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Résumé de l'article

Depuis au moins deux décennies, la population canadienne est généralement consciente des dangers que représente la présence au pays de nombreuses corporations étrangères — la plupart, américaines. Cette inquiétude n'est pas nouvelle, cependant, puisque dès 1920 on commençait déjà à redouter et à critiquer cette présence. Ce qui est nouveau, toutefois, c'est que récemment on ne s'est pas uniquement préoccupé des retombées économiques qu'elle entraîne, mais aussi de l'influence qu'elle est amenée à exercer sur le développement politique et social du pays. De nombreux chercheurs ont donc fouillé la question et ils ont dégagé deux grandes lignes d'interprétation.

Ce sont ces grandes lignes que l'auteur résume d'abord, avant de s'arrêter à l'analyse d'un cas particulier, celui de la présence de la American Bell Telephone Company à travers sa société affiliée, la Bell Telephone Company of Canada. Il examine cette dernière pendant les vingt-cinq premières années de son existence (1880-1905) alors qu'elle était sous la direction de Charles F. Sise. Selon lui, les faits démontrent que, exception faite des années 1880-82, la maison-mère n'est jamais intervenue ouvertement dans les affaires de Bell Canada. Le cas s'ajuste donc mal au modèle conventionnel et il indique bien que de multiples études de cas seront nécessaires avant que l'on puisse tenter une analyse définitive tant de la question de l'impact des investissements étrangers sur le Canada que de celle de l'évolution structurale de ces entreprises multinationales.

*Charles F. Sise, Bell Canada, and the Americans: A Study of Managerial Autonomy, 1880-1905**

GRAHAM D. TAYLOR

INTRODUCTION

After more than two decades of government reports (accompanied by relatively modest policy innovations), academic treatises, exposés in the mass media, and political manifestos, the Canadian public is generally aware of the various evils inflicted on the economy and culture by the presence of foreign, principally American-controlled, corporations in this country. Key sectors of Canadian manufacturing and resource extraction are controlled by foreign firms whose decisions with respect to capital investment, marketing, employment, and subcontracting are made without regard for their impact on Canadians. The superior technical and financial resources of the multinationals are deployed to squeeze out local competition and thus block the development of Canadian entrepreneurs, particularly in secondary manufacturing. Earnings from production in Canada are expatriated, contributing to a chronic balance of payments deficit. Limitations are placed on exports of Canadian-made goods and services to suit the corporate needs of the multinationals or to conform to the laws of foreign governments. Provincial regimes and even the Canadian government are hamstrung in their efforts to alter these conditions by the dependence of the domestic economy on the continued inflow of foreign direct investment to maintain existing living standards. The survival of Canada as a cultural and politically independent entity is endangered by the pervasive influence of

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multinationals in the communications field, and the inculcation of non-Canadian values in the marketing of goods and services.[1]

Neither the presence of American-owned firms in Canada nor the criticism of their impact are particularly recent developments. American companies began to make direct investments in Canada in the 1860s, and by 1913 there were over 450 U.S. owned branch plants in this country. The total value of direct investment exceeded $400 million, including timber lands, mines and real estate as well as manufacturing facilities. Since the federal and provincial governments had been encouraging this process through tariffs, patent legislation, and direct subsidies, there was little official disapproval of the results. By the 1920s, however, with U.S. direct investment passing the $1 billion level, cries of alarm were surfacing, particularly from manufacturers in such fields as auto parts where the American invasion was exacting a toll, joined by other critics whose concern derived as often from sentimental attachment to the British imperial system as from a commitment to Canadian nationalism or economic democracy.[2]

What is new about the critique of American direct investment in Canada in the more recent past, beyond the fact that the federal government has endorsed on occasion some of the critics' proposals, if not their entire line of argument, is that it incorporates a more comprehensive attack on the structure of international corporate capitalism than has surfaced in other countries, including the United States itself, in the wake of the expansion of multinational business operations in the 1960s and 1970s. The arguments of Hymer, Levitt, and Clement on the effects of foreign corporate penetration in Canada have been reflected and amplified in more broad ranging

1. The major government reports on foreign direct investment in Canada include: *Royal Commission on Canada's Economic Prospects* (Gordon Report), 1959; *Report on Foreign Ownership and the Structure of Canadian Industry* (Watkins Report), 1968; *Foreign Direct Investment in Canada* (Gray Report), 1972. *The Report of the Royal Commission on Corporate Concentration*, 1978, pp. 181-210 also discussed this issue. Other critiques of American direct investment in Canada include: Hugh G.J. Aitken, *American Capital and Canadian Resources* (Cambridge, Mass., 1961); Kari Levitt, *Silent Surrender: The Multinational Corporation in Canada* (Toronto, 1970); Wallace Clement, *Continental Corporate Power: Economic Linkages between Canada and the United States* (Toronto, 1977); and Harry Antonides, *Multinationals and the Peaceable Kingdom* (Toronto, 1978).
2. On the early development of American direct investment in Canada see Herbert Marshall, F.A. Southard Jr., and Kenneth Taylor, *Canadian-American Industry: A Study in International Investment* (New Haven, 1936), pp. 4-16; Mira Wilkins, *The Emergence of Multinational Enterprise* (Cambridge, Mass., 1970), ch. 7; and Tom Naylor, *The History of Canadian Business, 1867-1914* (Toronto, 1975), ch. 11. On the origins of American branch plants and Canadian government policies see Stephen Scheinberg, "Invitation to Empire: Tariffs and American Economic Expansion in Canada", *Business History Review*, 47 (1973), pp. 218-38; Michael Bliss, "Canadianizing American Business: The Roots of the Branch Plant", in Ian Lumsden, ed., *Close the 49th Parallel etc.: The Americanization of Canada* (Toronto, 1970), pp. 27-42.

works, such as those of Magdoff, Barnet and Muller, Heilbroner, and Moran.[3] This radical critique, which might be called "national socialist" if that term had not already been appropriated in the past, focuses upon the multinational corporation as an institution that exercises power over social and political development rather than, or in addition to, its role as a mobilizer of resources for economic gain.[4]

In the framework of this radical critique, analysis centres on the structural dimensions of multinational business influence and interconnections rather than the operations of companies. Surveys of such characteristics as the citizenship of directors of foreign-owned firms, the flow of investment capital and expatriation of earnings, and macro-economic analyses of the degree of foreign ownership over industrial sectors form the bases for conclusions about the domination of host countries by multinational firms.

