

The History of Canadian Business: A Reply

by R.T. NAYLOR*

To Respond to Michael Bliss's review of *The History of Canadian Business*¹ is a difficult chore, not because the criticisms posed have any intrinsic merit — they have none — but because they are structured in a largely incoherent way. A complete reply to what are presumably the main points of his argument would require first a precise definition of these points: it would thus require one to undertake the roles of critic and respondent alike. Since Bliss's critique makes no effort to come to grips in a consistent way with the basic premises of an argument, since it consists of a series of more or less random assertions, then, short of writing his critique for him, the only way to respond is to examine individually what seem to be his principal assertions.

Bliss commences by getting himself thoroughly confused over the nature of "rationality" and "irrationality" in economic decision making. The argument is not about whether or not individual businessmen tried to make money (presumably they did), but rather about the economic and social framework within which they made their investment decisions. From a social point of view what is important is that the sum total of businessmen's decisions produced a certain pattern of investment behaviour that sustained the staple-extracting bias of the Canadian economy and encouraged the reliance on foreign capital. That is all there is to the matter. Presumably Bliss would not deny that the Canadian economy has a staple-extracting bias, nor that it is heavily dependent on foreign capital, nor that businessmen make investment decisions. If so, then I fail to see how he can disagree with the inference that the aggregate of business investment decisions in Canada produced the results described above.

There are other difficulties in his argument that arise from his apparent inability to perceive the qualitative distinction between the criteria for appraising individual decisions and the criteria for appraising the social consequences of the total of individuals' decisions. This inability is presumably the result of his strict adherence to the tenets of liberal social science that often tend to identify the well-being of the part with the well-being of the whole. However Bliss should be informed that even in so empty a discipline as neo-classical micro-economics, the distinction between individual and social welfare is fully appreciated. Further on this matter, Bliss has made a serious error in the specification of which variables are exogenous and which are endogenous, by virtue of his attempt to argue in terms of businessmen's decisions without reference to the socio-economic context within which those decisions were taken. My argument

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¹ *Histoire sociale-Social History*, IX, 18 (November 1976): 446-449.

was *not* that investing in the perpetuation of a staple extracting economy was "irrational" (on his definition of the term); quite the converse. This is exactly the pattern of investment behaviour one would expect given that the horizons of business decision making in Canada were circumscribed by Canada's objective position as a staple-extracting hinterland of the British empire. That position in the international economy is primary: business decisions in Canada reflected the country's status as an economic dependency. The scope within which business decisions can be made depends on the broader economic context. Given a range of possible decisions dictated from outside the system, businessmen make their profit maximising choices. What I have done in the book is to attempt to explain why "rational" decision making on the part of business in Canada would lead to the perpetuation of a staple-extracting, foreign dominated economy.

Bliss confuses the issue even further when he states that "by definition the explanation would have to involve a failure of entrepreneurship". As a minimum it is surely not too much to expect that someone setting out to write a critical review of a book would first read the book. Surely Bliss has done so. Yet in the concluding chapter of the book (Vol. II, p. 283) the following passage addressed itself to exactly the point Bliss raises.

...the phrase 'lack of entrepreneurship' is sheer obfuscation. For entrepreneurs are the product of their social context. If by deficiency of entrepreneurship it is meant that American industrial capitalism possessed some special attributes permitting it to take advantage of productive opportunities which Canadian capitalism in the particular period did not, then the explanation is tautological, and thus trivial insofar as it fails to make specific reference to the objective social conditions of the period, especially the pattern of dependence.

Many of the same type of errors flaw his criticisms of my treatment of the National Policy Tariff. His attempt to deny the validity of the distinction between two business groups by reference to their social origins is simply baffling. He tries to refute my discussion of the merger movement in Canadian business on the grounds that it incorrectly stresses the importance of the 1907 tariff revision. Bliss's statement, "the tariff was not revised upward in 1907" is indeed a curious one. Is Michael Bliss, noted historian of Canadian business, unaware of the fact that the 1907 tariff revision was the most important and sweeping since the National Policy, laying down a structure that remains basic to the Canadian tariff today?² Or is he simply contending that the revision of 1907 did not result in further protection? Assuming, charitably, that it is the second, Bliss is arguing that a government sits down to enormously complicate its tariff schedule, as it did in 1907, in order to induce greater freedom of trade!³ Curiously enough others seem to share my view that the 1907

² See for example, J.H. PERRY, *Taxes, Tariffs, and Subsidies Vol. I* (Toronto: 1955), p. 104.

