much as mention the effects of the National Policy or the monopolization of the transportation and marketing of wheat as possible causes of low prairie incomes. The fact that prairie farmers understood this relationship 90 years ago says little for the sociological perception of Professor Green.

30. Speaking of the tariff's effect on the manufacturing sector, the Canadian Bank of Commerce in its brief to the Gordon Commission stated: "By giving American and British firms an inducement to establish branch plants in Canada, it (the tariff) sometimes acted to increase competition in Canadian industry". Canadian Bank of Commerce, Industrial Concentration, Royal Commission in Canada's Economic Prospects, 1956, p. 48 note.

31. Michael Bliss in an article entitled "Canadianizing American Business: The Roots of the Branch Plant" advances the argument that ". . . Canadian tariff policy was consciously designed to attract foreign capital to Canada in whatever form it chose to come . . ." (in Ian Lumsden, Close the 49th Parallel, The Americanization of Canada, Toronto, 1970, p. 33)

Although this argument correctly recognizes the objective relationship between tariff protectionism and the penetration of U.S. industrial capital into Canada, it fails to correctly understand the prime motivation of the National Policy and its strategic importance in consolidating the Canadian territories.

Bliss's argument is (consciously or otherwise) premised upon the absence of U.S.-Canadian competition for the Western hinterland. He asks for example if during the two or three generations after Confederation, "a more foresighted and active Canadian government or a more dynamic entrepreneurial class (could) have perceived the ultimate American threat to Canadian society and thwarted it before serious inroads were made?" (p. 38, emphasis added)

In fact, it was in the context of an immediate threat to Canadian territories that the National Policy was adopted. We can, perhaps, agree with Bliss that "the economic nationalism of the National Policy was clearly inadequate as a defense against American penetration of the Canadian economy", but only in the long-run.

In the short-run, the National Policy achieved its objective of impeding the penetration of U.S. industrial goods and the expansion of the continental market. Only in a secondary sense is it correct to say

that the Canadian tariff was "consciously designed to attract foreign capital into Canada". It was instead "consciously designed" to forestall the American penetration of Canada, particularly the Western regions. To misunderstand this essential point is to misinterpret an important dynamic of Canadian development, namely, the conflict between the Central Canadian bourgeoise and American industrial capital.

32. Jacob Viner, Canada's Balance of International Indebtedness, Cambridge, 1924, Table XLIV, p. 139

33. Donald Creighton, Canada's First Century, Toronto, 1970, p. 181

34. The importance of freight rate discrimination was recognized by the Royal Commission on Maritime Claims (1926) as well as a number of other official enquiries and commissions. See also Chapter XI, Section D, Transportation

35. V.C. Fowke states: "The prairie economy grew up within a pre-established framework of tariffs which shaped, limited and curtailed its development" The National Policy and The Wheat Economy, p. 67

CHAPTER VI

1. Constitutional history typically has accorded considerable independence to the juridical process of interpretation, with little attempt made to link constitutional evolution to real-life processes and events. A mid-range compromise may be found in the work of Prof. Alexander Brady who interprets Privy Council decisions favouring the provinces as having given "judicial expression to the upsurge of provincialism, evident from the early eighties to the decade after the First World War". Democracy in the Dominions, Toronto, 1958, p. 46. Obviously however - if these decisions expressed the upsurge of provincialism (as they did) - the task remains in explaining the upsurge of provincialism.

2. W.L. Morton, Kingdom of Canada, p. 365

3. Christopher Armstrong and H.V. Nelles, "Private Property in Peril Ontario Businessmen and the Federal System 1898 - 1911" in Glen Porter and Robert Cuff, Enterprise and National Development, Toronto, 1973, p. 22. This article is based, in part, upon a lengthy Ph.D. dissertation prepared by Christopher Armstrong, The Politics of Federalism: Ontario's Relations with the Federal Government 1896 - 1941" University of Toronto, 1972, (microfilm copy)

4. Armstrong and Nelles, p. 23

5. Although the federal power of disallowance was retained, its application was successfully limited so that federal governments could not disallow provincial legislation simply because it conflicted with federal policy.

6. "Liberal" interpretations have completely obscured the nature of federal-provincial conflict and the material basis of the Liberal-Conservative division. Psychological reductionism taken to the point of absurdity:

we find the following gem in Ramsey Cook: "Only if it is remembered that Macdonald and (Ontario Premier) Mowat belonged to different parties, were men of different temperaments, and had long been on touchy personal terms can the bitterness of the quarrel between Ottawa and Toronto be understood". Provincial Autonomy, Minority Rights and the Compact Theory, Ottawa, 1969, p. 20

7. "The Farmers' Organization", Chapter XVI, Edward Porrit, Sixty Years of Protectionism in Canada, pp. 430-440

8. Ibid.

9. J.A. Lower, Canada: An Outline History, Toronto, 1966, p. 153

10. Subsequent interpretation has often blurred the character of the reciprocity-protection conflict; it is therefore interesting to review earlier accounts of the struggle written by the protagonists and their spokespeople. See William Levine, The Farmers in Politics, Toronto, 1920 for a lucid account of the reciprocity question are understood by farmers.

    See also "Economic Gains and Losses to Canadians from Reciprocity", Chapter IV in John Allan, Reciprocity and the Canadian General Election of 1911: A Re-examination of Economic Self Interest in Voting unpublished M.A. Thesis, Queens University, 1971

    Although largely undeveloped, Allan outlines the conflict between the primary and manufacturing sector, and depicts the conflict as one of "producer interest".