Decision making within multinational firms, where it is discussed at all, is portrayed in straightforward terms. Power flows from the top down, from head office to branch or subsidiary, augmented by centralized controls over financial resources and communications networks. Levitt, for example, maintains: "the executives of Canadian and other foreign operations of American companies are managers, not entrepreneurs. They do not make the guiding decisions concerning the global goals of the enterprise or the allocation of money; they operate within the guidelines set down by the general office."[5]

Similarly Barnet and Muller ridicule the claims of "business schools" and "public relations vice presidents" who "like to talk about global companies as a collection of coordinate operations...with each taking a heavy share of the success of the whole. The fact is that only certain kinds of decisions are ever decentralized. In general, moves are being made to decentralize operations within plants at the same time that the global control of individual plants by the world headquarters is being centralized."[6]

Hymer's approach is more circumspect. He considers the variety of legal arrangements among large firms and their foreign affiliates, including "branch plant,

3. Stephen Hymer's role in this transition is important. A Canadian, he submitted a thesis on international direct investment at the Massachussetts Institute of Technology in 1960 that came to be widely regarded as a seminal work in the radical critique of multinationals, published posthumously as *The International Operations of National Firms: A Study of Direct Foreign Investment* (Cambridge, Mass., 1976). In 1967-68 Hymer participated in the preparation of the Watkins Report. Other variations of the views initially developed by Hymer can be found in Harry Magdoff, *The Age of Imperialism* (New York, 1969), Theodore Moran, *Multinational Corporations and the Politics of Dependence: Copper in Chile* (Princeton, 1974), Richard Barnet and Ronald Muller, *Global Reach: The Power of the Multinational Corporations* (New York, 1974), and Robert Heilbroner, *Business Civilization in Decline* (New York, 1976), to cite only a few prominent examples in the American literature. These works do not necessarily share a particular ideological framework but all encompass a systematically critical view of the economic and political impact of multinational enterprises.

4. For an earlier form of this viewpoint see Robert A. Brady, *Business as a System of Power* (New York, 1943).

5. Levitt, p. 78.

6. Barnet and Muller, p. 43.

wholly owned subsidiary, majority-owned subsidiary, joint venture, minority interest, licensing arrangement, and tacit collusion," and admits that "we cannot be sure that a firm with 50 per cent of the stock of a company exercises more control than a firm with 25 per cent or a licensing arrangement. It would take a very detailed study of firms to specify the nature and extent of the influence." Nevertheless, he suggests that "the forms depend on the type of control desired" by the parent company which ultimately determines the limits of decentralization permitted.[7]

During the same period that this critique of multinational enterprise has emerged, students of organizational behaviour and business history, particularly in the United States, have focused on the internal structure and operations of large corporate enterprises, drawing conclusions that suggest a different and more complex pattern of relationships. The work of Penrose, Marris, and others on the growth of firms indicate that beyond a certain level of magnitude, substantial decentralization of control becomes an operational necessity. Chandler and other historians of the modern corporation argue that a strategy of decentralization has been consciously adopted by many firms, particularly in technologically innovative industries, to ensure effective use of resources. Organizational theorists such as Simon and March have taken this analysis a step further, maintaining that within large complex institutions the implementation of decisions is inhibited by problems of communication and control that are present even in formally centralized hierarchical systems. Furthermore, they suggest that the subgroups within these large organizations tend to develop subconscious or sometimes overtly expressed goals that vary from or may even conflict with the conscious aims of the organization as a whole. In this framework decisions are the result of bargaining and reinterpretation rather than command.[8]

The implications of these conclusions based, for the most part, on analyses of corporate or other organizations within one geographic or legal setting have only begun to be applied to multinational enterprises in the 1970s. Historians of multinational business such as Charles Wilson and Mira Wilkins have noted the complex variety of considerations that must be incorporated into any analysis of operational relations between firms across national boundaries, including variations in

7. Hymer, pp. 65-7. Hymer's implied conclusions were supported by A.E. Safarian, *Foreign Ownership of Canadian Industry* (Toronto, 1966), pp. 88-102, which was based on survey data from 211 Canadian companies. While acknowledging that "a significant degree of decentralization is involved in many cases, and...there has been an increase in decentralization over a period of time", he added that "neither the owners of capital nor their managers in the parent [firm] are likely to surrender the right of review of major decisions in most cases...beyond certain limits the case for a maximum degree of decentralization of decision-making at the national level becomes essentially a case against direct investment as such."
8. Edith T. Penrose, *The Theory of Growth of the Firm* (New York, 1959); Robin L. Marris, *The Economic Theory of Managerial Capitalism* (London, 1964); Alfred D. Chandler Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Mass., 1978); Leslie Hannah, *The Rise of the Corporate Economy* (London, 1976); Herbert A. Simon, *Administrative Behaviour* (New York, 1957); James G. March and H.A. Simon, *Organizations* (New York, 1958); A.S. Tannenbaum, *Control in Organizations* (New York, 1968).

the legal status of firms as defined by both the host country and home country of a multinational company; the peculiarities of particular national markets; the attitudes of parent company executives toward general questions of control as well as toward foreign direct investment; the type of foreign operation involved, such as sales, manufacturing, or extraction; and the attitudes of foreign governments toward direct investment from abroad.[9]

Brooke and Remmers, after surveying over 150 multinational firms described a "spectrum of relationships" ranging from extreme decentralization and local autonomy in decision making to extreme centralization, related to the various factors noted above. Paradoxically, companies that practiced considerable decentralization in home operations exercised the greatest degree of control over foreign affiliates, a circumstance that would seem to confirm the conclusions of Hymer concerning trends in the development of multinationals in high technology industries. Their analysis, however, was based on interviews of managers about general relationships rather than an examination of specific decisions.[10]

The critics of multinational enterprise and the analysts of the dynamics of these organizations also have divergent views of the direction of their development with respect to the degree of control exercised by the home office over branches and affiliates. Barnet and Muller, for example, see the development of improved communications and methods of acquiring and retrieving information as enhancing the range of control of top management in multinational businesses. Wilkins, while acknowledging the impact of technological factors, notes that historically trends in multinational direct investment moved from involvement in simple extractive operations to manufacturing and marketing ventures that encompassed a variety of complicating factors: "the longer the history of the 'branch' enterprise the more it has come to have ties not only with the home office but negotiations with the host state and contracts with labour unions, suppliers, and marketing outlets." Chandler conceives of the diversified technologically innovative multinational as "a federation of regional subsidiaries" in which, as in the domestic operations of these firms, "the autonomous operating divisions coordinate flows in a broad sense of changing markets, while the

9. Charles Wilson, "Multinationals, Management and World Markets: A Historical View", in H.F. Williamson, ed., *Evolution of International Management Structures* (Newark, Del., 1975), pp. 193-216; Mira Wilkins, "The Home Office and Its Branches: Some Reflections on Multinational Enterprises in Latin America", paper presented to Conference on the History of Public Policy, Harvard University, 1979.