³ Interestingly enough O.J. MCDIARMID in his *Commercial Policy in the Canadian Economy* (Cambridge, Mass.: 1946) while not taking sides on the issue of greater or less protection in so many words, points out a series of increases in the schedule, in some iron and steel items, boots and shoes and others. Moreover he states (p. 220) that "In 1907 the

revision constituted on balance an upward movement in the incidence of the tariff. E.C. Porritt, whose views Bliss elsewhere in his critique cites with approval, even to the point of the ultimate accolade of comparing his views to those of Michael Bliss himself, in his fascinating book, *The Revolt in Canada Against the New Feudalism* (London: 1911) states of the merger movement in Canada that it was "a new development in tariff, industrial, and financial economy which began just as soon as promoters realised that at the revision of 1907 more protection was given to many industries (p. 38)".

He further alleges that my argument "errs in systematically overstating the number of manufacturers who opposed the tariff, but is *surely right* in implying that the ultimate inability of Canadian manufacturing to compete was caused by the tariff." Taking the latter point first, I must protest that, contrary to Bliss, this is (*surely wrong!* Once again exogenous and endogenous factors have been badly confused in Bliss's mind. The tariff is not simply a *cause* of a certain business structure: it is also, to a considerable degree, an *effect* of that structure. A considerable amount of time is devoted in the book to trying to show how businessmen dictated tariff structures in their own interest. To take the tariff as a strictly exogenous factor in the evolution of the Canadian business structure implies a certain view of the relations of government and business, i.e., the neutrality of the state, which Bliss evidently believes to be true, but which I find totally unacceptable. This fundamental divergence of opinion on the role of the state and the influence of big business on it, which I tried to make clear in my review of Michael Bliss's *A Living Profile*⁴ several months ago, affects many of Bliss's criticisms of my position.

As to the question of pro and anti-National Policy forces in the manufacturers' camp, their relative importance is a matter of opinion. I was intrigued however by Bliss's assertion that my emphasis on dissenting manufacturers is "unrecognizable", drawn as it is from "dubious, highly partisan" sources. If this emphasis is "unrecognizable" in light of other literature, then that seems to simply imply it is a new hypothesis. Am I then being taken to task for suggesting something new, instead of just reiterating what is already well established in the literature, if not in the facts of the business history of Canada? Or is the problem mainly one of sources? As to sources, Bliss busily berates me for using the "dubious, highly partisan" *Globe* and neglecting the presumably accurate, non-partisan publications of the Canadian Manufacturers' Association! Parenthetically, I might point out that many, if not most of the sources from which I arrived at a judgement on the importance of continued dissent from

one third differential between British preference and general duties.... was definitely abandoned" with a result that "detracted from the value of the preference," i.e. raised the tariff rate. It is interesting too that many *reductions* were on inputs into the industrial process. In the absence of reductions of the duty on output the result of these cuts would be, as is well known in economic literature, to *raise* the effective rate of protection implicit in the constant nominal tariff rates.

⁴ Tom NAYLOR, "Bliss and Vinegar: A Review," *This Magazine*, Vol. 10, N. 4. (August-September, 1976).

the high tariff policy, including articles in the "dubious, highly partisan" *Globe*, were found by checking footnote sources in a then unpublished University of Toronto history Ph.D. thesis entitled, *A Living Profit*.