11. See, "Manifesto of Eighteen Toronto Liberals on Reciprocity", February 20, 1911 in Canadian Annual Review, Toronto, 1911, p. 49

CHAPTER VII

1. D.V. Smiley, The Rowell-Sirois Report, p. 125

2. Ibid., p. 127

3. W.L. Morton comments that: "The defeat of reciprocity in 1911 was the first act in the agrarian revolt of Western Canada. It sharpened the distrust of the old parties which had been growing among the organized farmers". The Progressive Party in Canada, Toronto, 1950, p. 26

4. A text of the Farmers' Platform may be found in W.L. Morton's, The Progressive Party in Canada

5. For original material on farmers' reactions to the abolition of the Wheat Board see, Sections 41, 42, and 43 in Kelvin H. Burley, The Development of Canada's Staples: 1867 - 1939, Toronto, undated, pp. 143-166

6. W.A. MacKintosh, The Economic Background of Dominion-Provincial Relations, Toronto, reprinted 1964, p. 73

7. Dawson writes that the farmers' movement developed around ". . . . . a distrust of the older parties as such, and of the eastern commercial and industrial interests which supported them, the belief that no substantial reduction in the tariff could be expected from the other parties, and the desire to place on the statute books certain ideas and tenets of the new movement". R. McGregor Dawson, The Government of Canada, revised by Norman Ward, Toronto, 1964

8. In an unusually perceptive passage, the historian, W.L. Morton, has written ". . . the subordinate status given the west in Confederation was the initial bias that set in train the development of prairie politics towards an increasing differentiation from the Canadian standard . . . The struggles of the prairie West against political subordination had begun (with the Riel Rebellion - K.C.) and it was to go on to merge with the struggle against economic subordination to the capital and corporations of the East" "The Bias of Prairie Politics", in Donald Swainson (ed), Historical Essays on the Prairie Provinces, Toronto, 1970, p. 290

9. See, W.A. MacKintosh, The Economic Background of Dominion-Provincial Relations, pp. 82-86

10. George Rawlyk, "The Maritimes in the Canadian Community", p. 113

11. It is interesting that Professor Rawlyk choses to visualize the "Maritime Rights" Movement as a counter-offensive against the Farmer-Labour Movement. In some ways, this analysis is identical to his interpretation of the 1885-87 secessionist resolution in the Nova Scotia legislature. Both interpretations, in emphasising inter-party and inter-governmental conflict, fail to perceive these expressions of "regional discontent" as reflections of underlying class interest directed against central Canadian capitalist domination of the Maritime economy.

12. See, George Rawlyk, "The Maritimes in the Canadian Community", p. 114. The Rowell-Sirois Commission likewise has drawn a connection between the "Maritime Rights" Movement and the interests of Maritime commercial groups, See, D.V. Smiley's edited version, p. 154

13. See Table 7, p. 86 in W.A. MacKintosh, The Economic Background of Dominion-Provincial Relations

14. W.L. Morton, The Kingdom of Canada, p. 444

15. W.A. MacKintosh, The Economic Background of Dominion-Provincial Relations, p. 73

16. Ibid., p. 71

17. D.V. Smiley, The Rowell-Sirois Report, p. 140

CHAPTER VIII

1. A brief history of the "compact theory" may be found in Ramsay Cook, Provincial Autonomy, Minority Rights and the Compact Theory 1867 - 1921, Ottawa, 1969

2. The federal government had, however, previously acknowledged the problem of regional disparity in such measures as the Maritime Freight Rates Act of 1926 designed to lower Maritime rates by 20%. See also Chapter XI

3. This is not do deny the importance of the labour movement as the major expression of inter-class antagonism on a pan-Canadian scale, but rather to emphasise that inter-class (and more obviously, intra-class) conflict in Canada has been conditioned and limited by the interrelationship of regional and class issues. See discussion in Section IV

4. The Royal Commission of Inquiry on Constitutional Problems characterized the post war period as one marked by "the preponderence of provincial activity". (Report, Quebec, 1956, I, p. 97)

   A similar observation was made by the Royal Commission on Dominion-Provincial Relations, See, D.V. Smiley, The Rowell-Sirois Report, Chapter V, or, the original report of the commission

6. Expressive of this shift in power between the federal and provincial levels of government was the federal governments' somewhat reluctant decision to resume construction of the Hudson Bay Railway in 1926. The provinces of Manitoba and Saskatchewan were directly instrumental in pressing the federal government in this regard. The Railway, for these provinces, represented a potential alternative to the CPR and the grain transport facilities of Central Canada

   The Hudson Bay Railway represented a search for alternative transportation routes in many ways parallel to the continued attempts of Manitoba to charter a rail facility linking with the U.S. Rail System in the 1870's and 1880's

5. D.V. Smiley (ed), The Rowell-Sirois Report, p. 141

7. S.A. Saunders and Eleanor Black in their commentary and criticism of the Rowell-Sirois Report state: ". . . it is true that, during the 1920's, several regions became more dependent upon export markets than they formerly had been, and the Commission looks upon this as weakening the material basis that had bolstered political unity . . ." The Rowell-Sirois Commission, Part II, A Criticism of the Report, Toronto, 1940, p. 35

8. See John J. Deutsch, "Recent American Influence in Canada" in Hugh G.J. Aitken et al., The American Economic Impact on Canada, London, 1959, p. 38

9. Under the terms of union, provincial governments were given control over natural resources and land within their boundaries. It is interesting to note that only in the prairies did the federal government retain control in this area. This federal control over resources and land was an essential element in federal immigration, settlement and transportation policy (as for example in the C.P.R. land grants mentioned earlier). Although the federal retention of rights over prairie resources was a long-standing grievance of the West, not until 1930 did these provinces acquire their appropriated rights.

   Omit – leave 1930

10. H.A. Innis, Essays in Canadian Economic History, p. 209

11. D. G. Creighton, Dominion of the North: A History of Canada, Toronto, 1957, p. 477

13. Many observers have noted that even where the Liberal and Conservative parties were able to retain power provincially their policies and public image reflected the widespread radicalization that elsewhere had swept their counterparts from office.

W.L. Morton for example notes that the Liberal government of Saskatchewan was "just as progressive", as were the organized farmers of the province. "The Liberal Party of Saskatchewan was, in fact, an agrarian party and the administration was a farmers government in everything but personnel". The Progressive Party in Canada, p. 35

Morton's claim that the Liberal party was in most respects a farmers government is undoubtedly exaggerated. Its image and rhetoric were however undeniably radical.