10. Michael Z. Brooke and H. Lee Remmers, *The Strategy of Multinational Enterprise* (London, 1978), pp. 80-4. There is an interesting parallel here between studies of power in corporate systems and studies of power in political communities, in which those who focus on structural analysis conclude that power is highly concentrated while those who examine decision making argue that power tends to be more widely disseminated. See N.W. Polsby, *Community Power and Political Theory* (New Haven, 1963), pp. 122-38 and R.A. Dahl, *Modern Political Analysis* (New Haven, 1965), pp. 51-4.

general office evaluates divisional performance and...determines long range strategies for the enterprise as a whole."[11]

A central theme in these analyses of the development of multinational enterprises is the product cycle model introduced by Stobaugh, Vernon, and others. Multinational expansion of firms in technologically advanced industries typically begins with exports when the home market is fully developed or the firm loses its technical lead in a particular product line, followed by foreign manufacturing and marketing when foreign countries raise tariffs or investment and production costs appear more favorable abroad than in the home market. In the early stages of this process of direct investment, the parent firm will exercise a substantial degree of direct control over foreign operations, but as operations become more routine or local competition emerges, the parent firm may reduce its investment in the affiliate, or even sell it off, partially or completely, or introduce new technology in order to maintain its position in the foreign market. In any case, local management in the branch or affiliate acquires a more substantial role in decisions affecting its particular market, subject to a review by the parent firm, and the transfer of technology and management skills from home country to host country is enhanced.[12]

Clearly, the two approaches to multinational enterprise sketched here have yielded divergent interpretations both of the impact of international direct investment and the structure of enterprises operating across national boundaries. Both Wilkins and Hymer maintain that the empirical base upon which these divergent interpretations rest requires further development, and the historical span of analysis should be extended to encompass the period before the 1960s and 1970s which has been the focus of much of the analysis of these issues. Obviously no single case study can pretend to provide a definitive empirical test for these varying propositions and assumptions, but insofar as each individual case addresses the issues raised in the controversy a more satisfactory analysis can proceed.

This paper attempts to provide one such building block in the process by tracing the relations of an American firm in a technologically innovating field, the American Bell Telephone Company and its successor the American Telephone and Telegraph Company, and a Canadian affiliate, the Bell Telephone Company of Canada, between 1880 when the Canadian firm was established to 1905, which marks approximately the end of the initial period of expansion of that company. In the course of reviewing this relationship, certain questions relating to the fundamental issues raised in this introduction will be considered. These include:

(1) To what extent did the American firm exercise formal control over the Canadian affiliate, directly through stock ownership, positions on the board of

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11. Wilkins, "Home Office and Its Branches"; A.D. Chandler, Jr., "The Multi Unit Enterprise: A Historical and International Comparative Analysis and Summary", in Williamson, pp. 235-6.
12. It should be recognized that this is an extremely simplified statement of a complex process of development. For a more detailed explication see Raymond Vernon, *Sovereignty At Bay: The Multinational Spread of U.S. Enterprises* (New York, 1971), pp. 65-112.

directors, and selection of managers, and indirectly through licensing of patents, limiting or expanding financial resources, and related measures?

(2) To what extent did the American firm direct or influence decisions made by management of the Canadian affiliate in such areas as allocation of resources, development of technology and markets, and distribution of earnings? To put this question in a broader context, to what extent were the directors and managers of the Canadian firm constrained by the connection with the American company to make decisions they might otherwise not have made?

(3) In situations where there was disagreement between the Canadian and the American company over these matters, how were these disagreements resolved, and to whose benefit? To what extent were relations based on bargaining in which both sides could be seen to have achieved optimally satisfactory results?

(4) To what extent did the relationship result in a transfer of technology, capital, and managerial skills from the American to the Canadian firm, and did these transfers offset costs in the form of expatriated earnings or diminished local autonomy for the Canadian affiliate?

Some of these questions can be dealt with in a direct and quantitative fashion, but a significant proportion of the analysis can only be carried out by reconstructing decisions involving both firms and assessing them in terms of the institutional factors and the personalities involved in the situations. In the brief space of this paper these tasks can be completed only in a sketchy and tentative fashion. Nevertheless the exercise can be beneficial in indicating the extent to which these issues can be addressed on the basis of historical evidence.

AMERICAN BELL AND BELL CANADA

The American telephone company now usually designated AT&T is not customarily regarded as a multinational enterprise. Outside of Canada AT&T developed no substantial foreign business, although its manufacturing subsidiary, Western Electric Company, was active in Europe, Latin America and the Far East up to 1925 when these foreign operations were sold to International Telephone and Telegraph Company.[13] In its early years, American Bell was preoccupied with exploiting its

13. Mira Wilkins, *The Maturing of Multinational Enterprise* (Cambridge, Mass., 1974), pp. 60-1; G.E. Pingree, "Our Foreign Business", *Western Electric News*, November 1919, pp. 42-5. The Bell system underwent several corporate metamorphoses during this period. In 1878 the holders of Bell's patents established the Bell Telephone Co., and in 1879 the National Bell Telephone Co., both chartered in Massachusetts. National Bell changed its name in 1880, following resolution of various patent disputes. American Bell established a subsidiary, AT&T in New York to handle its long distance business and in December 1899 the parent firm transferred its assets to AT&T to take advantage of the New York incorporation laws which exhibited "a more permissive attitude toward corporate expansion." On the early history of the Bell system see John Brooks, *Telephone* (New York, 1975), pp. 74-176; J. Warren Stehman, *The Financial History of the American Telephone and Telegraph Company* (Boston, 1925), pp. 1-76, and N.R. Danielian, *AT&T: The Story of Industrial Conquest* (New York, 1939), pp. 39-46.

patent monopoly and subsequently preserving control over long distance service in the United States market. In the 1920s under Walter Gifford, AT&T deliberately abandoned its ancillary ventures, including a foray into the radio communications field, in order to concentrate on providing service to the American telephone system and preserve its position as a regulated private monopoly.[14]

The American company initially took 33 per cent of the voting stock of Bell Canada in 1880 with the understanding that it would retain the option to buy enough shares of any new issue to maintain its one-third equity position. In 1901 AT&T held about 39 per cent of the stock of Bell Canada and an equivalent proportion of outstanding bonds. Subsequently the American firm permitted a progressive dilution of its position, so that by 1934 AT&T held only 24 per cent of Bell Canada stock, a proportion it retained up to 1962 when the balance of the shares was sold to Bell Canada in accord with a consent decree negotiated between AT&T and the U.S. Justice department in 1956 to settle an antitrust suit.[15] The American company thus never held more than a minority position in Bell Canada although it was the largest single shareholder in that company throughout the period covered in this paper. In 1880 American Bell held three positions on Bell Canada's eight member board of directors, not including the vice president Charles F. Sise, whose peculiar status with respect to American Bell will be discussed below. By 1934 AT&T had only two directors on a fifteen member board.