Bliss next takes issue with my treatment of bank failures, claiming that "his distorted comparison with the United States, in which he only counts American national banks means nothing". Curious, I thought, as I read that passage, and immediately turned to Volume I, p. 119 where I found an analysis of failure rates of Canadian banks for the 1867-1914 period followed by the statement, "...over the roughly equivalent period from 1863 to 1907, the American banking system, with the reputation for extreme instability showed a failure of *all* banks of 22½". It is worth noting that the italics are in the original. The argument went on to say that the best comparison is between American, National and Canadian federally chartered banks, but nonetheless the complete failure record is explicitly set out for comparison,

Having thus decimated the analytical structure of my book, Bliss goes on to denounce my sloppy research methods, and suggests my book is so unreliable that it must be assumed to be wrong, unless proven right. He states that he "seriously disagrees with the inferences drawn from an extraordinary 35%" of my sources. I fail to see what is so extraordinary about this figure. As I tried to make clear in my review of Michael Bliss's book, having examined largely the same sources that he did, I strongly disagree with about 100% of his inferences. Nonetheless let us examine a few of the supposed errors of interpretation in my book that Bliss contends are patently unacceptable to "any reasonably knowledgeable Canadian historian", in which category he presumably places himself.

Thus, no "reasonably knowledgeable Canadian historian" could contend there was no more Crown land in the Province of Canada suitable and available for settlement in 1850. I am very happy to have this error pointed out, and would suggest it is a pity that Michael Bliss cannot undertake to communicate it to Chester Martin who wrote in his *Dominion Lands Policy* (p. 389 in the original; p. 135 in the Carleton Library reprint):

The truth was that Canada West had squandered its birthright. Whatever resources of eligible land remained in the hands of the speculator, the province itself was well-nigh bankrupt. The Commissioner of Crown Lands wrote in 1851 that 'the supply of Crown lands for settlement is now exhausted.'

Martin went on to discuss the resulting land fever in the province, and the beginnings of agitation to seize the Hudson's Bay Company territories. "The solution" to the land shortage, he pointed out, "was to be found not in provincial policy, but in national federation charged with the sovereign task of settling an empire of Dominion Lands in the West." Then too J.M.S. Careless in his *Brown of the Globe* (Vol. I, p. 233) suggests that one of the primary factors behind George Brown and Clear Grit agitation for the annexation of Ruperts' Land was Brown's "recognition that Canada West was filling up, in need of new lands to settle." He notes further (p. 229) that in 1855 "the *Globe* had reported the auctioning of the last block of wild land in the lake-hemmed western peninsula." The lands

themselves were underdeveloped, but they were alienated, and hence "new frontiers of settlement must be elsewhere". In this regard O.D. Skelton's discussion in "Canada Under Responsible Government" (*Cambridge History of the British Empire* Vol. II, pp. 338-341) is also instructive.

Another of my heinous errors of historical fact lay in the dating of Cartwright's first tariff. Thus a government which took office in 1873 brought down a budget in March of 1874: that budget is referred to as Cartwright's 1873 budget at one point in the text, "repeated a few pages later as his 1973 budget". Naylor's scholarship is so sloppy that not merely years, not merely decades, but entire centuries vanish into the dust of time!

Next comes my contention that Sir George Foster's career as Minister of Finance ran afoul of the chartered banks' anger in his attempt in 1890 to impose a fixed reserve ratio. If Bliss does not wish to believe me he might check R.M. Breckenridge's *The Canadian Banking System 1817-1890* (Toronto 1894 p. 250) for a start.

As to the contention that the CMA was vital in the campaign to overthrow the Ross government in Ontario in 1905, I arrived at such a conclusion by the following logic. Businessmen's attitudes towards government are decisively influenced by what governments do for business. (In this perhaps Michael Bliss would disagree.) In early twentieth century Ontario the question of energy probably was at or near the top of the list of concerns of manufacturers. Organized manufacturers were the chief motivating force in the fight for public control of hydro-electric power. The question of Hydro was one of the most burning issues of the 1905 campaign. The incumbent government was identified with the anti-nationalization forces while the Conservative opposition sided with the pro-nationalization forces. The CMA, the principal manufacturers' political organization went on record publicly as favouring nationalization. I therefore conclude that the CMA's role, whether direct or indirect, was vital to the outcome of the campaign.

My "unrecognizable" emphasis on dissenting manufacturers has already been discussed. It is worth stressing however that Bliss's efforts to denigrate the factual reliability of the journals of organized farmers such as the *Grain Growers Guide* and *Farmers' Advocate* while touting these of organized manufacturers, *Canadian Manufacturer* and *Industrial Canada*, makes a mockery of his pretense to objectivity in social research. As to the works of W.T.R. Preston, I have yet to find a major episode cited therein for which some independent confirmation does not exist, be it the choice between Fielding and Cartwright for Minister of Finance, the Toronto Street Railway swindle, the operation of the North Atlantic combine, or the Great Gerrymander of 1882.