12. See W.L. Morton, The Progressive Party in Canada for a brief (and simplified) statement of the inter-relation of class and regional issues as perceived by the leaders of the Progressive Party, (p. 75)

14. Canada's new relationship with Britain and the U.S. also expressed itself in the field of foreign affairs and international diplomacy. A.R.M. Lower demonstrates how Canada's evolution to sovereign status was stimulated during the 1920's and "virtually completed" by 1928. (A.R.M. Lower, Colony to Nation, Toronto, 1946, p. 481).

The termination of Canada's colonial relationship with Britain presents a remarkable parallel with the diminuation of the Canada-British economic connection and the growing importance of the United States. It is interesting to note that Canada's first independent diplomatic exchanges -- the North Pacific Halibut Treaty of 1923 and the establishment of an independent diplomatic mission in 1927 -- were with the United States whose government encouraged this development. Formal negotiations at the Imperial Conferences of 1926 and 1930 culminated in the Statute of Westminster (1931) in which Canada's sovereign status was recognized by the British parliament.

CHAPTER IX

1. Paul W. Fox, "Regionalism and Confederation" in Regionalism in the Canadian Community, p. 8

2. As a contemporary observer noted: "The problem of government finance has become quite acute with the depression, partly because natural resources have not shown adequate resilience". H.A. Innis, Government Ownership and the Canadian Scene, Toronto, 1933, p. 19

See also the original Report of the Royal Commission on Dominion-Provincial Relations, Book I, Canada: 1867 - 1939, "The Depression", Ottawa, 1940

3. W.T. Easterbrook and H.G.J. Aitken, Canadian Economic History, p. 506

4. Ibid., p. 493

5. For more detailed information see, "The Depression" Report of the Royal Commission on Dominion-Provincial Relations, Ottawa, 1940

6. Ibid.

7. Canada, Parliament, Debates of the House of Commons, Ottawa, 1935, p. 4

8. In fact, the Judicial Committee of the Privy Council latter ruled that several of these measures were ultra vires. See, Richard A. Olmstead, Decisions of the Judicial Committee of the Privy Council in relation to the British North America Act 1867 and the Canadian Constitution 1867 - 1954, Ottawa, 1954, Vol. III, p. 208. Only after an amendment to the B.N.A. Act was the federal government able to implement an Unemployment Insurance Fund (1940)

9. A brief summary of the history of this policy is contained in D.V. Smiley, Conditional Grants and Canadian Federalism, Canadian Tax Foundation, Toronto, 1963, pp. 1-16

10. Donald V. Smiley, The Rowell-Sirois Report, p. 171

11. Speaking specifically of the effects of the tariff during the depression, Prof. J.B. Brebner has stated that: "Within Canada, high protectionism had the obvious and predictable effect of sheltering central Canada and still further exposing the desperate margins". J. Bartlet Brebner, Canada: A Modern History, p. 457

12. Donald V. Smiley, The Rowell-Sirois Report, Table 15, p. 19

13. E.R. Black and Alan C. Cairns, "A Different Perspective on Canadian Federalism", Canadian Public Administration, Vol. IX, March 1966, p. 27

14. See "One Country or None - The Demands made by the Provinces before the Rowell Commission" by J.B. McGreachy, in Violet Anderson, Problems in Canadian Unity, Toronto, 1938, particularly pp. 40-41

15. "The Depression", Report of the Royal Commission on Dominion-Provincial Relations, Ottawa, 1940

16. Commentary on this editorial are to be found in a variety of sources. The original editorial appeared in the Vancouver Sun, May 14, 1934

17. J.B. Brebner, Canada: A Modern History, Ann Arbor, 1960, p. 459

18. For a brief overview of North American populism and Alberta Social Credit in this context, see, Leonard B. Pashak, The Populist Characteristics of the Early Social Credit Movement in Alberta, Unpublished M.A. thesis, Sociology, University of Calgary, 1971

19. Despite recent attempted criticisms of his thesis (most of them atheoretical and/or misbased), C.B. MacPherson's Democracy in Alberta (Toronto, 1953) remains the most penetrating study of Social Credit in Alberta I have seen. MacPherson stresses the relative class homogeneity of the movement and its explicit appeal to class interest as salient features of the Social Credit movement.

20. S.M. Lipsets' analysis of the C.C.F. provides numerous examples of the conflict between farmer's organizations and central Canadian capitalist interests. Reflecting the class interests of farmers, the C.C.F. (in Lipset's terms) became the "political voice of the organized agrarian community". Agrarian Socialism, Berkley, 1950, p. 201.

21. Before its electoral victory and degeneration into a reactionary theocentric nationalist party, the Union Nationale was comprised of leading liberal elements, such as those in the L"Action Liberale Nationale who helped form the party. In no sense a progressive or populist movement, the UN nonetheless expressed hostility towards Anglo-Canadian influence and domination. Its appeal to the urban and rural petty bourgeoise, its close ties to the Catholic Church and its conservative (even reactionary) social and economic policies suggest that the UN was a pro-capitalist alternative to the provincial liberal party whose difference rested in its nationalist appeal to the French speaking majority in the province.

    Although the Union Nationale was formed out of a coalition with the Conservative Party (and, as such, perhaps, cannot strictly be considered a third party), it is, I think, significant that this new party should arise, as with the CCF and Social Credit, during the socially divisive and politically disruptive conditions of the depression.

22. J.A. Lower, Canada, An Outline History, Toronto, 1966, p. 189.

23. In this regard, Professor Smiley's argument that the Rowell-Sirois Report also recognized provincial autonomy (" . . .provincial autonomy is fundamental in the commission's concept of a viable Canadian federal system" - p. 57) would appear a somewhat one-sided claim.

    While it is true that it recognized the concept of provincial autonomy, the important point, it seems to me, is that the Report sought to limit the jurisdictional application of the concept.