From the outset the American company expressed a clear policy concerning its relations with Bell Canada. In July 1880 when the Canadian company was being organized, William H. Forbes, president of American Bell, wrote to Sise, who at that point was the representative of the Americans in the negotiations: "While we believe that the telephone business can be made of great value in Canada and that it has developed to a point where good management can make it profitable very soon, yet it is our policy...to bring in local capital, influence, and management, since the whole field is far too large for us to undertake to cover."[16]

Despite its minority stock position and formal declaration of intent regarding Bell Canada, it can be argued that the American company exercised considerably greater influence than would seem to be the case at first glance. American Bell transferred a number of patents relating to telephone operations to the Canadian firm between 1880 and 1882, including the Blake transmitter and the Box Magneto telephone. But Bell Canada did not have the resources to extend research and development efforts, relying on the American company for new technology. Although under the 1882 agreement Bell Canada was to be offered access to new developments, the terms in each case were set by American Bell, and up to 1923 each transaction had to be negotiated separately.

14. Danielian, pp. 136-65; Leonard S. Reich, "Research, Patents, and the Struggle to Control Radio: A Study of Big Business and the Uses of Industrial Research", *Business History Review*, 51 (1977), pp. 208-35.

15. American Telephone and Telegraph Archives (New York), Alexander Cochrane, president, AT&T, memorandum, 15 October 1900. Bell Canada, Submission to the Royal Commission on Corporate Concentration, 1977.

16. Quoted in R.C. Fetherstonhaugh, *Charles Fleetford Sise, 1834-1918* (Montreal, 1944), p. 131.

Access to technology thus formed one link that bound Bell Canada to its American partner.[17]

The other link was financial. Although Bell Canada tapped the Canadian banks and securities market in its early years, as discussed further below, the company relied heavily on American Bell for capital, so much so that in 1890 the American company's equity in Bell Canada was 47 per cent. Furthermore, the requirement that American Bell be assured at least a one-third proportion of new issues both of stocks and bonds ensured that it would be a major party to any decisions involving expansion which for Bell Canada were fairly constant throughout the period between 1880 and 1905. These constraints influenced Bell Canada's policies with respect to the disposition of undistributed earnings as well.

The interplay between the factors promoting autonomy for Bell Canada in its relations with American Bell, and those promoting dependence, is the central feature of this paper. It is a complicated story, involving the corporate relationships and personalities of three companies that can only be sketched here, but in sufficient detail to permit certain general conclusions.

The initiative for American investment in the Canadian telephone field came from the Canadian side of the border. In 1877 Alexander Graham Bell had assigned the Canadian patent rights to his device to his father, Professor Alexander Melville Bell of Ontario, and a Boston electrical manufacturer, Charles Williams, Jr., who agreed to supply equipment to Professor Bell for rental to Canadian users. By 1879 these two partners were encountering problems keeping accounts and maintaining repairs of the several hundred sets that had been leased in forty five towns, mostly in Ontario and Nova Scotia. An additional consideration was that under the 1872 Canadian Patent Act a patentee or holder of an assigned patent had to commence manufacturing of the item in Canada within two years in order to retain that right, a "working clause" that was intended to promote domestic industry. Bell and Williams were skirting close to that deadline. They approached the Dominion Telegraph Company proposing to sell the Canadian rights to the Bell apparatus. Rebuffed by Dominion Telegraph, Professor Bell then turned to the newly organized National Bell Telephone Company of Boston with a similar offer.

Meanwhile in 1879 Sir Hugh Allan's Montreal Telegraph Company had entered the telephone field by acquiring the Canadian rights to a rival device developed by Elisha Gray and Thomas Edison, held in the United States by Western Union, a much more formidable organization than the infant Bell company in Boston. One of the reasons for National Bell's interest in Canadian developments was that it had only recently been established to confront the Western Union threat through a patent infringement suit in the U.S. courts, and a frantic effort to develop the market for the Bell apparatus. Although the patent dispute was resolved, in Bell's favour, late in 1879, National Bell's president Forbes was anxious to protect his company's precarious monopoly against further inroads, including a potential rival system across the

17. In 1923 Bell Canada entered a General Service Contract with AT&T, and subsequently with Western Electric, which provided it with specification of patents, license guarantees and technical and financial assistance in return for an annual service payment.

border.[18] At the same time the Boston company wanted to exploit its monopoly through licensing rather than taking responsibility for constructing and operating a telephone system. Reorganized as American Bell Telephone Company in 1880, the Boston firm had $5.9 million in capital but anticipated legal difficulties in expanding its stock in the future, and its owners wanted to exploit their position with little additional cost.

This approach to the business dictated a strategy that encouraged local control of operations by licensees who would also absorb as much of the financial risk involved as it was possible for American Bell to persuade them to accept.[19] The prospective Canadian business was to be undertaken on similar terms, and Forbes instructed his representative to the Canadians accordingly.

Forbes' choice as American Bell's envoy to Canada in 1880 came from an extraordinary background that might entitle him to the designation of "a man without a country." Charles F. Sise had been born in Portsmouth, New Hampshire in 1834, the son of a commission merchant whose family had emigrated from Cornwall to America at the turn of the century. Charles Sise went to sea at the age of sixteen and within eight years was master of his own trading vessel. In 1860 he married into a merchant family in Mobile, Alabama. When the Civil War broke out, Sise took the part of his wife's home state, serving the Confederacy, curiously enough, as an infantryman at Shiloh, then, allegedly, as an intelligence agent. In 1863 he departed Alabama for England to finance and supervise the building of blockade runners, but then remained in Liverpool as the Confederacy's hopes dimmed, and resumed his commercial career. In 1868 he showed up again in New England as an insurance representative for the Royal Insurance Company of Liverpool, and subsequently for its Canadian offshoot that was headquartered in Montreal under Andrew Robertson. In 1879 the Royal Canadian Insurance Co. was forced to sell off its American business, however, and Sise was at loose ends. His contacts in the Boston and Montreal business community made him a logical candidate for Forbes' mission for American Bell.[20]

Sise's commercial career had established his reputation as an agent for others in international transactions. At the same time his background as a sea captain had accustomed him to exercising independent command in his enterprises, and he had no fixed residence or national political commitments. Employed by American Bell as an agent on commission to negotiate with the Canadian telephone interests, from the outset Sise manoeuvered to ensure that his own position became essential to the success of the negotiations, and that he would have a permanent place in the ensuing organization.

18. On the National Bell-Western Union struggle see Brooks, pp. 61-4 and 70-3 and Danielian, pp. 41-4.
19. Stehman, pp. 20-5. Under the agreements made between American Bell and its U.S. licensees, a set fee was assessed on each instrument and the licensee was entitled to develop exclusive lines within established territorial limits, while American Bell retained control over the trunk lines connecting each system. American Bell also usually agreed to put up between 30 and 33 per cent of the capital for the operating systems established by licensees.
20. Fetherstonhaugh, pp. 25-107.