Next Bliss attacks me for an error apparently committed by Merrill Denison. Denison's apparent misreading of the correspondence of E.H. King led to his contending that the Bank of Montreal intervened in the Confederation debates. My sin was to believe Denison, instead of checking

through all of the footnotes in his two volume history of the Bank of Montreal (which would involve, among other things, gaining access to the restricted archives of the bank). As to Bliss's insistence that nowhere in King's letter to Galt is there any explicit reference to Confederation, Denison was quite aware of the fact. He remarked (*La Première Banque au Canada* Tome II, p. 133) that "King ne faisait aucune allusion a la Conference de Charlottetown. Ce n'était pas nécessaire: le sens de sa message ne pouvait échapper à Galt qui avait été le premier Canadien eminent à proposer en 1858 une fédération des provinces de l'Amérique du Nord britannique... (I had only the French edition available at the time of writing this reply.) Moreover, if Bliss wants to contend that there was no link between the state of the government's debt to the Bank of Montreal and the Confederation proposal, he might have a difficult time convincing Alexander T. Galt who certainly implied such a connection in his letter to the Barings and Glyn, Mills of August 14, 1865, when he wrote:

I have the honour to advise you that the Government ...are desirous if possible of postponing the introduction to Parliament of measures for the purpose of enabling them to meet this indebtedness to your firm and to the Bank of Montreal until the regular session of this legislature next winter, in the belief that from an abundant harvest and probably revival of trade, it will be a more favourable period for the contemplated arrangement.

It is also believed that the proposed Confederation of the British North American provinces will, meantime, have made such progress as to enable the Government to determine upon the means of meeting their engagement in connection with the fiscal measures to be adopted in view of the early union of the colonies.⁵

Next Bliss queries "Where does Naylor find 'the fact that Travers contributed heavily to a \$120000 testimonial to Finance Minister Fielding.'" We could start with Travers own sworn evidence which the *Canadian Annual Review* of 1911 (p. 312) reported as follows.

Travers in his evidence on February 18th, stated that W.S. Calvert M.P., the Liberal Whip, had gone with him to urge Mr. Fielding to grant the certificate, and that his intervention had been successful.

Bliss further contends that Travers' statement is "used to imply corruption by Fielding." In fact it does nothing of the sort, if he interprets corruption here as the direct purchase of a favour. The sequence implied is clear. Travers paid into the fund; the Liberal Whip then worked on Fielding to get the certificate. Fielding himself may well have been quite unaware of the sources of contributions. There is nothing in my description of the events that implies that he was or was not aware. What it does imply is that Fielding, with the apparent urging of the Party Whip, granted a certificate of operation to a bank against the advice of senior officials and the President of the Canadian Bankers' Association himself — with catastrophic results.

Next Bliss makes a foray into the 1904 election which is truly baffling. He states that "undocumented assertions that the CPR was behind the *La*

⁵ See CANADA, *Sessional Papers*, No. 35, 1866 for all of the correspondence on this question.

Presse affair of 1904 seem to be based on a rumour mentioned and denied by G.R. Stevens." Far from being undocumented there is an explicit footnote reference to the discussion in the *Canadian Annual Review*, the reference in the book was to events encompassing but much broader than simply the *La Presse* affair, and the treatment of the incident in R. Craig Brown's *Borden* Vol. I (pp. 80-81) implies that the CPR was more than just an interested spectator to the operation.

To his contention that my discussion of the attitude of the *Monetary Times* to the tariff is a distortion of the paper's intent I would reply that the *Monetary Times* at the time of the editorial, seemed to have swung into the pro-tariff camp, that it cited without criticism the opinion of another newspaper that the tariff might induce American investment, that it favoured the establishment of new American branch plants, and that hence it connected the tariff and American investment in a positive and favourable way. The real problem here is that Bliss disagrees with the construction I put on the editorial. The interpretation one gives to a certain set of events or facts or opinion is conditioned by the sum total of one's research into the field. Interpretation of events, facts, and opinions is not only inevitable in historical research, it is essential. That is what differentiates the social roles of the historian from that of the cypher-clerk.