    See, D.V. Smiley, "The Rowell-Sirois Report, Provincial Autonomy, and Post-War Canadian Federalism", The Canadian Journal of Economics and Political Science, XXVIII, 1962

24. Quoted in Wilfred Eggleston, Road to Nationhood, Toronto, 1946, p. 168.

25. Ibid., p. 163

26. See Norman Ward (ed), A Party Politician: The Memoirs of Chubby Power, Toronto, 1966, p. 120-132.

27. W.L. Morton, The Kingdom of Canada, p. 487.

28. The Canadian Tax Foundation, The National Finances 1972-73, Toronto, 1972 Table 2-11, p. 20 and Table 2-9, p. 18.

29. Ibid., Table 9-1, p. 129.

CHAPTER X

1. Hugh G.T. Aitken, "The Changing Structure of the Canadian Economy", in H.G.J. Aitken et al. (ed), The American Economic Impact on Canada, New York, 1958, p. 11.

2. Foreign Investment Division, Department of Industry, Trade and Commerce, Direct Investment in Canada by Non-Residents Since 1945, Ottawa, 1973 Tables CD-9, CD-9A, and CD-10. See also the "Grey Report", Information Canada, Foreign Direct Investment in Canada, Ottawa, 1972.

3. D.V. Smiley, "The Rowell-Sirois Report, Provincial Autonomy and Post-War Canadian Federalism", Canadian Journal of Economics and Political Science, Vol. XXVII, p. 54.

4. A detailed discriptive account of federal-provincial tax-rental agreements is available in Frances Whiting "Federal-Provincial Tax Rental Agreements - An Assessment" unpublished MA thesis, University of Manitoba, 1954.

5. In 1954, the Quebec legislature passed a tax statute the preamble of which explicitly stated that provincial direct legislation took precedence over federal taxation legislation.

6. See The National Finances 1966-67, Canadian Tax Foundation, Toronto, 1967.

7. See Table 3-1, Provincial and Municipal Finances, 1973, Canadian Tax Foundation, Toronto, 1974, p. 29.

8. The National Finances 1973-74, Table 2-7, p. 16, also Table 2-8.

9. From Table 2-11, Ibid.

10. See David Ivor, "General Expenditure Analysis" in Report of the Proceedings of the Fourteenth Annual Tax Conference, Canadian Tax Foundation, Toronto, 1960, p. 103.

11. From Table 2-11, p. 20, The National Finances 1973-74.

12. Calculated by the author from Tables 3-5 and 3-6, Provincial and Municipal Finances, Toronto, 1973.

13. Ibid.

14. See provincial comparisons Table 3-4, Provincial and Municipal Finances, 1973, p. 34.

15. Compiled from provincial profiles Tables 15-4 to 15-49, Ibid., pp. 251-302.

16. Partial listing only. Compiled by the author from material provided by the provincial governments.

17. See Provincial and Municipal Finances, Toronto, 1973, Table 3-4, p. 34.

18. Of course, jurisdictional limitations render provincial departments of statistics etc. less comprehensive than similar structures at the federal level. Lack of control over external trade and monetary policy (to name but two areas) make it difficult for provinces to monitor (much less control) their internal development. They have, nonetheless, established sizeable bureaucracies for precisely this purpose.

19. Admittedly, these efforts reflect also the tendency for the state to assume an increasingly important regulatory role in the capitalist economy. This fact however in no wise changes our argument, for the significant point remains that it is the provincial governments, and not solely the federal government, that is assuming this role.

CHAPTER XI

1. Economic Council of Canada, Second Annual Review, Towards Sustained and Balanced Economic Growth, Ottawa, 1965, pp. 97-141.

2. T.N. Brewis, "Regional Development" in T.N. Brewis et al, Canadian Economic Policy, Toronto, 1965.

3. Mildred A. Schwartz, The Sociology of Regional Persistence in Canada, Montreal, 1974.

4. Economic Council of Canada, op. cit, p. 139

5. Canada Year Book 1973, Ottawa, 1974, Table 17-1

6. Canada Year Book 1933, Ottawa, p. 441

7. Canada Year Book 1973, Table 17-1

8. Compiled by the author from population estimates and manufacturing output figures in Canada Year Book 1973, Tables 17-1 and 5-6.

9. See the Submission of the Province of Nova Scotia to the Royal Commission on Maritime Claims, 1926, p. 44 for one such recommendation.

10. Compiled from Table A, Destination of Shipments of Manufacturers, Dominion Bureau of Statistics, Ottawa, 1971, p. 7.

11. Comparatives compiled as above. Since figures are based on the first destinations of shipments only, it is possible (and likely) that these ratios underestimate the trade imbalance, due to the greater likelihood that manufactures produced in outlying regions will be shipped to Central Canadian cities for further shipment to poihts east and west. The role of the Central provinces as manufacturing metropoli implies also a larger role in the Canadian distributive network.

12. Frances Masson and J.B. Whitely, Barriers to Trade Between Canada and the United States, Private Planning Association of Canada, Toronto, 1960, p. 3. The 35-40% estimate would obviously not apply to more developed Canadian industries such as pulp and paper. Neither would it apply, today, to the Canadian automotive industry which since the 1965 Automotive Trade Agreement (Autopac) has been rationalized by the continental integration of the Canadian and American markets.

13. See the Submission of the Province of Nova Scotia entitled The Fiscal Disabilities of Nova Scotia, Circa 1934.

14. John H. Young, Canadian Commercial Policy, Ottawa, 1957, pp. 72-3. Young, incidentally, argues the case for a relaxation of tariffs in the direction of free trade. Prof. Harry Johnson's book, The Canadian Quandary, (Toronto, 1963) is another source well worth viewing in this context.

15. At the time of writing, this document is unavailable. See "West Asks Change in Tariff Policy", Winnipeg Free Press, February 13, 1975.

16. V.C. Fowke, The National Policy and the Wheat Economy, p. 67.

17. Compiled from data in Table 12-8, pp. 551-5, Canada Year Book 1973 Statistics Canada, Ottawa, 1974.

18. "As Ontario Goes So Goes the Country", Financial Post, March 23, 1974.