American Bell's aim was to unite the various existing telephone companies in Canada, tie them to it through patent licensing and a minority American participation, and block the development of rival telephone systems. To accomplish these ends, Forbes envisioned two companies, one designated Bell Telephone Co. of Canada that would operate the system, and the other, the Canadian Telephone Co., that would hold the patents and, if necessary, manufacture equipment. The operating company could be "as much Canadian in personnel as possible...as long as we control the latter" patent-holding company.[21]

Sise's negotiations with Dominion Telegraph's Thomas Swinyard and Hugh Baker of the Hamilton system moved along smoothly in the spring of 1880, but Hugh Allan of Montreal proved an obstacle. Initially Allan demanded $150,000 for his telephone business, which, as Sise pointed out, was $22,000 more than all the asset value of the other existing Canadian systems combined. Eventually Sise talked Allan down, but the Montrealer held out for $75,000 and rejected the proposal that he accept stock in the new Bell companies in lieu of cash. Discussions dragged on into the summer, and Dominion Telegraph now decided to await the outcome of the Montreal negotiations before completing its own commitment. Sise finally persuaded Allan to take $25,000 in stock and proposed raising $25,000 from Canadian sources with American Bell putting up a matching amount.[22]

Forbes was not pleased with this proposal, reminding Sise that American Bell wished to avoid capital outlays wherever possible. Sise persisted, arguing that "if we had the whole field you would the sooner get back your present outlay...with the monopoly, the difference we might pay as a compromise would, I think, soon be made good by the enhanced value of the stock."[23] At length Forbes gave way, as he was to do frequently in future discussions with Sise on financing, and in November the arrangements for consolidation were completed. By early 1881 Bell Canada controlled the telephone systems of Ontario (except Toronto), Quebec, and the Western Union telephone lines in the Maritimes. Both Bell Canada and the Canadian Telephone Company had acquired federal charters with authorized capital of $500,000 and $300,000 respectively. Bell Canada had assets of $403,324 including two thousand miles of wire and two thousand subscribers.[24]

While engaged in his marathon negotiations with Allan, Sise had been carefully establishing his own position in the new organization. In May 1880 Forbes had proposed bringing in Theodore Vail to head one of the two companies. Vail would have posed a serious threat to Sise's ambitions for he was one of American Bell's outstanding younger managers, and would later become head of AT&T. Sise countered by offering to "take the active management of both companies." During the

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21. Bell Canada Archives (Montreal), W.H. Forbes to Charles Sise, 8 May 1880.
22. *Ibid.*, Sise to Forbes, 28 May 1880; Sise to Forbes, 23 June 1880; Sise to Forbes, 25 June 1880. At this time the Montreal Telegraph Co. had about five hundred subscribers, three hundred miles of wire laid, and 650 instruments in Montreal and other towns in Quebec and eastern Ontario, so that their telephone business was about double the size of that maintained by Dominion Telegraph Co.
23. Bell Canada Archives, Sise to Forbes, 28 June 1880 and Sise to Forbes, 9 July 1880.
24. Fetherstonhaugh, pp. 141-2.

ensuing months Sise projected himself as the key figure in consolidation talks, and recommended a Canadian director as at least figurehead president. When Bell Canada at last was organized, Vail and Forbes were on the board, but Sise was vice president and managing director, and the president was Sise's associate from the Royal Canadian Insurance Co., Andrew Robertson.[25]

As the company grew Sise extended his influence within it. In 1890 he assumed the formal title of president as well as managing director, remaining in that position to 1915 when he became chairman of the board, a post which he held to his death in 1918. In addition Sise was president of Northern Electric, and a director of Westinghouse Company as well as various telephone operating companies in Canada.

Sise also colonized the company with his protégés, like Lewis McFarlane who had worked for Dominion Telegraph and headed Bell Canada's Maritime agencies in the 1880s. McFarlane succeeded Sise as president from 1915 to 1925 and was chairman of the board from 1925 to 1930. Other members of the Sise family were brought into the business, with Charles Sise acting much like the proprietor of a family firm. Charles Sise Jr. rose rapidly through the ranks of Bell Canada, joining the board of directors in 1913 and succeeding McFarlane as president in 1925. His brothers Edward F. Sise and Paul F. Sise were installed as directors of Northern Electric, Bell Canada's manufacturing subsidiary, in 1911. Edward Sise became president of Northern in 1914, succeeded by Paul Sise in 1924. Even though Charles Sise and his family never held more than a fraction of the shares of Bell Canada, they can be said to have exercised effective direction over the management of the company for two generations.[26]

Between 1880 and 1905 Bell Canada's operations and earnings grew steadily, due in part to the growth of the economy, particularly in the decade 1895-1905, but also the result of careful cultivation of Bell's dominant position in the field, buying out potential rivals and ensuring that Bell was the major supplier to formally independent systems. During this twenty year period the number of instruments distributed by Bell Canada increased from two thousand to more than sixty-six thousand, the number of exchanges expanded four times over, and the company laid over thirty-two thousand miles of long distance wire. Company assets increased from \$403,324 to \$12,849,510 and return on investment averaged 10 per cent for the entire period.[27]

During the winter of 1880-81 Sise moved rapidly to buy up the Toronto Telephone Dispatch Company, the only major independent system in Ontario, and to take over from the Canadian Pacific Railroad the right to extend lines into Manitoba. By April 1881 Sise could boast: "we now have the entire field in Canada" except in

25. *Ibid.*, pp. 124-5; Bell Canada Archives, "Bell Telephone Company of Canada: Organization, 1880".

26. AT&T Archives, "Bell Telephone Co. of Canada: Directors and Officers, 1880-1951"; Western Electric Archives, "Northern Electric Co. and Its Predecessors: Historical Data", 1948.

27. House of Commons, *Report, Select Committee Appointed to Inquire into the Various Telephone Systems in Canada and Elsewhere* (Ottawa, 1905), vol. II, pp. 731-2 and 904-5. Hereafter cited as Commons Telephone Inquiry.

British Columbia.[28] Bell Canada never attempted to expand to the west coast because of its great distance from Ontario and "the consequent heavy expense of supervising the business." But Sise did work out an arrangement to supply the local operation there, the New Westminster and Burrard Inlet Telephone Company, with equipment and technical assistance as he wanted that company "not...to feel wholly independent of us," and he prevailed on American Bell to make long distance connections for the B.C. firm only with Bell Canada's approval.[29] Similar arrangements were made with the local telephone systems in Prince Edward Island in 1885 and in Nova Scotia and New Brunswick in 1888. Bell Canada bought 33 per cent of the shares of these companies, and Sise and other Bell Canada executives occupied seats on their boards.[30]

Like his counterparts at American Bell, Sise was constantly alert throughout this period for signs of incipient competition. His preferred method of response was "to stop competition in embryo," forestalling potential rivals by negotiating long term exclusive franchise contracts with the towns and cities where Bell Canada operated, offering 5 per cent to 10 per cent of net receipts as an incentive. In 1894 Bell Canada induced the Ontario legislature to pass a bill authorizing these exclusive contracts.[31]