On the question of the 1884 loan Bliss is right in saying that part of the comments I imputed to Tilley were made by Tupper. He is wrong in suggesting I distorted them. The place in the line of argument where my own commentary replaces that of Tupper is clearly delineated with the words, "that is...". Furthermore, it is Michael Bliss that is responsible for the distortion of the article's intent, not I. He cites one phrase out of context to try to prove that I have completely falsified the record. Thus evidence I cited to prove Canada's credit was at a low ebb, the fact that its loans were selling at a ten percent discount, Bliss tried to make evidence that the 1884 loan was a high point in Canadian credit. The *Monetary Times* article that he cites itself is explicit on the point, stating of the loan, "the success was ample, but not overwhelming," and pointing out difficulties in the flotation of Canadian securities abroad: All this conveniently vanishes from Bliss's view. Furthermore, even if the *Monetary Times* had made an unqualified judgement that the loan was a tremendous success, (as Bliss wants to read it), rather than just satisfactory in light of generally poor credit conditions (as I insist), if Bliss wishes to seriously claim that the 1884 loan represented a high point in Canadian financial history when the loan was sold at a rate of discount of ten percent, that is a problem of his lack of understanding of the mechanics of the bond market, not of my research.

One last error for which he takes me to task, was indeed an error. A suggestion from George Stephen in 1885 recommending that an interest rate ceiling on mortgages on government lands in the west be lifted was misread by me in my notes as a letter from Macdonald to Stephen agreeing to lift the ceiling. This was a piece of sloppy research for which I deserve to be castigated. It is not so much a case that isolated errors are not inevitable and normal in historical research, but that any isolated errors

in a book like *The History of Canadian Business* will be picked up by the defenders of the *status quo* distribution of power and wealth and used to try to discredit the entire work. Hence Bliss is right to take me to task for this error.

That there are errors of detail and instances of misreading of sources in *The History of Canadian Business* is no surprise to me. One's interpretation of events, and the inferences one draws from evidence changes as one's depth of understanding grows. Historical interpretation is obsolete from the moment it finds its way into print. The second printing of *The History of Canadian Business* will contain many pages of clarifications, reinterpretations, and corrections, none of which so far has forced me to alter the major premises of the argument. Nor has my conviction, that despite various errors, exaggerations, and misinterpretations, the argument is basically sound, been altered in the slightest by Michael Bliss's criticisms.

Criticisms should be motivated by a desire to initiate debate, to commence discussion of contentious issues; for only by open debate can knowledge be advanced. Michael Bliss's review of *The History of Canadian Business* is, on the contrary, designed to close debate before it begins, and restore credibility to a bankrupt approach to business history of which he is an active exponent.

Let us be frank. Throughout his review it is perfectly clear that Michael Bliss finds the tone with which and predilections from which I write offensive insofar as they seem to presuppose venality and corruption as the norm among a set of individuals whom Bliss himself fondly typed in *A Living Profit* as "captains of industry" and "the men who were building the nation". In this regard I plead guilty. I concur completely with Gunnar Myrdal's axiom that the only meaningful objectivity in social research is that which makes the author's subjective biases explicit. There is no doubt as to where my predispositions lie. There is equally no doubt as to where Michael Bliss's are, despite his transparent efforts to appear objective. He clearly dislikes my presuppositions; I despise his. But this fundamental difference of ideological conviction between us is not a new type of phenomenon. The one North American historian whom I truly admire (which is not to suggest I do not *respect* others — but I admire only one) was charged with the same type of biases in his historical writing that Michael Bliss would impute to mine. His reply to his critics will suffice as my final reply to Michael Bliss. In his *History of the Great American Fortunes*, Gustavus Myers pointed out that,

The academician, strong in the audacity of his soporific mediocrity may say "This is no history; it lacks dispassionate style." If 'dispassionate style' consists of a dull string of dates, names, and phrases, with no glimpses of the roots of matters, nor a clear interpretation of causes and events, then this work does certainly want 'dispassionate style', and well it is that this defect is there. Who, indeed, does not know that there is no more effective medium for inventing, telling, and perpetuating falsehoods than this same so-called 'dispassionate style.'