19. Canada Year Book 1972, Ottawa, 1973, p. 589.

20. Canada 1974, Statistics Canada, Ottawa, 1974, p. 256.

21. The figure was 57% in 1971 (Canada Year Book 1973, p. 549 and p. 764) but has declined somewhat since that year.

22. The interested reader is referred to a recent edition of the Atlantic Provinces Economic Council newsletter entitled "Federal Oil Policy: Securing the Centre against the East and West".

    In its introduction, the article states that, as a result of federal energy policy, "Central Canada is to be guaranteed "cheap" energy at the expense of reducing Western oil revenues, sabotaging the development potential of the Atlantic refining industry and squandering underpriced Canadian oil resources. Recently announced oil policies, if brought to fruition, could turn National Energy policy into an unblushing Central Canadian exploitation of Atlantic and Western Canada" (Newsletter, Volume 17, Number 10, October 1973).

23. "Federalism: Quarreling Over Sudden Riches" Time, January 28, 1974, p.8

24. G.O. Corbett, The Red River Rebellion, London, 1870, p. 30 (reprinted) Corbett's usage of the term "Great Wheat Belt" is expressive of the productive role that the prairie West would subsequently play within the Canadian economy.

25. Information Canada writes: "Further to your telephone enquiry, we have contacted the Department of Agriculture and Statistics Canada in Ottawa, They advise that there is no statistical data available concerning sales or movement of agricultural commodities on an inter-provincial basis" Letter dated, February 14, 1975.

26. See Chapters XI (Agriculture) and XVIII (International Trade) in Canada Year Book 1973, Ottawa, 1974, Tables 11-1 and 18-6.

27. Tables 11-1 and 12-1, Canada Year Book 1973, Ottawa, 1974. This reflects the general tendency for the Canadian economy, as it becomes integrated with the U.S. economy, to evolve along complementary lines with economic activity in the U.S..

28, See above Note 26, and Table 17-1, Canada Year Book 1973

29. Table 11-1, p. 496, Canada Year Book 1973. This trend has been reversed since 1971 because of overall higher international demand for agricultural goods. See Table 1, Farm Cash Receipts 1973, Statistics Canada, Agricultural Division, Ottawa, 1974.

30. In 1964, an estimated 40% of Quebec's cereal consumption was locally grown and the province was the major domestic buyer of Western oats, barley and feed wheat, By 1977, Quebec expects to produce over 60% of its cereal requirements and reduce its purchases of western grains even further in future years. See "Quebec Agriculture" in The Country Guide, February 1975, p. 10.

31. See an article by David Matas, "Selling Out Confederation" (Winnipeg Free Press, February 28, 1975) which speaks of the "balkanization of egg marketing in Canada".

32. The Manitoba Feed Grains Marketing Commission, in recent statements, has drawn attention to the "very substantial" spread between open prices on feed grains and the Canadian Wheat Board price. See, for example, the report in The Manitoba Co-Operator, November 28, 1974, p. 1.

33. Calculations based on Tables 11-1 and 21-1 in Canada Year Book 1973, Ottawa, 1974.

34. Royal Commission on Transportation Report, Volume I, Ottawa, March 1961, p. 7.

35. For a more detailed account of Crow's Nest rates see, J.L. McDougall, "The Relative Level of Crow's Nest Grain Rates in 1899 and 1965", Canadian Journal of Economics and Political Science, XXXII, No. 1, February 1966.

36. Royal Commission on Transportation Report, Volume I, Ottawa, 1961, p. 8

37. Quoted from Premier Schreyer's remarks at the Western Economic Opportunities Conference, July 1973 in Atlantic Provinces Economic Council, Newsletter, August 1973.

38. Royal Commission on Transportation Report, 1961, p. 34

39. Quoted from the Ministers address of March 7, 1974

40. Atlantic Provinces Transportation Study, Volume XII, Economist Intelligence Unit Ltd., Ottawa, 1967, p. 21

41. Leonard Evans, Manitoba Minister of Industry, quoted in the Winnipeg Free Press, February 29, 1975, p. 1 and 4

42. Roy Atkinson, President of the National Farmers Union, Quoted in the Union Farmer, January, 1975, p. 12

43. See D.V. Smiley, "The Political Economy of Canadian Federalism", Chapter Five in Canada in Question: Federalism in the Seventies (Toronto, 1972), for an interesting account which, unfortunately, concentrates mainly on fiscal relations.

44. See Notes 1, 2 and 3 above

45. "At present there is a strictly limited amount of price competition among the chartered banks in their lending business . . . Price competition has been further restricted in periods of credit restraint by agreements among the banks that no bank will take an account from another by offering a better rate or line of credit" Report of the Royal Commission on Banking and Finance, p. 127

46. Capital Financing and Regional Financial Institutions, Joint Submission of Manitoba, Saskatchewan, Alberta and British Columbia to the W.E.O. Conference, 1973, p. 5

47. Submission of British Columbia to the Royal Commission on Dominion-Provincial Relations, Victoria, 1938, p. 276

CHAPTER XII

1. Economic Council of Canada, Second Annual Review: Towards Sustained and Balanced Growth, pp. 97-141

2. For an interesting illustration of this fact, see Table 5-2, "Provincial Consumption Taxes", in Provincial and Municipal Finances 1973, Toronto, 1973, p. 65

3. Figures for 1962-63 from Table 3-5, p. 35, Provincial and Municipal Finances 1973. Estimates for 1973-74 from Table 10-2, p. 152, The National Finances 1973-74, Toronto, 1974

4. Calculated from Table 3-1, p. 29, Provincial and Municipal Finances 1973

5. Submission of the Province of Nova Scotia to the Royal Commission on Dominion-Provincial Relations, 1938, p. 96

6. Establishment of the Department of Regional Economic Expansion, an undated public relations document distributed by DREE.