Sise was particularly distrustful of the railroad and electric utility companies "which have telephone powers in their charters," but the main challenges to Bell Canada's monopoly emerged from other quarters. In 1886, just after Bell Canada lost its patent rights, the North American Telegraph Company was chartered with a provision allowing it to move into the telephone field. Although this company did not actually enter the field, its threats eventually to do so persuaded Sise to buy it outright in 1899, even though this move meant the absorption of a relatively unprofitable telegraph business. In 1889 the Federal Telephone Company was set up in Montreal, and in 1895 the Merchants Telephone Company, also of Montreal, was established by a group of French Canadian retailers. Both were bought out within several years by Bell Canada, as was another would-be local rival in Peterborough, Ontario in 1905.[32]

All this expansion, and the various pre-emptive measures, required continual infusions of capital. The correspondence between Sise and American Bell during these years consists of an almost perpetual refrain of requests for more money. As in the

28. Bell Canada Archives, Sise Letterbook, pp. 445, 462, 862, Sise to Forbes, 22 December 1880; Sise to Forbes, 20 January 1881; Sise to Forbes, 20 April 1881.
29. AT&T Archives, Sise to E.J. French, general manager, American Bell, 27 December 1894.
30. Commons Telephone Inquiry, vol. II, pp. 1023-6. McFarlane testified at these hearings that in 1882-83 he sought to set up Bell Canada subsidiaries in the Maritimes but "could not get support from local capital."
31. Bell Canada Archives, Sise to John E. Hudson, president, American Bell, 5 January 1895. American Bell Telephone Letterbook no. 4, pp. 488-9; Sise to F.G. Beach, general manager, Central Union Telephone Co., Chicago, Ill., 5 January 1895. American Bell's patent to the Bell instruments expired in 1894. Bell Canada had lost its patent in 1885 by the act of the Canadian minister of agriculture on the grounds that most of Bell Canada's equipment was imported.
32. Bell Canada Archives, Sise to T.N. Vail, president, AT&T, 12 October 1911. AT&T Correspondence, vol. 10, pp. 17-9. In 1902 AT&T took over the North American Telegraph Co.; see Fetherstonhaugh, pp. 173-5.

organizational phase of Bell Canada in 1880, American Bell's response to these overtures was often initially negative, succumbing only with reluctance to Sise's persistent remonstrances.

As early as November 1880, shortly after the company was organized, Sise noted to Forbes that Bell Canada had exhausted all but $100,000 of its authorized capital, and proposed an increase of $250,000, which of course would entail a further cash outlay from American Bell to maintain its equity. Forbes went along with this plan, but in 1882 Bell Canada proposed to increase its capital to $1 million. At this point American Bell arranged to liquidate the patent holding firm, Canadian Telephone Co., and turn over its assets to Bell Canada in return for shares in the latter company on a 2 for 1 basis. In addition, American Bell reinvested its first dividends from Canadian Telephone Co. in Bell Canada stock. This step enhanced the market value of Bell Canada shares, and gave it direct control over the Bell patents while American Bell's equity in Bell Canada increased to 47 per cent.[33]

Two years later Bell Canada began to issue ten year bonds, offering American Bell one third of the securities issued. New issues were floated in 1889-90, but the costs of buying out the competition in Montreal and laying underground wire (as required by law) in Toronto left Bell Canada short by $86,000, more than half the money held in a contingency fund established in 1884. A new stock subscription proved inadequate, and in 1892 Sise proposed doubling the authorized capital stock to $5 million. He wrote to John E. Hudson, Forbes' successor at American Bell, urging the latter to endorse the move and take its accustomed proportion as "it is, in the opinion of the board, of great importance...that American Bell should increase rather than lessen its control of the Canadian company." Hudson apparently resisted this overture, but eventually agreed to take up the usual proportion of a smaller issue, which raised distributed capital to about $3.2 million.[34] For the next few years Bell Canada financed expansion through the issuance of long term bonds, but in 1899-1900 authorized capital was raised to $5 million to cover the installation of underground cables and long distance lines that had been laid in excess "to meet future growth," but contributed little to earnings in the short run.[35]

At this point the Americans interposed a veto on further stock issues, but in 1903 reluctantly agreed to loan Bell Canada $300,000. A year later, however, Bell Canada again increased its capital, to $6 million, and issued more stock to cover its various debts. Sise was concerned over the increasing demands for telephone service in the prairie provinces, requests which Bell Canada had neglected up to this point as insufficiently profitable, and he planned to develop the region through a subsidiary. Sise hoped to place about 25 per cent of Bell Canada's holdings in this company "in trustworthy hands in the United States which would avoid parliamentary scrutiny... [and] satisfies the people of Canada that our company has nothing to do with it."[36] This last observation reflected another problem for Bell Canada, its vulnerability to

33. Commons Telephone Inquiry, vol. II, pp. 698-712. Testimony of Charles Sise.
34. Bell Canada Archives, Sise to Hudson, 9 March 1893; Sise to Hudson, 2 May 1894.
35. *Ibid.*, L.B. McFarlane to Sise, 6 November 1899.
36. *Ibid.*, Sise to Frederick P. Fish, president, AT&T, 4 March 1904.

criticism as an oppressive and uninnovative monopoly, a charge that the American giant also faced.

In 1905 these issues came to a head when a parliamentary inquiry was initiated into the telephone business in Canada. Since one of the possible results of the inquiry could be the nationalization of the industry, Bell executives on both sides of the border exhibited much interest and anxiety. Sise was a major witness throughout the hearings, defending his company against charges that it had deliberately ignored the demands of rural residents in Quebec and Ontario as well as the prairies for telephone service, and acted only in the interest of its American shareholder. Although his arguments seem to have been generally persuasive with the committee, certain substantial problems were revealed. Sise admitted that Bell Canada preferred to build lines linking commercial centres to the development of service to the hinterlands, and that in Canada's rural communities there was only one phone for every 1,250 inhabitants, in contrast to a country like Norway where the ratio was 1:14. The committee also queried the need for Bell Canada to maintain a large contingency fund which had surpassed $1.8 million in 1905, in order to cover its bonded debt, instead of using the money to expand its system without increasing its capital. There was a clear implication that Bell Canada's financial arrangements were structured to extend the earnings of its securities holders and the control of foreign shareholders who had siphoned off more than $200,000 per year between 1900 and 1904.[37] It is difficult to test the validity of these charges: the company records indicate that the decisions to rely on equity and debt financing rather than reinvestment of earnings were made by Bell Canada's board without pressure from the Americans, but the net effect of these policies, reducing the Canadian company's ability to expand without outside support, was not refuted.

Despite these serious criticisms, Bell Canada weathered the inquiry with little harm. In 1906 telephone rates were brought within the regulatory jurisdiction of the Railroad Commission, but Bell Canada's monopoly was not directly challenged. Over the following two years, however, the governments of the provinces of Manitoba, Saskatchewan, and Alberta moved to establish their own telephone services. After an initial effort in 1906 to block the "provincialization" in Manitoba by an "educational campaign" prior to a plebiscite on the issue (in which the municipalities supporting a public takeover won by a narrow margin), Bell Canada sold its properties in the prairies provinces for a total of $4.4 million. In 1908 the company reported an increase in net earnings of more than $380,000 and return on investment rose to 14 per cent. Clearly the withdrawal from the west had enhanced Bell Canada's profitability, concentrating operations in the best developed and least costly markets. Thereafter Bell Canada ceased its efforts to extend control beyond the Ontario-Quebec region and focused on rationalizing operations there, introducing a "functional" organization modelled on the various U.S. telephone systems, which involved a decentralized structure in which performance could be better monitored and the flow of supplies handled more efficiently.[38] The period 1905-09 thus marks the end of the era of geographic expansion by Bell Canada. In the ensuing years Bell Canada's development

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37. Commons Telephone Inquiry, vol. II, pp. 1026-53.
38. Fetherstonhaugh, pp. 211-7; Bell Canada Archives, McFarlane to Sise, 7 November 1909 and McFarlane to Sise, 11 December 1909.

would focus on its manufacturing and research, and the connection with Northern Electric would assume greater significance.

The problems of developing local manufacturing capacity preoccupied Bell Canada from its earliest years, and Sise's efforts in this direction produced the greatest degree of controversy in his relations with the American telephone interests. Despite the working clause requirement of the Canadian patent law, American Bell was reluctant to promote local manufacturing of equipment when Bell Canada was established. Forbes considered the manufacturing costs Sise projected in 1880 as too high, "nearly twice as expensive [as] to manufacture them in Boston."[39] In 1882 Sise set up a small manufacturing shop in Montreal, but Bell Canada continued to purchase most of its equipment from American Bell, a situation that contributed to the loss of its Canadian patent rights in 1886.

Bell Canada's supplier was Western Electric Company of Chicago, which had entered the telephone field supplying equipment to Western Union based on the Gray-Edison patents. After American Bell took over Western Union's telephone business, Western Electric entered a long term contract as exclusive manufacturer for American Bell, granting the Bell company rights to any new patents Western Electric might develop. Meanwhile, in 1881, American Bell bought majority control of Western Electric so that the company, while formally independent and producing equipment for other companies, became in effect the manufacturing branch of the Bell system.[40]

Relations between Western Electric and Bell Canada were never smooth and always complicated. Sise chafed at the need to rely on Western, complaining to Enos Barton, president of that company in 1889, that "it has been my custom for years to send to the Western Electric more than one half of our cable orders, although we could procure equally good cables at the same price elsewhere," and also that "you have sold goods in Canada to our licensees without our knowledge, thus compelling us to reduce the price at which we were then selling goods." Barton for his part objected to Sise's demands that Western should provide Bell Canada with improvements in telephone technology rather than requiring it to take out Canadian patents, and thus incurring manufacturing costs. "If it comes to a question whether we must give you for nothing the power to kill off Canadian patents on such improvements as we may be able to acquire, in consideration for such orders for cables, etc. as you may give us," Barton fumed, "we could make more money by losing the orders that you favor us with and getting some compensation under the Canadian patent laws for the improvements which we own and acquire."[41]

This particular dispute was settled by the intervention of Hudson of American Bell who arranged for Bell Canada to pay a royalty to Western Electric directly for its new devices, but the underlying antagonism smoldered on. In 1895 Sise expanded the Montreal plant and had it incorporated as Northern Electric and Manufacturing Co.

39. Bell Canada Archives, Forbes to Sise, 19 May 1880.
40. Stehman, pp. 29-32; Brooks, pp. 10-2 and 83-4.
41. Bell Canada Archives, Sise to Enos K. Barton, president, Western Electric Co., 13 November 1889 and Barton to Sise, 16 November 1889.

Ltd., since Bell Canada was limited by its own charter to producing only telephone equipment and Sise anticipated a broader range of products in order to ensure that the new company could achieve economies of scale. Four years later Bell Canada set up Imperial Wire and Cable Co. Ltd., also located in Montreal.[42]

These moves irked Barton. On the one hand Bell Canada was now in a position to reduce its own orders from Western Electric; at the same time Western found itself cut off from markets for telephone and other electrical apparatus in Canada, since under the arrangements between Bell Canada and American Bell, Western was not to compete directly for business with Bell Canada. Yet Bell Canada was reaping the benefits from sales at higher prices than the royalties paid Western for patents under the 1891 agreement.

Matters came to a head in 1901 when Bell Canada proposed to expand the capacity of Imperial Wire and Cable, effectively ending its dependence on Western in this area. This time Barton asked for and got a 40 per cent share of the cable company as compensation. He also wanted an equal share in Northern, since Western was continuing to supply Bell Canada with engineering and patent information used by Northern in Canada. Sise offered a 20 per cent share of Northern, an arrangement which Barton considered inadequate.

At the same time Western officials learned that Northern had placed a high bid on an order for a switchboard system by the New Brunswick Telephone Company, and had consequently lost the order to Kellogg Company, a major competitor of Western Electric. Barton asserted that Western was not only losing potential business but Bell Canada had been artificially pushing up Northern's profits by charging deliberately high rates on equipment for which Western had supplied the know-how. Sise retorted that the difference between Northern's bid in this case and Western's purported lower price (a difference of about $4.00 per line) would be negated by the duties Western would have to pay plus the higher cost of installation. He added, "I do not assent to the Western Electric Company coming in here in competition with Northern Electric.... We do not ask to be allowed to compete with them in the United States."[43]

This entire exchange of recriminations seems to have been part of a bargaining contest between Bell Canada and Western since Barton intimated that the controversy could be resolved if Sise would allow Western to become an equal partner with Bell Canada in its manufacturing subsidiaries. In the end Sise had to give way to a 50 per cent share by Western, but he refused to allow Western to share in any of Northern's earnings for a year after the final agreement was made, and Bell Canada subsequently bought electrical equipment from Western on more favorable terms than previously. It is possible that Northern's initial expansion in the electrical equipment field was intended to attract Western's attention and get a better deal for Bell Canada in its general relations with the American company, an arrangement which had obvious

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42. "Northern Electric Co. and Its Predecessors..."; testimony of Charles Sise, Commons Telephone Inquiry, vol. II, pp. 716-7.
43. AT&T Archives, Barton to Fish, 26 September 1901; H.B. Thayer, Western Electric Co. to Fish, 18 December 1901; Barton to Fish, 27 December 1901 and Sise to Fish, 30 December 1901.

advantages on the technical and research side. By 1914 when Imperial Wire and Northern Electric were merged, with 50 per cent participation by Bell Canada and Western Electric, the Canadian company was assured of direct access to the substantial research and development capabilities of Western Electric.