7. Department of Regional Economic Expansion, Assessment of the Regional Development Incentives Program, Ottawa, 1973

8. The National Finances 1973-74, Toronto, 1974, p. 155

9. See The National Finances 1973-74, p. 83

10. Assessment of Regional Development Incentives Program, Ottawa, 1973

11. Ibid

12. I make this statement, recognizing that DREE officials have acknowledged this problem. See, J.P. Francis (Assistant Deputy Minister of DREE), "The Federal Approach to Regional Development", in Conference on Economic Development in Manitoba, Winnipeg, 1971, p. 24

13. The Department's Assessment, was, of course, something in the nature of a projection. For a recent review of DREE's (unpublicized) failures, see a brief article in the Winnipeg Free Press, "A Mixed Record For DREE", February 26th, 1975.

14. See, Atlantic Provinces Economic Council, The Fifth Annual Review - The Atlantic Economy, 1971, p. 68-69. In this study, 20% of the respondents to a questionnaire stated that, even without DREE assistance, they would have located where they did. Needless to add, the 20% figure is of questionable validity, given the high likelihood that receipients of "regional subsidies" will magnify the importance of state support in their investment location decisions.

15. T.N. Brewis, "Regional Economic Policy -- The Canadian Scene" in Conference on Economic Development in Manitoba, Winnipeg, 1971, p. 65

16. Information Canada, Constitutional Conference Proceedings, Second Meeting, February 10 - 12, 1969

CHAPTER XIII

1. J.A. Lower, for example, in Canada - An Outline History suggests that the Liberals' "problems" stemmed from "Mackenzie (who) lacked the qualities of leadership necessary to pull the party together. Too often the result was a discordant chorus of voices in both cabinet and Commons instead of clear policy statements". (Toronto, 1966, p. 130)

   For a brief, yet interesting discussion of the "centralist" bias in Canadian academic literature see, Alan C. Cairns, "Alternative Styles in the Study of Canadian politics", Canadian Journal of Political Science, Vol. III, No. 1, March 1974, p. 101, also rejoinders to the article

2. Two descriptive accounts of the regional character of the Liberal and Conservative parties may be found in Escott M. Reid, "The Rise of National Parties in Canada" and George M. Hougham, "The Background and Development of National Parties" in Hugh G. Thorburn, Party Politics in Canada, Toronto, 1963, pp. 14-21 and pp. 1-13

3. John Meisel, "The June 1962 Election: Break Up of Our Party System?" Queens Quarterly, Vol. LXIX Vol. 3, Autumn 1962, p. 342

4. John Porter, The Vertical Mosaic, p. 368; John T. McLeod in "Party Structure and Party Reform" states " . . . it should be evident that ... our major parties are principally middle class, financed by big business, heavily influenced by a compact social elite and lead by middle-class men highly sensitive to commercial interests" in A. Rotstein (ed), The Prospects of Change: Proposals for Canada's Future, Toronto, 1965

5. John Meisel, "The June 1962 Election . . ." pp. 335-6

6. See for example, John D. Harbron,"The Conservative Party and National Unity", Queens Quarterly, Vol. LXIX, no. 3, Autumn 1962, pp. 347-360

7. For example, in 1959, Mr. Diefenbaker's government established a Royal Commission to examine Canadian transportation policy. A sizeable portion of his party favoured tariff reductions (for example on agricultural implements) and Mr. Diefenbaker himself, on more than one occasion, assailed the chartered banks for favouring central Canada. See, Peter Newman, Renegade in Power: The Diefenbaker Years, Toronto, 1963 for interesting glimpses of the regional nature of the Conservative Party.

8. George Grant, Lament for a Nation, Toronto, 1965, p. 13

9. See, John Meisel, Working Papers in Canadian Politics (Toronto, 1973, p. 234) for additional comment on the "ill-fitting" Conservative government of Diefenbaker.

10. John Porter, The Vertical Mosaic, 1965, p. 463

11. The interested reader should make an effort to read an article by Peter Newman, "The Lords of Oil Search for Political Clout", MacLeans, September 1974, p. 3 which discusses a proposed Western "Canada Party".

CHAPTER XIV

1. Ramsey Cook, Provincial Autonomy, Minority Rights and the Compact Theory, Ottawa, 1969, p. 12

2. This statement should not be construed as a statement of the 'balance' or 'backlash' theory of Canadian federalism, but merely as a recognition that conflicting regional interests have determined the character of political parties, at both the federal and provincial levels.

   According to 'balance' theory, party balance (and, possibly, also variation) derives and is maintained by electorates interchangeably dividing their federal and provincial vote between different parties, either to register protest or, as Professor Underhill has suggested, to consciously maintain the "balance of federalism".

Whatever immediate truth may obtain in such an interpretation in any given instance, such an explanation as a theory, clearly, is simplistic nonsense. Bearing a methodological resemblance to Maurice Pinard's thesis on "One Party Dominance and the Rise of Third Parties", balance or backlash theory is a simple attempt to make formal and generalized sense of political phenomena, without considering the specific and concrete class and regional interests which interactively animate the political process at all levels.

Much more could (and perhaps should) be said about balance theory, as well as Prof. Pinard's thesis. Suffice it to note that neither theory conforms to the actuality of the Canadian political process, and that their major weakness resides, methodologically, in the reduction of sociological analysis to the practise of empirical generalization (formalistically, and selectively buttressed by "the facts") and in their failure to analyse political phenomena in the concrete.

3. Professor Smiley fails to relate this "confederal" form of organization to actual differences between provincial and federal parties, much less to conflicts between national and regional commercial classes. Typical of his emphasis on formal structures, Smiley states, "The institutional forms under which Canadian elections take place clearly work toward the mutual independence of federal and provincial parties" (p. 78). The fact that "elections at the two levels take place at different times and under different administrative structures" is cited as the major cause of the "confederal" form. While, in the immediate sense, the importance of this institutional factor cannot be ignored, (at best) it is an argument explaining the organizational independence of like parties, not political independence or difference. See, D.V. Smiley, Canada in Question: Federalism in the Seventies, Toronto, 1972, p. 94.

4. See, W.L. Morton, The Progressive Party; S.M. Lipset, Agrarian Socialism; and C.B. MacPherson, Democracy in Alberta

5. For an interesting discussion of the conflicts between the farmers and workers movements in Nova Scotia, see, G.A. Rawlyk, "The Farmer-Labour Movement and the Failure of Socialism in Nova Scotia" in Laurier LaPierre (ed) Essays on the Left, Toronto, 1971, pp. 31-41.

6. P.J. Fitzpatrick "New Brunswick: The Politics of Pragnatism" in Martin Robin (ed) Canadian Provincial Politics, Scarborough, 1972, p. 116

7. For a brief, yet insightful history of Manitoba provincial politics, see T. Peterson, "Ethnic and Class Politics in Manitoba", in Martin Robin (ed), Canadian Provincial Politics, pp. 69-115

8. Martin Robin, "The Social Basis of Party Politics in British Columbia", Queens Quarterly, LXXII, 1966, p. 675

9. Paul Knox and Philip Resnick, Essays in B.C. Political Economy, Vancouver, 1974, p. 7

10. Destination of Shipments of Manufacturers, p. 9

11. Canada Year Book 1973, Table 5-11, p. 211

12. See, Economic and Industrial Development Opportunities, Transportation, Agriculture, and Capital Financing and Regional Financial Institutions, Joint submissions to the Western Economic Opportunities Conference.

13. D.V. Smiley notes that since 1952, W.A.C. Bennett consistently "campaigned against federal power and other allegedly alien influences". Canada in Question: Federalism in the Seventies, p. 96

14. For an interesting history of the CCF in Ontario, see Gerald L. Caplan, The Dilemma of Canadian Socialism, Toronto, 1973, also Dean E. McHenry, The Third Force in Canada, Berkeley, 1950

15. Ethnic, religious and cultural explanations have occupied such a prominent position within the existing literature that they colour and obscure the essential course of Canadian development. Thus, Robert Presthus, in a recent work, has presented the notion that religious and ethnic antagonisms were the greatest obstacle to the National Policy. Ignoring the regionalized class opposition to this policy, Presthus cites the genius of Macdonald for pushing the National Policy ahead, "despite sustained ethnic and religious tensions between Ontario and Quebec" Elite Accommodation in Canadian Politics, Toronto, 1973, p. 19

    This serves as an illustration of the role of the "ethnic-religious-cultural" shibboleth in Canadian sociology.

A P P E N D I C E S

APPENDIX A

LONG TERM NONRESIDENT INVESTMENT IN CANADA, BY COUNTRY, SELECTED YEARS
($ million)

YEAR	TOTAL	UNITED STATES		BRITIAN		OTHER	
1900	1,232	168	(14%)	1,050	(85%)	14	(1%)
1914	3,837	881	(23%)	2,778	(72%)	178	(5%)
1918	4,536	1,630	(36%)	2,729	(60%)	177	(4%)
1926	6,003	3,196	(53%)	2,637	(44%)	170	(3%)
1930	7,614	4,660	(61%)	2,766	(36%)	188	(3%)
1939	6,913	4,151	(60%)	2,476	(36%)	286	(4%)
1945	7,092	4,990	(70%)	1,750	(25%)	352	(5%)
1949	7,963	5,906	(74%)	1,717	(22%)	340	(4%)
1953	11,461	8,870	(77%)	2,008	(18%)	583	(5%)
1957	17,200	13,035	(76%)	2,910	(17%)	1,255	(7%)
1960	22,214	16,718	(75%)	3,359	(15%)	2,137	(10%)
1965	29,507	23,305	(79%)	3,498	(12%)	2,704	(9%)
1969	41,668	33,031	(79%)	3,862	(10%)	4,775	(11%)

Compiled and adapted from:

H. G. Aitken et al., The American Economic Impact on Canada, p. 155-7
Kari Levitt, Silent Surrender, p. 66; Canada Year Book, 1973, p. 869

APPENDIX B

CANADA'S IMPORT TRADE, SELECTED YEARS 1886 - 1971

YEAR	TOTAL ($ million)	PERCENTAGE OF TRADE WITH: U. S.	U. K.	OTHER
1886	96.0	44.6	40.7	14.7
1901	177.9	60.3	24.1	15.6
1911	452.6	60.8	24.3	14.9
1921	1,247.2	69.0	17.3	13.7
1929	1,299.0	68.8	15.0	16.2
1939	751.1	66.1	15.2	18.7
1947	2,574.0	76.7	7.4	16.0
1955	4,711.7	73.3	8.5	18.2
1961	5,754.9	67.0	10.7	22.3
1966	9,866.4	72.4	6.5	21.1
1969	14,130.4	72.5	5.6	21.9
1970	13,951.9	71.0	5.3	23.7
1971	15,606.6	70.1	5.4	24.5

From H. G. Aitken, The American Economic Impact on Canada, p. 155-7
Canada Year Book 1956, p. 968; Canada Year Book 1973, pp. 758-9

APPENDIX C

CANADA'S EXPORT TRADE, SELECTED YEARS, 1886-1971

YEAR	TOTAL ($million)	PERCENTAGE OF TRADE WITH: U.S	U.K	OTHER
1886	77.8	44.1	47.2	8.7
1901	177.5	38.3	52.3	9.4
1911	274.3	38.0	48.2	13.8
1921	1,189.1	45.6	26.3	28.1
1929	1,152.4	42.8	25.2	32.0
1939	924.9	41.1	35.5	23.4
1947	2,774.9	37.3	27.1	35.6
1955	4,281.7	59.8	18.0	22.2
1961	5,755.1	54.0	15.8	30.2
1966	10,070.6	59.9	11.1	29.0
1969	14,462.4	70.8	7.5	21.7
1970	16,401.0	64.6	8.9	26.5
1971	17,320.8	67.3	7.8	24.9

Adapted and compiled from:

H. G. Aitken, The American Economic Impact on Canada, p.155; Canada Year Book 1956, p. 968; Canada Year Book 1973, pp. 758-9