CONCLUSIONS

The telephone industry would certainly have developed in Canada without the direct involvement of the Americans, particularly after American Bell's original patents expired in 1894. The statistics of growth of Bell Canada in the period between 1880 and 1905 and the wider demand for service that led to the parliamentary inquiry indicate the potential market. If anything, Bell Canada could be (and was) criticized for not exploiting the market adequately, while using its financial and technical resources to restrict competition. Leaving aside this broader issue for the moment, two questions may be posed: was the strategy of development followed by Bell Canada in this period shaped in response to the needs and demands of the American shareholders? Did the financial and technical benefits that accrued to Bell Canada as a result of its connection with American Bell outweigh the costs incurred, in terms of expatriation of earnings and diminished control by the Canadian managers over decisions?

There is little evidence of overt intervention by American Bell in the affairs of Bell Canada beyond 1880-82. During the first year of operations, when the consolidation of Canadian companies was underway and the patent arrangements were being completed, there was a steady flow of communication between Sise and Forbes. Thereafter correspondence dealt with routine matters involving patent transfers and American Bell's participation in new share offerings by Bell Canada. Sise appears to have run the company with little direction from American Bell or from his own board of directors. At the same time, the strategy of expansion followed by Sise throughout this period followed the general guidelines laid down by Forbes in the initial stages of Bell Canada's organization. The Canadian company consistently sought to extend its influence in operating telephone systems through minority participation in companies in the Maritimes, and to preempt potential competitors through takeovers and exclusive municipal franchises. These practices parallelled the methods used by American Bell to complement its patent monopoly in the United States and maintain its position there after the patents expired. In order to preserve Bell Canada's financial resources for this kind of expansion, Sise adopted a cautious approach to developing existing markets, concentrating on the larger commercial centers in central Canada at the expense of the more sparsely settled areas of Ontario and Quebec and the prairie provinces. In defense of these policies, Sise and McFarlane argued before the parliamentary committee in 1905 that Bell Canada's efforts to develop rural services were stymied because subscribers were reluctant to pay the rates required to cover higher costs involved in extending lines to outlying areas, and denied that financial obligations to the investors had been a major consideration in the situation.[44]

The subject of Bell Canada's financial ties to American Bell was also raised in this inquiry. Before the investigation began there had been charges that Bell Canada's stock

44. Commons Telephone Inquiry, vol. II, pp. 1023-6 and 1051-3.

was overvalued, that new capital issues were not reflected in the growth of fixed assets, and that American Bell had extracted more from the company in earnings, royalties, and related obligations than it had contributed. This was a complex matter and a large part of the inquiry was devoted to reviewing Bell Canada's financial affairs. Sise maintained that the need to overhaul existing plant in order to introduce updated equipment, to install underground lines in Toronto, and similar measures required substantial expansion of capital outlays over and above routine expansion of lines and maintenance of services. Total fixed assets in 1904 came to $10.6 million, two thirds of which was in the form of plant and equipment, exceeding capital by more than $600,000.[45] As the correspondence between Sise and American Bell appears to indicate, the initiatives for new investment capital came from Bell Canada throughout this period.

Between 1880 and 1905 American Bell and AT&T received dividends totalling $1,876,319 and $308,674 in interest on other obligations from Bell Canada. These sums constituted about 42 per cent of net earnings, slightly more than the American equity in Bell Canada. In addition American Bell and Western Electric received $578,955 in royalties for patents and licenses from Bell Canada. American Bell and AT&T had paid $3,087,614 in subscriptions for Bell Canada common stock, and $869,848 in bond subscriptions. The American company's total input into the expansion of Bell Canada exceeded its earnings from that investment in this period by $1,193,514. On balance the Canadian company can be said to have benefitted from its connection with American Bell in financial terms.[46] This situation helps to explain the reluctance of the Americans to provide an open ended endorsement of Bell Canada's persistent demands for new financing as noted earlier, although usually American Bell gave way in the end in order to maintain its existing position in the Canadian firm.

What benefits did the Americans acquire from their connection with Bell Canada? The one area where American Bell did exert influence on Bell Canada was in that company's relations with Western Electric. Although direct evidence of such influence is not clear cut, Sise was obliged to provide Western with a much larger share in Northern Electric, which had been set up entirely with Bell Canada's resources to supply its own needs, than he had initially been willing to offer. Furthermore, Western Electric was able to use its position as co-owner of Northern in subsequent negotiations with Bell Canada unrelated to the operation of their joint subsidiary. When faced with a conflict of interests between a wholly owned subsidiary whose operations were essential to its own success and a foreign affiliate, American Bell logically took the part of Western Electric. On the other hand, Bell Canada seems not to have been overly displeased with the arrangement as it had access to the technology that Western Electric developed from its own research that Northern Electric was not at this time in a position to undertake.

When American Bell invested in the Canadian telephone industry, it was not primarily concerned with circumventing tariff barriers or taking advantage of lower

45. *Ibid.*, vol. II, pp. 712 and 904-5. Additional financing came from current earnings through the contingency fund.

46. Figures calculated from financial reports in *ibid.*, vol. I, pp. 536-86 and 611-2; vol. II, pp. 703 and 707.

foreign manufacturing costs; in fact the reverse seems to have been the case. The main objective was to preempt potential rivals in a market adjoining the United States. As long as this central aim was accomplished and the Canadian company maintained a reasonable level of earnings, American Bell was content to leave majority control of management in Canadian hands. The foreign investment was thus part of a broader strategy by American Bell to protect its virtual monopoly in the early years of the telephone industry in North America.

Had American Bell not taken this step the Canadian field would have been developed by a competitor, possibly one of the Canadian railroad or telegraph companies, or, perhaps more likely by the turn of the century, by some form of municipal public enterprise system similar to those established in Europe, particularly Scandinavia. The American company was increasingly distressed over the prospect of public control in Canada at this point because, after its own patent monopoly expired in the United States, it had sought to maintain its position through measures similar to those of Bell Canada, though with less success. After 1907 AT&T under Vail embarked on a strategy of promoting the concept of regulated private monopoly in the United States, using Western Electric as an instrument for foreign expansion to protect its flanks. Since Bell Canada had survived the attack of public utility advocates more or less intact, the basic relationship between the two companies was retained.

Did Canada benefit on balance from the connection between the Bell companies in this period? Despite Sise's conservative approach to expansion beyond the profitable commercial centres, Bell Canada did provide reliable service, as even its critics acknowledged, and through Western Electric it had immediate access to technical innovations developed for the American system. Virtually all the technical and managerial staff was Canadian and remained with the company or with local operating affiliates. Through American Bell, Bell Canada had access to the financial resources of the United States in a period when Canadian banks were inclined to steer clear of investment in new and untried industries. At the same time the Canadian firm remained primarily in local ownership because of its particular role in American Bell's general strategy.

Obviously the American Bell-Bell Canada relationship does not fit the conventional model of a branch plant operation, and it would be foolhardy to generalize from this case alone to the broader issues raised earlier in this essay. At the same time this uniqueness illustrates the point that generalizations are not readily made on this question, and that before we can proceed to a definitive analysis of the impact of foreign direct investment on Canada and the structural evolution of multinational enterprises there must be a firm base of empirical studies upon which such an analysis can be erected.