APPENDIX D

RELATIVE POSITION OF CANADIAN CHARTERED BANKS

BANK	ASSETS, 1972 ($ million)	PROFITS, 1972 ($ million)
Royal Bank of Canada	14,767.5	51.4
C. I. Bank of Commerce	13,300.8	49.2
Bank of Montreal	11,323.4	53.6
Bank of Nova Scotia	8,541.8	33.8
Toronto-Dominion Bank	7,547.7	28.6
Bank Canadian National	2,686.6	8.2
Provincial Bank	1,828.6	5.6
Mercantile Bank	390.0	2.4
Bank of British Columbia	244.8	.3
Total	60,630.6	232.5
% of top five banks	91.5	92.9

Adapted from:

Capital Financing and Regional Financial Institutions, A Joint Submission by Manitoba, Saskatchewan, Alberta and British Columbia to the Western Economic Opportunities Conference, July 1973, Table 1, p.17

APPENDIX E

COMPARATIVES OF REGIONAL MANUFACTURING OUTPUT, SELECTED YEARS 1880-1972

PROVINCE	GROSS VALUE OF MAN'FS ($ million)	% of TOTAL	
1880			
P. E. I.	3.4	1.1	13.1
Nova Scotia	18.6	6.0	
New Brunswick	18.6	6.0	
Quebec	104.7	33.9	
Ontario	158.0	51.0	
Manitoba	3.4	1.1	
British Columbia	3.0	1.0	
Total	309.0	100.1 *	
1900			
P. E. I.	2.3	.5	9.7
Nova Scotia	23.6	4.9	
New Brunswick	21.0	4.3	
Quebec	158.2	32.9	
Ontario	241.6	50.2	
Manitoba	12.9	2.6	
Saskatchewan Alberta	1.9	.4	
British Columbia	19.4	4.0	
Total	481.0	99.8 *	

* May not equal 100%, due to rounding

(Continued on next page)

APPENDIX E

1930

P. E. I.	4.3	.1	4.4
Nova Scotia	85.9	2.5	
New Brunswick	63.5	1.8	
Quebec	1,022.2	29.8	
Ontario	1,713.0	49.9	
Manitoba	142.4	4.1	
Saskatchewan	62.3	1.8	
Alberta	94.3	2.7	
British Columbia	241.1	7.0	
Total	3,428.0	99.7 *	

1972

P. E. I.	294.4	.5	3.3
Nova Scotia	856.9	1.6	
New Brunswick	858.3	1.6	
Quebec	14,435.9	27.9	
Ontario	28,419.0	52.9	
Manitoba	1,455.1	2.7	
Saskatchewan	625.3	1.7	
Alberta	2,226.9	4.1	
British Columbia	4,505.5	8.4	
Newfoundland	294.4	.5	
Total	53,748.5	101.5 *	

*May not equal 100% due to rounding.

Source: Compiled from: Canada Year Book 1973, Table 17.1; Province of Nova Scotia, A Submission on Dominion-Provincial Relations, circa 1934, pp. 48-9, 81

APPENDIX F

AVERAGE INCOME BY PROVINCE, 1972

Province	Provincial Income ($ 000,000)	Population (000)	Average Income
Newfoundland	1,310	520	2,462
P. E. I.	276	113	2,442
Nova Scotia	2,375	794	2,991
New Brunswick	1,793	642	2,792
Quebec	20,350	6,059	3,358
Ontario	33,835	7,825	4,323
Manitoba	3,551	992	3,579
Saskatchewan	2,719	916	2,968
Alberta	6,217	1,655	3,756
British Columbia	9,164	2,247	4,078
Yukon and N. W. T.	188	55	3,418

Source: Provincial Personal Incomes from Table 21.6, p. 858, Canada Year Book 1973; 1972 Population Estimates from Table 5.6, p. 209, Canada Year Book 1973

APPENDIX G

GOVERNMENT REVENUES, SELECTED YEARS 1926-72
(excluding transfers)
($million)

YEAR	FERERAL	PROVINCIAL	LOCAL & HOSPITAL
1926	389	156	322
1933	266	177	337
1939	481	311	370
1946	2,632	542	440
1950	3,020	965	649
1954	4,608	1,217	994
1958	5,409	1,970	1,489
1962	6.979	3,316	2,196
1964	8.355	4,189	2,460
1968	12,318	7,966	3,750
1972	19,334	13,032	5,157

Source: The National Finances 1973-74, Toronto, 1974, Table 2-7, p. 16

APPENDIX H

GOVERNMENT REVENUE AS A PERCENTAGE OF GROSS NATIONAL PRODUCT

YEAR	FEDERAL	PROVINCIAL*	LOCAL-HOSPITAL*	TOTAL
1926	7.6	3.0	6.3	16.8
1933	7.6	5.1	9.7	22.3
1939	8.6	5.5	6.6	20.7
1943	22.3	3.3	3.6	29.3
1946	22.1	4.6	3.7	30.4
1950	16.3	5.2	3.5	25.1
1954	17.8	4.7	3.8	26.3
1958	15.6	5.7	4.3	25.5
1962	16.3	7.7	5.1	29.1
1966	16.1	9.4	4.9	31.6
1970	18.1	12.3	5.3	37.3
1972	18.7	12.6	5.0	37.9

Source: The National Finances 1973-74, Table 2-8, p. 17

* Excludes transfers from other levels of governments

APPENDIX I

GOVERNMENT EXPENDITURE, SELECTED YEARS
(includes transfers, $ million) *

YEAR	FEDERAL	PROVINCIAL	LOCAL-HOSPITAL
1926	321	187	346
1933	380	306	356
1939	483	468	372
1943	4,412	425	380
1946	2,877	630	504
1950	2,370	1,230	913
1954	4,654	1,607	1,534
1958	6,176	2,677	2,318
1962	7,486	4,477	4,241
1966	9,753	7,549	6,540
1970	15,239	14,123	10,480
1972	20,035	18,102	12,774

From: The National Finances 1973-74, Table 2-11, p. 20

* Data represents the actual expenditures of different levels of government, which, because of inter-governmental transfers, will not accurately reflect the real or total amount of government expenditure.